

Mastek: Resilient UK, as NA & AMEA drag. Is this the inflection point? Retaining a Buy

Rating: **Buy**

Target price (12-mth): Rs. 3,332

Share price: Rs.2,648

Mastek's Q1FY26 performance highlights ongoing execution challenges in NA and AMEA, with CC revenue declining -1.1% q/q, reflecting transition issues coupled with Payer and Retail-client-specific concerns in the US. Strong growth (~10% q/q) and resilient operating margins (310bps q/q) in the UK and Europe were driven by the UK government and UK NHS despite renewal with the largest client at discounted pricing. Management assuaged concerns regarding the US and AMEA highlighting the strong US order book (~25% q/q & y/y growth) coupled with appointment of an AMEA head, a seasoned Cerner healthcare alum, who will drive growth combining Mastek's' traditional Oracle ability with Cerner experience. The overall margin trajectory is stable to positive. Mastek will firmly benefit from macro tailwinds with the UK government's focus on preventive healthcare, digital technology & infra, Defence and cyber-security. The appointment of a CFO and a North America head are immediate imperatives.

- Order backlog \$273.8m up 3.5% q/q; AI, Data & Automation (12.2% of revenue) grew 21.6% q/q, with 10 AI-led deals.
- **Valuation:** We retain our Buy recommendation on the stock, with FY27e/FY28e P/E of 18.5x/15.8x (vs. the last 5-year avg. of the one-yr-fwd. ~21.4x) and a 14% EPS CAGR over FY26e-28e. Our target price is Rs.3,332, implying 25.8% potential upside to the CMP.

Financials

Key financials (YE Mar)	FY24	FY25	FY26e	FY27e	FY28e
Sales (Rsm)	30,548	34,552	37,953	41,280	45,020
Net profit (Rsm)	3,003	3,759	4,017	4,470	5,222
EPS (Rs)	97	121	129	143	167
PE (x)	27.5	22.0	20.5	18.5	15.8
EVEBITDA (x)	16.1	14.9	13.5	12.5	10.9
PBV (x)	3.9	3.4	3.0	2.6	2.3
RoE (%)	15.9	16.5	15.3	15.0	15.4
RoCE (%)	12.5	12.9	12.4	12.7	13.4
Dividend yield (%)	0.7	0.9	0.8	0.9	1.1
Net debt/equity (x)	0.0	-0.0	-0.1	-0.2	-0.3

Key data	MAST IN / MAST.BO
52-week high / low	Rs.3,375 / 1,887
Sensex / Nifty	82,187 / 25,061
Market cap	Rs.83bn
Shares outstanding	31m

Shareholding (%)	Jun'25	Mar'25	Dec'24
Promoters	36.0	36.0	36.2
<i>- of which, Pledged</i>			
Free float	64.1	64.0	63.8
- Foreign institutions	11.0	10.0	9.4
- Domestic institution	10.5	9.8	9.3
- Public	42.5	44.2	45.1

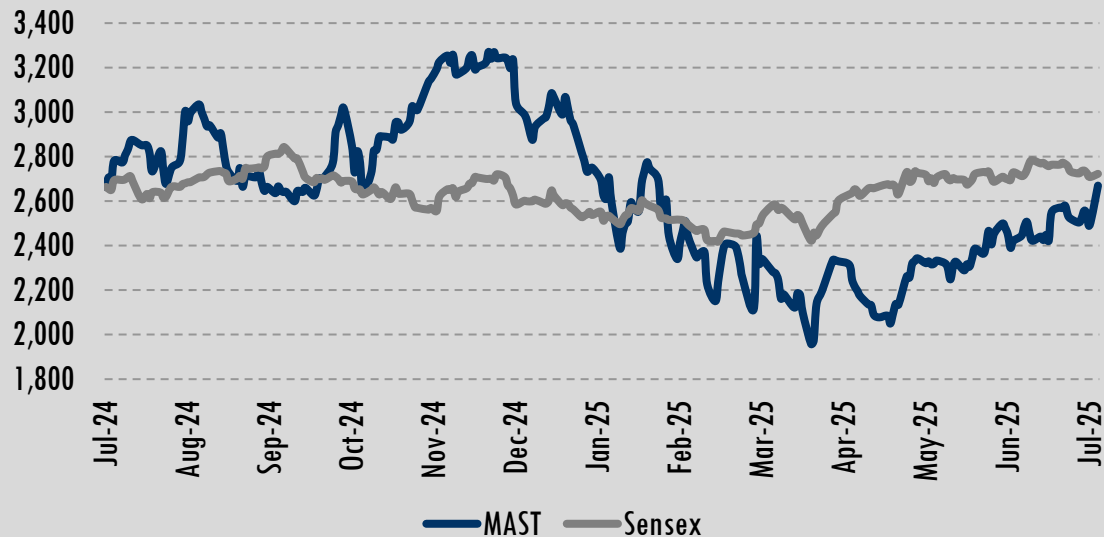
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Mastek — UK-led growth supports resilience; north America & AMEA weigh on near-term outlook

- **UK & Europe remain growth anchors.** Q1 FY26 UK & Europe (~64% of revenues) dollar revenue grew 9.7% q/q, 24.2% y/y. Growth continues to be driven by the UK public sector and Healthcare verticals, providing stability despite broader execution challenges
- **North America & AMEA weigh in the near term.** North America (23.1% of revenues; -8.8% q/q) impacted by leadership transitions and account-specific issues in retail and healthcare (Payer segment); AMEA (13.1% of revenues; -5.5% q/q) still adjusting post-reorganization, under the leadership of Cerner Healthcare alum
- **Strategic focus on AI and order-book strength.** Despite current challenges, the company reported 10 AI-led deals and 21.6% q/q growth in AI, data & automation services (12.2% of revenues), supporting the medium-term strategy. The \$273.8m order backlog (up 3.5% q/q) reflects continued demand
- **Outlook steady.** Management expects continued UK strength, with a resilient US order-book (~25% q/q & y/y growth to translate to revenue in H2 FY26). The focus is on AI-led growth of 10 accounts in the US, coupled with a strong deal pipeline in the US. The margin trajectory is stable to positive, with higher US and AMEA margins to drive overall margin expansion

Relative price performance



Price movement



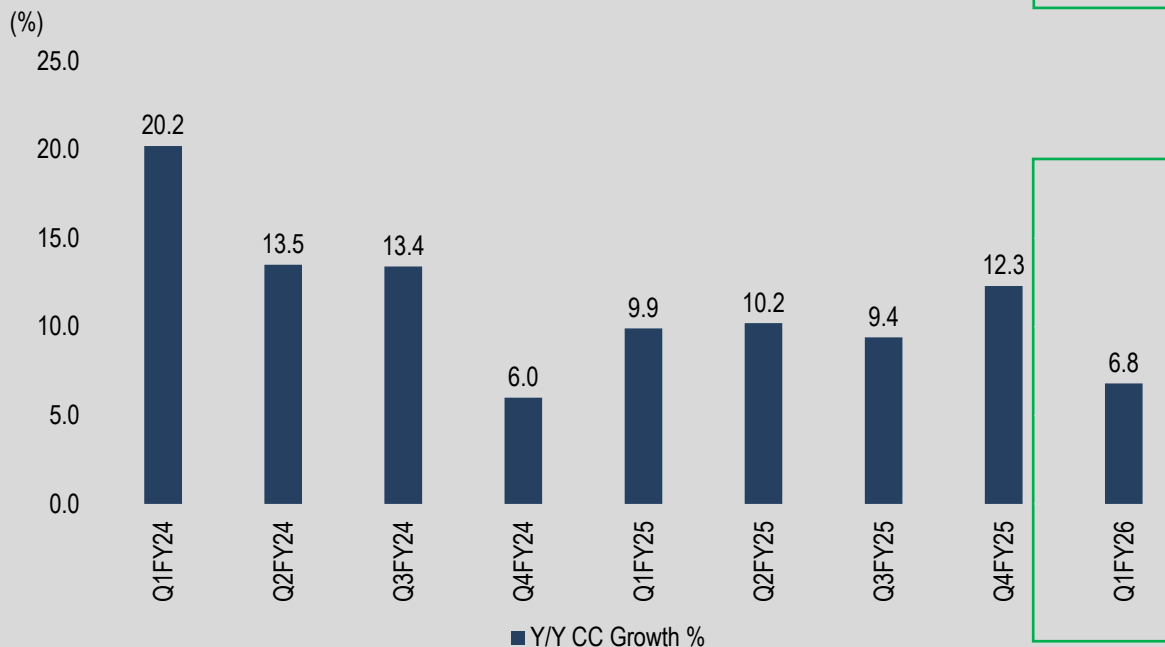
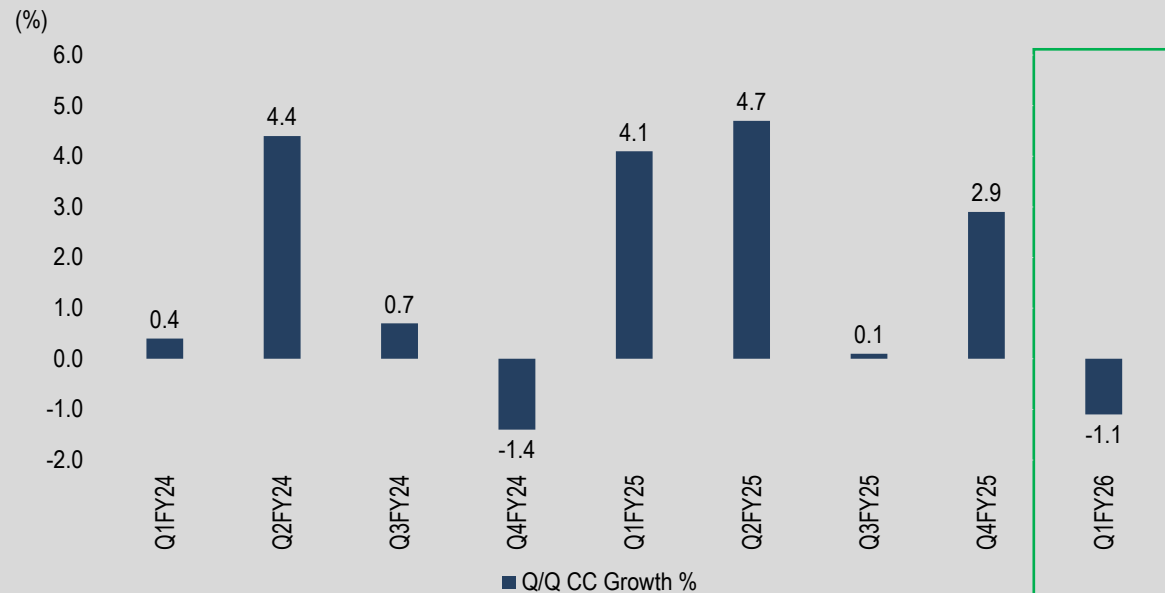
Q1 results snapshot: UK Public Sector & UK Healthcare drive growth, amid NA and AMEA headwinds...

	Q2FY24	Q3FY24	Q4FY24	Q1FY25	Q2FY25	Q3FY25	Q4FY25	Q1FY26	Q/Q %	Y/Y %
Revenue (\$ m)	93	94	94	97	104	103	105	107	2.7%	10.4%
Growth Y/Y %	11%	12%	4%	6%	7%	9%	12%	10%		
Revenue (Rs m)	7,655	7,843	7,797	8,129	8,674	8,695	9,054	9,147	1.0%	12.5%
Effec. exchange rate	82.7	83.4	83.2	83.5	83.7	84.5	86.6	85.2	-1.6%	1.9%
12m Order Backlog (\$ m)	224.2	248.5	260.0	260.1	261.9	249.8	264.5	273.8	3.5%	5.3%
Y/Y %	20%	21%	19%	21%	17%	1%	2%	5%		
Order Backlog:Rev	2.4	2.6	2.8	2.7	2.5	2.4	2.5	2.5		
Employees (EoP)	5,598	5,518	5,539	5,546	5,505	5,260	5,058	4,824	-4.6%	-13.0%
Rev. prod. (\$ '000/employee)	16.6	16.9	16.9	17.6	18.7	19.1	20.3	21.7	7.2%	23.8%
Utilisation % (IT Services)	78%	76%	78%	80%	78%	74%	76%	82%	520 bps	120 bps
Attrition %	19%	20%	21%	21%	20%	20%	19%	20%	20 bps	-140 bps
CoR (excl. D&A)	(5,713)	(5,732)	(5,736)	(6,030)	(6,382)	(6,259)	(6,437)	(6,578)	2.2%	9.1%
As % of revenue	-75%	-73%	-74%	-74%	-74%	-72%	-71%	-72%	-82 bps	226 bps
SG&A	(712)	(776)	(810)	(859)	(861)	(1,029)	(1,229)	(1,196)	-2.7%	39.1%
As % of revenue.	9%	10%	10%	11%	10%	12%	14%	13%	-51 bps	250 bps
EBITDA	1,230	1,335	1,251	1,239	1,431	1,407	1,388	1,373	-1.0%	10.8%
EBITDA margins %	16.1%	17.0%	16.0%	15.2%	16.5%	16.2%	15.3%	15.0%	-31 bps	-23 bps
EBIT	1,021	1,117	976	1,039	1,233	1,241	1,201	1,189	-1.0%	14.5%
EBIT margins %	13.3%	14.2%	12.5%	12.8%	14.2%	14.3%	13.3%	13.0%	-26 bps	22 bps
Other income (excl. forex)	16	12	24	46	161	69	28	106	274.5%	130.6%
Non-recurring / Forex	(9)	22	30	(4)	7	66	(74)	-	-100.0%	-100.0%
Interest expenses	-126	-133	-92	-94	-111	-119	-96	-88	-8.9%	-7.2%
PBT	903	1,017	939	986	1,289	1,257	1,059	1,207	14.0%	22.4%
PBT margins %	11.8%	13.0%	12.0%	12.1%	14.9%	14.5%	11.7%	13.2%	150 bps	106 bps
Taxes	(250)	(240)	6	(271)	(3)	(310)	(249)	(287)	15.3%	5.6%
ETR %	-27.7%	-23.6%	0.6%	-27.5%	-0.2%	-24.6%	-23.5%	-23.7%	-28 bps	377 bps
Associates / Minority	(25)	(24)	(24)	-	-	-	-	-	NA	NA
Net income	628	753	921	715	1,287	947	811	921	13.5%	28.7%
Net margins %	8.2%	9.6%	11.8%	8.8%	14.8%	10.9%	9.0%	10.1%	111 bps	127 bps
EPS (Rs)	20.3	24.3	29.7	22.9	41.2	30.4	26.0	29.5	13.4%	28.7%

Management commentary

- Management highlighted sustained momentum in the UK Public Sector and Healthcare, driven by strong NHS-related engagements, which continue to act as a buffer against volatility in other markets
- Acknowledged persistent challenges in North America due to leadership changes and specific client situations. AMEA remains subdued post-restructuring. Leadership is focused on stabilizing execution and rebuilding regional momentum
- Reiterated confidence in long-term growth through investments in AI, data and automation. Strong pipeline visibility in these areas, with tangible early wins (10 AI deals closed in the US), remains a priority for future differentiation
- Despite a planned discount extended to its largest client as part of a two-year renewal, Mastek maintained near-flat operating margins by optimizing its delivery structure and cost mix
- Management acknowledged that, despite a reduction in employee count, overall employee cost has risen due to a shift in delivery mix toward higher-cost onshore roles in the UK

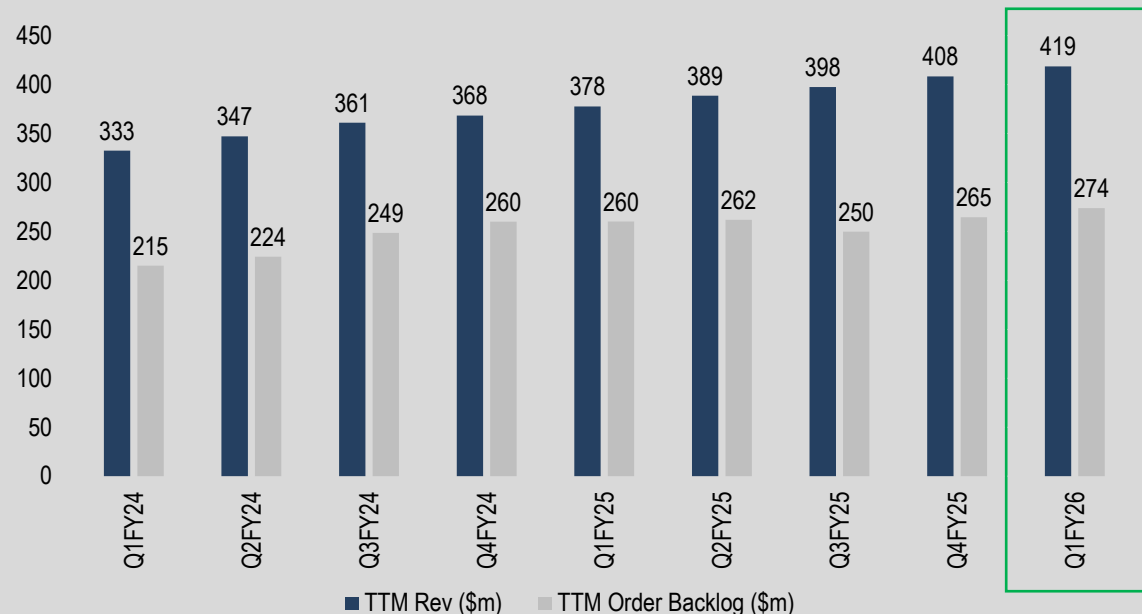
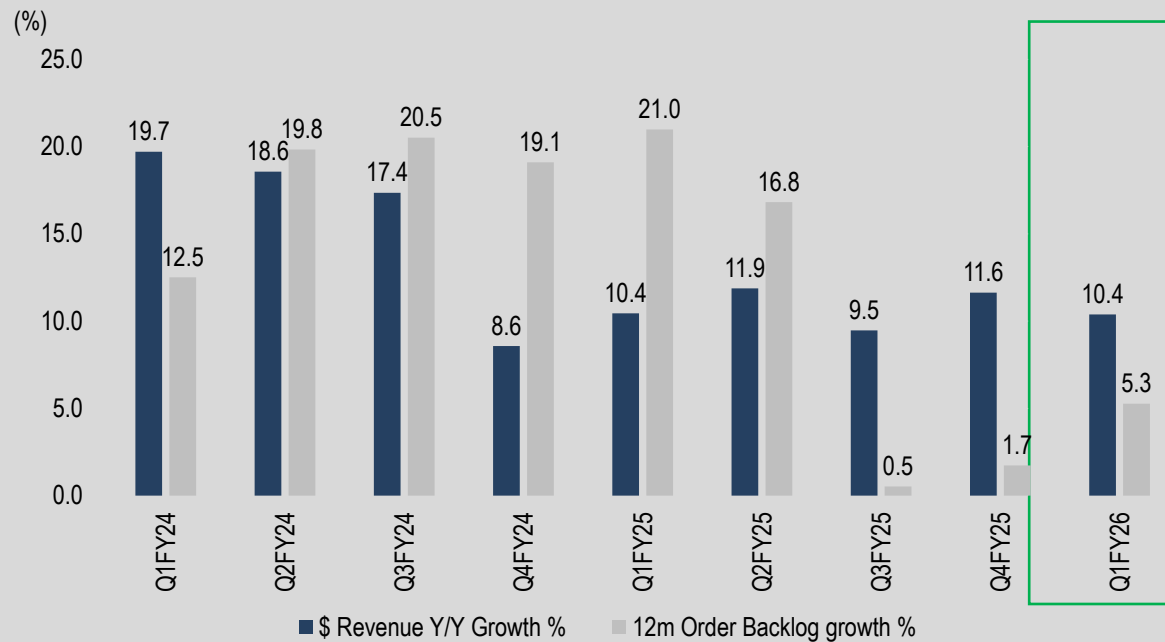
Revenue impacted by client-specific issues in the US and transition in AMEA; UK provides growth with stability



- Q1 FY26 marks a sequential decline after stable quarters, driven by continued weakness in North America and AMEA
- UK & Europe continued to deliver strong momentum, cushioning the overall performance despite weak execution elsewhere

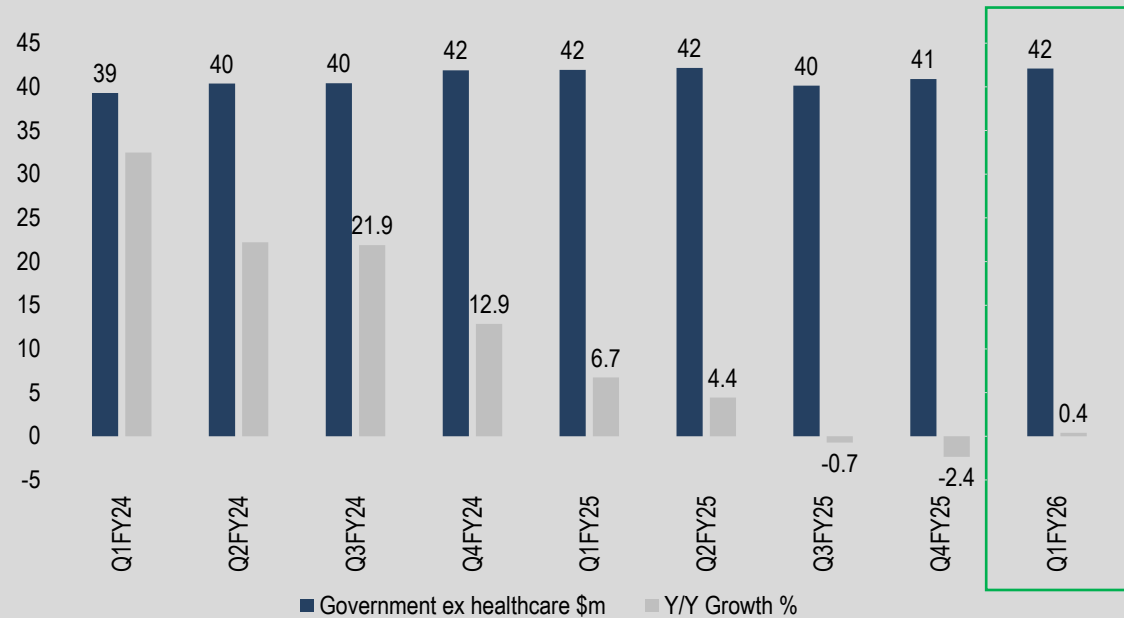
- Y/Y CC growth at 6.8%, moderated after a strong FY25 exit
- While y/y growth is positive, the q/q softness highlights Payer and Retail client-specific issues in NA and a gradual leadership transition in AMEA. Management is focused on stabilizing these regions to return to a growth trajectory

Twelve-month order-backlog steady



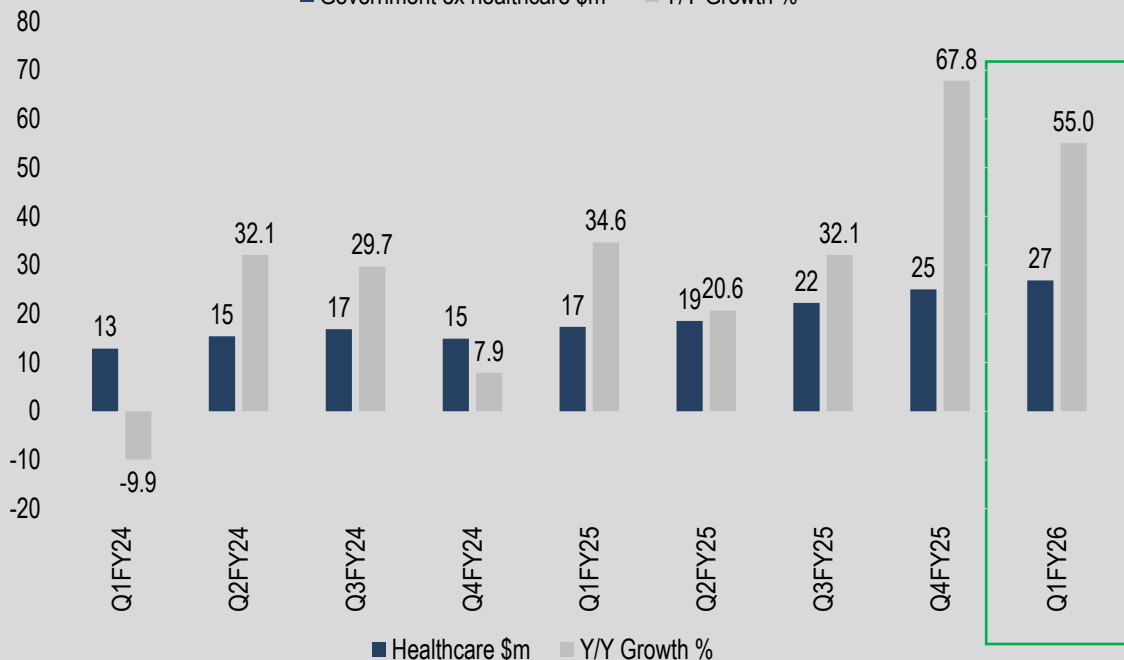
- Backlog at \$274m, up 3.5% q/q, 5.3% y/y:
Order backlog continues to grow steadily, reflecting strong traction in core UK Healthcare & government segments coupled with ~ 25% q/q and y/y US order-book growth
- NHS programs continue to scale post-government transition, with healthy momentum seen in Healthcare across the UK and the US
- The 12m order-to-forward revenue coverage is stable at ~60%, supported by a two-year extension with its largest UK client (also its biggest client across the firm), albeit with a substantial discount.
- It is strategically leveraging GenAI and agentic AI as a key deal enabler in the US, with over 10 active accounts engaged; management expects the deal momentum to improve in H2 FY26 from ongoing investments, leadership hires and sales-force expansion

Segment-wise performance: Government, excl. Healthcare steady; UK Healthcare strong...



Government, excl. Healthcare (39.2% of revenue)

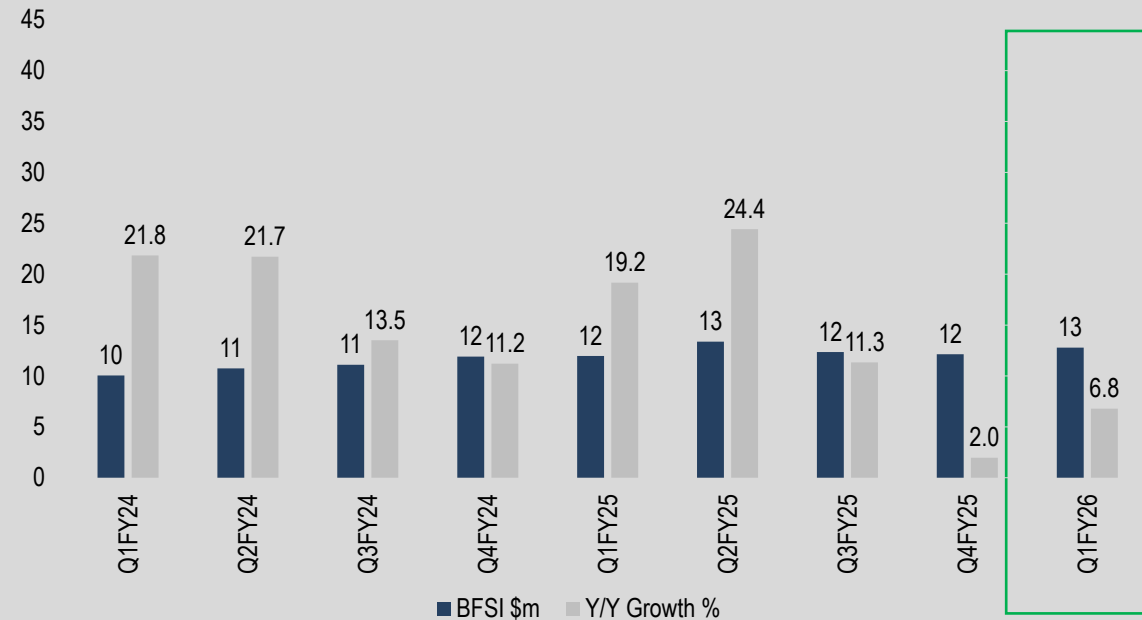
- First commercial win in cyber-security services within a large public sector department, marks a strategic entry into a high-priority domain under the UK government's digital agenda
- The UK government's spending review re-affirmed more investment in digital transformation, AI and automation, particularly in Health and Defence, two areas where Mastek is deeply entrenched and set to benefit



Government Healthcare resilient (25% of revenue)

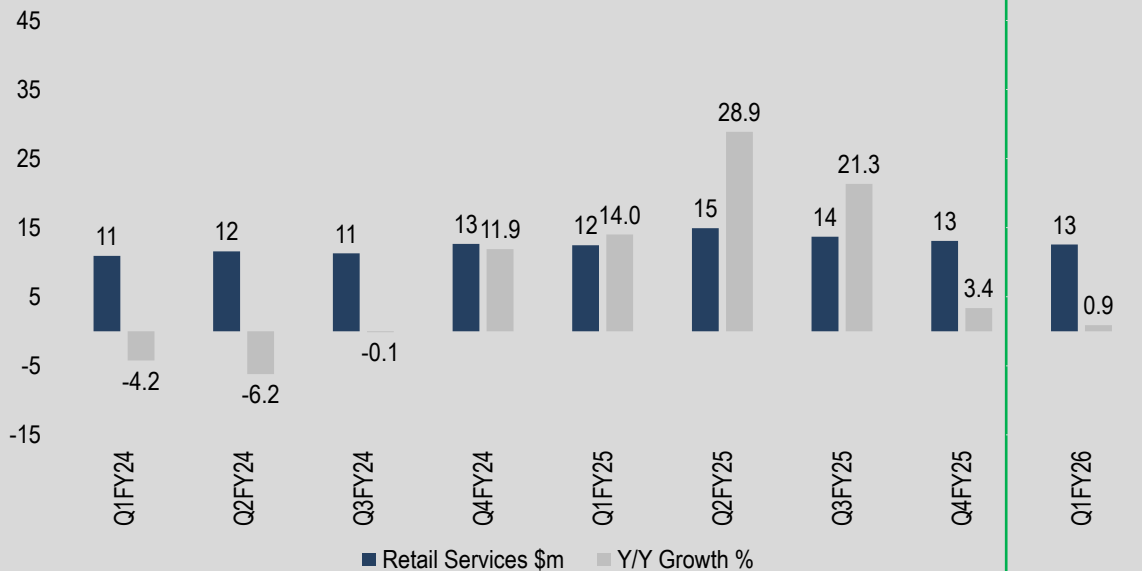
- In line with the UK government's strategic focus on healthcare digitisation, the NHS has been allocated £10bn over five years to enhance digital infrastructure, with targeted investments in electronic health records (EHR), integrated care systems (ICS), and patient portals aimed at improving operational efficiency and reducing wait times. A key enabler of this agenda is Oracle's integration of Cerner into its healthcare Global Business Unit (GBU), which aligns well with the NHS transformation goals
- The segment shows sustained momentum and remains a core contributor to overall growth

Segment-wise performance: BFSI stable, Retail declined sequentially



BFSI (11.9% of revenue)

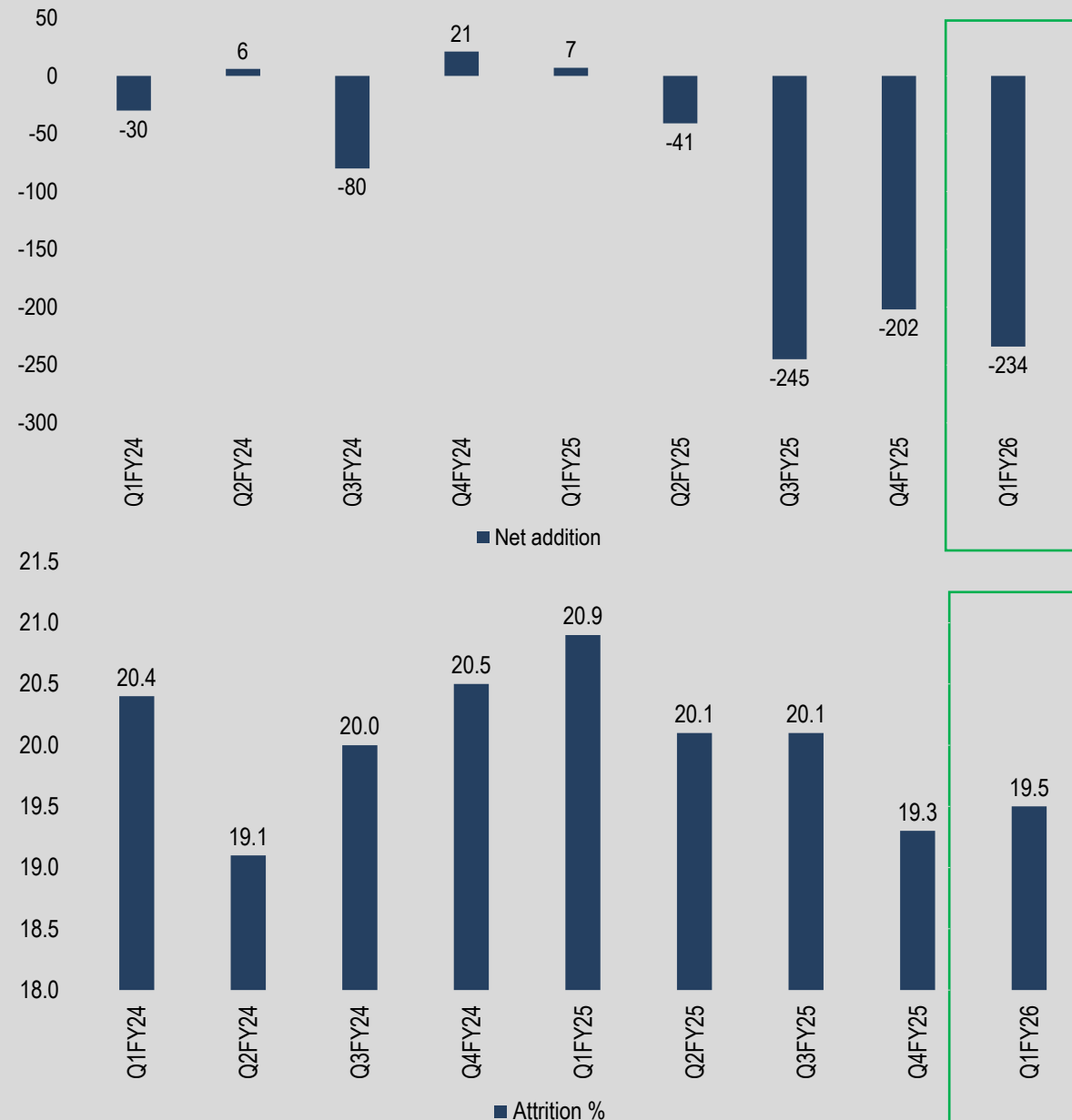
- BFSI grew 5.3% q/q, 6.8% y/y, driven by continued demand for data modernisation and AI-led digital transformation
- Improving market sentiment in the US financial services, combined with cross-selling cloud and AI solutions, underpins the continued BFSI momentum



Retail (11.7% of revenue)

- Revenue declined sequentially (3.9% q/q, though y/y up 0.9%) due to macro-economic headwinds and tariff-related budget constraints
- Moreover, a retail client-specific issue in the US contributed to the slowdown in this vertical in Q1 FY26

Addition declines, attrition increases



- **Headcount** ended at 4,824 (down 234 q/q); with net utilisation at 81.5%.
- The decline in headcount was primarily offshore, where several programs either ramped down or concluded, while onshore hiring especially in the UK continued in response to mounting demand
- **Attrition moderated to 19.5%** in Q1 (vs. 19.3% the quarter prior); Mastek attributed part of its headcount decline to natural attrition, including trainee and offshore exits, and faced skilled talent attrition, particularly in the US, with senior-level departures earlier in the year
- This has been followed by a shift to net hiring as the company rebuilds and strengthens its local team

Conference call highlights – Q1 FY26

- Mastek is positioned in AI (especially GenAI and agentic AI) as a core driver of deals in the US, with active engagements across >10 accounts, while securing renewals and extensions of long-standing contracts across the government, the NHS and enterprise clients
- Management expects the deal momentum to accelerate in H2 FY26 as GTM investments, leadership hires and sales-force expansion start delivering results, reinforcing sustained client confidence
- Growth in the company's UK Healthcare division was driven by its strong position as a strategic partner in the UK NHS digital transformation agenda, supported by the government's £10bn investment over five years in electronic health-records, integrated care-systems and patient portals
- The momentum is further bolstered by its expansion into AMEA, where the company has onboarded an ex-Cerner executive to lead its Oracle-Cerner fusion strategy and capitalize on emerging opportunities from Oracle's acquisition of Cerner
- In BFSI, Mastek is gaining traction, marked by a strategic £15m UK deal with a financial regulator, as it expands beyond its traditional focus and sees early success in delivering consulting-led, AI-driven transformation in this emerging growth segment
- The Retail vertical in the US was under pressure due to macro-economic headwinds and tariff-related budget constraints, resulting in muted demand, reduced discretionary spending and slower deal activity from key clients
- The US faced revenue pressure due to muted discretionary spending and cost challenges in key Healthcare and Retail accounts, but early signs of recovery are visible, with a healthy pipeline and rising client interest in AI-led and modernization initiatives
- The UK was strong, with broad-based and consistent growth driven by new deals, deepening client relationships and renewals across Healthcare, secure government, and enterprise segments; the company is investing in local talent development through graduate and apprentice programs to support long-term margin expansion

Valuation considerations: Undemanding valuations drive considerable upside...

- We assume a 90bp EBIT margin expansion over FY26-28 (13.9% to 14.8%), with an FY26-28 EPS CAGR of ~14%
- **1-year fwd. multiple.** Basis multiple method, with an LTM of Sep'27 EPS estimate of Rs155.3, we arrive at an intrinsic value of Rs 3,324, with the target multiple of 21.4x (the five-year avg. of the 1-yr-fwd. multiple)
- Basis **DCF**, the intrinsic value is Rs3,340 (a 25.8% premium to the CMP)
- We retain a Buy recommendation on the stock, with a TP of Rs3,332 (~26% potential), with a 50% weight each to the 1-year-fwd multiple and DCF

S.No	Valuation methodology	Assumptions	Intrinsic Value (Rs)	Target Price (Rs)
(1)	1-yr.-forward multiple	We apply a 21.4x P/E (the last five-year average of the 1-year-fwd) to LTM Sep'27 EPS of Rs155.3	3,324	
(2)	DCF (base case)	<ul style="list-style-type: none">15-year DCF, with 5.5% terminal growth rateFY25-30 revenue CAGR (base case): 9.7%WACC: 12%	3,340	
	Overall	50% weight to (1) & (2) each, to arrive at target of		3,332

DCF assumptions	Unit	
Valuation date		30-Jun-25
WACC	%	12.0
TGR (terminal growth)	%	5.5
Risk-free rate	%	6.3
ERP (Eq. risk premium)	%	6.2
Beta		1.0
Capital structure	Unit	
Eq. (% of capital)	%	91.7
Debt (% of capital)	%	8.3
Cost of equity	%	12.6
Cost of debt	%	7.7

Implied share-price sensitivity (base case)						
WACC (%)	Terminal growth rate (%)					
		5.0%	5.25%	5.5%	5.75%	6.0%
	11.0%	3,832	3,923	4,022	4,131	4,251
	11.5%	3,499	3,571	3,650	3,736	3,829
	12.0%	3,218	3,277	3,340	3,409	3,483
	12.5%	2,969	3,017	3,069	3,124	3,184
	13.0%	2,756	2,795	2,838	2,883	2,931

Factsheet

Year-end: Mar

	Q2FY24	Q3FY24	Q4FY24	Q1FY25	Q2FY25	Q3FY25	Q4FY25	Q1FY26
Revenue (\$ m)	93	94	94	97	104	103	105	107

Revenue, by region (%)

	Q2FY24	Q3FY24	Q4FY24	Q1FY25	Q2FY25	Q3FY25	Q4FY25	Q1FY26
North America	28	30	25	26	28	28	26	23
UK	57	55	58	57	56	57	60	64
ME	11	11	17	18	16	15	14	13

Revenue, by vertical (%)

	Q2FY24	Q3FY24	Q4FY24	Q1FY25	Q2FY25	Q3FY25	Q4FY25	Q1FY26
BFSI	12	12	13	12	13	12	12	12
Government	60	61	61	61	59	61	63	64
Healthcare	17	18	16	18	18	22	24	25
Manufacturing and Hi-Tech	16	15	13	14	14	14	13	12
Retail Services	13	12	14	13	14	13	13	12

Client Concentration (%)

	Q2FY24	Q3FY24	Q4FY24	Q1FY25	Q2FY25	Q3FY25	Q4FY25	Q1FY26
Top 5 Clients	32	30	31	30	29	32	35	35
Top 10 Clients	41	40	42	41	40	43	45	45
Active Clients	441	436	430	391	380	351	348	323
\$1m+ clients	67	73	76	76	78	79	77	75

Workforce

	Q2FY24	Q3FY24	Q4FY24	Q1FY25	Q2FY25	Q3FY25	Q4FY25	Q1FY26
Technical	4,819	4,762	4,818	4,808	4,766	4,545	4,337	4,135
Technical Support	135	126	115	112	125	115	116	105
Marketing	281	268	265	289	280	273	274	282
Support	363	362	341	337	334	327	331	302
Utilization % (gross)	77.905	76	78	80	78	74	76	82
12 m Order Backlog (\$ m)	224.2	248.5	260	260.1	261.9	249.8	264.5	273.8
Active clients	441	436	430	391	380	351	348	323
Revenue per active client (\$ m)	0.2	0.2	0.2	0.2	0.3	0.3	0.3	0.3

Effort Mix

	Q2FY24	Q3FY24	Q4FY24	Q1FY25	Q2FY25	Q3FY25	Q4FY25	Q1FY26
On-site	35.3	36.8	36.4	36.2	37.1	39.4	39.4	37.7
Offshore	64.7	63.2	63.6	63.8	62.9	60.6	60.6	62.3

Note: The effort mix assumes 95% utilization for onsite employees

Estimates revision: No material changes

Mastek (Rs m)	FY26e			FY27e			FY28e		
	New	Old	% Change	New	Old	% Change	New	Old	% Change
Revenue (\$ m)	446	447	(0.2)	485	481	0.9	529	522	1.3
Revenues	37,953	38,179	(0.6)	41,280	41,075	0.5	45,020	44,590	1.0
EBITDA	6,030	5,987	0.7	6,560	6,521	0.6	7,484	7,282	2.8
EBITDA margins %	15.9%	15.7%	21 bps	15.9%	15.9%	1 bps	16.6%	16.3%	29 bps
EBIT	5,282	5,222	1.1	5,782	5,725	1.0	6,674	6,454	3.4
EBIT margins %	13.9%	13.7%	24 bps	14.0%	13.9%	7 bps	14.8%	14.5%	35 bps
Other Income	(14)	(20)	(28)	80	96	(16)	173	189	(8)
PBT	5,267	5,202	1.3	5,862	5,821	0.7	6,848	6,642	3.1
Net profit	4,017	3,982	0.9	4,470	4,455	0.3	5,222	5,084	2.7

Key estimate changes

- No material change in estimates, with a small increase (30bps) in operating margins in FY28 to 14.8% (vs. 14.5% earlier), with a ~14% EPS CAGR over FY26-28.

Quick glance — Financials and valuations

Key financials

Fig 1 – Income statement (Rs m)

Year-end: Mar	FY24	FY25	FY26e	FY27e	FY28e
Revenues (US\$m)	368	408	446	485	529
Growth (%)	15.8	10.9	9.1	8.8	9.1
Net revenues (Rs m)	30,548	34,552	37,953	41,280	45,020
Employee & Direct Costs	22,508	25,109	27,011	29,512	32,197
Gross Profit	8,040	9,444	10,942	11,768	12,823
Gross Margin %	26.32	27.33	28.83	28.51	28.48
SG&A	2,954	3,979	4,912	5,208	5,339
EBITDA	5,087	5,465	6,030	6,560	7,484
EBITDA margins (%)	16.7	15.8	15.9	15.9	16.6
- Depreciation	899	751	748	778	810
Other income	119	299	336	315	408
Interest Exp	445	421	350	235	235
PBT	3,862	4,592	5,267	5,862	6,848
Effective tax rate (%)	19	18	24	24	24
+ Associates/(Minorities)	-107	-	-	-	-
Net Income	3,003	3,759	4,017	4,470	5,222
WANS	31	31	31	31	31
FDEPS (Rs/share)	97.3	120.6	128.7	143.3	167.4

Fig 3 – Cash Flow statement (Rs m)

Year-end: Mar	FY24	FY25	FY26e	FY27e	FY28e
PBT	3,862	4,592	5,267	5,862	6,848
+ Non-cash items	1,644	1,214	492	551	499
Operating profit before WC	5,506	5,806	5,759	6,413	7,346
- Incr./((decr.) in WC	237	634	1,094	721	855
Others including taxes	-1,069	-1,221	-1,250	-1,391	-1,625
Operating cash-flow	4,199	3,951	3,415	4,300	4,866
- Capex (tangible + Intangible)	315	201	359	391	426
Free cash-flow	3,885	3,750	3,055	3,909	4,440
Acquisitions	-2,050	-2,055	-863	-	-
- Dividend (including buyback & taxes)	581	587	683	760	888
+ Equity raised	4	3	-0	0	-0
+ Debt raised	911	436	-1,638	-1,047	-705
- Fin Investments	291	692	22	24	27
- Misc. Items (CFI + CFF)	133	-36	-336	-315	-408
Net cash-flow	1,745	893	185	2,394	3,228

Source: Company, Anand Rathi Research

Fig 2 – Balance sheet (Rs m)

Year-end: Mar	FY24	FY25	FY26e	FY27e	FY28e
Share capital	154	155	155	155	155
Net worth	21,004	24,623	27,958	31,668	36,003
Total debt (incl. Pref)	4,866	5,552	3,914	2,867	2,162
Minority interest	-	-	-	-	-
DTL/(Asset)	-732	-1,229	-1,229	-1,229	-1,229
Capital employed	25,138	28,946	30,642	33,306	36,935
Net tangible assets	881	822	626	394	172
Net Intangible assets	2,546	-769	-961	-1,117	-1,279
Goodwill	16,072	18,127	18,990	18,990	18,990
CWIP (tang. & intang.)	9	18	18	18	18
Other Long term Assets/(Liabilities)	-1,342	-580	-638	-701	-771
Investments (Financial)	938	1,780	1,780	1,780	1,780
Current Assets (ex Cash)	10,841	12,037	13,646	14,995	16,520
Cash	3,826	4,615	4,800	7,194	10,422
Current Liabilities	8,635	7,106	7,620	8,248	8,918
Working capital	2,206	4,932	6,026	6,747	7,602
Capital deployed	25,138	28,946	30,641	33,305	36,934
Contingent Liabilities	94	-	-	-	-

Fig 4 – Ratio analysis

Year end Mar	FY24	FY25	FY26e	FY27e	FY28e
P/E (x)	27.5	22.0	20.5	18.5	15.8
EV/EBITDA (x)	16.1	14.9	13.5	12.5	10.9
EV/sales (x)	-	-	-	-	-
P/B (x)	3.9	3.4	3.0	2.6	2.3
RoE (%)	15.9	16.5	15.3	15.0	15.4
RoCE (%) - After tax	12.5	12.9	12.4	12.7	13.4
RoIC (%) - After tax	14.6	15.9	15.5	16.4	18.6
DPS (Rs per share)	19.5	23.0	21.9	24.4	28.5
Dividend yield (%)	0.7	0.9	0.8	0.9	1.1
Dividend payout (%) - Inc. DDT	20.0	17.0	17.0	17.0	17.0
Net debt/equity (x)	0.0	-0.0	-0.1	-0.2	-0.3
Receivables (days)	109	102	110	115	120
Inventory (days)					
Payables (days)	32	32	31	31	31
CFO:PAT%	135	105	85	96	93
FCF:PAT% - includ M&A payout	61	45	55	87	85

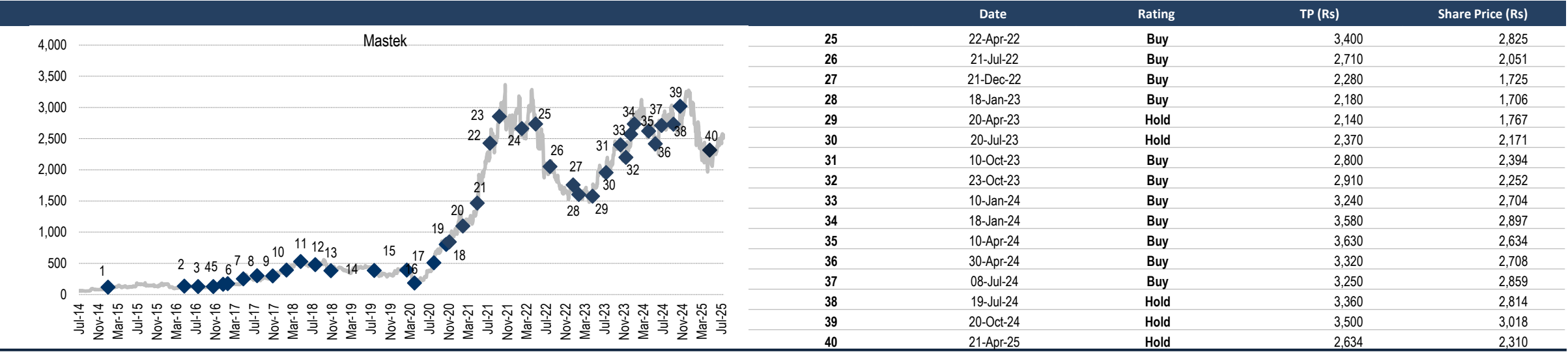
Source: Company, Anand Rathi Research

Appendix

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