

Varun Beverages

Estimate change



TP change



Rating change



CMP: INR519

TP: INR600 (+16%)

Buy

Strong volume drives revenue growth

Earnings above our estimates

- Varun Beverages (VBL) posted a strong quarter with ~16% YoY revenue growth, led by strong volume growth of 14.4% in India and 21.4% in international territories. Further, net realization per case improved 1.6% at the consolidated level, fueled by realization growth in international territories (due to favorable currency movement), which was partially offset by 1.5% dip in net realizations in India (due to pack upsizing and targeted price-point launches).
- Going forward, VBL is well placed for healthy 2QCY26 growth due to the El Niño-led heatwave, along with tailwinds from the Twizza and Crickley consolidations.
- Factoring in the consolidation of Twizza and Crickley and higher-than-expected volumes, we raise our CY26/CY27 earnings estimates by 4%/6%. **We reiterate our BUY rating with a TP of INR600 (based on 47x CY26E EPS).**

Healthy all-round operations lead to margin expansion

- Consol. revenue grew 18% YoY to INR65.7b (est. INR59.6b) on account of 16% YoY growth in volume to 363m cases and an improvement in realization per case by 1.6% to INR174.
- EBITDA margin expanded ~60bp YoY to 23.3% (est. 22.5%). EBITDA per case grew 12% YoY to INR45.3. EBITDA rose 21% YoY to ~INR15.3b (est. INR13.4b).
- Depreciation increased 30.9% due to the commissioning of new plants of last year (Buxar, Prayagraj, Damtal, and Meghalaya), which were not present in the base quarter. Further, finance costs increased 18% on account of the acquisition of Twizza in South Africa in the current quarter. The income from surplus cash in India is accounted for as other income. Adj. PAT grew 21% YoY to INR8.8b (est. INR7.7b).
- The subsidiary's (consolidated minus standalone) revenue/EBITDA/adj. PAT jumped 36%/3x/16x YoY to INR22.1b/INR8.3b/INR7.8b in 1QCY26.
- CSD/Juice/Water volumes grew 74%/7%/19% YoY to 268m/27m/68m units in 1QCY26.

Highlights from the management commentary

- **Packaging:** VBL's aluminum can beverage sales are less than 2%. The company is managing rising costs by cutting discounts. The packaging inventory is covered until next quarter for the domestic market and until the next two quarters for international markets. The shortage of aluminum cans is affecting the energy drinks portfolio, due to which the company is shifting to PET bottles.
- **Guidance and outlook:** The company remains bullish on domestic demand with no expected adverse impact from inflation. Strong traction in new launches such as Nimbooz (~60% growth) and Tropicana (100% growth), **along with the anticipated El Niño-led heatwave**, is expected to further boost beverage consumption and support a strong near-term outlook.

Bloomberg	VBL IN
Equity Shares (m)	3382
M.Cap.(INRb)/(USDb)	1754.8 / 18.6
52-Week Range (INR)	544 / 381
1, 6, 12 Rel. Per (%)	28/20/-1
12M Avg Val (INR M)	3337

Financials & Valuations (INR b)

Y/E Dec	2025	2026E	2027E
Sales	216.9	260.2	292.5
EBITDA	50.6	60.4	68.4
Adj. PAT	30.5	36.0	43.6
EBITDA (%)	23.3	23.2	23.4
EPS (INR)	9.0	10.7	12.9
EPS Gr. (%)	17.4	18.3	20.9
BV/Sh. (INR)	57.9	66.1	76.4
Ratios			
Net D/E	0.0	-0.1	-0.2
RoE (%)	16.8	17.2	18.1
RoCE (%)	15.8	16.6	17.7
Payout (%)	27.9	23.5	19.4
Valuations			
P/E (x)	57.6	48.7	40.3
EV/EBITDA (x)	34.7	28.9	25.0
Div Yield (%)	0.5	0.5	0.5
FCF Yield (%)	0.5	1.4	2.5

Shareholding pattern (%)

As on	Mar-26	Dec-25	Mar-25
Promoter	59.4	59.4	60.2
DII	14.4	13.6	9.2
FII	19.5	20.3	23.0
Others	6.7	6.7	7.6

Note: FII includes depository receipts

- **Strategic acquisition:** VBL consummated the acquisition of Twizza (9MCY26 revenue of INR8b) through BevCo at EV of ZAR2b (INR11,187m), strengthening its manufacturing footprint. VBL also acquired Crickley Dairy (9MCY26 revenue of INR1.6b) through BevCo at EV of ZAR238m (INR1314.68m), further strengthening its presence in South Africa.

Valuation and view

- We expect VBL to witness improved earnings momentum, aided by an extreme heatwave expected this year due to El Niño conditions (to aid in peak season demand); 2) a scale-up in the international market, driven by South Africa and recovery in the Zimbabwe market; 3) strengthening of on-ground execution in the Indian market; 4) scale-up of the snacking business, backed by the operationalization of the Morocco and Zimbabwe markets in 2HCY25; and 5) an expanding product portfolio (recently launched an energy drink known as 'Adrenaline Rush').
- We expect a CAGR of 16%/16%/20% in revenue/EBITDA/PAT over CY25-27. We increase our CY26E/CY27E earnings estimates by 4%/6% and **reiterate our BUY rating on the stock with a TP of INR600 (47x CY26E EPS).**

Consolidated - Quarterly Earnings Model

(INR m)

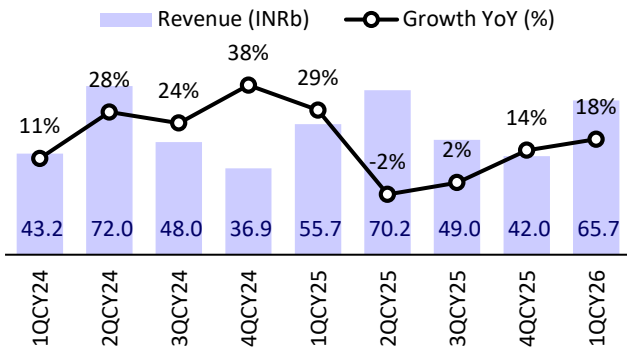
Y/E December	CY25				CY26				CY25	CY26E	CY26E	Var %
	1Q	2Q	3Q	4Q	1Q	2QE	3QE	4QE				
Net Sales	55,669	70,174	48,967	42,044	65,742	87,798	58,670	47,975	2,16,854	2,26,926	59,642	10
YoY Change (%)	28.9	-2.5	1.9	14.0	18.1	25.1	19.8	14.1	8.4	4.6	7.1	
Total Expenditure	43,030	50,186	37,493	35,512	50,453	63,459	44,793	41,118	1,66,220	1,73,643	46,218	
EBITDA	12,640	19,988	11,474	6,533	15,289	24,339	13,878	6,857	50,634	53,283	13,424	14
Margins (%)	22.7	28.5	23.4	15.5	23.3	27.7	23.7	14.3	23.3	23.5	22.5	
Depreciation	2,725	3,062	3,076	3,302	3,568	3,600	3,650	3,700	12,165	13,007	3,350	
Interest	411	365	452	467	485	400	350	300	1,696	1,770	350	
Other Income	281	772	1,464	991	435	500	1,200	570	3,507	3,662	309	
PBT	9,784	17,332	9,410	3,615	11,671	20,839	11,078	3,427	40,141	42,168	10,033	16
Tax	2,465	4,066	1,957	989	2,845	4,487	2,357	654	9,476	9,856	2,207	
Rate (%)	25.2	23.5	20.8	27.4	24.4	21.5	21.3	19.1	23.6	23.4	22	
MI & Profit/Loss of Asso. Cos.	54	97	57	108	64	93	44	90	316	325	54	
Reported PAT	7,265	13,170	7,396	2,518	8,763	16,259	8,677	2,682	30,349	31,987	7,772	
Adj PAT	7,265	13,170	7,396	2,658	8,763	16,259	8,677	2,682	30,489	31,987	7,772	13
YoY Change (%)	35.2	5.1	19.4	43.6	20.6	23.5	17.3	0.9	17.5	4.9	7.0	
Margins (%)	13.1	18.8	15.1	6.3	13.3	18.5	14.8	5.6	14.1	14.1	13.0	

Exhibit 1: Key performance indicators

Y/E December	4QCY23	1QCY24	2QCY24	3QCY24	4QCY24	1QCY25	2QCY25	3QCY25	4QCY25	1QCY26
Segment Volume Gr.										
CSD	25	6	32	23	42	36	2	19	51	25
NCB	14	13	39	3	0	22	-13	6	25	23
Water	5	10	7	12	17	6	13	7	16	21
Cost Break-up										
RM Cost (% of sales)	43	44	45	44	44	45	45	43	45	45
Employee Cost (% of sales)	14	9	7	11	13	9	8	11	14	9
Other Cost (% of sales)	27	24	20	21	27	23	18	22	26	23
Gross Margins (%)	57	56	55	56	56	55	55	57	55	55
EBITDA Margins (%)	16	23	28	24	16	23	28	23	16	23
EBIT Margins (%)	9	19	24	19	9	18	24	17	8	18

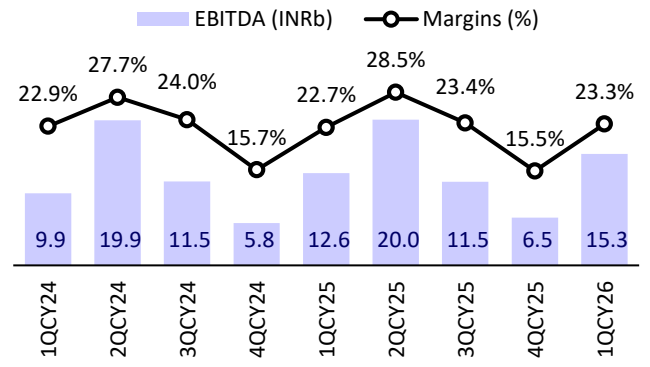
Key exhibits

Exhibit 2: Trend in consolidated revenue



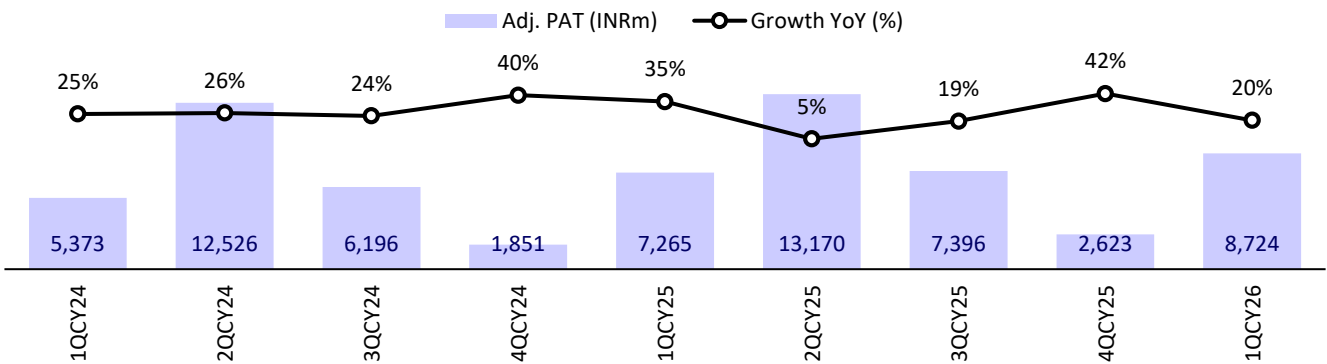
Source: Company, MOFSL

Exhibit 3: Trend in consolidated EBITDA



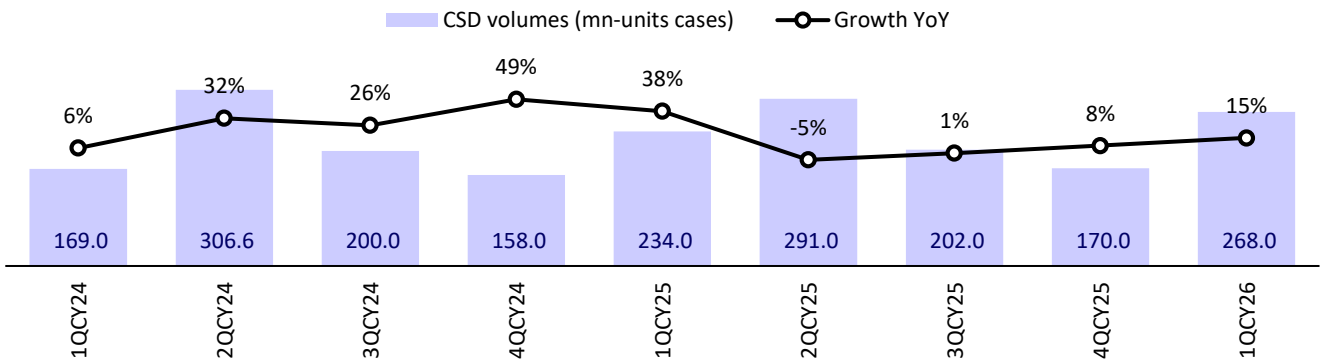
Source: Company, MOFSL

Exhibit 4: Trend in consolidated adjusted PAT



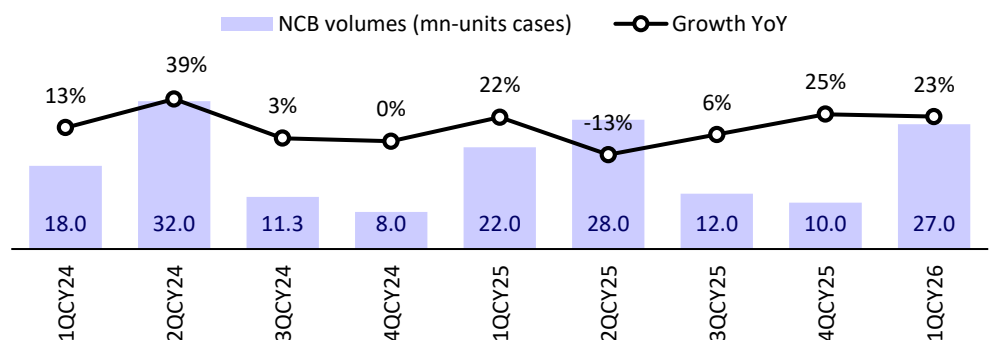
Source: Company, MOFSL

Exhibit 5: CSD sales volume trend



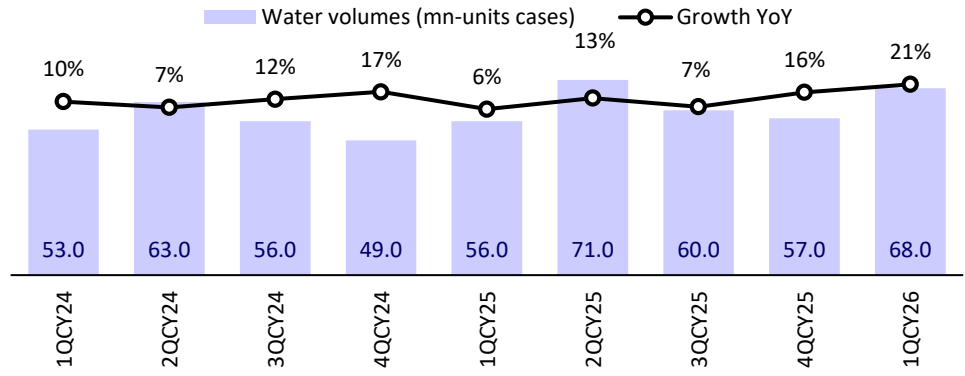
Source: Company, MOFSL

Exhibit 6: NCB sales volume trend



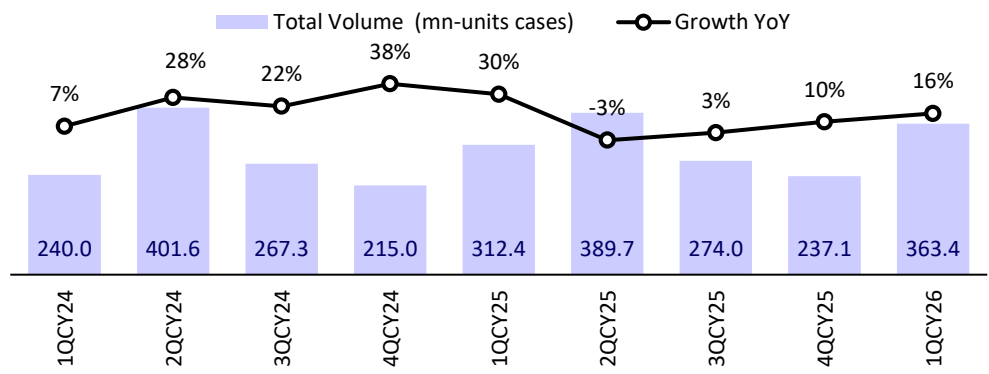
Source: Company, MOFSL

Exhibit 7: Water sales volume trend



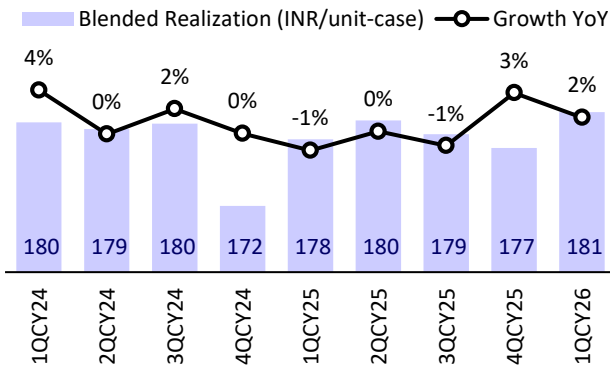
Source: Company, MOFSL

Exhibit 8: Total volume growth trend



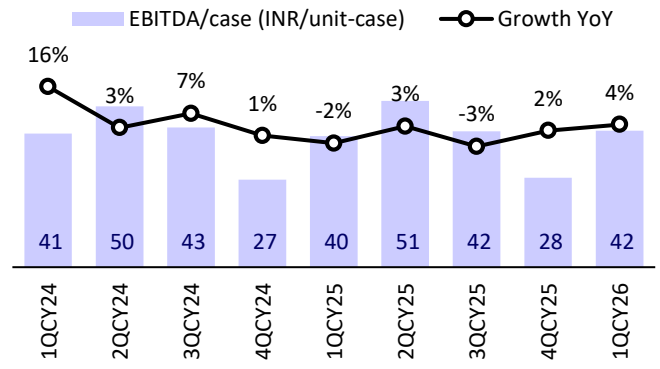
Source: Company, MOFSL

Exhibit 9: Trend in blended realization



Source: Company, MOFSL

Exhibit 10: Trend in EBITDA/case



Source: Company, MOFSL



Highlights from the management interaction

Operating performance

- VBL's sales volume grew ~16% YoY in 1QCY26, driven by strong volume growth of ~14% in India and ~21% in international market
- Net realization per case improved by 1.6% in International markets, primarily due to favorable currency movement, whereas it declined by 1.5% in the domestic market, primarily due to volume growth initiatives such as upsizing of packs and selective price-point launches in targeted markets to onboard new consumers.
- Gross margins improved by ~60 bps at 55.2% in 1QCY26, supported by early stocking of key raw materials despite the inflationary raw material environment.
- In 1QCY26, the mix of low-sugar/no-sugar products has increased to ~63% of consolidated sales volume.
- In India, EBITDA margins improved by ~110bp, driven by operational efficiencies from robust volume growth and improved gross margin.
- Product mix is dynamic, and the future mix will depend on demand.

Guidance and outlook

- Management remains confident in the long-term opportunity across domestic and international markets, supported by favorable demographics, rising incomes, growing urbanization, and increasing beverage consumption.
- The overall market is growing at a rapid pace. The company is not expecting an adverse impact on consumption trends in the coming quarters due to inflation and is bullish on the domestic market.
- Apr'26 is looking good for the company due to the high temperature. New launches showing strong growth with Nimbooz (~60% growth), Tropicana (100% growth). There was a low base in May and Jun'25 due to the monsoons.
- Capex is not expected to be substantial in CY26 (less than INR5b)

India business

- Demand remained encouraging during the quarter, supported by VBL's wide distribution reach, strengthened execution, and continued investments in manufacturing capacity and chilling infrastructure (~0.5m outlets additions expected)
- The company is passing cost-cutting benefits and new plant efficiency. Realization has not dropped rapidly due to other premium products.
- VBL undertook targeted initiatives to drive volumes and strengthen our domestic portfolio, including pack upsizing, selective price-point launches in identified markets to onboard new consumers, and new launches in the energy and juice-based drink segments (Sting classic)
- Consumption is growing in liters and numbers.

Packaging

- The company's aluminum can beverage sales are less than 2%. The company is managing rising costs by cutting discounts.
- On the domestic side, packaging inventory is covered for the current quarter. In the next quarter, the effect of war is expected, which is being mitigated through discounts and cost-cutting.

- On the international front, the minimal impact of geopolitical issues is due to higher raw material inventory holding (~6 months holding). A minimal effect of the increase in transportation costs will be there.
- Shortage of aluminum cans is affecting the energy drinks portfolio. The company is shifting to PET bottles.

Strategic acquisitions

- VBL consummated the acquisition of Twizza in South Africa through BevCo at EV of ZAR2b, strengthening its manufacturing footprint and route-to-market capabilities in Africa's largest soft drinks market. (INR8b revenue)
- The acquisition is expected to generate meaningful operational and commercial synergies over time.
- Also, VBL entered into a share purchase agreement to acquire Crickley Dairy through BevCo at an EV of ZAR238m, which will further strengthen its presence in South Africa, subject to regulatory and other approvals. (INR1.6b revenue)

International business

- VBL continues to build scale in snacks across Africa and deepen its presence in high-potential markets, in line with our strategy of broadening the portfolio and strengthening consumer relevance
- Zimbabwe plant ramp-up will accelerate the snacks business
- Sugar's international price decline is benefiting the company

Others

- Depreciation increased by 30.9% on account of the commissioning of new plants of last year (Buxar, Prayagraj, Damtal, and Meghalaya), which were not present in the base quarter.
- In 1QCY26, Finance cost increased by 18% on account of the acquisition of Twizza in South Africa.
- VBL's board has approved an interim dividend of INR 0.50 per share.
- Less than 2% of volumes were generated from INR10 products.
- The company is not aggressively marketing packaged water and has no intention of lowering prices.
- Demand for energy drinks (Adrenaline Rush, Sting) is exceeding the expectations of the management.
- Management says ~3-4 year payback period for new plants.

Valuation and view

- We expect VBL to witness improved earnings momentum, aided by an extreme heatwave expected this year due to El Niño conditions (to aid in peak season demand); 2) a scale-up in the international market, driven by South Africa and recovery in the Zimbabwe market; 3) strengthening of on-ground execution in the Indian market; 4) scale-up of the snacking business, backed by the operationalization of the Morocco and Zimbabwe markets in 2H CY25; and 5) an expanding product portfolio (recently launched an energy drink known as 'Adrenaline Rush').
- We expect a CAGR of 16%/16%/20% in revenue/EBITDA/PAT over CY25-27. We increase our CY26E/CY27E earnings estimates by 4%/6% and **reiterate our BUY rating on the stock with a TP of INR600 (47x CY26E EPS).**

Exhibit 11: Summary of our revised estimates

Earnings change (INRm)	Old		New		Change	
	CY26E	CY27E	CY26E	CY27E	CY26E	CY27E
Revenue	2,45,562	2,75,637	2,60,186	2,92,509	6%	6%
EBITDA	56,965	64,431	60,363	68,447	6%	6%
Adj. PAT	34,656	41,035	36,040	43,575	4%	6%

Financials and valuations

Consolidated - Income Statement								(INRm)
Y/E December	CY20	CY21	CY22	CY23	CY24	CY25	CY26E	CY27E
Total Income from Operations	64,501	88,232	1,31,731	1,60,426	2,00,077	2,16,854	2,60,186	2,92,509
Change (%)	-9.5	36.8	49.3	21.8	24.7	8.4	20.0	12.4
RM Cost	27,639	40,347	62,612	74,049	89,047	97,154	1,16,492	1,30,752
Employees Cost	8,897	10,077	12,166	14,466	18,850	21,867	24,603	27,788
Other Expenses	15,946	21,262	29,072	35,816	45,068	47,198	58,727	65,522
Total Expenditure	52,483	71,686	1,03,850	1,24,331	1,52,966	1,66,220	1,99,823	2,24,062
% of Sales	81.4	81.2	78.8	77.5	76.5	76.7	76.8	76.6
EBITDA	12,019	16,546	27,881	36,095	47,111	50,634	60,363	68,447
Margin (%)	18.6	18.8	21.2	22.5	23.5	23.3	23.2	23.4
Depreciation	5,287	5,313	6,172	6,809	9,474	12,165	14,903	14,959
EBIT	6,732	11,234	21,709	29,286	37,637	38,469	45,460	53,488
Int. and Finance Charges	2,811	1,847	1,861	2,681	4,504	1,696	1,535	500
Other Income	370	679	388	794	1,213	3,507	2,705	3,308
PBT bef. EO Exp.	4,290	10,066	20,236	27,398	34,346	40,281	46,629	56,296
EO Items	-665	0	0	0	0	140	0	0
PBT after EO Exp.	3,625	10,066	20,236	27,398	34,346	40,141	46,629	56,296
Total Tax	52	2,606	4,735	6,375	7,988	9,476	10,258	12,385
Tax Rate (%)	1.4	25.9	23.4	23.3	23.3	23.6	22.0	22.0
Share of profit from associates	0	0	0	-5	-15	-60	-39	0
Minority Interest	283	520	527	459	397	256	291	320
Reported PAT	3,290	6,941	14,974	20,559	25,946	30,349	36,040	43,591
Adjusted PAT	3,251	6,941	14,974	20,559	25,946	30,454	36,040	43,591
Change (%)	-30.7	113.5	115.8	37.3	26.2	17.4	18.3	20.9
Margin (%)	5.0	7.9	11.4	12.8	13.0	14.0	13.9	14.9

Consolidated - Balance Sheet								(INRm)
Y/E December	CY20	CY21	CY22	CY23	CY24	CY25	CY26E	CY27E
Equity Share Capital	2,887	4,330	6,496	6,496	6,763	6,763	6,763	6,763
Total Reserves	32,353	36,469	44,528	62,869	1,59,335	1,89,023	2,16,610	2,51,747
Net Worth	35,240	40,799	51,024	69,365	1,66,098	1,95,786	2,23,373	2,58,510
Minority Interest	648	1,168	1,131	1,482	1,298	1,623	1,914	2,234
Total Loans	32,059	33,418	36,948	51,944	23,643	20,241	12,241	7,241
Deferred Tax Liabilities	2,149	3,087	3,368	3,430	4,879	6,192	6,192	6,192
Capital Employed	70,096	78,473	92,471	1,26,221	1,95,918	2,23,842	2,43,719	2,74,177
Gross Block	90,086	94,420	1,06,807	1,28,385	1,85,018	2,30,221	2,53,077	2,62,754
Less: Accum. Deprn.	26,242	31,555	37,727	44,536	54,010	66,174	81,078	96,037
Net Fixed Assets	63,844	62,865	69,080	83,849	1,31,008	1,64,047	1,71,999	1,66,717
Goodwill on Consolidation	242	242	242	242	3,009	3,542	3,542	3,542
Capital WIP	668	4,966	6,066	19,222	11,667	2,708	1,354	677
Total Investments	0	0	0	211	595	1,743	4,743	8,743
Current Investments	0	0	0	211	0	0	0	0
Curr. Assets, Loans&Adv.	19,719	27,721	40,794	48,347	85,160	83,612	1,00,592	1,35,529
Inventory	9,288	14,481	19,939	21,505	27,912	29,518	34,664	38,973
Account Receivables	2,418	2,212	2,993	3,594	8,458	12,490	14,257	15,227
Cash and Bank Balance	1,901	3,366	2,853	4,599	24,501	19,985	26,174	55,004
Loans and Advances	6,113	7,661	15,009	18,649	24,288	21,619	25,498	26,326
Curr. Liability & Prov.	14,378	17,322	23,711	25,651	35,521	31,810	38,511	41,031
Account Payables	5,114	7,118	8,243	7,582	15,604	14,013	16,395	17,631
Other Current Liabilities	6,893	7,622	13,135	15,117	17,283	15,387	19,514	20,476
Provisions	2,371	2,583	2,333	2,952	2,633	2,410	2,602	2,925
Net Current Assets	5,342	10,399	17,083	22,696	49,639	51,802	62,081	94,497
Appl. of Funds	70,096	78,473	92,471	1,26,221	1,95,918	2,23,842	2,43,719	2,74,177

Financials and valuations

Income statement

Y/E December	CY20	CY21	CY22	CY23	CY24	CY25	CY26E	CY27E
Basic (INR)								
EPS	1.0	2.1	4.4	6.1	7.7	9.0	10.7	12.9
Cash EPS	2.5	3.6	6.3	8.1	10.5	12.6	15.1	17.3
BV/Share	10.4	12.1	15.1	20.5	49.1	57.9	66.1	76.4
DPS	0.2	0.3	0.7	1.0	2.5	2.5	2.5	2.5
Payout (%)	21.9	15.6	15.2	16.4	32.6	27.9	23.5	19.4
Valuation (x)								
P/E	540.1	252.9	117.2	85.4	67.7	57.6	48.7	40.3
Cash P/E	205.6	143.3	83.0	64.1	49.6	41.2	34.5	30.0
P/BV	49.8	43.0	34.4	25.3	10.6	9.0	7.9	6.8
EV/Sales	27.7	20.3	13.6	11.2	8.8	8.1	6.7	5.8
EV/EBITDA	148.6	108.0	64.2	50.0	37.3	34.7	28.9	25.0
Dividend Yield (%)	0.0	0.1	0.1	0.2	0.5	0.5	0.5	0.5
FCF per share	1.7	0.9	0.1	-2.4	-1.1	2.4	7.2	12.9
Return Ratios (%)								
RoE	9.5	18.3	32.6	34.2	22.0	16.8	17.2	18.1
RoCE	10.4	12.5	20.9	22.1	19.2	15.8	16.6	17.7
RoIC	9.8	12.1	21.6	24.2	22.1	16.4	17.3	19.8
Working Capital Ratios								
Fixed Asset Turnover (x)	0.7	0.9	1.2	1.2	1.1	0.9	1.0	1.1
Asset Turnover (x)	0.9	1.1	1.4	1.3	1.0	1.0	1.1	1.1
Inventory (Days)	53	60	55	49	51	50	49	49
Debtor (Days)	14	9	8	8	15	21	20	19
Creditor (Days)	29	29	23	17	28	24	23	22
Leverage Ratio (x)								
Current Ratio	1.4	1.6	1.7	1.9	2.4	2.6	2.6	3.3
Interest Cover Ratio	2.4	6.1	11.7	10.9	8.4	22.7	30	107.0
Net Debt/Equity	0.9	0.7	0.7	0.7	0.0	0.0	-0.1	-0.2

Consolidated - Cash Flow Statement

Y/E December	CY20	CY21	CY22	CY23	CY24	CY25	CY26E	CY27E
(INR m)								
OP/(Loss) before Tax	3,625	10,066	20,236	27,398	34,346	40,157	46,629	56,296
Depreciation	5,287	5,313	6,172	6,809	9,474	12,165	14,903	14,959
Interest & Finance Charges	2,730	1,850	1,854	2,681	4,504	1,696	-1,170	-2,808
Direct Taxes Paid	-775	-1,242	-3,733	-6,679	-7,276	-8,882	-10,258	-12,385
(Inc)/Dec in WC	-1,109	-2,688	-5,851	-6,735	-6,694	-5,711	-4,091	-3,586
CF from Operations	9,758	13,299	18,678	23,474	34,354	39,425	46,014	52,476
Others	362	-985	-778	434	-543	-4,332	0	0
CF from Operating incl EO	10,120	12,314	17,900	23,908	33,811	35,093	46,014	52,476
(Inc)/Dec in FA	-4,282	-9,229	-17,499	-31,939	-37,404	-27,124	-21,502	-9,000
Free Cash Flow	5,838	3,085	401	-8,031	-3,593	7,969	24,512	43,476
(Pur)/Sale of Investments	0	0	0	-216	-6,418	-401	-3,000	-4,000
Others	-429	-877	453	-743	654	176	2,666	3,308
CF from Investments	-4,711	-10,106	-17,046	-32,898	-43,168	-27,349	-21,836	-9,692
Issue of Shares	0	0	0	44	75,119	85	0	0
Inc/(Dec) in Debt	-2,130	1,286	3,396	15,064	-35,516	-5,007	-8,000	-5,000
Interest Paid	-2,774	-1,791	-1,717	-2,694	-4,650	-1,587	-1,535	-500
Dividend Paid	-722	-1,083	-1,624	-2,273	-3,248	-5,073	-8,454	-8,454
Others	407	845	-1,423	596	-2,447	-678	0	0
CF from Fin. Activity	-5,219	-743	-1,368	10,737	29,259	-12,259	-17,989	-13,954
Inc/Dec of Cash	190	1,465	-513	1,747	19,902	-4,516	6,189	28,830
Opening Balance	1,711	1,901	3,366	2,852	4,599	24,501	19,985	26,174
Closing Balance	1,901	3,366	2,852	4,599	24,501	19,985	26,174	55,004

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NOTES

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Nainesh Rajani

Email: nainesh.rajani@motilaloswal.com

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Grievance Redressal Cell:

Contact Person	Contact No.	Email ID
Ms. Hemangi Date	022 40548000 / 022 67490600	query@motalaloswal.com
Ms. Kumud Upadhyay	022 40548082	servicehead@motalaloswal.com
Mr. Ajay Menon	022 40548083	am@motalaloswal.com
Mr. Neeraj Agarwal	022 40548085	na@motalaloswal.com
Mr. Siddhartha Khemka	022 50362452	po.research@motalaloswal.com

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