

July 24, 2020

## Q1FY21 Result Update

■ Change in Estimates | ■ Target | ■ Reco

### Change in Estimates

	Current		Previous	
	FY22E	FY23E	FY22E	FY23E
<b>Rating</b>	BUY		BUY	
<b>Target Price</b>	262		262	
Sales (Rs. m)	5,37,077	5,87,431	5,37,077	5,87,431
% Chng.	-	-	-	-
EBITDA (Rs. m)	2,11,789	2,33,297	2,11,789	2,33,297
% Chng.	-	-	-	-
EPS (Rs.)	13.6	15.0	13.6	15.0
% Chng.	-	-	-	-

### Key Financials - Standalone

Y/e Mar	FY20	FY21E	FY22E	FY23E
Sales (Rs. bn)	456	485	537	587
EBITDA (Rs. bn)	179	186	212	233
Margin (%)	39.2	38.3	39.4	39.7
PAT (Rs. bn)	153	148	168	187
EPS (Rs.)	12.4	12.0	13.6	15.0
Gr. (%)	22.2	(3.7)	13.5	10.2
DPS (Rs.)	10.2	10.0	11.0	12.0
Yield (%)	5.1	5.0	5.5	6.0
RoE (%)	25.0	22.2	23.4	24.0
RoCE (%)	26.8	25.5	27.0	27.6
EV/Sales (x)	4.9	4.7	4.2	3.8
EV/EBITDA (x)	12.4	12.3	10.7	9.6
PE (x)	16.1	16.7	14.7	13.4
P/BV (x)	3.8	3.6	3.3	3.1

### Key Data

### ITC.BO | ITC IN

52-W High / Low	Rs.273 / Rs.135
Sensex / Nifty	38,129 / 11,194
Market Cap	Rs.2,457bn / \$ 32,832m
Shares Outstanding	12,293m
3M Avg. Daily Value	Rs.11524.09m

### Shareholding Pattern (%)

Promoter's	-
Foreign	14.60
Domestic Institution	42.09
Public & Others	43.31
Promoter Pledge (Rs bn)	-

### Stock Performance (%)

	1M	6M	12M
Absolute	4.2	(16.1)	(26.2)
Relative	(4.7)	(8.4)	(26.8)

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## Valuations reflect Global Tobacco aversion

### Quick Pointers:

- 1Q Cigarette volumes decline ~37%, Production, sales and distribution near normal by end June
- Staples, Foods and Hygiene sales grew 34%, Education/ Stationary and Discretionary OOH categories declined 25%, Margins expand 170bps to 7.6%

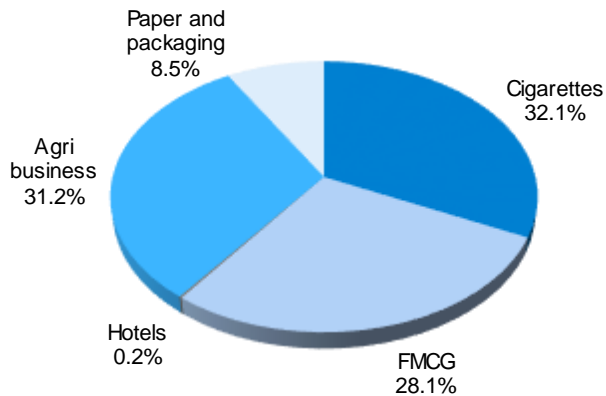
**ITC PAT beat has been led by better than expected performance in Cigarettes, Agri and Paperboard business and 44% growth in other income. FMCG story remains intact with 34% sales growth and 170bps margin expansion led by segments like Atta, Biscuits, Noodles, Dairy and Hygiene products. Cigarette business is expected to report improved nos as June exit sale show recovery close to Pre Covid sales. Hotels business is expected to remain under significant pressure in near term with poor chance of being in black for next 1-2 quarters. We believe ITC would be one of the key beneficiary of an uptick in consumer demand and is inching towards double digit EBIDTA margins in FMCG business over next 2-3 years. ITC trades at 14.0x Sept22 EPS, ~60% discount to our coverage universe with 5% dividend yield (80% payout) and 7.1% PBT CAGR over FY20-23. Maintain BUY with target price of Rs262 on SOTP (valuing cigarette business at 15xSept EPS, 58% of SOTP value). Significant re-rating depends upon reduced aversion to tobacco stocks globally and clarity on SUTI stake sale.**

- Cigarettes volumes decline ~37%; EBIT down 38.8%:** Cigarette volumes declined ~37% due to Covid19 led lockdown. Mfg. started in mid-May and currently distribution, production and sales are near to pre Covid levels. ITC sustained innovations and launched 5 cigarette pack of Flake brand.
- FMCG EBIDTA on a growth trajectory:** Reported revenues grew 10.3% (up 12.2% on comparable basis) largely driven by staples, convenience foods and health & hygiene products (up 34%). Sales of ESP and other non-essentials declined 25%. EBIDTA margins expanded 170bps to 7.6%. Branded packaged foods (*Aashirvaad Atta, Sunfeast, Aashirvaad Svasti*) recorded market share gains and ITC launched 12 Health and Hygiene products.
- Hotels performance impacted due to travel ban:** Sales down 94.2% YoY with EBIT loss of Rs2.4bn led by complete closure during lockdown. Even as the operations started from June 20<sup>th</sup>, we expect severe restrictions in travel for business as well as leisure, and heightened sensitivity around hygiene and social distancing to continue impacting performance in near term.
- Paperboards, Paper & Packaging** revenue decreased 32.8% due to sluggish growth in end-user industries like Education, Liquor, Tobacco, Décor, however robust growth in exports partly mitigated the weak domestic demand environment. Margins contracted 600bps to 15.6%.
- Agri Business** sales up 3.7% on the back of trading opportunities in oil seeds and rice. EBIT down 11.9%, while margins contracted 80bps to 4.8% due to Subdued demand for leaf tobacco and adverse business mix. ITC launched 8 new variants of frozen snacks during the quarter amidst strong growth.

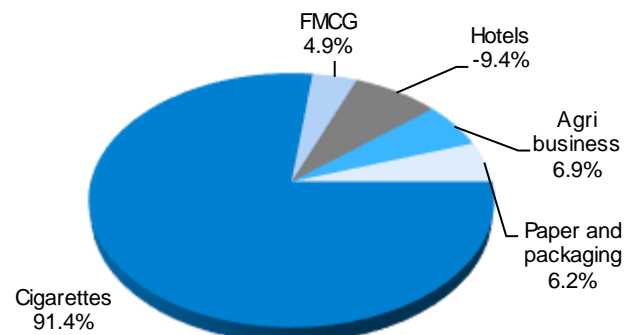
**Exhibit 1: Q1FY21 Result Overview: Net Sales down 21.2%, Adj. PAT down 26.2%**

Y/e March	Q1FY21	Q1FY20	YoY gr. (%)	Q4FY20	FY20	FY19	YoY gr. (%)
<b>Net Sales</b>	<b>89,113</b>	<b>1,13,125</b>	<b>(21.2)</b>	<b>1,08,423</b>	<b>4,56,197</b>	<b>4,49,957</b>	<b>1.4</b>
<b>EBITDA</b>	<b>26,466</b>	<b>45,657</b>	<b>(42.0)</b>	<b>41,635</b>	<b>1,79,043</b>	<b>1,73,055</b>	<b>3.5</b>
<i>Margins (%)</i>	<i>29.7</i>	<i>40.4</i>	<i>(10.7)</i>	<i>38.4</i>	<i>39.2</i>	<i>38.5</i>	
Depreciation	3,982	3,589	10.9	3,925	15,633	13,117	19.2
Interest	167.9	152.2	10.3	147.3	557.2	341.9	63.0
Other Income	8,968	6,202	44.6	7,555	30,137	24,845	21.3
<b>PBT</b>	<b>31,284</b>	<b>48,117</b>	<b>(35.0)</b>	<b>45,118</b>	<b>1,92,989</b>	<b>1,84,442</b>	<b>4.6</b>
Tax	7,857	16,378	(52.0)	7,148	40,308	59,798	(32.6)
<i>Tax Rate (%)</i>	<i>25.1</i>	<i>34.0</i>	<i>(8.9)</i>	<i>15.8</i>	<i>20.9</i>	<i>32.4</i>	
<b>Adjusted PAT</b>	<b>23,428</b>	<b>31,739</b>	<b>(26.2)</b>	<b>37,971</b>	<b>1,52,682</b>	<b>1,24,643</b>	<b>22.5</b>

Source: Company, PL

**Exhibit 2: Cigarettes revenue share at 321.1%, FMCG 28.1%**


Source: Company, PL

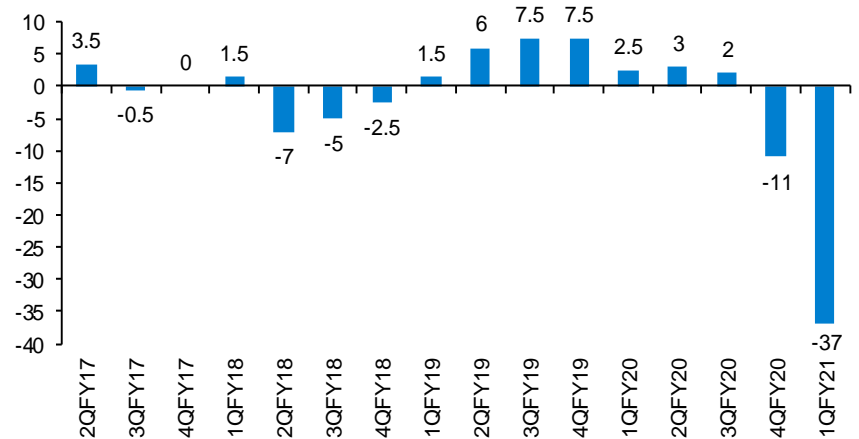
**Exhibit 3: Cigarettes are 91.4% of EBIT**


Source: Company, PL

Cigarette volume decreased 37% due to nation-wide lockdown

Sales fell 29.1%, EBIT down 38.8%. EBIT Margins contracted 970bps

Production, sales and Distribution near normal by June end, localized lockdowns pose near term challenges.

**Exhibit 4: Cigarettes: Volumes decline ~37% due to lockdown**


Source: Company, PL

Staples, Convenience Foods and Health & Hygiene products, representing around 75% of the portfolio (in base period excl. ESPB), recorded strong growth of 34%.

Discretionary categories and those with higher 'out-of-home' consumption salience degrew by 25%, but are witnessing progressive normalisation with improved growth momentum.

'Bingo!' Snacks category witnessed subdued operational performance during the initial phase of the lockdown, later normalised rapidly.

Chocolates and Confectionery categories were severely impacted reflecting the subdued demand for discretionary products.

Veda Marie, launched last year, continued to record impressive growth in all target markets.

Education/Stationary was severely impacted during the quarter due to deferment of new academic sessions and closure of educational institutions across the country.

Modern Trade and e-Commerce during the quarter, growing at over 20% and 90% respectively.

Expenses for the quarter include incremental spends of Rs. 92 crores on CSR initiatives.

We value the company on Sept-22

	4QFY19	1QFY20	2QFY20	3QFY20	4QFY20	1QFY21
<b>Cigarette Volume gr %</b>	7.5	2.5	3.0	2.0	-11.0	-37.0
<b>Sales (INR m)</b>	1,29,079	1,40,248	1,32,547	1,28,257	1,21,259	1,20,237
Cigarettes	54,859	54,334	53,268	53,110	51,305	38,538
FMCG	32,739	30,601	32,883	33,123	31,836	33,746
Hotels	5,098	3,926	4,266	5,523	4,658	226
Agri business	21,009	36,112	26,475	20,947	18,873	37,463
Paper and packaging	15,374	15,275	15,654	15,554	14,588	10,264
<b>Sales growth (YoY)</b>						
Cigarettes	11.1	6.0	6.0	4.7	(6.5)	(29.1)
FMCG	7.3	6.6	4.0	3.5	(2.8)	10.3
Hotels	24.9	15.0	17.7	22.2	(8.6)	(94.2)
Agri business	16.2	14.6	19.3	8.8	(10.2)	3.7
Paper and packaging	18.2	12.7	9.9	0.8	(5.1)	(32.8)
<b>EBIT (INR m)</b>	45,229	44,703	45,577	44,983	40,014	25,781
Cigarettes	38,560	38,491	38,445	37,560	34,030	23,564
FMCG	1,305	780	905	1,076	1,470	1,254
Hotels	887	104	174	873	426	-2,426
Agri business	1,472	2,030	2,494	2,134	1,231	1,787
Paper and packaging	3,005	3,298	3,559	3,340	2,857	1,601
<b>EBIT growth (YoY)</b>	12.0	8.7	8.5	6.5	(11.5)	(42.3)
Cigarettes	10.0	8.2	7.4	5.6	(11.7)	(38.8)
FMCG	43.1	55.7	54.8	40.4	12.6	60.7
Hotels	17.5	(21.4)	12.0	44.8	(52.0)	NA
Agri business	18.8	4.3	5.7	7.4	(16.4)	(11.9)
Paper and packaging	24.0	11.5	14.5	0.6	(4.9)	(51.4)
<b>EBIT Margin (%)</b>						
Cigarettes	70.3	70.8	72.2	70.7	66.3	61.1
FMCG	4.0	2.5	2.8	3.2	4.6	3.7
Hotels	17.4	2.6	4.1	15.8	9.1	NA
Agri business	7.0	5.6	9.4	10.2	6.5	4.8
Paper and packaging	19.5	21.6	22.7	21.5	19.6	15.6

Source: Company, PL

#### Exhibit 5: FY23E SOTP – Cigarette business is now 58% of SOTP value

SOTP	Basis	X	EV	PAT (Rs mn)	% of PAT	EPS	Value/Share
Cigarettes	P/E	15		131189	70.3	10.5	158
FMCG - Others	EV/Sales	3.0	564465	10489	5.6	0.8	46
Hotels	EV/EBIDTA	20	7,980	3553	1.9	0.3	13
Agri business	P/E	12		11237	6.0	0.9	11
Paper and packaging	P/E	10		12398	6.6	1.0	10
Business Value						13.5	237
Cash and Invest.			454944				37
<b>Total Value/share</b>							274

Source: PL

## Financials

### Income Statement (Rs m)

Y/e Mar	FY20	FY21E	FY22E	FY23E
<b>Net Revenues</b>	<b>4,56,197</b>	<b>4,85,434</b>	<b>5,37,077</b>	<b>5,87,431</b>
YoY gr. (%)	1.4	6.4	10.6	9.4
Cost of Goods Sold	1,72,351	1,90,033	2,07,630	2,27,046
Gross Profit	2,83,846	2,95,401	3,29,447	3,60,385
Margin (%)	62.2	60.9	61.3	61.3
Employee Cost	26,582	30,681	32,924	34,971
Other Expenses	37,448	37,851	41,809	45,377
<b>EBITDA</b>	<b>1,79,043</b>	<b>1,86,052</b>	<b>2,11,789</b>	<b>2,33,297</b>
YoY gr. (%)	3.5	3.9	13.8	10.2
Margin (%)	39.2	38.3	39.4	39.7
Depreciation and Amortization	15,633	16,554	17,504	18,454
<b>EBIT</b>	<b>1,63,410</b>	<b>1,69,497</b>	<b>1,94,284</b>	<b>2,14,843</b>
Margin (%)	35.8	34.9	36.2	36.6
Net Interest	557	574	574	574
Other Income	30,137	29,521	32,547	36,661
<b>Profit Before Tax</b>	<b>1,92,989</b>	<b>1,98,444</b>	<b>2,26,257</b>	<b>2,50,930</b>
Margin (%)	42.3	40.9	42.1	42.7
Total Tax	40,308	50,762	57,809	64,414
Effective tax rate (%)	20.9	25.6	25.6	25.7
<b>Profit after tax</b>	<b>1,52,682</b>	<b>1,47,682</b>	<b>1,68,448</b>	<b>1,86,516</b>
Minority interest	-	-	-	-
Share Profit from Associate	-	-	-	-
<b>Adjusted PAT</b>	<b>1,52,682</b>	<b>1,47,682</b>	<b>1,68,448</b>	<b>1,86,516</b>
YoY gr. (%)	22.5	(3.3)	14.1	10.7
Margin (%)	33.5	30.4	31.4	31.8
Extra Ord. Income / (Exp)	(1,321)	-	-	-
<b>Reported PAT</b>	<b>1,51,361</b>	<b>1,47,682</b>	<b>1,68,448</b>	<b>1,86,516</b>
YoY gr. (%)	21.4	(2.4)	14.1	10.7
Margin (%)	33.2	30.4	31.4	31.8
Other Comprehensive Income	(13,818)	-	-	-
Total Comprehensive Income	1,37,542	1,47,682	1,68,448	1,86,516
<b>Equity Shares O/s (m)</b>	<b>12,292</b>	<b>12,352</b>	<b>12,412</b>	<b>12,472</b>
<b>EPS (Rs)</b>	<b>12.4</b>	<b>12.0</b>	<b>13.6</b>	<b>15.0</b>

Source: Company Data, PL Research

### Balance Sheet Abstract (Rs m)

Y/e Mar	FY20	FY21E	FY22E	FY23E
<b>Non-Current Assets</b>				
<b>Gross Block</b>	<b>3,31,381</b>	<b>3,51,542</b>	<b>3,71,742</b>	<b>3,91,942</b>
Tangibles	3,20,963	3,40,924	3,60,924	3,80,924
Intangibles	10,418	10,618	10,818	11,018
<b>Acc: Dep / Amortization</b>	<b>1,36,822</b>	<b>1,53,376</b>	<b>1,70,881</b>	<b>1,89,335</b>
Tangibles	1,31,598	1,47,622	1,64,585	1,82,488
Intangibles	5,224	5,755	6,296	6,846
<b>Net fixed assets</b>	<b>1,94,559</b>	<b>1,98,166</b>	<b>2,00,862</b>	<b>2,02,607</b>
Tangibles	1,89,365	1,93,302	1,96,339	1,98,435
Intangibles	5,195	4,864	4,523	4,172
Capital Work In Progress	27,763	30,000	30,000	30,000
Goodwill	-	-	-	-
Non-Current Investments	1,34,589	1,71,347	1,84,652	1,99,210
Net Deferred tax assets	(16,177)	(15,368)	(14,599)	(13,869)
Other Non-Current Assets	30,373	48,765	52,173	55,497
<b>Current Assets</b>				
Investments	1,71,750	1,35,354	1,55,657	1,79,006
Inventories	80,381	97,099	1,08,955	1,19,232
Trade receivables	20,920	28,211	32,687	35,770
Cash & Bank Balance	68,433	52,897	56,094	64,285
Other Current Assets	8,477	13,107	14,501	15,861
<b>Total Assets</b>	<b>7,52,354</b>	<b>7,91,460</b>	<b>8,54,567</b>	<b>9,23,295</b>
<b>Equity</b>				
Equity Share Capital	12,292	12,352	12,412	12,472
Other Equity	6,27,999	6,78,862	7,34,614	7,95,721
<b>Total Networkth</b>	<b>6,40,292</b>	<b>6,91,214</b>	<b>7,47,026</b>	<b>8,08,193</b>
<b>Non-Current Liabilities</b>				
Long Term borrowings	56	-	-	-
Provisions	1,438	1,557	1,690	1,815
Other non current liabilities	-	-	-	-
<b>Current Liabilities</b>				
ST Debt / Current of LT Debt	0	0	0	0
Trade payables	34,467	28,902	31,378	34,196
Other current liabilities	56,427	50,831	56,187	61,424
<b>Total Equity &amp; Liabilities</b>	<b>7,52,354</b>	<b>7,91,460</b>	<b>8,54,567</b>	<b>9,23,295</b>

Source: Company Data, PL Research

**Cash Flow (Rs m)**

Y/e Mar	FY20	FY21E	FY22E	FY23E
PBT	1,91,120	1,98,444	2,26,257	2,50,930
Add. Depreciation	15,925	16,554	17,504	18,454
Add. Interest	575	574	574	574
Less Financial Other Income	30,137	29,521	32,547	36,661
Add. Other	10,654	(18,992)	(3,945)	(3,819)
Op. profit before WC changes	2,18,273	1,96,580	2,40,390	2,66,139
Net Changes-WC	(72,402)	16,420	(38,908)	(40,028)
Direct tax	(38,262)	(50,762)	(57,809)	(64,414)
<b>Net cash from Op. activities</b>	<b>1,07,610</b>	<b>1,62,238</b>	<b>1,43,674</b>	<b>1,61,698</b>
Capital expenditures	(30,025)	(22,398)	(20,200)	(20,200)
Interest / Dividend Income	-	-	-	-
Others	14,784	(36,757)	(13,303)	(14,557)
<b>Net Cash from Inv. activities</b>	<b>(15,242)</b>	<b>(59,155)</b>	<b>(33,503)</b>	<b>(34,757)</b>
Issue of share cap. / premium	(7,127)	28,006	10,886	11,185
Debt changes	2,570	(56)	-	-
Dividend paid	(84,937)	(1,24,766)	(1,23,522)	(1,36,534)
Interest paid	(575)	(574)	(574)	(574)
Others	-	-	-	-
<b>Net cash from Fin. activities</b>	<b>(90,068)</b>	<b>(97,390)</b>	<b>(1,13,211)</b>	<b>(1,25,923)</b>
<b>Net change in cash</b>	<b>2,299</b>	<b>5,693</b>	<b>(3,040)</b>	<b>1,017</b>
Free Cash Flow	77,584	1,39,840	1,23,474	1,41,498

Source: Company Data, PL Research

**Key Financial Metrics**

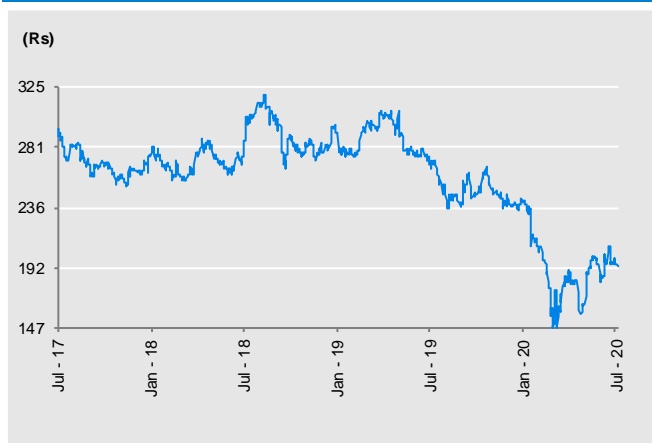
Y/e Mar	FY20	FY21E	FY22E	FY23E
<b>Per Share(Rs)</b>				
EPS	12.4	12.0	13.6	15.0
CEPS	13.7	13.3	15.0	16.4
BVPS	52.1	56.0	60.2	64.8
FCF	6.3	11.3	9.9	11.3
DPS	10.2	10.0	11.0	12.0
<b>Return Ratio(%)</b>				
RoCE	26.8	25.5	27.0	27.6
ROIC	31.9	28.1	30.2	31.6
RoE	25.0	22.2	23.4	24.0
<b>Balance Sheet</b>				
Net Debt : Equity (x)	(0.4)	(0.3)	(0.3)	(0.3)
Net Working Capital (Days)	53	72	75	75
<b>Valuation(x)</b>				
PER	16.1	16.7	14.7	13.4
P/B	3.8	3.6	3.3	3.1
P/CEPS	13.7	13.3	15.0	16.4
EV/EBITDA	12.4	12.3	10.7	9.6
EV/Sales	4.9	4.7	4.2	3.8
Dividend Yield (%)	5.1	5.0	5.5	6.0

Source: Company Data, PL Research

**Quarterly Financials (Rs m)**

Y/e Mar	Q2FY20	Q3FY20	Q4FY20	Q1FY21
<b>Net Revenue</b>	<b>1,18,715</b>	<b>1,20,130</b>	<b>1,08,423</b>	<b>89,113</b>
YoY gr. (%)	7.3	7.0	(9.6)	(22.5)
Raw Material Expenses	44,817	45,465	40,671	39,469
Gross Profit	73,898	74,665	67,752	49,644
Margin (%)	62.2	62.2	62.5	55.7
<b>EBITDA</b>	<b>45,624</b>	<b>46,127</b>	<b>41,635</b>	<b>26,466</b>
YoY gr. (%)	8.5	6.6	(8.9)	(42.0)
Margin (%)	38.4	38.4	38.4	29.7
Depreciation / Depletion	3,957	4,162	3,925	3,982
<b>EBIT</b>	<b>41,667</b>	<b>41,965</b>	<b>37,710</b>	<b>22,484</b>
Margin (%)	35.1	34.9	34.8	25.2
Net Interest	133	124	147	168
Other Income	6,543	9,836	7,555	8,968
<b>Profit before Tax</b>	<b>48,077</b>	<b>51,676</b>	<b>45,118</b>	<b>31,284</b>
Margin (%)	40.5	43.0	41.6	35.1
Total Tax	4,446	8,936	7,148	7,857
Effective tax rate (%)	9.2	17.3	15.8	25.1
<b>Profit after Tax</b>	<b>43,631</b>	<b>42,740</b>	<b>37,971</b>	<b>23,428</b>
Minority interest	-	-	-	-
Share Profit from Associates	-	-	-	-
<b>Adjusted PAT</b>	<b>43,631</b>	<b>42,740</b>	<b>37,971</b>	<b>23,428</b>
YoY gr. (%)	47.7	33.2	9.1	(26.2)
Margin (%)	36.8	35.6	35.0	26.3
Extra Ord. Income / (Exp)	-	(1,321)	-	-
<b>Reported PAT</b>	<b>43,631</b>	<b>41,419</b>	<b>37,971</b>	<b>23,428</b>
YoY gr. (%)	47.7	29.1	9.1	(26.2)
Margin (%)	36.8	34.5	35.0	26.3
Other Comprehensive Income	-	-	(7,612)	-
<b>Total Comprehensive Income</b>	<b>43,631</b>	<b>41,419</b>	<b>30,359</b>	<b>23,428</b>
Avg. Shares O/s (m)	12,242	12,242	12,292	12,242
<b>EPS (Rs)</b>	<b>3.6</b>	<b>3.5</b>	<b>3.1</b>	<b>1.9</b>

Source: Company Data, PL Research

**Price Chart**
**Recommendation History**


No.	Date	Rating	TP (Rs.)	Share Price (Rs.)
1	08-Jul-20	BUY	262	194
2	27-Jun-20	BUY	251	195
3	15-Apr-20	BUY	250	189
4	31-Jan-20	BUY	310	235
5	03-Jan-20	BUY	346	239
6	24-Oct-19	BUY	344	249
7	03-Oct-19	BUY	344	262
8	02-Aug-19	BUY	367	265

**Analyst Coverage Universe**

Sr. No.	Company Name	Rating	TP (Rs)	Share Price (Rs)
1	Asian Paints	Accumulate	1,857	1,746
2	Avenue Supermarts	Reduce	1,695	2,323
3	Bajaj Electricals	BUY	500	384
4	Britannia Industries	BUY	4,316	3,785
5	Colgate Palmolive	Reduce	1,277	1,392
6	Crompton Greaves Consumer Electricals	BUY	287	241
7	Dabur India	Hold	451	479
8	Emami	Hold	287	233
9	Future Retail	Under Review	-	332
10	GlaxoSmithKline Consumer Healthcare	Hold	9,377	9,247
11	Havells India	Reduce	521	598
12	Hindustan Unilever	Hold	2,304	2,249
13	ITC	BUY	262	194
14	Jubilant FoodWorks	UR	-	1,746
15	Kansai Nerolac Paints	BUY	529	444
16	Marico	Hold	337	352
17	Nestle India	Reduce	14,609	16,912
18	Pidilite Industries	Hold	1,418	1,399
19	Titan Company	Hold	1,025	1,016
20	Voltas	Accumulate	600	575

**PL's Recommendation Nomenclature (Absolute Performance)**

<b>Buy</b>	: > 15%
<b>Accumulate</b>	: 5% to 15%
<b>Hold</b>	: +5% to -5%
<b>Reduce</b>	: -5% to -15%
<b>Sell</b>	: < -15%
<b>Not Rated (NR)</b>	: No specific call on the stock
<b>Under Review (UR)</b>	: Rating likely to change shortly

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