

## Demand revival still some time away...

Ashok Leyland (ALL) reported a muted operational performance in Q1FY21. Revenues came in at ₹ 651 crore (down 88.5% YoY) but ASPs rose to ₹ 17.1 lakh/unit. ASPs appear optically high due to increase in proportion of other segment revenues in the overall sales mix for Q1FY21. Total CV sales volumes in Q1FY21 were at 3,814 units (down 90% YoY) comprising M&HCV sales volume of 1,021 units (down 96% YoY) and LCV sales volume of 2,793 units (down 78% YoY). Reported loss at the EBITDA level was at ₹ 333 crore, with margin performance being heavily impacted by negative operating leverage. Consequent reported loss at the PAT level came in at ₹ 389 crore, further impaired by a steep rise in interest costs.

## Sharp demand deceleration to keep topline under pressure

Amid relatively healthy ongoing uptick in domestic automotive industry vs. pre-Covid level, the CV segment in general, M&HCV sub-segment, in particular, continue to remain clear laggards. With manufacturing, economic activity still muted in the 'unlock' phase, freight movement remains well below previous levels (fleet utilisation at ~50-55% as per management commentary) – thereby impacting truck demand (42.5% of ALL's total FY20 volumes). Closure of schools and offices along with concerns around public transport are weighing on bus demand (14.5% of ALL total FY20 volumes), with STU orders having the potential to impart some momentum to the space. The management expects this activity to improve in coming quarters. On an overall basis, amid continued demand and supply side issues (cautious financing, excess capacity formation out of revised axle load norms and high installed base) are expected to continue to plague overall demand picture at ALL in the near to medium term. However, a recovery in LCV segment is expected to be faster courtesy relatively stable prospects for intra city goods movement and e-commerce. We build -5.5% total volume CAGR at ALL in FY20-22E (M&HCV -10.5%, LCV 2.2%).

## Cost focus provides better visibility on margins

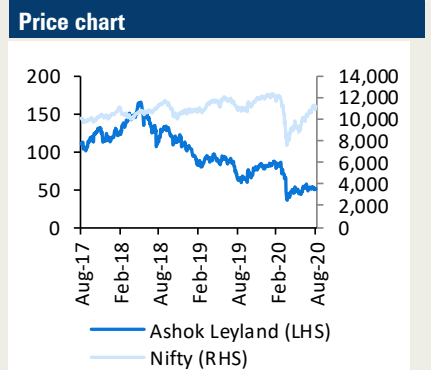
While the topline performance is expected to remain fairly subdued in FY20-22E, margin trajectory is seen improving, largely on the back of actions initiated on the cost front. ALL's cost savings programme K54 has delivered benefits worth ~₹ 500 crore in FY20, with the focus remaining on driving further efficiencies across areas in coming quarters. Modular programme AVTR is also seen helping by reducing inventory needs and production complexity. ALL expects to close FY22E with much better profitability levels than FY20. We build uptick in margins to 10% by that time, also factoring in further stabilisation of BS-VI price regime and sequential volume growth.

## Valuation & Outlook

For ALL, demand picture stays muted although we may be close to a trough of the cycle, with revival pace dependent on pick-up in general economy and some policy intervention (scrappage policy). We retain **HOLD**, valuing it at ₹ 65 (SOTP; 10x FY22E CV segment EV/EBITDA, 1.5x P/B for investments).



Particulars	
Particular	₹ crore
Market Capitalization	17,855.3
Total Debt (FY 20)	3,371.7
Cash & Inv. (FY 20)	1,322.5
EV (₹ Crore)	19,904.6
52 week H/L (₹)	88 / 34
Equity capital (₹ crore)	293.6
Face value (₹)	1.0



## Key Highlights

- Q1FY21 revenues fell 88.5% YoY tracking 90% decline in overall CV volumes. ASPs surprised positively due to price hikes on account of BS-VI as well as higher proportion of other segment sales
- ALL posted loss at EBITDA, PAT level for quarter
- Demand overhang to persist for FY21E, with recovery only in FY22E. Cost actions, BS-VI price stabilisation to drive uptick in margins
- Maintain HOLD with revised target price of ₹ 65

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## Key Financial Summary

Key Financials	FY18	FY19	FY20	FY21E	FY22E	CAGR (FY20-22E)
Net Sales	26,356.4	29,055.0	17,467.5	13,944.1	18,691.5	3.4%
EBITDA	2,963.5	3,135.7	1,173.6	975.2	1,862.2	26.0%
EBITDA Margins (%)	11.2	10.8	6.7	7.0	10.0	
Net Profit	1,717.7	1,983.2	239.5	74.4	722.0	73.6%
EPS (₹)	5.9	6.8	0.8	0.3	2.5	
P/E	10.4	9.0	74.8	240.8	24.8	
RoNW (%)	24.0	24.3	4.7	1.0	9.3	
RoCE (%)	25.6	25.7	4.4	2.3	9.2	

Source: ICICI Direct Research, Company

Exhibit 1: Variance Analysis

	Q1FY21	Q1FY21E	Q1FY20	YoY (%)	Q4FY20	QoQ (%)	Comments
Total Operating Income	650.9	499.8	5,683.9	-88.5	3,838.5	-83.0	Topline came in ahead of estimates tracking beat on ASPs, which looks optically higher due to increase in proportion of other segment revenues in overall sales
Raw Material Expenses	417.5	375.6	3,973.7	-89.5	2,729.0	-84.7	
Employee Expenses	354.2	349.8	500.4	-29.2	409.7	-13.6	Employee costs came in on expected lines
Other expenses	212.5	75.0	672.8	-68.4	516.8	-58.9	
EBITDA	-333.2	-300.7	537.0	-162.1	183.0	-282.1	Loss at the EBITDA level broadly in line with our estimates primarily tracking perils of negative operating
EBITDA Margin (%)	-51.2	-60.2	9.4	-6065 bps	4.8	-5597 bps	
Other Income	25.6	10.0	21.1	21.6	34.4	-25.6	
Depreciation	163.7	166.4	164.6	-0.6	187.7	-12.8	
Interest	76.8	58.2	12.6	512.3	33.1	132.1	Interest expense came in higher tracking increase in gross debt so as to maintain sufficient liquidity on B/S
Tax	-161.0	-129.8	130.5	-223.4	-14.8	989.3	
Reported PAT	-388.8	-385.4	230.2	-268.9	-57.3	578.3	Loss at the PAT level was broadly in line with our
EPS	-1.3	-1.3	0.8	-268.9	-0.2	578.3	
<b>Key Metrics</b>							
ASPs (₹ lakh/unit)	17.1	13.1	14.4	18.9	15.1	13.3	ASPs for Q1FY21 came in at ₹ 17.1lakh/unit

Source: Company, ICICI Direct Research

Exhibit 2: Change in estimates

(₹ Crore)	FY21E			FY22E			Comments
	Old	New	% Change	Old	New	% Change	
Revenue	14,042	13944	-0.7	18268	18691	2.3	Marginally tweak topline estimates for FY21E & FY22E. We expect revenues to grow at a CAGR of 3.4% in FY20-22E, a mix of volume CAGR of -5.5% and double digit increase in ASP due to BS-VI transition
EBITDA	847	975	15.1	1643	1862	13.3	
EBITDA Margin (%)	6.0	7.0	96 bps	9.0	10.0	97 bps	Revise upward our margin estimates tracking efficiencies intended to be drawn by the new modular platform "AVTR" at the company amid other stringent cost control measures
PAT	20	74	271.9	603	722	19.7	
EPS (₹)	0.1	0.3	271.9	2.1	2.5	19.7	Upward revision in margin estimates leads to sharp upward revision in earnings estimates for FY21E & FY22E

Source: Company, ICICI Direct Research

Exhibit 3: Assumptions

	FY19	FY20	Current		Earlier		Comments
			FY21E	FY22E	FY21E	FY22E	
M&HCV Passenger volumes	19,871	23,397	17,633	22,195	20,533	25,666	We expect overall CV volumes to grow at a CAGR of negative 5.5% in FY20-22E. M&HCV volumes in the aforesaid period are expected to grow at a CAGR of negative 10.5% while LCV volumes are expected to grow at a CAGR of 2.2% with company's new LCV platform i.e. Phoenix launch in next 60-90 days
M&HCV Goods volumes	122,987	55,197	32,400	40,826	39,869	49,847	
LCV volumes	54,508	46,560	37,416	48,642	37,625	47,031	
Total Sales Volume	197366	125154	87449	111663	98,027	122,544	
YoY Growth (%)		-37%	-30%	28%			
ASPs (₹ lakh/unit)	14.4	12.8	15.8	16.7	14.3	14.9	

Source: ICICI Direct Research

## Q1FY21 Earnings conference call highlights

### Demand and management guidance/outlook

- At the broader level, ALL continues to focus on – (1) growing share of domestic business through network and product investment, (2) LCV growth through new products, (3) exports, (4) operating efficiencies and costs, and (5) adjacent businesses like parts and defence.
- **ALL said the domestic CV industry is near the bottom of the cycle, and growth trajectory would improve, going forward, although the pace of the recovery is uncertain currently**
- **LCV demand is picking up, with production levels ramping up quicker compared to M&HCV segment. ALL is witnessing most traction in ICV and tippers. Rebound in infra activity would hold key to upturn in truck demand. At the industry level, truck fleet utilisation is at ~50-55%**
- While exports remain subdued currently courtesy global pandemic spread, left hand drive offerings are seen improving prospects in coming times
- **Overall present utilisation levels are at 30-35% in the M&HCV segment and are expected to improve sequentially**
- **The company expects some STU bus tendering activity in Q2/Q3FY21E**
- Enhanced financing stringency by lenders has resulted in some reduction in LTV levels

### Products

- **Modular programme AVTR is garnering positive response from customers, fleet owners and drivers – particularly with regards to fuel efficiency. ALL has manufactured 2,000 units till date**
- AVTR reduces inventory, parts, production complexities and SKUs while offering much greater configuration choices to customers. It would also aid in improving share of full body vehicles from present levels. The company expects enhanced operational efficiencies from AVTR to bolster profitability even more once volumes come back meaningfully
- **New LCV product ('Phoenix') would be launched in the coming 60-90 days**

### Revenues, costs and margins

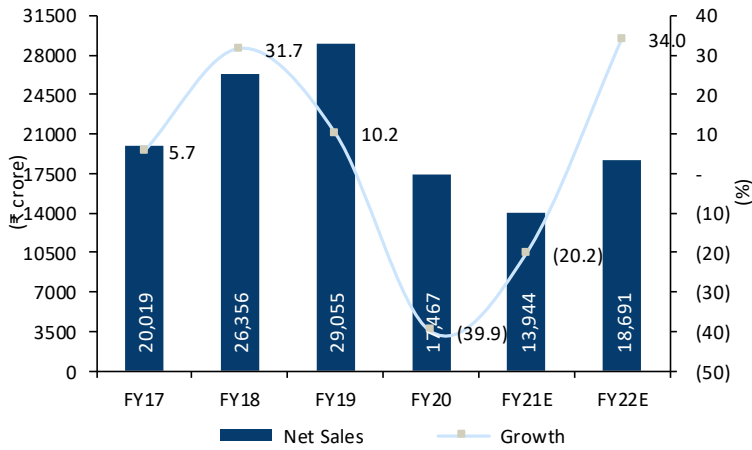
- **For Q1FY21, trucks and buses form ~20% of total revenues, with LCVs forming ~21% and the rest being contributed by non-CV space**
- Parts business revenues have been around the ~₹ 100-110 crore mark in the past two to three months
- **BS-VI price hikes over BS-IV models were at ~15-20%. The company has been able to largely protect per unit absolute profit levels under the new regime**
- Gross margins were positively impacted in Q1FY21E by higher share of spares revenues
- K54 (cost savings programme) delivered ₹ 500-550 crore benefits in FY20. ALL continues to focus on costs, efficiencies and productivity improvement

### Others

- **Net debt as of June 2020 was at ₹ 4,247 crore**
- **FY21E capex guidance was at ~₹ 500-600 crore. Investment spends on subsidiaries (ex-HLF) would be ~₹ 150-170 crore**
- Creditors climbed down by ~₹ 1200 crore during the quarter
- Net moratorium levels at Hinduja Leyland Finance (HLF) are at ~40% currently vs. ~75% in April 2020
- Inter corporate deposits were at ~₹ 400 crore currently vs. ₹ 500 crore as of FY20 end

### Financial story in charts

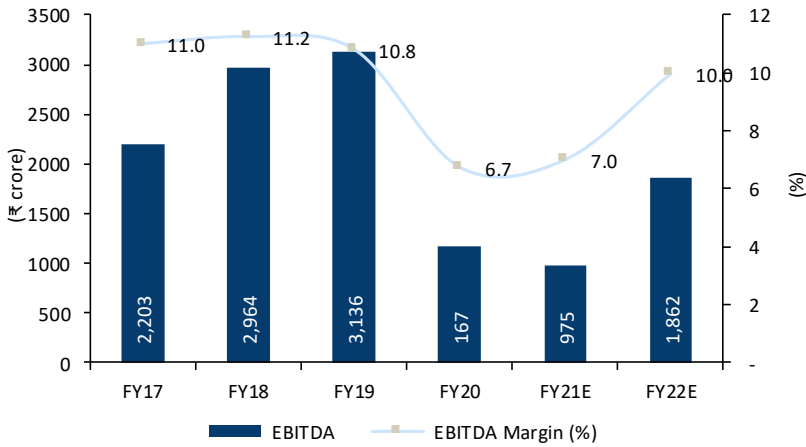
Exhibit 4: Topline trend



We expect sales to grow at 3.6% CAGR over FY20-22E to ₹ 18,691 crore amid -5.5% volume CAGR due to increase in ASPs post BS-VI

Source: Company, ICICI Direct Research

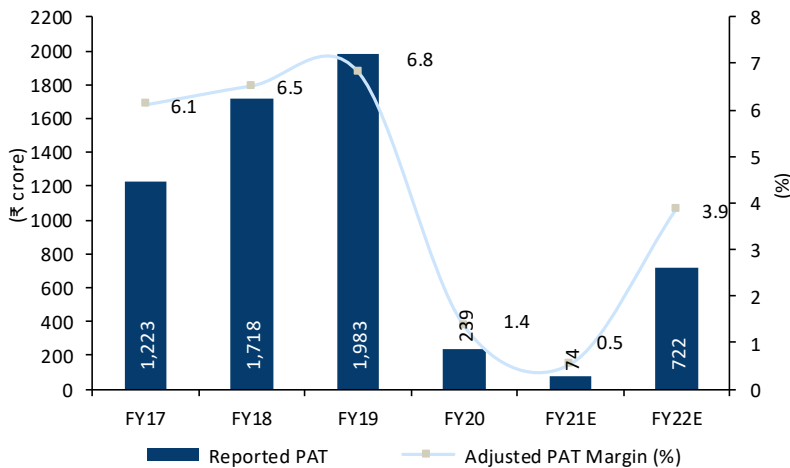
Exhibit 5: EBITDA and EBITDA margin trend



Margins seen growing to 10% by FY22E, aided by cost actions

Source: Company, ICICI Direct Research

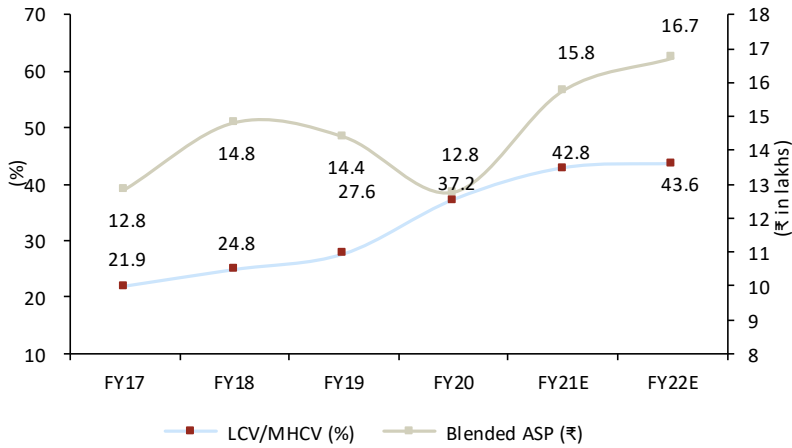
Exhibit 6: Profitability trend



PAT expected to grow to ₹ 722 crore by FY22E

Source: Company, ICICI Direct Research

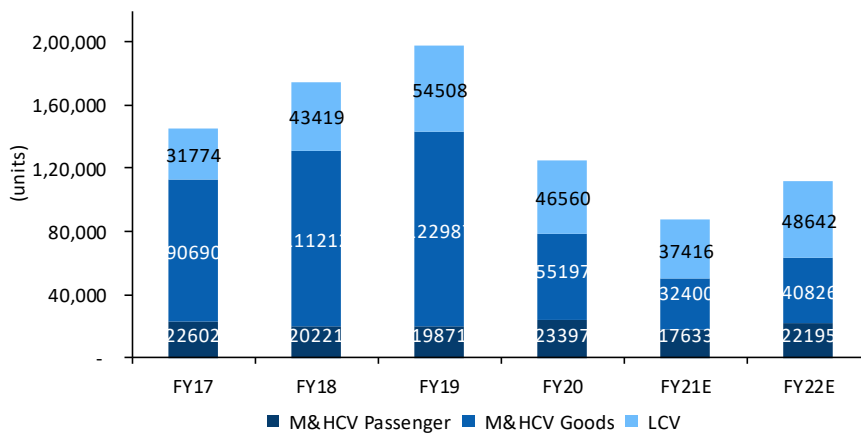
Exhibit 7: Product mix and realisation trend



LCV share of overall CV volumes seen growing to the ~44% mark in coming years given increased strategic focus on the segment and efforts to reduce dependence on M&HCV business

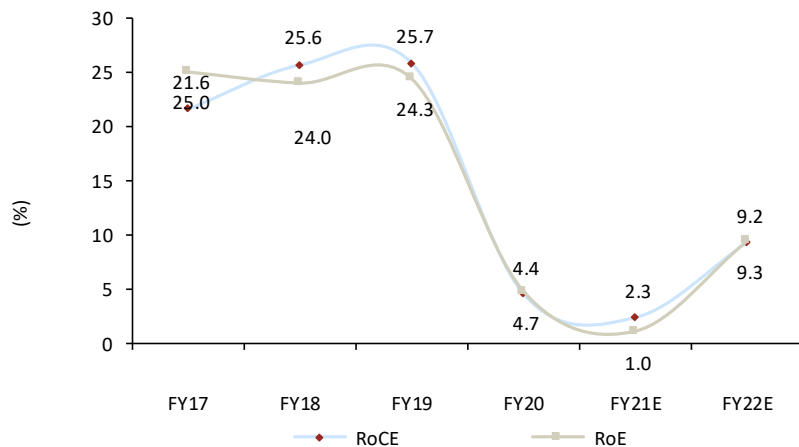
Source: Company, ICICI Direct Research

Exhibit 8: Segment wise volume break-up



Source: Company, ICICI Direct Research

Exhibit 9: Return ratio profile



Despite gradual improvement in return ratios over FY20-22E, they are still seen to be far away from historical highs

Source: Company, ICICI Direct Research

**Exhibit 10: SOTP based target price calculation**

<b>SOTP</b>	
<b>Target EV/EBITDA (x)</b>	<b>10.0</b>
EBITDA (FY22E)	1,862.2
Enterprise Value (₹ Crore)	18,622.2
Net Debt (₹ crore)	2,525.1
Target Market cap Core business (₹crore)	16,097.1
<b>Value/Share (A)</b>	<b>55</b>
Strategic Investments FY22E (₹ crore)	3,369.6
P/BV(x)	1.5
<b>Total Value/Share post applying 40% Holdco. Discount (B)</b>	<b>10</b>
<b>Price target (₹, A+B)</b>	<b>65</b>

Source: ICICI Direct Research

**Exhibit 11: Key valuation metrics**

	<b>Sales</b>	<b>Growth</b>	<b>EPS</b>	<b>Growth</b>	<b>PE</b>	<b>EV/EBITDA</b>	<b>RoNW</b>	<b>RoCE</b>
	(₹ cr)	(%)	(₹)	(%)	(x)	(x)	(%)	(%)
FY 18	26,356	31.7	5.9	36.6	10.4	5.0	24.0	25.6
FY 19	29,055	10.2	6.8	15.1	9.0	5.5	24.3	25.7
FY 20	17,467	(39.9)	0.8	(87.9)	74.8	17.0	4.7	4.4
FY 21E	13,944	(20.2)	0.3	(68.9)	240.8	21.3	1.0	2.3
FY 22E	18,691	34.0	2.5	NM	24.8	10.9	9.3	9.2

Source: Bloomberg, ICICI Direct Research

**Exhibit 12: Shareholding pattern**

<b>(in %)</b>	<b>Jun-19</b>	<b>Sep-19</b>	<b>Dec-19</b>	<b>Mar-20</b>	<b>Jun-20</b>
Promoter	51.1	51.1	51.1	51.5	51.5
FII	18.8	17.1	19.2	16.9	15.6
DII	10.9	13.0	12.3	15.0	14.0
Others	19.2	18.9	17.3	16.5	18.8

Source: Company, ICICI Direct Research

## Financial Summary

Exhibit 13: Profit and loss statement				
	₹ crore			
(Year-end March)	FY19	FY20	FY21E	FY22E
Total operating Income	29,055.0	17,467.5	13,944.1	18,691.5
Growth (%)	10.2	-39.9	-20.2	34.0
Raw Material Expenses	20,679.6	12,369.2	9,784.8	13,123.4
Employee Expenses	2,098.8	1,615.1	1,462.7	1,505.2
Other Expenses	3,140.9	2,309.6	1,721.4	2,200.7
Total Operating Expenditure	25,919.3	16,293.8	12,968.9	16,829.3
<b>EBITDA</b>	<b>3135.7</b>	<b>1173.6</b>	<b>975.2</b>	<b>1862.2</b>
Growth (%)	5.8	-62.6	-16.9	90.9
Depreciation	621.0	669.8	697.2	729.0
Interest	70.4	109.5	301.1	264.7
Other Income	109.9	123.3	94.2	96.7
<b>PBT</b>	<b>2554.2</b>	<b>517.7</b>	<b>71.1</b>	<b>965.3</b>
Others	0.0	0.0	0.0	0.0
Total Tax	513.6	122.4	-5.0	243.3
<b>PAT</b>	<b>1983.2</b>	<b>239.5</b>	<b>74.4</b>	<b>722.0</b>
Growth (%)	15.5	-87.9	-68.9	870.8
<b>EPS (₹)</b>	<b>6.8</b>	<b>0.8</b>	<b>0.3</b>	<b>2.5</b>

Source: Company, ICICI Direct Research

Exhibit 14: Cash flow statement				
	₹ crore			
(Year-end March)	FY19	FY20	FY21E	FY22E
Profit after Tax	1,983.2	239.5	74.4	722.0
Add: Depreciation	621.0	669.8	697.2	729.0
(Inc)/dec in Current Assets	-2,988.0	2,683.8	670.2	-1,191.7
Inc/(dec) in CL and Provisions	354.1	-3,396.4	-1,248.8	1,297.1
<b>CF from operating activities</b>	<b>40.7</b>	<b>306.1</b>	<b>494.1</b>	<b>1821.1</b>
(Inc)/dec in Investments	2,970.2	-83.1	-400.0	-250.0
(Inc)/dec in Fixed Assets	-850.6	-1,243.4	-500.0	-500.0
Others	-152.5	-318.0	-118.5	-133.8
<b>CF from investing activities</b>	<b>1967.0</b>	<b>-1644.5</b>	<b>-1018.5</b>	<b>-883.8</b>
Issue/(Buy back) of Equity	0.0	0.0	0.0	0.0
Inc/(dec) in loan funds	-560.7	2,704.7	900.0	-350.0
Dividend paid & dividend tax	-1,095.6	-176.7	-29.4	-293.6
Others	-20.0	-1,240.8	-301.1	-264.7
<b>CF from financing activities</b>	<b>-1676.4</b>	<b>1287.3</b>	<b>569.5</b>	<b>-908.3</b>
<b>Net Cash flow</b>	<b>331.4</b>	<b>-51.1</b>	<b>45.1</b>	<b>29.0</b>
Opening Cash	1,042.2	1,373.6	1,322.5	1,367.6
<b>Closing Cash</b>	<b>1373.6</b>	<b>1322.5</b>	<b>1367.6</b>	<b>1396.7</b>

Source: Company, ICICI Direct Research

Exhibit 15: Balance Sheet				
	₹ crore			
(Year-end March)	FY19	FY20	FY21E	FY22E
<b>Liabilities</b>				
Equity Capital	293.6	293.6	293.6	293.6
Reserve and Surplus	8,039.0	6,970.4	7,015.5	7,443.9
<b>Total Shareholders funds</b>	<b>8332.5</b>	<b>7264.0</b>	<b>7309.0</b>	<b>7737.5</b>
Total Debt	667.0	3,371.7	4,271.7	3,921.7
Deferred Tax Liability	249.7	264.8	264.8	264.8
Other non-current liabilities	270.7	249.9	249.9	249.9
<b>Total Liabilities</b>	<b>9769.5</b>	<b>11331.1</b>	<b>12276.1</b>	<b>12354.6</b>
<b>Assets</b>				
Gross Block	6,496.0	7,802.9	8,647.0	9,247.0
Less: Acc Depreciation	1,690.0	2,359.8	3,057.0	3,786.0
<b>Net Block</b>	<b>4806.0</b>	<b>5443.1</b>	<b>5590.0</b>	<b>5461.1</b>
Capital WIP	657.6	594.1	250.0	150.0
Total Fixed Assets	5,463.6	6,037.2	5,840.0	5,611.1
Investments	2,636.5	2,719.6	3,119.6	3,369.6
Inventory	2,684.7	1,238.0	1,146.1	1,536.3
Debtors	2,505.5	1,179.8	955.1	1,280.2
Loans and Advances	22.5	23.0	18.4	24.6
Other current assets	0.0	0.0	0.0	0.0
<b>Cash</b>	<b>1373.6</b>	<b>1322.5</b>	<b>1367.6</b>	<b>1396.7</b>
Total Current Assets	6,586.3	3,763.3	3,487.2	4,237.8
Creditors	5,018.9	2,623.9	1,910.2	2,560.5
Provisions	802.8	624.9	454.9	609.7
Other current Liabilities	1,266.9	685.5	547.2	733.5
Total Current Liabilities	5,821.7	3,248.8	2,365.0	3,170.2
Net Current Assets	764.6	514.5	1,122.1	1,067.6
<b>Application of Funds</b>	<b>9769.5</b>	<b>11331.1</b>	<b>12276.1</b>	<b>12354.6</b>

Source: Company, ICICI Direct Research

Exhibit 16: Key ratios				
(Year-end March)	FY19	FY20	FY21E	FY22E
<b>Per share data (₹)</b>				
EPS	6.8	0.8	0.3	2.5
Cash EPS	8.9	3.1	2.6	4.9
BV	28.4	24.7	24.9	26.4
DPS	3.1	0.5	0.1	1.0
Cash Per Share	4.7	4.5	4.7	4.8
<b>Operating Ratios (%)</b>				
EBITDA Margin	10.8	6.7	7.0	10.0
PBT / Net sales	8.8	3.0	0.5	5.2
PAT Margin	6.8	1.4	0.5	3.9
Inventory days	33.7	25.9	30.0	30.0
Debtor days	31.5	24.7	25.0	25.0
Creditor days	63.0	54.8	50.0	50.0
<b>Return Ratios (%)</b>				
RoE	24.3	4.7	1.0	9.3
RoCE	25.7	4.4	2.3	9.2
RoIC	34.9	6.0	3.0	11.8
<b>Valuation Ratios (x)</b>				
P/E	8.8	52.3	235.1	24.8
EV / EBITDA	5.5	17.0	21.3	10.9
EV / Net Sales	0.6	1.1	1.5	1.1
Market Cap / Sales	0.6	1.0	1.3	1.0
Price to Book Value	2.1	2.5	2.4	2.3
<b>Solvency Ratios</b>				
Debt/E equity	0.1	0.5	0.6	0.5
Current Ratio	1.0	1.1	1.2	1.2
<b>Quick Ratio</b>	<b>0.6</b>	<b>0.7</b>	<b>0.8</b>	<b>0.8</b>

Source: Company, ICICI Direct Research

Exhibit 17: ICICI Direct coverage universe (Auto & Auto Ancillary)

Sector / Company	CMP	TP	Rating	M Cap	EPS (₹)			P/E (x)			EV/EBITDA (x)			RoCE (%)			RoE (%)		
	(₹)	(₹)		(₹ Cr)	FY20	FY21E	FY22E	FY20	FY21E	FY22E	FY20	FY21E	FY22E	FY20	FY21E	FY22E	FY20	FY21E	FY22E
Apollo Tyre (APOTYR)	132	120	Hold	7,551	8.3	4.9	8.9	15.8	26.9	14.8	7.1	6.1	5.2	4.7	4.7	6.6	4.8	2.5	4.9
<b>Ashok Leyland (ASHLEY)</b>	<b>61</b>	<b>65</b>	<b>Hold</b>	<b>17,855</b>	<b>0.8</b>	<b>0.3</b>	<b>2.5</b>	<b>74.8</b>	<b>240.8</b>	<b>24.8</b>	<b>17.0</b>	<b>21.3</b>	<b>10.9</b>	<b>4.4</b>	<b>2.3</b>	<b>9.2</b>	<b>4.7</b>	<b>1.0</b>	<b>9.3</b>
Bajaj Auto (BAAUTO)	3,025	3,210	Hold	87,534	176.2	136.9	173.5	17.2	22.1	17.4	13.8	16.7	12.3	23.8	23.3	26.6	25.6	17.9	20.2
Bharat Forge (BHAFOR)	503	415	Hold	23,418	7.5	3.5	13.7	67.1	144.3	36.8	23.3	31.7	17.5	5.8	2.2	7.9	7.8	3.0	11.1
Eicher Motors (EICMOT)	21,640	18,070	Hold	58,991	670.4	495.4	690.9	32.3	43.7	31.3	25.2	31.7	22.5	22.5	15.9	19.1	18.3	12.2	14.9
Escorts (ESCORT)	1,120	1,300	Buy	13,729	39.6	46.1	54.5	28.3	24.3	20.5	18.9	16.0	13.4	18.9	15.0	15.2	14.2	11.2	11.8
Exide Industries (EXIIND)	166	180	Buy	14,110	9.7	6.3	8.9	11.8	18.0	12.9	10.2	12.6	9.8	15.7	10.3	13.5	13.4	8.2	10.7
Hero Moto (HERHON)	2,811	2,500	Hold	56,136	181.9	109.8	147.6	15.5	25.6	19.0	12.7	16.8	12.2	26.5	18.7	23.2	22.7	14.5	17.9
M&M (MAHMAH)	631	700	Buy	78,446	10.7	27.9	38.2	59.0	22.6	16.5	13.0	13.3	10.1	12.9	10.8	13.8	6.4	9.2	11.6
Maruti Suzuki (MARUTI)	6,730	5,300	Reduce	2,03,300	187.1	124.9	203.4	36.0	53.9	33.1	23.1	31.6	19.4	7.4	3.5	8.2	11.7	7.4	11.1
Minda Industries (MININD)	292	320	Buy	7,656	5.9	2.8	9.6	49.4	103.4	30.3	13.7	15.5	10.6	10.6	6.6	12.7	10.3	5.1	13.6
Tata Motors (TATMOT)	131	115	Hold	47,881	-32.8	-24.6	7.4	NM	NM	17.6	5.0	5.2	3.5	1.4	1.1	6.8	-18.7	-16.5	4.8

Source: Bloomberg, ICICI Direct Research



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Hold: -5% to 15%;

Reduce: -15% to -5%;

Sell: <-15%



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