

Cadila Healthcare

Refer to important disclosures at the end of this report

EBITDA beat on low opex

CMP: Rs 396
as of (August 5, 2020)TP: Rs 402 (▲)
12 months

Rating: HOLD (■)

Upside: 1.5 %

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- Cadila beat EBITDA estimates by 10%, helped by a steep cut in opex (down 340bps qoq). Revenue growth was in line as a sharp miss in the US was negated by strong growth in the API segment. EBITDA margins stood at 22.3% vs. the estimate of 20%.
- India business declined by 12.5% yoy, higher than the industry average, owing to portfolio skew toward acute therapies. The Wellness business fell 12% yoy in a seasonally strong quarter. The US decline (US\$215mn vs. est. of US\$235mn) was sharper than expected.
- CDH's execution in non-US regions remains weak and we await signs of better execution, before turning constructive. Even within the US, it runs the risk of high profit concentration, with gAsacol HD (going off patent in Nov-21) accounting for 20-25% of profits.
- We raise FY21/22/23E EPS by 16%/5%/5% on better margins. We retain Hold and UW in EAP, with a TP of Rs402, valuing the company at 23x June'22E EPS (vs. 20x Mar'20 EPS earlier) to factor in the strong near-term growth trajectory.

EBITDA beat on lower opex: Revenues at Rs36.4bn were in line with our expectations as a sharp miss in US sales (US\$215mn vs. est. of US\$235mn) was offset by strong growth in the API business (+20% yoy). US sales were down qoq due to gTamiflu seasonality and lower Rx due to Covid-19. The domestic business (Rs8.3bn) saw a 13% yoy decline on expected lines due to reduced Rx and patient footfall, though wellness sales (-12% yoy vs. -5% est.) were weak in a seasonally strong quarter. GMs were down 80bps qoq but EBITDA margins came in strong at 22.4% (our est.: 19.9%) due to lower opex (-340bps qoq, lower marketing /administrative spends). With the gradual resumption of marketing activities, we expect opex to go up in remaining 9M.

Await better execution in non-US geographies: Cadila's execution outside US has largely been weak. While India business is guided to improve with the recent restructuring, we have not really seen any major improvement so far. Even in the US, CDH may see moderate growth as Asacol-HD goes off patent in Nov-21. This will be negated by the launch of ~50 injectables in US over FY21-24 (CDH expects this business to be US\$150mn-US\$200mn by FY24). We thus expect a muted growth trajectory (+8% CAGR) over FY20-23E.

Retain Hold: We raise FY21/22/23E EPS by 16%/5%/5% and revise the TP to Rs402, valuing the company at 23x June'22E EPS. CDH is amongst the front runners in developing a Covid-19 vaccine in India and has successfully completed phase I trials recently. While still a long shot, any progress on this front can drive a stock re-rating. We are closely watching the developments. Currently, we maintain UW on CDH in EAP.

Please see our sector model portfolio (Emkay Alpha Portfolio): [Pharmaceuticals \(page 9\)](#)

Financial Snapshot (Consolidated)

(Rs mn)	FY19	FY20	FY21E	FY22E	FY23E
Net Sales	1,31,656	1,42,531	1,52,170	1,63,865	1,71,197
EBITDA	29,731	27,834	31,220	32,572	33,639
EBITDA Margin (%)	22.6	19.5	20.5	19.9	19.6
APAT	18,962	14,677	16,666	17,749	18,457
EPS (Rs)	18.5	14.3	16.3	17.3	18.0
EPS (% chg)	5.9	(22.6)	13.6	6.5	4.0
ROE (%)	19.8	14.8	15.2	14.5	13.6
P/E (x)	21.4	27.6	24.3	22.8	22.0
EV/EBITDA (x)	15.9	16.5	14.8	13.9	13.1
P/BV (x)	3.9	3.9	3.5	3.2	2.9

Source: Company, Emkay Research



Change in Estimates

EPS Chg FY21E/FY22E (%)	16/5
Target Price change (%)	23
Target Period (Months)	12
Previous Reco	HOLD

Emkay vs Consensus

EPS Estimates		
	FY21E	FY22E
Emkay	16.3	17.3
Consensus	16.1	18.0
Mean Consensus TP (12M)	Rs 365	

Stock Details

Bloomberg Code	CDH IN
Face Value (Rs)	1
Shares outstanding (mn)	1,024
52 Week H/L	411 / 202
M Cap (Rs bn/USD bn)	405 / 5.41
Daily Avg Volume (nos.)	50,48,257
Daily Avg Turnover (US\$ mn)	24.1

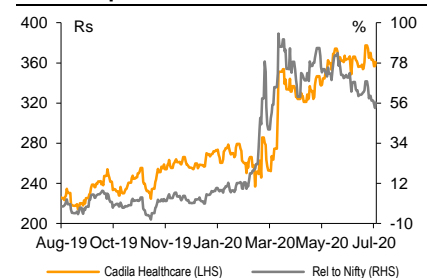
Shareholding Pattern Jun '20

Promoters	74.9%
FIIIs	4.6%
DIIIs	12.6%
Public and Others	8.0%

Price Performance

(%)	1M	3M	6M	12M
Absolute	8	21	46	77
Rel. to Nifty	3	1	59	73

Relative price chart



Source: Bloomberg

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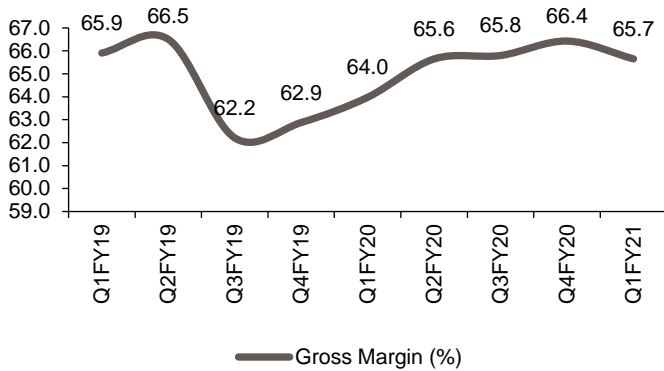
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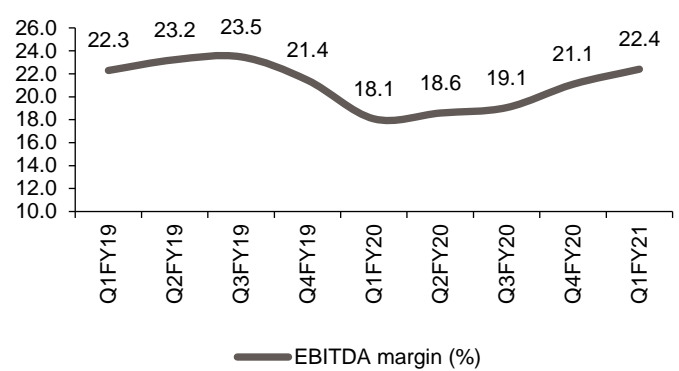
Story in Charts

Exhibit 1: Gross margins were down 80bps qoq



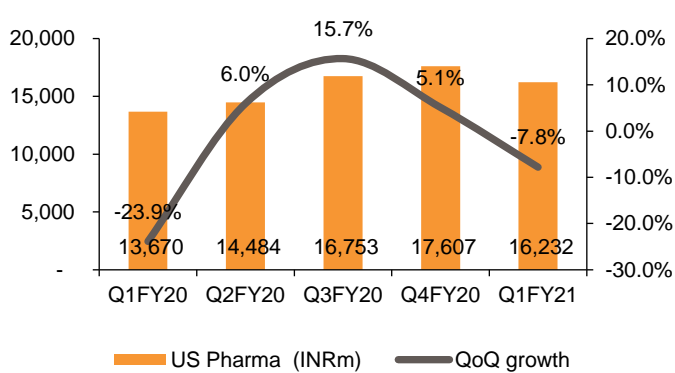
Source: Company

Exhibit 2: EBITDA margins expanded on lower opex



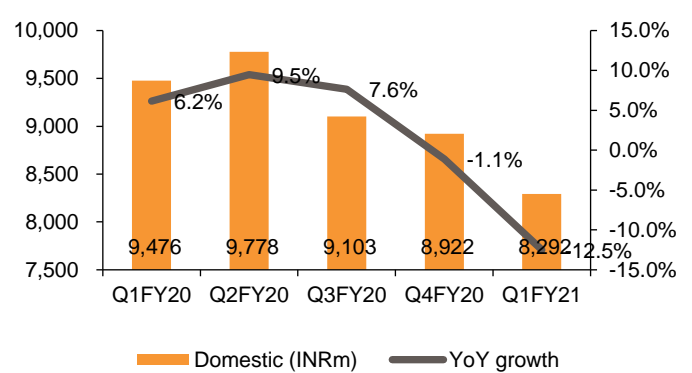
Source: Company

Exhibit 3: US sales were down 8% qoq



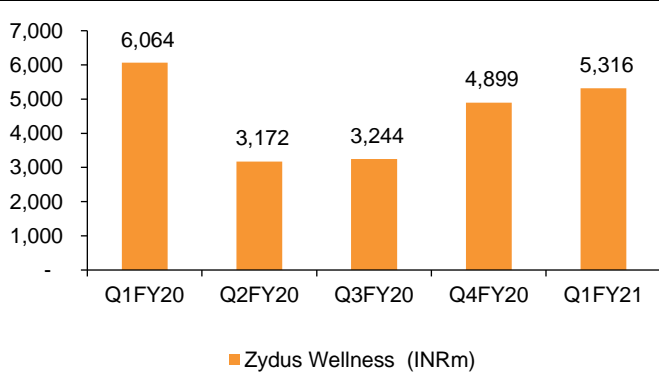
Source: Company

Exhibit 4: Domestic sales declined 13% yoy due to lockdowns



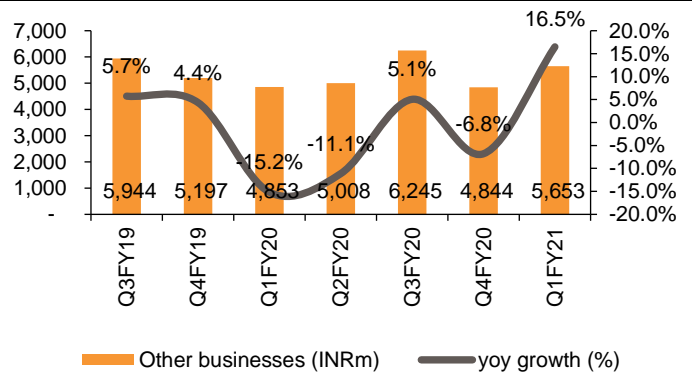
Source: Company

Exhibit 5: Wellness business was down 12% yoy (Heinz now fully in base)



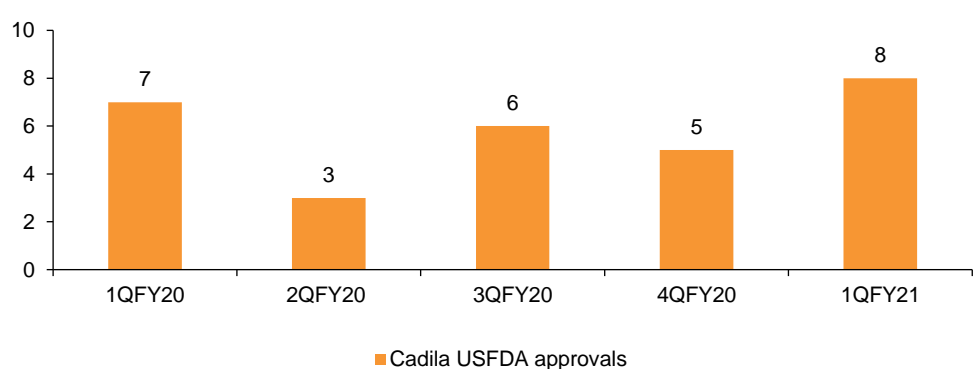
Source: Company

Exhibit 6: Other business fared well and grew 16.5% yoy



Source: Company

Exhibit 7: USFDA approvals momentum continues



Source: Orange book, USFDA

Exhibit 8: Quarterly Snapshot

(Rs mn)	Q1FY20	Q2FY20	Q3FY20	Q4FY20	Q1FY21	YoY (%)	QoQ (%)
Revenue	34,963	33,666	36,381	37,521	36,399	4.1	-3.0
Consumption of RM	12,595	11,565	12,443	12,597	12,503	-0.7	-0.7
as % of sales	36.0	34.4	34.2	33.6	34.3		
Employee costs	5,898	5,967	6,190	6,090	6,345	7.6	4.2
as % of sales	16.9	17.7	17.0	16.2	17.4		
R&D cost	2,488	2,667	2,984	2,834	2,694	8.3	-4.9
as % of sales	7.1	7.9	8.2	7.6	7.4		
Other expenditure	7,662	7,211	7,832	8,088	6,703	-12.5	-17.1
as % of sales	21.9	21.4	21.5	21.6	18.4		
EBITDA	6,320	6,256	6,932	7,912	8,154	29.0	3.1
Margins (%)	18.1	18.6	19.1	21.1	22.4		
Depreciation	1,716	1,723	1,741	1,785	1,768		
Other Income	226	269	201	443	225		
Interest	891	897	805	825	677		
PBT	3,939	3,905	4,587	5,745	5,934	50.6	3.3
Total Tax	791	395	927	1,085	1,235		
Tax rate (%)	20.1	10.1	20.2	18.9	20.8		
PAT before MI	3,148	3,510	3,660	4,660	4,699	49.3	0.8
Minority interest (MI)	112	-243	-95	-216	159		
Adj. PAT before extraordinary	3,036	3,217	3,752	4,771	4,540	49.5	-4.8
Extraordinary expenses	-	2,681	16	525	-		
Reported PAT	3,036	1,072	3,739	4,351	4,540	49.5	4.3
No. of shrs	1,024	1,024	1,024	1,024	1,024		
EPS	3.0	3.1	3.7	4.7	4.4		
Core EPS	3.0	3.1	3.7	4.7	4.4		
Margins (%)						bps	bps
Gross	64.0	65.6	65.8	66.4	65.7	167	-78
EBIDTA	18.1	18.6	19.1	21.1	22.4	433	131
EBIT	13.8	14.3	14.8	17.5	18.2	435	65
PBT	11.3	11.6	12.6	15.3	16.3	504	99
Adj. PAT	8.7	9.6	10.3	12.7	12.5	379	-24
Effective Tax rate	20.1	10.1	20.2	18.9	20.8	73	193

Source: Company

Exhibit 9: Actual vs Estimates

Figures in Rs mn	Actual	Estimates		% Variation		Comments
		Emkay	Consensus	Emkay	Consensus	
Revenue	36,399	37,807	37,111	-4%	-2%	in-line
EBITDA	8,154	7,514	7,379	9%	11%	
EBITDA margin (%)	22.4%	19.9%	19.9%	253	252	Lower opex led to better than expected margin
APAT	4,540	4,236	3952	7%	15%	

Source: Company

Exhibit 10: Segmental Breakdown

(Rs mn)	Q1FY20	Q2FY20	Q3FY20	Q4FY20	Q1FY21	YoY (%)	QoQ (%)
Domestic (Rs mn)	9,476	9,778	9,103	8,922	8,292	-12.5	-7.1
YoY growth	6.2%	9.5%	7.6%	-1.1%	-12.5%		
Zydus Wellness (Rs mn)	6,064	3,172	3,244	4,899	5,316	-12.3	8.5
YoY growth	370.8%	135.3%	128.6%	21.8%	-12.3%		
Total Domestic	15,540	12,950	12,347	13,821	13,608	-12.4	-1.5
YoY growth	52.1%	26.0%	25.0%	6.0%	-12.4%		
US Pharma (Rs mn)	13,670	14,484	16,753	17,607	16,232	18.7	-7.8
QoQ growth	-23.9%	6.0%	15.7%	5.1%	-7.8%		
EU Sales	474	407	494	582	489	3.2	-16.0
YoY growth	-23.3%	-21.7%	-17.0%	8.8%	3.2%		
Brazil (LATAM)	720	650	675	675	650	-9.7	-3.7
YoY growth	32.9%	-4.1%	-0.4%	-0.4%	-9.7%		
EM	1,484	1,539	1,968	1,042	1,725	16.2	65.5
YoY growth	-24.4%	-24.3%	25.7%	-25.3%	16.2%		
Other API	692	1,049	1,626	1,163	1,309	89.2	12.6
YoY growth	-36.8%	17.9%	25.1%	21.1%	89.2%		
Animal Health and others	1,205	1,348	1,397	1,199	1,252	3.9	4.4
YoY growth	-4%	0%	9%	-4%	4%		
Exports Total	18,245	19,477	22,913	22,268	21,657	18.7	-2.7
YoY growth	2.7%	4.3%	-7.5%	-2.2%	18.7%		
Alliances	278	15	85	183	228	-18.0	24.6
Total sales	34,063	32,442	35,345	36,272	35,493	4.2	-2.1
YoY growth	20.7%	11.4%	0.5%	0.2%	4.2%		
Excise Duty	0	0	0	0	0		
Other operating income	901	1224	1036	784	906		
Total Revenue	34,964	33,666	36,381	37,056	36,399	4.1	-1.8
YoY growth	21.5%	13.5%	1.9%	0.9%	4.1%		
Other businesses (Rs mn)	4,853	5,008	6,245	4,844	5,653		
yoy growth (%)	-15.2%	-11.1%	5.1%	-6.8%	16.5%		

Source: Company

Exhibit 11: Changes in estimates

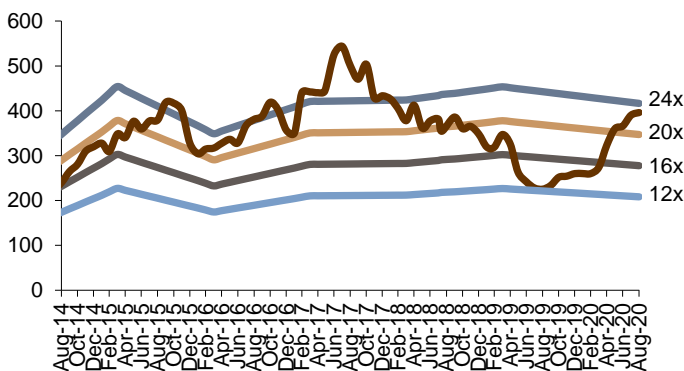
(Rs n)	FY21			FY22			FY23		
	Old	New	Chng (%)	Old	New	Chng (%)	Old	New	Chng (%)
Revenue	1,52,034	1,52,170	0.1%	1,63,716	1,63,865	0.1%	1,71,032	1,71,197	0.1%
EBITDA	28,237	31,220	10.6%	31,337	32,572	3.9%	32,338	33,639	4.0%
Margin (%)	18.6	20.5		19.1	19.9		18.9	19.6	
PAT	14,386	16,666	15.8%	16,833	17,749	5.4%	17,489	18,457	5.5%
EPS (Rs)	14.0	16.3	15.8%	16.4	17.3	5.4%	17.1	18.0	5.5%

Source: Emkay Research

Other con-call highlights

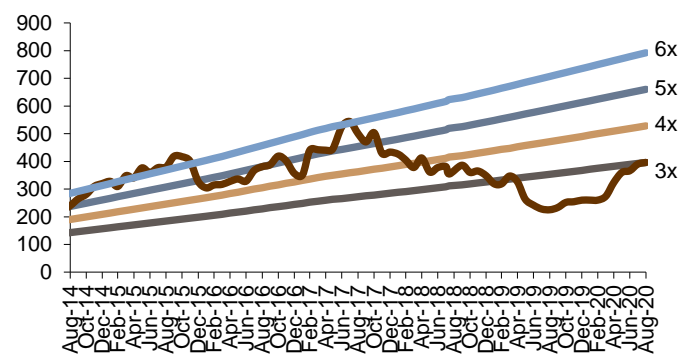
- Other expenses were lower on account of reduced marketing spend, promotional activities and other administrative expenses.
- Net debt at the end of 1QFY21 stood at Rs52bn vs. Rs67.4bn at the end of FY20. It expects WC requirement to increase in the coming quarters. Overall net debt reduction guidance for the year stands at Rs10bn.
- During the quarter, India business saw reduced Rx and falling patient footfalls. Large brands (+Rs250mn sales) for the company performed better than the overall portfolio.
- Zydus Wellness registered gradual improvement m-o-m after a quiet start to the quarter. Net profit for this segment stood at Rs892mn, up 11% yoy.
- US constituted 46% of sales. CDH launched three new products during the quarter and received 12 new approvals (4 TAs). It filed five ANDAs during the quarter.
- US business was down 7% qoq, excluding Sentylnl. The decline was primarily on account of substantial reduction in sales of seasonal products, mainly Oseltamivir capsules and suspension.
- CDH has guided for low single-digit price erosion for US.
- It has filed for 44 injectables till date and another 30 are under the development phase. The company believes that this segment can contribute ~US\$150-US\$200mn by FY24. For FY20, injectables had contributed less than US\$15mn to overall sales.
- Till date, it has in-licensed 14 products in the complex generics space with the brand value of US\$15bn. Another 10 licensing deals are under discussions with near-term commercialization opportunity.
- For the Moraiya plant, remediation is completed and the company has requested USFDA for desktop audit.
- RoW grew 8% yoy despite Covid-19-led disruption.
- Covid-19 vaccine development:** It has completed phase 1 clinical trials of ZYCoV-D successfully. It will now commence phase 2 trials from 6 Aug'20 to be conducted on 1,000 healthy volunteers.
- R&D guidance stands at 7%-8% of sales. 60% of this is toward developing generics, while the rest is for vaccines, NCE and biosimilars. This ratio might go up to 50% next year.

Exhibit 12: P/E chart



Source: Bloomberg

Exhibit 13: P/B chart



Source: Bloomberg

Key Financials (Consolidated)**Income Statement**

Y/E Mar (Rs mn)	FY19	FY20	FY21E	FY22E	FY23E
Net Sales	1,31,656	1,42,531	1,52,170	1,63,865	1,71,197
Expenditure	1,01,925	1,14,697	1,20,949	1,31,294	1,37,558
EBITDA	29,731	27,834	31,220	32,572	33,639
Depreciation	5,986	6,965	7,527	7,887	8,247
EBIT	23,745	20,869	23,694	24,685	25,392
Other Income	2,011	1,139	1,065	1,147	1,198
Interest expenses	1,935	3,418	2,943	2,628	2,480
PBT	23,821	18,590	21,815	23,203	24,111
Tax	5,303	3,198	4,799	5,105	5,304
Extraordinary Items	0	(3,636)	0	0	0
Minority Int./Income from Assoc.	444	0	0	0	0
Reported Net Income	18,962	11,768	16,666	17,749	18,457
Adjusted PAT	18,962	14,677	16,666	17,749	18,457

Balance Sheet

Y/E Mar (Rs mn)	FY19	FY20	FY21E	FY22E	FY23E
Equity share capital	1,024	1,024	1,024	1,024	1,024
Reserves & surplus	1,02,839	1,02,733	1,14,566	1,27,481	1,41,105
Net worth	1,03,863	1,03,757	1,15,590	1,28,505	1,42,129
Minority Interest	12,929	13,347	13,697	14,047	14,397
Loan Funds	81,588	70,882	65,882	58,882	55,573
Net deferred tax liability	(7,180)	884	884	884	884
Total Liabilities	1,91,200	1,88,870	1,96,053	2,02,318	2,12,983
Net block	1,21,637	1,22,305	1,22,778	1,22,892	1,22,645
Investment	12,437	20,614	20,614	20,614	20,614
Current Assets	82,682	85,026	80,824	87,782	99,198
Cash & bank balance	6,493	9,649	2,697	3,650	11,303
Other Current Assets	0	0	0	0	0
Current liabilities & Provision	33,928	46,490	35,579	36,385	36,890
Net current assets	48,754	38,536	45,245	51,398	62,309
Misc. exp	0	0	0	0	0
Total Assets	1,91,200	1,88,870	1,96,053	2,02,318	2,12,983

Cash Flow

Y/E Mar (Rs mn)	FY19	FY20	FY21E	FY22E	FY23E
PBT (Ex-Other income) (NI+Dep)	21,810	17,451	20,750	22,056	22,913
Other Non-Cash items	0	(3,636)	0	0	0
Chg in working cap	(8,930)	21,438	(13,661)	(5,199)	(3,259)
Operating Cashflow	28,823	25,054	12,760	22,268	25,076
Capital expenditure	(55,897)	(6,676)	(8,000)	(8,000)	(8,000)
Free Cash Flow	(27,074)	18,378	4,760	14,268	17,076
Investments	(677)	(8,177)	0	0	0
Other Investing Cash Flow	(211)	1,463	0	0	0
Investing Cashflow	(54,774)	(12,251)	(6,935)	(6,853)	(6,802)
Equity Capital Raised	0	0	0	0	0
Loans Taken / (Repaid)	25,425	(10,706)	(5,000)	(7,000)	(3,309)
Dividend paid (incl tax)	(4,313)	(8,569)	(4,833)	(4,833)	(4,833)
Other Financing Cash Flow	(331)	11,751	0	0	0
Financing Cashflow	18,846	(10,942)	(12,777)	(14,462)	(10,622)
Net chg in cash	(7,105)	1,861	(6,952)	953	7,652
Opening cash position	15,897	7,788	9,649	2,697	3,650
Closing cash position	6,493	9,649	2,697	3,650	11,303

Source: Company, Emkay Research

Key Ratios

Profitability (%)	FY19	FY20	FY21E	FY22E	FY23E
EBITDA Margin	22.6	19.5	20.5	19.9	19.6
EBIT Margin	18.0	14.6	15.6	15.1	14.8
Effective Tax Rate	22.3	17.2	22.0	22.0	22.0
Net Margin	14.1	10.8	11.2	11.0	11.0
ROCE	15.6	11.6	12.9	13.0	12.8
ROE	19.8	14.8	15.2	14.5	13.6
RoIC	18.1	13.2	15.0	14.7	14.8

Per Share Data (Rs)	FY19	FY20	FY21E	FY22E	FY23E
EPS	18.5	14.3	16.3	17.3	18.0
CEPS	24.4	21.8	23.6	25.0	26.1
BVPS	101.4	101.3	112.9	125.5	138.8
DPS	3.1	3.6	3.6	3.6	3.6

Valuations (x)	FY19	FY20	FY21E	FY22E	FY23E
PER	21.4	27.6	24.3	22.8	22.0
P/CEPS	16.3	18.1	16.8	15.8	15.2
P/BV	3.9	3.9	3.5	3.2	2.9
EV / Sales	3.6	3.2	3.0	2.8	2.6
EV / EBITDA	15.9	16.5	14.8	13.9	13.1
Dividend Yield (%)	0.8	0.9	0.9	0.9	0.9

Gearing Ratio (x)	FY19	FY20	FY21E	FY22E	FY23E
Net Debt/ Equity	0.7	0.5	0.5	0.4	0.3
Net Debt/EBITDA	2.3	1.9	1.8	1.5	1.1
Working Cap Cycle (days)	117.2	74.0	102.1	106.4	108.7

Growth (%)	FY19	FY20	FY21E	FY22E	FY23E
Revenue	10.3	8.3	6.8	7.7	4.5
EBITDA	4.4	(6.4)	12.2	4.3	3.3
EBIT	2.9	(12.1)	13.5	4.2	2.9
PAT	6.8	(37.9)	41.6	6.5	4.0

Quarterly (Rs mn)	Q1FY20	Q2FY20	Q3FY20	Q4FY20	Q1FY21
Revenue	34,963	33,666	36,381	37,521	36,399
EBITDA	6,320	6,256	6,932	7,912	8,154
EBITDA Margin (%)	18.1	18.6	19.1	21.1	22.4
PAT	3,036	1,072	3,739	4,351	4,540
EPS (Rs)	3.0	1.0	3.7	4.2	4.4

Source: Company, Emkay Research

Shareholding Pattern (%)	Jun-19	Sep-19	Dec-19	Mar-20	Jun-20
Promoters	74.8	74.9	74.9	74.9	74.9
FIs	4.7	4.5	4.6	4.4	4.6
DIs	11.6	12.5	12.6	12.9	12.6
Public and Others	8.9	8.1	7.9	7.8	8.0

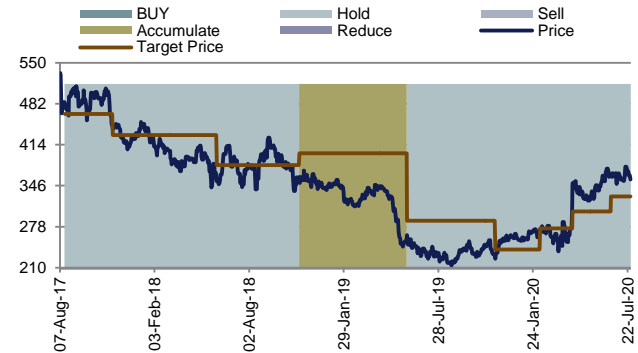
Source: Capitaline

RECOMMENDATION HISTORY TABLE

Date	Closing Price	TP	Period (months)	Rating	Analyst
20-Jun-20	362	328	12m	Hold	Praful Bohra
08-Apr-20	350	303	12m	Hold	Praful Bohra
06-Feb-20	273	275	12m	Hold	Praful Bohra
16-Dec-19	261	240	12m	Hold	Praful Bohra
14-Nov-19	234	240	12m	Hold	Praful Bohra
13-Nov-19	225	240	12m	Hold	Praful Bohra
19-Aug-19	219	288	12m	Hold	Praful Bohra
29-May-19	264	288	12m	Hold	Praful Bohra
05-Nov-18	360	400	12m	Accumulate	Jatin Kotian
19-Sep-18	408	380	12m	Hold	Jatin Kotian
11-Jul-18	371	380	12m	Hold	Jatin Kotian
10-Jul-18	381	380	12m	Hold	Jatin Kotian
29-Jun-18	377	380	12m	Hold	Jatin Kotian
01-Jun-18	353	380	12m	Hold	Jatin Kotian
10-May-18	399	430	12m	Hold	Jatin Kotian
26-Apr-18	409	430	12m	Hold	Jatin Kotian
15-Nov-17	439	430	12m	Hold	Jatin Kotian
11-Sep-17	477	465	12m	Hold	Jatin Kotian
29-Aug-17	499	465	12m	Hold	Jatin Kotian
16-Aug-17	483	465	12m	Hold	Jatin Kotian

Source: Company, Emkay Research

RECOMMENDATION HISTORY CHART



Source: Bloomberg, Company, Emkay Research

Emkay Alpha Portfolio – Pharmaceuticals



Analyst: Praful Bohra

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Sector

Pharmaceuticals

Analyst bio

Praful Bohra holds an MBA in Finance and has more than 11 years of experience in equity research. His team currently covers 12 stocks in the Pharmaceuticals space.

EAP sector portfolio

Company Name	BSE200 Weight	EAP Weight	OW/UW (%)	OW/UW (bps)	EAP Weight (Normalised)
Pharmaceuticals	4.61	4.61	0%	0	100.00
Aurobindo Pharma	0.41	0.46	12%	5	9.88
Cadila Healthcare	0.17	0.17	-4%	-1	3.61
Cipla	0.61	0.76	26%	16	16.54
Divi's Lab	0.57	0.44	-24%	-14	9.45
Dr. Reddy's Lab	0.94	0.95	1%	0	20.51
Glenmark Pharma	0.11	0.11	1%	0	2.44
Granules India	0.00	0.47	NA	47	10.21
Ipca Lab	0.23	0.30	32%	7	6.49
Lupin	0.38	0.30	-19%	-7	6.61
Sun Pharma	0.96	0.66	-31%	-30	14.23
Suven Life Sciences*	0.00	0.00	NA	0	0.00
Torrent Pharma	0.23	0.00	-100%	-23	0.00
Cash	0.00	0.00	NA	0	0.0

Source: Emkay Research

* Not under coverage: Equal Weight

■ High Conviction/Strong Over Weight ■ High Conviction/Strong Under Weight

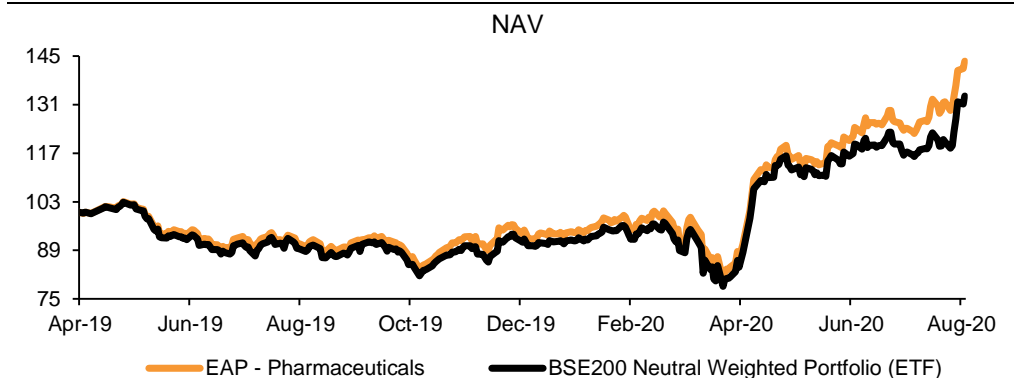
Sector portfolio NAV

	Base	Latest				
	1-Apr-19	1-Nov-19	4-Feb-20	5-May-20	3-Jul-20	4-Aug-20
EAP - Pharmaceuticals	100.0	92.9	96.5	113.9	124.2	143.6
BSE200 Neutral Weighted Portfolio (ETF)	100.0	90.4	93.8	110.8	117.3	133.5

*Performance measurement base date 1st April 2019

Source: Emkay Research

NAV chart



Source: Emkay Research

Please see our model portfolio (Emkay Alpha Portfolio): [SMID](#)

Please see our model portfolio (Emkay Alpha Portfolio): [Nifty](#)

“Emkay Alpha Portfolio – SMID and Nifty are a supporting document to the Emkay Alpha Portfolios Report and is updated on regular intervals”

Emkay Rating Distribution

Ratings	Expected Return within the next 12-18 months.
BUY	Over 15%
HOLD	Between -5% to 15%
SELL	Below -5%

Completed Date: 06 Aug 2020 02:01:16 (SGT)

Dissemination Date: 06 Aug 2020 02:02:16 (SGT)

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