

# Galaxy Surfactants

Estimate changes

TP change

Rating change

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Bloomberg	GALSURF IN
Equity Shares (m)	35
M.Cap.(INRb)/(USDb)	109.1 / 1.5
52-Week Range (INR)	3350 / 1605
1, 6, 12 Rel. Per (%)	-6/32/32
12M Avg Val (INR M)	102

## Financials & Valuations (INR bn)

Y/E March	FY21	FY22E	FY23E
Sales	27.8	33.8	35.7
EBITDA	4.5	4.9	5.6
PAT	3.0	3.2	3.7
EPS (INR)	85	91	104
EPS Gr. (%)	31	7	14
BV/Sh.(INR)	367	435	513

## Ratios

Net D:E	0.1	0.0	(0.1)
RoE (%)	25.5	22.7	21.9
RoCE (%)	21.1	20.4	20.8
Payout (%)	21.1	25.0	25.0

## Valuations

P/E (x)	36.1	33.8	29.6
P/BV (x)	8.4	7.1	6.0
EV/EBITDA (x)	24.6	22.2	19.0
Div. Yield (%)	0.6	0.7	0.8
FCF Yield (%)	2.4	1.5	2.8

## Shareholding pattern (%)

As On	Jun-21	Mar-21	Jun-20
Promoter	70.9	70.9	70.9
DII	13.0	13.3	13.6
FII	2.9	3.4	3.1
Others	13.1	12.3	12.4

FII Includes depository receipts

**CMP: INR3,078**
**TP: INR3,620 (+18%)**
**Buy**

## Demand outlook remains robust; supply chain frail

- Galaxy Surfactants (GALSURF) reported a mixed set of numbers – with higher-than-estimated revenue (+36% YoY / +5% QoQ), amid improved realization, in line with higher raw material costs. However, higher RM and international freight costs impacted EBITDA – which came in below estimates (+20% YoY / -8% QoQ), translating to gross margins of INR43.8/kg – with the EBITDA margin at INR18.1/kg.
- In 1QFY22, volumes (Performance Surfactants +7% YoY / -7% QoQ; Specialty Products +36% YoY / -1% QoQ) were lower on the back of a key raw material supply crunch due to supply chain disruption internationally. **The management believes the international logistics scenario is likely to remain challenging for the remaining months of FY22 as well.**
- That said, demand for performance surfactants remains strong, and the opening up of developing economies would aid higher growth in the Specialty segment as well.
- COVID has resulted in a huge delay (of more than 18 months) in setting up new capacities for specialty products (at Tarapur and Jhagadia), which are now expected to get commissioned by Dec'21. **Higher capacity for specialty products, coupled with moderation in the logistics scenario by end-FY22, would result in better margins and volumes growth.**
- Although, being conservative, we keep our estimates unchanged, with revenue and EPS CAGR of 12% and 11%, respectively, over FY21–24E. The EBITDA margin would normalize at around INR20/kg. However, **the aforementioned capacity additions, along with higher focus on green products and greener processes (Galaxy Hearth was launched recently on the fundamental premise of sustainable chemistry), could result in an upside risk to our estimates.**
- The company has posted a ~8% volume CAGR in the last five years. **We expect the company to deliver a ~10% CAGR over FY21–24E, in line with industry growth for surfactants. Valuing the company at 33x Sep'23E EPS, we arrive at TP of INR3,620. Maintain Buy.**

## Gross margin compression results in miss

- Revenue came in higher than estimated at INR8.3b (+36% YoY / +5% QoQ).
- Revenue for Performance Surfactants was up 16% YoY / 4% QoQ at INR5.2b.
- Revenue for Specialty Products was up 94% YoY and 8% QoQ at INR3.1b.
- EBITDA was below our estimate at INR1.1b (+20% YoY / -8% QoQ), primarily weighed by compression in gross margins to 32%. The EBITDA margin stood at 13.1%, led by better operating efficiencies.
- PAT came in at INR768m (+36% YoY / -2% QoQ).

## Valuation and view – maintain Buy

- The management guided that higher innovation and the launch of newer products, in line with evolving trends such as safety and wellness, have aided

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Motilal Oswal research is available on [www.motilaloswal.com/Institutional-Equities](http://www.motilaloswal.com/Institutional-Equities), Bloomberg, Thomson Reuters, Factset and S&P Capital.

Kindly refer our detailed report  
on Specialty Chemicals



higher-than industry growth in specialty products (which would continue in the future as well). The emergence of private labels (and e-commerce) in India would further support growth.

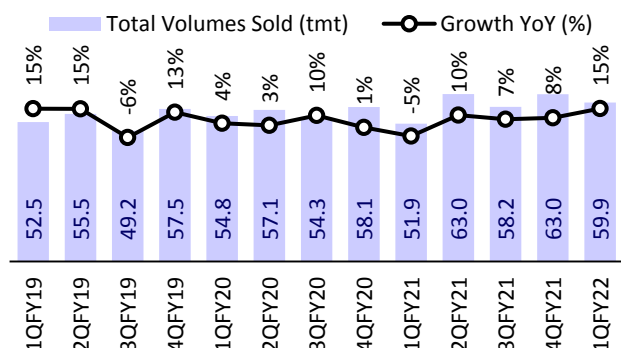
- The Performance segment still has headroom in terms of growth in developing regions (such as India, Africa, and the Middle East), for which the company already has capacity in place.
- The company has bought additional land at Jhagadia and is in the process of announcing a capex plan for the same. Any significant capex announced over the next 1–2 years could further result in a re-rating of the stock.
- GALSURF has reduced its debt considerably from FY14 levels. We expect it to turn net cash by FY23E despite capex plans of INR3b over FY22–24E.
- **The management has shared its growth vision. It would focus on high-margin products, with continued focus on R&D and increased wallet share from existing customers. This is likely to support EBITDAM at current levels, if not increase it.** The stock is trading at 30x FY23E EPS of INR104 and 19x FY23E EV/EBITDA. We maintain a Buy rating.

#### Consolidated - Quarterly Snapshot Y/E March

	FY21				FY22				FY21	FY22E	FY22	Var(%)
	1Q	2Q	3Q	4Q	1Q	2QE	3QE	4QE			1QE	
<b>Gross Sales</b>	<b>6,072</b>	<b>7,187</b>	<b>6,747</b>	<b>7,835</b>	<b>8,264</b>	<b>8,265</b>	<b>8,344</b>	<b>8,899</b>	<b>27,841</b>	<b>33,771</b>	<b>7,580</b>	<b>9%</b>
YoY Change (%)	-8.7	10.8	7.8	19.3	36.1	15.0	23.7	13.6	7.2	21.3	24.8	
<b>Gross Margins (%)</b>	<b>34%</b>	<b>36%</b>	<b>38%</b>	<b>37%</b>	<b>32%</b>	<b>32%</b>	<b>34%</b>	<b>33%</b>	<b>36%</b>	<b>33%</b>	<b>37%</b>	
<b>EBITDA</b>	<b>905</b>	<b>1,215</b>	<b>1,195</b>	<b>1,174</b>	<b>1,085</b>	<b>1,133</b>	<b>1,304</b>	<b>1,415</b>	<b>4,488</b>	<b>4,937</b>	<b>1,189</b>	<b>-9%</b>
Margins (%)	14.9	16.9	17.7	15.0	13.1	13.7	15.6	15.9	16.1	14.6	15.7	
Depreciation	164	167	169	240	168	177	186	216	740	747	216	-22%
Interest	48	32	24	30	29	28	26	24	134	107	27	9%
Other Income	7	46	30	26	45	33	33	21	109	132	26	75%
<b>PBT</b>	<b>699</b>	<b>1,062</b>	<b>1,032</b>	<b>930</b>	<b>933</b>	<b>961</b>	<b>1,125</b>	<b>1,196</b>	<b>3,723</b>	<b>4,215</b>	<b>972</b>	<b>-4%</b>
Tax	134	245	180	143	164	242	283	301	702	991	245	
Rate (%)	19.2	23.0	17.4	15.4	17.6	25.2	25.2	25.2	18.8	23.5	25.2	
<b>Reported PAT</b>	<b>565</b>	<b>817</b>	<b>852</b>	<b>787</b>	<b>768</b>	<b>719</b>	<b>842</b>	<b>895</b>	<b>3,021</b>	<b>3,225</b>	<b>728</b>	<b>6%</b>
YoY Change (%)	7.5	21.9	77.6	25.3	36.0	-12.0	-1.2	13.7	31.1	6.7	28.8	
Margins (%)	9.3	11.4	12.6	10.0	9.3	8.7	10.1	10.1	10.9	9.5	9.6	

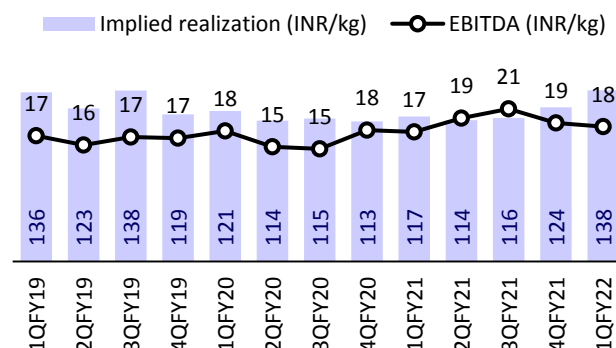
## 1QFY22 – quarter in charts

**Exhibit 1: Volumes sold decline 5% QoQ, primarily due to QoQ decline in Performance Surfactants...**



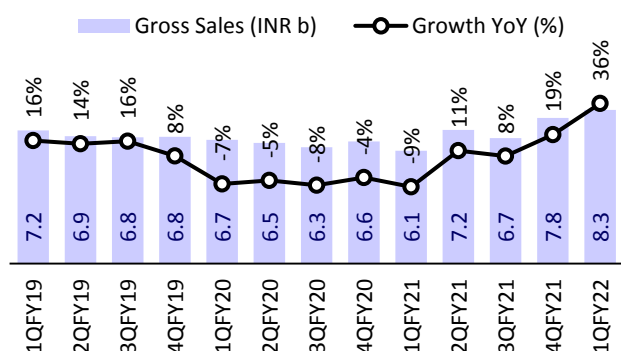
Source: Company, MOFSL

**Exhibit 2: ...weighed by raw material vulnerabilities (realization increases, but EBITDA contracts in 1QFY22)...**



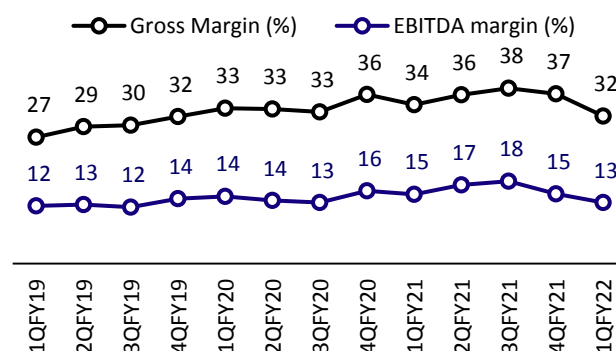
Source: Company, MOFSL

**Exhibit 3: ...resulting in higher gross sales (up 5% QoQ)**



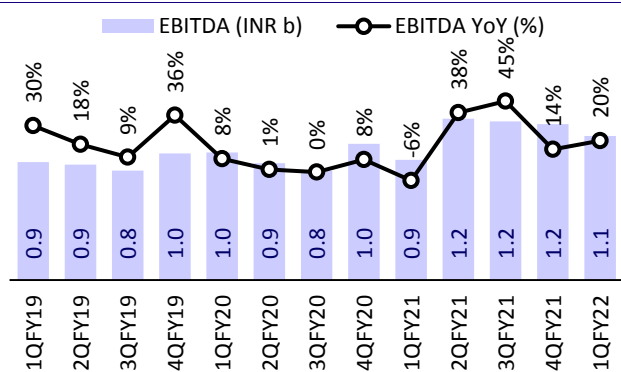
Source: Company, MOFSL

**Exhibit 4: Margins contract QoQ on higher RM cost**



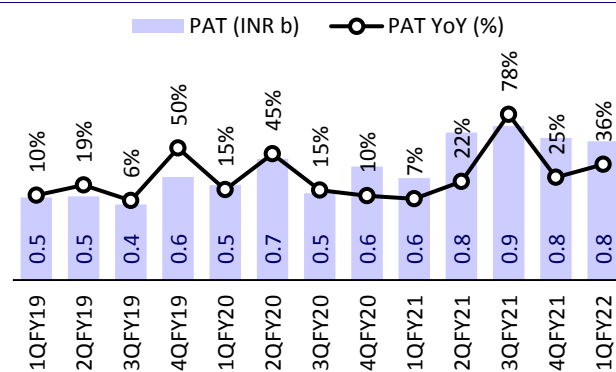
Source: Company, MOFSL

**Exhibit 5: EBITDA down 8% QoQ**

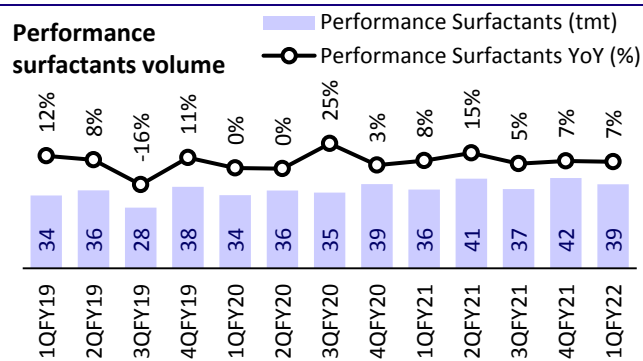


Source: Company, MOFSL

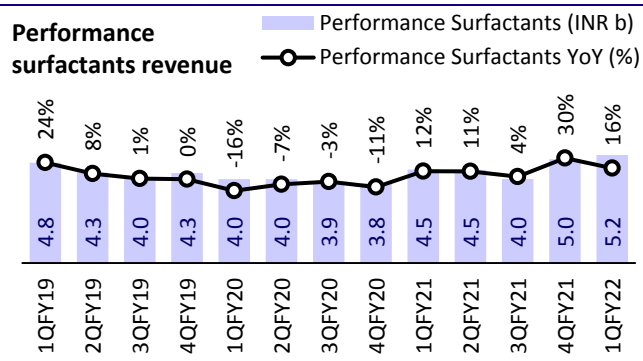
**Exhibit 6: PAT down 2% QoQ (due to lower depreciation)**



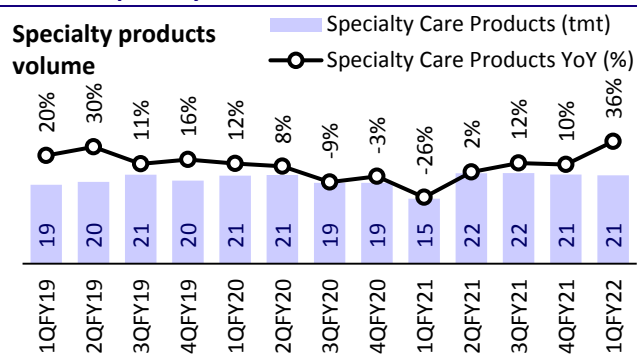
Source: Company, MOFSL

**Exhibit 7: Performance Surfactants volumes down 7% QoQ**

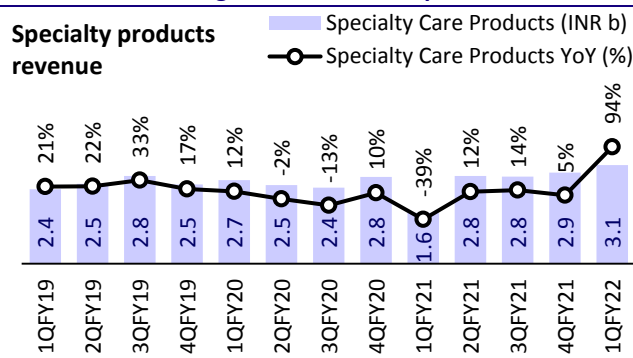
Source: Company, MOFSL

**Exhibit 8: ...although segmental revenue up 4% QoQ**

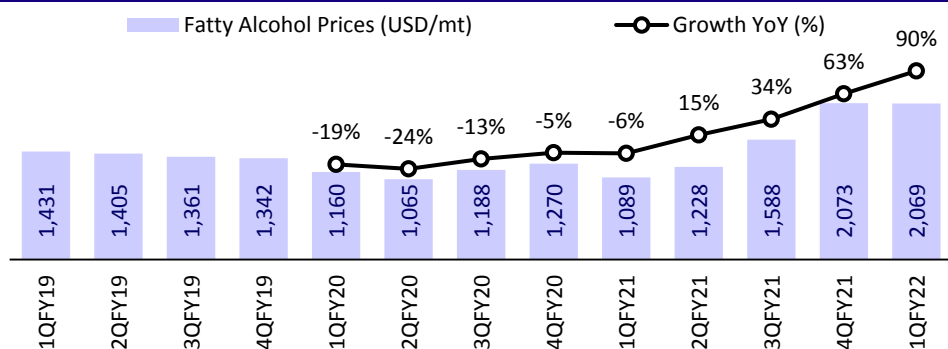
Source: Company, MOFSL

**Exhibit 9: Specialty Products volumes down 1% QoQ**

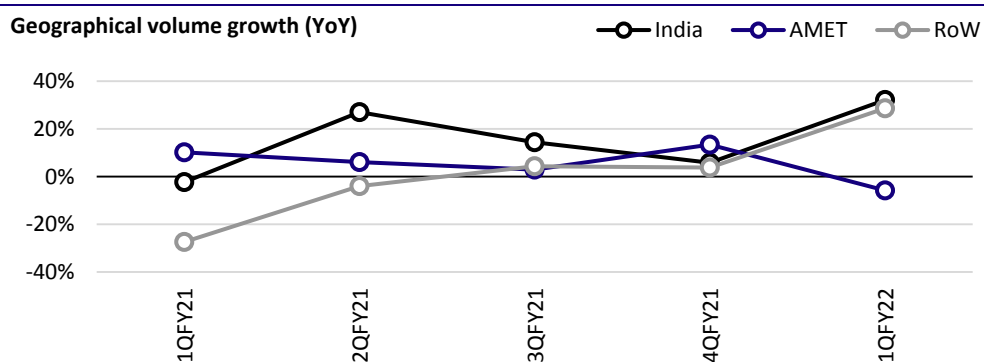
Source: Company, MOFSL

**Exhibit 10: ...with segmental revenue up 8% QoQ**

Source: Company, MOFSL

**Exhibit 11: Fatty Alcohol prices up 90% YoY (flat QoQ); seem to be peaking around current levels**

Source: Company, MOFSL

**Exhibit 12: India/RoW volumes up 32%/29% YoY, while AMET sees volume de-growth of 6% YoY in 1QFY22 (due to RM supply crunch at Egypt plant)**

Source: Company, MOFSL



### Concall highlights

- Higher freight costs, coupled with rising raw material costs, impacted performance in 1QFY22. Moreover, volumes were lower on the back of a key raw material supply crunch. The company had to source intermediates directly to fulfill the higher demand. The management believes the international logistics scenario is likely to remain challenging for the remaining months of FY22 as well.

### Geographical performance

- The US subsidiary focuses on the US market only – this was not impacted during the quarter (as demand remained robust). The subsidiary is primarily a specialty products oriented business and thus saw relatively better margins.
- The Egypt subsidiary has a higher proportion of specialty products as well and hence fared better v/s India. Although, the plant in Egypt was unable to operate at optimal levels due to a raw material supply crunch. Thus, AMET saw volume de-growth of 5.8% in 1QFY22; recovery is expected by 2QFY22.
- The India business was impacted by higher freight costs, raw material price volatility, and a supply crunch in key raw materials

### Guidance and outlook

- While demand for performance surfactants remains strong, the opening up of developing economies would aid higher growth in the Specialty segment as well.
- Higher innovation and the launch of newer products, in line with evolving trends such as safety and wellness, have aided growth at a higher rate v/s the industry in specialty products (which would continue in the future as well). The emergence of private labels (and e-commerce) in India would further support growth.
- The Performance segment still has headroom for growth in developing regions (such as India, Africa, and ME), for which the company already has capacity in place.

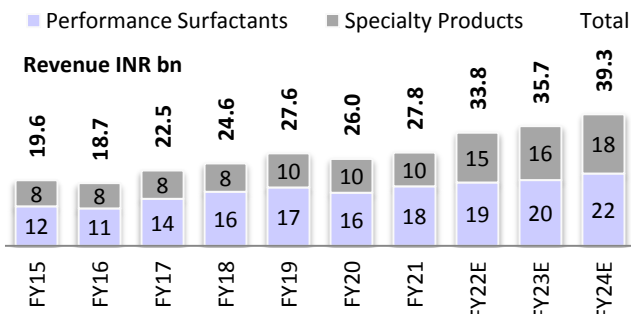
### New project and products

- COVID has resulted in huge delays in setting up new capacities for specialty products (at Tarapur and Jhagadia). Earlier, the plants were scheduled to be commissioned in June'20, but this was delayed to March'21 – due to the first wave. A further delay is seen due to the second wave, with the commissioning now expected by Dec'21 (as it is in the last leg of commissioning).
- Focus on green products and greener processes is the mantra going ahead. Galaxy Hearth – based on the fundamental premise of sustainable chemistry – has been launched recently with this objective in mind (along with other products such as non-toxic preservatives and GLI 21).

## Financial story in charts

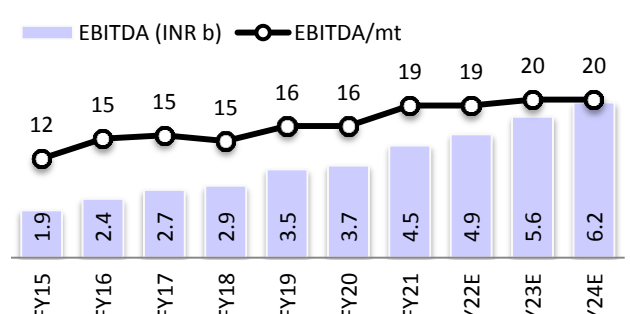
### Near-term headwinds impact growth

**Exhibit 1: Expect ~12% revenue CAGR over FY21–24**



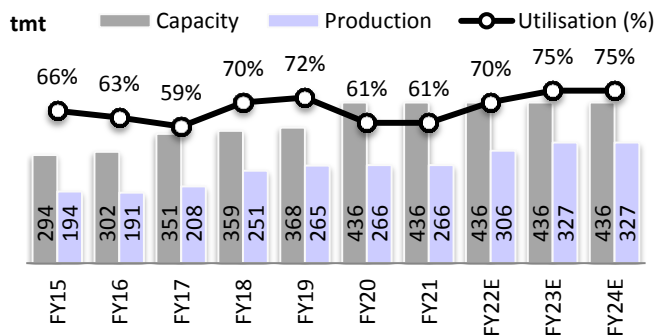
Source: Company, MOFSL

**Exhibit 2: EBITDA/mt set to increase**



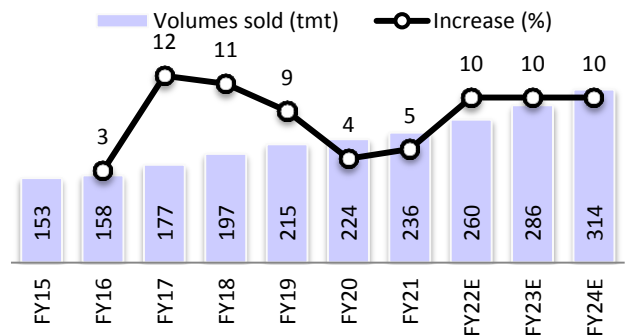
Source: Company, MOFSL

**Exhibit 3: Expect capacity utilization to be ramped up...**



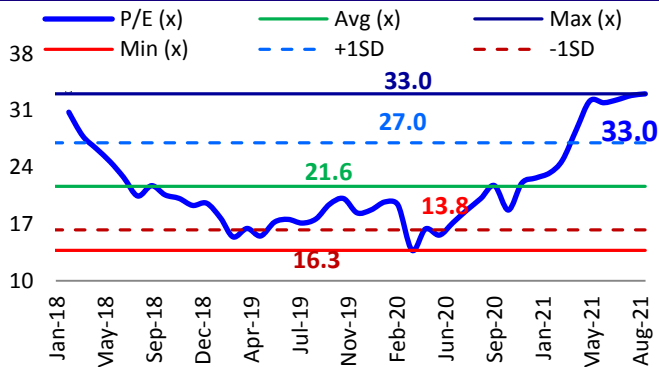
Source: Company, MOFSL

**Exhibit 4: ...with higher volume growth over FY22–24**



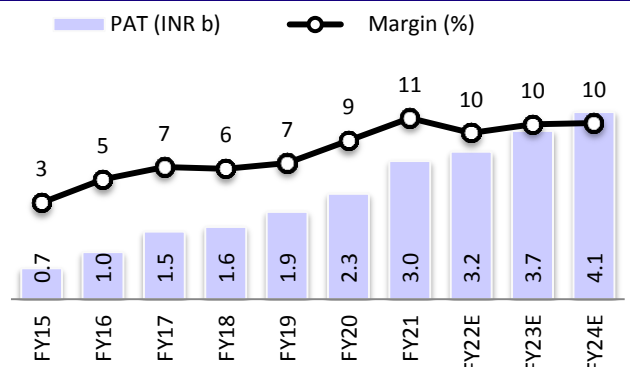
Source: Company, MOFSL

**Exhibit 5: One-year forward PE trades at 33x**



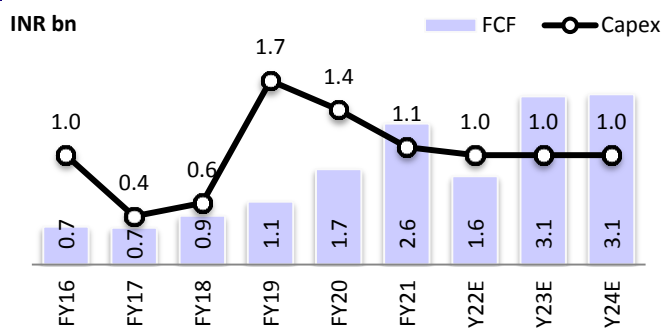
Source: Company, MOFSL

**Exhibit 6: Expect PAT margin to normalize**



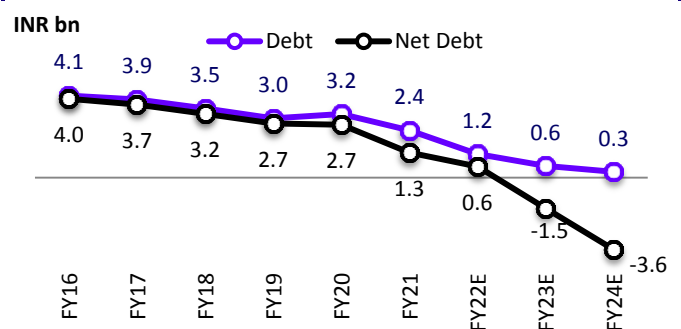
Source: Company, MOFSL

**Exhibit 7: GALSURF to generate FCF of INR7.8b...**



Source: Company, MOFSL

**Exhibit 8: ...and turn net cash by FY23E**



Source: Company, MOFSL



## Financials and valuations

### Consolidated - Income Statement

	(INR m)								
Y/E March	FY16	FY17	FY18	FY19	FY20	FY21	FY22E	FY23E	FY24E
<b>Total Income from Operations</b>	<b>18,715</b>	<b>22,480</b>	<b>24,625</b>	<b>27,630</b>	<b>25,964</b>	<b>27,841</b>	<b>33,771</b>	<b>35,720</b>	<b>39,292</b>
Change (%)	-4.3	20.1	9.5	12.2	-6.0	7.2	21.3	5.8	10.0
Gross Margins (%)	35.9	32.1	28.9	29.5	33.9	36.3	32.9	34.2	34.2
<b>EBITDA</b>	<b>2,357</b>	<b>2,714</b>	<b>2,877</b>	<b>3,534</b>	<b>3,689</b>	<b>4,488</b>	<b>4,937</b>	<b>5,643</b>	<b>6,207</b>
Margin (%)	12.6	12.1	11.7	12.8	14.2	16.1	14.6	15.8	15.8
Depreciation	452	472	485	512	622	740	747	807	867
<b>EBIT</b>	<b>1,905</b>	<b>2,242</b>	<b>2,392</b>	<b>3,022</b>	<b>3,067</b>	<b>3,749</b>	<b>4,190</b>	<b>4,836</b>	<b>5,340</b>
Int. and Finance Charges	339	272	306	300	238	134	107	53	27
Other Income	68	104	101	47	59	109	132	139	159
<b>PBT bef. EO Exp.</b>	<b>1,635</b>	<b>2,074</b>	<b>2,188</b>	<b>2,769</b>	<b>2,888</b>	<b>3,723</b>	<b>4,215</b>	<b>4,922</b>	<b>5,473</b>
<b>PBT after EO Exp.</b>	<b>1,638</b>	<b>2,074</b>	<b>2,188</b>	<b>2,769</b>	<b>2,888</b>	<b>3,723</b>	<b>4,215</b>	<b>4,922</b>	<b>5,473</b>
Total Tax	608	598	607	859	584	702	991	1,239	1,377
Tax Rate (%)	37.1	28.8	27.8	31.0	20.2	18.8	23.5	25.2	25.2
<b>Reported PAT</b>	<b>1,030</b>	<b>1,476</b>	<b>1,580</b>	<b>1,910</b>	<b>2,304</b>	<b>3,021</b>	<b>3,225</b>	<b>3,683</b>	<b>4,095</b>
<b>Adjusted PAT</b>	<b>1,028</b>	<b>1,476</b>	<b>1,580</b>	<b>1,910</b>	<b>2,304</b>	<b>3,021</b>	<b>3,225</b>	<b>3,683</b>	<b>4,095</b>
Change (%)	52.5	43.6	7.1	20.9	20.6	31.1	6.7	14.2	11.2
Margin (%)	5.5	6.6	6.4	6.9	8.9	10.9	9.5	10.3	10.4

### Standalone - Balance Sheet

Y/E March	FY16	FY17	FY18	FY19	FY20	FY21	FY22E	FY23E	FY24E
Equity Share Capital	355	355	355	355	355	355	355	355	355
Total Reserves	4,123	5,395	6,833	8,413	10,323	12,660	15,078	17,840	20,912
<b>Net Worth</b>	<b>4,478</b>	<b>5,749</b>	<b>7,188</b>	<b>8,767</b>	<b>10,678</b>	<b>13,014</b>	<b>15,433</b>	<b>18,195</b>	<b>21,266</b>
Total Loans	4,117	3,929	3,480	2,978	3,196	2,374	1,187	594	297
Deferred Tax Liabilities	207	253	277	320	241	233	233	233	233
<b>Capital Employed</b>	<b>8,802</b>	<b>9,930</b>	<b>10,944</b>	<b>12,065</b>	<b>14,115</b>	<b>15,621</b>	<b>16,853</b>	<b>19,021</b>	<b>21,796</b>
Gross Block	7,743	8,183	8,548	9,722	11,525	11,945	12,945	13,945	14,945
Less: Accum. Deprn.	3,502	3,711	4,148	4,609	5,231	5,971	6,717	7,524	8,391
<b>Net Fixed Assets</b>	<b>4,241</b>	<b>4,472</b>	<b>4,399</b>	<b>5,112</b>	<b>6,294</b>	<b>5,974</b>	<b>6,227</b>	<b>6,421</b>	<b>6,554</b>
Goodwill on Consolidation	117	24	24	25	28	27	27	27	27
Capital WIP	508	103	249	826	660	1,240	1,240	1,240	1,240
<b>Total Investments</b>	<b>0</b>	<b>1</b>	<b>1</b>	<b>0</b>	<b>58</b>	<b>435</b>	<b>435</b>	<b>435</b>	<b>435</b>
<b>Curr. Assets, Loans&amp;Adv.</b>	<b>6,227</b>	<b>8,273</b>	<b>9,881</b>	<b>9,717</b>	<b>11,081</b>	<b>12,821</b>	<b>14,919</b>	<b>17,172</b>	<b>20,441</b>
Inventory	2,358	3,174	3,456	3,513	3,250	4,278	5,282	5,510	6,061
Account Receivables	2,502	3,472	4,182	4,268	4,394	4,689	5,688	6,016	6,618
Cash and Bank Balance	160	261	276	257	542	1,114	627	2,133	3,898
Cash	147	257	271	250	477	815	328	1,834	3,599
Bank balance	14	4	5	7	65	299	299	299	299
Loans and Advances	1,208	1,366	1,966	1,680	2,894	2,740	3,322	3,513	3,864
<b>Curr. Liability &amp; Prov.</b>	<b>2,291</b>	<b>2,942</b>	<b>3,610</b>	<b>3,615</b>	<b>4,005</b>	<b>4,874</b>	<b>5,994</b>	<b>6,272</b>	<b>6,899</b>
Account Payables	1,965	2,523	3,278	3,059	2,731	3,770	4,655	4,855	5,341
Other Current Liabilities	184	309	230	416	1,098	918	1,113	1,177	1,295
Provisions	142	110	102	140	176	186	226	239	263
<b>Net Current Assets</b>	<b>3,937</b>	<b>5,331</b>	<b>6,271</b>	<b>6,102</b>	<b>7,075</b>	<b>7,947</b>	<b>8,925</b>	<b>10,900</b>	<b>13,542</b>
<b>Appl. of Funds</b>	<b>8,802</b>	<b>9,931</b>	<b>10,944</b>	<b>12,065</b>	<b>14,115</b>	<b>15,621</b>	<b>16,853</b>	<b>19,021</b>	<b>21,796</b>

## Financials and valuations

### Ratios

Y/E March	FY16	FY17	FY18	FY19	FY20	FY21	FY22E	FY23E	FY24E
<b>Basic (INR)</b>									
EPS	29.0	41.6	44.6	53.9	65.0	85.2	91.0	103.9	115.5
EPS Growth (%)	52.5	43.6	7.1	20.9	20.6	31.1	6.7	14.2	11.2
Cash EPS	41.8	54.9	58.3	68.3	82.5	106.1	112.0	126.6	140.0
BV/Share	126.3	162.2	202.8	247.3	301.2	367.1	435.3	513.3	599.9
DPS	6.0	4.0	3.0	12.0	17.0	18.0	22.7	26.0	28.9
Payout (%)	24.9	11.6	8.1	26.9	31.5	21.1	25.0	25.0	25.0
<b>Valuation (x)</b>									
P/E	106.0	73.8	69.0	57.1	47.3	36.1	33.8	29.6	26.6
Cash P/E	73.6	56.0	52.8	45.0	37.3	29.0	27.4	24.3	22.0
P/BV	24.3	19.0	15.2	12.4	10.2	8.4	7.1	6.0	5.1
EV/Sales	6.0	5.0	4.6	4.0	4.3	4.0	3.2	3.0	2.7
EV/EBITDA	47.9	41.5	39.0	31.6	30.3	24.6	22.2	19.0	17.0
Dividend Yield (%)	0.2	0.1	0.1	0.4	0.6	0.6	0.7	0.8	0.9
FCF per share	19.6	18.9	25.1	32.4	49.2	72.7	45.5	86.7	87.8
<b>Return Ratios (%)</b>									
RoE	24.9	28.9	24.4	23.9	23.7	25.5	22.7	21.9	20.8
RoCE	14.3	17.8	17.3	18.4	19.1	21.1	20.4	20.8	20.2
RoIC	14.6	18.0	17.3	19.5	20.5	23.7	23.4	24.3	25.4
<b>Working Capital Ratios</b>									
Fixed Asset Turnover (x)	4.3	5.2	5.6	5.8	4.6	4.5	5.5	5.6	6.1
Asset Turnover (x)	2.1	2.3	2.3	2.3	1.8	1.8	2.0	1.9	1.8
Inventory (Days)	46	52	51	46	46	56	57	56	56
Debtor (Days)	49	56	62	56	62	61	61	61	61
Creditor (Days)	38	41	49	40	38	49	50	50	50
<b>Leverage Ratio (x)</b>									
Current Ratio	2.7	2.8	2.7	2.7	2.8	2.6	2.5	2.7	3.0
Interest Cover Ratio	5.6	8.2	7.8	10.1	12.9	27.9	39.2	90.5	199.9
Net Debt/Equity	0.9	0.6	0.4	0.3	0.2	0.1	0.0	-0.1	-0.2

### Standalone - Cash Flow Statement

Y/E March	FY16	FY17	FY18	FY19	FY20	FY21	FY22E	FY23E	FY24E
OP/(Loss) before Tax	1,638	2,074	2,188	2,769	2,888	3,723	4,215	4,922	5,473
Depreciation	452	472	485	512	622	740	747	807	867
Others	339	268	249	288	220	79	107	53	27
Direct Taxes Paid	-608	-568	-583	-750	-686	-706	-991	-1,239	-1,377
(Inc)/Dec in WC	-127	-1,135	-886	11	113	-186	-1,465	-469	-876
<b>CF from Operations</b>	<b>1,694</b>	<b>1,111</b>	<b>1,454</b>	<b>2,830</b>	<b>3,157</b>	<b>3,651</b>	<b>2,613</b>	<b>4,074</b>	<b>4,112</b>
Capex	-1,000	-440	-562	-1,680	-1,414	-1,073	-1,000	-1,000	-1,000
<b>Free Cash Flow</b>	<b>694</b>	<b>671</b>	<b>891</b>	<b>1,150</b>	<b>1,744</b>	<b>2,578</b>	<b>1,613</b>	<b>3,074</b>	<b>3,112</b>
<b>CF from Investments</b>	<b>-1,000</b>	<b>-440</b>	<b>-562</b>	<b>-1,680</b>	<b>-1,414</b>	<b>-1,073</b>	<b>-1,000</b>	<b>-1,000</b>	<b>-1,000</b>
Inc/(Dec) in Debt	-393	-133	-485	-623	562	-951	-1,187	-594	-297
Interest Paid	-339	-264	-285	-272	-226	-152	-107	-53	-27
Dividend Paid	-256	-173	-127	-298	-940	-495	-806	-921	-1,024
<b>CF from Fin. Activity</b>	<b>-735</b>	<b>-570</b>	<b>-897</b>	<b>-1,192</b>	<b>-1,434</b>	<b>-1,650</b>	<b>-2,100</b>	<b>-1,568</b>	<b>-1,347</b>
<b>Inc/Dec of Cash</b>	<b>-41</b>	<b>101</b>	<b>-6</b>	<b>-42</b>	<b>309</b>	<b>928</b>	<b>-487</b>	<b>1,506</b>	<b>1,765</b>
Opening Balance	188	147	257	271	250	477	815	328	1,834
<b>Closing Balance</b>	<b>147</b>	<b>257</b>	<b>270</b>	<b>251</b>	<b>477</b>	<b>815</b>	<b>328</b>	<b>1,834</b>	<b>3,599</b>



Explanation of Investment Rating	
Investment Rating	Expected return (over 12-month)
BUY	>=15%
SELL	< - 10%
NEUTRAL	< - 10 % to 15%
UNDER REVIEW	Rating may undergo a change
NOT RATED	We have forward looking estimates for the stock but we refrain from assigning recommendation

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