

December 22, 2020

Company Update

■ Change in Estimates | Target | ■ Reco

Change in Estimates

	Current		Previous	
	FY22E	FY23E	FY22E	FY23E
Rating	BUY		BUY	
Target Price	437		296	
Sales (Rs. m)	94,181	110,510	94,181	110,510
% Chng.	-	-	-	-
EBITDA (Rs. m)	10,153	11,913	10,153	11,913
% Chng.	-	-	-	-
EPS (Rs.)	37.5	45.9	37.5	45.9
% Chng.	-	-	-	-

Key Financials - Standalone

Ye Mar	FY20	FY21E	FY22E	FY23E
Sales (Rs. m)	79,040	80,035	94,181	110,510
EBITDA (Rs. m)	8,601	8,468	10,153	11,913
Margin (%)	10.9	10.6	10.8	10.8
PAT (Rs. m)	4,391	4,588	5,798	7,096
EPS (Rs.)	28.4	29.7	37.5	45.9
Gr. (%)	8.5	4.5	26.4	22.4
DPS (Rs.)	3.5	4.2	5.2	6.4
Yield (%)	1.2	1.4	1.8	2.1
RoE (%)	13.1	12.3	13.9	15.0
RoCE (%)	17.7	14.9	16.4	17.5
EV/Sales (x)	0.7	0.7	0.6	0.5
EV/EBITDA (x)	6.4	6.6	5.5	4.7
PE (x)	10.5	10.1	8.0	6.5
P/BV (x)	1.3	1.2	1.0	0.9

Key Data

KAPT.BO | KPP IN

52-W High / Low	Rs.477 / Rs.170
Sensex / Nifty	46,007 / 13,466
Market Cap	Rs.45bn/ \$ 603m
Shares Outstanding	149m
3M Av g. Daily Value	Rs.302.83m

Shareholding Pattern (%)

Promoter's	55.29
Foreign	6.46
Domestic Institution	26.37
Public & Others	11.88
Promoter Pledge (Rs bn)	12.16

Stock Performance (%)

	1M	6M	12M
Absolute	(2.8)	38.0	(23.6)
Relative	(7.3)	4.7	(30.8)

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A pure play on infra sector segment

We are upgrading target price of Kalpataru Power Transmission (KPTL) to Rs437 (Rs296 earlier) as we increase PE multiple from 6x to 8x (last 5-year average 15x, ~45% discount to its peers) and rollover valuations to FY23E. We believe KPTL is well poised for exponential growth led by a) healthy order inflows given strong visibility both in domestic as well as international markets, b) strong order book (Rs123bn), c) deleveraging backed by asset monetization worth Rs10bn+, d) impressive execution track record with stable margins (10-11%), e) sharp improvement in operational performance of subsidiaries – JMC (PAT of Rs1.5bn, up 11% YoY) & SSL (PAT of Rs6mn in 4QFY20) and f) clarity on reducing pledge by Rs3-3.5bn over 1 year.

We believe continuous focus on operational efficiencies, cost optimisation and prudent working capital management has helped the company improve performance across all segments. Further, subsidiaries have witnessed rise in utilization and execution levels. We believe receipts of monetisation proceeds of three BOOT transmission assets during FY21E worth Rs10bn+ would strengthen the balance sheet further.

We believe worst is over and remain optimistic owing to positive outlook on T&D and emerging segments like Railways/Oil & Gas. We expect KPTL to deliver ~12% earnings CAGR over FY20-23E, it currently trades at 7.1x FY23 EPS. Retain BUY.

Strong OB provides revenue visibility: Despite pandemic, KPTL has secured orders worth Rs32bn (excluding L1 orders worth Rs24bn) translating into an OB of Rs123bn as on 2QFY21. Of L1 bagged in 1H, the company has bagged Rs10bn of orders and is further L1 in orders worth Rs20-25bn in 3Q. International T&D contributed 76% of order inflows during 2QFY21. Given strong bid pipeline (~Rs400bn), management expects order inflows of Rs90-100bn for FY21E.

Labour availability at pre-covid levels: With rise in labour availability, supply chain improvement, and pickup in construction activity, KPTL's operations in project site as well as utilization levels have reached pre-covid levels. Currently, all projects site is operating at 90-95% efficiency. Given execution is garnering pace, management expects 5-10% revenue growth in FY21E.

Asset monetisation to help achieve net cash status at KPTL standalone: KPTL signed a definitive agreement for selling APTL to Adani transmission for a total consideration of Rs12.7bn and expects transaction to complete by 4QFY21. Further, Kohima is expected to be sold to CLP India subject to statutory approvals at a P/BV valuation of 2.2x plus. The cash proceeds (~Rs10bn) from transaction will help reduce its the standalone net debt of Rs9.7bn.

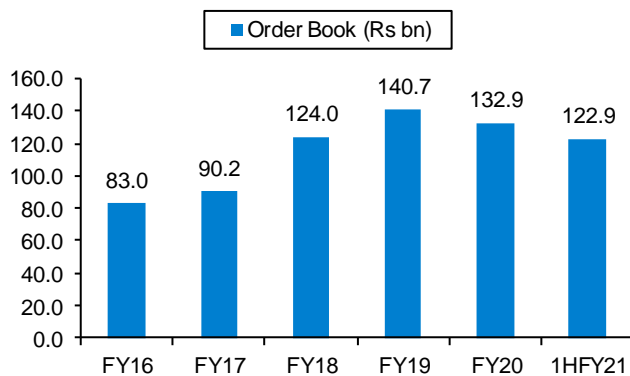
Improvement in subsidiaries performance to benefit: KPTL's constant effort to boost utilization at warehousing space, improve margins and reduce debt has help SSL turn profitable. Further with strong order of Rs60bn in 1H, JMC's order book has reached Rs142bn giving management confidence of achieving 0-5% revenue growth with stable EBITDA margins of 11% for FY21E.

Investment Thesis

Strong order backlog provides revenue visibility

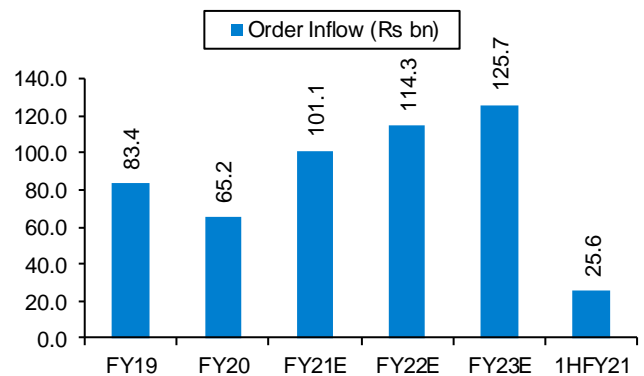
YTD order inflow stands at Rs32.3bn majorly contributed by T&D- international (76%), T&D- domestic (22%) and Railways (2%). Further, company bagged orders worth in Rs10bn in month of Oct-Dec'20 and is L1 in orders worth Rs20-25bn comprising of 50% towards T&D and 25% each from Railways/Oil & Gas segments. Order book stands at Rs123bn (excluding new orders bagged) which comprises of 60% (47% overseas, 13% domestic) from T&D segment, 25% from railways and balance 16% from Oil & Gas segment.

Exhibit 1: OB has grown at a CAGR of 12.5% over FY16-20



Source: Company, PL

Exhibit 2: OI stood healthy in 1H despite challenges

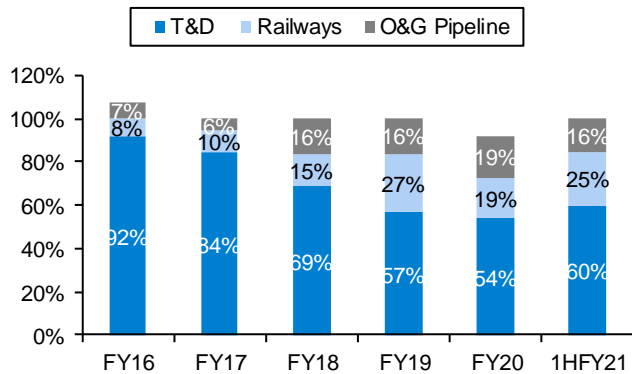


Source: Company, PL

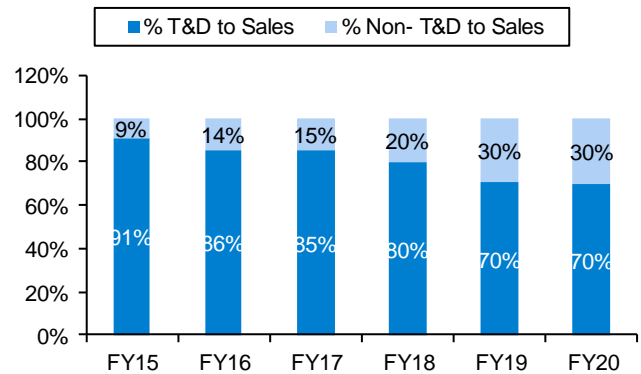
Order inflow pipeline remains robust: The company is witnessing a strong tendering pipeline from International geographies like Middle East, CIS, Africa, Nordic region, etc. On domestic front, ordering activity is expected to pick up driven by orders for the Green Energy Corridor in India and continued investments by state transmission companies to build and upgrade their intra-state grids. Further, Railways and Oil & gas segment are also witnessing healthy traction in order inflows both in domestic as well as international market.

Order bid pipeline remains robust comprising of T&D segment-Rs150bn (Domestic-Rs50bn; International-Rs100bn), railways - Rs70-100bn and Oil & gas-Rs60-70bn. Given strong bid pipeline management is confident of achieving order inflow guidance of Rs90-100bn for FY21E. We believe KPTL would be able to meet its guidance in terms of order inflows.

Non T&D revenue is expected to go up: Over the last few years, KPTL has diversified its presence by venturing into newer segments such as Railways, Oil & Gas, etc. In our view, this has reduced dependency on its traditional T&D segment. Non-T&D business share in order book has increased to 40% in H1FY21 from 16% in FY15. We believe KPP, including JMC, offers investors a unique opportunity to play the capex cycle in seven key segments in India and abroad.

Exhibit 3: Railways & Oil & Gas comprise 50% of OB


Source: Company, PL

Exhibit 4: Non-T&D revenue contribution has increased


Source: Company, PL

BOOT assets monetisation to help KTPL become debt free

As a strategy to focus on asset light model, the company has started monetization of its BOOT assets couple of years back. Of 4 BOOT assets, the company has sold 3 of its BOOT asset and is in process of selling 4th BOOT asset by 1QFY22E subject to approval.

- Kalpataru Satpura Transco already transferred to CLP India. Cash proceeds received in FY20.
- KPTL has successfully completed the sale of JKTPL at an EV of Rs3.1bn and received the proceeds in 1HFY21.
- Further, KPTL has received all the necessary approvals for sale of Alipurduar Transmission Ltd (APTL) projects to Adani Transmission for total EV of Rs10.8bn and expect the transaction (cash proceed) to complete by 3QFY21.
- The company completed construction works for Kohima-Mariani Transmission Ltd (KMTL) in Oct-20 and expects the project to commission in 3QFY21. The company started the process of monetization and expects the transaction to complete by 1QFY22 subject to statutory approvals.

Exhibit 5: KPTL's sale of T&D BOOT assets, asset light in the next 6-8 months

Projects (Rs mn)	Total Project Cost	KPTL's Share	Equity Invested	Sold at EV	Debt during time of sale	Total equity received	P/BV	Buyer
Satpura Transco	2,800	100%	600	2,000	1,100	900	1.5	CLP India
Jhajjar KT Transco Pvt. Ltd. (50% stake)	3,500	51%	840	3,100	1,250	1,850	2.2	IndiGrid
Alipurduar Transmission	10,800	100%	2,500	12,860	6,300	6,560	2.6	Adani Transmission
Kohima-Mariani Transmission	12,830	74%	2,200	N/A	9,000	4,400	2.0	CLP India*
Total	29,930		6,140	17,960	-17,650	13,710	2.2	

Source: Company, PL, *Subject to approval

Shubham Logistics (SSL) turned PAT positive

The company's constant focus on improving utilization at warehouses, boost margins led by cost optimization and debt reduction has helped SSL turn profitable. SSL reported healthy 2Q performance with PAT coming at Rs80mn. Going forward, the company expects to sustain current performance and has started process of getting a strategic partner. For the Indore real estate project, KPTL has already sold 30% of the units and expects to exit this project at 1x book value by CY21.

Exhibit 6: SSL turning profitable led by pick up in utilization levels and strong margins

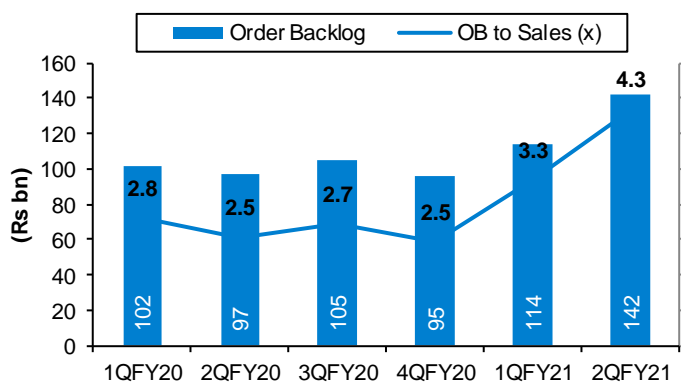
Rs mn	3QFY19	4QFY19	1QFY20	2QFY20	3QFY20	4QFY20	1QFY21	2QFY21
Revenue	338	259	327	340	283	370	326	410
<i>% YoY growth</i>	<i>77%</i>	<i>38%</i>	<i>16%</i>	<i>10%</i>	<i>-16%</i>	<i>43%</i>	<i>6%</i>	<i>21%</i>
EBITDA	86	29	106	130	72	125	112	190
<i>% margins</i>	<i>25.3%</i>	<i>11.2%</i>	<i>32.4%</i>	<i>38.2%</i>	<i>25.5%</i>	<i>33.9%</i>	<i>34.4%</i>	<i>46.3%</i>
PBT	-42	-84	-20	10	-64	17	2	80
PAT	-42	-127	-17	-10	-62	6	2	80
<i>% margins</i>	<i>-12.4%</i>	<i>-49.0%</i>	<i>-5.2%</i>	<i>-1.7%</i>	<i>-21.8%</i>	<i>1.6%</i>	<i>0.6%</i>	<i>18.4%</i>

Source: Company, PL

JMC Projects performance reached to pre-Covid levels

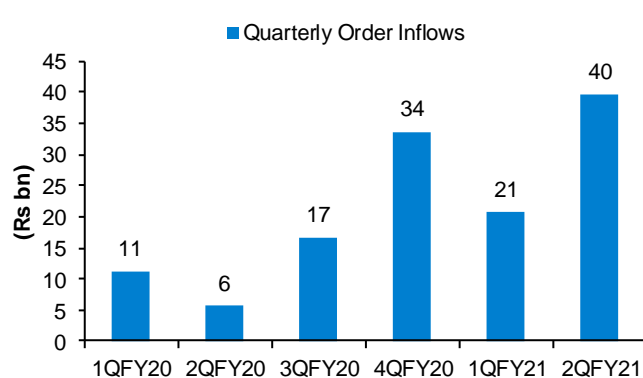
With labour availability reaching pre-covid levels, execution is expected to pick up from 2HFY21. JMC bagged Rs60bn of orders in 1HFY21 taking its order book to Rs142bn (highest OB ever) providing a strong revenue visibility for next 3-4 years. Further the company is L1 in orders worth Rs4bn and management expects healthy order inflows given strong bid pipeline. Despite subdued 1H, management is confident of achieving 0-5% revenue growth and 11% EBITDA margin in FY21E.

Exhibit 7: JMC received highest OB ever in 2Q



Source: Company, PL

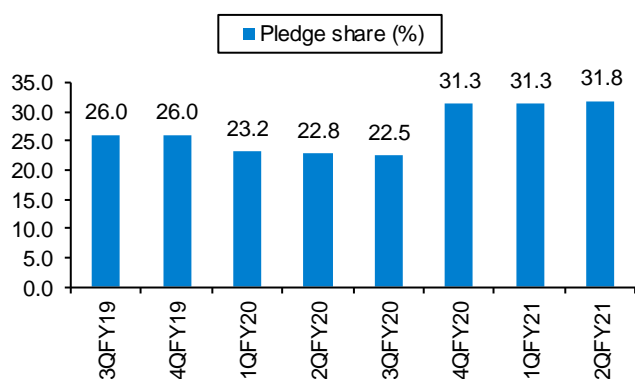
Exhibit 8: Rs61bn of order inflows in 1HFY21



Source: Company, PL

Pledge reduction by 50% plus by FY22E: Over last few years, real estate sector has been facing various headwinds led by subdued demand, rising unsold inventory and an overall liquidity crisis. This has put lot of pressure on promoter group its real estate venture resulting into pledge increasing substantially. However, over last years, the company reduced its pledge share from Rs8.3bn to Rs7,2bn and is expected to reduce further by Rs1.5bn by Jan 2021 & Rs1.5bn by Dec 2021.

Exhibit 9: Pledge would be down 50% by end of FY22E.



Source: Company, PL

Exhibit 10: 67% is of planned buy back completed

Particulars	Remarks
Issue Size (Rs mn)	2000
Max. buyback price	275
Issue period	1st June 20- 30th Nov 20
Cumulative No. of shares purchased	5.49mn
Cumulative Amt of buyback	Rs13.5mn
% of planned buyback	67%

Source: Company, PL

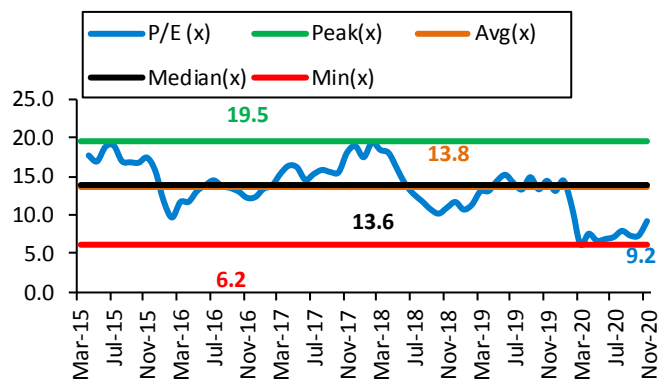
Valuation Analysis

We remain positive on the company owing to strong revenue visibility on back of healthy OB, steady margin profile, healthy bid pipeline and positive outlook on T&D and emerging segments like Railways/Oil & Gas. We expect KPTL to deliver ~12% earnings CAGR over FY20-23E. In our view, the recent stock correction provides an attractive investment proposition. The stock is trading at P/E of 11x/8.7x/7.1x for FY21E/22E/23E. We maintain our Buy rating on the stock with SOTP-based TP of Rs437.

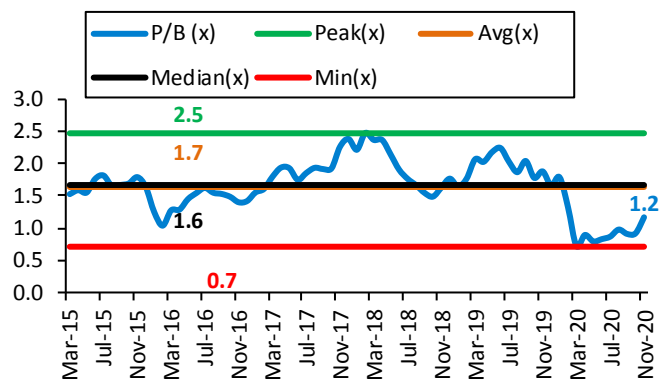
Exhibit 11 : SOTP

Rs mn	Equity Investment/PAT	1yr fwd (x)	Basis of Investment	KPTL Share (%)	Value for KPTL	Value per share
Kalpataru Power (Standalone)	7,096	8	PER	1	56,764	370
Jhajjar KT Transco Pvt. Ltd. (50% stake)	1,341	1	PBV	0.74	992	6
Alipurduar Transmission	2,500	0.8	PBV	1	2,000	10
Kohima-Mariani Transmission	2,200	0.8	PBV	0.74	1,302	7
Linjemontage (85% stake)	1,400	1	PER	0.85	1,190	8
JMC Projects (67.19% subsidiary)	7,808	0.8	30% Holding Disc.	0.6719	3,934	26
Engylink (Indore Commercial-residential project)	1,500	0.8	PBV	0.8	1,200	6
Shubham Logistics	814	0.8	PBV	0.8	651	3
Total					68,034	437

Source: PL

Exhibit 12 : One Year Forward Price / Earnings


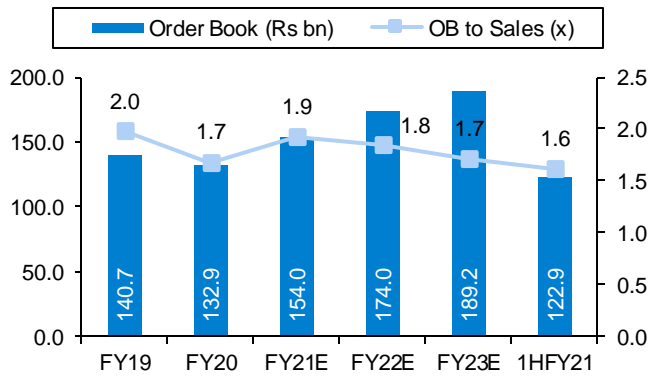
Source: Company, PL

Exhibit 13 : One Year Forward Price / Book Value


Source: Company, PL

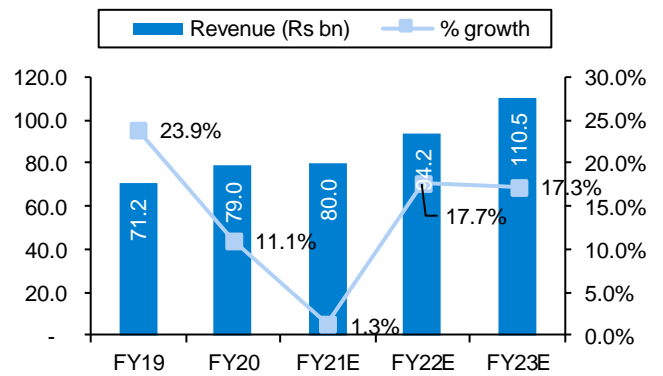
Fundamental Snapshot (Story in charts):

Exhibit 14: Strong OB provide revenue visibility ahead



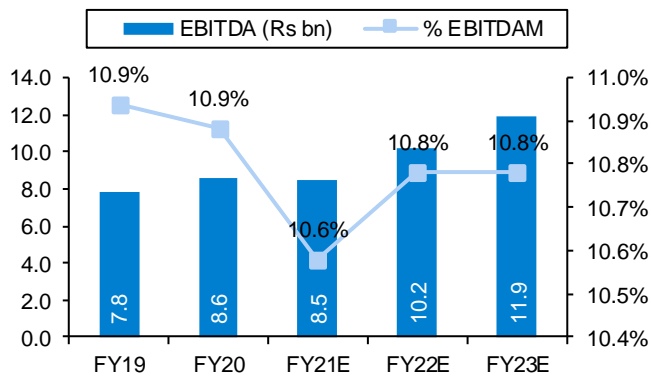
Source: Company, PL

Exhibit 15: Execution to bounce-back sharply from FY22E



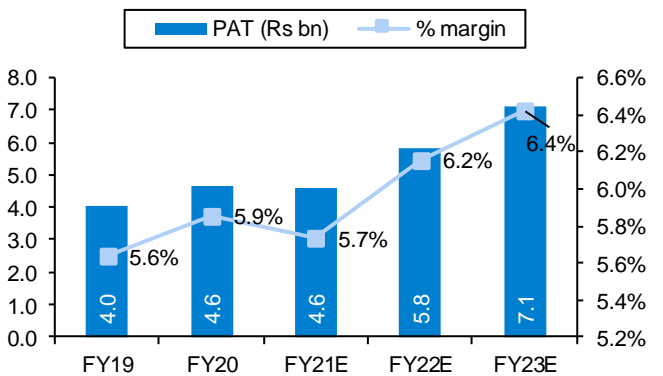
Source: Company, PL

Exhibit 16: Cost control measures to maintain EBITDAM



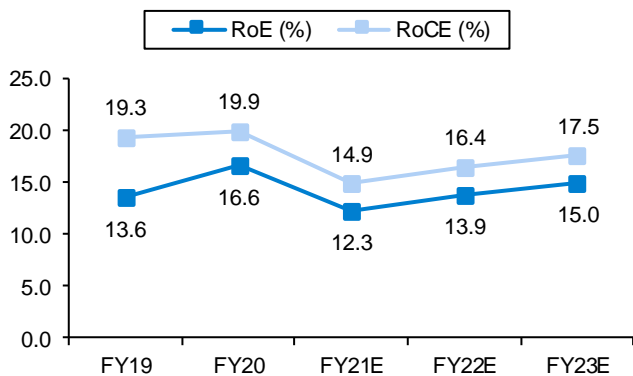
Source: Company, PL

Exhibit 17: PAT to grow at CAGR of 17% over FY20-23E



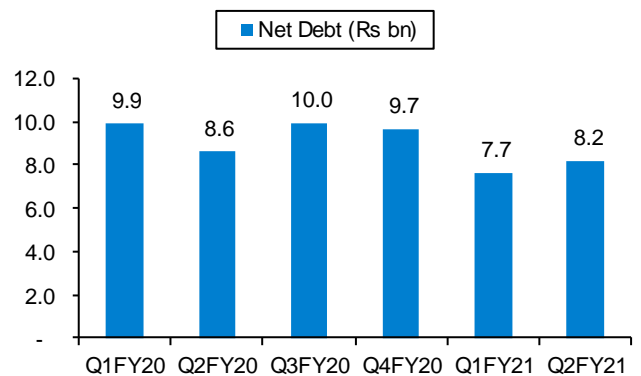
Source: Company, PL

Exhibit 18: Return ratios remain healthy despite challenges



Source: Company, PL

Exhibit 19: KPTL aims to become debt free by FY21E



Source: Company, PL

Financials

Income Statement (Rs m)

Y/e Mar	FY20	FY21E	FY22E	FY23E
Net Revenues	79,040	80,035	94,181	110,510
YoY gr. (%)	11.1	1.3	17.7	17.3
Cost of Goods Sold	32,676	33,534	39,179	45,972
Gross Profit	46,365	46,500	55,002	64,538
Margin (%)	58.7	58.1	58.4	58.4
Employee Cost	5,257	5,762	6,781	7,957
Other Expenses	3,372	3,361	3,956	4,641
EBITDA	8,601	8,468	10,153	11,913
YoY gr. (%)	10.5	(1.5)	19.9	17.3
Margin (%)	10.9	10.6	10.8	10.8
Depreciation and Amortization	1,105	1,133	1,238	1,320
EBIT	7,496	7,334	8,915	10,593
Margin (%)	9.5	9.2	9.5	9.6
Net Interest	1,662	1,841	1,916	1,991
Other Income	584	640	753	884
Profit Before Tax	6,417	6,134	7,752	9,486
Margin (%)	8.1	7.7	8.2	8.6
Total Tax	2,026	1,546	1,954	2,390
Effective tax rate (%)	31.6	25.2	25.2	25.2
Profit after tax	4,391	4,588	5,798	7,096
Minority interest	-	-	-	-
Share Profit from Associate	-	-	-	-
Adjusted PAT	4,391	4,588	5,798	7,096
YoY gr. (%)	9.4	4.5	26.4	22.4
Margin (%)	5.6	5.7	6.2	6.4
Extra Ord. Income / (Exp)	239	-	-	-
Reported PAT	4,631	4,588	5,798	7,096
YoY gr. (%)	15.4	(0.9)	26.4	22.4
Margin (%)	5.9	5.7	6.2	6.4
Other Comprehensive Income	-	-	-	-
Total Comprehensive Income	4,631	4,588	5,798	7,096
Equity Shares O/s (m)	155	155	155	155
EPS (Rs)	28.4	29.7	37.5	45.9

Source: Company Data, PL Research

Balance Sheet Abstract (Rs m)

Y/e Mar	FY20	FY21E	FY22E	FY23E
Non-Current Assets				
Gross Block	9,571	10,571	11,571	12,571
Tangibles	9,571	10,571	11,571	12,571
Intangibles	-	-	-	-
Acc: Dep / Amortization	3,723	4,856	6,094	7,414
Tangibles	3,723	4,856	6,094	7,414
Intangibles	-	-	-	-
Net fixed assets	5,849	5,715	5,477	5,157
Tangibles	5,849	5,715	5,477	5,157
Intangibles	-	-	-	-
Capital Work In Progress	884	914	914	914
Goodwill	-	-	-	-
Non-Current Investments	13,406	11,445	12,055	13,593
Net Deferred tax assets	(51)	(51)	(51)	(51)
Other Non-Current Assets	1,493	1,801	2,119	2,210
Current Assets				
Investments	-	-	-	-
Inventories	7,389	8,771	9,031	10,597
Trade receivables	35,174	42,758	46,445	49,956
Cash & Bank Balance	3,371	2,563	3,530	3,146
Other Current Assets	26,653	29,613	32,963	36,468
Total Assets	96,565	106,381	115,925	125,909
Equity				
Equity Share Capital	309	309	309	309
Other Equity	35,065	39,010	43,996	50,098
Total Network	35,374	39,320	44,306	50,408
Non-Current Liabilities				
Long Term borrowings	2,993	3,493	3,993	4,493
Provisions	-	-	-	-
Other non current liabilities	-	-	-	-
Current Liabilities				
ST Debt / Current of LT Debt	8,781	8,781	8,781	8,781
Trade payables	21,362	24,120	25,803	27,249
Other current liabilities	28,003	30,617	32,992	34,927
Total Equity & Liabilities	96,564	106,381	115,925	125,909

Source: Company Data, PL Research

Cash Flow (Rs m)

Y/e Mar	FY20	FY21E	FY22E	FY23E
PBT	6,657	6,134	7,752	9,486
Add. Depreciation	1,105	1,133	1,238	1,320
Add. Interest	1,662	1,841	1,916	1,991
Less Financial Other Income	584	640	753	884
Add. Other	(1,566)	-	-	-
Op. profit before WC changes	7,858	9,108	10,906	12,797
Net Changes-WC	(3,334)	(6,795)	(4,426)	(6,000)
Direct tax	(2,095)	(1,546)	(1,954)	(2,390)
Net cash from Op. activities	2,429	767	4,526	4,407
Capital expenditures	(1,698)	409	(1,331)	(2,306)
Interest / Dividend Income	537	-	-	-
Others	(3,605)	-	-	-
Net Cash from Inv. activities	(4,766)	409	(1,331)	(2,306)
Issue of share cap. / premium	-	-	-	-
Debt changes	6,877	500	500	500
Dividend paid	(1,192)	(642)	(812)	(993)
Interest paid	(1,532)	(1,841)	(1,916)	(1,991)
Others	(143)	-	-	-
Net cash from Fin. activities	4,009	(1,983)	(2,228)	(2,484)
Net change in cash	1,673	(807)	966	(384)
Free Cash Flow	726	(263)	3,526	3,407

Source: Company Data, PL Research

Key Financial Metrics

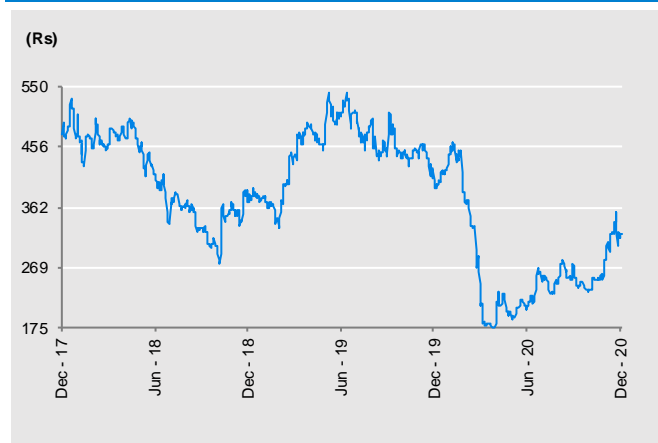
Y/e Mar	FY20	FY21E	FY22E	FY23E
Per Share(Rs)				
EPS	28.4	29.7	37.5	45.9
CEPS	35.5	37.0	45.5	54.4
BVPS	228.7	254.2	286.4	325.8
FCF	4.7	(1.7)	22.8	22.0
DPS	3.5	4.2	5.2	6.4
Return Ratio(%)				
RoCE	17.7	14.9	16.4	17.5
ROIC	13.2	11.7	13.1	13.8
RoE	13.1	12.3	13.9	15.0
Balance Sheet				
Net Debt : Equity (x)	0.2	0.2	0.2	0.2
Net Working Capital (Days)	98	125	115	110
Valuation(x)				
PER	10.5	10.1	8.0	6.5
P/B	1.3	1.2	1.0	0.9
P/CEPS	8.4	8.1	6.6	5.5
EV/EBITDA	6.4	6.6	5.5	4.7
EV/Sales	0.7	0.7	0.6	0.5
Dividend Yield (%)	1.2	1.4	1.8	2.1

Source: Company Data, PL Research

Quarterly Financials (Rs m)

Y/e Mar	Q3FY20	Q4FY20	Q1FY21	Q2FY21
Net Revenue	19,790	23,030	14,590	18,820
YoY gr. (%)	14.7	(7.6)	(11.8)	(4.3)
Raw Material Expenses	8,490	9,220	6,070	7,000
Gross Profit	11,300	13,810	8,520	11,820
Margin (%)	57.1	60.0	58.4	62.8
EBITDA	2,080	2,530	1,560	2,020
YoY gr. (%)	13.1	(5.0)	(18.8)	(2.4)
Margin (%)	10.5	11.0	10.7	10.7
Depreciation / Depletion	280	290	290	290
EBIT	1,800	2,240	1,270	1,730
Margin (%)	9.1	9.7	8.7	9.2
Net Interest	420	460	350	230
Other Income	160	70	90	370
Profit before Tax	1,780	1,850	1,010	2,010
Margin (%)	9.0	8.0	6.9	10.7
Total Tax	410	780	320	420
Effective tax rate (%)	23.0	42.2	31.7	20.9
Profit after Tax	1,370	1,070	690	1,590
Minority interest	-	-	-	-
Share Profit from Associates	-	-	-	-
Adjusted PAT	1,370	1,070	690	1,590
YoY gr. (%)	48.9	(21.8)	(25.0)	25.2
Margin (%)	6.9	4.6	4.7	8.4
Extra Ord. Income / (Exp)	-	-	-	-
Reported PAT	1,370	1,070	690	1,590
YoY gr. (%)	48.9	(21.8)	(25.0)	25.2
Margin (%)	6.9	4.6	4.7	8.4
Other Comprehensive Income	-	-	-	-
Total Comprehensive Income	1,370	1,070	690	1,590
Av g. Shares O/s (m)	153	153	153	153
EPS (Rs)	8.9	7.0	4.5	10.4

Source: Company Data, PL Research

Price Chart
Recommendation History


No.	Date	Rating	TP (Rs.)	Share Price (Rs.)
1	05-Nov-20	BUY	296	251
2	08-Oct-20	BUY	276	238
3	13-Aug-20	BUY	276	250
4	08-Jul-20	BUY	261	258
5	21-May-20	BUY	261	193
6	16-Apr-20	BUY	275	175
7	11-Feb-20	BUY	601	451
8	03-Jan-20	BUY	662	421

Analyst Coverage Universe

Sr. No.	Company Name	Rating	TP (Rs)	Share Price (Rs)
1	ABB	Hold	880	894
2	Ahluwalia Contracts (India)	BUY	288	237
3	Ashoka Buildcon	BUY	147	69
4	Bharat Electronics	Accumulate	110	103
5	BHEL	Hold	34	28
6	Capacite's Infraprojects	BUY	270	188
7	Container Corporation of India	BUY	468	378
8	Cummins India	Accumulate	472	434
9	Engineers India	BUY	104	73
10	GE T&D India	Hold	86	86
11	H.G. Infra Engineering	BUY	259	186
12	IRB Infrastructure Developers	BUY	152	109
13	ITD Cementation India	BUY	67	50
14	J.Kumar Infraprojects	BUY	176	133
15	Kalpataru Power Transmission	BUY	296	251
16	KEC International	Accumulate	339	338
17	KNR Constructions	BUY	336	255
18	Larsen & Toubro	BUY	1,284	935
19	NCC	BUY	83	36
20	PNC Infratech	BUY	219	167
21	Power Grid Corporation of India	BUY	205	170
22	Sadbhav Engineering	BUY	87	48
23	Siemens	Accumulate	1,516	1,513
24	Thermax	Accumulate	798	790
25	Triveni Turbine	BUY	85	69
26	Voltamp Transformers	BUY	1,283	1,186

PL's Recommendation Nomenclature (Absolute Performance)

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



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