

Estimate change

TP change

Rating change


Bloomberg	DALBHARA IN
Equity Shares (m)	193
M.Cap.(INRb)/(USD\$b)	231.4 / 3.2
52-Week Range (INR)	1305 / 406
1, 6, 12 Rel. Per (%)	6/26/17
12M Avg Val (INR M)	171

Financial Snapshot (INR b)

Y/E MARCH	2021E	2022E	2023E
Sales	104.4	119.9	137.1
EBITDA	27.3	27.2	32.0
Adj. PAT	8.3	8.3	12.3
EBITDA Margin (%)	26.2	22.7	23.4
Adj. EPS (INR)	44.6	45.1	66.7
EPS Gr. (%)	288.3	1.2	47.7
BV/Sh. (INR)	594.0	634.9	696.7

Ratios

Net D:E	0.2	0.1	-0.0
RoE (%)	7.7	7.3	10.0
RoCE (%)	6.3	6.6	9.0
Payout (%)	6.8	7.8	6.1

Valuations

P/E (x)	27.8	27.5	18.6
P/BV (x)	2.1	2.0	1.8
EV/EBITDA(x)	9.5	9.2	7.2
EV/ton (USD)	112.6	92.6	79.8
Div. Yield (%)	0.2	0.3	0.3
FCF Yield (%)	3.6	4.8	9.4

Shareholding pattern (%)

As On	Dec-20	Sep-20	Dec-19
Promoter	56.1	56.1	54.3
DII	4.0	3.7	6.4
FII	13.5	14.2	14.3
Others	26.4	26.0	25.0

FII Includes depository receipts

CMP: INR1,239
TP: INR1,495 (+21%)
Buy

Market share gains continue

Healthy cash flow to aid deleveraging

- DBL's 3QFY21 result highlights continued market share gains as volumes grew 14% YoY despite weak demand in the South India, supporting 51% growth in EBITDA.
- We expect market share gains to continue, supported by ~30% capacity expansion over the next one year. DBL has announced a doubling of capacity in three years to 56mtpa. We await further clarity on the same (expect it to be brownfield and focused in the South and Northeast). We have raised our FY21E/FY22E EPS by 4% each on higher volumes. Reiterate **Buy**.

EBITDA up 51% YoY, net debt-to-EBITDA down to 0.6x

- Revenue/EBITDA/PAT increased 18%/51%/658% YoY in 3QFY21 to INR28.6b/INR6.9b/INR1.8b and was 6%/13%/9% above our estimate. Volume rose 14% YoY to 5.8mt (4% above our estimate), led by market share gains and strong demand in East India. Sales of premium offerings grew 66% YoY.
- While blended realization fell 2% QoQ to INR4,926/t (+4% YoY) due to weak pricing, cost per tonne rose 5% to INR3,734 (-3% YoY), leading to a 19% fall in EBITDA/t to INR1,191 (+33% YoY). Costs were higher due to: 1) an 18% QoQ increase in power and fuel cost to INR860/t on higher petcoke consumption cost (at USD84/t, +18% QoQ), and 2) a 10% increase in other expenses to INR733/t on higher promotion spends.
- Revenue/EBITDA/adjusted PAT stood at INR72.4b/INR20.1b/INR6b in 9MFY21, up 1%/26%/205% YoY, while volume grew 1% to 14.26mt.
- DBL has repaid INR13.8b of debt in 9MFY21 (INR6.26b in 3Q). Gross/net debt stands at INR45.9b/INR14b, with net debt-to-EBITDA at 0.56x.

Management commentary – capacity to double in three years

- Capacity is expected to rise by 26% to 36mtpa by Sep'21 and is set to double to 56mtpa in the next three years. The management aims to be a pan India player as against just having a presence in South and East.
- The new 3mtpa clinker in Odisha commercialized from Oct'20 is operating ~70% utilization, with clinker production cost lower by INR75/t. This commissioning has led to higher interest cost and depreciation.
- Demand in East India remains strong (clocked over 10% growth in 3QFY21). The same is expected to improve in South India. Prices in the East are currently at the lowest in the last 5-6 years and is likely to improve.

Expect 15% volume CAGR in FY21-23E; Buy

- With ~30% capacity growth expected over the next 12 months, DBL is well placed to gain market share in East and West India. We estimate 15% CAGR in volumes in FY21-23E, which should drive 22% EPS CAGR.
- Led by strong FCF, we expect net debt to decline further. Valuation is reasonable at 9.2x FY22E EV-to-EBITDA and EV-to-capacity of USD93/t. Reiterate Buy with a TP of INR1,495/share (at 9x Dec'22E EV-to-EVITDA).

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Investors are advised to refer through important disclosures made at the last page of the Research Report.

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

Consolidated quarterly performance

(INR m)

Y/E March	FY20				FY21				FY20	FY21E	Variance	
	1Q	2Q	3Q	4Q	1Q	2Q	3Q	4QE		3QFY21E	(%)	
Sales Dispatches (mt)	4.55	4.47	5.10	5.17	3.66	4.80	5.80	6.61	19.29	20.87	5.56	4
YoY Change (%)	0.9	8.2	14.1	-7.2	-19.6	7.4	13.7	27.8	3.3	8.2	9.0	
Realization (INR/t)	5,576	5,002	4,741	4,803	5,393	5,021	4,926	4,837	5,015	5,002	4,841	2
YoY Change (%)	6.2	-1.6	-2.1	-5.9	-3.3	0.4	3.9	0.7	-1.2	-0.3	2.1	
QoQ Change (%)	9.3	-10.3	-5.2	1.3	12.3	-6.9	-1.9	-1.8			-3.6	
Net Sales	25,370	22,360	24,180	24,830	19,740	24,100	28,570	31,952	96,740	104,362	26,910	6
YoY Change (%)	7.1	6.5	11.7	-12.6	-22.2	7.8	18.2	28.7	2.0	7.9	11.3	
Total Expenditure	18,710	17,610	19,610	19,750	13,600	17,080	21,660	24,704	75,680	77,044	20,787	4
EBITDA	6,660	4,750	4,570	5,080	6,140	7,020	6,910	7,248	21,060	27,318	6,123	13
Margin (%)	26.3	21.2	18.9	20.5	31.1	29.1	24.2	22.7	21.8	26.2	22.8	
Depreciation	3,420	4,060	4,050	3,750	3,010	3,020	3,290	3,363	15,280	12,683	3,240	
Interest	1,160	1,030	950	1,240	730	730	910	836	4,380	3,206	1,000	
Other Income	440	490	680	560	550	410	460	460	2,170	1,880	400	
PBT before EO Expense	2,520	150	250	650	2,950	3,680	3,170	3,510	3,570	13,310	2,283	39
PBT after EO Expense	2,520	150	250	650	2,950	3,680	3,170	3,510	3,570	13,310	2,283	
Tax	1,000	-210	-10	410	1,070	1,360	1,340	1,288	1,190	5,058	571	
Rate (%)	39.7	-140.0	-4.0	63.1	36.3	37.0	42.3	36.7	33.3	38.0	25.0	
Reported PAT (pre-minority)	1,520	360	260	240	1,880	2,320	1,830	2,222	2,380	8,252	1,712	7
Minority + associate	50	90	20	-20	-20	0	10	10	140	0	40	
PAT Adj. for EO items	1,470	270	240	260	1,900	2,320	1,820	2,212	2,240	8,252	1,672	9
YoY Change (%)	172.1	-2,883.5	-14.3	-88.6	29.3	759.3	658.3	750.8	-27.3	268.4	596.8	

Per tonne analysis (blended) INR/t

Sales Dispatches (mt)	4.55	4.47	5.10	5.17	3.66	4.80	5.80	6.61	19.29	20.87	5.56	4
YoY Change (%)	0.9	8.2	14.1	-7.2	-19.6	7.4	13.7	27.8	3.3	8.2	9.0	
Net realization	5,576	5,002	4,741	4,803	5,393	5,021	4,926	4,837	5,015	5,002	4,841	2
YoY Change (%)	6.2	-1.6	-2.1	-5.9	-3.3	0.4	3.9	0.7	-1.2	-0.3	2.1	
RM Cost	930	841	845	998	959	817	826	835	905	850	840	-2
Employee Expenses	380	378	331	317	475	352	303	277	350	336	331	-8
Power, Oil and Fuel	1,020	962	898	747	697	729	860	903	901	815	829	4
Freight and Handling Outward	1,013	924	1,006	983	954	992	1,012	1,021	982	1,000	1,002	1
Other Expenses	769	834	765	776	631	669	733	703	785	691	738	-1
Total Expenses	4,112	3,940	3,845	3,820	3,716	3,558	3,734	3,740	3,923	3,692	3,739	0
EBITDA	1,464	1,063	896	983	1,678	1,463	1,191	1,097	1,092	1,309	1,101	8



Highlights from the management commentary

Operational highlights

- Trade mix/Blended Cement accounted for 65%/78% of sales volume.
- Premium offerings accounted for 18% of trade volume and clocked 60% YoY growth, led by a shift in preference towards branded Cement in rural areas.
- The newly commissioned Rajgangpur clinker unit (3mt) is operating at 70% utilization level.

Cost insights

- Consumption cost of petcoke stood at USD83/t v/s USD70/USD74 per tonne in 2QFY21/3QFY20. Spot rate stands at USD110/t.
- The company is left with some low-cost petcoke inventory and has increased consumption of imported coal, lignite, and green energy fuel to mitigate petcoke cost inflation.
- 3QFY21 witnessed a rise in fly ash and slag cost (up 10%QoQ). Slag prices are expected to remain stable.
- Newly commissioned Rajgangpur clinker unit (3mt) has a cost advantage of INR75/t over market purchase.
- Lead distance stood at 277km.

Demand and pricing outlook

- Demand has remained strong in East India and clocked over 10% growth in 3QFY21. The same is expected to improve in South, led by a pick-up in government demand in Andhra Pradesh and an uptick in infrastructure spending in other states.
- Pricing in East India continues to remain weak, but is expected to improve. In 3QFY21, prices were down 2% QoQ across operating geographies.

Kalyanpur Cements update

- Capacity utilization rose to 62% in 3QFY21 from 35% in 1QFY20. It stood at 72% in Dec'20.
- Profitability has improved 2.5 times since the restart of operations and is now in line with that in East India.
- There was a 25% reduction in variable costs since the restart of operations. The same is expected to improve further with the setting up of WHRS.
- It has helped establish the Dalmia brand in Bihar.

Acquisition of Murli Industries (MIL)

- The acquisition will strengthen its footprint in West India.
- It has incurred a capex of INR500m out of the budgeted outlay of INR4.6bn.
- Commercial production from the integrated unit (3mt GU/2mt clinker) is expected to commence from 2QFY22.

Capacity addition

- Capacity is expected to rise by ~30% in 12-18 months to 37.5mt, led by 4.5mt GU addition in East India and commissioning of 3mt GU at MIL.
- DBL aims to be a pan India player and is planning to double capacity to 56mt over the next three years. The plan will be announced post finalization.

- Debottlenecking of existing capacities at Bokaro/BCW/KCW/Alsthom by 1.1mt/0.4mt/0.4mt/0.1mt has enhanced total grinding capacity to 28.5mt. It commenced trial runs at BCW in Dec'20.
- **Capex** stood at INR10.8bn in 9MFY21, with unspent budgeted capex for ongoing expansion at INR10b. The same will be spent by 1QFY23. Around 30MW of WHRS is expected to be operational in FY22. The company is also exploring opportunities to set up a solar power plant.

Capital allocation policy

- The management said it will disclose its capital allocation policy with the 4QFY21 result. It added that it will continue to invest for growth in the Cement business.
- It is yet to take a call on the IEX divestment.

Deleveraging in focus

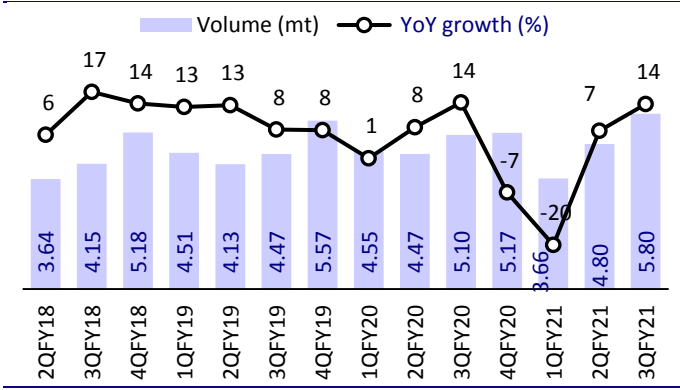
- The company has repaid INR6.3b/INR13.8b in 3Q/9MFY21.
- Gross/net debt stands at INR45.9b/INR14b, with net debt-to-EBITDA at 0.56x.

Other highlights

- The company has completed its internal investigation into the mutual fund fraud. It established that the forgery was undertaken without any proper authorization or collusion. Its MF holdings remain frozen with IL&FS Securities and it is hopeful of receiving the same. It has appointed EY as its internal auditor to strengthen its internal control system.
- DBL has unamortized goodwill of INR6.7b. It believes that the amendment towards non-allowance of depreciation on goodwill is prospective and should not impact past depreciation claims. However, the management is still assessing the impact of the same.
- Incentives accrued in 3Q/9MFY21 stood at INR240m/INR610m.

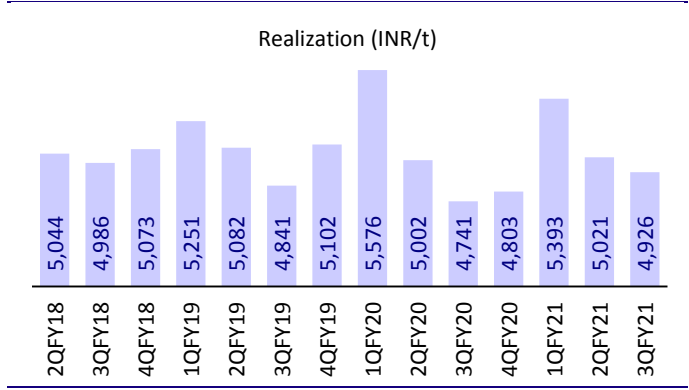
Key exhibits

Exhibit 1: Volumes up ~14% YoY in 3QFY21



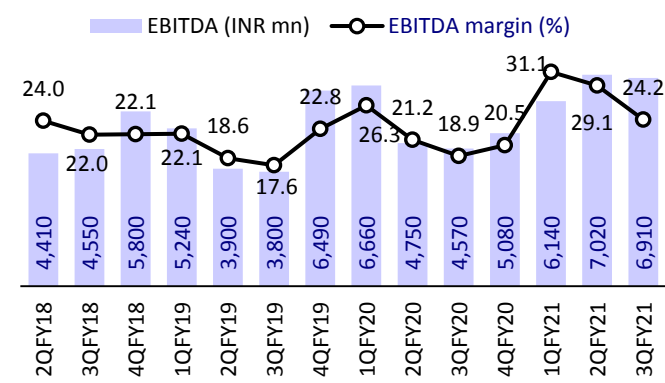
Source: Company, MOFSL

Exhibit 2: Blended realizations decline 2% QoQ



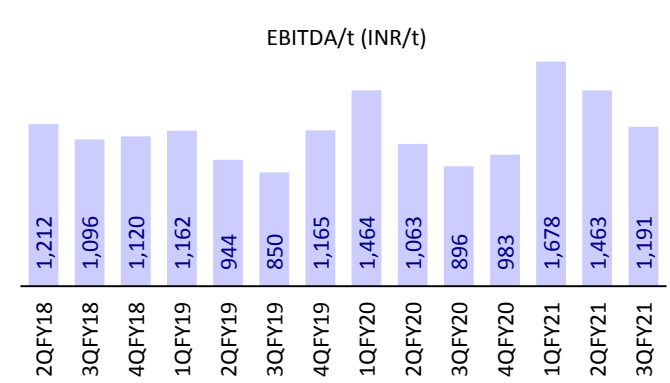
Source: Company, MOFSL

Exhibit 3: Margin trend



Source: Company, MOFSL

Exhibit 4: Trend in EBITDA/t



Source: Company, MOFSL

Exhibit 5: Key operating indicators (incl. Management Services)

INR/t	3QFY21	3QFY20	YoY	2QFY21	QoQ
Realization	4,926	4,741	4%	5,021	-2%
RM Cost	826	845	-2%	817	1%
Staff Cost	303	331	-8%	352	-14%
Power and Fuel	860	898	-4%	729	18%
Freight and Forwarding	1,012	1,006	1%	992	2%
Other Expenditure	733	765	-4%	669	10%
Total Expenditure	3,734	3,845	-3%	3,558	5%
EBITDA	1,191	896	33%	1,463	-19%

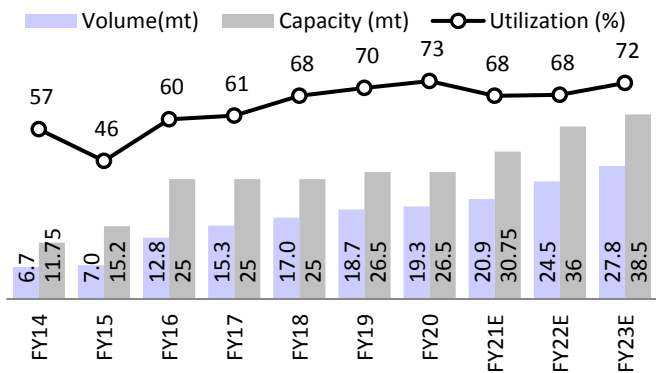
Source: Company, MOFSL

Investment thesis – Buy on 22% EPS CAGR and deleveraging

- Capacity addition in the East to drive volume growth:** DBL is expanding its Cement capacity in East India by 8mt (30%) at a capex of USD70/t. The capacity should get commissioned in phases over the next 18 months. A new clinker line of 3mt to support these Cement grinding units has already been commissioned. The company has also acquired Murlu Industries, which has Cement capacity of 3mt in Maharashtra and should be operational by Sep'21. It would give DBL an exposure to West India. We expect 15% volume CAGR in FY21-23E, led by market share gains in the region.
- Plan to double capacity provides long term volume growth visibility:** The management has announced plans to double capacity to 56mtpa in three years (i.e. by FY24). While plans are still being firmed up, we expect the next leg of capacity growth to happen mostly in South and North East, where the company has the potential for brownfield expansions. DBL also has available limestone leases in North and Central, which should be developed beyond FY24.
- High exposure to the East to keep margin in check:** Share of East India in volume mix is estimated to stay elevated ~50%. Given that eastern region will witness the highest capacity addition (30% over next two years) of all regions, this could keep margin in check. We estimate EBITDA/t to fall to INR1,154 in FY23E from INR1,309 in FY21E.
- Expect 22% EPS CAGR over FY21-23E:** We estimate 15% volume CAGR in FY21-23E, which should drive 22% EPS CAGR. Led by strong FCF, we expect net debt to decline further. Valuation is reasonable at 9.2x FY22E EV-to-EBITDA and EV-to-capacity of USD93/t. We rate the stock as a Buy with a TP of INR1,495, based on 9x Dec'22E EV-to-EBITDA (implied EV/t of USD100 on FY23E capacity).

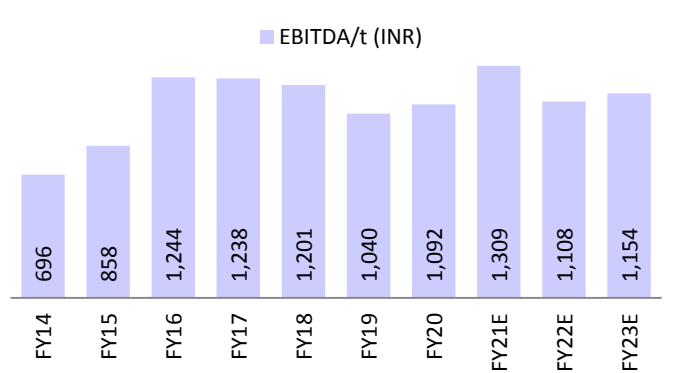
Story in charts

Exhibit 6: Expect ~15% volume CAGR over FY21-23E



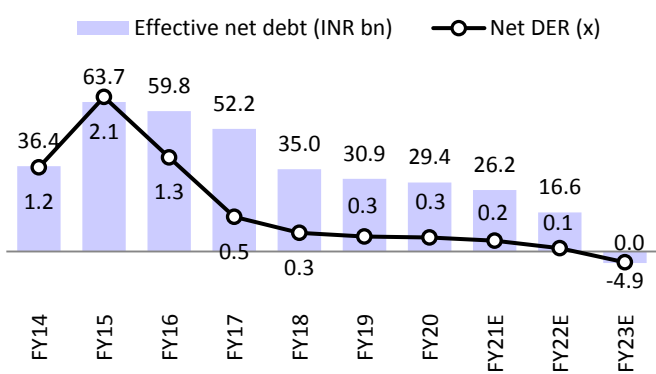
Source: MOFSL, Company

Exhibit 7: Expect EBITDA/t to moderate



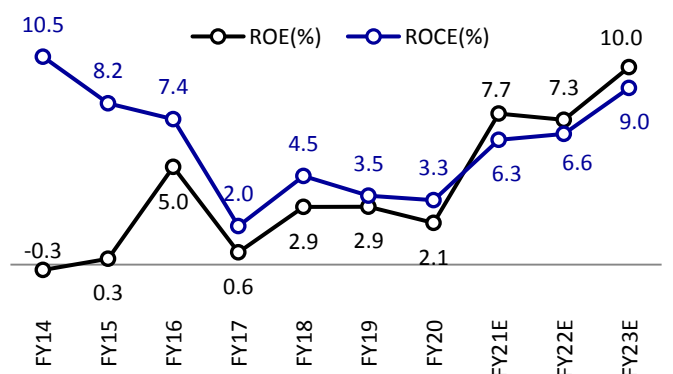
Source: MOFSL, Company

Exhibit 8: Net debt to reduce led by strong OCF



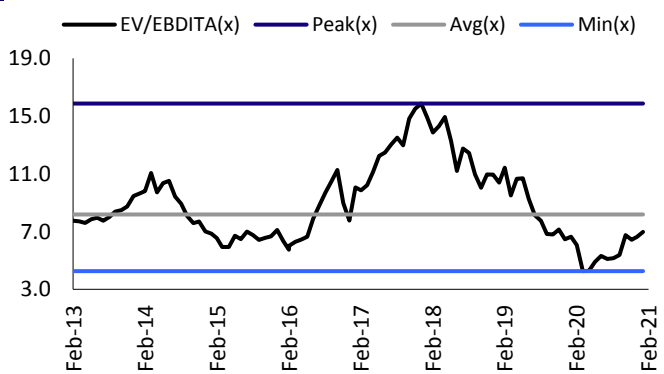
Source: MOFSL, Company

Exhibit 9: Expect return ratios to recover



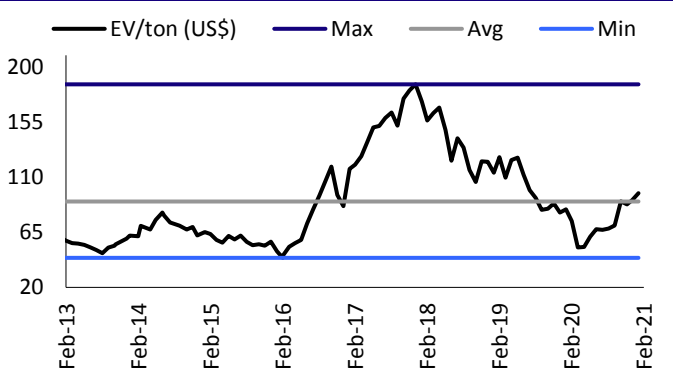
Source: MOFSL, Company

Exhibit 10: EV-to-EBITDA trend



Source: MOFSL, Company

Exhibit 11: EV/t trend



Source: MOFSL, Company

Financials and valuations

Income Statement								(INR m)
Y/E March	FY16	FY17	FY18	FY19	FY20	FY21E	FY22E	FY23E
Net Sales	64,113	74,470	85,800	94,840	96,740	104,362	119,860	137,066
Change (%)	82.4	16.2	15.2	10.5	2.0	7.9	14.9	14.4
EBITDA	15,916	18,940	20,360	19,420	21,060	27,318	27,185	32,041
Margin (%)	24.8	25.4	23.7	20.5	21.8	26.2	22.7	23.4
Depreciation	5,809	12,260	12,130	12,960	15,280	12,683	13,510	13,676
EBIT	10,107	6,680	8,230	6,460	5,780	14,635	13,675	18,364
Int. and Finance Charges	7,302	8,560	7,080	5,510	4,380	3,206	2,995	2,075
Other Income - Rec.	2,295	2,960	2,740	2,440	2,170	1,880	1,780	2,120
PBT bef. EO Exp.	5,100	1,080	3,890	3,390	3,570	13,310	12,460	18,409
EO Expense/(Income)	0	0	0	0	0	0	0	0
PBT after EO Exp.	5,100	1,080	3,890	3,390	3,570	13,310	12,460	18,409
Current Tax	1,323	740	1,080	1,120	1,140	5,058	4,112	6,075
Deferred Tax	1,132	0	-100	-1,220	50	0	0	0
Tax Rate (%)	25.9	68.5	27.8	33.0	31.9	38.0	33.0	33.0
Reported PAT	2,645	340	2,910	3,490	2,380	8,252	8,348	12,334
Minority and Associates	-745	100	10	-410	-140	0	0	0
PAT Adj. for EO items	1,900	440	2,920	3,080	2,240	8,252	8,348	12,334
Change (%)	1,972.1	-76.8	563.6	5.5	-27.3	268.4	1.2	47.7
Margin (%)	3.0	0.6	3.4	3.2	2.3	7.9	7.0	9.0

Balance Sheet								(INR m)
Y/E March	FY16	FY17	FY18	FY19	FY20	FY21E	FY22E	FY23E
Equity Share Capital	178	385	385	390	390	370	370	370
Total Reserves	45,715	95,905	102,965	106,000	105,220	109,527	117,088	128,522
Net Worth	45,893	96,290	103,350	106,390	105,610	109,897	117,458	128,892
Deferred capital investment subsidy	1,439	1,120	1,200	1,290	1,400	1,400	1,400	1,400
Deferred Liabilities	16,746	12,860	13,250	11,880	12,050	12,050	12,050	12,050
Minority Interest	5,259	-290	-300	110	250	250	250	250
Total Loans	87,672	80,390	72,660	58,780	60,440	47,440	37,440	22,440
Capital Employed	157,009	190,370	190,160	178,450	179,750	171,037	168,598	165,033
Gross Block	130,273	169,740	162,870	166,210	166,440	191,140	202,140	207,840
Less: Accum. Deprn.	6,104	14,580	22,500	30,470	40,890	51,073	62,583	74,759
Net Fixed Assets	124,169	155,160	140,370	135,740	125,550	140,067	139,557	133,081
Capital WIP	2,360	1,280	1,730	5,200	17,400	5,000	5,000	3,000
Current Investment	25,547	26,410	34,080	23,150	26,980	16,980	16,980	16,980
Non-current Investment	1,119	990	970	1,090	930	930	930	930
Curr. Assets, Loans and Adv.	26,502	27,920	35,510	39,300	34,530	35,641	37,807	47,265
Inventory	6,976	6,520	7,790	10,320	9,740	10,007	11,493	13,143
Account Receivables	5,100	5,300	5,640	5,490	3,970	4,289	4,926	5,633
Cash and Bank Balance	2,336	1,750	3,540	4,690	4,030	4,299	3,821	10,344
Loans and Advances	12,090	14,350	18,540	18,800	16,790	17,046	17,567	18,145
Curr. Liability and Prov.	22,687	21,390	22,500	26,030	25,640	27,581	31,677	36,224
Account Payables	18,745	19,140	20,970	23,430	23,600	25,380	29,149	33,333
Provisions	3,942	2,250	1,530	2,600	2,040	2,201	2,528	2,890
Net Current Assets	3,815	6,530	13,010	13,270	8,890	8,060	6,131	11,042
Appl. of Funds	157,009	190,370	190,160	178,450	179,750	171,037	168,598	165,033

E: MOFSL estimates

Financials and valuations

Ratios

Y/E March	FY16	FY17	FY18	FY19	FY20	FY21E	FY22E	FY23E
Basic (INR)*								
EPS	21.4	2.3	15.2	15.8	11.5	44.6	45.1	66.7
Cash EPS	86.8	66.0	78.1	82.3	89.8	113.2	118.1	140.6
BV/Share	516.8	500.6	536.2	545.6	541.6	594.0	634.9	696.7
DPS	3.4	2.2	1.7	2.0	2.0	3.0	3.5	4.0
Payout (%)	15.7	96.4	11.2	12.5	17.2	6.8	7.8	6.1
Valuation (x)*								
P/E				78.5	107.9	27.8	27.5	18.6
Cash P/E				15.1	13.8	11.0	10.5	8.8
P/BV				2.3	2.3	2.1	2.0	1.8
EV/Sales				2.8	2.6	2.5	2.1	1.7
EV/EBITDA				13.6	11.9	9.5	9.2	7.2
EV/t (USD)				133	126	113	93	80
Dividend Yield (%)				0.2	0.2	0.2	0.3	0.3
Return Ratios (%)								
ROIC	7.0	1.5	3.8	2.9	2.8	6.6	6.4	8.9
RoE	5.0	0.6	2.9	2.9	2.1	7.7	7.3	10.0
RoCE	7.4	2.0	4.5	3.5	3.3	6.3	6.6	9.0
Working Capital Ratios								
Asset Turnover (x)	0.4	0.4	0.5	0.5	0.5	0.6	0.7	0.8
Inventory (Days)	40	32	33	40	37	35	35	35
Debtor (Days)	29	26	24	21	15	15	15	15
Leverage Ratio (x)								
Current Ratio	1.2	1.3	1.6	1.5	1.3	1.3	1.2	1.3
Debt/Equity	1.9	0.8	0.7	0.6	0.6	0.4	0.3	0.2

Cash Flow Statement

Y/E March	FY16	FY17	FY18	FY19	FY20	FY21E	FY22E	FY23E
(INR m)								
OP/(Loss) before Tax	5,100	1,080	3,890	3,390	3,570	13,310	12,460	18,409
Depreciation	5,809	12,260	12,130	12,960	15,280	12,683	13,510	13,676
Interest and Finance Charges	7,302	8,560	7,080	5,510	3,640	3,206	2,995	2,075
Direct Taxes Paid	-304	-190	-860	-240	-660	-5,058	-4,112	-6,075
(Inc.)/Dec. in WC	3,054	-280	-3,590	1,500	2,740	1,103	1,462	1,623
CF from Operations	20,961	21,430	18,650	23,120	24,570	25,244	26,315	29,708
Others	-1,812	-2,680	-2,590	-2,220	-1,190	-1,880	-1,780	-2,120
CF from Operations incl. EO	19,149	18,750	16,060	20,900	23,380	23,364	24,535	27,588
(Inc.)/Dec. in FA	-4,141	-3,920	-3,930	-13,290	-13,450	-14,800	-13,000	-5,200
Free Cash Flow	15,008	14,830	12,130	7,610	9,930	8,564	11,535	22,388
(Pur.)/Sale of Investments	-13,567	1,680	3,950	10,320	-4,970	9,944	-114	-126
Others	616	394	1,350	2,870	820	1,880	1,780	2,120
CF from Investments	-17,093	-1,846	1,370	-100	-17,600	-2,976	-11,334	-3,206
Issue of Shares	11	-390	40	40	0	-3,290	0	0
Inc./(Dec.) in Debt	4,129	-9,000	-7,730	-13,870	120	-12,949	-9,896	-14,884
Interest Paid	-8,607	-8,100	-7,620	-5,420	-4,680	-3,206	-2,995	-2,075
Dividend Paid	-534	0	-330	-400	-930	-675	-787	-900
Others	0	0	0	0	-950	0	0	0
CF from Fin. Activity	-5,002	-17,490	-15,640	-19,650	-6,440	-20,119	-13,678	-17,859
Inc./Dec. of Cash	-2,945	-586	1,790	1,150	-660	269	-477	6,523
Opening Balance	5,281	2,336	1,750	3,540	4,690	4,030	4,299	3,821
Closing Balance	2,336	1,750	3,540	4,690	4,030	4,299	3,821	10,344

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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