

IRB Infrastructure

Estimate change 

TP change 

Rating change 

CMP: INR267

TP: INR270

Neutral

Execution set to accelerate

- IRB Infrastructure (IRB)'s revenue grew 18% YoY to INR19.3b in 1QFY23. It included INR4.2b of claims received from NHAJ towards its Pathankot Amritsar BOT project. Adjusted for this, revenue was lower by 7% YoY.
- EBITDA grew 52% YoY to INR10.6b. EBITDA was flat YoY when adjusted for the INR3.7b benefit towards claims received in Pathankot Amritsar BOT project. APAT surged to INR3.6b in 1QFY23. Adjusted for claims benefit totaling INR2.7b, APAT grew 30% YoY in 1QFY23.
- IRB is seeing strong opportunity in BOT/TOT projects and would also be open to bid for HAM projects. The company recently received financial closures for two BOT projects and has also tied up funding for the Ganga Expressway project. As these projects move into execution, the revenue would pick up in FY23/24E. Toll revenue is also likely to witness strong growth with improving traffic and tariff increase. We raise our revenue estimates by 4%/5% for FY23/24 with improved outlook. **We maintain our Neutral rating with an SoTP-based TP of INR270.**

| | IRB IN |
|-----------------------|-----------|
| Bloomberg | IRB IN |
| Equity Shares (m) | 604 |
| M.Cap.(INRb)/(USDb) | 161.3 / 2 |
| 52-Week Range (INR) | 347 / 148 |
| 1, 6, 12 Rel. Per (%) | 19/-/52 |
| 12M Avg Val (INR M) | 710 |

Financials & Valuations (INR b)

| Y/E Mar | 2022 | 2023E | 2024E |
|--------------|-------|-------|-------|
| Sales | 58.0 | 70.5 | 79.0 |
| EBITDA | 28.0 | 33.9 | 36.1 |
| PAT | 3.6 | 7.3 | 8.3 |
| EBITDA (%) | 48.2 | 48.1 | 45.7 |
| EPS (INR) | 6.0 | 12.1 | 13.7 |
| EPS Gr. (%) | 79.5 | 101.7 | 13.8 |
| BV/Sh. (INR) | 208.1 | 216.5 | 226.7 |

Ratios

| | | | |
|------------|-----|------|------|
| Net D/E | 1.2 | 0.8 | 0.7 |
| RoE (%) | 3.7 | 5.7 | 6.2 |
| RoCE (%) | 8.1 | 8.3 | 9.2 |
| Payout (%) | 0.0 | 29.9 | 26.3 |

Valuations

| | | | |
|---------------|------|------|------|
| P/E (x) | 44.6 | 22.1 | 19.4 |
| P/BV (x) | 1.3 | 1.2 | 1.2 |
| EV/EBITDA (x) | 11.1 | 8.0 | 7.1 |
| Div Yield (%) | 0.0 | 1.1 | 1.1 |

Shareholding pattern (%)

| As On | Jun-22 | Mar-22 | Jun-21 |
|----------|--------|--------|--------|
| Promoter | 34.2 | 34.0 | 58.5 |
| DII | 6.5 | 6.1 | 13.5 |
| FII | 48.7 | 48.8 | 14.4 |
| Others | 10.6 | 11.1 | 13.6 |

FII Includes depository receipts

Focus on asset recycling continues

- As indicated in the last quarter, the Board of IRB has approved the transfer of the Vadodara Kim HAM project in Gujarat to IRB InvIT Fund (Public InvIT) at an enterprise value of INR12.9b. Post-transfer of this project, debt to the extent of INR9.6b will reduce from IRB's consolidated debt level. It will receive INR3.4b, subject to necessary approvals. This transaction is in line with its strategy to offload completed assets.
- IRB would continue to evaluate such opportunities on an ongoing basis that would allow it to bid for more projects.

Key takeaways from the management commentary

- IRB's order book stood at ~INR157b at end-1QFY23, of which EPC was ~INR95b (~60% of the total order book). Out of the EPC order book, BOT stood at INR71b and HAM was at INR24b. The BOT order book included INR55b of Ganga Expressway project.
- While bidding, IRB would focus on BOT projects followed by TOT and then HAM projects in the order of priority.
- The management expects decent number of BOT projects to be awarded by NHAJ during FY23. Even HAM projects could see lower competition as NHAJ is looking to reduce their contribution from the current 40% levels.

Valuation and view

- IRB's order book is strong at INR157b (incl. O&M). The EPC OB/revenue ratio stands at 2x, providing revenue visibility. IRB achieved financial closure for the Meerut Budaun Expressway BOT project and the Chittoor Thachur HAM project in Tamil Nadu. Further, the company has tied up its funding for the Ganga Expressway project. As some of these large projects move into execution, we expect EPC growth to improve going ahead.
- We raise our estimates for FY23/24 to factor in improved outlook on execution and the claim received towards Pathankot Amritsar project. We maintain our Neutral rating with an SoTP-based TP of INR270.

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

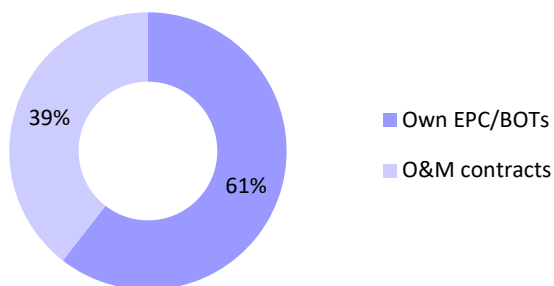
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Consolidated quarterly performance

| Y/E March | FY22 | | | | FY23 | | | | FY22 | FY23E | FY23 | Var % |
|-------------------------------|---------------|---------------|---------------|---------------|---------------|---------------|---------------|---------------|---------------|---------------|---------------|------------|
| | 1Q | 2Q | 3Q | 4Q | 1Q* | 2QE | 3QE | 4QE | | | | |
| Net Sales | 16,257 | 14,652 | 12,791 | 14,336 | 19,246 | 16,000 | 17,300 | 18,002 | 58,037 | 70,547 | 16,700 | 15 |
| YoY Change (%) | 59.0 | 30.4 | (17.3) | (10.7) | 18.4 | 9.2 | 35.2 | 25.6 | 9.5 | 21.6 | 2.7 | |
| EBITDA | 6,999 | 7,176 | 7,384 | 6,416 | 10,606 | 7,205 | 7,861 | 8,251 | 27,975 | 33,923 | 7,176 | 48 |
| Margins (%) | 43.1 | 49.0 | 57.7 | 44.8 | 55.1 | 45.0 | 45.4 | 45.8 | 48.2 | 48.1 | 43.0 | |
| Depreciation | 1,364 | 1,652 | 1,924 | 1,889 | 2,031 | 1,850 | 1,850 | 1,898 | 6,828 | 7,629 | 1,900 | |
| Interest | 4,675 | 4,770 | 5,471 | 3,990 | 3,850 | 4,300 | 4,300 | 4,342 | 18,906 | 16,792 | 4,200 | |
| Other Income | 448 | 392 | 2,187 | 2,491 | 708 | 575 | 575 | 574 | 5,517 | 2,432 | 575 | |
| PBT | 1,407 | 1,147 | 2,176 | 3,028 | 5,434 | 1,630 | 2,286 | 2,585 | 7,758 | 11,935 | 1,651 | 229 |
| Tax | 349 | 368 | 487 | 679 | 1,468 | 422 | 592 | 581 | 1,882 | 3,063 | 428 | |
| Rate (%) | 24.8 | 32.1 | 22.4 | 22.4 | 27.0 | 25.9 | 25.9 | 22.5 | 24.3 | 25.7 | 25.9 | |
| Share of profit in Associates | (340) | (356) | (962) | (604) | (334) | (400) | (400) | (450) | (2,262) | (1,584) | (400) | |
| Reported PAT | 719 | 423 | 727 | 1,745 | 3,632 | 808 | 1,294 | 1,554 | 3,614 | 7,288 | 823 | 341 |
| Adj PAT | 719 | 423 | 727 | 1,745 | 3,632 | 808 | 1,294 | 1,554 | 3,614 | 7,288 | 823 | 341 |
| YoY Change (%) | NA | NA | 4.6 | 79.0 | 405.1 | 90.9 | 78.0 | (10.9) | 208.5 | 101.7 | 14.5 | |
| Margins (%) | 4.4 | 2.9 | 5.7 | 12.2 | 18.9 | 5.0 | 7.5 | 8.6 | 6.2 | 10.3 | 4.9 | |

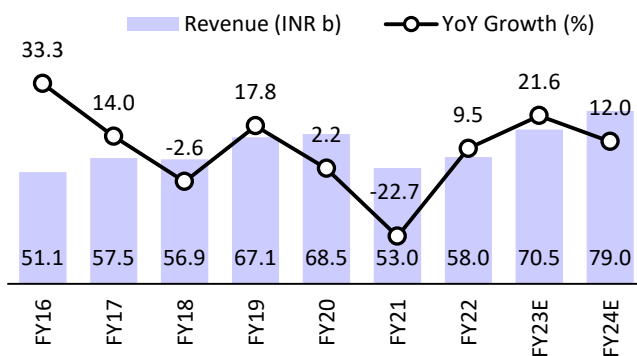
Note: *Financials for 1QFY23 include claims received from NHA1 towards its Pathankot Amritsar BOT project. Around INR4.2b/INR3.7b/INR2.7b is included in revenue/EBITDA/PAT towards this claim in 1QFY23.

Exhibit 1: Order book breakup (1QFY23: INR157b)



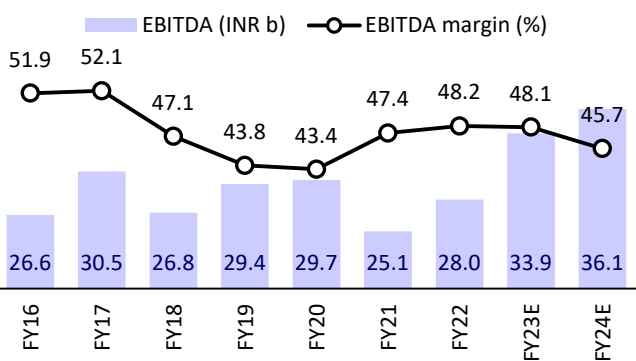
Source: MOFSL, Company

Exhibit 2: Revenue to report ~17% CAGR over FY22–24E



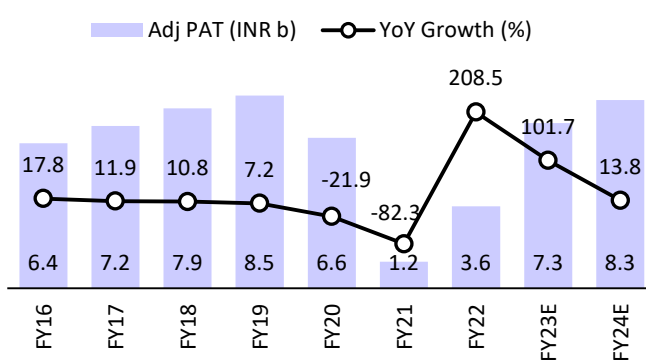
Source: MOFSL, Company

Exhibit 3: EBITDA and EBITDA margin trends



Source: MOFSL, Company

Exhibit 4: Adjusted PAT to breach pre-COVID levels by FY24E



Source: MOFSL, Company



Highlights from management commentary

Business update

- Mumbai-Pune project reported growth of 52% YoY driven by volume growth as there was no price hike. Ahmedabad-Baroda project toll collections grew 44% yoy which was combination of 33% volumes growth and 10% price hike.
- Board of directors have approved transfer of VK1 HAM project at an enterprise value of INR 12.97b to IRB Invit fund of which INR 9.55b will be utilized towards reduction of debt
- As per news articles, NHAI is expected to reduce concession for HAM projects from 40% to 20% thus increasing portion of equity infusion by developers. This would reduce the competition.
- In an inflationary environment where central banks across the globe are shifting to tightening of liquidity, IRB has managed to reduce its cost of borrowing ranging from 7.15% to 9.9%.

Order book

- The order book stood ~INR157b at the end of 1QFY23, of which EPC order book was ~INR95b comprising ~60% of the total order book. Out of the EPC order book, BOT stood at INR 71b and HAM stood at INR 24b. The BOT order book of 71b includes INR55b of Ganga expressway project.
- In 1QFY23, it received financial closure for the Meerut Budaun Expressway BOT project in Uttar Pradesh and the Chittoor Thachur HAM project in Tamil Nadu.
- When bidding, IRB would focus on BOT projects followed by TOT and then HAM projects.
- The Company expects decent number of BOT projects to be awarded by NHAI during FY23. Even HAM projects could see lower competition as NHAI is looking to reduce their contribution from current 40% levels.

Churning of assets

- The board approved the transfer of the Vadodara Kim HAM project in Gujarat to IRB InvIT Fund at an enterprise value of INR12.9b. Post transfer of this project, debt to the extent of INR9.6b will reduce from IRB's consolidated debt. It will receive INR3.4b, subject to necessary approvals.
- The Company is looking to transfer more assets to private/ public InvIT as they become eligible for transfer.

Execution

- IRB achieved financial closure for the Meerut Budaun Expressway BOT project and the Chittoor Thachur HAM project in Tamil Nadu. Also the Company has tied up its funding for Ganga Expressway project. As some of these large projects move into execution, we expect EPC growth to improve.
- Palsit-Dankuni project of West Bengal has received the appointed date from Apr'22 and the toll collection has also commenced. Implementation of the project would be through private trust.

Balance Sheet

- The Company continues to focus on Balance sheet and would be bidding jointly with GIC as far as the BOT/TOT projects are concerned.
- For HAM projects where equity investment is low would be bid by IRB alone.
- Asset recycling would continue in aggressively to ensure balance sheet is constantly under control and Company can bid for more projects going forward.

Guidance

- The construction revenue is expected at ~INR50b for FY23. Considering all 5 new projects starting in FY23, the margins are expected at 22-24% level. Lower margin guidance in the construction segment is due to the execution of HAM projects which have lower margins.
- Order book position is to be maintained at current levels going ahead.

Exhibit 5: Segmental performance snapshot

| (INR m) | 1QFY23 | 1QFY22 | YoY | 4QFY22 | QoQ |
|------------------------------|--------|--------|---------|--------|---------|
| Construction business | | | | | |
| Revenue | 14,123 | 12,517 | 12.8% | 9,476 | 49% |
| EBIDTA | 5,910 | 3,660 | 61% | 2,017 | 193% |
| EBITDA margin (%) | 41.8% | 29.2% | 1260 bp | 21.3% | 2000 bp |
| Adjusted PAT | 3,651 | 1,226 | 198% | 1,979 | 85% |
| BOT business | | | | | |
| Revenue | 5,122 | 3,741 | 36.9% | 4,861 | 5.4% |
| EBIDTA | 4,697 | 3,339 | 41% | 4,398 | 7% |
| EBITDA margin (%) | 91.7% | 89.3% | 240 bp | 90.5% | 120 bp |
| Adjusted PAT | -19 | -507 | NA | -234 | NA |

Source: MOFSL, Company

Valuation and view

- The order book is strong at INR157b (incl O&M). The EPC OB/revenue ratio stands at 2x, providing revenue visibility. IRB achieved financial closure for the Meerut Budaun Expressway BOT project and the Chittoor Thachur HAM project in Tamil Nadu. Also the Company has tied up its funding for Ganga Expressway project. As some of these large projects move into execution, we expect EPC growth to improve.
- We increase our estimates for FY23/24 to factor in improved outlook on execution and the claim received towards Pathankot Amritsar project. We maintain our Neutral rating with SoTP-based TP of INR270 per share.

Financials and valuations

| Consolidated Income Statement | | | | | | | (INR m) |
|-------------------------------------|---------------|---------------|---------------|---------------|---------------|---------------|---------------|
| Y/E March | FY18 | FY19 | FY20 | FY21 | FY22 | FY23E | FY24E |
| Total Income from Operations | 56,941 | 67,070 | 68,522 | 52,986 | 58,037 | 70,547 | 79,034 |
| Change (%) | -2.6 | 17.8 | 2.2 | -22.7 | 9.5 | 21.6 | 12.0 |
| EBITDA | 26,794 | 29,373 | 29,714 | 25,127 | 27,975 | 33,923 | 36,098 |
| Margin (%) | 47.1 | 43.8 | 43.4 | 47.4 | 48.2 | 48.1 | 45.7 |
| Depreciation | 5,440 | 5,395 | 4,683 | 5,817 | 6,828 | 7,629 | 9,180 |
| EBIT | 21,353 | 23,978 | 25,031 | 19,310 | 21,147 | 26,294 | 26,918 |
| Int. and Finance Charges | 9,667 | 11,201 | 15,644 | 16,924 | 18,906 | 16,792 | 17,104 |
| Other Income | 1,687 | 1,956 | 1,950 | 1,889 | 5,517 | 2,432 | 2,703 |
| PBT bef. EO Exp. | 13,373 | 14,733 | 11,337 | 4,274 | 7,758 | 11,935 | 12,517 |
| EO Items | 1,267 | 0 | 574 | 0 | 0 | 0 | 0 |
| PBT after EO Exp. | 14,640 | 14,733 | 11,911 | 4,274 | 7,758 | 11,935 | 12,517 |
| Total Tax | 5,444 | 6,234 | 4,544 | 1,445 | 1,882 | 3,063 | 3,113 |
| Tax Rate (%) | 37.2 | 42.3 | 38.1 | 33.8 | 24.3 | 25.7 | 24.9 |
| Minority Interest/Associate income | 0 | 0 | -158 | -1,658 | -2,262 | -1,584 | -1,108 |
| Reported PAT | 9,197 | 8,500 | 7,209 | 1,172 | 3,614 | 7,288 | 8,296 |
| Adjusted PAT | 7,930 | 8,500 | 6,635 | 1,172 | 3,614 | 7,288 | 8,296 |
| Change (%) | 11.0 | 7.2 | -21.9 | -82.3 | 208.5 | 101.7 | 13.8 |
| Margin (%) | 13.9 | 12.7 | 9.7 | 2.2 | 6.2 | 10.3 | 10.5 |

| Consolidated Balance Sheet | | | | | | | (INR m) |
|-------------------------------------|-----------------|-----------------|-----------------|----------------|----------------|-----------------|-----------------|
| Y/E March | FY18 | FY19 | FY20 | FY21 | FY22 | FY23E | FY24E |
| Equity Share Capital | 3,515 | 3,515 | 3,515 | 3,515 | 6,039 | 6,039 | 6,039 |
| Total Reserves | 53,411 | 59,637 | 63,314 | 65,493 | 119,617 | 1,24,724 | 1,30,839 |
| Net Worth | 56,925 | 63,151 | 66,829 | 69,008 | 125,656 | 1,30,763 | 1,36,878 |
| Minority Interest | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| Total Loans | 120,090 | 154,009 | 75,709 | 166,640 | 166,853 | 1,27,781 | 1,21,409 |
| Deferred Tax Liabilities | -3,205 | -1,351 | -570 | -687 | -435 | -435 | -435 |
| Capital Employed | 173,811 | 215,809 | 141,968 | 234,962 | 292,074 | 2,58,109 | 2,57,851 |
| Gross Block | 323,202 | 347,320 | 299,277 | 302,110 | 307,928 | 3,12,430 | 3,12,930 |
| Less: Accum. Deprn. | 12,494 | 17,889 | 22,572 | 28,389 | 35,217 | 43,278 | 52,458 |
| Net Fixed Assets | 310,709 | 329,432 | 276,705 | 273,721 | 272,711 | 2,69,153 | 2,60,472 |
| Capital WIP | 56,485 | 37,966 | 4,030 | 4,030 | 625 | 625 | 625 |
| Total Investments | 9,455 | 6,454 | 41,459 | 47,989 | 49,042 | 53,959 | 59,350 |
| Curr. Assets, Loans and Adv. | 24,036 | 29,436 | 76,091 | 85,285 | 101,999 | 91,102 | 1,06,060 |
| Inventory | 4,873 | 4,425 | 3,314 | 3,217 | 3,175 | 4,383 | 4,895 |
| Account Receivables | 1,326 | 1,135 | 4,408 | 5,879 | 15,934 | 7,684 | 8,582 |
| Cash and Bank Balance | 12,678 | 15,603 | 22,707 | 23,390 | 17,438 | 19,060 | 27,438 |
| Loans and Advances and CA | 5,159 | 8,273 | 45,663 | 52,799 | 65,451 | 59,975 | 65,144 |
| Curr. Liability and Prov. | 226,874 | 187,478 | 256,317 | 176,064 | 132,303 | 1,56,729 | 1,68,657 |
| Other Current Liabilities | 226,127 | 186,611 | 255,800 | 175,562 | 131,707 | 1,56,133 | 1,68,060 |
| Provisions | 747 | 867 | 517 | 502 | 596 | 596 | 596 |
| Net Current Assets | -202,837 | -158,042 | -180,226 | -90,780 | -30,305 | -65,627 | -62,597 |
| Appl. of Funds | 173,811 | 215,809 | 141,968 | 234,961 | 292,074 | 2,58,109 | 2,57,851 |

Financials and valuations

Ratios

| Y/E March | FY18 | FY19 | FY20 | FY21 | FY22 | FY23E | FY24E |
|---------------------------|-------|-------|-------|--------|-------|-------|-------|
| Basic (INR) | | | | | | | |
| EPS | 22.6 | 24.2 | 18.9 | 3.3 | 6.0 | 12.1 | 13.7 |
| Cash EPS | 38.0 | 39.5 | 32.2 | 19.9 | 17.3 | 24.7 | 28.9 |
| BV/Share | 162.0 | 179.7 | 190.2 | 196.4 | 208.1 | 216.5 | 226.7 |
| DPS | 5.0 | 2.5 | 5.0 | 0.0 | 0.0 | 3.0 | 3.0 |
| Payout (%) | 23.0 | 12.4 | 29.3 | 0.0 | 0.0 | 29.9 | 26.3 |
| Valuation (x) | | | | | | | |
| P/E | 11.8 | 11.0 | 14.1 | 80.1 | 44.6 | 22.1 | 19.4 |
| Cash P/E | 7.0 | 6.8 | 8.3 | 13.4 | 15.4 | 10.8 | 9.2 |
| P/BV | 1.6 | 1.5 | 1.4 | 1.4 | 1.3 | 1.2 | 1.2 |
| EV/Sales | 3.5 | 3.5 | 2.1 | 4.5 | 5.4 | 3.8 | 3.2 |
| EV/EBITDA | 7.5 | 7.9 | 4.9 | 9.4 | 11.1 | 8.0 | 7.1 |
| Dividend Yield (%) | 1.9 | 0.9 | 1.9 | 0.0 | 0.0 | 1.1 | 1.1 |
| FCF per share | 90.1 | -69.2 | 389.8 | -193.2 | -70.8 | 105.5 | 62.6 |
| Return Ratios (%) | | | | | | | |
| RoE | 14.3 | 14.2 | 10.2 | 1.7 | 3.7 | 5.7 | 6.2 |
| RoCE | 9.3 | 10.5 | 12.0 | 9.0 | 8.1 | 8.3 | 9.2 |
| RoIC | 11.9 | 11.0 | 13.5 | 11.0 | 8.3 | 9.5 | 11.4 |
| Leverage Ratio (x) | | | | | | | |
| Interest Coverage Ratio | 2.2 | 2.1 | 1.6 | 1.1 | 1.1 | 1.6 | 1.6 |
| Net Debt/Equity | 1.9 | 2.2 | 0.8 | 2.1 | 1.2 | 0.8 | 0.7 |

Consolidated Cash Flow Statement

(INR m)

| Y/E March | FY18 | FY19 | FY20 | FY21 | FY22 | FY23E | FY24E |
|------------------------------------|----------------|----------------|----------------|----------------|----------------|----------------|----------------|
| OP/(Loss) before Tax | 13,373 | 14,733 | 11,337 | 4,274 | 7,758 | 11,935 | 12,517 |
| Depreciation | 5,440 | 5,395 | 4,683 | 5,817 | 6,828 | 7,629 | 9,180 |
| Interest and Finance Charges | 9,667 | 11,201 | 15,644 | 16,924 | 18,906 | 16,792 | 17,104 |
| Direct Taxes Paid | -5,712 | -6,234 | -4,544 | -1,445 | -1,882 | -3,063 | -3,113 |
| (Inc.)/Dec. in WC | 70,768 | -42,433 | 30,008 | -90,384 | -73,592 | 36,301 | 9,633 |
| CF from Operations | 93,536 | -17,338 | 57,128 | -64,813 | -41,982 | 69,594 | 45,321 |
| Others | -420 | -1,956 | -1,376 | -1,889 | -5,517 | -2,432 | -2,703 |
| CF from Operations incl. EO | 93,116 | -19,294 | 55,752 | -66,702 | -47,500 | 67,161 | 42,619 |
| (Inc.)/Dec. in FA | -61,449 | -5,038 | 81,260 | -1,213 | 4,754 | -3,427 | -4,786 |
| Free Cash Flow | 31,667 | -24,331 | 137,012 | -67,915 | -42,746 | 63,734 | 37,833 |
| (Pur.)/Sale of Investments | -7,996 | 3,001 | -35,005 | -8,189 | -3,315 | -6,500 | -6,500 |
| Others | 1,687 | 1,956 | 1,950 | 1,889 | 5,517 | 2,432 | 2,703 |
| CF from Investments | -67,758 | -80 | 48,204 | -7,513 | 6,956 | -7,495 | -8,583 |
| Issue of Shares | 0 | 0 | 0 | 0 | 53,466 | 0 | 0 |
| Inc./(Dec.) in Debt | -12,021 | 33,918 | -78,300 | 90,932 | 212 | -39,071 | -6,373 |
| Interest Paid | -9,667 | -11,201 | -15,644 | -16,924 | -18,906 | -16,792 | -17,104 |
| Dividend Paid | -2,116 | -1,058 | -2,116 | 0 | 0 | -2,181 | -2,181 |
| Others | -1,953 | 639 | -793 | 890 | -180 | 0 | 0 |
| CF from Fin. Activity | -25,757 | 22,299 | -96,852 | 74,897 | 34,592 | -58,044 | -25,657 |
| Inc./Dec. in Cash | -398 | 2,925 | 7,104 | 683 | -5,951 | 1,622 | 8,378 |
| Opening Balance | 13,077 | 12,678 | 15,603 | 22,707 | 23,390 | 17,438 | 19,060 |
| Closing Balance | 12,678 | 15,603 | 22,707 | 23,390 | 17,438 | 19,060 | 27,438 |

| 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 |

*In case the recommendation given by the Research Analyst is inconsistent with the investment rating legend for a continuous period of 30 days, the Research Analyst shall within following 30 days take appropriate measures to make the recommendation consistent with the investment rating legend.

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