

Crompton Greaves Consumer (CROGR)

CMP: ₹ 367

Target: ₹ 415 (13%)

Target Period: 12 months

HOLD

October 28, 2022

Lighting, fans segment impacts revenue growth...

About the stock: Crompton Greaves Consumer (CGCEL) is among India's leading fast moving electrical goods (FMEG) companies, present in electrical consumer durables (~63% of revenue) and lighting businesses (~16% of revenue). CGCEL acquired Butterfly Gandhimathi Appliances, which contributes ~21% to revenue.

- Market leader in the domestic fan industry with value market share of 29%. The company has enhanced focus on increasing market share in home appliances categories like (air coolers, water heater and kitchen appliances)
- Robust balance sheet with RoE & RoCE of ~30% each (three-year average), respectively, with stringent working capital policy

Q2FY23 Results: Revenue growth impacted by decline in core business (ECD & lighting)

- Consolidated revenues are up ~22.7% YoY to ₹ 1699.6 crore led by consolidation of Butterfly revenues. However, ECD and lightings revenue declined ~3% and ~7%, respectively
- EBITDA margin declined 409 bps YoY to 11.4% due to higher operating costs. Gross margin remained flat YoY due to a reduction in raw material prices and improved sales mix
- PAT declined ~21% YoY to ₹ 125.9 crore as a result of lower EBITDA

What should investors do? CGCEL's share price has given return of ~68% in the past five years (from ~₹ 219 in October 2017 to ~₹ 367 levels in October 2022).

- We maintain our **HOLD** rating on the stock

Target Price & Valuation: We value CGCEL at ₹ 415 i.e. 37x P/E FY24E EPS.

Key triggers for future price performance:

- Total ~1.7 crore new houses under PMAY, urbanisation and rising aspiration are demand boosters of home appliances
- Expanding Butterfly products pan India leveraging existing dealer networks
- Plans additional revenues by entering into new category 'Built-in kitchen' segment. Built-in kitchen industry is pegged at ₹ 2200 crore; growing at 10%. Company aims 10% market share in next three years

Alternate Stock Idea: We like Polycab India in our coverage. Polycab is market leader in the wire & cable business with organised market share of 22-24%. In FMEG segment, it is growing through new product launches and dealer addition across India. Robust b/s with three-year average RoE, RoCE of 18%, 22%, respectively.

- BUY with a target price of ₹ 3300



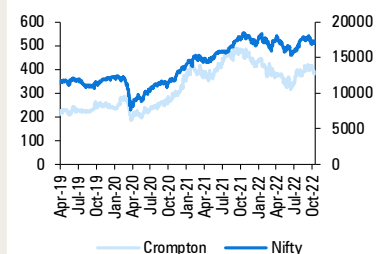
Particulars

Particular	Amount
Market Capitalization (₹ Crore)	23003.56
Total Debt (FY22) (₹ Crore)	1607.51
Cash & Invest. (FY22) (₹ Crore)	1539.02
EV (₹ Crore)	23072.05
52 week H/L	493/ 312
Equity capital (₹ Crore)	126.68
Face value (₹)	2.00

Shareholding pattern

(in %)	Sep-21	Dec-21	Mar-22	Jun-22	Sep-22
Promoter	6.0	6.0	5.9	5.9	2.5
FII	41.5	40.2	38.0	37.3	39.7
DII	42.3	43.2	44.4	45.0	45.2
Others	10.2	10.7	11.7	11.8	12.6

Price Chart



Recent event & key risks

- Key Risk:** (i) Rising competition in core business segment (ii) Better than expected EBITDA margin

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Key Financial Summary

(₹ crore)	FY17	FY18	FY19	FY20	FY21	FY22	5 Year CAGR (FY17-22)	FY23E	FY24E	2 Year CAGR (22-24E)
Net Sales	3975.9	4079.7	4478.9	4520.3	4803.5	5394.1	6%	7269.0	8232.4	23.5
EBITDA	490.2	531.0	584.3	599.1	720.5	769.4	9%	919.4	1092.0	19.1
EBITDA Margin (%)	12.3	13.0	13.0	13.3	15.0	14.3		12.6	13.3	
Net Profit	290.7	323.8	401.4	496.4	616.7	578.4	15%	558.7	696.6	9.7
EPS (₹)	4.6	5.2	6.4	7.9	9.8	9.2		8.9	11.1	
P/E (x)	79.1	71.0	57.3	46.3	37.3	39.8		41.2	33.0	
RoE (%)	54.2	41.0	36.6	33.8	31.9	24.0		21.7	23.4	
RoCE (%)	41.9	38.2	42.8	38.3	34.4	16.2		16.6	20.5	

Key takeaways of recent quarter & conference call highlights

Q2FY23 Results: Core business constricts revenue growth, EBITDA margin under pressure

- CGCEL's reported consolidated revenue at ~₹ 1699.6 crore, up by 22.7% led by consolidation of Butterfly business. However, core segment (ECD and lightings) revenues were down by 4% owing to higher base and sharp fall in the sales of conventional lightings products.
- Segment wise, ECD segment revenues declined 3% YoY to ₹ 1062.3 crore, dragged by decline in fan revenues by 7%. The lower fan revenue is attributable to de-stocking of channel inventory amid transition into new BEE norms. Lighting segment revenues declined ~7% YoY to ₹ 269.6 crore as a result of steep fall in demand of conventional lightings (declined by 35%)
- On a three year CAGR basis, CGCEL's core business revenues (i.e. ECD & lighting) grew at a CAGR of 7%
- EBITDA margin at 11.4% was impacted by higher operating costs. Gross margin remained flat YoY at ~32% as a result of reduction in raw material prices as well as improved sales mix
- Interest outgo increased by ~3.7x YoY to ~₹ 29.9 crore, owing to higher debt. Higher interest cost as well as lower EBITDA resulted in a decline in PAT by 20.7% YoY to ₹ 125.9 crore

Q2FY23 Earnings Conference Call highlights

- **Market Share Gains:** CGCEL's market share in premium fans and water heaters improved on a QoQ basis
- **Demand Outlook:** Demand is likely to be subdued in the near term in the lighting and fan business due to inflation as well as change in BEE norms. The company's pumps business continues to face challenges due to inflation in commodity prices and has seen flattish revenue growth. Alternate channel contribution to company's sales has increased from 12% to 15% and is continuing to see a rise
- **Margins:** Gross margin was under pressure in Q2FY23 due to consumption of high cost inventory. EBITDA margin was also impacted by lower gross margin as well as increase in other expenses. The company will be taking average price hikes of ~9% on average in the ECD segment after transition to BEE norms
- **Butterfly business:** According to the management, the company is focusing on driving sales through retail channel as compared to e-commerce sales where Butterfly is already at the second position. E-commerce – 80%. The management expects margins in the Butterfly business to improve from Q3FY23
- **Built-in kitchen appliances segment:** CGCEL opened 20+ signature studios across metro cities in Q2FY23 and plans to open more studios in the coming quarters. The company is focusing on building consumer awareness in this segment by investing in it

Exhibit 1: Peer comparison

Company	Mcap ₹ cr	Revenue				EBITDA margin				PAT				RoCE				RoE				PE			
		FY21	FY22	FY23E	FY24E	FY21	FY22	FY23E	FY24E	FY21	FY22	FY23E	FY24E	FY21	FY22	FY23E	FY24E	FY21	FY22	FY23E	FY24E	FY21	FY22	FY23E	FY24E
Havells	74,279	10428	13889	16233	18585	15	13	10	13	1040	1195	1105	1694	25	24	23	34	20	20	19	29	71	62	67	44
Crompton Greaves	23,004	4804	5394	7269	8232	15	14	13	13	617	578	559	697	34	16	17	20	32	24	22	23	37	40	41	33
Bajaj Electrical	13,265	4585	4813	5537	6269	7	5	7	8	189	124	242	364	15	14	20	24	11	8	14	18	70	107	55	36
Polycab	41,680	8792	12204	14054	15759	13	10	12	12	886	917	1141	1298	21	20	25	24	18	16	18	18	47	45	37	32
Symphony	5,904	900	1039	1283	1559	15	15	18	20	107	121	183	243	15	16	24	29	15	14	24	27	55	49	32	24
V guard	10,961	2721	3498	4012	4379	11	10	9	10	202	228	233	292	24	21	24	27	17	16	18	20	54	48	47	38
Voltas	28,840	7556	7934	9816	11403	8	9	8	10	529	506	623	829	15	14	18	20	11	9	13	15	55	57	46	35

Source: BSE, ICICI Direct Research

We believe CGCEL's Q2FY23 performance of core business (i.e. ECD and lightings) was weak both on revenue and EBITDA margin fronts. On a three year CAGR basis, CGCEL's revenue growth (of core business) at 7% remained lower due to poor performance of its lighting division (which recovered 93% to its pre-Covid level) and de-stocking of fans amid transition to new BEE norms. The management expects strong festive demand, channel inventory build-up of fans before the start of summer and launch of new products in the lighting segment to drive revenue from H2FY23 onwards. We model core business revenue CAGR of ~13% supported by strong real estate demand and launch of new products across the segments. Further, Butterfly's integration is in progress and management is focusing on improving channel mix (in favour of retail over online), strengthening backward integration (towards procurements) and launch of new products for the same. This is expected to drive its segment revenues at a CAGR of 17% over FY22-24E. Going forward, we model CGCEL's consolidated revenue growth of 23% over FY22-24E driven by consolidation of Butterfly. On the margin front, we build in margin recovery from FY24E onwards supported by ease in raw material prices and improved operating leverage of Butterfly. We believe debt raised for the acquisition will result in higher interest outgo. Therefore, we build in lower PAT CAGR of 10% over FY22-24E. We maintain our HOLD rating on the stock with a target price ₹ 415/share and value the company at 37x FY24E EPS (~35% discount to Havells).

Exhibit 2: Variance Analysis

	Q2FY23	Q2FY23E	Q2FY22	YoY (%)	Q1FY23	QoQ (%)	Comments
Revenue	1,699.6	1,820.5	1,385.1	22.7	1,862.9	-8.8	Revenue growth was largely driven by consolidation of Butterfly. However core business (i.e. ECD and lightings) declined by ~4% owing to higher base and sharp fall in the conventional lightings
Other Income	18.3	10.2	16.9	8.5	10.4	75.8	
Raw Material Exp	1,153.4	1,241.4	941.6	22.5	1,278.0	-9.8	Gross margin remain flat on a YoY basis supported by decline in raw material prices and improved sales mix
Employee Exp	133.2	144.7	96.2	38.4	143.4	-7.2	
Advertisement Exp*	45.1	52.7	7.0	543.8	45.1	0.0	Advertisement expenditure is reaching back to its normalised level
Other expenditure	174.8	166.8	126.2	38.5	176.5	-1.0	
EBITDA	193.2	214.8	214.1	-9.8	219.9	-12.1	
EBITDA Margin (%)	11.4	11.8	15.5	-409 bps	11.8	-44 bps	Higher operating costs and consolidation of low margin business dragged overall EBITDA margin
Depreciation	28.3	29.9	10.1	181.1	27.6	2.6	
Interest	29.9	27.3	8.0	272.4	22.5	32.7	High debt level led to sharp increase in interest costs
Excp item							
PBT	153.4	167.8	212.9	-28.0	173.9	-11.8	
Tax	22.6	42.1	54.1	-58.3	47.9	-52.9	
Minority Interest	4.9	4.5	0.0		4.9		
PAT	125.9	120.7	158.8	-20.7	121.0	4.0	Sharp fall in the EBITDA margin and higher interest costs dragged overall bottomline
Key Metrics							
ECD	1,062.3	1,181.7	1,096.4	-3.1	1,347.2	-21.1	Unfavourable base and 7% YoY fall in fan revenues dragged overall segment revenue
Lighting & Products	269.6	312.9	288.7	-6.6	262.3	2.8	Sharp fall in the conventional lightings (declined by 35% YoY) dragged overall lighting segment revenues
Butterfly	367.7	325.9	NA		NA		Butterfly revenues came in better than expectations supported by new product launches and expansion of dealer networks

Source: Company, ICICI Direct Research *I-Direct Estimate

Exhibit 3: Change in estimates

(₹ Crore)	FY23E			FY24E			Comments
	Old	New	% Chg	Old	New	% Chg	
Revenue	7227.1	7269.0	0.6	8185.5	8232.4	0.6	We have largely maintained our revenue estimate for FY23E considering demand pick up from H2FY23 onwards.
EBITDA	909.3	919.4	1.1	1086.3	1092.0	0.5	
EBITDA Margin %	12.6	12.6	5bps	13.3	13.3	-4bps	We have largely maintained our margin estimate for FY23E-24E, however lower than its pre-covid level margin considering higher advertisement expenses
PAT	524.5	558.7	6.5	658.2	696.6	5.8	Lower tax provision led to revision in bottomline
EPS (₹)	8.4	8.9	6.5	10.5	11.1	5.8	

Source: ICICI Direct Research

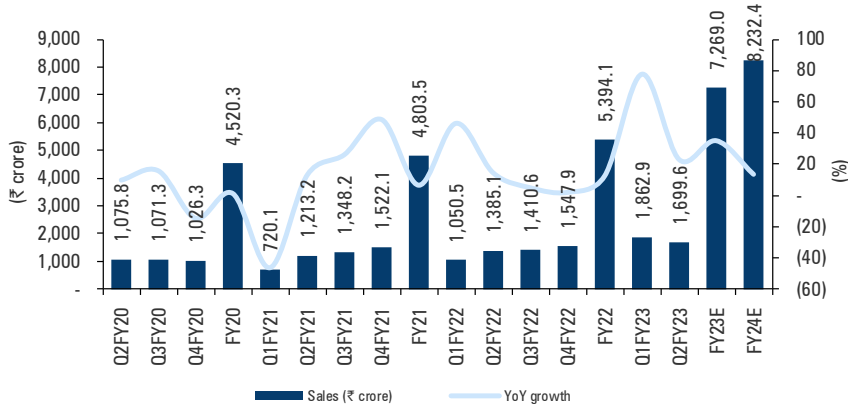
Exhibit 4: Assumptions

(%)	Current				Earlier			Comments
	FY20	FY21E	FY22E	FY23E	FY24E	FY23E	FY24E	
ECD	5.5	10.9	14.7	13.3	12.4	13.3	12.4	We believe rising proportion of premium fans in the topline and new product launches in the appliances business will help drive sales of ECD segment going forward. We build in ECD segment revenue CAGR of 13% in FY22-24E
Butterfly				15.5	18.0	11.4	18.3	We model segment revenue CAGR of 17% considering new product launches and expansion in new geography
Lighting & Products	-10.6	-7.50	3.5	12.9	12.0	12.9	12.0	Favourable base and focus on LED panel segment will help drive segment revenue

Source: ICICI Direct Research

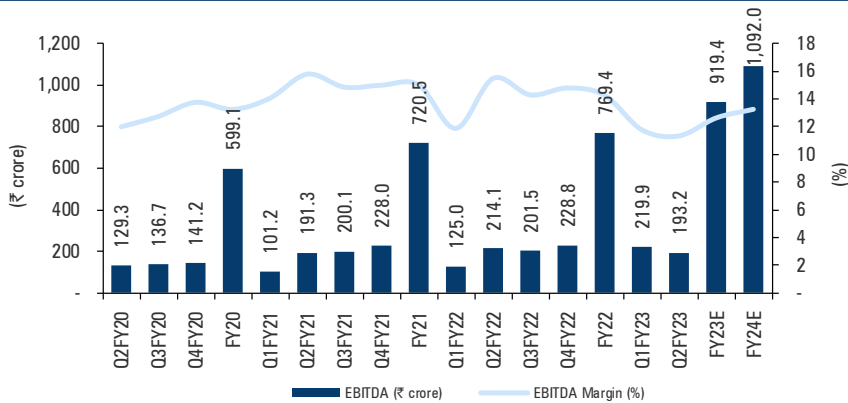
Financial story in charts

Exhibit 5: Revenue growth trend



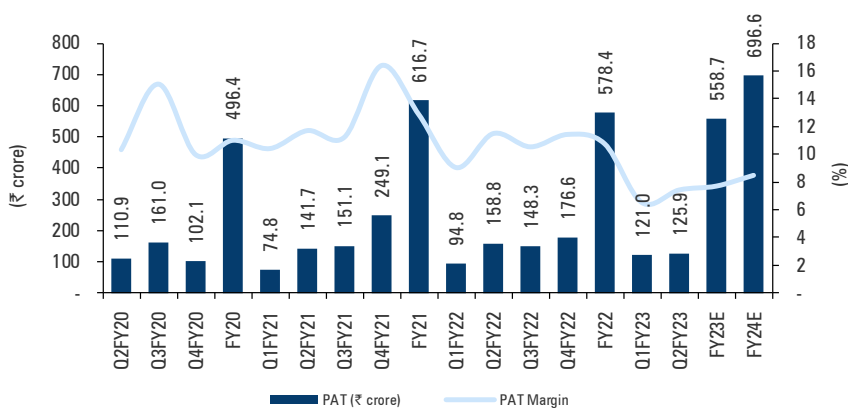
Source: Company, ICICI Direct Research

Exhibit 6: EBITDA margin movement



Source: Company, ICICI Direct Research

Exhibit 7: PAT growth trend



Source: Company, ICICI Direct Research

Financial Summary

Exhibit 8: Profit and loss statement				
₹ crore				
(Year-end March)	FY21	FY22	FY23E	FY24E
Revenue	4,803.5	5,394.1	7,269.0	8,232.4
Growth (%)	6.3	12.3	34.8	13.3
Expenses				
Raw material exp	3,267.2	3,701.8	4,926.3	5,529.5
Employee exp	336.6	362.4	538.6	603.7
Other exp	397.1	463.4	670.3	705.5
Total Operating exp	4,083.0	4,624.7	6,349.5	7,140.4
EBITDA	720.5	769.4	919.4	1,092.0
Growth (%)	20.3	6.8	19.5	18.8
Depreciation	29.7	42.3	111.2	117.7
Interest	42.9	35.3	109.5	94.7
Other Income	75.8	72.7	68.6	88.6
PBT	723.6	751.5	760.9	968.2
Total Tax	107.0	173.2	179.6	243.2
Minority Interest	0.0	0.0	22.6	28.4
PAT	616.7	578.4	558.7	696.6

Source: Company, ICICI Direct Research

Exhibit 9: Cash flow statement				
₹ crore				
(Year-end March)	FY21	FY22	FY23E	FY24E
Profit after Tax	616.7	578.4	558.7	696.6
Add: Depreciation	29.7	42.3	111.2	117.7
(Inc)/dec in Current Assets	-77.6	-308.0	-1027.2	-207.5
Inc/(dec) in CL and Provisions	283.3	135.0	264.5	111.6
Others	42.9	35.3	109.5	94.7
CF from operating activities	895.0	483.0	16.7	813.0
(Inc)/dec in Investments	-228.9	145.9	623.8	0.0
(Inc)/dec in Fixed Assets	-26.6	-1,896.9	-100.0	-80.0
Others	-6.2	362.6	-656.8	-1.7
CF from investing activities	-261.8	-1,388.4	-133.0	-81.7
Issue/(Buy back) of Equity	0.0	1.2	0.0	0.0
Inc/(dec) in loan funds	119.1	1,308.7	200.0	-460.0
Dividend paid & dividend tax	-344.7	-156.7	-125.4	-313.4
Others	148.2	63.4	-398.3	-94.7
CF from financing activities	-77.5	1,216.6	-323.6	-868.1
Net Cash flow	555.8	311.3	-439.9	-136.7
Opening Cash	48.1	603.9	915.2	475.2
Closing Cash	603.9	915.2	475.2	338.5

Source: Company, ICICI Direct Research

Exhibit 10: Balance Sheet				
₹ crore				
(Year-end March)	FY21	FY22	FY23E	FY24E
Liabilities				
Equity Capital	125.5	126.7	126.7	126.7
Reserve and Surplus	1,805.9	2,326.3	2,470.8	2,854.0
Total Shareholders funds	1,931.4	2,453.0	2,597.5	2,980.7
Total Debt	298.8	1,607.5	1,807.5	1,347.5
Total Liabilities	2,230.1	4,926.5	5,271.0	5,194.2
Assets				
Gross Block	226.8	2,121.5	2,221.5	2,301.5
Less: Acc Depreciation	91.3	133.5	244.7	362.5
Total Fixed Assets	146.4	2,001.0	1,989.8	1,952.1
Goodwill	779.4	1,285.5	1,285.5	1,285.5
Other investmens	0.0	0.3	660.0	660.0
Liquid Investments	769.7	623.8	0.0	0.0
Inventory	518.6	721.0	1,095.3	1,172.8
Debtors	491.2	615.4	1,055.5	1,127.7
Other CA	243.3	223.3	436.1	493.9
Cash	603.9	915.2	475.2	338.5
Total Current Assets	1,857.0	2,476.2	3,063.4	3,134.3
Creditors	864.7	1,017.8	1,334.3	1,420.9
Provisions	226.2	291.8	306.9	312.6
Other CL	296.2	212.5	145.4	164.6
Total Current Liabilities	1,387.1	1,522.1	1,786.6	1,898.2
Net current assets	469.9	954.1	1,276.9	1,236.1
Other non current assets	64.7	62.1	718.9	720.6
Total Assets	2,230.1	4,926.5	5,271.0	5,194.2

Source: Company, ICICI Direct Research

Exhibit 11: Key ratios				
(Year-end March)	FY21	FY22	FY23E	FY24E
Per share data (₹)				
EPS	9.8	9.2	8.9	11.1
Cash EPS	10.3	9.9	10.7	13.0
BV	30.8	39.1	41.4	47.6
DPS	5.5	2.5	2.0	5.0
Operating Ratios (%)				
EBITDA Margin	15.0	14.3	12.6	13.3
PAT Margin	12.8	10.9	7.8	8.5
Asset Turnover	21.2	2.5	3.3	3.6
Inventory Days	39.4	48.8	55.0	52.0
Debtor Days	37.3	41.6	53.0	50.0
Creditor Days	65.7	68.9	67.0	63.0
Return Ratios (%)				
RoE	31.9	24.0	21.7	23.4
RoCE	34.4	16.2	16.6	20.5
RoIC	232.0	32.5	22.6	26.6
Valuation Ratios (x)				
P/E	37.3	39.8	41.2	33.0
EV / EBITDA	30.4	30.0	26.5	22.0
EV / Net Sales	4.6	4.3	3.3	2.9
Market Cap / Sales	4.8	4.3	3.2	2.8
Price to Book Value	11.9	9.4	8.9	7.7
Solvency Ratios				
Debt / Equity	0.2	0.7	0.7	0.5
Current Ratio	1.1	1.2	1.6	1.6
Quick Ratio	0.7	0.6	0.9	0.9

Source: Company, ICICI Direct Research

Exhibit 12: ICICI Direct Consumer Discretionary universe

Sector / Company	CMP (₹)	TP(₹)	Rating	M Cap		EPS (₹)				P/E (x)				EV/EBITDA (x)				RoCE (%)				RoE (%)			
				(₹ Cr)	FY21	FY22	FY23E	FY24E	FY21	FY22	FY23E	FY24E	FY21	FY22	FY23E	FY24E	FY21	FY22	FY23E	FY24E	FY21	FY22	FY23E	FY24E	
Asian Paints (ASIPAI)	3,045	3,685	Buy	2,92,016	33.4	32.2	40.8	54.2	91.1	94.7	74.6	56.2	59.2	60.2	49.6	38.2	29.6	27.1	32.5	38.7	25.0	23.0	27.3	32.1	
Berger Paints (BERPAI)	574	740	Hold	55,753	7.4	8.6	9.9	12.3	77.5	66.9	57.9	46.7	46.7	42.1	36.9	30.4	24.9	23.3	27.6	31.0	21.3	21.2	25.2	27.7	
Kansai Nerolac (KANNER)	477	560	Hold	25,706	9.8	6.9	11.6	13.4	48.5	68.7	41.2	35.6	30.5	39.6	25.7	22.0	17.2	12.1	19.5	21.1	13.2	9.2	14.7	15.6	
Pidilite Industries (PIDIND)	2,566	3,010	Hold	1,30,301	22.2	23.8	27.8	39.9	115.7	108.0	92.2	64.3	77.3	70.4	61.6	43.9	23.8	22.2	23.9	30.0	20.2	18.8	20.2	25.0	
Sheela Foam (SHEFOA)	2,726	3,650	BUY	13,297	48.7	44.5	51.8	65.9	55.9	61.2	52.7	41.3	36.8	42.9	36.6	29.0	24.3	18.0	19.6	22.6	20.1	15.6	16.4	18.8	
Bajaj Electricals (BAJELE)	1,155	1,340	BUY	13,265	16.5	10.8	21.0	31.7	70.0	106.6	54.9	36.5	44.5	52.6	36.3	25.3	15.1	13.5	19.6	24.2	10.7	7.8	14.4	18.3	
Crompton Greaves(CROGR)	367	415	Hold	23,004	9.8	9.2	8.9	11.1	37.3	39.8	41.2	33.0	30.4	30.0	26.5	22.0	34.4	16.2	16.6	20.5	31.9	24.0	21.7	23.4	
Havells India (HAVIND)	1,186	1,565	Buy	74,279	16.7	19.1	17.6	27.1	71.2	62.2	67.2	43.8	46.7	41.0	44.8	30.5	24.9	23.7	23.0	33.8	20.1	20.0	19.4	28.7	
Polycab India (POLI)	2,789	3,300	Buy	41,680	59.3	61.4	76.3	86.8	47.0	45.4	36.5	32.1	36.7	32.1	23.4	20.7	20.6	20.2	24.7	23.8	17.9	15.6	18.4	18.0	
Symphony (SYMLIM)	844	1,215	Hold	5,904	15.3	17.3	26.1	34.8	55.2	48.8	32.3	24.3	41.2	35.6	24.8	18.7	15.2	15.9	24.5	29.0	14.9	14.4	23.6	27.4	
V-Guard Ind (VGUARD)	254	255	Hold	10,961	4.7	5.3	5.4	6.8	53.9	47.6	47.0	37.6	34.3	32.3	30.7	24.6	23.9	21.2	23.7	26.6	16.7	16.2	17.9	20.3	
Voltas Ltd (VOLTAS)	872	1,075	Hold	28,840	16.0	15.3	18.8	25.1	54.5	57.0	46.3	34.8	44.3	41.3	34.3	26.1	15.0	14.0	17.5	20.3	10.6	9.2	12.6	14.9	
Amber Enterprises (AMBEN)	2,042	2,395	Hold	6,880	24.7	33.0	45.7	73.7	82.6	61.8	44.7	27.7	31.0	26.3	20.6	15.3	7.7	6.8	10.2	13.2	5.2	6.4	8.7	12.3	
Dixon Technologies (DIXTEC)	4,409	4,730	Buy	26,167	27.3	32.1	57.9	85.4	161.7	137.5	76.1	51.6	91.3	69.4	42.8	31.2	23.5	17.7	27.8	31.5	21.7	19.1	31.8	34.2	
Supreme Indus (SUPIND)	2,096	2,510	Buy	26,625	77.0	76.2	78.1	89.0	27.2	27.5	26.8	23.6	20.1	21.0	20.7	17.7	33.1	25.9	24.6	25.4	30.9	25.2	24.2	24.4	
Astral Ltd (ASTPOL)	1,965	2,650	Hold	39,473	20.3	24.4	25.8	35.9	96.7	80.5	76.3	54.7	60.6	51.5	45.4	34.6	27.5	26.6	25.5	29.3	21.5	21.0	19.6	23.1	
Time Techno (TIMTEC)	100	125	BUY	2,261	4.8	8.5	10.1	13.1	21.0	11.8	9.9	7.7	7.4	5.9	5.1	4.3	8.7	11.3	12.8	14.6	5.7	9.3	10.7	12.5	
Moldtek Packaging (MOLPLA)	916	935	Hold	3,046	17.2	20.4	24.3	30.9	53.3	45.0	37.8	29.7	33.2	25.5	21.5	17.3	20.1	18.6	26.1	26.5	18.7	13.9	22.6	22.8	

Source: Bloomberg, ICICI Direct Research

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Hold: -5% to 15%;

Reduce: -15% to -5%;

Sell: <-15%



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