

**BUY** Eicher Motors**Strong performance; new products to watch out for**

Auto &amp; Auto Ancillaries ▶ Result Update ▶ August 3, 2023

**TARGET PRICE (Rs) : 4,000**

EIM's Q1 margins and earnings were a beat (margins up ~110bps QoQ to 25.6%; our estimate: 24.5%), with continued pricing action and cost initiatives driving improved profitability. Despite recent concerns around aggressive competitive launches (refer our update), we believe Royal Enfield's (RE) robust positioning (impressive legacy combined with modern-day reliability) and strong upcoming product pipeline (refer Exhibit 5) would help sustain the structural domestic franchise revival story (started last year with Hunter). This, along with ramp-up in exports, better mix and softer commodities, would drive ~21% FY23-26E EPS CAGR. We have introduced FY26 estimates with a marginal upgrade in FY24E/FY25E EPS (largely reflecting Q1 margin beat). We retain BUY with an unchanged SOTP-based TP of Rs4,000/share (25x PE/20x P/E for motorcycle/CV business on FY25E).

**Eicher Motors: Financial Snapshot (Consolidated)**

Y/E March (Rs mn)	FY22	FY23	FY24E	FY25E	FY26E
Revenue	1,02,978	1,44,422	1,72,746	2,01,945	2,26,585
EBITDA	21,723	34,436	44,648	53,187	59,938
Adj. PAT	16,766	29,139	38,816	46,183	52,260
Adj. EPS (Rs)	61.3	106.7	142.2	169.1	191.4
EBITDA margin (%)	21.1	23.8	25.8	26.3	26.5
EBITDA growth (%)	22.0	58.5	29.7	19.1	12.7
Adj. EPS growth (%)	24.4	74.0	33.2	19.0	13.2
RoE (%)	13.9	21.1	23.9	24.2	23.4
RoIC (%)	70.0	115.5	163.9	227.9	331.0
P/E (x)	55.2	31.8	23.8	20.0	17.7
EV/EBITDA (x)	38.7	23.8	17.8	14.2	12.0
P/B (x)	7.3	6.2	5.3	4.5	3.8
FCFF yield (%)	1.1	2.7	4.5	6.6	7.5

Source: Company, Emkay Research

**Margins above estimates:**

Revenue grew by 17% YoY to ~Rs39.9bn (in-line), amid ~22% higher RE volumes (ASPs flat QoQ). EBITDA margin expanded by 110bps QoQ to 25.6% (our estimate 24.5%), mainly led by better operating leverage due to higher volumes. Management attributed margin expansion to a price hike of ~1.5% and ~80bps savings in sourcing costs. The share of profit from associates stood at Rs1bn. Overall, adjusted PAT grew by 50% YoY (+1% QoQ) to ~Rs9.2bn (our estimate: Rs8.4bn) with the beat being driven by increased operating profit and higher-than-expected other income.

**Earnings Call KTAs:**

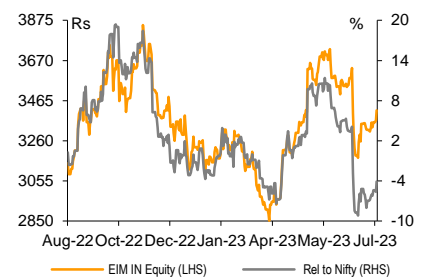
i) Management highlighted that RE has always faced strong competition yet withstood it and plans to continue doing so this time as well – albeit with a sustained focus on strengthening itself (i.e., without direct product or other kneejerk actions); ii) Management would continue to fortify its brand via community building, distribution etc. (cannot be easily replicated; has 10mn strong community and over 2K domestic touch points); would attempt to protect its market share even as the segment itself continues to grow (could double to ~2mn units in 10 years); iii) Consumers are yet to experience recent competition launches for themselves on the ground; iv) RE has several launches lined up starting with the new Bullet (on J-series platform) this month; v) Domestic retails and bookings for RE are strong; discretionary spending is returning with financing penetration also improving (now at 60%); festive demand is expected to be good; RE has 3-4 weeks waitlist for most products and higher in some; it has already undertaken measures to improve supplies; vi) There are macro challenges in export markets (seen improving in 5-6 months); however, RE is holding onto its market share via retail focus, with new launches seen helping further; vii) Management has taken 1.5% domestic price hike in Q2; commodities are not a headwind currently but would need to be monitored; viii) On EVs, with large progress made on the engineering side, EIM is now focusing on commercial and supply aspects.

Target Price – 12M	Jun-24
<b>Change in TP (%)</b>	-
Current Reco.	BUY
Previous Reco.	BUY
Upside/(Downside) (%)	18.4
CMP (03-Aug-23) (Rs)	3,379.7

Stock Data	Ticker
52-week High (Rs)	3,890
52-week Low (Rs)	2,836
Shares outstanding (mn)	273.7
Market-cap (Rs bn)	925
Market-cap (USD mn)	11,179
Net-debt, FY24E (Rs mn)	-1,32,519
ADTV-3M (mn shares)	1
ADTV-3M (Rs mn)	3,119.5
ADTV-3M (USD mn)	37.7
Free float (%)	50.8
Nifty-50	19,382
INR/USD	82.7
<b>Shareholding, Jun-23</b>	
Promoters (%)	49.2
FPIs/MFs (%)	30.3/10.1

**Price Performance**

(%)	1M	3M	12M
Absolute	(6.9)	0.9	7.7
Rel. to Nifty	(7.2)	(5.8)	(3.4)

**1-Year share price trend (Rs)****Chirag Jain**chirag.jain@emkayglobal.com  
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**Exhibit 1: Volumes grew by ~4% QoQ; while realization grew by ~1%**

Year to March	Q1FY24	Q1FY23	Change (%)	Q4FY23	Change (%)
RE volumes (units)	2,27,706	1,87,205	21.6	2,18,525	4.2
ASPs (Rs/unit)	1,75,067	1,81,483	(3.5)	1,74,091	0.6

Source: Company, Emkay Research

**Exhibit 2: Quarterly (Consolidated Snapshot): Margins above estimates**

(Rs mn)	Q1FY23	Q2FY23	Q3FY23	Q4FY23	Q1FY24	YoY (%)	QoQ (%)
Volume	1,87,205	2,07,764	2,21,401	2,18,525	2,27,706	21.6	4.2
Revenue	33,975	35,194	37,210	38,043	39,864	17.3	4.8
Expenditure	25,664	26,978	28,638	28,707	29,655	15.6	3.3
As a % of sales	75.5	76.7	77.0	75.5	74.4		
Consumption of RM	19,030	20,256	21,655	21,178	22,273	17.0	5.2
As a % of sales	56.0	57.6	58.2	55.7	55.9		
Employee Cost	2,470	2,435	2,594	2,521	2,927	18.5	16.1
As a % of sales	7.3	6.9	7.0	6.6	7.3		
Other expenditure	4,165	4,287	4,389	5,007	4,456	7.0	(11.0)
As a % of sales	12.3	12.2	11.8	13.2	11.2		
EBITDA	8,311	8,216	8,572	9,337	10,208	22.8	9.3
EBITDA margin (%)	24.5	23.3	23.0	24.5	25.6		
Depreciation	1,162	1,271	1,348	1,480	1,423	22.4	(3.9)
EBIT	7,149	6,945	7,224	7,856	8,786	22.9	11.8
Other Income	487	1,486	1,923	2,055	2,432	399.8	18.3
Interest	52	71	76	82	104	99.8	27.8
PBT	7,583	8,361	9,071	9,830	11,114	46.6	13.1
Minority interest	(338)	(441)	(639)	(1,734)	(1,004)		
Total Tax	1,814	2,233	2,302	2,508	2,935	61.7	17.0
Adjusted PAT	6,107	6,569	7,408	9,056	9,183	50.4	1.4
Extraordinary items	-	-	-	-	-		
Reported PAT	6,107	6,569	7,408	9,056	9,183	50.4	1.4
Adjusted EPS (Rs)	22.3	24.0	27.1	33.1	33.5	50.4	1.4
<b>Margins (%)</b>						<b>(bps)</b>	<b>(bps)</b>
EBIDTA	24.5	23.3	23.0	24.5	25.6	114.6	106.6
EBIT	21.0	19.7	19.4	20.7	22.0	100	139
EBT	22.3	23.8	24.4	25.8	27.9	556	204
PAT	18.0	18.7	19.9	23.8	23.0	506	(77)
Effective Tax rate	23.9	26.7	25.4	25.5	26.4	248	89

Source: Company, Emkay Research

**Exhibit 3: VECV Quarterly Snapshot**

(Rs mn)	Q1FY23	Q2FY23	Q3FY23	Q4FY23	Q1FY24	YoY (%)	QoQ (%)
Volume	17,469	17,616	18,162	26,376	19,571	12.0	(25.8)
Revenue	39,340	42,150	46,039	62,000	49,910	26.9	(19.5)
EBITDA	2,070	2,490	3,150	6,190	3,870	87.0	(37.5)
PAT	620	810	1,163	3,190	1,810	191.9	(43.3)
<b>Margins (%)</b>						<b>(bps)</b>	<b>(bps)</b>
EBIDTA	5.3	5.9	6.8	10.0	7.8	249	(223)
PAT	1.6	1.9	2.5	5.1	3.6	205	(152)

Source: Company, Emkay Research

**Exhibit 4: EBITDA margins rose on better operating leverage due to higher volumes**

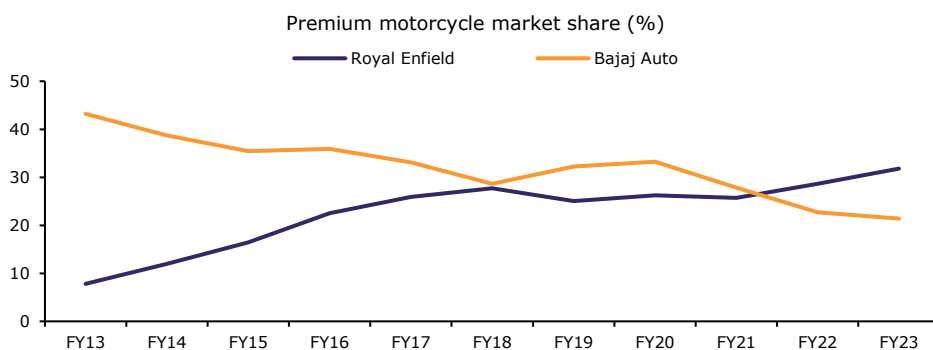
Year to March	1QFY24	1QFY23	% change	4QFY23	% change
Raw material	55.9	56.0	(14)	55.7	20
Staff costs	7.3	7.3	7	6.6	71
Other expenses	11.2	12.3	(108)	13.2	(198)
EBIDTA	25.6	24.5	115	24.5	107
Net profit	23.0	18.0	506	23.8	(77)
Tax rate	26.4	23.9	248	25.5	89

Source: Company, Emkay Research

**Exhibit 5: EIM has an aggressive launch pipeline for widening its appeal in various sub-segments of the fast-growing premium motorcycles**

Products	Expected Timeline	Expected Pricing (ex-showroom)
On an all-new 450cc engine platform		
Himalayan 450	Aug-23	Rs 2.8 lakhs
Himalayan 450 Rally	2024-end	Rs 3.5 lakhs
Scram 450	Early-CY24	Rs 2.5 lakhs
Scram 450 Scrambler	2024	Rs 3 lakhs
Scram 450 Café Racer	2024	Rs 3 lakhs
On 650cc platform		
Super Meteor 650 (launched)	Jan-23	Rs 3.49 lakhs
Continental GT 650 Race Replica	Jul-23	Rs 3.4 lakhs
Shotgun 650	Oct-23	Rs 3.25 lakhs
Classic 650	Sep-23	Rs 3.1 lakhs
Bullet 650	Mid-2024	Rs 3 lakhs
Scrambler 650	2025-end	Rs 3.5 lakhs
Himalayan 650	Jul-25	Rs 3.8 lakhs

Source: Company, Emkay Research

**Exhibit 6: EIM is now the largest player in the fast-growing premium motorcycle space**

Source: Company, Emkay Research

**Exhibit 7: Revenue model: Expect a 21% EPS CAGR over FY23-26E**

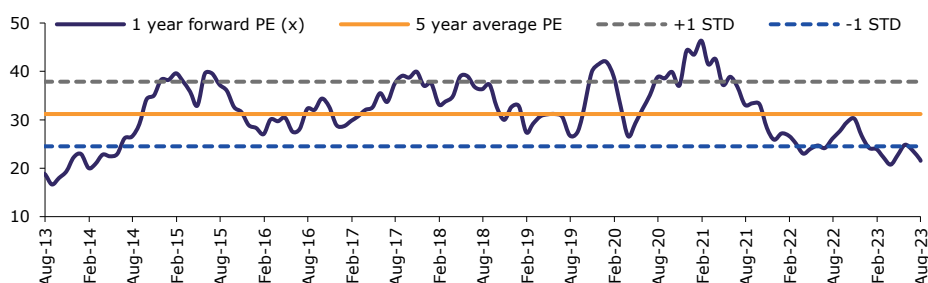
Revenue Model	FY20	FY21	FY22	FY23	FY24E	FY25E	FY26E
Domestic Volumes (units)	6,58,394	5,70,781	5,21,246	7,34,840	8,58,094	9,74,626	10,52,596
Growth (%)	-18.2	-13.3	-8.7	41.0	16.8	13.6	8.0
Export Volumes (units)	39,188	38,622	81,022	1,00,055	1,03,057	1,17,485	1,26,883
Growth (%)	88.2	-1.4	109.8	23.5	3.0	14.0	8.0
Volumes (units)	6,97,582	6,09,403	6,02,268	8,34,895	9,61,151	10,92,110	11,79,479
Growth (%)	-15.6	-12.6	-1.2	38.6	15.1	13.6	8.0
ASP (Rs/unit)	1,30,128	1,41,434	1,68,079	1,68,484	1,73,486	1,79,419	1,87,019
Growth (%)	9.8	8.7	18.8	0.2	3.0	3.4	4.2
Revenues	91,536	87,204	1,02,978	1,44,422	1,72,746	2,01,945	2,26,585
Growth (%)	-6.6	-4.7	18.1	40.2	19.6	16.9	12.2
EBITDA	21,804	17,813	21,723	34,436	44,648	53,187	59,938
EBITDA margin (%)	23.8	20.4	21.1	23.8	25.8	26.3	26.5
EBITDA growth (%)	-24.9	-18.3	22.0	58.5	29.7	19.1	12.7
EBITDA/unit (Rs)	31,256	29,229	36,068	41,246	46,453	48,701	50,818
EBIT	23,421	17,837	21,611	35,125	45,284	53,090	60,305
EBIT margin (%)	25.6	20.5	21.0	24.3	26.2	26.3	26.6
S/A PAT (Rs)	19,038	13,297	15,862	26,226	34,136	39,793	44,221
Share of profits from JV/overseas subs	317	311	602	3,152	5,209	6,732	7,407
Consol. PAT	18,274	13,469	16,766	29,139	38,816	46,183	52,260
Consol. EPS (Rs)	67	49	61	107	142	169	191

Source: Company, Emkay Research

**Exhibit 8: Change in estimates**

Consolidated	FY24E				FY25E				FY26E	
	Earlier	Revised	Change (%)	YoY (%)	Earlier	Revised	Change (%)	YoY (%)	Introducing	YoY (%)
Royal Enfield (Units)	9,70,156	9,61,151	(0.9)	15.1	10,97,893	10,92,110	(0.5)	13.6	11,79,479	8.0
VECV (Units)	85,055	85,055	0.0	6.8	90,694	90,694	0.0	6.6	95,229	5.0
Revenue	1,74,378	1,72,746	(0.9)	19.6	2,03,507	2,01,945	(0.8)	16.9	2,26,585	12.2
EBITDA	44,258	44,648	0.9	29.7	53,244	53,187	(0.1)	19.1	59,938	12.7
Margin (%)	25.4%	25.8%	47 bps	200 bps	26.2%	26.3%	17 bps	49 bps	26.5%	12 bps
APAT	38,304	38,816	1.3	33.2	45,853	46,183	0.7	19.0	52,260	13.2
EPS	139.9	141.8	1.3	33.2	167.5	168.7	0.7	19.0	190.9	13.2

Source: Company, Emkay Research

**Exhibit 9: Valuations: One-year forward PE at 22x; well below five-year average of 31x**

Source: Company, Emkay Research

## Eicher Motors : Consolidated Financials and Valuations

Profit and Loss					
Y/E March (Rs mn)	FY22	FY23	FY24E	FY25E	FY26E
<b>Revenue</b>	<b>1,02,978</b>	<b>1,44,422</b>	<b>1,72,746</b>	<b>2,01,945</b>	<b>2,26,585</b>
Revenue growth (%)	18.1	40.2	19.6	16.9	12.2
<b>EBITDA</b>	<b>21,723</b>	<b>34,436</b>	<b>44,648</b>	<b>53,187</b>	<b>59,938</b>
EBITDA growth (%)	22.0	58.5	29.7	19.1	12.7
Depreciation & Amortization	4,519	5,262	5,854	7,025	8,285
<b>EBIT</b>	<b>17,203</b>	<b>29,174</b>	<b>38,794</b>	<b>46,162</b>	<b>51,654</b>
EBIT growth (%)	29.3	69.6	33.0	19.0	11.9
Other operating income	0	0	0	0	0
Other income	4,408	5,951	6,490	6,928	8,651
Financial expense	188	280	356	348	340
<b>PBT</b>	<b>21,424</b>	<b>34,845</b>	<b>44,928</b>	<b>52,742</b>	<b>59,964</b>
Extraordinary items	0	0	0	0	0
Taxes	5,259	8,857	11,322	13,291	15,111
Minority interest	(602)	(3,152)	(5,209)	(6,732)	(7,407)
Income from JV/Associates	0	0	0	0	0
<b>Reported PAT</b>	<b>16,766</b>	<b>29,139</b>	<b>38,816</b>	<b>46,183</b>	<b>52,260</b>
PAT growth (%)	24.5	73.8	33.2	19.0	13.2
<b>Adjusted PAT</b>	<b>16,766</b>	<b>29,139</b>	<b>38,816</b>	<b>46,183</b>	<b>52,260</b>
<b>Diluted EPS (Rs)</b>	<b>61.3</b>	<b>106.7</b>	<b>142.2</b>	<b>169.1</b>	<b>191.4</b>
Diluted EPS growth (%)	24.4	74.0	33.2	19.0	13.2
<b>DPS (Rs)</b>	<b>21.0</b>	<b>36.9</b>	<b>48.6</b>	<b>56.7</b>	<b>63.0</b>
<b>Dividend payout (%)</b>	<b>34.2</b>	<b>34.6</b>	<b>34.2</b>	<b>33.5</b>	<b>32.9</b>
EBITDA margin (%)	21.1	23.8	25.8	26.3	26.5
EBIT margin (%)	16.7	20.2	22.5	22.9	22.8
Effective tax rate (%)	24.5	25.4	25.2	25.2	25.2
<b>NOPLAT (pre-IndAS)</b>	<b>12,980</b>	<b>21,758</b>	<b>29,018</b>	<b>34,529</b>	<b>38,637</b>
Shares outstanding (mn)	273.4	273.0	273.0	273.0	273.0

Source: Company, Emkay Research

Cash Flows					
Y/E March (Rs mn)	FY22	FY23	FY24E	FY25E	FY26E
PBT	21,424	34,845	44,928	52,742	59,964
Others (non-cash items)	776	(3,153)	8,266	11,951	14,365
Taxes paid	(5,136)	(7,703)	(11,367)	(13,344)	(15,171)
Change in NWC	(1,793)	4,486	3,630	5,954	2,159
<b>Operating cash flow</b>	<b>15,270</b>	<b>28,475</b>	<b>45,457</b>	<b>57,303</b>	<b>61,317</b>
Capital expenditure	(6,387)	(6,737)	(10,005)	(7,500)	(7,500)
Acquisition of business	(7,702)	(19,932)	(20,000)	(10,000)	(10,000)
Interest & dividend income	4,256	2,453	0	0	0
<b>Investing cash flow</b>	<b>(9,833)</b>	<b>(24,216)</b>	<b>(30,005)</b>	<b>(17,500)</b>	<b>(17,500)</b>
Equity raised/(repaid)	65	0	0	0	0
Debt raised/(repaid)	(1,046)	1,369	(332)	74	63
Payment of lease liabilities	(170)	(189)	0	0	0
Interest paid	(142)	(280)	(356)	(348)	(340)
Dividend paid (incl tax)	(4,647)	(10,115)	(13,313)	(15,519)	(17,246)
Others	(30,578)	(13,697)	3,198	2,206	1,727
<b>Financing cash flow</b>	<b>(36,517)</b>	<b>(22,912)</b>	<b>(10,803)</b>	<b>(13,587)</b>	<b>(15,797)</b>
Net chg in Cash	(31,079)	(18,654)	4,650	26,217	28,020
OCF	15,270	28,475	45,457	57,303	61,317
Adj. OCF (w/o NWC chg.)	17,064	23,989	41,828	51,349	59,159
FCFF	8,883	21,738	35,452	49,803	53,817
FCFE	12,952	23,910	35,097	49,456	53,477
OCF/EBITDA (%)	70.3	82.7	101.8	107.7	102.3
FCFE/PAT (%)	77.3	82.1	90.4	107.1	102.3
<b>FCFF/NOPLAT (%)</b>	<b>68.4</b>	<b>99.9</b>	<b>122.2</b>	<b>144.2</b>	<b>139.3</b>

Source: Company, Emkay Research

Balance Sheet					
Y/E March (Rs mn)	FY22	FY23	FY24E	FY25E	FY26E
Share capital	273	274	274	274	274
Reserves & Surplus	1,25,807	1,49,629	1,75,132	2,05,796	2,40,810
<b>Net worth</b>	<b>1,26,080</b>	<b>1,49,903</b>	<b>1,75,406</b>	<b>2,06,069</b>	<b>2,41,083</b>
Minority interests	0	0	0	0	0
Deferred tax liability (net)	2,201	2,913	2,868	2,815	2,755
<b>Total debt</b>	<b>588</b>	<b>1,957</b>	<b>1,625</b>	<b>1,699</b>	<b>1,762</b>
<b>Total liabilities &amp; equity</b>	<b>1,28,869</b>	<b>1,54,773</b>	<b>1,79,899</b>	<b>2,10,584</b>	<b>2,45,601</b>
Net tangible fixed assets	19,108	21,765	24,295	26,346	25,561
Net intangible assets	3,298	3,298	3,298	3,298	3,298
Net ROU assets	1,837	1,837	1,837	1,837	1,837
Capital WIP	5,048	4,721	6,341	4,766	4,766
Goodwill	0	0	0	0	0
Investments [JV/Associates]	19,671	22,284	22,284	22,284	22,284
<b>Cash &amp; equivalents</b>	<b>84,759</b>	<b>1,09,494</b>	<b>1,34,144</b>	<b>1,70,361</b>	<b>2,08,381</b>
Current assets (ex-cash)	27,677	28,578	34,183	39,961	45,457
Current Liab. & Prov.	32,529	37,204	46,483	58,268	65,983
<b>NWC (ex-cash)</b>	<b>(4,852)</b>	<b>(8,626)</b>	<b>(12,300)</b>	<b>(18,307)</b>	<b>(20,526)</b>
<b>Total assets</b>	<b>1,28,869</b>	<b>1,54,773</b>	<b>1,79,899</b>	<b>2,10,584</b>	<b>2,45,601</b>
Net debt	(84,171)	(1,07,537)	(1,32,519)	(1,68,661)	(2,06,619)
Capital employed	1,28,869	1,54,773	1,79,899	2,10,584	2,45,601
<b>Invested capital</b>	<b>19,391</b>	<b>18,274</b>	<b>17,130</b>	<b>13,174</b>	<b>10,170</b>
BVPS (Rs)	460.5	547.5	640.6	752.6	880.5
Net Debt/Equity (x)	(0.7)	(0.7)	(0.8)	(0.8)	(0.9)
Net Debt/EBITDA (x)	(3.9)	(3.1)	(3.0)	(3.2)	(3.4)
Interest coverage (x)	0.0	0.0	0.0	0.0	0.0
<b>RoCE (%)</b>	<b>13.1</b>	<b>18.6</b>	<b>20.3</b>	<b>20.4</b>	<b>19.8</b>

Source: Company, Emkay Research

Valuations and Key Ratios					
Y/E March	FY22	FY23	FY24E	FY25E	FY26E
P/E (x)	55.2	31.8	23.8	20.0	17.7
P/CE(x)	43.5	26.9	20.7	17.4	15.3
P/B (x)	7.3	6.2	5.3	4.5	3.8
EV/Sales (x)	8.2	5.7	4.6	3.7	3.2
EV/EBITDA (x)	38.7	23.8	17.8	14.2	12.0
EV/EBIT(x)	48.8	27.9	20.4	16.3	13.9
EV/IC (x)	43.3	44.6	46.1	57.2	70.4
FCFF yield (%)	1.1	2.7	4.5	6.6	7.5
FCFE yield (%)	1.4	2.6	3.8	5.4	5.8
Dividend yield (%)	0.6	1.1	1.4	1.7	1.9
<b>DuPont-RoE split</b>					
Net profit margin (%)	16.3	20.2	22.5	22.9	23.1
Total asset turnover (x)	0.8	1.0	1.0	1.0	1.0
Assets/Equity (x)	1.0	1.0	1.0	1.0	1.0
<b>RoE (%)</b>	<b>13.9</b>	<b>21.1</b>	<b>23.9</b>	<b>24.2</b>	<b>23.4</b>
<b>DuPont-RoIC</b>					
NOPLAT margin (%)	12.6	15.1	16.8	17.1	17.1
IC turnover (x)	0.0	0.0	0.0	0.0	0.0
<b>RoIC (%)</b>	<b>70.0</b>	<b>115.5</b>	<b>163.9</b>	<b>227.9</b>	<b>331.0</b>
<b>Operating metrics</b>					
Core NWC days	(17.2)	(21.8)	(26.0)	(33.1)	(33.1)
<b>Total NWC days</b>	<b>(17.2)</b>	<b>(21.8)</b>	<b>(26.0)</b>	<b>(33.1)</b>	<b>(33.1)</b>
Fixed asset turnover	2.4	3.0	3.1	3.1	3.1
Opex-to-revenue (%)	21.1	19.3	18.4	18.2	18.0

Source: Company, Emkay Research

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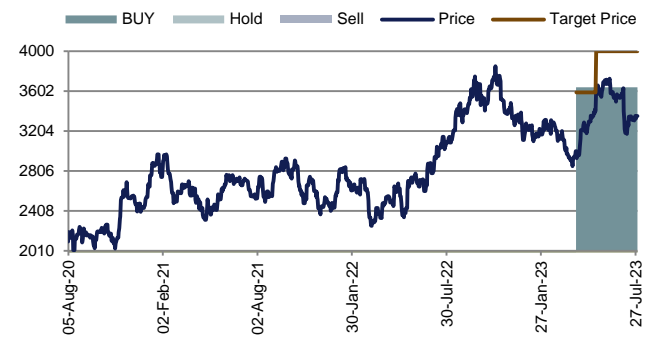
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## RECOMMENDATION HISTORY - DETAILS

Date	CMP (INR)	TP (INR)	Rating	Analyst
12-May-23	3,626	4,000	Buy	Chirag Jain
04-Apr-23	3,004	3,590	Buy	Chirag Jain

Source: Company, Emkay Research

## RECOMMENDATION HISTORY - TREND



Source: Bloomberg, Company, Emkay Research

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