

Rating: ACCUMULATE | CMP: Rs5,574 | TP: Rs6,040

July 18, 2024

Q1FY25 Result Update

Change in Estimates | Target | Reco

Change in Estimates

	Current	Previous		
	FY25E	FY26E	FY25E	FY26E
Rating	ACCUMULATE	ACCUMULATE		
Target Price	6,040		5,910	
Sales (Rs. bn)	379	416	377	410
% Chng.	0.7	1.5		
EBITDA (Rs. bn)	71	82	70	79
% Chng.	1.7	3.1		
EPS (Rs.)	172.6	201.2	170.6	197.0
% Chng.	1.2	2.1		

Key Financials - Consolidated

Y/e Mar	FY23	FY24	FY25E	FY26E
Sales (Rs. bn)	332	355	379	416
EBITDA (Rs. bn)	62	64	71	82
Margin (%)	18.6	18.0	18.7	19.6
PAT (Rs. bn)	45	46	51	60
EPS (Rs.)	151.7	155.0	172.6	201.2
Gr. (%)	13.7	2.1	11.4	16.6
DPS (Rs.)	60.0	64.9	72.4	84.4
Yield (%)	1.1	1.2	1.3	1.5
RoE (%)	29.1	25.1	23.8	24.1
RoCE (%)	27.1	23.1	21.6	21.8
EV/Sales (x)	4.7	4.4	4.0	3.6
EV/EBITDA (x)	25.4	24.3	21.3	18.1
PE (x)	36.7	36.0	32.3	27.7
P/BV (x)	9.9	8.2	7.2	6.2

Key Data	LTIM.BO LTM IN
52-W High / Low	Rs.6,443 / Rs.4,514
Sensex / Nifty	80,717 / 24,613
Market Cap	Rs.1,651bn/ \$ 19,749m
Shares Outstanding	296m
3M Avg. Daily Value	Rs.2513.95m

Shareholding Pattern (%)

Promoter's	68.60
Foreign	7.28
Domestic Institution	14.24
Public & Others	9.88
Promoter Pledge (Rs bn)	-

Stock Performance (%)

	1M	6M	12M
Absolute	10.8	(10.6)	9.4
Relative	5.6	(19.0)	(10.4)

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LTMindtree (LTM IN)

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On a growth trajectory

Quick Pointers:

- Reported strong growth in Q1 led by TMC & North America region
- Deal wins was flattish at US\$ 1.4 bn during the quarter

LTM reported robust revenue growth of 2.6% QoQ CC (USD 2.5% QoQ), ahead of our estimates of 1.9% CC & consensus (1.6% QoQ). The growth was broad-based across key verticals and geographies with TMC and NA grew 7.9% and 4.4% QoQ, respectively. EBIT margin reported at 15.0% in Q1, up 30 bps (in-line with our est.). The margin expansion was limited despite having recovered Q4 one-off impact (+100bps) due to additional headwinds of higher visa costs & marketing expenses, impacted margins by -50bps QoQ each. Deal wins during the quarter was flattish at US\$1.4 bn vs US\$1.5 bn in Q4FY24.

The revenue growth momentum in Q1 was broad-based and was strongly supported by resumption of high-priority transformation programs that were paused earlier by enterprise clients at the onset of adverse macros. These programs are getting further supported by savings that have been generated through recent cost take-outs and productivity deals. Additionally, the uptick in revenue growth was also supported by enterprise investments in laying a core foundation for AI-led initiative with data, governance and security layer. The management was confident to drive similar growth momentum in 2Q amidst qualified deal pipeline and strong growth visibility for BFS vertical. Having said that, the management also maintained caution on continued slowdown on discretionary programs and project reprioritization. With improving prioritized spends, BFS growth visibility and enterprise urgency to invest in AI-led initiatives, we are revising our revenue growth estimates by +80 bps each in FY25E/FY26E with 6.0% and 9.7% CC.

The anticipated growth momentum in 2Q would be supported by lateral hiring and it expects the fresher intake to continue for the rest of the year. The management also indicated that the resumption of these high-priority programs is coming at a shorter sales cycle, which implies the S&M engine needs to be fueled to support the corresponding topline growth. With Q1 utilization reaching its peak (88.3% vs comfort band of 85-86%) and wage-hike cycle due, the margins are likely to be under pressure for the rest of the year. We are keeping our margins broadly unchanged with 50bps and 90 bps improvement in FY25E and FY26E

Valuations and outlook: With strong execution strategy and robust sales engine, LTM is well positioned to play in the challenging environment with a mix of cost and transformation programs. We are baking in revenue/earnings CAGR of 8.3% and 14.0%, respectively. We believe, the CMP factors-in all the positive and leaving no room for potential upside. It is trading at 27x FY26E (average 10-year 25x PE). We are assigning P/E of 30x to FY26E with a target price of INR 6,040. Maintain ACCUMULATE.

Beat on revenue growth, margins in-line

- Revenue stood at USD1.1b, up 2.6% QoQ CC and 2.5% QoQ reported terms, above our est. (+1.9% CC) and consensus (+1.6%)
- The growth was majorly led by TMC (up 7.9% QoQ) vs +4.7% QoQ in 4Q, followed by BFSI (up 2.9% QoQ) and Manufacturing (up 1.8% QoQ), while Consumer and Healthcare were weak, down 1.4% and 7.9% QoQ respectively
- Within Geographies, NA led the growth with 4.4% QoQ followed by Europe at 1.0% QoQ, while ROW was weak, down 7.4% QoQ
- EBIT margin at 15.0%, up 30bp QoQ, tad below our est. of 15.1% and consensus of 15.3%, attributed to higher SG&A (+4.5% QoQ)
- Software headcount (net add) recovered by 380, after a decline of 750 reported in 4Q, Utilization improved sharply by 140bp QoQ to 88.3%, Attrition stood flat QoQ at 14.4%
- Order inflows sustained at USD1.4b vs USD1.5b in 4Q, with BTB of 1.3x.
- PAT came in at INR11.4b, up 3.1% QoQ/down 1.5% YoY, in line with our estimates.

Concall Highlights

Growth Drivers and Demand Outlook

- Management indicated the broad macro environment remains unchanged, expecting it to continue in FY25. However, the company expresses cautious optimism due to positive signs emerging from the ramp-up of high-priority transformation projects. While clients remain focused on cost optimization and vendor consolidation, they're now strategically utilizing savings to invest additional budgets in these critical transformation initiatives. The management further mentioned that it expects the growth momentum to continue in Q2FY25
- The management indicated that growth momentum in the BFSI sector, especially in the BFS segment, will continue. They attributed this growth to the resumption of previously paused transformation projects and vendor consolidation. Key sub-segments within BFSI gaining momentum include regulatory & compliance, data & AI, and consumer experience.
- In the CMT segment, growth is driven by increased traction in business model transformation and platform experience. Similarly, the Manufacturing segment is fueled by demand for ERP transformation, data modernization, and Industry 4.0 initiatives. Management highlighted the broad-based growth across the Tech and Media segments in Q1. While the Communications sub-segment is currently too small for significant contribution, they expect it to be a future growth driver
- The management mentioned that the demand for AI is increasing rapidly and all new deals are incorporating AI initiatives. They further mentioned that enterprises are now moving beyond the POC's stage and are now investing in infrastructure, data governance & data lineage to scale the POC's. The management believes that their strength in these areas positions it well to

partner their clients in their AI scaling journey. They further noted that while demand for AI is broad based across all segments, higher traction is seen in anchor verticals of BFSI & CMT followed by Manufacturing & Healthcare

- While deal wins in Q1FY25 were relatively stable compared to Q4, management expects an increase in Q2FY25 due to several deals nearing closure. They also mentioned that it has executed multiple MSA with clients which are expected to convert in TCV during the fiscal year

Margin Outlook

- The management mentioned that during the quarter an impact of -50 bps of higher visa costs & -50 bps of higher marketing expenses. These headwinds restricted the margins expansion to 30 bps in Q1 despite the tailwinds of strong revenue growth during the quarter and increase in utilization (140 bps QoQ improvement)
- The management indicated that the utilization is at an all-time high level of 88.3% and it is above its comfort band 85-86%. They further indicated that its expects the utilization to normalize at its comfort band going ahead
- The management mentioned that they hired 1,400 freshers during the quarter and it will continue its fresher hiring program going ahead to rationalize its pyramid. The company haven't disclosed its fresher hiring target for FY25. The management further mentioned that its lateral hiring momentum will continue in Q2 also to normalize utilization to its comfort band
- The management mentioned that it will roll out wage hike in Q3FY24 but haven't finalized the quantum
- The management indicated that it expects margin to improve in Q2FY24 but expects FY25 margin to remain flattish on year on year basis. They further mentioned that its program for long term margin improvement still continues and revenue growth will be key lever for margin improvement along with other lever of pyramid optimization & rationalization of SG&A expenses

Exhibit 1: 1QFY25 Results: Revenues grew by 2.6% QoQ in CC, EBIT margin improved by 30bps QoQ

Consolidated (INR b)	1QFY25	4QFY24	QoQ gr. (%)	1QFY24	YoY gr. (%)	FY25E	FY24	YoY gr. (%)
IT Services Revenue (USD m)	1,096	1,069	2.5	1,059	3.5	4,545	4,287	6.0
Overall Revenue (INR b)	91	89	2.8	87	5.1	379	355	6.8
Gross Profit	28	27	4.5	28	0.8	119	109	9.0
Gross Margin (%)	30.3	29.8	50bps	31.6	-130bps	31.3	30.7	60bps
SG&A and Other Costs	11.7	11.1	4.5	11.1	4.5	47.7	45.1	5.9
% of Rev	12.7	12.5	20bps	12.8	-10bps	12.6	12.7	-10bps
EBITDA	16	15	4.6	16	-1.8	71	64	11.2
EBIT Margin (%)	17.6	17.3	30bps	18.8	-120bps	18.7	18.0	70bps
Depreciation	2	2	4	2	27.3	10	8	17.8
% of Rev	2.6	2.6	0bps	2.1	50bps	2.5	2.3	20bps
EBIT	14	13	4.8	15	-5.5	61	56	10.2
EBIT Margin (%)	15.0	14.7	30bps	16.7	-170bps	16.2	15.7	50bps
Other Income (net)	2	1	10.8	1	80.7	6	5	28.2
PBT	15	14	5.3	15	-0.7	68	60	11.6
Tax	4	3	12.3	4	1.7	16	15	12.3
Effective tax rate (%)	25.6	24.0	160bps	25.0	60bps	24.4	24.2	20bps
Adjusted PAT	11	11	3.1	12	-1.5	51	46	11.4
Exceptional items	0	0	NA	0	NA	0	0	NA
Reported PAT	11	11	3.1	12	-1.5	51	46	11.4
Reported EPS (INR)	38	37	3.0	39	-1.5	173	155	11.3

Source: Company, PL

Exhibit 2: Regional growth (%)

Geographies	Contribution to revenue (%)	QoQ gr. (%)
North America	75.1	4.3
Europe	14.4	1.1
RoW	10.5	(7.2)

Source: Company, PL

Exhibit 3: Vertical Growth (%)

Verticals	Contribution to revenue (%)	QoQ gr. (%)
BFSI	35.2	2.8
Manufacturing	18.5	2.0
CPG, Retail & Pharma	14.5	(1.6)
High-Tech, Media & Entertainment	25.6	8.0
Healthcare	6.2	-7.9

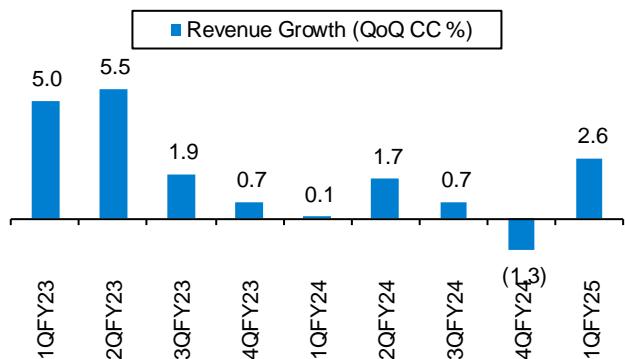
Source: Company, PL

Exhibit 4: Key Performance Indicator

	2QFY23	3QFY23	4QFY23	1QFY24	2QFY24	3QFY24	4QFY24	1QFY25	FY24	FY25E
Revenue (QoQ CC %)	5.5	1.9	0.7	0.1	1.7	0.7	-1.3	2.6	4.2	6.0
Margins (%)										
Gross Margin	30.8	28.6	29.9	31.6	31.4	29.9	29.8	30.3	30.7	31.3
EBIT Margin	17.5	14.8	16.4	16.7	16.0	15.4	14.7	15.0	15.7	16.2
Net Margin	14.5	12.5	12.8	13.2	13.0	13.0	12.4	12.4	12.9	13.5
Operating metrics										
Headcount	86,936	86,462	84,546	82,738	83,532	82,471	81,650	81,934	81,650	-
Attrition (%)	24.1	22.3	20.2	17.8	15.2	14.2	14.4	14.4	14.4	-
Utilization (excl. trainees)	83.5	82.9	81.7	84.8	86.6	87.4	86.9	88.3	86.9	-

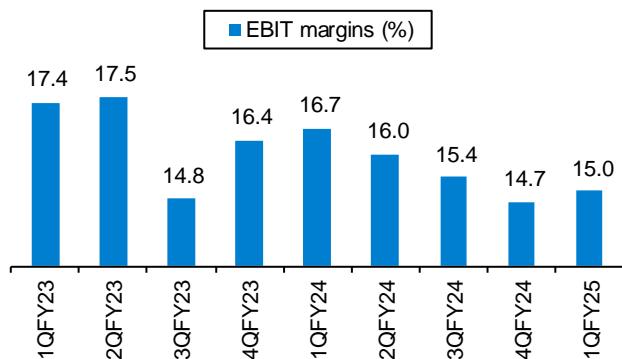
Source: Company, PL

Exhibit 5: Revenue increased by 2.6% QoQ CC



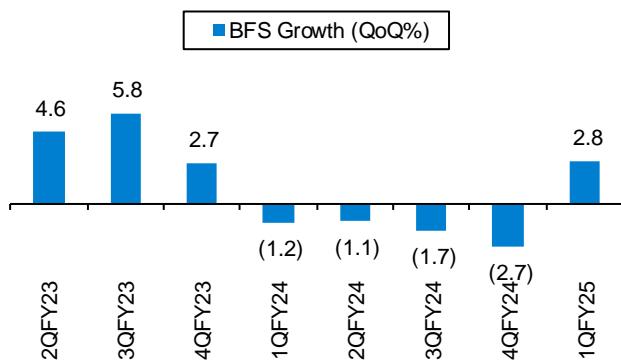
Source: Company, PL

Exhibit 6: EBIT margin (%) improved by 30bps



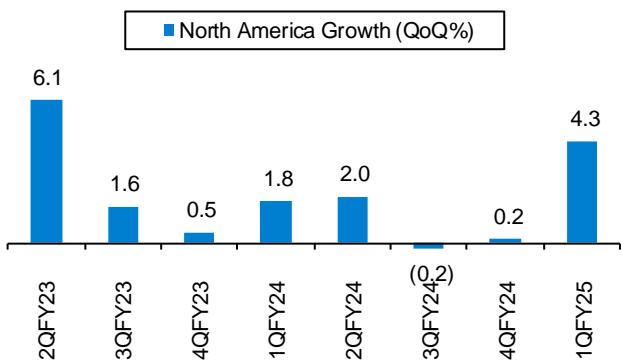
Source: Company, PL

Exhibit 7: BFSI growth (QoQ %)



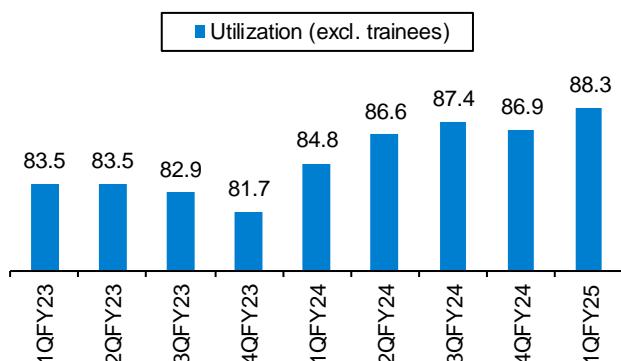
Source: Company, PL

Exhibit 8: North America (QoQ %)



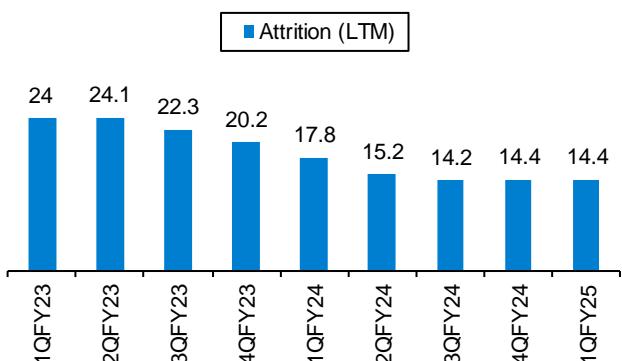
Source: Company, PL

Exhibit 9: Utilization (Ex. Trainees %)



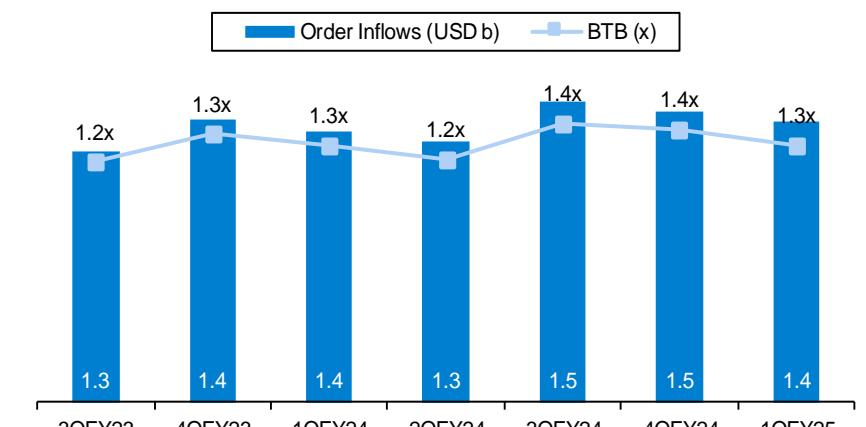
Source: Company, PL

Exhibit 10: Attrition (LTM %)



Source: Company, PL

Exhibit 11: Order Inflows (USD b)



Source: Company, PL

Exhibit 12: Operating Metrics

Consolidated (INR b)	2QFY22	3QFY22	4QFY22	1QFY23	2QFY23	3QFY23	4QFY23	1QFY24	2QFY24	3QFY24	4QFY24	1QFY25
Revenue by verticals (%)												
BFSI	37.4	38.0	37.5	36.5	35.6	35.1	38.0	37.5	36.5	35.6	35.1	35.2
Manufacturing	17.4	18.3	17.4	16.3	16.2	17.5	17.5	17.3	17.9	20.3	18.6	18.5
CPG, retail & pharma	16.4	15.6	15.7	15.7	15.4	15.2	15.4	15.1	15.3	14.7	15.1	14.5
High tech, media & entertainment	24.9	24.7	25.0	25.4	25.3	23.6	23.0	23.7	23.8	22.9	24.3	25.6
Healthcare, Life, Public Science	6.4	6.5	6.4	6.6	6.8	6.3	6.1	6.4	6.5	6.5	6.9	6.2
Revenue by geography (%)												
North America	69.7	68.9	69.5	71.7	72.9	72.3	71.9	73.1	73.4	72.7	73.8	75.1
Europe	17.5	16.9	17.0	15.3	14.6	14.9	15.4	15.2	15.3	14.5	14.6	14.4
ROW	12.8	14.2	13.5	13.0	12.5	12.8	12.7	11.7	11.3	12.8	11.6	10.5
Client metrics (% of revenues)												
Top 5 client	25.3	25.5	25.5	26.8	26.7	26.3	25.4	26.7	26.8	27.5	28.3	28.8
Top 10 client	33.7	34.0	33.5	34.5	34.3	33.8	32.9	34.1	34.3	35.3	35.5	35.7
Top 20 client	45.0	45.2	44.8	45.5	45.1	45.3	44.0	44.9	45.2	45.9	45.9	46.2
Top 40 client	58.4	59.1	58.4	58.7	57.4	57.6	56.8	57.2	57.6	58.5	58.0	58.9
Non Top 20 clients	55.0	54.8	55.2	54.5	54.9	54.7	56.0	55.1	54.8	54.1	54.1	53.8
Number of active clients	628	650	673	708	719	723	728	723	737	739	738	748
New clients added in the period	35	34	29	43	22	28	31	19	30	23	30	27
Million \$ clients												
5 Million \$ clients	117	120	125	130	137	144	146	148	146	149	153	148
10 Million \$ clients	74	76	76	79	77	81	81	88	90	89	91	87
20 Million \$ clients	30	31	37	40	38	37	38	40	41	40	40	43
50 Million \$ clients	9	9	10	10	11	11	13	13	14	12	13	12
100 Million \$ clients	2	2	2	2	2	2	2	2	2	2	2	2
Employee metrics												
Development	66,824	70,710	75,869	79,998	82,681	82,197	80,283	77,555	78,276	77,203	76,460	76,837
Sales and support	3,309	3,463	3,725	4,032	4,355	4,265	4,263	5,183	5,256	5,268	5,190	5,097
Total employees	70,133	74,137	79,594	84,030	86,936	86,462	84,546	82,738	83,532	82,471	81,650	81,934
Efforts mix												
Onsite	16.1	15.6	15.0	14.7	14.7	14.9	14.9	14.8	14.8	15.0	15.1	15.4
Offshore	83.9	84.4	85.0	85.3	85.3	85.1	85.1	85.2	85.2	85.0	84.9	84.6
Utilization measures												
Excluding trainees	85.2	84.0	83.2	83.5	83.5	82.9	81.7	84.8	86.6	87.4	86.9	88.3
Attrition LTM (%)	18.6	22.1	23.8	24.0	24.1	22.3	20.2	17.8	15.2	14.2	14.4	14.4

Source: Company, PL

Financials

Income Statement (Rs bn)

Y/e Mar	FY23	FY24	FY25E	FY26E
Net Revenues	332	355	379	416
YoY gr. (%)	27.1	7.0	6.8	9.7
Employee Cost	232	246	261	283
Gross Profit	100	109	119	134
Margin (%)	30.1	30.7	31.3	32.1
Employee Cost	-	-	-	-
Other Expenses	-	-	-	-
EBITDA	62	64	71	82
YoY gr. (%)	17.9	3.2	11.2	14.9
Margin (%)	18.6	18.0	18.7	19.6
Depreciation and Amortization	7	8	10	10
EBIT	55	56	61	71
Margin (%)	16.5	15.7	16.2	17.1
Net Interest	-	-	-	-
Other Income	4	5	6	7
Profit Before Tax	59	60	68	79
Margin (%)	17.7	17.0	17.8	18.9
Total Tax	14	15	16	19
Effective tax rate (%)	23.5	24.2	24.4	24.4
Profit after tax	45	46	51	60
Minority interest	0	0	0	0
Share Profit from Associate	-	-	-	-
Adjusted PAT	45	46	51	60
YoY gr. (%)	13.7	2.1	11.4	16.6
Margin (%)	13.5	12.9	13.5	14.3
Extra Ord. Income / (Exp)	(1)	-	-	-
Reported PAT	44	46	51	60
YoY gr. (%)	11.7	4.0	11.4	16.6
Margin (%)	13.3	12.9	13.5	14.3
Other Comprehensive Income	-	-	-	-
Total Comprehensive Income	44	46	51	60
Equity Shares O/s (bn)	0	0	0	0
EPS (Rs)	151.7	155.0	172.6	201.2

Source: Company Data, PL Research

Balance Sheet Abstract (Rs bn)

Y/e Mar	FY23	FY24	FY25E	FY26E
Non-Current Assets				
Gross Block	53	65	74	83
Tangibles	36	48	57	66
Intangibles	17	17	17	17
Acc: Dep / Amortization	32	40	50	60
Tangibles	18	27	36	47
Intangibles	14	14	14	14
Net fixed assets	21	24	24	22
Tangibles	18	21	21	19
Intangibles	4	3	3	3
Capital Work In Progress	-	-	-	-
Goodwill	12	12	12	12
Non-Current Investments	13	19	19	19
Net Deferred tax assets	6	5	6	6
Other Non-Current Assets	11	27	25	23
Current Assets				
Investments	53	77	97	117
Inventories	-	-	-	-
Trade receivables	72	70	64	70
Cash & Bank Balance	23	18	37	53
Other Current Assets	21	20	20	22
Total Assets	235	276	307	347
Equity				
Equity Share Capital	0	0	0	0
Other Equity	166	200	230	264
Total Networth	166	200	230	264
Non-Current Liabilities				
Long Term borrowings	-	-	-	-
Provisions	0	0	0	0
Other non current liabilities	14	18	18	18
Current Liabilities				
ST Debt / Current of LT Debt	-	-	-	-
Trade payables	13	15	15	17
Other current liabilities	42	42	44	48
Total Equity & Liabilities	235	276	307	347

Source: Company Data, PL Research

Cash Flow (Rs bn)					Key Financial Metrics				
Y/e Mar	FY23	FY24	FY25E	FY26E	Y/e Mar	FY23	FY24	FY25E	FY26E
PBT	44	46	51	60	EPS	151.7	155.0	172.6	201.2
Add. Depreciation	7	8	10	10	CEPS	176.2	182.6	205.2	236.4
Add. Interest	2	2	-	-	BVPS	560.5	676.3	776.4	893.2
Less Financial Other Income	4	5	6	7	FCF	72.8	163.1	205.1	205.2
Add. Other	(3)	(4)	-	-	DPS	60.0	64.9	72.4	84.4
Op. profit before WC changes	50	52	61	70	Return Ratio(%)				
Net Changes-WC	(18)	6	9	0	RoCE	27.1	23.1	21.6	21.8
Direct tax	(1)	(1)	-	-	ROIC	20.7	19.0	18.2	18.2
Net cash from Op. activities	31	57	70	70	RoE	29.1	25.1	23.8	24.1
Capital expenditures	(9)	(8)	(9)	(9)	Balance Sheet				
Interest / Dividend Income	1	3	-	-	Net Debt : Equity (x)	(0.5)	(0.5)	(0.6)	(0.6)
Others	5	(33)	(20)	(20)	Net Working Capital (Days)	65	57	47	46
Net Cash from Inv. activities	(3)	(39)	(29)	(29)	Valuation(x)				
Issue of share cap. / premium	0	0	-	-	PER	36.7	36.0	32.3	27.7
Debt changes	(1)	(2)	-	-	P/B	9.9	8.2	7.2	6.2
Dividend paid	(16)	(18)	(21)	(25)	P/CEPS	31.6	30.5	27.2	23.6
Interest paid	0	-	-	-	EV/EBITDA	25.4	24.3	21.3	18.1
Others	(3)	(3)	-	-	EV/Sales	4.7	4.4	4.0	3.6
Net cash from Fin. activities	(19)	(23)	(21)	(25)	Dividend Yield (%)	1.1	1.2	1.3	1.5
Net change in cash	8	(5)	19	16					
Free Cash Flow	22	48	61	61					

Source: Company Data, PL Research

Source: Company Data, PL Research

Quarterly Financials (Rs bn)

Y/e Mar	Q2FY24	Q3FY24	Q4FY24	Q1FY25
Net Revenue	89	90	89	91
YoY gr. (%)	8.2	4.6	2.3	5.1
Raw Material Expenses	61	63	62	64
Gross Profit	28	27	27	28
Margin (%)	31.4	29.9	29.8	30.3
EBITDA	16	16	15	16
YoY gr. (%)	(0.3)	8.9	(4.2)	(1.8)
Margin (%)	18.3	17.6	17.3	17.6
Depreciation / Depletion	2	2	2	2
EBIT	14	14	13	14
Margin (%)	16.0	15.4	14.7	15.0
Net Interest	-	-	-	-
Other Income	1	2	1	2
Profit before Tax	15	15	14	15
Margin (%)	17.1	17.1	16.3	16.7
Total Tax	4	4	3	4
Effective tax rate (%)	23.5	24.3	24.0	25.6
Profit after Tax	12	12	11	11
Minority interest	-	-	-	-
Share Profit from Associates	-	-	-	-
Adjusted PAT	12	12	11	11
YoY gr. (%)	(2.2)	8.2	(1.2)	(1.4)
Margin (%)	13.1	13.0	12.4	12.4
Extra Ord. Income / (Exp)	-	-	-	-
Reported PAT	12	12	11	11
YoY gr. (%)	(2.2)	0.8	(1.2)	(1.4)
Margin (%)	13.1	13.0	12.4	12.4
Other Comprehensive Income	-	-	-	-
Total Comprehensive Income	12	12	11	11
Avg. Shares O/s (bn)	-	-	-	-
EPS (Rs)	39.3	39.5	37.3	38.4

Source: Company Data, PL Research

Price Chart

Recommendation History



No.	Date	Rating	TP (Rs.)	Share Price (Rs.)
1	02-Jul-24	Accumulate	5,910	5,440
2	25-Apr-24	Accumulate	5,015	4,733

Analyst Coverage Universe

Sr. No.	Company Name	Rating	TP (Rs)	Share Price (Rs)
1	HCL Technologies	BUY	1,790	1,560
2	Infosys	Hold	1,510	1,591
3	LTIMindtree	Accumulate	5,910	5,440
4	Tata Consultancy Services	Accumulate	4,370	3,924
5	Tech Mahindra	Reduce	1,230	1,472
6	Wipro	Hold	490	527

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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