

06 November 2024

India | Equity Research | Q2FY25 results review

## Berger Paints

Consumer Staples &amp; Discretionary

### Could have been better!

Paint industry has likely declined by ~2% in Q2FY25. Considering industry slowdown and steep increase in competitive pressures, we believe Berger reported moderate results with volume growth of 3.6% YoY. While EBITDA margin contracted 147bps YoY to 15.6% in Q2FY25, it was within the guided band of 15%-17%. Berger has also intensified the investments in urban markets with additional investments in distribution and GTM. Its market share in key metros is ~10% compared to pan-India (likely M&A opportunity) market share of ~20%. It plans to steadily improve market shares to ~15%. It also added 2,200+ retail touchpoints and 2,000+ colorbank machines in Q2FY25. Berger also indicated that there is healthy improvement in off-take of premium products which are margin accretive. The demand has also improved towards the end of Sept'24 indicating likely recovery in off-take in H2FY25. We reckon [comfortable] competitive equilibrium in paints is likely broken. Retain underweight on large cap paints. Maintain **REDUCE**.

### Q2FY25 result

Berger reported revenue growth of 0.3% YoY. However, EBITDA and PAT declined 8.3% and 7.5%, respectively YoY. Higher other income (38.1% Up YoY) led to better profitability at PAT level in spite of weak EBITDA margin. EBITDA margin (15.6% in Q2FY25) was in the guided range of 15%-17%. Standalone revenues, EBITDA and PAT declined 0.4%, 4.9% and 6.1%, respectively YoY.

### Investments in Urban markets

Berger has ~20% market share pan-India but its market share in key metros is ~10%. While there is strong brand recall, the company believes it needs more investments in distribution and its Go-To-Market approach. It plans to raise market shares to ~15% in coming years. The company has done additional investments in workforce. While it has impacted H1FY25 earnings, market share expansion is likely to be RoCE accretive.

### Weak off-take in Q2FY25 but recovery visible

Berger reported volume growth of 3.6% YoY as unusually extended monsoon and floods in its key markets such as Andhra Pradesh, Kerala, West Bengal, Gujarat and Maharashtra impacted the off-take. However, the off-take recovered in later part of Sept'24. Demand has also recovered in East India. While premium products did well in Q2FY25, economy products performed poorly. Construction chemicals, waterproofing and wood coatings reported strong growth YoY.

### Financial Summary

Y/E March (INR mn)	FY23A	FY24A	FY25E	FY26E
Net Revenue	1,05,678	1,11,989	1,15,784	1,28,050
EBITDA	14,872	18,613	17,661	18,943
EBITDA Margin (%)	14.1	16.6	15.3	14.8
Net Profit	8,594	11,678	11,187	12,439
EPS (INR)	7.4	10.0	9.6	10.7
EPS % Chg YoY	3.2	35.9	(4.2)	11.2
P/E (x)	69.6	51.2	53.5	48.1
EV/EBITDA (x)	40.6	32.1	33.4	30.8
RoCE (%)	17.0	19.3	16.6	16.0
RoE (%)	20.4	23.6	19.5	19.3

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#### Market Data

Market Cap (INR)	599bn
Market Cap (USD)	7,117mn
Bloomberg Code	BRGR IN
Reuters Code	BRGR.BO
52-week Range (INR)	630 /439
Free Float (%)	24.0
ADTV-3M (mn) (USD)	10.5

Price Performance (%)	3m	6m	12m
Absolute	(5.7)	(1.9)	(7.2)
Relative to Sensex	(6.6)	(9.5)	(30.7)

ESG Score	2022	2023	Change
ESG score	47.2	63.2	16.0
Environment	22.2	45.2	23.0
Social	31.3	63.5	32.2
Governance	72.6	74.6	2.0

Note - Score ranges from 0 - 100 with a higher number indicating a higher ESG score.

Source: SES ESG, I-sec research

Earnings Revisions (%)	FY25E	FY26E
Revenue	(4.1)	(4.1)
EBITDA	(6.9)	(7.0)
EPS	(8.8)	(7.9)

#### Previous Reports

11-08-2024: [Q1FY25 results review](#)

16-05-2024: [Q4FY24 results review](#)

### Distribution expansion-based investments may continue

Berger aims to add 8,000 retail touchpoints to its distribution network in FY25. It added 1,900 outlets in Q1FY25 and 2,200 in Q2FY25. Further, it has installed 1,800 tinting machines in Q1FY25 and 2,000 in Q2FY25. We believe aggressive investments in trade augur well considering there is increase in competitive pressures.

### Industrial coatings reported strong growth YoY

The protective coatings business reported double-digit volume growth YoY. While Automotive, General Industrial and Powder coating business had flat growth in Q2FY25 YoY due to suppressed two-wheeler demand and weak consumer durable market, the demand trends have improved in Oct'24.

### Valuation

We model Berger to report revenue and PAT CAGRs of 6.9% and 3.2%, respectively, over FY24-26E. We believe increase in competitive pressures post Grasim's entry is likely to impact industry profit pool and thus valuation multiples. Maintain **REDUCE** with DCF-based revised TP of INR 470 (implied P/E of 44x on FY26E EPS).

**Key risks:** Steep correction in commodity prices and lower-than-expected competitive pressure.

**Exhibit 1: Q2FY25 consolidated financial performance**

INR mn	Q2FY25	Q2FY24	YoY % chg.	Q1FY25	QoQ % chg.	H1FY25	H1FY24	% YoY
<b>Net revenues</b>	<b>27,746</b>	<b>27,673</b>	<b>0.3</b>	<b>30,910</b>	<b>(10.2)</b>	<b>58,656</b>	<b>57,968</b>	<b>1.2</b>
Raw materials	16,175	16,294	(0.7)	18,585	(13.0)	34,760	34,525	0.7
% of sales	58%	59%	-58 bps	60%	-183 bps	59%	60%	-126 bps
Employee costs	2,211	1,902	16.2	1,922	15.0	4,134	3,571	15.7
% of sales	8.0%	6.9%	110 bps	6.2%	175 bps	7.0%	6.2%	181 bps
Other expenditure	5,018	4,740	5.9	5,179	(3.1)	10,197	9,568	6.6
% of sales	18%	17%	96 bps	17%	133 bps	17%	17%	158 bps
<b>Total expenditure</b>	<b>23,404</b>	<b>22,937</b>	<b>2.0</b>	<b>25,686</b>	<b>(8.9)</b>	<b>49,090</b>	<b>47,664</b>	<b>3.0</b>
<b>EBITDA</b>	<b>4,342</b>	<b>4,737</b>	<b>(8.3)</b>	<b>5,224</b>	<b>(16.9)</b>	<b>9,566</b>	<b>10,304</b>	<b>(7.2)</b>
EBITDA margin (%)	15.6%	17.1%	-147 bps	16.9%	-125 bps	16.3%	17.8%	-213 bps
Other income	211	153	38.1	363	(41.9)	574	289	99.0
<b>PBDIT</b>	<b>4,553</b>	<b>4,889</b>	<b>(6.9)</b>	<b>5,587</b>	<b>(18.5)</b>	<b>10,140</b>	<b>10,593</b>	<b>(4.3)</b>
Depreciation	890	829	7.4	872	2.0	1,762	1,611	9.4
<b>PBIT</b>	<b>3,663</b>	<b>4,061</b>	<b>(9.8)</b>	<b>4,715</b>	<b>(22.3)</b>	<b>8,378</b>	<b>8,982</b>	<b>(6.7)</b>
Interest	170	211	(19.3)	152	12.1	322	408	(21.1)
<b>PBT</b>	<b>3,493</b>	<b>3,850</b>	<b>(9.3)</b>	<b>4,564</b>	<b>(23.5)</b>	<b>8,056</b>	<b>8,574</b>	<b>(6.0)</b>
Tax	883	967	(8.7)	1,120	(21.2)	2,002	2,180	(8.1)
% of PBT	25%	25%	15 bps	25%	73 bps	25%	25%	-15 bps
Extraordinary	(39)	145	-	(22)	-	(61)	101	-
<b>PAT</b>	<b>2,571</b>	<b>3,028</b>	<b>(15.1)</b>	<b>3,422</b>	<b>(24.9)</b>	<b>5,993</b>	<b>6,496</b>	<b>(7.7)</b>
Minority/ Share in associates	86	33	158.1	92	(5.8)	178	66	171.3
<b>Reported PAT</b>	<b>2,658</b>	<b>3,061</b>	<b>(13.2)</b>	<b>3,514</b>	<b>(24.4)</b>	<b>6,171</b>	<b>6,561</b>	<b>(5.9)</b>
<b>Adjusted PAT</b>	<b>2,697</b>	<b>2,916</b>	<b>(7.5)</b>	<b>3,536</b>	<b>(23.7)</b>	<b>6,232</b>	<b>6,460</b>	<b>(3.5)</b>

Source: Company data, I-Sec research

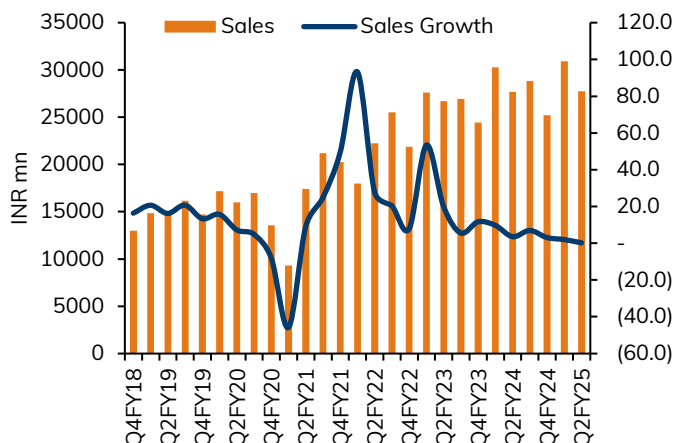
**Exhibit 2: Q2FY25 standalone financial performance**

INR mn	Q2FY25	Q2FY24	YoY % chg.	Q1FY25	QoQ % chg.	H1FY25	H1FY24	YoY % chg.
<b>Net revenues</b>	<b>24,307</b>	<b>24,398</b>	<b>(0.4)</b>	<b>28,063</b>	<b>(13.4)</b>	<b>52,370</b>	<b>51,796</b>	<b>1.1</b>
Raw materials	14,485	14,628	(1.0)	17,049	(15.0)	31,534	31,241	0.9
% of sales	60%	60%	-37 bps	61%	-116 bps	60%	60%	-72 bps
Employee costs	1,658	1,453	14.1	1,455	14.0	3,113	2,715	14.7
% of sales	7%	6%	87 bps	5%	164 bps	6%	5%	158 bps
Other expenditure	4,330	4,286	1.0	4,722	(8.3)	9,052	8,670	4.4
% of sales	18%	18%	25 bps	17%	99 bps	17%	17%	107 bps
<b>Total expenditure</b>	<b>20,473</b>	<b>20,367</b>	<b>0.5</b>	<b>23,226</b>	<b>(11.9)</b>	<b>43,699</b>	<b>42,626</b>	<b>2.5</b>
<b>EBITDA</b>	<b>3,834</b>	<b>4,031</b>	<b>(4.9)</b>	<b>4,837</b>	<b>(20.7)</b>	<b>8,671</b>	<b>9,170</b>	<b>(5.4)</b>
EBITDA margin (%)	15.8%	16.5%	-75 bps	17.2%	-146 bps	16.6%	17.7%	-193 bps
Other income	169	159	6.5	168	0.5	337	276	22.2
<b>PBDIT</b>	<b>4,003</b>	<b>4,190</b>	<b>(4.5)</b>	<b>5,005</b>	<b>(20.0)</b>	<b>9,009</b>	<b>9,446</b>	<b>(4.6)</b>
Depreciation	798	747	6.8	783	2.0	1,581	1,446	9.4
<b>PBIT</b>	<b>3,205</b>	<b>3,443</b>	<b>(6.9)</b>	<b>4,222</b>	<b>(24.1)</b>	<b>7,427</b>	<b>8,000</b>	<b>(7.2)</b>
Interest	128	172	(25.5)	116	10.6	244	339	(28.1)
<b>PBT</b>	<b>3,077</b>	<b>3,271</b>	<b>(5.9)</b>	<b>4,106</b>	<b>(25.1)</b>	<b>7,183</b>	<b>7,661</b>	<b>(6.2)</b>
Tax	787	832	(5.4)	1,051	(25.1)	1,838	1,959	(6.1)
% of PBT	26%	25%	15 bps	26%	-2 bps	26%	26%	2 bps
<b>PAT</b>	<b>2,290</b>	<b>2,439</b>	<b>(6.1)</b>	<b>3,055</b>	<b>(25.1)</b>	<b>5,345</b>	<b>5,702</b>	<b>(6.3)</b>
Extraordinary items	(15)	(2)	512.5	6	(353.4)	(9)	(4)	107.0
<b>Reported PAT</b>	<b>2,275</b>	<b>2,437</b>	<b>(6.6)</b>	<b>3,061</b>	<b>(25.7)</b>	<b>5,336</b>	<b>5,698</b>	<b>(6.3)</b>
<b>Adjusted PAT</b>	<b>2,290</b>	<b>2,438</b>	<b>(6.1)</b>	<b>3,055</b>	<b>(25.1)</b>	<b>5,345</b>	<b>5,701</b>	<b>(6.2)</b>

Source: Company data, I-Sec research

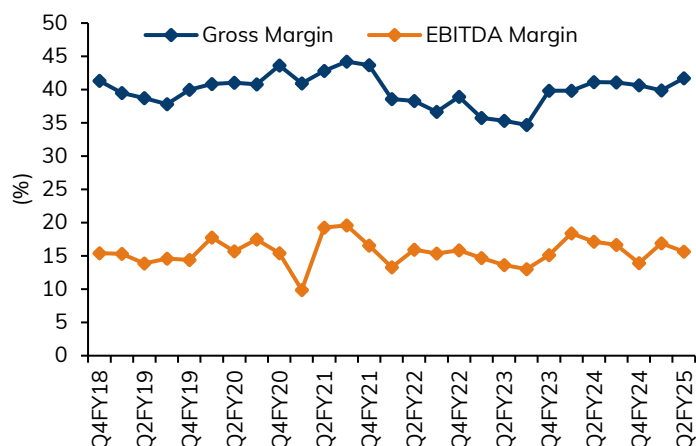
## Quarterly operational highlights (consolidated)

Exhibit 3: Revenue and growth rates



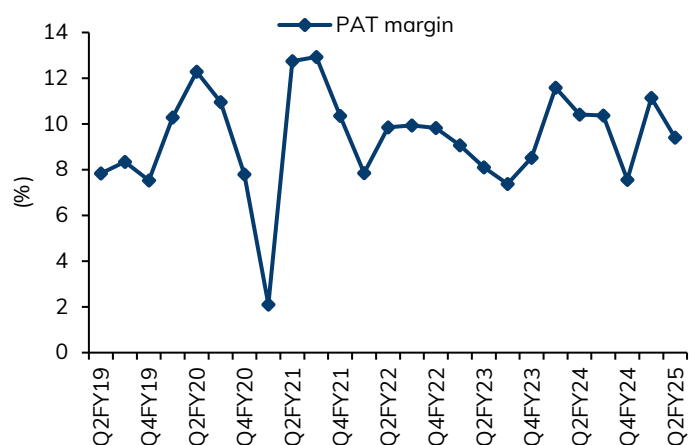
Source: Company data, I-Sec research

Exhibit 4: Gross and EBITDA margins



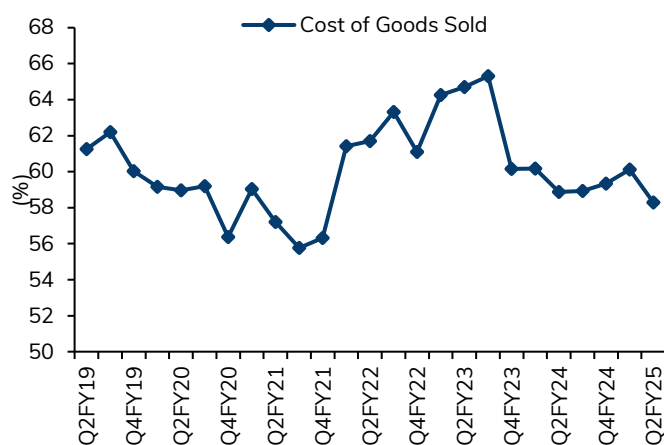
Source: Company data, I-Sec research

Exhibit 5: PAT margin



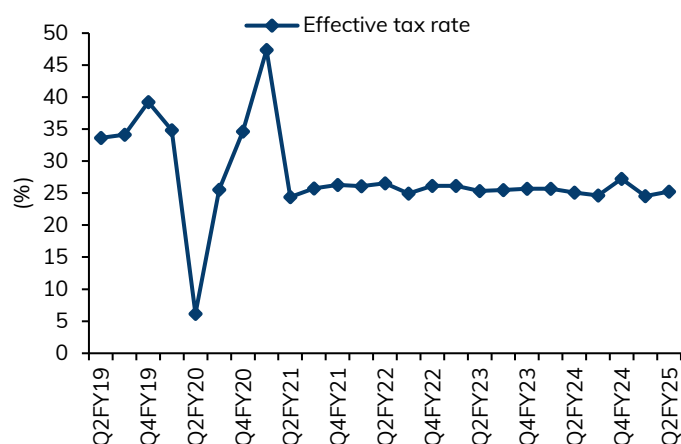
Source: Company data, I-Sec research

Exhibit 6: CoGS as % of net sales



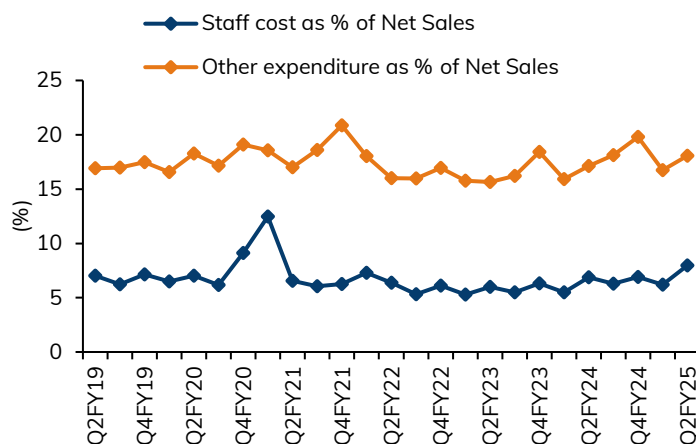
Source: Company data, I-Sec research

Exhibit 7: Effective tax rate



Source: Company data, I-Sec research

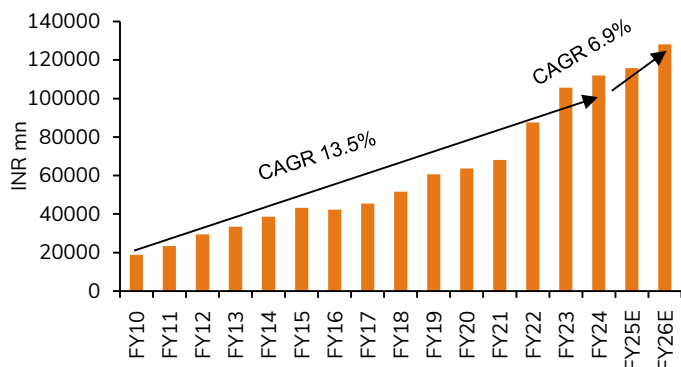
Exhibit 8: Staff cost and other expenditure



Source: Company data, I-Sec research

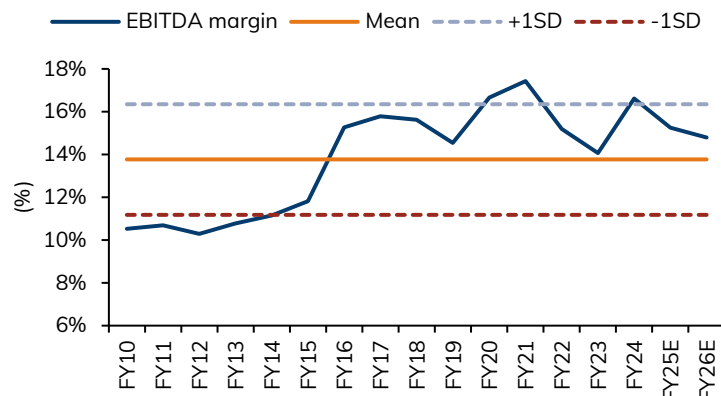
## Annual operational highlights (consolidated)

**Exhibit 9: Revenue and growth rates**



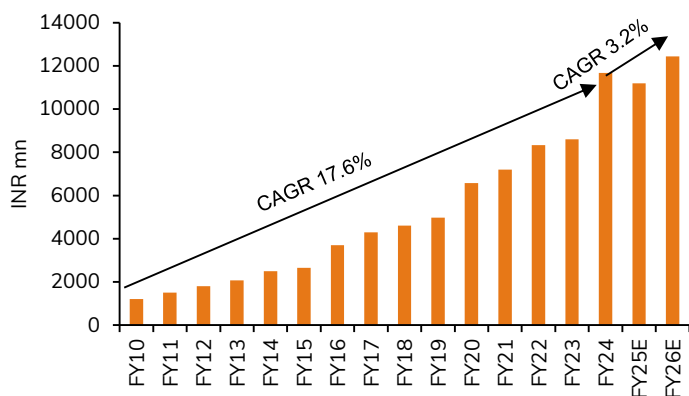
Source: Company data, I-Sec research

**Exhibit 10: EBITDA margin**



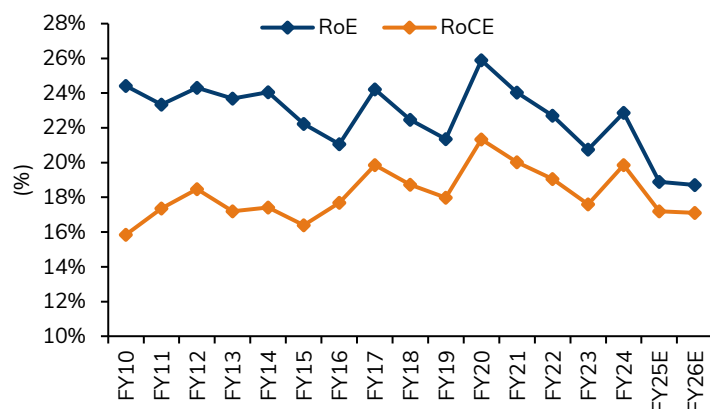
Source: Company data, I-Sec research

**Exhibit 11: PAT and growth rates**



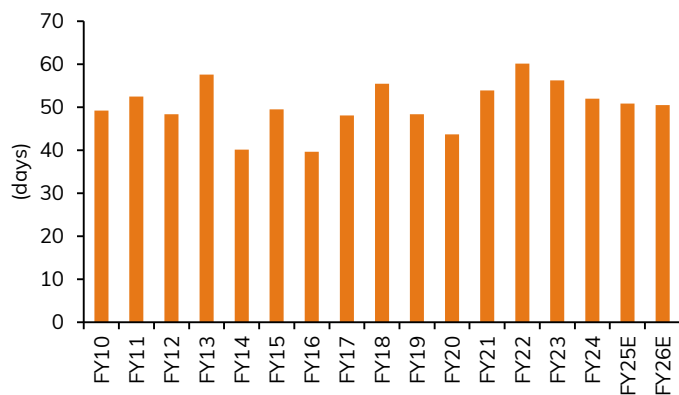
Source: Company data, I-Sec research

**Exhibit 12: RoE and RoCE**



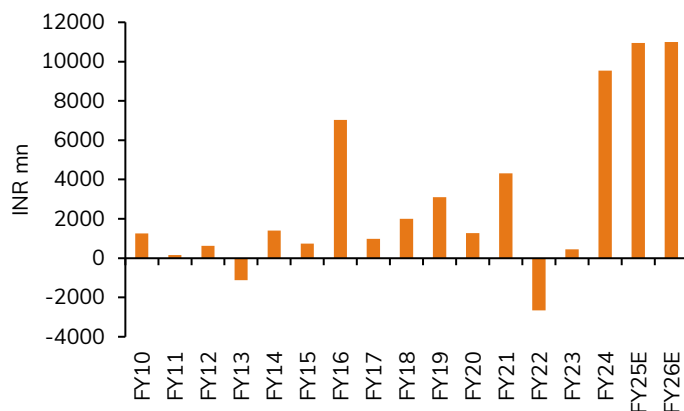
Source: Company data, I-Sec research

**Exhibit 13: Net working capital days**



Source: Company data, I-Sec research

**Exhibit 14: Free cashflow**



Source: Company data, I-Sec research

## Q2FY25 result and conference call takeaways

- **Urban initiative:** Berger has a (relatively) weak presence in major metro cities (as per management). While the company has ~20% overall market share in the paint industry, it has only ~10% market share in major metro cities. Considering the large market size of metro cities, Berger aims to expand its presence in urban markets. The company aims to expand its current market share (~10%) to 12.5% in the short-term and further to 15% over next 2-3 years.

Berger has made strong investments on increasing its workforce (building separate dedicated teams) and aims to invest further, whenever required.

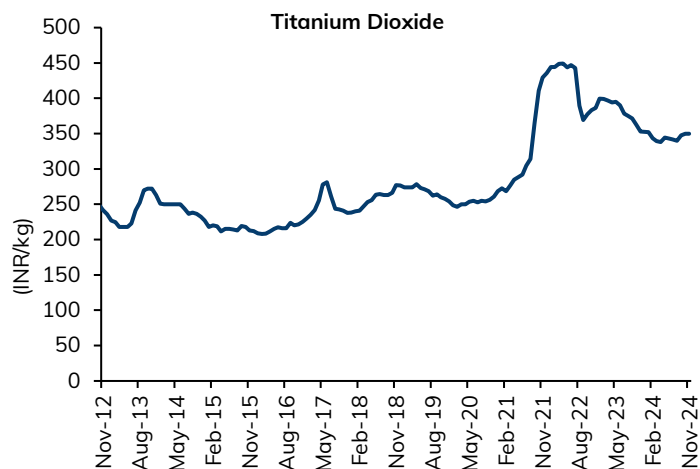
- **Gross margin:** Berger remains optimistic about maintaining its buoyant gross margin trajectory. The company indicated that competition certainly impacts its margins. However, it benefits from the premium that Berger commands over other players being one of the market leaders.
- **Industrial business:** Protective coating business reported strong revenue growth led by double-digit volume and mid-single-digit value growth. However, automotive, industrial and powder coating businesses had flat growth YoY amid weak demand trends in Q2FY25.
- **One off cost impacts profitability of subsidiary:** Bolix S.A (subsidiary) had to reverse the impact of revenues it had booked at one of its projects undertaken due to dispute. Profitability was impacted during the quarter due to a one-off cost it incurred (~INR120mn).
- **Demand environment:** Berger had ~8% volume growth in H1FY25. The company indicates it may report near double-digit volume growth in Q3FY25 (~7-9%) and remains optimistic of double-digit volume growth in Q4FY25.
- **Putty business:** Pricing of putty products had been highly competitive in Q2FY25 at industry level. Thus, the company had taken a conscious decision to have limited focus on the putty business during the quarter.
- **Industry-level volume/value growth estimation:** Berger indicates paint industry may report a decline in value growth to tune of -1 to -1.5% in Q2FY25 YoY. Volume growth may vary for all players based on the product mix.

Berger indicates the value-volume gap may shrink in H2FY25 led by (1) reduction in price drop backlog; (2) product mix change; and (3) benefits of recent price hikes. The value-volume gap of ~5-6% may reduce to 2-3% in Q3.

- **Net cash position:** Berger has net cash of INR2.4bn as of Sep'24, as against INR3.4bn in Mar'24. The net cash position declined due to dividend payments.
- **Region wise demand update:** East region, which was relatively underperforming, has witnessed a bounce back in demand in recent past months. The company has seen higher revenue growth in Kerala market YoY due to Q2FY24's favourable base. East region and Kerala market are key markets for Berger. The company remains optimistic of better demand growth in these markets in coming quarters. Berger indicates demand has remained weak in some regions of Telangana, Andhra Pradesh and Gujarat. Bihar and Madhya Pradesh markets reported good demand growth in Oct'24.
- **Differentiated products:** Revenue contribution of differentiated products stands at 20%-plus. Differentiated products generate relatively higher gross margin than overall average gross margin profile.

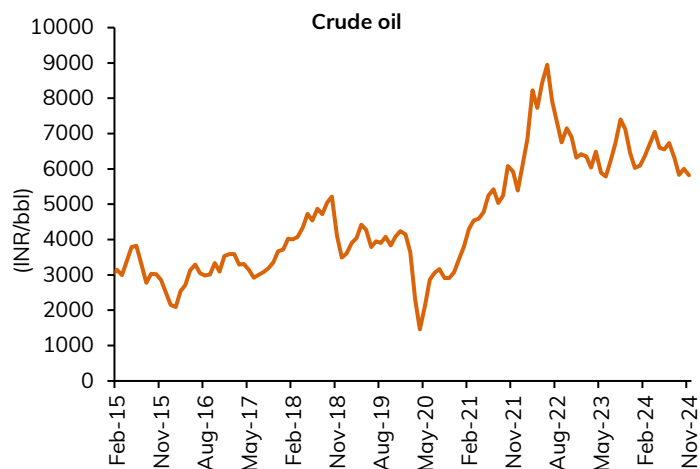
## Key raw material prices

**Exhibit 15: Titanium dioxide**



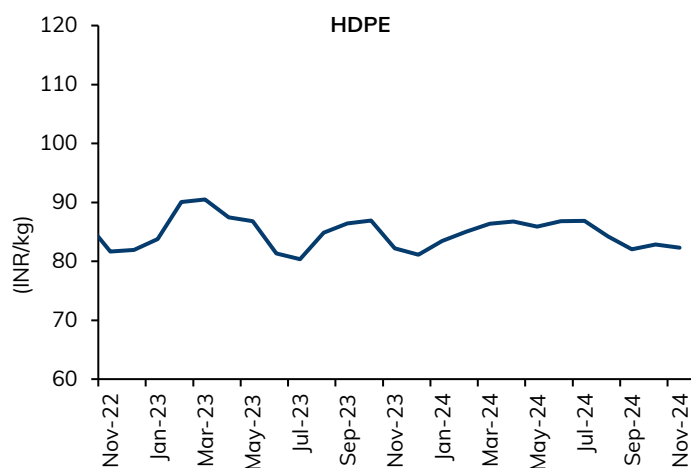
Source: Company data, I-Sec research

**Exhibit 16: Crude oil**



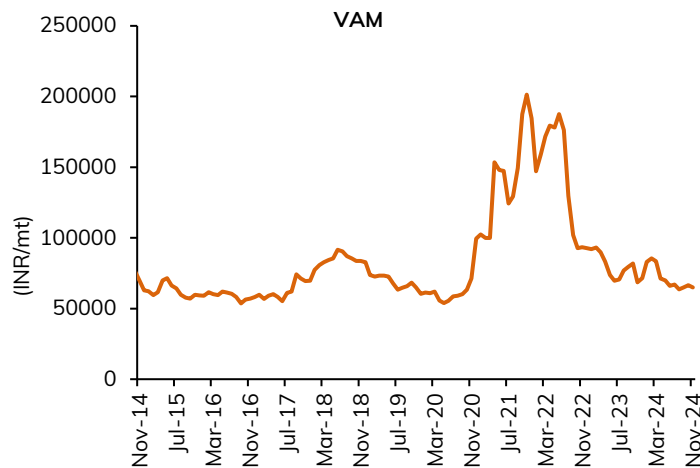
Source: Company data, I-Sec research

**Exhibit 17: Packaging material - HDPE**



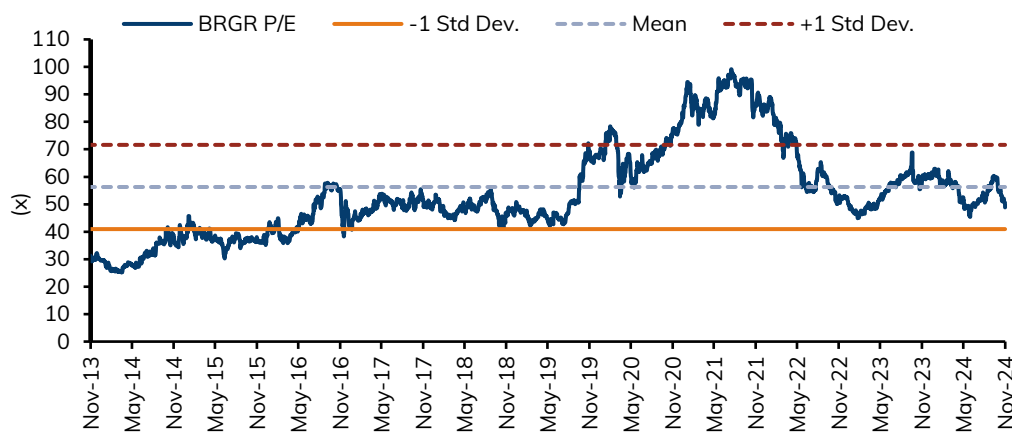
Source: Company data, I-Sec research

**Exhibit 18: VAM prices**



Source: Company data, I-Sec research

**Exhibit 19: Mean PE and standard deviation**



Source: Bloomberg, I-Sec research

Exhibit 20: Shareholding pattern

%	Mar'24	Jun'24	Sep'24
Promoters	75.0	75.0	75.0
Institutional investors	15.9	15.1	15.7
MFs and others	0.9	3.2	3.8
Insurance	4.2	4.3	4.9
FIIIs	10.8	7.6	7.0
Others	9.1	9.9	9.3

Source: Bloomberg

Exhibit 21: Price chart



Source: Bloomberg



## Financial Summary

### Exhibit 22: Profit & Loss

(INR mn, year ending March)

	FY23A	FY24A	FY25E	FY26E
<b>Net Sales</b>	<b>1,05,678</b>	<b>1,11,989</b>	<b>1,15,784</b>	<b>1,28,050</b>
Operating Expenses	90,806	93,376	98,122	1,09,107
<b>EBITDA</b>	<b>14,872</b>	<b>18,613</b>	<b>17,661</b>	<b>18,943</b>
EBITDA Margin (%)	14.1	16.6	15.3	14.8
Depreciation & Amortization	2,640	3,309	3,327	3,544
EBIT	12,232	15,304	14,335	15,399
Interest expenditure	992	783	597	522
Other Non-operating Income	516	637	697	1,232
<b>Recurring PBT</b>	<b>11,755</b>	<b>15,159</b>	<b>14,436</b>	<b>16,109</b>
<b>Profit / (Loss) from Associates</b>	<b>(141)</b>	<b>390</b>	<b>390</b>	<b>390</b>
Less: Taxes	3,019	3,871	3,638	4,059
PAT	8,736	11,288	10,798	12,050
Less: Minority Interest	-	-	-	-
Extraordinaries (Net)	44	223	-	-
<b>Net Income (Reported)</b>	<b>8,638</b>	<b>11,901</b>	<b>11,187</b>	<b>12,439</b>
<b>Net Income (Adjusted)</b>	<b>8,594</b>	<b>11,678</b>	<b>11,187</b>	<b>12,439</b>

Source Company data, I-Sec research

### Exhibit 23: Balance sheet

(INR mn, year ending March)

	FY23A	FY24A	FY25E	FY26E
Total Current Assets	41,115	42,321	46,971	54,413
of which cash & cash eqv.	2,447	4,507	7,875	11,175
Total Current Liabilities & Provisions	22,147	21,631	22,739	25,285
<b>Net Current Assets</b>	<b>18,968</b>	<b>20,690</b>	<b>24,233</b>	<b>29,127</b>
Investments	4,128	4,470	7,970	11,470
Net Fixed Assets	30,499	31,951	31,624	31,080
ROU Assets	-	-	-	-
Capital Work-in-Progress	1,105	1,890	1,890	1,890
Total Intangible Assets	2,817	3,047	3,047	3,047
Long Term Loans & Advances	-	-	-	-
Deferred Tax assets	-	-	-	-
<b>Total Assets</b>	<b>57,517</b>	<b>62,047</b>	<b>68,763</b>	<b>76,614</b>
<b>Liabilities</b>				
<b>Borrowings</b>	<b>11,944</b>	<b>7,456</b>	<b>7,456</b>	<b>7,456</b>
<b>Deferred Tax Liability</b>	<b>551</b>	<b>699</b>	<b>699</b>	<b>699</b>
Provisions	-	-	-	-
Other Liabilities	-	-	-	-
Equity Share Capital	971	1,166	1,166	1,166
Reserves & Surplus	43,970	52,624	59,340	67,191
<b>Total Net Worth</b>	<b>44,941</b>	<b>53,790</b>	<b>60,505</b>	<b>68,356</b>
Minority Interest	81	102	102	102
<b>Total Liabilities</b>	<b>57,517</b>	<b>62,047</b>	<b>68,763</b>	<b>76,614</b>

Source Company data, I-Sec research

### Exhibit 24: Quarterly trend

(INR mn, year ending March)

	Dec-23	Mar-24	Jun-24	Sep-24
Net Sales	28,818	25,203	30,910	27,746
% growth (YOY)	7.0%	3.1%	2.0%	0.3%
EBITDA	4,800	3,509	5,224	4,342
Margin %	16.7%	13.9%	16.9%	16.9%
Other Income	189	159	363	211
Extraordinaries	133	(11)	92	86
Adjusted Net Profit	2,997	2,221	3,536	2,697

Source Company data, I-Sec research

### Exhibit 25: Cashflow statement

(INR mn, year ending March)

	FY23A	FY24A	FY25E	FY26E
<b>Operating Cashflow</b>	<b>9,525</b>	<b>15,083</b>	<b>13,951</b>	<b>13,999</b>
Working Capital Changes	(1,886)	338	(174)	(1,595)
Capital Commitments	(9,077)	(5,545)	(3,000)	(3,000)
<b>Free Cashflow</b>	<b>448</b>	<b>9,538</b>	<b>10,951</b>	<b>10,999</b>
<b>Other investing cashflow</b>	<b>301</b>	<b>(572)</b>	<b>(3,500)</b>	<b>(3,500)</b>
Cashflow from Investing Activities	(8,776)	(6,117)	(6,500)	(6,500)
Issue of Share Capital	-	-	-	-
Interest Cost	-	-	-	-
Inc (Dec) in Borrowings	1,624	(4,488)	-	-
Dividend paid	(3,107)	(4,078)	(4,194)	(4,311)
Others	52	1,659	112	112
Cash flow from Financing Activities	(1,431)	(6,907)	(4,082)	(4,199)
<b>Chg. in Cash &amp; Bank balance</b>	<b>(683)</b>	<b>2,060</b>	<b>3,369</b>	<b>3,300</b>
Closing cash & balance	2,447	4,507	7,875	11,175

Source Company data, I-Sec research

### Exhibit 26: Key ratios

(Year ending March)

	FY23A	FY24A	FY25E	FY26E
<b>Per Share Data (INR)</b>				
Reported EPS	7.4	10.0	9.6	10.7
Adjusted EPS (Diluted)	7.4	10.0	9.6	10.7
Cash EPS	9.6	12.9	12.5	13.7
Dividend per share (DPS)	2.7	3.5	3.6	3.7
Book Value per share (BV)	38.6	46.2	51.9	58.7
Dividend Payout (%)	36.2	34.9	37.5	34.7
<b>Growth (%)</b>				
Net Sales	20.6	6.0	3.4	10.6
EBITDA	11.7	25.2	(5.1)	7.3
EPS	3.2	35.9	(4.2)	11.2
<b>Valuation Ratios (x)</b>				
P/E	69.6	51.2	53.5	48.1
P/CEPS	53.2	39.9	41.2	37.4
P/BV	13.3	11.1	9.9	8.8
EV / EBITDA	40.6	32.1	33.4	30.8
P / Sales	5.7	5.3	5.2	4.7
Dividend Yield (%)	0.0	0.0	0.0	0.0
<b>Operating Ratios</b>				
Gross Profit Margins (%)	36.3	40.7	39.4	38.9
EBITDA Margins (%)	14.1	16.6	15.3	14.8
Effective Tax Rate (%)	25.7	25.5	25.2	25.2
Net Profit Margins (%)	8.1	10.4	9.7	9.7
Net Debt / Equity (x)	0.1	0.0	(0.1)	(0.2)
Net Debt / EBITDA (x)	0.4	(0.1)	(0.5)	(0.8)
Fixed Asset Turnover (x)	3.5	3.0	2.6	2.7
Working Capital Days	69	58	54	55
Inventory Turnover Days	97	78	74	77
Receivables Days	52	47	44	46
Payables Days	74	60	58	61
<b>Profitability Ratios</b>				
RoCE (%)	17.0	19.3	16.6	16.0
RoE (%)	20.4	23.6	19.5	19.3
RoIC (%)	19.7	22.2	20.5	21.8

Source Company data, I-Sec research

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