

November 14, 2022

Q2FY23 Result Update

☑ Change in Estimates | ■ Target | ■ Reco

Change in Estimates

| | Current | | Previous | |
|----------------|---------|--------|----------|--------|
| | FY24E | FY25E | FY24E | FY25E |
| Rating | BUY | | BUY | |
| Target Price | 430 | | 430 | |
| Sales (Rs. m) | 18,933 | 21,210 | 19,164 | 21,192 |
| % Chng. | (1.2) | 0.1 | | |
| EBITDA (Rs. m) | 3,819 | 4,388 | 4,149 | 4,668 |
| % Chng. | (8.0) | (6.0) | | |
| EPS (Rs.) | 22.6 | 26.9 | 25.0 | 28.7 |
| % Chng. | (9.5) | (6.6) | | |

Key Financials - Consolidated

| Y/e Mar | FY22 | FY23E | FY24E | FY25E |
|----------------|--------|--------|--------|--------|
| Sales (Rs. m) | 15,408 | 17,190 | 18,933 | 21,210 |
| EBITDA (Rs. m) | 3,273 | 3,375 | 3,819 | 4,388 |
| Margin (%) | 21.2 | 19.6 | 20.2 | 20.7 |
| PAT (Rs. m) | 1,548 | 1,822 | 2,085 | 2,475 |
| EPS (Rs.) | 16.8 | 19.8 | 22.6 | 26.9 |
| Gr. (%) | 123.8 | 17.7 | 14.4 | 18.7 |
| DPS (Rs.) | 2.3 | 2.3 | 2.3 | 2.3 |
| Yield (%) | 0.6 | 0.6 | 0.6 | 0.6 |
| RoE (%) | 18.5 | 18.5 | 18.0 | 18.1 |
| RoCE (%) | 23.3 | 21.3 | 21.6 | 22.4 |
| EV/Sales (x) | 2.2 | 2.0 | 1.8 | 1.5 |
| EV/EBITDA (x) | 10.5 | 10.1 | 8.8 | 7.4 |
| PE (x) | 20.7 | 17.6 | 15.4 | 13.0 |
| P/BV (x) | 3.5 | 3.0 | 2.6 | 2.2 |

Key Data

INRM.BO | INDR IN

| | |
|---------------------|------------------|
| 52-W High / Low | Rs.458 / Rs.308 |
| Sensex / Nifty | 61,795 / 18,350 |
| Market Cap | Rs.32bn/ \$ 397m |
| Shares Outstanding | 92m |
| 3M Avg. Daily Value | Rs.34.28m |

Shareholding Pattern (%)

| | |
|-------------------------|-------|
| Promoter's | 58.69 |
| Foreign | 1.07 |
| Domestic Institution | 17.33 |
| Public & Others | 22.91 |
| Promoter Pledge (Rs bn) | - |

Stock Performance (%)

| | 1M | 6M | 12M |
|----------|-------|--------|--------|
| Absolute | 2.4 | 2.6 | (18.6) |
| Relative | (5.3) | (10.2) | (21.1) |

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In-line quarter

Quick Pointers:

- Other operating income aided by higher forex gain.
- EU business guided for 14-15% OPM vs 9-10% of current level.

Indoco Remedies' (INDR) H1FY23 performance was muted with +12% YoY decline in EBITDA (adj for forex gain). We expect margins to recover, led by softening of input prices and scale up of revenues. Domestic market (ex COVID) continues to grow. We remain structurally positive on INDR's growth prospects given 1) MR productivity enhancement and higher penetration in North & East markets 2) new launches in US and 3) higher tender business in EU market. At CMP, stock is trading at 15.5x FY24E EPS. We reiterate our 'Buy' rating with unchanged TP of Rs430.

- In-line revenues:** Consolidated revenues grew by 12% to Rs4.3bn largely in-line with our estimates. Domestic formulations declined by 2.4% YoY to Rs 2.1bn vs our estimate of Rs 2.4bn. Key therapeutic segments Respiratory and Anti-infectives witnessed de-growth YoY, given COVID base. Regulated business grew by 33% YoY to Rs1.5bn, in-line with our estimates. US sales came in at Rs693mn (up 7% QoQ), while EU sales were down 4% QoQ. EM formulation grew by 10% YoY. API decreased 61% YoY.
- EBITDA beat aided by forex gain:** INDR registered EBITDA of Rs879mn, up 23% QoQ vs our estimates of Rs839mn, aided by higher other operating income. Reported OPM of 20.3%, up 280bps QoQ. Other operating came in higher at Rs280mn which includes +Rs130mn forex gain. Adj for forex gain, margins were flat QoQ. Gross margins were up by 200bps QoQ to 68.5% aided by better product mix. Other expenses increased by 14% QoQ (up 20% YoY) which includes one-time charges of Rs 70mn. R&D cost came in at 4.6% of sales, down 12% YoY. Resultant PAT grew by 19% YoY (up 29% QoQ) to Rs 497mn vs our estimates of Rs 448mn.
- Key concall takeaways: (1) Domestic Formulation:** Expect H2 to see better revenues in India. Guided for 4-5% YoY growth in FY23. New launches contributed 2.3% to total sales in Q2FY23 vs 0.8% in Q2FY22. Booked Rs500mn from chronic segment in H1 (which grew by 2%), while sub-chronic grew by 11.5% in H1. (2) EU markets have strong order book of Rs1.5bn; currently doing margins of 9-10%. Guided for 14-15% OPM over next 3-4 quarters (3) Reiterated its guidance of Rs3bn US sales in FY23. Launched three new products in US with 1 in Ophthal and 2 in injectable. Incremental filings more skewed towards injectable. (4) Relaunched brinzolamide; profit share contribution was negligible. Total profit share across products in Q2 was to tune of Rs70mn; flat QoQ (5) gCombigan launched by a Teva month back. Profit share from product will be reflected from Q3 onwards (6) The other operating income includes incremental FX gain of Rs 130mn. (7) Mgt expects margins to be at normalized level of 20% and should improve going forward (8) Capex will be to tune of Rs 1.2bn for FY23. (9) R&D to remain at similar level going forward (10) Given hedging strategies, EU biz did well despite weak currency.

Exhibit 1: 2QFY23 Result Overview (Rs m): Adj for froex gain EBIDTA was in line

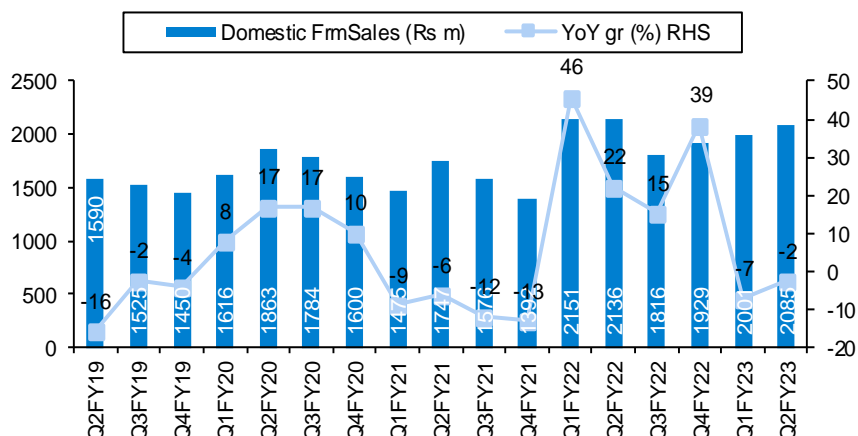
| Y/e March | Q2FY23 | Q2FY22 | YoY gr. (%) | Q1FY23 | QoQ gr. (%) | H1FY23 | H1FY22 | YoY gr. (%) |
|-----------------------|--------------|--------------|-------------|--------------|-------------|--------------|--------------|--------------|
| Net Sales | 4,330 | 3,869 | 11.9 | 4,082 | 6.1 | 8,413 | 7,736 | 8.7 |
| Raw Material | 1,274 | 1,063 | 19.8 | 1,321 | (3.6) | 2,595 | 2,166 | 19.8 |
| <i>% of Net Sales</i> | <i>29.4</i> | <i>27.5</i> | | <i>32.4</i> | | <i>30.8</i> | <i>28.0</i> | |
| Personnel Cost | 804 | 742 | 8.4 | 827 | (2.7) | 1,631 | 1,492 | 9.3 |
| <i>% of Net Sales</i> | <i>18.6</i> | <i>19.2</i> | | <i>20.3</i> | | <i>19.4</i> | <i>19.3</i> | |
| Others | 1,374 | 1,199 | 14.5 | 1,220 | 12.6 | 2,594 | 2,345 | 10.6 |
| <i>% of Net Sales</i> | <i>31.7</i> | <i>31.0</i> | | <i>29.9</i> | | <i>30.8</i> | <i>30.3</i> | |
| Total Expenditure | 3,452 | 3,004 | 14.9 | 3,368 | 2.5 | 6,820 | 6,003 | 13.6 |
| EBITDA | 879 | 864 | 1.6 | 715 | 23.0 | 1,593 | 1,733 | (8.1) |
| <i>Margin (%)</i> | <i>20.3</i> | <i>22.3</i> | | <i>17.5</i> | | <i>18.9</i> | <i>22.4</i> | |
| Depreciation | 157 | 195 | (19.5) | 201 | (22.1) | 358 | 417 | (14.2) |
| EBIT | 722 | 670 | 7.8 | 514 | 40.6 | 1,236 | 1,317 | (6.2) |
| Other Income | 4 | 10 | (65.3) | 11 | (69.0) | 15 | 19 | (20.9) |
| Interest | 53 | 31 | 72.1 | 41 | 27.1 | 94 | 73 | 28.7 |
| PBT | 673 | 650 | 3.6 | 483 | 39.2 | 1,157 | 1,262 | (8.4) |
| Extra-Ord. Inc./Exps. | - | - | - | - | - | - | - | - |
| Total Taxes | 176 | 233 | (24.5) | 98 | 79.7 | 274 | 449 | (39.1) |
| <i>ETR (%)</i> | <i>26.1</i> | <i>35.8</i> | | <i>20.2</i> | | <i>23.6</i> | <i>35.6</i> | |
| Reported PAT | 497 | 417 | 19.3 | 386 | 28.9 | 883 | 814 | 8.5 |

Source: Company, PL

Exhibit 2: Major Sources of Revenues

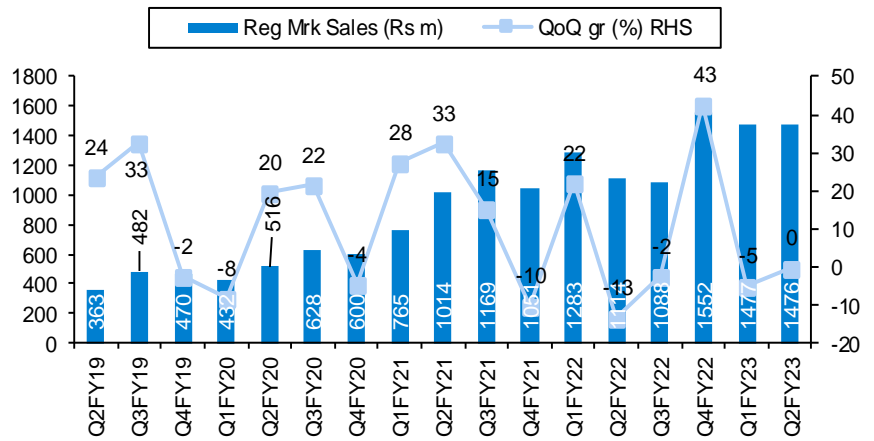
| Major sources of revenues | Q2FY23 | Q2FY22 | YoY gr. (%) | Q1FY23 | QoQ gr. (%) | H1FY23 | H1FY22 | YoY gr. (%) |
|----------------------------|--------------|--------------|-------------|--------------|--------------|--------------|--------------|-------------|
| Domestic | 2,210 | 2,187 | 1.1 | 2,028 | 9.0 | 4,238 | 3,587 | 18.2 |
| Formulations | 2,085 | 2,136 | (2.4) | 2,001 | 4.2 | 4,085 | 3,476 | 17.5 |
| APIs | 126 | 50 | 149.5 | 27 | 361.4 | 153 | 111 | 37.3 |
| Exports | 1,799 | 1,502 | 19.7 | 1,878 | (4.2) | 3,677 | 2,971 | 23.8 |
| Formulations | 1,741 | 1,355 | 28.4 | 1,773 | (1.8) | 3,514 | 2,727 | 28.8 |
| Reg mkt | 1,476 | 1,114 | 32.5 | 1,477 | (0.1) | 2,953 | 2,242 | 31.7 |
| Non-reg mkt (Emerging mkt) | 265 | 242 | 9.6 | 296 | (10.5) | 561 | 486 | 15.5 |
| API | 58 | 147 | (60.7) | 106 | (45.2) | 163 | 243 | (32.9) |
| CRO | 37 | 38 | (1.3) | 42 | (11.9) | 79 | 59 | 35.0 |

Source: Company, PL

Exhibit 3: India Formulations: Growth impacted given COVID base


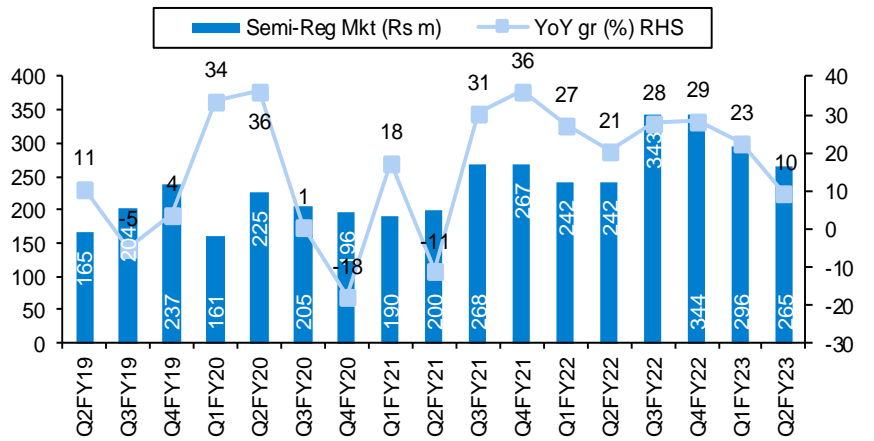
Source: Company, PL

Exhibit 4: Export: Regulated Mkt : Strong growth aided by US



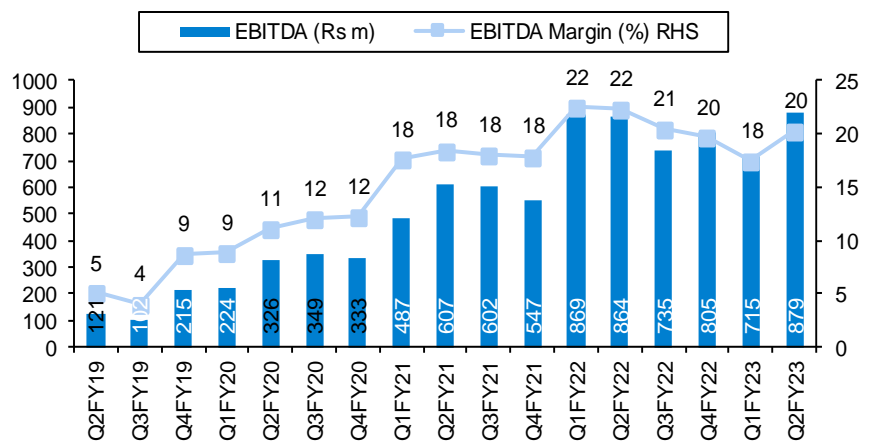
Source: Company, PL

Exhibit 5: Export— EM markets growth was moderate



Source: Company, PL

Exhibit 6: EBITDA margins increased aided by forex gain and higher GMs qoq



Source: Company, PL

Financials

Income Statement (Rs m)

| Y/e Mar | FY22 | FY23E | FY24E | FY25E |
|-------------------------------|---------------|---------------|---------------|---------------|
| Net Revenues | 15,408 | 17,190 | 18,933 | 21,210 |
| YoY gr. (%) | 24.1 | 11.6 | 10.1 | 12.0 |
| Cost of Goods Sold | 4,568 | 5,375 | 5,863 | 6,580 |
| Gross Profit | 10,840 | 11,815 | 13,070 | 14,630 |
| Margin (%) | 70.4 | 68.7 | 69.0 | 69.0 |
| Employee Cost | 2,937 | 3,289 | 3,618 | 3,980 |
| Other Expenses | 4,629 | 5,151 | 5,633 | 6,262 |
| EBITDA | 3,273 | 3,375 | 3,819 | 4,388 |
| YoY gr. (%) | 63.4 | 3.1 | 13.2 | 14.9 |
| Margin (%) | 21.2 | 19.6 | 20.2 | 20.7 |
| Depreciation and Amortization | 790 | 797 | 911 | 997 |
| EBIT | 2,484 | 2,578 | 2,907 | 3,391 |
| Margin (%) | 16.1 | 15.0 | 15.4 | 16.0 |
| Net Interest | 141 | 184 | 168 | 132 |
| Other Income | 23 | 35 | 40 | 40 |
| Profit Before Tax | 2,366 | 2,429 | 2,779 | 3,299 |
| Margin (%) | 15.4 | 14.1 | 14.7 | 15.6 |
| Total Tax | 818 | 607 | 695 | 825 |
| Effective tax rate (%) | 34.6 | 25.0 | 25.0 | 25.0 |
| Profit after tax | 1,548 | 1,822 | 2,085 | 2,475 |
| Minority interest | - | - | - | - |
| Share Profit from Associate | - | - | - | - |
| Adjusted PAT | 1,548 | 1,822 | 2,085 | 2,475 |
| YoY gr. (%) | 123.8 | 17.7 | 14.4 | 18.7 |
| Margin (%) | 10.0 | 10.6 | 11.0 | 11.7 |
| Extra Ord. Income / (Exp) | - | - | - | - |
| Reported PAT | 1,548 | 1,822 | 2,085 | 2,475 |
| YoY gr. (%) | 123.8 | 17.7 | 14.4 | 18.7 |
| Margin (%) | 10.0 | 10.6 | 11.0 | 11.7 |
| Other Comprehensive Income | - | - | - | - |
| Total Comprehensive Income | 1,548 | 1,822 | 2,085 | 2,475 |
| Equity Shares O/s (m) | 92 | 92 | 92 | 92 |
| EPS (Rs) | 16.8 | 19.8 | 22.6 | 26.9 |

Source: Company Data, PL Research

Balance Sheet Abstract (Rs m)

| Y/e Mar | FY22 | FY23E | FY24E | FY25E |
|---------------------------------------|---------------|---------------|---------------|---------------|
| Non-Current Assets | | | | |
| Gross Block | 13,136 | 14,486 | 15,986 | 17,486 |
| Tangibles | 13,136 | 14,486 | 15,986 | 17,486 |
| Intangibles | - | - | - | - |
| Acc: Dep / Amortization | 6,899 | 7,696 | 8,607 | 9,604 |
| Tangibles | 6,899 | 7,696 | 8,607 | 9,604 |
| Intangibles | - | - | - | - |
| Net fixed assets | 6,237 | 6,790 | 7,379 | 7,883 |
| Tangibles | 6,237 | 6,790 | 7,379 | 7,883 |
| Intangibles | - | - | - | - |
| Capital Work In Progress | 528 | 528 | 528 | 528 |
| Goodwill | 1 | 1 | 1 | 1 |
| Non-Current Investments | - | - | - | - |
| Net Deferred tax assets | (106) | (106) | (106) | (106) |
| Other Non-Current Assets | - | - | - | - |
| Current Assets | | | | |
| Investments | 0 | - | - | - |
| Inventories | 3,105 | 3,485 | 3,838 | 4,300 |
| Trade receivables | 2,972 | 3,282 | 3,672 | 4,121 |
| Cash & Bank Balance | 198 | (17) | 233 | 833 |
| Other Current Assets | 1,800 | 2,159 | 2,246 | 2,336 |
| Total Assets | 14,861 | 16,249 | 17,916 | 20,020 |
| Equity | | | | |
| Equity Share Capital | 184 | 184 | 184 | 184 |
| Other Equity | 8,862 | 10,477 | 12,354 | 14,621 |
| Total Networkth | 9,046 | 10,661 | 12,538 | 14,805 |
| Non-Current Liabilities | | | | |
| Long Term borrowings | 959 | 959 | 959 | 959 |
| Provisions | - | - | - | - |
| Other non current liabilities | - | - | - | - |
| Current Liabilities | | | | |
| ST Debt / Current of LT Debt | 1,483 | 1,083 | 720 | 357 |
| Trade payables | 1,333 | 1,507 | 1,660 | 1,860 |
| Other current liabilities | 1,934 | 1,934 | 1,934 | 1,934 |
| Total Equity & Liabilities | 14,861 | 16,250 | 17,917 | 20,020 |

Source: Company Data, PL Research

Cash Flow (Rs m)

| Y/e Mar | FY22 | FY23E | FY24E | FY25E |
|--------------------------------------|----------------|----------------|----------------|----------------|
| PBT | 2,366 | 2,429 | 2,779 | 3,299 |
| Add. Depreciation | 790 | 797 | 911 | 997 |
| Add. Interest | 141 | 184 | 168 | 132 |
| Less Financial Other Income | 23 | 35 | 40 | 40 |
| Add. Other | 379 | (35) | (40) | (40) |
| Op. profit before WC changes | 3,675 | 3,375 | 3,819 | 4,388 |
| Net Changes-WC | (1,526) | (876) | (676) | (801) |
| Direct tax | (411) | (607) | (695) | (825) |
| Net cash from Op. activities | 1,738 | 1,892 | 2,448 | 2,762 |
| Capital expenditures | (1,253) | (1,350) | (1,500) | (1,500) |
| Interest / Dividend Income | - | - | - | - |
| Others | - | - | - | - |
| Net Cash from Inv. activities | (1,253) | (1,350) | (1,500) | (1,500) |
| Issue of share cap. / premium | - | - | - | - |
| Debt changes | (130) | (400) | (363) | (363) |
| Dividend paid | (138) | (207) | (207) | (207) |
| Interest paid | (141) | (184) | (168) | (132) |
| Others | (21) | 35 | 40 | 40 |
| Net cash from Fin. activities | (431) | (756) | (698) | (662) |
| Net change in cash | 54 | (215) | 249 | 600 |
| Free Cash Flow | 485 | 542 | 948 | 1,262 |

Source: Company Data, PL Research

Quarterly Financials (Rs m)

| Y/e Mar | Q3FY22 | Q4FY22 | Q1FY23 | Q2FY23 |
|-----------------------------------|--------------|--------------|--------------|--------------|
| Net Revenue | 3,580 | 4,091 | 4,082 | 4,330 |
| YoY gr. (%) | 7.7 | 34.1 | 5.6 | 11.9 |
| Raw Material Expenses | 1,087 | 1,315 | 1,321 | 1,274 |
| Gross Profit | 2,493 | 2,777 | 2,761 | 3,057 |
| Margin (%) | 69.6 | 67.9 | 67.6 | 70.6 |
| EBITDA | 735 | 805 | 715 | 879 |
| YoY gr. (%) | 22.1 | 47.2 | (17.8) | 1.6 |
| Margin (%) | 20.5 | 19.7 | 17.5 | 20.3 |
| Depreciation / Depletion | 192 | 181 | 201 | 157 |
| EBIT | 542 | 625 | 514 | 722 |
| Margin (%) | 15.1 | 15.3 | 12.6 | 16.7 |
| Net Interest | 38 | 30 | 41 | 53 |
| Other Income | 2 | 3 | 11 | 4 |
| Profit before Tax | 506 | 598 | 484 | 673 |
| Margin (%) | 14.1 | 14.6 | 11.8 | 15.5 |
| Total Tax | 176 | 193 | 98 | 176 |
| Effective tax rate (%) | 34.8 | 32.3 | 20.2 | 26.1 |
| Profit after Tax | 330 | 405 | 386 | 497 |
| Minority interest | - | - | - | - |
| Share Profit from Associates | - | - | - | - |
| Adjusted PAT | 330 | 405 | 386 | 497 |
| YoY gr. (%) | 30.1 | 61.8 | (2.7) | 19.3 |
| Margin (%) | 9.2 | 9.9 | 9.4 | 11.5 |
| Extra Ord. Income / (Exp) | - | - | - | - |
| Reported PAT | 330 | 405 | 386 | 497 |
| YoY gr. (%) | 30.1 | 61.8 | (2.7) | 19.3 |
| Margin (%) | 9.2 | 9.9 | 9.4 | 11.5 |
| Other Comprehensive Income | - | - | - | - |
| Total Comprehensive Income | 330 | 405 | 386 | 497 |
| Avg. Shares O/s (m) | 92 | 92 | 92 | 92 |
| EPS (Rs) | 3.6 | 4.4 | 4.2 | 5.4 |

Source: Company Data, PL Research

Key Financial Metrics

| Y/e Mar | FY22 | FY23E | FY24E | FY25E |
|----------------------------|------|-------|-------|-------|
| Per Share(Rs) | | | | |
| EPS | 16.8 | 19.8 | 22.6 | 26.9 |
| CEPS | 25.4 | 28.4 | 32.5 | 37.7 |
| BVPS | 98.2 | 115.7 | 136.1 | 160.7 |
| FCF | 5.3 | 5.9 | 10.3 | 13.7 |
| DPS | 2.3 | 2.3 | 2.3 | 2.3 |
| Return Ratio(%) | | | | |
| RoCE | 23.3 | 21.3 | 21.6 | 22.4 |
| ROIC | 16.9 | 15.8 | 16.4 | 17.7 |
| RoE | 18.5 | 18.5 | 18.0 | 18.1 |
| Balance Sheet | | | | |
| Net Debt : Equity (x) | 0.2 | 0.2 | 0.1 | 0.0 |
| Net Working Capital (Days) | 112 | 112 | 113 | 113 |
| Valuation(x) | | | | |
| PER | 20.7 | 17.6 | 15.4 | 13.0 |
| P/B | 3.5 | 3.0 | 2.6 | 2.2 |
| P/CEPS | 13.7 | 12.2 | 10.7 | 9.2 |
| EV/EBITDA | 10.5 | 10.1 | 8.8 | 7.4 |
| EV/Sales | 2.2 | 2.0 | 1.8 | 1.5 |
| Dividend Yield (%) | 0.6 | 0.6 | 0.6 | 0.6 |

Source: Company Data, PL Research

Key Operating Metrics

| Y/e Mar | FY22 | FY23E | FY24E | FY25E |
|-----------------------|-------|-------|-------|--------|
| Domestic Formulations | 8,031 | 8,349 | 9,268 | 10,195 |
| Export Formulations | 6,206 | 7,481 | 8,451 | 9,708 |
| APIs | 634 | 634 | 697 | 767 |

Source: Company Data, PL Research

Price Chart
Recommendation History


| No. | Date | Rating | TP (Rs.) | Share Price (Rs.) |
|-----|-----------|------------|----------|-------------------|
| 1 | 06-Oct-22 | BUY | 430 | 336 |
| 2 | 10-Aug-22 | BUY | 430 | 396 |
| 3 | 07-Jul-22 | BUY | 430 | 377 |
| 4 | 17-May-22 | BUY | 430 | 350 |
| 5 | 08-Apr-22 | Accumulate | 460 | 392 |
| 6 | 03-Feb-22 | Accumulate | 460 | 398 |
| 7 | 07-Jan-22 | Accumulate | 480 | 438 |

Analyst Coverage Universe

| Sr. No. | Company Name | Rating | TP (Rs) | Share Price (Rs) |
|---------|---------------------------------------|------------|---------|------------------|
| 1 | Apollo Hospitals Enterprise | BUY | 5,000 | 4,391 |
| 2 | Aster DM Healthcare | BUY | 234 | 249 |
| 3 | Aurobindo Pharma | Accumulate | 635 | 535 |
| 4 | Cipla | BUY | 1,300 | 1,146 |
| 5 | Divi's Laboratories | Hold | 3,300 | 3,415 |
| 6 | Dr. Reddy's Laboratories | BUY | 4,900 | 4,460 |
| 7 | Eris Lifesciences | BUY | 850 | 736 |
| 8 | Fortis Healthcare | BUY | 330 | 266 |
| 9 | Glenmark Pharmaceuticals | Accumulate | 450 | 401 |
| 10 | HealthCare Global Enterprises | BUY | 358 | 291 |
| 11 | Indoco Remedies | BUY | 430 | 336 |
| 12 | Ipca Laboratories | Accumulate | 1,000 | 934 |
| 13 | J.B. Chemicals & Pharmaceuticals | BUY | 1,950 | 1,636 |
| 14 | Krishna Institute of Medical Sciences | BUY | 1,550 | 1,467 |
| 15 | Lupin | Hold | 650 | 719 |
| 16 | Max Healthcare Institute | BUY | 500 | 465 |
| 17 | Narayana Hrudayalaya | BUY | 810 | 715 |
| 18 | Sun Pharmaceutical Industries | BUY | 1,175 | 1,037 |
| 19 | Torrent Pharmaceuticals | BUY | 1,850 | 1,567 |
| 20 | Zydus Lifesciences | BUY | 425 | 409 |

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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