

Reinitiating coverage

## Capital Goods

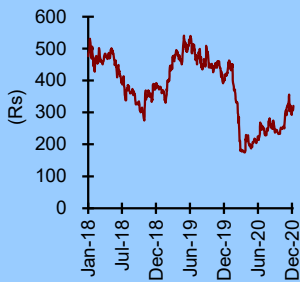
Target price: Rs526

### Shareholding pattern

|                         | Mar '20 | Jun '20 | Sep '20 |
|-------------------------|---------|---------|---------|
| Promoters               | 54.4    | 54.4    | 56.5    |
| Institutional investors | 36.6    | 33.7    | 32.3    |
| MFs and others          | 23.4    | 21.9    | 24.0    |
| FI/Insurance            | 5.8     | 4.7     | 4.7     |
| FIIIs                   | 7.4     | 7.1     | 4.6     |
| Others                  | 9.0     | 11.9    | 11.2    |

Source: NSE

### Price chart



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# Kalpataru Power & Transmission

BUY

## Promoter pledge overhang clouds fundamental growth and valuation uptick

Rs318

Kalpataru Power & Transmission has witnessed a strong rebound in execution and order intake post Covid-19 pandemic-related challenges; however, the stock has been under pressure due to promoter pledge and issues in the unlisted real estate group entity. In the previous concall in Nov'20, the promoter had shared the timeline for reduction of pledge shares and the company had reversed a corporate decision in terms of buying of property from related party. The sale of Alipurduar transmission asset is complete, while the others are in progress. Cashflow from the sale of these assets will aid in debt reduction and we do not foresee any major equity infusion towards subsidiaries. Hence, given benign valuation, healthy near term order intake and focus on deleveraging, we reinitiate our coverage on the stock with BUY rating and a target price of Rs526.

- ▶ **Recent order wins provide growth visibility:** The company has already won orders worth Rs54bn till Dec'20 largely led by international T&D (which was Rs23bn in H1FY21 ex-Linjemontage) and is L1 in Rs20bn worth orders. Green energy corridor phase-II tenders from PGCIL worth Rs14-150bn are yet to be tendered out. Management guides standalone revenue growth of 5-10% and Rs90bn-100bn of order intake for FY21E.
- ▶ **ATL and Kohima asset monetisation to aid debt reduction:** The company had signed an agreement to sell its transmission BOOT asset – Alipurduar Transmission Limited (ATL) to Adani Transmission for Rs12.9bn. For Kohima-Mariani, Kalpataru is in talks with other domestic suitors given the hurdles in terms of sale to Chinese.
- ▶ **Status of other asset monetisation:** (i) Satpura Transco sale to CLP India was completed where profit from sale was Rs300mn, (ii) Jhajjar KT Transco (50% stake) sale to India Grid Trust at an EV of Rs3.1bn was completed in Q2FY21, (iii) Kohima-Mariani (KMTL), where Kalpataru has 74% stake, has been commissioned in Nov'20 and the company is pursuing domestic suitors, and (iv) exploring options to sell road BOT under JMC projects.
- ▶ **Promoter pledge overhang to reduce gradually:** In Oct'19, the company's borrowings against pledged shares was Rs8.3bn, which reduced by Rs1.1bn to Rs7.2bn in Oct'20. The company plans to reduce it further by Rs1.5bn by FY21 and by another Rs1.5bn by Dec'21. As of Nov'20, management has bought back 3.8% of shares and promoter pledge stands unchanged (from Mar'20) at 57.5% of promoter holdings.
- ▶ **Maintain BUY on benign valuation, growth prospects and asset monetisation:** Work has commenced at almost all sites and utilisation at factories has improved. Given healthy cashflow and growth outlook, we reinitiate our coverage on the stock with BUY rating. Factoring in the improved scenario and considering the cashflow, we assign PE multiple of 11x FY21E earnings to standalone. We value Linjemontage at 5x FY22E, JMC is as per the current listed valuation and Kohima BOOT assets at 2x book value. With a holding company discount of 20%, we arrive at an SoTP-based target price of Rs526.

| Market Cap              | Rs47.4bn/US\$649mn | Year to Mar             | FY19   | FY20   | FY21E  | FY22E  |
|-------------------------|--------------------|-------------------------|--------|--------|--------|--------|
| Reuters/Bloomberg       | KAPT.BO/KPP IN     | Revenue (Rs bn)         | 71,151 | 79,040 | 83,270 | 91,380 |
| Shares Outstanding (mn) | 148.9              | Rec. Net Income (Rs bn) | 4,013  | 4,450  | 3,772  | 6,033  |
| 52-week Range (Rs)      | 463/175            | EPS (Rs)                | 26.1   | 28.7   | 25.3   | 40.5   |
| Free Float (%)          | 43.5               | % Chg YoY               | 24.6   | 9.8    | (11.8) | 60.0   |
| FII (%)                 | 4.6                | P/E (x)                 | 12.2   | 11.1   | 12.6   | 7.8    |
| Daily Volume (US\$/000) | 2,016              | CEPS (Rs)               | 31.8   | 35.8   | 31.8   | 47.0   |
| Absolute Return 3m (%)  | 30.0               | EV/E (x) (Incl. Indus)  | 6.9    | 6.7    | 5.9    | 5.0    |
| Absolute Return 12m (%) | (23.4)             | Dividend Yield (%)      | 0.8    | 2.1    | 1.9    | 2.5    |
| Sensex Return 3m (%)    | 24.0               | RoCE (%)                | 20.7   | 19.1   | 18.9   | 20.4   |
| Sensex Return 12m (%)   | 16.9               | RoE (%)                 | 13.6   | 13.3   | 10.1   | 14.4   |

## Outlook and valuation

We believe Kalpataru Power & Transmission (Kalpataru) can tide through the current challenges given the proceeds from sale of transmission BOOT assets. The company has not taken any major risky projects and has better terms of trade and margin profile vs peers. Current orderbook at Rs123bn (1.5x TTM sales) provides revenue visibility, though growth may be slightly delayed due to the pandemic-related slowdown. Management maintains its guidance for zero net debt on standalone basis by Mar'21 aided by asset monetisation.

We value the standalone business at Rs446 (11x FY22E earnings), JMC Projects at Rs51 (market capitalisation as on 1<sup>st</sup> Jan'21), Linjemontage at Rs13 (5x FY22E earnings), and KMTL BOOT assets at Rs29. With a holding company discount of 20%, we arrive at an SoTP-based target price of Rs526. We assign **BUY** rating given benign valuation, growth prospects and value unlocking from asset monetisation.

Given the near-term challenges and uncertainties, we do not assign any value to the logistics subsidiary, Shubham Logistics, though it has turned around to profits recently. We also do not ascribe any value to Indore real estate project, 30-35% of this has been sold.

Given the issues in terms of stress in the unlisted group real estate entities and promoter pledge, we have given the standalone a multiple, which is ~25% discount to KEC.

**Table 1: SoTP valuation**

|   | Holding (%) | Method     | Multiple (x) | FY21E (Rs mn) | Total Value (Rs mn) | Holding value (Rs mn) | Value Per Share (Rs) |
|---|-------------|------------|--------------|---------------|---------------------|-----------------------|----------------------|
| Kalpataru Power - Standalone                  |             | FY22E PER  | 11           | 6,033         | 66,367              | 66,367                | 446                  |
| JMC Projects                                  | 67%         | Market Cap |              |               | 11,430              | 7,658                 | 51                   |
| Linjemontage                                  |             |            | 5            | 389           | 1,944               | 1,944                 | 13                   |
| Kohima Mariani Transco                        | 74% in KMTL | P/B        | 2.0          |               | 6,486               | 4,320                 | 29                   |
| Holding company discount (Linjemontage & JMC) | 20%         |            |              |               |                     | -1,920                | -13                  |
|   |             |            |              |               | <b>Target Price</b> |                       | <b>526</b>           |

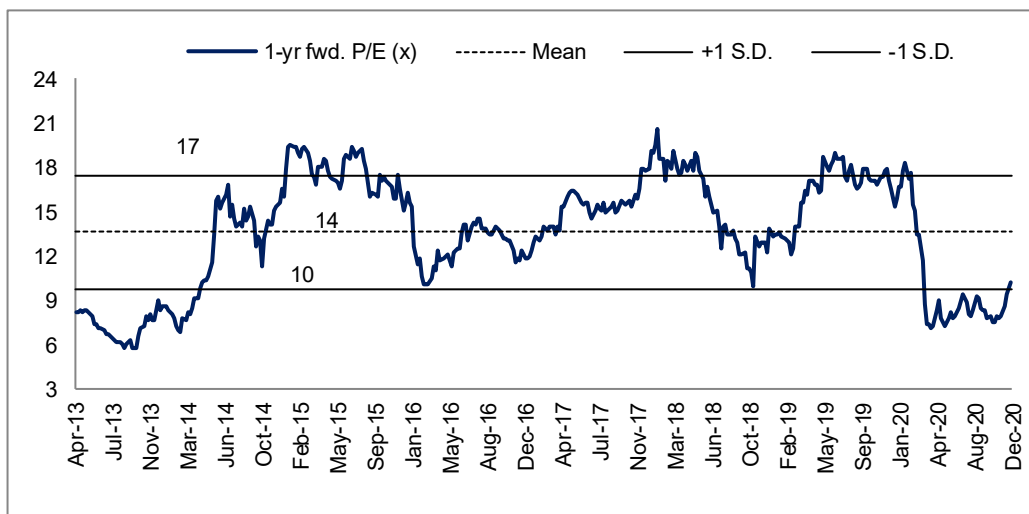
Source: I-Sec research

**Table 2: Kohima-Mariani Transco valuation**

|                      | Total Investments (A) | Total Value @ 2x P/B (B) | KPP Investments (C = A x 74%) | KPP Stake value (D = B x 74%) | Capital gains Tax (E= 20% x (D - C)) | Post Tax proceeds (D-E) |
|----------------------|-----------------------|--------------------------|-------------------------------|-------------------------------|--------------------------------------|-------------------------|
| Kohima Mariani - 74% | 3,250                 | 6,486                    | 2,400                         | 4,800                         | 480                                  | 4,320                   |

Source: I-Sec research

Chart 1: 1-year forward P/E chart (standalone)



Source: Bloomberg, I-Sec research

- Reversal of related party property transaction:** On 8th Dec'20, the company announced approval of capex of Rs3.8bn including 1) Rs2.1bn for purchase of land from related party of the company and 2) Rs1.7bn for development & construction of corporate office of 1,79,000 sq. ft. (cost of Rs21,000 per sq. ft) at the same land, near its existing office at Santacruz, Mumbai. The decision to construct corporate office was taken in order to reduce rental costs; however, on 10th Dec'20, on feedback from investors, the management further reviewed the matter and decided to temporary suspend the proposal of construction of corporate office.
- ATL and Kohima asset monetisation to aid debt reduction:** The company had signed an agreement to sell its transmission BOOT asset – Alipurduar Transmission Limited (ATL), to Adani Transmission for Rs12.9bn. Sale and transfer of ~49% of ATL's stake has already been completed in Nov'20 and we expect the balance 51% to complete once requisite approvals are obtained. This may rake in ~Rs5bn of cashflow post the consummation of the deal in H2FY21E. There is one more asset pending – Kohima-Mariani, which is in agreement for sale to CLP. We believe given the current stance of government, this may also be sold to a domestic suitor.
- Recent order wins provide growth visibility:** The company has already won Rs54bn worth of orders till Dec'20 largely led by international T&D (which was Rs23bn in H1FY21 ex-Linjemontage) and is L1 in Rs20bn worth of orders. The management is confident of a pickup in order intake going forward led by both domestic and overseas T&D segment. Green energy corridor phase-II tenders from PGCIL worth Rs140-150bn are yet to be tendered out in domestic T&D. Although domestic ordering in pipeline and railways has been slow in H1FY21, we expect this to boost domestic T&D orders for FY21E and built-in Rs85.8bn of overall order intake (including Linjemontage) for FY21. Management guides standalone revenue growth of 5-10% and Rs90bn-100bn of order intake for FY21E.

- **Plan to reduce debt against pledge:** Promoter pledged shares increased from 35mn in Dec'19 to 48mn shares during Q4FY0. This has stayed unchanged as of Nov'20 and pledged shares remained at 48mn i.e. 57.5% of promoter's stake (56.5% stake at 84.1mn shares). The company's borrowings against pledged shares in Oct'20 was Rs7.2bn and the company plans to reduce it further by Rs1.5bn by FY21 and by another Rs1.5bn by Dec'21.

**Table 3: Promoter pledged shares movement**

| Period | Total no. of shares (mn) | Pledged (mn shares) | Promoter stake (mn shares) | pledged share as % of promoter stake | pledged share as % of total |
|--------|--------------------------|---------------------|----------------------------|--------------------------------------|-----------------------------|
| Dec'19 | 155                      | 35                  | 84                         | 41.4%                                | 22.5%                       |
| Mar'20 | 155                      | 48                  | 84                         | 57.5%                                | 31.3%                       |
| Jun'20 | 155                      | 48                  | 84                         | 57.5%                                | 31.3%                       |
| Sep'20 | 152                      | 48                  | 84                         | 57.5%                                | 31.8%                       |
| Nov'20 | 149                      | 48                  | 84                         | 57.5%                                | 32.5%                       |

Source: I-Sec research

JMC's performance was affected by slowdown due to Covid-19 where H1FY21 revenues declined 30% YoY to Rs13.4bn and company reported loss of Rs703mn. The order inflow for YTD Nov'20 was however strong at Rs60.3bn (50% B&F, 45% infra and 4% industrial) and the orderbook stood at Rs142.3bn (with private B&F contributing 47% and infra contributing 40%). In Dec'20 company announced new order wins worth Rs7bn.

**Table 4: JMC financial trend (consolidated)**

(Rs mn)

|              | H1FY20 | H1FY21 | YoY(%)   | FY19   | FY20   | YoY(%)  |
|--------------|--------|--------|----------|--------|--------|---------|
| Net Sales    | 19,236 | 13,411 | -30.3    | 34,072 | 38,663 | 13.5    |
| EBITDA       | 2,596  | 1,438  | -44.6    | 4,507  | 5,237  | 16.2    |
| Margin       | 13.5   | 10.7   | -277bps  | 13.2   | 13.5   | 32bps   |
| Depreciation | 710    | 854    | 20.2     | 1,103  | 1,553  | 40.7    |
| Finance Cost | 1,298  | 1,258  | -3.0     | 2,308  | 2,608  | 13.0    |
| Other Income | 139    | 106    | -23.9    | 263    | 279    | 5.9     |
| PBT          | 727    | -569   | -178.3   | 1,359  | 1,355  | -0.3    |
| Tax          | 237    | -32    | -113.6   | 388    | 314    | -18.9   |
| Tax rate (%) | 32.6   | 5.7    | -2697bps | 28.5   | 23.2   | -532bps |
| Reported PAT | 351    | -703   | -300.7   | 766    | 12     | -98.4   |
| Exceptional  | 0      | 0      |          | 0      | 795    |         |
| Adjusted PAT | 351    | -703   | -300.7   | 766    | 648    | -15.5   |
| Margin (%)   | 1.8    | -5.2   | -707bps  | 2.2    | 1.7    | -57bps  |
| EPS (Rs)     | 2.1    | -4.2   |          | 22.8   | 19.3   |         |

Source: Company data, I-Sec research

Shubham logistics performed well in Q2FY21 due to increased demand for warehousing due to lockdown. H1FY21 revenues grew 10.6% YoY to Rs740mn and the subsidiary reported profit of Rs80mn.

**Table 5: Shubham Logistics financials**

| (Rs mn)      | H1FY20 | H1FY21 | YoY(%) | FY19  | FY20  | YoY(%) |
|--------------|--------|--------|--------|-------|-------|--------|
| Net Sales    | 669    | 740    | 10.6   | 1,234 | 1,322 | 7.1    |
| EBITDA       | 241    | 300    | 24.5   | 364   | 438   | 20.3   |
| Margin       | 36.0   | 40.5   | 452bps | 29.5  | 33.1  | 363bps |
| Finance Cost | 211    | 180    | -14.7  | 412   | 392   | -4.9   |
| PBT          | -9     | 80     |        | -107  | -56   |        |
| Tax          | 14     | 0      |        | 47    | 25    |        |
| Tax rate (%) | -155.6 | 0.0    |        | -43.9 | -44.6 |        |
| Reported PAT | -23    | 80     |        | -154  | -81   |        |
| Margin (%)   | -3.4   | 10.8   |        | -12.5 | -6.1  |        |

Source: Company data, I-Sec research

For Linjemontage, H1FY21 order intake was Rs1.5bn we estimate order intake of Rs9.7bn for FY21E. As of Nov'20 the subsidiary had order book of Rs8.2bn and revenues of Rs4.9bn (up 96% YoY).

**Table 6: Linjemontage financial summary**

(Rs mn)

|              | <b>FY20</b> | <b>FY21E</b> | <b>FY22E</b> |
|--------------|-------------|--------------|--------------|
| Orderbook    | 11,520      | 12,720       | 14,290       |
| Order intake | 12,100      | 9,680        | 10,648       |
| Execution    |             | 40%          | 45%          |
| Revenues     | 5,790       | 8,480        | 9,078        |
| Growth (%)   |             | 46%          | 7%           |
| EBITDA       | 290         | 509          | 545          |
| Margins      | 5.0%        | 6.0%         | 6.0%         |
| Finance cost | 8           | 9            | 10           |
| Depreciation | 24          | 27           | 29           |
| PBT          | 257         | 473          | 505          |
| Tax          | 59          | 109          | 116          |
| Tax Rate     | 23%         | 23%          | 23%          |
| <b>PAT</b>   | <b>198</b>  | <b>364</b>   | <b>389</b>   |

Source: Company data, I-Sec research

## Financial summary (standalone)

Table 7: Profit &amp; loss statement

(Rs mn, year ending March 31)

|                                | FY19          | FY20          | FY21E         | FY22E         |
|--------------------------------|---------------|---------------|---------------|---------------|
| <b>Total Income</b>            | <b>71,151</b> | <b>79,040</b> | <b>83,270</b> | <b>91,380</b> |
| <b>Operating Expenses</b>      | <b>63,369</b> | <b>70,440</b> | <b>74,256</b> | <b>81,408</b> |
| <b>EBITDA</b>                  | <b>7,782</b>  | <b>8,600</b>  | <b>9,013</b>  | <b>9,972</b>  |
| % margins                      | 10.9          | 10.9          | 10.8          | 10.9          |
| Depreciation & Amortisation    | 860           | 1,100         | 965           | 970           |
| <b>EBIT</b>                    | <b>6,922</b>  | <b>7,500</b>  | <b>8,048</b>  | <b>9,003</b>  |
| Gross Interest                 | 1,190         | 1,660         | 1,332         | 1,097         |
| Other Income                   | 512           | 580           | 696           | 592           |
| <b>PBT before exceptionals</b> | <b>6,244</b>  | <b>6,420</b>  | <b>7,412</b>  | <b>8,498</b>  |
| Add:                           |               |               |               |               |
| Extraordinaries/Exceptional    | -             | 240           | 5,140         | -             |
| Add: Share in associates       |               |               |               |               |
| <b>PBT</b>                     | <b>6,244</b>  | <b>6,660</b>  | <b>12,552</b> | <b>8,498</b>  |
| Less: Taxes                    | 2,231         | 2,030         | 3,640         | 2,464         |
| Less: Minority Interests       |               |               |               |               |
| <b>Net Income (Reported)</b>   | <b>4,013</b>  | <b>4,630</b>  | <b>8,912</b>  | <b>6,033</b>  |
| <b>Adjusted Net Income</b>     | <b>4,013</b>  | <b>4,450</b>  | <b>3,772</b>  | <b>6,033</b>  |

Source: Company data, I-Sec research

Table 8: Balance sheet

(Rs mn, year ending March 31)

|  | FY19          | FY20          | FY21E         | FY22E         |
|--|---------------|---------------|---------------|---------------|
| <b>Assets</b>                          |               |               |               |               |
| Total Current Assets                   | 62,061        | 70,690        | 70,564        | 77,812        |
| of which cash & cash eqv.              | 1,455         | 3,370         | 2,071         | 2,647         |
| Total Current Liabilities & Provisions | 44,918        | 49,420        | 49,975        | 54,101        |
| <b>Net Current Assets</b>              | <b>17,143</b> | <b>21,270</b> | <b>20,589</b> | <b>23,711</b> |
| Investments                            | 6,486         | 8,640         | 8,640         | 8,640         |
| Other Non-Current Assets               | 8,189         | 10,880        | 9,263         | 9,612         |
| <b>Net Fixed Assets</b>                | <b>5,784</b>  | <b>6,340</b>  | <b>6,795</b>  | <b>6,825</b>  |
| Goodwill                               | -             | -             | -             | -             |
| <b>Total Assets</b>                    | <b>37,601</b> | <b>47,130</b> | <b>45,286</b> | <b>48,788</b> |
| <b>Liabilities</b>                     |               |               |               |               |
| Borrowings                             | 6,079         | 11,770        | 6,310         | 4,000         |
| Deferred Tax Liability                 | -             | -             | -             | -             |
| Minority Interest                      | -             | -             | -             | -             |
| Equity Share Capital                   | 307           | 310           | 298           | 298           |
| Face Value per share (Rs)              | 2.00          | 2.00          | 2.00          | 2.00          |
| Reserves & Surplus                     | 31,215        | 35,050        | 38,678        | 44,490        |
| <b>Net Worth</b>                       | <b>31,522</b> | <b>35,360</b> | <b>38,976</b> | <b>44,788</b> |
| <b>Total Liabilities</b>               | <b>37,601</b> | <b>47,130</b> | <b>45,286</b> | <b>48,788</b> |

Source: Company data, I-Sec research

Table 9: Cashflow statement

(Rs mn, year ending March 31)

|   | FY19         | FY20           | FY21E          | FY22E        |
|---|--------------|----------------|----------------|--------------|
| <b>Operating Cashflow</b>                 | <b>7,782</b> | <b>8,840</b>   | <b>14,153</b>  | <b>9,972</b> |
| Working Capital Changes                   | (2,522)      | (6,410)        | (4,486)        | (5,249)      |
| Capital Commitments                       | (1,210)      | (1,656)        | (1,420)        | (1,000)      |
| <b>Free Cashflow</b>                      | <b>4,050</b> | <b>774</b>     | <b>8,247</b>   | <b>3,723</b> |
| <b>Cashflow from Investing Activities</b> | <b>(510)</b> | <b>(3,114)</b> | <b>592</b>     | <b>482</b>   |
| Issue of Share Capital                    | -            | 3              | (12)           | -            |
| Buyback of shares                         |              |                | (1,500)        |              |
| Inc (Dec) in Borrowings                   | (321)        | 5,691          | (5,460)        | (2,310)      |
| Interest paid                             | (1,190)      | (1,660)        | (1,332)        | (1,097)      |
| Dividend paid                             | (449)        | (1,190)        | (893)          | (1,191)      |
| <b>Extraordinary Items/Others</b>         | <b>(942)</b> | <b>1,411</b>   | <b>(940)</b>   | <b>970</b>   |
| <b>Chg. in Cash &amp; Bank balance</b>    | <b>639</b>   | <b>1,915</b>   | <b>(1,299)</b> | <b>577</b>   |

Source: Company data, I-Sec research

Note: We have adjusted FY21E numbers for share buyback of 5.8mn of shares YTD Nov'20

Table 10: Key ratios

(Year ending March 31)

|  | FY19  | FY20  | FY21E  | FY22E |
|--|-------|-------|--------|-------|
| <b>Per Share Data (in Rs.)</b>         |       |       |        |       |
| Diluted adjusted EPS                   | 26.1  | 28.7  | 25.3   | 40.5  |
| Recurring Cash EPS                     | 31.8  | 35.8  | 31.8   | 47.0  |
| Dividend per share (DPS)               | 2.5   | 6.6   | 6.0    | 8.0   |
| Book Value per share (BV)              | 205.4 | 228.1 | 261.8  | 300.8 |
| <b>Growth Ratios (%)</b>               |       |       |        |       |
| Operating Income                       | 23.1  | 11.1  | 5.4    | 9.7   |
| EBITDA                                 | 23.3  | 10.5  | 4.8    | 10.6  |
| Recurring Net Income                   | 24.6  | 10.9  | (15.2) | 60.0  |
| Diluted adjusted EPS                   | 24.6  | 9.8   | (11.8) | 60.0  |
| Diluted Recurring CEPS                 | 22.2  | 12.8  | (11.2) | 47.8  |
| <b>Valuation Ratios</b>                |       |       |        |       |
| P/E                                    | 12.2  | 11.1  | 12.6   | 7.8   |
| P/CEPS                                 | 10.0  | 8.9   | 10.0   | 6.8   |
| P/BV                                   | 1.5   | 1.4   | 1.2    | 1.1   |
| EV / EBITDA                            | 6.9   | 6.7   | 5.9    | 5.0   |
| EV / Operating Income                  | 11.2  | 10.3  | 10.4   | 7.4   |
| EV / Operating FCF (pre - Capex)       | 10.2  | 23.5  | 5.5    | 10.6  |
| <b>Operating Ratios</b>                |       |       |        |       |
| Raw Material/Sales (%)                 | 73.8  | 74.7  | 72.7   | 72.1  |
| SG&A/Sales (%)                         |       |       |        |       |
| Other Income / PBT (%)                 | 8.2   | 8.7   | 5.5    | 7.0   |
| Effective Tax Rate (%)                 | 35.7  | 30.5  | 29.0   | 29.0  |
| NWC / Total Assets (%)                 | 22.1  | 21.4  | 22.4   | 23.2  |
| Inventory Turnover (days)              | 31.9  | 34.1  | 30.0   | 30.0  |
| Receivables (days)                     | 168.3 | 162.4 | 160.0  | 160.0 |
| Payables (days)                        | 118.6 | 110.7 | 105.0  | 107.0 |
| Net D/E Ratio (x)                      | 0.1   | 0.2   | 0.1    | 0.0   |
| <b>Return/Profitability Ratios (%)</b> |       |       |        |       |
| Recurring Net Income Margins           | 5.6   | 5.6   | 4.5    | 6.6   |
| RoCE                                   | 20.7  | 19.1  | 18.9   | 20.4  |
| RoNW                                   | 13.6  | 13.3  | 10.1   | 14.4  |
| Dividend Payout Ratio                  | 9.6   | 23.1  | 23.7   | 19.7  |
| Dividend Yield                         | 0.8   | 2.1   | 1.9    | 2.5   |
| EBITDA Margins                         | 10.9  | 10.9  | 10.8   | 10.9  |

Source: Company data, I-Sec research

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