

L&T Technology

Estimate change



TP change



Rating change



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Bloomberg	LTTS IN
Equity Shares (m)	106
M.Cap.(INRb)/(USD\$)	326.6 / 4.1
52-Week Range (INR)	5958 / 2923
1, 6, 12 Rel. Per (%)	-8/-32/-12
12M Avg Val (INR M)	1760

Financials & Valuations (INR b)

Y/E Mar	2022	2023E	2024E
Sales	65.7	79.8	90.7
EBIT Margin (%)	18.3	18.1	18.4
PAT	9.6	11.7	13.6
EPS (INR)	90.5	110.9	128.3
EPS Gr. (%)	44.1	22.5	15.7
BV/Sh. (INR)	394.5	459.0	533.5

Ratios

RoE (%)	25.0	26.0	25.8
RoCE (%)	20.3	20.7	20.5
Payout (%)	35.0	35.0	35.0

Valuations

P/E (x)	34.1	27.9	24.1
P/BV (x)	7.8	6.7	5.8
EV/EBITDA (x)	21.5	17.6	14.9
Div Yield (%)	1.0	1.3	1.5

Shareholding pattern (%)

As On	Jun-22	Mar-22	Jun-21
Promoter	73.9	73.9	74.2
DII	4.1	5.2	6.7
FII	6.3	7.1	8.9
Others	15.7	13.8	10.2

FII Includes depository receipts

CMP: INR3,090
TP: INR3,590 (+16%)
Buy
Strong 1QFY23; large deal wins to propel FY23E performance
Margin to remain stable on operating leverage

- LTTS reported a 4.7% QoQ growth in constant currency (CC) in 1QFY23, 2pp ahead of our estimate led by strong growth in Plant Engineering (+7.3% QoQ) and Industrial Products (+4.3% QoQ), while Telecom & Hi-Tech (flat QoQ) was subdued. EBIT margin contracted 30bp in 1QFY23 due to elevated lateral additions and upfront investment/ramp-up cost in large deal wins, partially offset by operational efficiency.
- The company had its highest ever booking in 1QFY23, including one USD50m deal in the Rail mobility space. LTTS also raised its FY23E revenue growth guidance by 100bp to 14.5-16.5% (based on 4QFY22 currency rate), while maintaining its reported FY23E USD revenue growth guidance at 13.5-15.5%.
- We were positively surprised by the upward revision in the FY23 guidance given the challenging macroeconomic environment. While the management highlighted some pain in parts of Telecom (5G equipment) and Medical devices (downtrading due to inflation), it expects this to be more than offset by scaling up of large deal wins in Transportation along with continued momentum in Plant and Industrial verticals.
- Despite factoring in demand moderation in 2HFY23, we see the guidance as achievable due to scaling up of two large deals (USD150m+ TCV) this year. This should help LTTS deliver 15.1% YoY revenue growth in FY23E, near the upper-end of its guidance. We estimate USD revenue CAGR of 14.2% over FY22-24, below the run rate required to meet their FY25E revenue guidance of USD1.5b (implying FY22-25E CAGR of 19%). In our view, LTTS will aim for inorganic growth through acquisitions over FY23-24 to bridge the gap.
- LTTS should see a flattish margin performance in FY23E, with good topline delivery offsetting supply-side pressures (attrition rose to 23.2%). EBIT margin should remain broadly stable over the next two years, in line with management guidance of 18%+ profitability. Favorable pyramid and better margins in Telecom vertical should more than offset the continued pressure on employee expenses and travel resumption.
- We continue to view LTTS as a beneficiary of the growing penetration of ER&D Services and the best Tier II IT Services play within our coverage universe. We marginally raise our FY23-24 EPS estimate (by 2-3%), and have factored in 14%/19% USD revenue/INR EPS CAGR over FY22-24. We retain our **BUY** rating and value LTTS at INR3,590 (based on 28x FY24E EPS).

Strong topline and deal flow performance in 1QFY23

- In CC terms, LTTS' 1QFY23 revenue grew 19.9% YoY, INR EBIT rose 31% YoY, and INR PAT grew 27% YoY.
- Revenue rose 4.7% QoQ CC to USD239.5m in 1QFY23.
- Top five/10 clients grew 0.2%/1.4% QoQ on LTM basis. Top 20 clients registered 2.5% QoQ revenue growth. Management expects this to improve from 2QFY23 onwards.

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Investors are advised to refer through important disclosures made at the last page of the Research Report.

Motilal Oswal research is available on www.motilaloswal.com/Institutional-Equities, Bloomberg, Thomson Reuters, Factset and S&P Capital.

Key highlights from the management commentary

- **Transportation:** good demand trajectory to sustain; **Plant Engineering:** to invest across the space, creating opportunities for the company. Management is positive on Plant Engineering outlook and growth; **Industrial Products:** LTTS is seeing demand driven by digital engineering; **Telecom and Hi-Tech:** They remain choosy in the types of deals to avoid margin compression. It expects a few large deals to close in the next quarter; **Medical devices:** Management projects growth to improve from new clients. Some customers are hurt by higher inflation and their budgets are also adversely impacted.
- **Outlook:** The current macro situation is more challenging than the previous quarter. The primary concern is on new-age startups and the newer business lines of clients with long-term payoffs. The management has raised its FY23 USD growth guidance by 100bp to 14.5-16.5% in CC based on 4QFY23 exit currency prices, while reported USD growth guidance remains at 13.5-15.5%.

Valuation and view

- Digitization is driving the accelerated spends in ER&D and LTTS should benefit due to: 1) its strong capabilities, 2) multi-vertical presence, and 3) solid wallet share. We expect the company to deliver strong revenue growth over the coming years. We retain LTTS as our top pick in the Tier II IT Services space.
- The management expects strong growth during the medium term, which implies a growth momentum of ~20% over FY21-25E.
- Our TP of INR3,590 implies 28x FY24E EPS. We expect improved industry spends than the preceding five years. We maintain our **BUY** rating on the stock.

Quarterly performance (INR m)

Y/E March	FY22				FY23E				FY22	FY23E	Est. 1QFY23	Var. (%/ bp)
	1Q	2Q	3Q	4Q	1Q	2QE	3QE	4QE				
Revenue (USD m)	206	217	225	232	240	250	257	267	880	1,013	236	1.3
QoQ (%)	4.2	5.7	3.5	3.1	3.2	4.2	2.9	3.8	19.5	15.1	1.9	134bp
Revenue (INR m)	15,184	16,077	16,875	17,561	18,737	19,718	20,294	21,070	65,697	79,819	18,202	2.9
YoY (%)	17.3	22.4	20.5	21.9	23.4	22.6	20.3	20.0	20.6	21.5	19.9	352bp
GPM (%)	33.4	33.3	33.7	33.0	33.0	32.5	33.0	33.1	33.3	32.9	33.3	-33bp
SGA (%)	12.4	11.6	12.0	11.3	11.6	12.0	11.7	11.7	11.8	11.7	12.0	-43bp
EBITDA	3,177	3,493	3,675	3,804	4,010	4,042	4,323	4,511	14,149	16,886	3,877	3.4
EBITDA Margin (%)	20.9	21.7	21.8	21.7	21.4	20.5	21.3	21.4	21.5	21.2	21.3	10bp
EBIT	2,623	2,964	3,144	3,274	3,434	3,451	3,714	3,879	12,005	14,477	3,331	3.1
EBIT Margin (%)	17.3	18.4	18.6	18.6	18.3	17.5	18.3	18.4	18.3	18.1	18.3	3bp
Other income	334	180	259	314	340	355	365	379	1,087	1,439	328	3.8
ETR (%)	26.6	26.6	26.7	26.6	27.1	26.0	26.0	26.0	26.6	26.3	26.0	113bp
PAT	2,162	2,300	2,488	2,620	2,742	2,814	3,017	3,149	9,570	11,722	2,705	1.4
QoQ (%)	11.2	6.4	8.2	5.3	4.7	2.6	7.2	4.4			3.3	
YoY (%)	84.3	39.0	33.7	34.7	26.8	22.4	21.2	20.2	44.3	22.5	25.1	
EPS (INR)	20.4	21.8	23.6	24.8	26.0	26.6	28.5	29.8	90.5	110.9	25.6	1.4

E: MOFSL estimates

Key performance indicators

Y/E March	FY22				FY23				FY22	FY23E
	1Q	2Q	3Q	4Q	1Q	2Q	3Q	4Q		
Revenue (QoQ CC %)	4.3	6.0	4.2	3.6	4.7					
Margins (%)										
Gross Margin	33.4	33.3	33.7	33.0	33.0	32.5	33.0	33.1	33.3	32.9
EBIT Margin	17.3	18.4	18.6	18.6	18.3	17.5	18.3	18.4	18.3	18.1
Net Margin	14.2	14.3	14.7	14.9	14.6	14.3	14.9	14.9	14.6	14.7
Operating metrics										
Headcount	16,972	17,983	20,118	20,861	21,433				20,861	
Attrition (%)	14.5	16.5	17.5	20.4	23.2				20.4	
Key Verticals (YoY %)										
Transportation	19.1	21.7	23.9	25.4	23.9	24.1	22.3	18.4	22.6	22.0
Industrial Products	20.9	25.3	19.6	16.8	13.4	7.8	10.2	15.3	20.6	11.7
Telecom & Hi-tech	18.1	20.4	10.7	11.6	7.4	9.7	6.5	9.8	14.9	8.4
Key Geographies (YoY %)										
North America	22.5	28.0	20.9	19.0	17.6	15.7	14.7	16.2	22.5	16.0
Europe	26.3	27.5	21.4	13.2	13.7	11.6	13.0	16.9	21.7	13.8



Key highlights from the management commentary

Demand and industry outlook

- The company had its highest ever booking in 1QFY23 (similar to 4QFY22), including one USD50m deal in the Rail mobility space.
- LTTS won seven deals, of which one was USD50m in Transportation (Rail signaling space), four USD15m+ deals, and two over USD10m deals.
- **Transportation:** Management sees good demand for Auto, EAVC and Aerospace sub-verticals. 1QFY23 was the second consecutive quarter when LTTS had a large deal win in Aero and Rail domains. The management continues to see the good demand trajectory to sustain.
- **Plant Engineering:** saw broad based demand across O&G, FMCG and chemical industries. There is investment across the space which is creating opportunities. The management is positive on Plant Engineering outlook and growth.
- **Industrial Products:** spending is happening in electrical followed by building automation. Management is seeing demand driven by digital engineering.
- **Telecom and Hi-Tech:** Telecom demand is in chip space and in 5G. LTTS also has a good pipeline of deals in Hi-Tech with recently empaneled large tech companies. Management is choosy in the types of deals it undertakes. It expects a few large deals to close in the next quarter.
- **Medical devices:** Demand is in Digital and software usage. LTTS expects growth to improve from new clients. Some customers are hurt by higher inflation and their budgets are also adversely impacted.
- **Outlook:** According to the management, the current macro situation is more challenging than the previous quarter. The primary concern is on new-age startups and the newer business lines of clients with long-term payoffs. The management has raised its FY23 USD growth guidance by 100bp to 14.5-16.5% in CC based on 4QFY23 exit currency prices, while reported USD growth guidance remains at 13.5-15.5%.
- Guidance takes into account deal wins over the last few quarters. The company is winning deals in Transportation, Plant and Industrial products but pockets of Telecom and Medical devices have been impacted adversely.
- Adverse impact is primarily in areas where paying customers are absent, although the exposure is not meaningful for LTTS.
- LTTS reconfirmed its FY23/FY25 guidance: USD1.5b by FY25E and USD1b either in 2QFY23 or in 3QFY23.

Margin performance

- Operational efficiency helped EBIT margin for 1Q despite increased investments in business. Key challenges in 1Q were: a) hiring was primarily lateral, b) upfront investment and ramp-up cost in large deal wins, and c) benefit of fresher addition starting from 2QFY23 onwards.
- Segmental margin improved on QoQ basis, but there was an impact of ESOP cost for senior management that is likely to continue going forward.
- FY23E EBIT margin aspiration level continues to be above 18%.
- LTTS will have wage hikes in 2QFY23, which it will try to offset from growth and operational efficiency.

Other highlights

- Management expects a reduction in DSO over the years.
- Other income was slightly higher due to higher income from investments.
- Management expects offshoring to stabilize at 57-58%, leaving scope for 200bp improvement.
- Management expects attrition to soften in the coming quarters.

Exhibit 1: Europe and the US grew strongly in 1QFY23

Geographies	Contribution to revenue (%)	QoQ growth (%)	YoY growth (%)
North America	62.9	4.2	17.6
Europe	16.4	5.2	13.7
India	13.2	(6.0)	19.1
RoW	7.5	9.0	9.2

Source: Company, MOFSL

Exhibit 2: Growth broad-based with the exception of Telecom and Hi-Tech

Verticals	Contribution to revenue (%)	QoQ growth (%)	YoY growth (%)
Transportation	33.2	2.9	23.9
Industrial Products	19.0	4.3	13.4
Telecom and Hi-Tech	20.3	(0.2)	7.4
Plant Engineering	16.0	7.3	20.2
Medical Devices	11.5	3.2	14.4

Source: MOFSL, Company

Valuation and view

- Digitization is driving the accelerated spends in ER&D and LTTS should benefit due to: 1) its strong capabilities, 2) multi-vertical presence, and 3) solid wallet share. We expect the company to deliver strong revenue growth over the coming years. We retain LTTS as our top pick in the Tier II IT Services space.
- The management expects strong growth during the medium term, which implies a growth momentum of ~20% over FY21-25E..
- After a sharp dip in margin in FY21, LTTS has managed to clock a record high margin. We expect it to sustain in a narrow band.
- Our TP of INR3,590 implies 28x FY24E EPS. We expect improved industry spends than the preceding five years. We maintain our **BUY** rating on the stock.

Exhibit 3: Revisions to our estimates

	Revised			Earlier			Change		
	FY22	FY23E	FY24E	FY22	FY23E	FY24E	FY22	FY23E	FY24E
USD:INR	74.6	78.8	79.0	74.6	78.5	79.0	0.0%	0.4%	0.0%
Revenue (USD m)	880	1,013	1,148	880	992	1,137	0.0%	2.1%	1.0%
Growth (%)	19.5	15.1	13.3	19.5	12.7	14.5	0bps	230bps	-120bps
EBIT margin (%)	18.3	18.1	18.4	18.3	18.1	18.3	0bps	10bps	10bps
PAT (INR m)	9,570	11,722	13,562	9,570	11,439	13,376	0.0%	2.5%	1.4%
EPS	90.5	110.9	128.3	90.5	108.2	126.5	0.0%	2.5%	1.5%

Source: MOFSL

Story in charts

Exhibit 4: LTTS reported a sequential growth of 3.2%

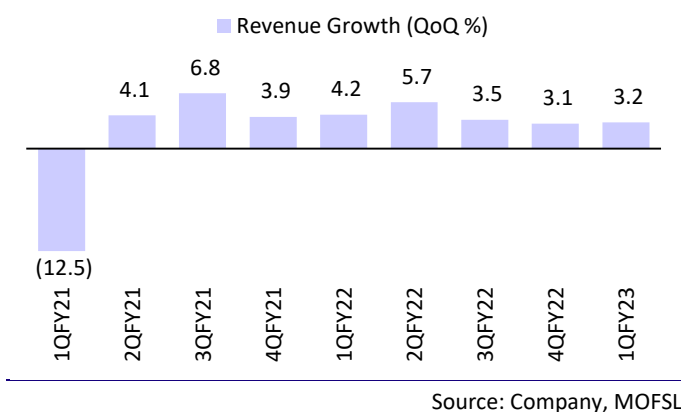


Exhibit 5: Strong growth in Plant Engineering in 1QFY23

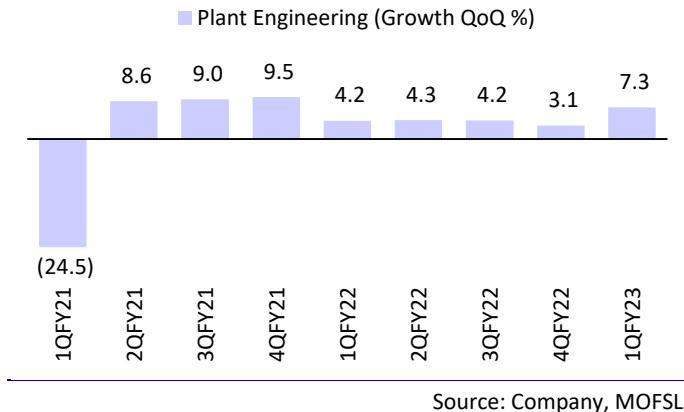


Exhibit 6: Telecom and Hi-Tech was flat QoQ in 1QFY23

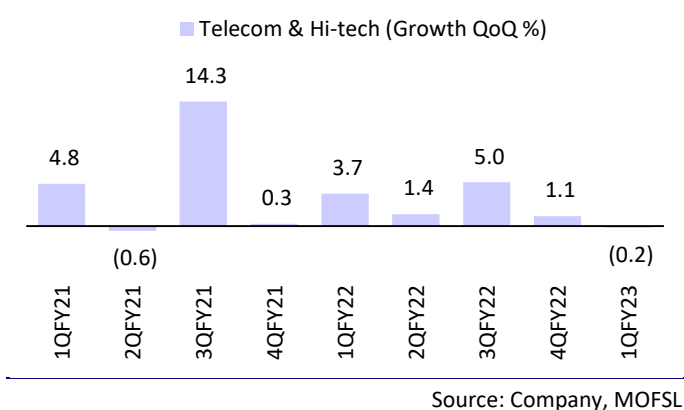


Exhibit 7: EBIT margin dipped 30bp QoQ in 1QFY23

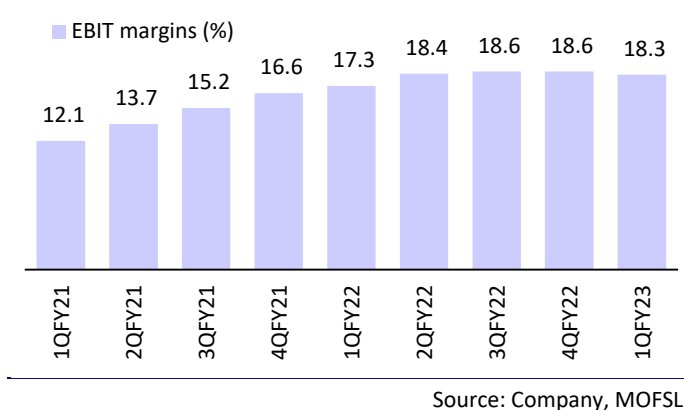


Exhibit 8: Attrition continued to increase in 1QFY23

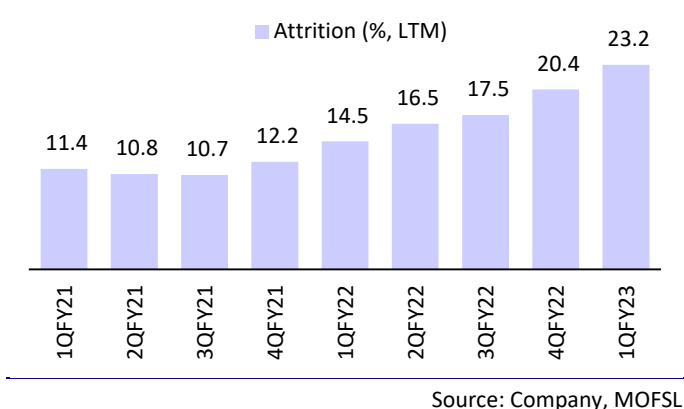
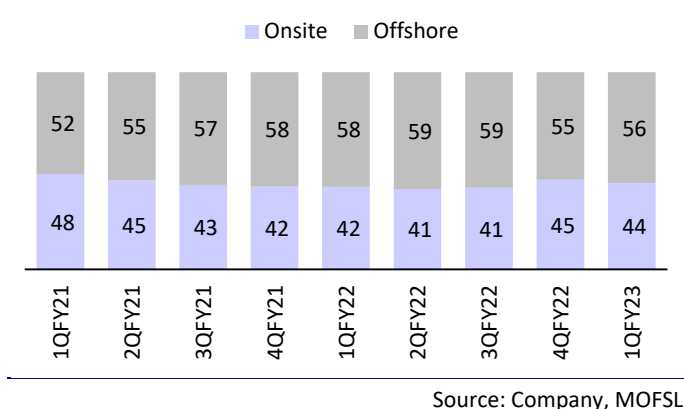


Exhibit 9: Offshoring improved in 1QFY23



Operating metrics

Exhibit 10: Operating metrics

	1QFY21	2QFY21	3QFY21	4QFY21	1QFY22	2QFY22	3QFY22	4QFY22	1QFY23
Revenue by verticals (%)									
Transportation	31.5	31.5	30.4	31.2	31.2	31.4	31.8	33.3	33.2
Industrial Products	19.4	19.5	19.3	18.9	19.5	20.0	19.5	18.8	19.0
Telecom and Hi-Tech	22.4	21.4	22.9	22.1	22.0	21.1	21.4	21.0	20.3
Plant Engineering	13.8	14.4	14.7	15.5	15.5	15.3	15.4	15.4	16.0
Medical Devices	12.8	13.2	12.7	12.3	11.7	12.2	11.9	11.5	11.5
Revenue by geographies (%)									
North America	61.2	60.0	61.2	61.5	62.3	62.9	62.5	62.3	62.9
Europe	16.0	16.0	16.1	16.7	16.8	16.7	16.5	16.1	16.4
India	13.0	13.6	13.9	13.1	12.9	13.0	13.7	14.5	13.2
RoW	9.8	10.4	8.8	8.7	8.0	7.4	7.3	7.1	7.5
Client metrics									
Top five clients	17.8	17.0	16.3	16.1	16.4	17.0	17.3	17.2	16.7
Top 10 clients	29.7	28.3	27.3	26.9	27.4	28.2	28.5	28.3	27.6
Top 20 clients	46.8	44.9	44.0	43.8	43.9	44.1	43.8	43.5	43.2
Clients (USD m)									
Over USD30m	1	1	1	-	-	1	2	2	2
Over USD20m	4	5	4	3	5	6	6	6	7
Over USD10m	22	20	18	20	20	21	22	22	23
Over USD5m	43	44	41	39	43	45	44	48	51
Over USD1m	113	116	118	122	122	125	126	136	142
Employee metrics									
Billable	15,481	14,778	14,975	15,335	15,896	16,875	18,975	19,534	20,082
Sales and support	1,160	1,124	1,094	1,117	1,076	1,108	1,143	1,327	1,351
Total employees	16,641	15,902	16,069	16,452	16,972	17,983	20,118	20,861	21,433
Attrition (%)	11.4	10.8	10.7	12.2	14.5	16.5	17.5	20.4	23.2

Source: Company, MOFSL

Financials and valuations

Consolidated Income Statement

(INR m)

Y/E March	FY18	FY19	FY20	FY21	FY22	FY23E	FY24E
Total Income from Operations	37,471	50,783	56,192	54,497	65,697	79,819	90,666
Change (%)	15.4	35.5	10.7	-3.0	20.6	21.5	13.6
Employees Cost	24,600	31,440	32,747	33,550	36,505	44,653	50,201
Other Expenses	7,060	10,185	12,340	10,873	15,043	18,281	21,035
Total Expenditure	31,660	41,625	45,087	44,423	51,548	62,934	71,235
As a percentage of Sales	84.5	82.0	80.2	81.5	78.5	78.8	78.6
EBITDA	5,811	9,158	11,105	10,074	14,149	16,886	19,431
Margin (%)	15.5	18.0	19.8	18.5	21.5	21.2	21.4
Depreciation	888	1,053	1,829	2,183	2,144	2,408	2,720
EBIT	4,923	8,105	9,276	7,891	12,005	14,477	16,711
Other Income	1,910	2,210	1,727	1,082	1,087	1,439	1,632
PBT	6,833	10,315	11,003	8,973	13,092	15,917	18,343
Total Tax	1,712	2,630	2,779	2,307	3,486	4,181	4,769
Tax Rate (%)	25.1	25.5	25.3	25.7	26.6	26.3	26.0
Reported PAT	5,121	7,685	8,224	6,666	9,606	11,736	13,574
Change (%)	20.5	50.1	7.0	-18.9	44.1	22.2	15.7
Margin (%)	13.7	15.1	14.6	12.2	14.6	14.7	15.0
Minority Interest	-6	-28	-38	-32	-36	-14	-12
PAT to shareholders	5,115	7,657	8,186	6,634	9,570	11,722	13,562

Consolidated Balance Sheet

(INR m)

Y/E March	FY18	FY19	FY20	FY21	FY22	FY23E	FY24E
Equity Share Capital	205	208	209	210	211	211	211
Total Reserves	19,159	24,583	27,477	34,521	41,414	48,213	56,078
Net Worth	19,364	24,791	27,686	34,731	41,625	48,424	56,289
Minority Interest	3	31	69	101	137	151	163
Borrowings	702	702	303	0	0	0	0
Other Long term liabilities	47	194	4,890	4,915	5,359	7,199	8,177
Capital Employed	20,116	25,718	32,948	39,747	47,121	55,773	64,629
Net Fixed Assets	2,173	2,435	6,275	6,997	6,946	5,645	4,183
Goodwill	4,921	5,365	5,460	5,827	5,881	5,881	5,881
Capital WIP	1	0	87	119	99	99	99
Other Assets	1,349	2,123	2,109	2,760	4,733	5,240	5,514
Curr. Assets, Loans, and Adv.	18,607	23,715	29,102	35,026	43,251	54,017	64,463
Account Receivables	9,623	10,643	13,807	12,346	16,959	17,495	19,872
Cash and Bank Balance	1,541	2,048	2,179	1,751	2,347	7,992	12,859
Current Investments	2,208	5,752	6,370	15,725	18,313	20,813	23,313
Other Current Assets	5,235	5,272	6,746	5,204	5,632	7,718	8,419
Curr. Liability and Prov.	6,935	7,920	10,085	10,982	13,789	15,109	15,510
Account Payables	1,807	1,879	1,975	2,352	1,720	3,040	3,441
Other Current Liabilities	3,922	4,700	6,456	7,046	10,117	10,117	10,117
Provisions	1,206	1,341	1,654	1,584	1,952	1,952	1,952
Net Current Assets	11,672	15,795	19,017	24,044	29,462	38,908	48,953
Appl. of Funds	20,116	25,718	32,948	39,747	47,121	55,773	64,629

Financials and valuations

Ratios

Y/E March	FY18	FY19	FY20	FY21	FY22	FY23E	FY24E
Basic EPS (INR)	48.1	72.6	77.5	62.8	90.5	110.9	128.3
Cash EPS	56.6	82.6	94.9	83.5	110.8	133.7	154.1
BV/Share	188.9	238.4	264.9	330.8	394.5	459.0	533.5
DPS	15.6	21.0	21.0	22.0	31.7	38.8	44.9
Payout (%)	32.4	28.9	27.1	35.0	35.0	35.0	35.0
Valuation (x)							
P/E	64.2	42.5	39.8	49.2	34.1	27.9	24.1
Cash P/E	54.6	37.4	32.6	37.0	27.9	23.1	20.1
P/BV	16.4	13.0	11.7	9.3	7.8	6.7	5.8
EV/Sales	8.4	6.1	5.6	5.6	4.6	3.7	3.2
EV/EBITDA	54.2	34.1	28.2	30.4	21.5	17.6	14.9
Dividend Yield (%)	0.5	0.7	0.7	0.7	1.0	1.3	1.5
Return Ratios (%)							
RoE	29.6	34.7	31.1	21.2	25.0	26.0	25.8
RoCE	21.5	27.2	24.0	16.2	20.3	20.7	20.5

Consolidated Cash Flow Statement

(INR m)

Y/E March	FY18	FY19	FY20	FY21	FY22	FY23E	FY24E
OP/(Loss) before Tax	6,778	10,314	11,002	8,973	13,092	15,917	18,343
Depreciation	888	1,042	1,829	2,183	2,144	2,408	2,720
Interest and Finance Charges	24	19	365	455	437	0	0
Direct Taxes Paid	-1,721	-2,808	-2,119	-2,523	-3,563	-4,181	-4,769
(Inc.)/Dec. in WC	-1,701	-739	-4,287	4,245	-1,452	31	-1,972
Others	-132	234	-409	-60	-597	0	0
CF from Operations	4,136	8,062	6,381	13,273	10,061	14,175	14,321
(Inc.)/Dec. in FA	-851	-885	-1,511	-756	-1,555	-1,107	-1,258
Free Cash Flow	3,285	7,177	4,870	12,517	8,506	13,068	13,064
(Pur.)/Sale of Investments	-1,231	-4,389	-1,039	-9,653	-3,393	-2,500	-2,500
Others	78	181	328	355	465	0	0
CF from Investments	-2,004	-5,093	-2,222	-10,054	-4,483	-3,607	-3,758
Issue of Shares	2	3	1	1	1	0	0
Inc./(Dec.) in Debt	-317	2	-1,028	-995	-913	0	0
Interest Paid	-25	-19	-365	-455	-437	0	0
Dividend Paid	-983	-2,440	-2,636	-2,198	-3,633	-4,923	-5,696
CF from Fin. Activity	-1,323	-2,454	-4,028	-3,647	-4,982	-4,923	-5,696
Inc./Dec. in Cash	809	515	131	-428	596	5,645	4,868
Forex Adjustment	60	-8	0	0	0	0	0
Opening Balance	672	1,541	2,048	2,179	1,751	2,347	7,992
Closing Balance	1,541	2,048	2,179	1,751	2,347	7,992	12,859

NOTES

Explanation of Investment Rating	
Investment Rating	Expected return (over 12-month)
BUY	>=15%
SELL	< - 10%
NEUTRAL	< - 10 % to 15%
UNDER REVIEW	Rating may undergo a change
NOT RATED	We have forward looking estimates for the stock but we refrain from assigning recommendation

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