

CIE Automotive

Estimate change



TP change



Rating change



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Bloomberg	CIEINDIA IN
Equity Shares (m)	379
M.Cap.(INRb)/(USDb)	196.3 / 2.4
52-Week Range (INR)	578 / 243
1, 6, 12 Rel. Per (%)	-7/26/89
12M Avg Val (INR M)	514

Financials & Valuations (INR b)

INR b	CY22	CY23E	CY24E
Sales	87.5	99.4	109.9
EBITDA (%)	13.4	15.6	16.3
Adj. PAT	6.8	9.1	11.1
EPS (INR)	18.1	24.0	29.3
EPS Growth (%)	69.2	32.6	22.4
BV/Share (INR)	135	154	177

Ratio

RoE (%)	13.3	16.6	17.7
RoCE (%)	10.7	14.5	15.4
Payout (%)	13.3	16.7	16.7

Valuations

P/E (x)	28.7	21.6	17.7
P/BV (x)	3.8	3.4	2.9
Div. Yield (%)	0.5	0.8	0.9
FCF Yield (%)	3.4	1.7	4.3

Shareholding pattern (%)

As On	Jun-23	Mar-23	Jun-22
Promoter	65.7	68.9	74.9
DII	14.8	11.2	8.1
FII	7.5	8.6	6.9
Others	12.0	11.3	10.2

FII Includes depository receipts

CMP: INR518

TP: INR600 (+16%)

Buy

Miss on revenue, but strong EU margin dilutes the pain

Turns net cash in 2Q | Margin target at 18-19% for the India business

- CIE Automotive (CIEINDIA)'s 2QCY23 result disappointed due to weak revenue growth in both India and the EU. Going forward, it expects India business to report growth and the EU business to stay muted. CIEINDIA turned net cash at INR1.6b in 2QCY23, driven by healthy operating cash flows and receipt of excess cash (INR2.6b) from the German CV forging business.
- We cut our consol. EPS estimates for CY23/CY24 by 4%/2% as we factor in: a) weaker-than-estimated growth in both EU and India, b) higher margin in the EU, and c) MTM losses due to adverse FX movement. **Reiterate BUY with a TP of INR600 (premised on ~18x Sep'25E consol. EPS).**

Weaker growth across geographies

- CIEINDIA's 2QCY23 consol. revenue/EBITDA/PAT grew 5%/21%/16% YoY. Consol. revenue/EBITDA/PAT grew 11%/28%/24% YoY in 1HCY23.
- Consol. revenue stood at ~INR23.2b (vs. est. INR25.2b), due to weaker growth in both geographies (India/EU grew just 4%/6% YoY vs. estimated growth of 12%/18% YoY). EBITDA rose 21% YoY to ~INR3.7b (vs. est. INR3.9b). EBITDA margin stood at 16.0% (vs. est. 15.4%). Adj. PAT grew 16% YoY to INR2.1b (vs. est. INR2.2b) in 2QCY23.
- **India business performance:** Revenue grew 4% YoY to ~INR14.4b (vs. est. ~INR15.4b), hit by weakness in 2W exports and product mix. EBITDA margin expanded 150bp YoY to 14.8% (vs. est. 15.2 %) for the quarter.
- **EU business performance:** Revenue was flat in EUR terms due to weakness at Metalcastello, but INR depreciation drove 6% YoY growth to ~INR8.9b (vs. est. ~INR9.8b). EBITDA margin expanded 310bp YoY to 17.8% (vs. est. 15.7%), benefitting from lower RM and energy costs.

Highlights from the management commentary

- **Outlook:** In India, all OEM segments are likely to see healthy growth in 2HCY23. In Europe, PV volumes are expected to remain flat over next 12-18 months and Metalcastello business is likely to stay weak in 2HCY23.
- **EV order book for the EU:** Metalcastello has two EV orders with an annual revenue potential of EUR25-30m and the supplies are expected to commence from 4QCY23. In forging business, it has won orders for battery plates of e-CVs and aluminum forging components for chassis.
- **At consol. level, CIEINDIA turned net cash at INR1.6b in 2QCY23** (vs. net financial debt of INR1.45b as of Dec'22). The German CV forging business transferred excess cash of INR2.6b, as the deal is likely to be on debt and cash-free basis.
- The EU business has provided excess cash of ~INR4.4b in its books as a loan to the parent, under cash pooling mechanism, at 4% interest rate.

Valuation and view

- CIEINDIA's growth story is on track, driven by its organic initiatives (new products and customers) in the India business. These, coupled with cost-cutting measures in both India and the EU as well as recovery in domestic 2W demand, will drive margin expansion going forward.
- Any significant order wins or growth in the EV portfolio can drive a re-rating. The stock trades at 21.6x/17.7x CY23E/CY24E consolidated EPS. **Reiterate BUY with a TP of INR600 (premised on ~18x Sep'25E consol. EPS).**

Quarterly performance (Consol.)

(INR m)

	CY22				CY23E				CY22	CY23E	
Y/E December	1Q	2Q	3Q	4Q	1Q	2Q	3QE	4QE			2QE
Net Sales	20,608	22,160	22,294	22,468	24,402	23,203	25,553	26,197	87,530	99,355	25,243
YoY Change (%)	-5.9	8.5	6.6	34.6	18.4	4.7	14.6	16.6	29.4	13.5	13.9
EBITDA	2,804	3,058	2,934	2,924	3,806	3,704	3,921	4,021	11,720	15,452	3,886
Margins (%)	13.6	13.8	13.2	13.0	15.6	16.0	15.3	15.3	13.4	15.6	15.4
Depreciation	717	747	731	767	825	833	805	841	2,962	3,304	825
Interest	40	-1	109	79	240	221	215	220	227	896	210
Other Income	107	98	134	244	160	195	202	215	583	772	150
Share of profit from associates	4	11	3	4	3	-3	5	10	22	15	10
PBT before EO expense	2,155	2,409	2,229	2,321	2,901	2,846	3,103	3,174	9,114	12,024	3,001
EO Exp/(Inc)	0	0	-38	-379	0	0	0	0	-379	0	0
PBT after EO expense	2,155	2,409	2,267	2,700	2,901	2,846	3,103	3,174	9,492	12,024	3,001
Tax Rate (%)	23.9	23.8	24.5	28.0	24.2	24.9	25.0	25.1	25.3	24.8	25.6
Adj. PAT	1,643	1,847	1,685	1,662	2,203	2,136	2,331	2,386	6,828	9,056	2,243
YoY Change (%)	7.7	35.6	13.0	96.3	34.1	15.7	38.3	43.5	69.2	32.6	21.5
Revenues											
India	12,811	13,778	15,311	13,977	14,449	14,348	17,608	16,931	55,862	63,336	15,431
Growth (%)	15	47	34	23	13	4	15	21	29	13	12.0
EU	7,768	8,315	7,094	8,491	9,954	8,855	7,945	9,250	31,668	36,004	9,811
Growth (%)	-28	-25	-25	51	28	6	12	9	26	14	18.0
EBITDA Margins											
India	13.4	13.3	13.4	16.9	15.0	14.8	15.5	15.5	14.3	15.2	15.2
EU	14.0	14.7	12.3	11.0	16.4	17.8	15.0	16.1	13.0	16.4	15.7

**Key takeaways from the management interaction****India business:**

- Revenue was muted, in line with the underlying market segments, growing at just 0.4% YoY (-1.2% QoQ). On QoQ basis, it underperformed due to product mix (M&M's newer products doing well vs. older products) and customer mix (Bajaj's performance hit by weakness in 2W exports). However, management expects growth across segments in 2HCY23.
- CIE Hosur has already incurred a capex of INR1.7b. Its present turnover stands at ~INR1b/year and management aims to double the same in a short span of time.
- Exports remained in the 13-15% range. Exports have grown faster than the domestic market in 1HCY23. Exports contribution is likely to improve from these levels.
- One of the targets for the India business is to match the global margin of CIEINDIA's parent (at 18-19%).

Europe business:

- Revenue in EUR terms was flat owing to the weakness in Metalcastello business as well as a levy of EUR100/ton surcharge on scrap. **Metalcastello's** revenue declined 15% QoQ, hit by slowdown in the US. Management expects the

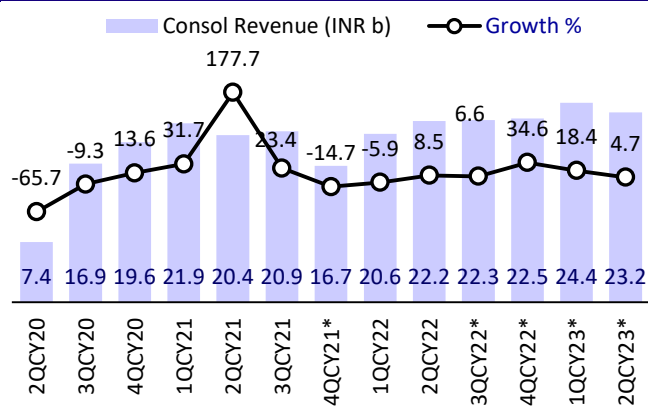
weakness to continue in 2HCY23. European PV volumes are likely to be flattish over the next 12-18 months.

- **EV order book for the EU:** Metalcastello has two EV orders with an annual revenue potential of EUR25-30m and the supplies are expected to commence from 4QCY23. In forging business, it has won orders for battery plates of e-CVs and aluminum forging components for chassis.
- The German CV forging business (held for sale) had INR1.1b insurance claim, which boosted PAT to INR846m in 2QCY23. Operating performance of this business has been improving with EBITDA margin of 8-10% in 2QCY23. The process to sell this business is progressing well and management expects a deal to happen sooner rather than later. The business transferred an excess cash of INR2.6b, as the deal is expected to be on debt and cash-free basis.

Other highlights

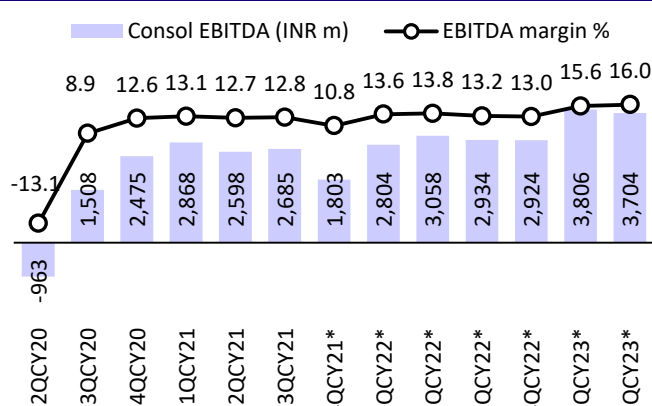
- For sunroof business, the parent's strategy in India is yet to be finalized (currently housed in the parent-owned subsidiary).
- **At consol. level, CIEINDIA turned net cash at INR1.6b in 2QCY23** (vs. net financial debt of INR1.45b as of Dec'22).
- Capex in 1HCY23 was at 5.4% of sales and full year is expected to be in the 5-6% range. A large part of this capex is towards growth capex in India and Mexico.
- The EU business has provided excess cash of ~INR4.4b in its books as a loan to the parent, under cash pooling mechanism, at 4% interest rate.

Exhibit 1: Trend in consolidated revenue



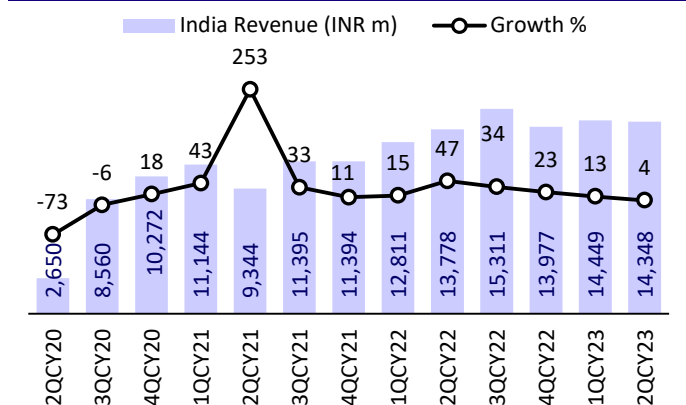
Source: *Excludes MFE, Company, MOFSL

Exhibit 2: Trend in consolidated EBITDA



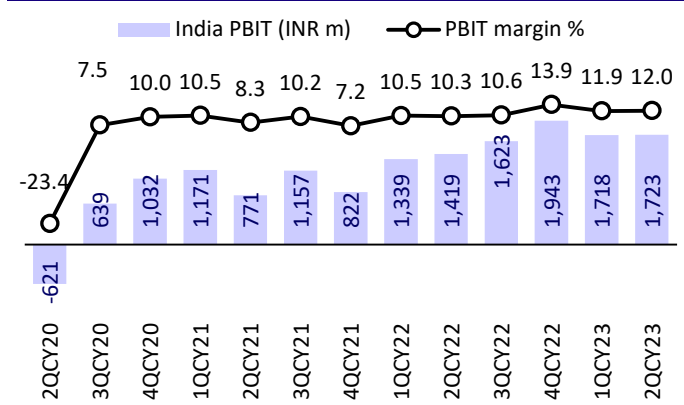
Source: *Excludes MFE, Company, MOFSL

Exhibit 3: Trend in India revenue



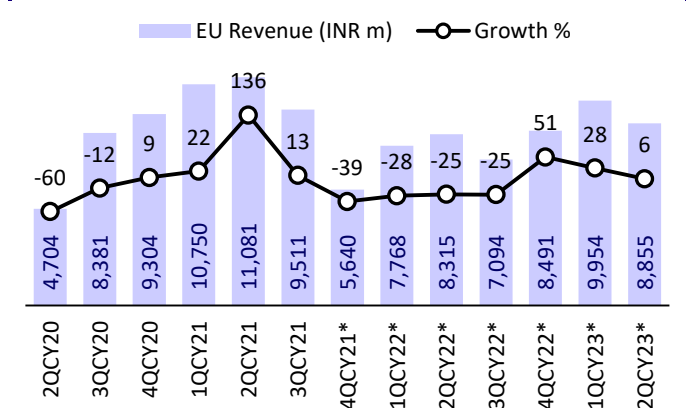
Source: Company, MOFSL

Exhibit 4: Trend in India PBIT margin



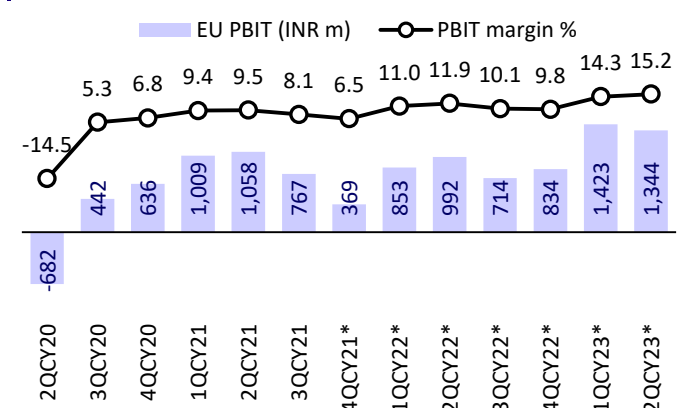
Source: Company, MOFSL

Exhibit 5: Trend in the EU revenue



Source: *Excludes MFE, Company, MOFSL

Exhibit 6: Trend in the EU PBIT margin



Source: *Excludes MFE, Company, MOFSL

Valuation and view

- **India a growth driver; focus is on consolidating operations in the EU:** CIEINDIA has been diversifying its India revenue and rationalizing costs, both domestically and in its EU business. India is expected to be the key growth driver, led by: a) value-added products (machined castings, higher-grade magnets, complex gears, etc.); b) exports; and c) new products and customers. We expect margin expansion to be driven by: a) an improvement in the mix, b) optimization of product process location, and c) operating leverage. Since CIEINDIA has achieved its 15% EBITDA margin target in India, it is aiming for 18-19% margin (at which its parent operates). Considering the lack of growth in the EU business, the focus is on: a) rationalizing the German business portfolio to improve margin, b) matching costs with revenue in a cyclical market to retain margin in the Italy business, and c) maintaining margins in Spain and Lithuania.
- **Strong, focused, and a disciplined parent:** CIE is a focused global player in auto components, with diversified technologies and multi-location offerings. It has demonstrated its ability to achieve inorganic growth profitably across geographies, while delivering value-accretive growth by adhering to a strict financial discipline. CIEINDIA benefits from CIE's expertise in driving operational improvements and is working towards achieving the latter's financial objectives.
- **Set for growth post-consolidation phase:** Over the last three-to-four years since acquiring CIEINDIA, CIE embarked on restructuring and consolidating all

operations under the former. With Phase I of the consolidation largely complete, CIEINDIA is now focusing on growth in Phase II. In the India business, it is targeting both organic and inorganic growth. In the European business, it will invest selectively for growth purposes. CIEINDIA is CIE's vehicle for expansion in Southeast Asia and sourcing forging technologies worldwide.

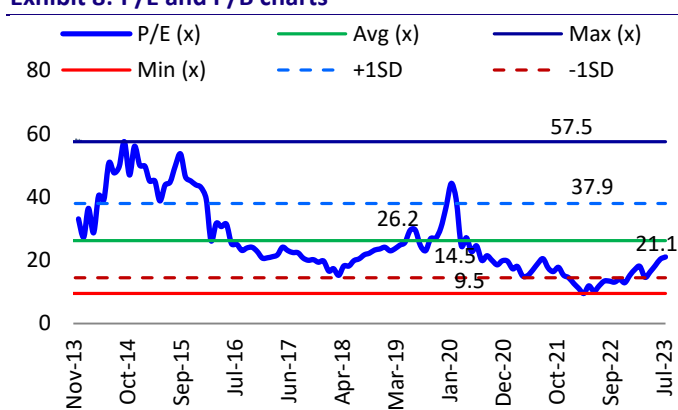
- **Financial discipline key to its M&A-led strategy:** M&A has been an integral tool for CIEINDIA in achieving its strategic objectives and growth. For CIEINDIA, M&A will be the key driver: a) to fill gaps in areas of strategic technologies – aluminum and plastics; b) for access to key players in the India PV segment (Maruti, Hyundai, etc.); and c) for entry into ASEAN markets. CIE has displayed a strict acquisition discipline, with a criteria of less than 3x EV/EBITDA over three years, and targets a minimum RoI of ~20%.
- **Maintain BUY with a TP of INR600:** CIEINDIA's growth story is on track, led by its organic initiatives (new products/customers) and M&A focus. Under CIE's parentage, CIEINDIA has been able to improve its efficiencies, cut costs, and improve profitability. The stock trades at 21.6x/17.7x CY23E/CY24E consolidated EPS. **Reiterate BUY with a TP of INR600 (premised on ~18x Sep'25E consol. EPS).**

Exhibit 7: Our revised estimates

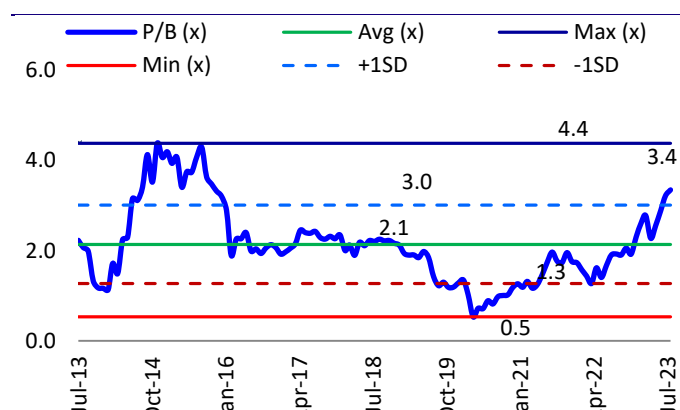
(INR M)	CY23E			CY24E		
	Rev	Old	Chg (%)	Rev	Old	Chg (%)
Net Sales	99,355	1,01,119	(1.7)	1,09,911	1,11,766	(1.7)
EBITDA	15,452	15,729	(1.8)	17,936	18,346	(2.2)
EBITDA margin %	15.6	15.6	0bp	16.3	16.4	-10bp
Adj. PAT	9,056	9,448	(4.2)	11,083	11,303	(1.9)
EPS	24.0	25.0	(4.2)	29.3	29.9	(1.9)

Source: MOFSL

Exhibit 8: P/E and P/B charts



Source: Company, MOFSL



Source: Company, MOFSL

Key operating indicators

Exhibit 9: Expect consolidated revenue to recover

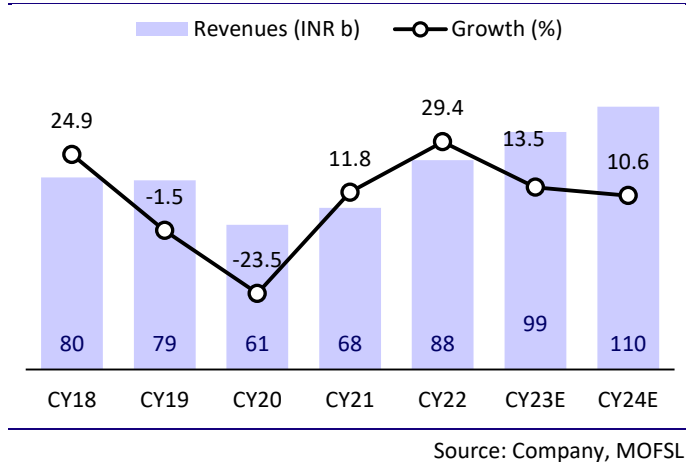


Exhibit 10: Expect EBITDA margin to recover in CY23

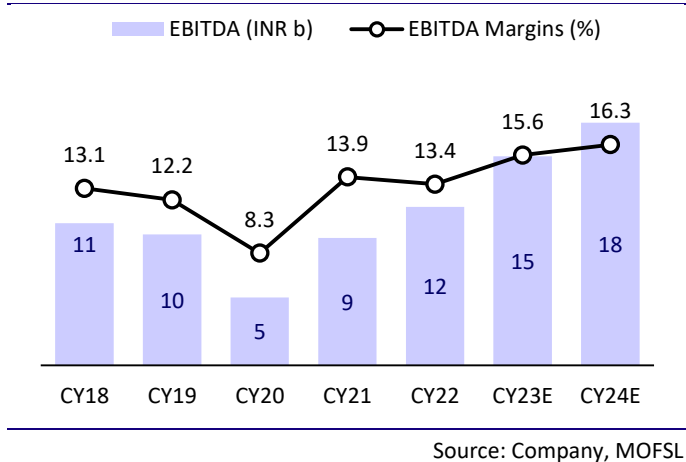


Exhibit 11: EPS and EPS growth trends

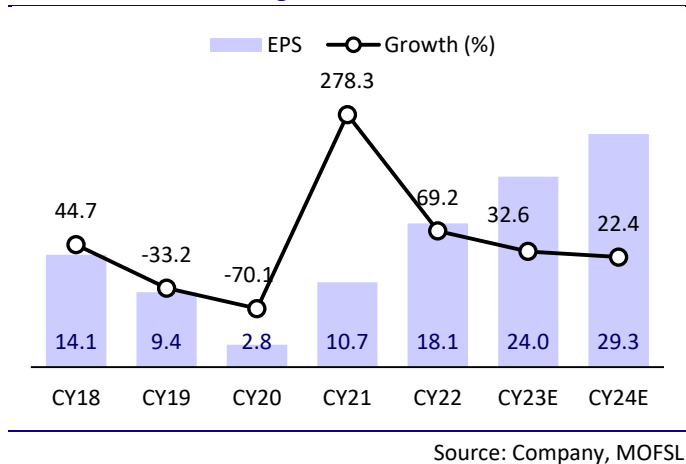


Exhibit 12: Expect net debt to reduce substantially by CY23

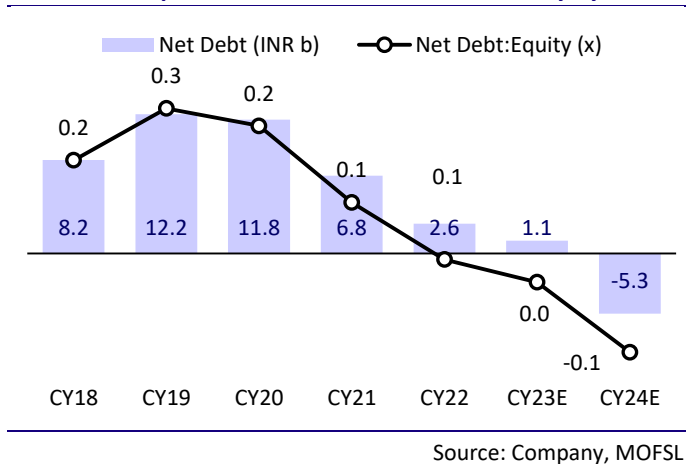


Exhibit 13: Expect RoE to continue to improve

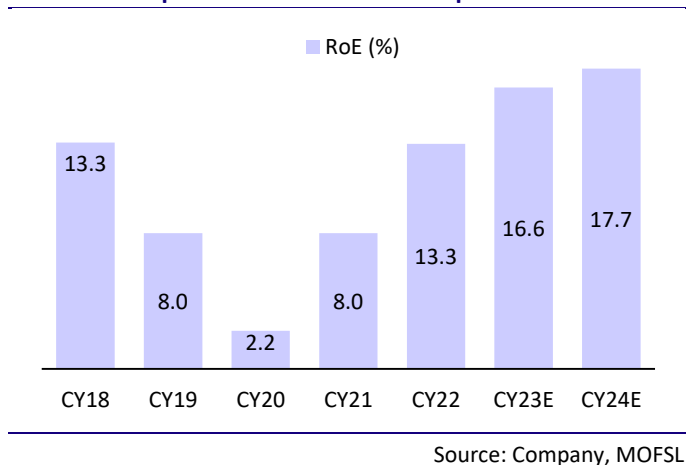


Exhibit 14: FCF to remain at healthy levels

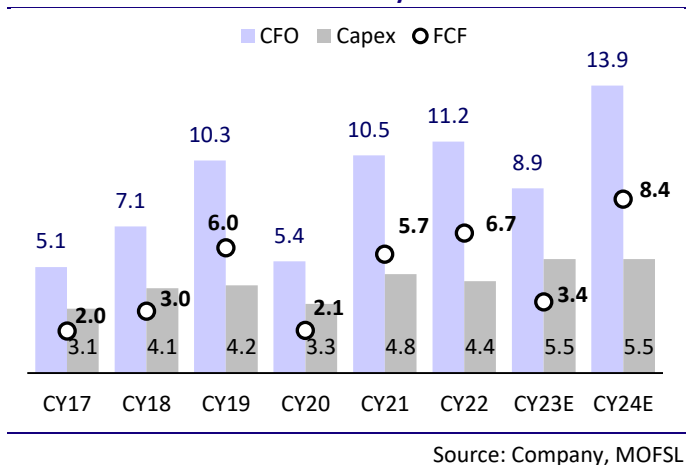


Exhibit 15: Key operating metrics

INR m	CY17	CY18	CY19	CY20	CY21	CY22	CY23E	CY24E
Revenues								
Forgings	45,474	56,290	50,892	38,119	49,639	64,345	72,985	78,513
Growth (%)	25	24	-10	-25	30	30	13	8
India (ex BFL)	4,364	5,312	4,265	2,911	4,988	7,745	8,907	9,976
Growth (%)	13	22	-20	-32	71	55	15	12
BFL	6,917	8,737	8,776	6,898	9,238	12,553	13,808	15,465
Growth (%)	295	26	0	-21	34	36	10	12
MFE Europe	17,316	21,384	17,889	13,291	16,488	19,491	21,892	23,113
Growth (%)	8	23	-16	-26	24	18	12	6
CIE Europe	16,876	20,857	19,962	15,019	18,925	24,557	28,378	29,960
Growth (%)	14	24	-4	-25	26	30	16	6
Gears	4,716	7,904	7,893	5,128	8,326	9,830	11,502	12,665
Growth (%)	-8	68	0	-35	62	18	17	10
India	828	2,333	2,240	1,717	2,836	3,230	3,876	4,457
Growth (%)	-44	182	-4	-23	65	14	20	15
Metalcastello	3,888	5,571	5,653	3,411	5,490	6,600	7,626	8,208
Growth (%)	7	43	1	-40	61	20	16	8
Stampings	8,015	10,077	8,410	5,265	8,980	12,859	14,402	16,418
Growth (%)	26	26	-17	-37	71	43	12	14
Castings	4,177	5,269	4,237	3,152	5,021	6,527	7,506	8,407
Growth (%)	14	26	-20	-26	59	30	15	12
Composites	907	1,092	1,069	746	1,227	1,722	1,946	2,179
Growth (%)	3	20	-2	-30	64	40	13	12
Magnets	1,292	1,210	1,068	984	1,342	1,613	1,823	2,060
Growth (%)	-3	-6	-12	-8	36	20	13	13
Aluminium (AEL)			6,385	7,265	9,636	10,060	11,267	12,619
Growth (%)				14	33	4	12	12
Total Consol Revenues	64,279	80,315	79,078	60,501	67,652	87,530	99,355	1,09,911
Growth (%)	21	25	-2	-23	12	29	14	11
EBITDA Margins	12.7	13.1	12.2	8.3	13.9	13.4	15.6	16.3
EBIT Margins	8.5	9.5	8.2	3.2	9.9	10.0	12.2	13.1
Adj. EPS (INR/Sh)	9.8	14.1	9.4	2.8	10.7	18.1	24.0	29.3
Growth (%)	111	45	-33	-70	278	69	33	22

Source: Company, MOFSL

Financials and valuations

Consolidated - Income Statement

(INR m)

Y/E December	CY18	CY19	CY20	CY21	CY22	CY23E	CY24E
Total Income from Operations	80,315	79,078	60,501	67,652	87,530	99,355	1,09,911
Change (%)	24.9	-1.5	-23.5	11.8	29.4	13.5	10.6
EBITDA	10,511	9,677	5,016	9,417	11,720	15,452	17,936
Margin (%)	13.1	12.2	8.3	13.9	13.4	15.6	16.3
Depreciation	2,867	3,161	3,064	2,733	2,962	3,304	3,509
EBIT	7,643	6,516	1,952	6,684	8,758	12,148	14,427
Int. and Finance Charges	502	523	548	348	227	896	643
Other Income	387	331	549	468	583	772	896
PBT bef. EO Exp.	7,529	6,324	1,953	6,805	9,114	12,024	14,680
EO Items	-504	-46	0	-128	379	0	0
PBT after EO Exp.	7,025	6,279	1,953	6,677	9,492	12,024	14,680
Total Tax	2,043	2,741	886	2,731	2,401	2,984	3,622
Tax Rate (%)	29.1	43.7	45.4	40.9	25.3	24.8	24.7
Share of profit from associate	0	0	0	12	22	15	25
Reported PAT	4,981	3,538	1,066	3,958	7,113	9,056	11,083
Adj. PAT	5,339	3,564	1,066	4,034	6,828	9,056	11,083
Change (%)	44.7	-33.2	-70.1	278.3	69.2	32.6	22.4
Margin (%)	6.6	4.5	1.8	6.0	7.8	9.1	10.1

Consolidated - Balance Sheet

(INR m)

Y/E December	CY18	CY19	CY20	CY21	CY22	CY23E	CY24E
Equity Share Capital	3,788	3,790	3,790	3,791	3,793	3,793	3,793
Total Reserves	39,103	42,548	45,290	48,175	47,192	54,436	63,303
Net Worth	42,891	46,338	49,080	51,966	50,985	58,229	67,096
Minority Interest	0	0	0	0	0	0	0
Total Loans	16,134	14,691	16,476	12,816	9,234	9,235	9,236
Deferred Tax Liabilities	-1,565	912	1,236	2,459	3,199	3,199	3,199
Capital Employed	57,460	61,941	66,792	67,241	63,418	70,663	79,531
Gross Block	32,235	42,936	53,135	50,226	48,348	54,042	59,542
Less: Accum. Deprn.	12,294	17,619	23,204	20,624	20,921	24,225	27,734
Net Fixed Assets	19,941	25,316	29,931	29,602	27,427	29,817	31,807
Goodwill on Consolidation	29,111	35,260	37,554	36,265	28,040	28,040	28,040
Capital WIP	960	542	123	1,247	1,195	1,001	1,001
Total Investments	6,808	955	2,340	4,380	5,756	5,756	5,756
Curr. Assets, Loans&Adv.	26,455	23,553	23,686	26,712	36,780	33,388	42,982
Inventory	12,286	10,566	10,062	13,486	12,108	13,562	14,867
Account Receivables	7,414	7,368	7,054	6,687	8,608	9,527	10,539
Cash and Bank Balance	1,127	1,499	2,380	1,595	859	2,350	8,783
Loans and Advances	5,628	4,120	4,190	4,943	15,205	7,948	8,793
Curr. Liability & Prov.	25,815	23,686	26,843	30,965	35,780	27,338	30,055
Account Payables	16,838	14,771	14,590	19,385	21,350	18,620	20,411
Other Current Liabilities	5,038	4,745	7,909	7,605	12,876	6,955	7,694
Provisions	3,939	4,170	4,344	3,976	1,553	1,763	1,951
Net Current Assets	640	-133	-3,157	-4,253	1,000	6,050	12,927
Appl. of Funds	57,460	61,941	66,791	67,240	63,418	70,664	79,532

E: MOSL Estimates

Financials and valuations

Ratios

Y/E December	CY18	CY19	CY20	CY21	CY22	CY23E	CY24E
Basic (INR)							
EPS	14.1	9.4	2.8	10.7	18.1	24.0	29.3
Cash EPS	21.7	17.8	10.9	17.9	25.9	32.7	38.6
BV/Share	113.4	122.6	129.8	137.4	134.8	154.0	177.5
DPS	0.0	0.0	0.0	2.5	2.5	4.0	4.9
Payout (%)	0.0	0.0	0.0	23.9	13.3	16.7	16.7
Valuation (x)							
P/E	36.7	54.9	183.5	48.5	28.7	21.6	17.7
Cash P/E	23.8	29.1	47.4	28.9	20.0	15.8	13.4
P/BV	4.6	4.2	4.0	3.8	3.8	3.4	2.9
EV/Sales	2.6	2.6	3.5	3.1	2.3	2.0	1.8
EV/EBITDA	20.1	21.6	41.9	22.0	17.5	13.2	11.0
Dividend Yield (%)	0.0	0.0	0.0	0.5	0.5	0.8	0.9
FCF per share	7.9	15.9	5.4	15.1	17.8	9.0	22.1
Return Ratios (%)							
RoE	13.3	8.0	2.2	8.0	13.3	16.6	17.7
RoCE (Post-tax)	10.9	6.5	2.1	6.3	10.7	14.5	15.4
RoIC	11.5	6.8	1.8	6.5	11.3	15.6	17.3
Working Capital Ratios							
Fixed Asset Turnover (x)	2.5	1.8	1.1	1.3	1.8	1.8	1.8
Asset Turnover (x)	1.4	1.3	0.9	1.0	1.4	1.4	1.4
Inventory (Days)	56	49	61	73	50	50	49
Debtor (Days)	34	34	43	36	36	35	35
Creditor (Days)	77	68	88	105	89	68	68
Leverage Ratio (x)							
Net Debt/Equity	0.2	0.3	0.2	0.1	0.1	0.0	-0.1

Consolidated - Cash Flow Statement

(INR m)

Y/E December	CY18	CY19	CY20	CY21	CY22	CY23E	CY24E
OP/(Loss) before Tax	7,025	6,279	1,953	6,689	9,514	12,039	14,705
Depreciation	2,898	3,168	3,064	3,431	3,537	3,304	3,509
Interest & Finance Charges	525	525	548	533	454	124	-253
Direct Taxes Paid	-1,444	-1,161	-503	-1,053	-1,981	-2,984	-3,622
(Inc)/Dec in WC	-1,769	1,556	761	1,364	-97	-3,560	-444
CF from Operations	7,235	10,367	5,823	10,963	11,427	8,924	13,895
Others	-155	-94	-430	-452	-245	0	0
CF from Operating incl EO	7,080	10,273	5,393	10,511	11,182	8,924	13,895
(Inc)/Dec in FA	-4,101	-4,238	-3,343	-4,778	-4,434	-5,500	-5,500
Free Cash Flow	2,979	6,035	2,050	5,733	6,749	3,424	8,395
(Pur)/Sale of Investments	-6,201	-1,871	-1,376	-1,880	-1,273	0	0
Others	129	219	502	-967	-661	772	896
CF from Investments	-10,173	-5,890	-4,217	-7,625	-6,368	-4,728	-4,604
Issue of Shares	57	30	0	10	36	0	0
Inc/(Dec) in Debt	4,089	-3,545	506	-2,787	-3,936	1	1
Interest Paid	-525	-525	-477	-465	-378	-896	-643
Dividend Paid	0	0	0	0	-948	-1,509	-1,847
Others	0	0	-409	-385	349	0	0
CF from Fin. Activity	3,621	-4,040	-380	-3,627	-4,877	-2,404	-2,489
Inc/Dec of Cash	528	343	796	-740	-63	1,792	6,802
Opening Balance	719	1,247	1,590	2,386	1,646	1,583	3,375
Closing Balance	1,247	1,590	2,386	1,646	1,583	3,375	10,177

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NOTES

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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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