

# Gland Pharma

Estimate change	↓
TP change	↓
Rating change	↔

**CMP: INR1,793**

**TP: INR2,070 (+15%)**

**Buy**

## Superior execution in the base business during 4QFY24

### Cenexi drags the overall performance

- Gland Pharma (GLAND) posted lower than expected 4QFY24 earnings. Weak Cenexi performance dragged down overall profitability for the quarter. Having said this, GLAND continued to exhibit strong traction in the base business (ex-Cenexi) aided by relaunches that went off-market due to issues at its partner's end.
- We cut our earnings estimates by 11%/9% for FY25/FY26, factoring in: 1) the extended operational challenges, 2) slower progress in the China business, and 3) a higher effective tax rate. We value GLAND at 27x 12M forward earnings to arrive at our TP of INR2,070. **Reiterate BUY.**
- While GLAND is implementing efforts to turnaround the Cenexi business, it has not only stabilized its base business but also built levers in terms of product pipeline/newer contracts to further scale-up the base business. It is also focusing on obtaining regulatory approvals for its biologics facility for subsequent scale-up of the business. Accordingly, we expect 11%/17%/20% CAGR in revenue/EBITDA/PAT over FY24-26 to INR70b/INR18.5b/INR11.2b.

### Product mix benefits offset by reduced operating leverage

- GLAND's 4QFY24 revenue jumped 96% YoY to INR15.4b (est: INR16b). The base business (ex-Cenexi) grew 49.5% YoY to INR11.7b for the quarter. The core market sales surged ~2x YoY to INR11.8b (78% of sales). The RoW sales grew 64% YoY to INR2.8b (18% of sales). However, India sales declined 18.7% YoY to INR526m (3% of sales) for the quarter.
- Gross margin (GM) expanded 750bp YoY to 61% due to a change in product mix and the addition of a higher-GM Cenexi business.
- EBITDA margin expanded 190bp YoY to 23.3% (our estimate: 24.6%), as superior GM was offset by higher employee costs (up 980bp YoY as a % of sales). Other expenses were lower by 420bp YoY, as a % of sales. On ex-Cenexi basis, the EBITDA margin was 36.4% (+1,490bp YoY/+ 250bp QoQ).
- Consequently, EBITDA surged ~2x YoY to INR3.6b (our est: INR3.9b).
- Adj. PAT grew at a lower rate of 61.7% YoY to INR1.9b (our estimate: INR2.6b) due to higher depreciation, finance costs, and tax expenses.
- **For FY24**, Revenue/EBITDA grew 56%/30% YoY to INR56.6b/13.5b. However, PAT declined 5.6% YoY to INR7.8b.

### Highlights from the management commentary

- GLAND indicated to grow 14-15% on an annual basis in the base business going forward.
- It intends to achieve a high-teen EBITDA margin in the Cenexi business over the next 1-2 years.
- Milestones income would be higher going forward due to the increased share of business from complex products.
- Management expects competition in Eribulin in the US market over the next six months.
- There will be a planned shutdown in Cenexi's business in Aug'24.

Bloomberg	GLAND IN
Equity Shares (m)	165
M.Cap.(INRb)/(USDb)	295.3 / 3.5
52-Week Range (INR)	2196 / 861
1, 6, 12 Rel. Per (%)	0/-10/77
12M Avg Val (INR M)	963

### Financials & Valuations (INR b)

Y/E MARCH	FY24	FY25E	FY26E
Sales	56.6	63.8	69.9
EBITDA	13.5	16.0	18.6
Adj. PAT	7.8	9.6	11.2
EBITDA Margin (%)	23.8	25.1	26.6
Cons. Adj. EPS (INR)	47.6	58.1	68.1
EPS Gr. (%)	(5.6)	22.1	17.3
BV/Sh. (INR)	529.7	587.8	655.9

### Ratios

	FY24	FY25E	FY26E
Net D:E	(0.2)	(0.1)	(0.1)
RoE (%)	9.4	10.4	11.0
RoCE (%)	9.4	10.0	10.6
Payout (%)	-	-	-

### Valuations

	FY24	FY25E	FY26E
P/E (x)	37.7	30.9	26.4
EV/EBITDA (x)	20.8	18.1	15.4
Div. Yield (%)	-	-	-
FCF Yield (%)	(1.4)	(3.3)	0.3
EV/Sales (x)	5.0	4.5	4.1

### Shareholding pattern (%)

As On	Mar-24	Dec-23	Mar-23
Promoter	57.9	57.9	57.9
DII	25.2	24.2	23.2
FII	3.6	4.0	4.3
Others	13.3	13.9	14.6

FII Includes depository receipts

## Consol. - Quarterly perf.

(INRm)

Y/E March	FY23				FY24				FY23	FY24	FY24	Var. (%)
	1Q	2Q	3Q	4Q	1Q	2Q	3Q	4Q				
<b>Net Sales</b>	<b>8,569</b>	<b>10,444</b>	<b>9,383</b>	<b>7,850</b>	<b>12,087</b>	<b>13,734</b>	<b>15,452</b>	<b>15,375</b>	<b>36,246</b>	<b>56,647</b>	<b>16,057</b>	-4.3
YoY Change (%)	-25.7	-3.3	-11.8	-28.8	41.1	31.5	64.7	95.9	-17.6	56.3	104.6	
Total Expenditure	5,870	7,366	6,487	6,166	9,147	10,493	11,710	11,788	25,888	43,138	12,105	
<b>EBITDA</b>	<b>2,699</b>	<b>3,079</b>	<b>2,895</b>	<b>1,684</b>	<b>2,940</b>	<b>3,241</b>	<b>3,742</b>	<b>3,587</b>	<b>10,358</b>	<b>13,509</b>	<b>3,952</b>	-9.2
YoY Change (%)	-38.1	-18.2	-17.0	-51.7	8.9	5.3	29.2	113.0	-31.4	30.4	134.7	
Margins (%)	31.5	29.5	30.9	21.4	24.3	23.6	24.2	23.3	28.6	23.8	24.6	
Depreciation	349	367	376	375	653	813	1,053	926	1,467	3,446	891	
Interest	9	17	26	22	49	60	53	100	74	262	47	
Other Income	744	656	615	389	375	532	374	421	2,405	1,702	324	
<b>PBT before EO expense</b>	<b>3,085</b>	<b>3,351</b>	<b>3,108</b>	<b>1,676</b>	<b>2,613</b>	<b>2,899</b>	<b>3,009</b>	<b>2,982</b>	<b>11,220</b>	<b>11,503</b>	<b>3,338</b>	-10.6
One-off income/(expense)	0	120	0	565	0	0	178	0	685	178	0	
<b>PBT</b>	<b>3,085</b>	<b>3,231</b>	<b>3,108</b>	<b>1,111</b>	<b>2,613</b>	<b>2,899</b>	<b>2,832</b>	<b>2,982</b>	<b>10,536</b>	<b>11,325</b>	<b>3,337</b>	-10.6
Tax	793	828	789	325	672	958	913	1,058	2,735	3,601	728	
Rate (%)	25.7	25.6	25.4	29.2	25.7	33.0	32.2	35.5	26.0	31.8	21.8	
<b>Reported PAT</b>	<b>2,292</b>	<b>2,402</b>	<b>2,319</b>	<b>787</b>	<b>1,941</b>	<b>1,941</b>	<b>1,919</b>	<b>1,924</b>	<b>7,800</b>	<b>7,724</b>	<b>2,610</b>	-26.3
<b>Adj PAT</b>	<b>2,292</b>	<b>2,511</b>	<b>2,319</b>	<b>1,186</b>	<b>1,941</b>	<b>1,941</b>	<b>2,039</b>	<b>1,918</b>	<b>8,307</b>	<b>7,839</b>	<b>2,610</b>	-26.5
YoY Change (%)	-34.6	-16.9	-15.1	-58.5	-15.3	-22.7	-12.1	61.7	-31.4	-5.6	120.1	

E: MOFSL Estimates

## Key performance Indicators (Consolidated)

Y/E March	FY23				FY24				FY23	FY24
	1Q	2Q	3Q	4Q	1Q	2Q	3Q	4Q		
<b>INRm</b>										
Core Markets	7056	7475	6626	5498	8564	10198	12000	11938	26851	42641
YoY Growth (%)	0.2	12.4	-0.4	-22.7	21.4	36.4	81.1	117.1	-8	59
India	510	726	814	647	647	876	761	526	2501	2810
YoY Growth (%)	-77.5	-60.4	-58.3	-67.9	26.9	20.7	-6.5	-18.7	-60	12
Rest of the world	1002	2243	1943	1705	2876	2660	2842	2802	6984	11239
YoY Growth (%)	-55.0	-3.4	-4.3	-10.4	187.0	18.6	46.3	64.3	-18	61
<b>Cost Break-up</b>										
RM Cost (% of Sales)	43.7	49.1	45.5	46.5	37.5	38.0	38.8	39.0	46.3	38.4
Staff Cost (% of Sales)	11.4	9.7	10.8	13.1	21.1	22.2	22.3	22.9	11.1	22.2
Other Cost (% of Sales)	13.4	11.8	12.8	19.0	17.1	16.2	14.7	14.8	14.0	15.6
Gross Margins(%)	56.3	50.9	54.5	53.5	62.5	62.0	61.2	61.0	53.7	61.6
EBITDA Margins(%)	31.5	29.5	30.9	21.4	24.3	23.6	24.2	23.3	28.6	23.8
EBIT Margins(%)	27.4	26.0	26.9	16.7	18.9	17.7	17.4	17.3	24.5	17.8



## Management call highlights

- The company expects EUR50m revenue (quarterly run rate) from 4QFY25 in the Cenexi business. Cenexi has EUR20m order backlog.
- It will focus on capacity rebalancing and developing more capabilities.
- It would speed up the tech transfer at Cenexi for faster product launches.
- The company has increased engagements to gain contracts for the high-margin complex biologics and generics.
- GLAND launched five molecules in the market, including Carboprost, Ketamine, Ganirelix Acetate, and Paclitaxel in the US markets.
- It filed 19 ANDAs and received 24 approvals in FY24.
- The growth in the US business was driven by relaunches; new launches are driving better volume off-take.

## Base business stabilized; renewed focus on growth

Turnaround efforts at Cenexi/portfolio expansion to drive growth over the medium term

- In FY24, GLAND’s core market (ex-Cenexi) sales grew 22% YoY to INR32.5b. Including Cenexi, core markets jumped 56% YoY to INR42.6b.
- The growth is fueled by new launches, relaunches, and market leadership of existing products.
- During FY24, GLAND filed 19 ANDAs. It also received approvals for 24 products and launched 89 products (including re-launches).
- GLAND is developing and launching complex injectables with limited competition in the US markets. Further GLAND is exploring acquisitions, co-development, and partnership opportunities to accelerate growth in this segment.
- GLAND continues to identify products from the US basket that have the potential to enter new geographies, such as Australia and Europe.
- Moreover, it is focusing on improving the prospects for the Cenexi business and has devised a turnaround plan to make it profitable over the next 1-2 years.
- Overall, we expect 11% sales CAGR in the core markets to reach INR40.7b over FY24-26. This would be supported by additional sales of Cenexi, which is likely to grow at 6% to reach INR16.7b over FY24-26.

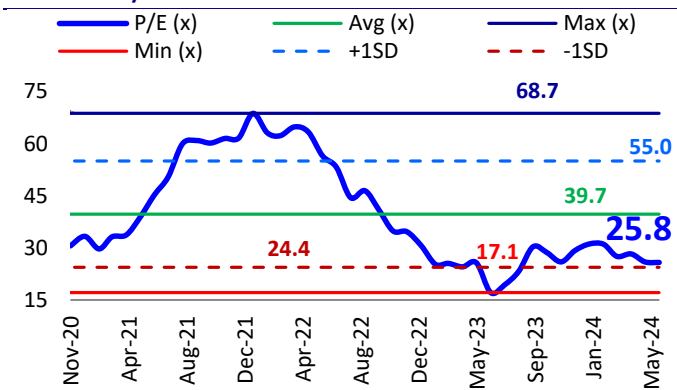
**New launches and geographical expansion to drive the ROW market**

- In FY24, the RoW markets witnessed 61% YoY growth to INR11b. This growth was due to the Cenexi acquisition. Ex-Cenexi, RoW market sales declined 5% YoY to INR6.5b.
- GLAND registered Meropenem, Busulfan, Fomepizole and Bimatoprost in new geographies during the quarter.
- Over FY24-26, we expect the ROW sales to clock 11% CAGR to reach INR8b, led by expansion in new geographies and new launches.

**Reiterate BUY**

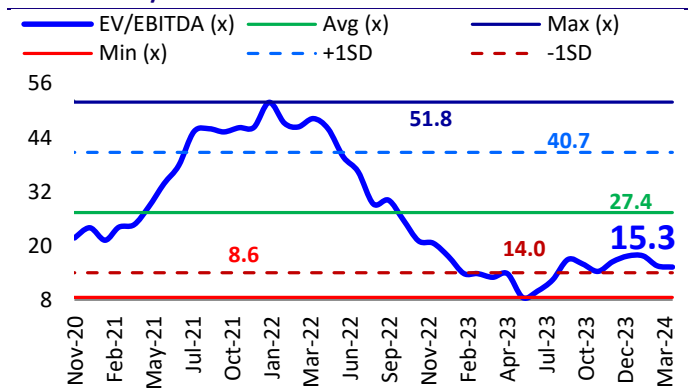
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**Exhibit 1: P/E chart**



Source: MOFSL, Company, Bloomberg

**Exhibit 2: EV/EBITDA chart**



Source: MOFSL, Company, Bloomberg

Story in charts

Exhibit 3: Expect 12% revenue CAGR over FY24-26

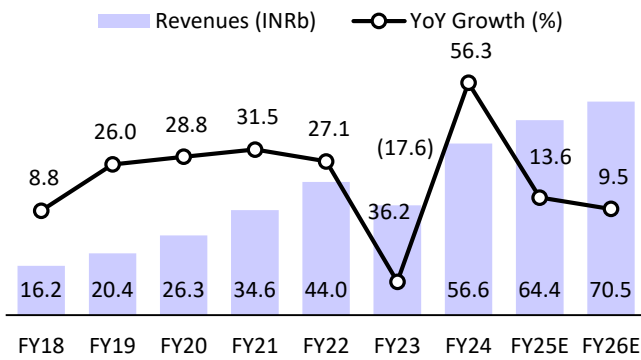


Exhibit 4: Expect 11% core market sales CAGR over FY24-26

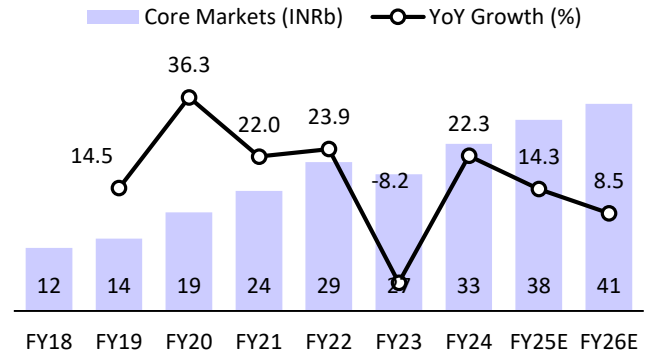


Exhibit 5: Expect ROW sales to post 2.6% CAGR over FY24-26

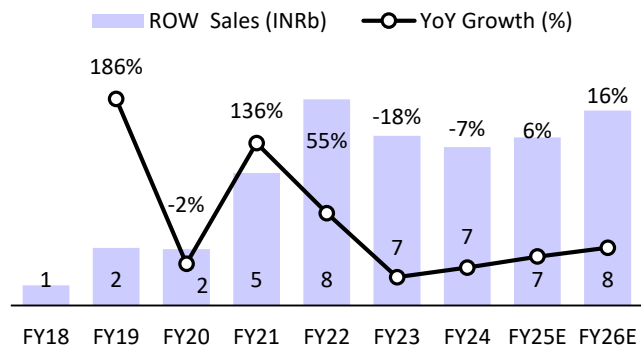


Exhibit 6: Expect 13% India sales CAGR over FY24-26

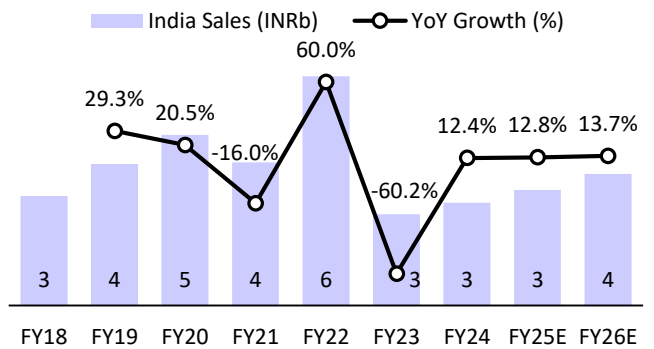


Exhibit 7: EBITDA margin to expand 280bp over FY24-26

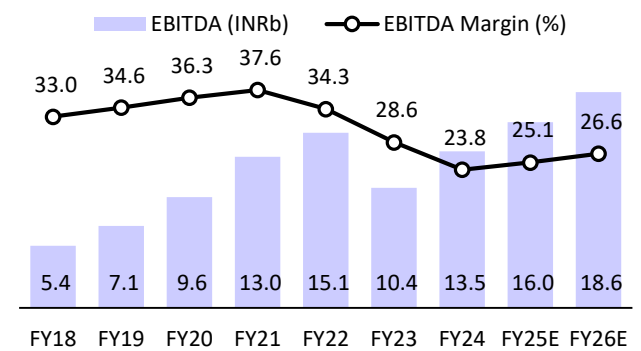
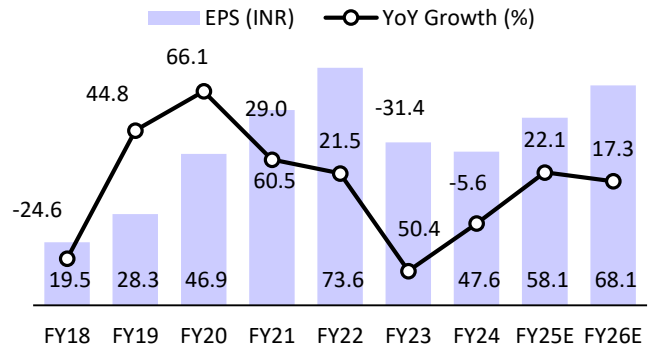


Exhibit 8: Expect EPS CAGR of 20% over FY24-26



Source: Company, MOFSL

Source: Company, MOFSL

## Financials and valuations

### Consolidated - Income Statement

(INRm)

Y/E March	FY19	FY20	FY21	FY22	FY23	FY24	FY25E	FY26E
<b>Total Income from Operations</b>	<b>20,442</b>	<b>26,332</b>	<b>34,629</b>	<b>44,007</b>	<b>36,246</b>	<b>56,647</b>	<b>63,798</b>	<b>69,939</b>
Change (%)	26.0	28.8	31.5	27.1	-17.6	56.3	12.6	9.6
<b>Total Expenditure</b>	<b>13,376</b>	<b>16,778</b>	<b>21,607</b>	<b>28,906</b>	<b>25,888</b>	<b>43,138</b>	<b>47,785</b>	<b>51,336</b>
% of Sales	65.4	63.7	62.4	65.7	71.4	76.2	74.9	73.4
<b>EBITDA</b>	<b>7,066</b>	<b>9,554</b>	<b>13,022</b>	<b>15,102</b>	<b>10,358</b>	<b>13,509</b>	<b>16,013</b>	<b>18,604</b>
Margin (%)	34.6	36.3	37.6	34.3	28.6	23.8	25.1	26.6
Depreciation	820	946	988	1,103	1,467	3,446	3,983	4,251
<b>EBIT</b>	<b>6,246</b>	<b>8,608</b>	<b>12,034</b>	<b>13,999</b>	<b>8,890</b>	<b>10,063</b>	<b>12,031</b>	<b>14,353</b>
Int. and Finance Charges	36	72	34	52	74	262	74	67
Other Income	856	1,392	1,348	2,239	2,405	1,702	1,914	2,098
<b>PBT bef. EO Exp.</b>	<b>7,067</b>	<b>9,928</b>	<b>13,348</b>	<b>16,186</b>	<b>11,220</b>	<b>11,503</b>	<b>13,870</b>	<b>16,384</b>
EO Items	-200	0	0	0	-685	178	0	0
<b>PBT after EO Exp.</b>	<b>6,867</b>	<b>9,928</b>	<b>13,348</b>	<b>16,186</b>	<b>10,536</b>	<b>11,325</b>	<b>13,870</b>	<b>16,384</b>
Total Tax	2,345	2,200	3,378	4,069	2,735	3,601	4,300	5,161
Tax Rate (%)	34.1	22.2	25.3	25.1	26.0	31.8	31.0	31.5
Minority Interest	0	0	0	0	0	0	0	0
<b>Reported PAT</b>	<b>4,522</b>	<b>7,728</b>	<b>9,970</b>	<b>12,117</b>	<b>7,800</b>	<b>7,724</b>	<b>9,570</b>	<b>11,223</b>
<b>Adjusted PAT</b>	<b>4,654</b>	<b>7,728</b>	<b>9,970</b>	<b>12,117</b>	<b>8,307</b>	<b>7,839</b>	<b>9,570</b>	<b>11,223</b>
Change (%)	44.8	66.1	29.0	21.5	-31.4	-5.6	22.1	17.3
Margin (%)	21.9	27.9	27.7	26.2	21.5	13.4	14.6	15.6

### Consolidated - Balance Sheet

(INRm)

Y/E March	FY19	FY20	FY21	FY22	FY23	FY24	FY25E	FY26E
Equity Share Capital	155	155	164	164	165	165	165	165
Total Reserves	28,466	36,307	58,869	71,412	79,423	87,074	96,644	1,07,867
<b>Net Worth</b>	<b>28,621</b>	<b>36,462</b>	<b>59,032</b>	<b>71,576</b>	<b>79,587</b>	<b>87,238</b>	<b>96,809</b>	<b>1,08,032</b>
Minority Interest	0	0	0	0	0	0	0	0
Total Loans	55	50	39	46	45	3,722	3,722	3,722
Deferred Tax Liabilities	1,076	741	739	878	842	1,697	1,697	1,697
<b>Capital Employed</b>	<b>29,752</b>	<b>37,252</b>	<b>59,810</b>	<b>72,499</b>	<b>80,473</b>	<b>92,656</b>	<b>1,02,227</b>	<b>1,13,450</b>
Gross Block	12,196	13,478	14,327	20,910	23,061	47,846	58,361	70,465
Less: Accum. Deprn.	2,908	3,797	4,785	5,888	7,355	10,801	14,784	19,035
<b>Net Fixed Assets</b>	<b>9,288</b>	<b>9,681</b>	<b>9,542</b>	<b>15,022</b>	<b>15,705</b>	<b>37,045</b>	<b>43,578</b>	<b>51,430</b>
Goodwill on Consolidation	0	0	0	0	0	2,423	0	0
Capital WIP	1,232	1,885	3,378	1,907	1,772	2,379	9,088	6,650
Total Investments	0	0	0	1,549	0	6,559	6,559	6,559
<b>Curr. Assets, Loans&amp;Adv.</b>	<b>24,707</b>	<b>29,295</b>	<b>52,040</b>	<b>59,858</b>	<b>70,298</b>	<b>57,703</b>	<b>57,992</b>	<b>65,034</b>
Inventory	9,119	7,563	12,752	11,857	19,453	16,552	24,874	26,723
Account Receivables	5,061	6,018	6,710	11,988	8,714	15,587	14,682	16,096
Cash and Bank Balance	7,534	13,252	30,058	30,934	37,707	18,394	10,361	13,365
Loans and Advances	2,994	2,462	2,521	5,079	4,424	7,169	8,074	8,851
<b>Curr. Liability &amp; Prov.</b>	<b>5,473</b>	<b>3,608</b>	<b>5,150</b>	<b>5,836</b>	<b>7,302</b>	<b>13,451</b>	<b>14,989</b>	<b>16,222</b>
Account Payables	4,568	2,677	4,007	4,629	5,874	8,627	9,556	10,266
Other Current Liabilities	765	649	892	960	1,115	2,863	3,224	3,535
Provisions	139	282	251	248	313	1,961	2,209	2,421
<b>Net Current Assets</b>	<b>19,234</b>	<b>25,687</b>	<b>46,890</b>	<b>54,022</b>	<b>62,997</b>	<b>44,252</b>	<b>43,003</b>	<b>48,812</b>
Deferred Tax assets	0	0	0	0	0	0	0	0
Misc Expenditure	0	0	0	0	0	0	0	0
<b>Appl. of Funds</b>	<b>29,752</b>	<b>37,252</b>	<b>59,810</b>	<b>72,499</b>	<b>80,473</b>	<b>92,656</b>	<b>1,02,227</b>	<b>1,13,450</b>

E: MOFSL Estimates

## Financials and valuations

### Ratios

Y/E March	FY19	FY20	FY21	FY22	FY23	FY24	FY25E	FY26E
<b>Basic (INR)</b>								
<b>EPS</b>	<b>28.3</b>	<b>46.9</b>	<b>60.5</b>	<b>73.6</b>	<b>50.4</b>	<b>47.6</b>	<b>58.1</b>	<b>68.1</b>
Cash EPS	35.3	56.0	67.0	80.5	59.3	68.5	82.3	94.0
BV/Share	184.7	235.2	360.9	435.6	483.2	529.7	587.8	655.9
DPS	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Payout (%)	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
<b>Valuation (x)</b>								
P/E	63.6	38.3	29.7	24.4	35.6	37.7	30.9	26.4
Cash P/E	50.9	32.1	26.8	22.3	30.3	26.2	21.8	19.1
P/BV	9.7	7.6	5.0	4.1	3.7	3.4	3.1	2.7
EV/Sales	13.3	10.1	7.6	6.0	7.1	5.0	4.5	4.1
EV/EBITDA	38.3	27.8	20.3	17.5	24.9	20.8	18.1	15.4
Dividend Yield (%)	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
FCF per share	3.2	34.2	23.0	17.0	8.6	-25.6	-59.9	5.9
<b>Return Ratios (%)</b>								
RoE	17.7	23.7	20.9	18.6	11.0	9.4	10.4	11.0
RoCE	17.7	23.9	20.9	18.6	11.1	9.4	10.0	10.6
RoIC	21.9	31.2	37.1	32.5	16.6	12.9	11.7	12.1
<b>Working Capital Ratios</b>								
Asset Turnover (x)	1.7	2.0	2.4	2.1	1.6	1.2	1.1	1.0
Inventory (Days)	163	116	134	98	196	107	142	139
Debtor (Days)	90	83	71	99	88	100	84	84
Creditor (Days)	82	37	42	38	59	56	55	54
<b>Leverage Ratio (x)</b>								
Net Debt/Equity	-0.3	-0.4	-0.5	-0.45	-0.47	-0.2	-0.1	-0.1

### Consolidated - Cash Flow Statement

Y/E March	FY19	FY20	FY21	FY22	FY23	FY24	FY25E	FY26E
<b>(INRm)</b>								
<b>OP/(Loss) before Tax</b>	<b>6,864</b>	<b>9,929</b>	<b>13,348</b>	<b>16,186</b>	<b>10,546</b>	<b>11,325</b>	<b>13,870</b>	<b>16,384</b>
Depreciation	820	946	988	1,103	1,467	3,446	3,983	4,251
Interest & Finance Charges/ (Income)	-408	-452	28	33	63	218	-1,840	-2,031
Direct Taxes Paid	-2,235	-2,441	-3,114	-4,065	-3,109	-3,061	-4,300	-5,161
(Inc)/Dec in WC	-3,540	-799	-4,358	-3,931	-4,179	-532	-6,784	-2,806
<b>CF from Operations</b>	<b>1,501</b>	<b>7,181</b>	<b>6,893</b>	<b>9,326</b>	<b>4,788</b>	<b>11,396</b>	<b>4,929</b>	<b>10,637</b>
Others	350	-172	-843	-1,418	-1,148	-1,428	0	0
<b>CF from Operating incl EO</b>	<b>1,851</b>	<b>7,009</b>	<b>6,049</b>	<b>7,908</b>	<b>3,640</b>	<b>9,968</b>	<b>4,929</b>	<b>10,637</b>
(Inc)/Dec in FA	-1,352	-1,708	-2,283	-5,113	-2,230	-14,192	-14,802	-9,665
<b>Free Cash Flow</b>	<b>499</b>	<b>5,302</b>	<b>3,766</b>	<b>2,794</b>	<b>1,410</b>	<b>-4,224</b>	<b>-9,873</b>	<b>972</b>
(Pur)/Sale of Investments	0	0	-13,576	-2,613	12,706	-4,747	0	0
Others	-1,834	-5,902	619	-2,300	1,606	1,371	1,914	2,098
<b>CF from Investments</b>	<b>-3,186</b>	<b>-7,610</b>	<b>-15,240</b>	<b>-10,026</b>	<b>12,082</b>	<b>-17,569</b>	<b>-12,889</b>	<b>-7,567</b>
Issue of Shares	0	0	12,250	0	215	5	0	0
Inc/(Dec) in Debt	-4	-7	-9	-1	-3	-7,743	0	0
Interest Paid	-25	-62	-23	-33	-63	-256	-74	-67
Dividend Paid	0	0	0	0	0	0	0	0
<b>CF from Fin. Activity</b>	<b>-29</b>	<b>-69</b>	<b>12,386</b>	<b>320</b>	<b>-8,949</b>	<b>-11,711</b>	<b>-74</b>	<b>-67</b>
<b>Inc/Dec of Cash</b>	<b>-1,364</b>	<b>-669</b>	<b>3,195</b>	<b>-1,799</b>	<b>6,773</b>	<b>-19,312</b>	<b>-8,033</b>	<b>3,003</b>
Opening Balance	3,728	2,363	1,694	4,889	3,091	9,863	-9,449	-17,482
<b>Closing Balance</b>	<b>2,363</b>	<b>1,694</b>	<b>4,889</b>	<b>3,091</b>	<b>9,863</b>	<b>-9,449</b>	<b>-17,482</b>	<b>-14,479</b>
Term Deposit with Banks	5,170	11,558	25,168	27,844	27,844	27,844	27,844	27,844
<b>Total Cash &amp; Cash Eq</b>	<b>7,533</b>	<b>13,252</b>	<b>30,057</b>	<b>30,934</b>	<b>37,707</b>	<b>18,395</b>	<b>10,361</b>	<b>13,365</b>

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