

**HOLD**

TP: Rs 700 | ▼ 6%

**CENTURY PLYBOARDS**

| Building Materials

| 05 February 2024

## Margin stress across segments

- **Weak Q3** came as a big negative surprise considering management's upbeat outlook in last earnings call
- **Near-term pain** to persist on soft demand and fierce competition, but medium-term outlook remains positive
- **TP reduces to Rs 700 (vs. Rs 800)** as we cut FY24/FY25/FY26 EPS estimates by 10-14%; maintain **HOLD**

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**Weak quarter:** CPBI's Q3FY24 revenue was a slight miss, coming in 3% shy of our estimate as plywood volumes grew 3.8% YoY vs. 10% expected. However, EBITDA fell sharply short of our expectations by 29% due to steep margin contraction across segments. Overall, CPBI's revenue grew 6%, but EBITDA/adj. PAT declined by 18%/24% YoY.

**Key highlights:** The weak Q3 performance came as a big negative surprise considering that the company had provided an upbeat outlook and upgraded guidance across segments during its Q2FY24 earnings call. Going ahead, CPBI indicated a bleak near-term outlook due to soft demand, higher timber prices and rising competitive intensity in the sector. However, the medium-term outlook remains positive due to the ongoing pickup in real estate activity and implementation of BIS norms from 11 Feb 2024 that may help curb import pressure in the MDF and particleboard segments from May onwards.

**Segment performance slips:** Plywood EBITDA contracted 21% YoY in Q3 due to biannual dealer meet expenses of Rs 70mn and consultancy charges paid to boost the sale of prime products. Laminate EBITDA fell by 13% YoY as margins contracted 230bps to 12.4% due to higher manpower cost for the newly launched *Sainik* brand. MDF/particleboard EBITDA declined 8%/28% YoY due to sharp contraction in EBITDA margin (-410bps /-555bps YoY to 18.6%/17%) on account of lower realisations as well as higher timber prices.

**Maintain HOLD:** Our TP reduces to Rs 700 (vs. Rs 800) as we cut our FY24/FY25/FY26 EPS estimates by 14%/13%/10% due to the weak Q3 result and cautious near-term outlook. We now expect a nominal 5% EPS CAGR over FY23-FY26 and maintain our HOLD rating due to (a) the near-term earnings risk from a weak demand environment and supply-side pressure in MDF and particleboard; and (b) expensive valuations with the stock currently trading at 45.6x 1Y forward P/E vs. the 5Y average of 27.3x. Our target P/E remains at 40x on Sep'25E EPS – a 46% premium to the historical multiple considering CPBI could gain market share across segments given near-completion of a large growth capex drive.

## Key changes

Target	Rating
▼	◀ ▶

Ticker/Price	CPBI IN/Rs 748
Market cap	US\$ 2.0bn
Free float	27%
3M ADV	US\$ 2.7mn
52wk high/low	Rs 850/Rs 436
Promoter/FPI/DII	73%/6%/14%

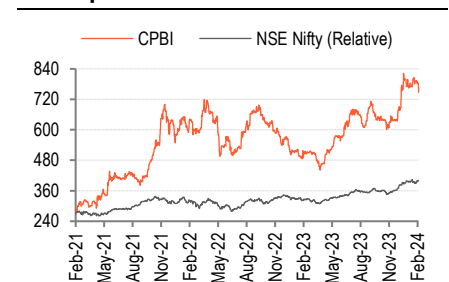
Source: NSE | Price as of 5 Feb 2024

## Key financials

Y/E 31 Mar	FY23A	FY24E	FY25E
Total revenue (Rs mn)	36,466	38,452	42,686
EBITDA (Rs mn)	5,927	5,367	6,032
Adj. net profit (Rs mn)	4,088	3,490	3,676
Adj. EPS (Rs)	18.4	15.7	16.5
Consensus EPS (Rs)	18.4	17.7	20.9
Adj. ROAE (%)	23.6	16.9	15.4
Adj. P/E (x)	40.7	47.7	45.3
EV/EBITDA (x)	28.2	31.0	27.1
Adj. EPS growth (%)	28.6	(14.6)	5.3

Source: Company, Bloomberg, BOBCAPS Research

## Stock performance



Source: NSE



**Fig 1 – Quarterly performance – Consolidated**

Particulars (Rs mn)	Q3FY24	Q3FY23	YoY (%)	Q2FY24	QoQ (%)	9MFY24	9MFY23	YoY (%)
Total operating income	9,374	8,837	6.1	9,968	(6.0)	28,252	26,811	5.4
Raw-Material expense	4,953	4,703	5.3	5,142	(3.7)	14,696	14,160	3.8
Gross Profit	4,421	4,134	6.9	4,826	(8.4)	13,556	12,651	7.2
Employee expense	1,340	1,127	18.9	1,343	(0.3)	3,993	3,510	13.8
Other expense	2,020	1,721	17.4	2,040	(1.0)	5,728	5,193	10.3
EBITDA	1,061	1,287	(17.6)	1,443	(26.5)	3,836	3,949	(2.9)
Depreciation	229	193	18.5	234	(1.9)	694	575	20.6
EBIT	832	1,093	(23.9)	1,209	(31.2)	3,142	3,374	(6.9)
Interest cost	83	44	89.5	61	35.4	206	125	64.9
Non-operating expense/(income)	(93)	(53)	76.8	(146)	(36.2)	(361)	(316)	13.9
PBT	842	1,102	(23.6)	1,294	(34.9)	3,296	3,565	(7.5)
Tax	215	279	(22.9)	322	(33.3)	827	871	(5.0)
Reported PAT	627	823	(23.9)	971	(35.5)	2,469	2,695	(8.4)
Adjusted PAT	627	823	(23.9)	971	(35.5)	247	269	(8.4)
<b>As % of net revenues</b>			<b>(bps)</b>		<b>(bps)</b>			<b>(bps)</b>
Gross margin	47.2	46.8	38	48.4	(126)	48.0	47.2	80
Employee cost	14.3	12.7	154	13.5	82	14.1	13.1	104
Other cost	21.6	19.5	208	20.5	109	20.3	19.4	91
EBITDA margin	11.3	14.6	(324)	14.5	(316)	13.6	14.7	(115)
Tax rate	25.5	25.3	25	24.9	62	25.1	24.4	68
APAT margin	6.7	9.3	(263)	9.7	(306)	0.9	1.0	(13)

Source: Company, BOBCAPS Research

**Fig 2 – Segment financials**

Segment Analysis	Q3FY24	Q3FY23	YoY (%)	Q2FY24	QoQ (%)	9MFY24	9MFY23	YoY (%)
<b>Revenue (Rs mn)</b>								
Plywood	5,143	4,890	5.2	5,504	(6.5)	15,618	14,668	6.5
Laminates	1,619	1,577	2.6	1,717	(5.7)	4,894	4,974	(1.6)
MDF	1,874	1,668	12.4	1,968	(4.8)	5,511	4,791	15.0
Particleboard	368	385	(4.6)	384	(4.2)	1,146	1,369	(16.3)
CFS	252	202	24.7	264	(4.6)	731	590	23.9
Others	136	146	(7.1)	145	(6.1)	401	477	(15.9)
Total	9,392	8,868	5.9	9,982	(5.9)	28,302	26,870	5.3
<b>Volumes</b>								
Plywood (cbm)	89,201	85,944	3.8	93,839	(4.9)	2,70,237	2,57,144	5.1
Laminates (mn sheets)	1.9	1.7	15.4	2.1	(7.4)	5.8	5.4	6.9
MDF (cbm)	55,376	48,099	15.1	53,724	3.1	1,57,088	1,38,517	13.4
Particleboard (cbm)	18,386	15,595	17.9	18,350	0.2	55,776	56,289	(0.9)
CFS (teu)	17,296	12,445	39.0	17,710	(2.3)	49,293	36,880	33.7
<b>Realisation</b>								
Plywood (Rs/cbm)	57,048	56,007	1.9	57,439	(0.7)	57,795	57,041	1.3
Laminates (Rs/sheet)	839	947	(11.4)	827	1.5	843	916	(7.9)
MDF (Rs/cbm)	33,836	34,392	(1.6)	35,118	(3.7)	35,082	34,590	1.4
Particleboard (Rs/cbm)	19,966	24,649	(19.0)	20,894	(4.4)	20,541	24,325	(15.6)
CFS (Rs/teu)	14,235	15,693	(9.3)	14,777	(3.7)	14,827	16,000	(7.3)
<b>Adjusted EBITDA (Rs mn)</b>								
Plywood	428	540	(20.7)	668	(35.9)	1,704	1,313	29.9
Laminates	201	232	(13.3)	192	4.6	542	758	(28.5)
MDF	348	378	(7.9)	491	(29.0)	1,285	1,330	(3.3)
Particleboard	63	87	(28.1)	88	(29.0)	242	407	(40.5)
CFS	20	49	(58.2)	3	510.1	61	141	(56.4)
Total	1,061	1,287	(17.6)	1,443	(26.5)	3,836	3,949	(2.9)

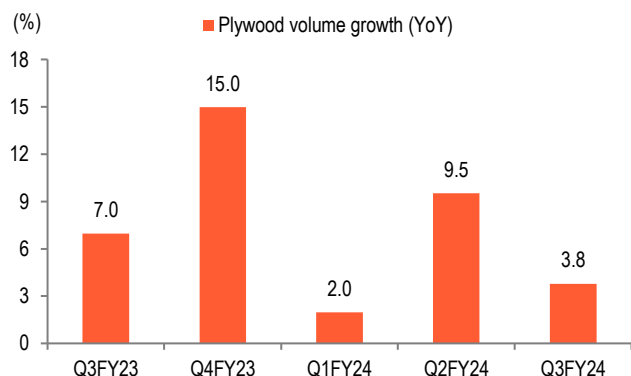
Segment Analysis	Q3FY24	Q3FY23	YoY (%)	Q2FY24	QoQ (%)	9MFY24	9MFY23	YoY (%)
<b>Adjusted EBITDA margin (%)</b>								
Plywood	8.3	11.1	(272)	12.1	(381)	10.9	8.9	196
Laminates	12.4	14.7	(229)	11.2	122	11.1	15.2	(416)
MDF	18.6	22.7	(410)	24.9	(635)	23.3	27.8	(443)
Particleboard	17.0	22.6	(557)	23.0	(596)	21.1	29.7	(860)
CFS	8.1	24.2	(1612)	1.3	685	8.4	23.9	(1549)
Total	11.3	14.5	(321)	14.5	(316)	13.6	14.7	(114)

Source: Company, BOBCAPS Research

## Earnings call highlights

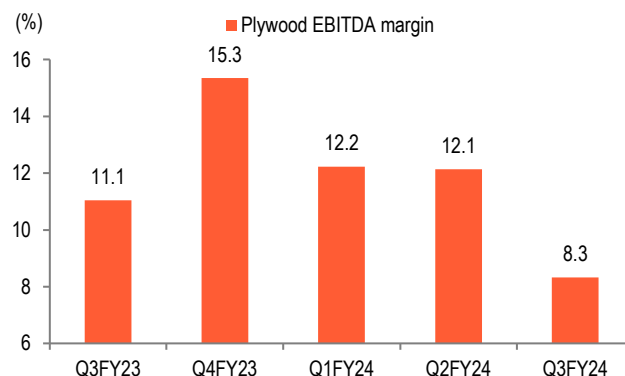
- **Plywood:** Segment volumes grew at a tepid 4% YoY in Q3FY24. Despite slightly higher volumes and a better gross margin (+110bps YoY), segment EBITDA declined 21% YoY due to biannual dealer meet expenses of Rs 70mn and consultancy fees paid to boost the sale of prime products. For Q4FY24, the company expects plywood revenue to grow in single digits, with an EBITDA margin of 12-14% (earlier 13-14%).
- **Laminates:** Segment volumes grew 15% YoY over a low base (-3% in Q3FY23) but have logged a tepid 5.2% four-year CAGR. Despite the sharp increase in volumes, laminates EBITDA fell 13% YoY due to an increase in manpower cost for the newly launched economy range *Sainik* (which will take time to ramp up). For Q4, the company expects laminate revenue to grow in single digits, with EBITDA margin of 12-14% (13-15% earlier).
- **MDF:** Segment volumes grew 15% YoY in Q3 but EBITDA dipped 8% due to a sharp contraction in EBITDA margin by 410bps YoY (-635bps QoQ) to 18.6% on account of lower realisations as well as higher timber prices. For Q4FY24, the company expects MDF volumes to grow at 20% YoY, but segment EBITDA margin to come under further pressure by 200-300bps due to 7-8% price cuts taken in the past few months and continued high timber prices. Management does not expect any price hikes in MDF for the next two quarters.
- **Particleboard:** Segment volumes grew 18% YoY but EBITDA fell 28% on account of a steep drop in EBITDA margin by 555bps YoY (-595bps QoQ) to 17% due to lower realisations and higher timber prices. Management expects margins to remain weak in the near term due to poor demand and excess supply.
- **Capex:** CPBI has spent Rs 6.5bn in 9MFY24 and plans to spend Rs 2.6bn in Q4FY24 and Rs 5.4bn in FY25. The greenfield laminate plant in Andhra Pradesh was commissioned in January and the greenfield MDF project in the state is expected to become operational in Q4FY24.
- **Timber:** Per management, timber prices in the northern region are likely to remain stable at Rs 6.5-7/kg in coming quarters, but prices in the south may go up further from the present level of ~Rs 4.5/kg.

**Fig 3 – CPBI's plywood volumes grew at a muted pace of 3.8% YoY in Q3FY24 due to weak demand sentiments...**



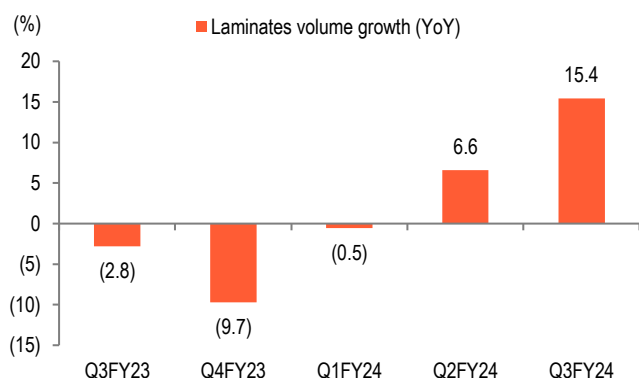
Source: Company, BOBCAPS Research

**Fig 4 – ...and plywood margin fell sharply due to biannual dealer meet and one-time consultancy expenses**



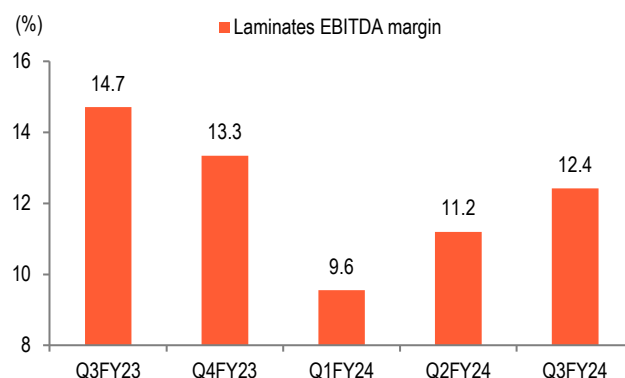
Source: Company, BOBCAPS Research

**Fig 5 – Laminate volume grew at a healthy rate of 15.4% YoY due to a low base...**



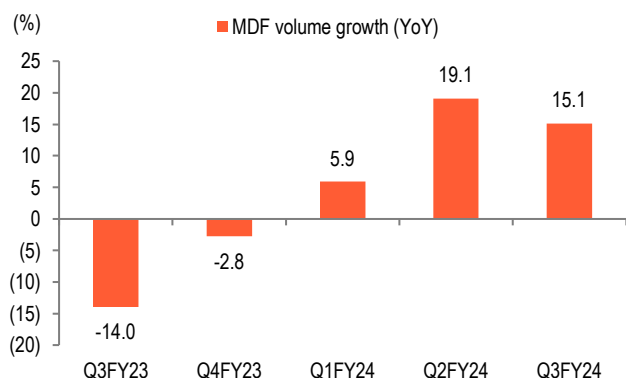
Source: Company, BOBCAPS Research

**Fig 6 – ...but segment EBITDA margin fell YoY on higher manpower cost for newly launched *Sainik* brand**



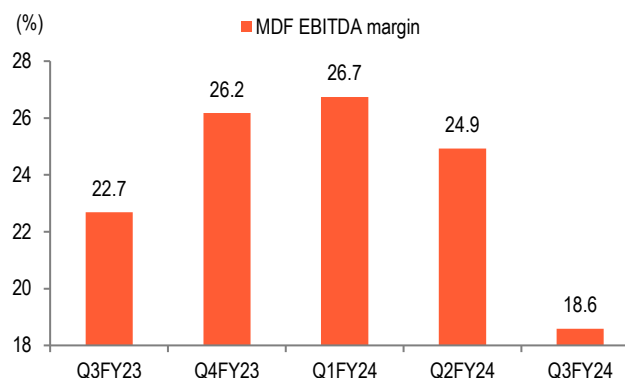
Source: Company, BOBCAPS Research

**Fig 7 – MDF volumes grew 15.1% YoY in Q3FY24 over a weak base...**



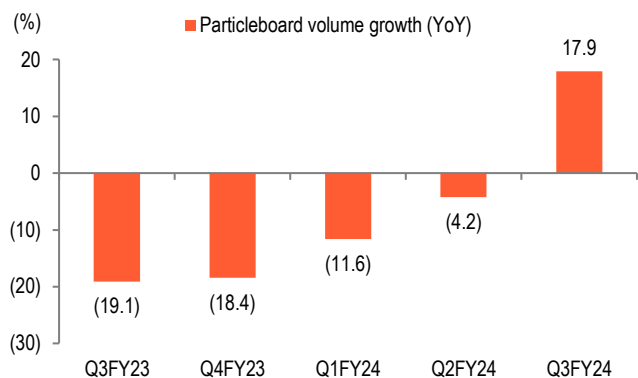
Source: Company, BOBCAPS Research

**Fig 8 – ...while segment EBITDA margin dropped on lower realisation and higher raw material costs**



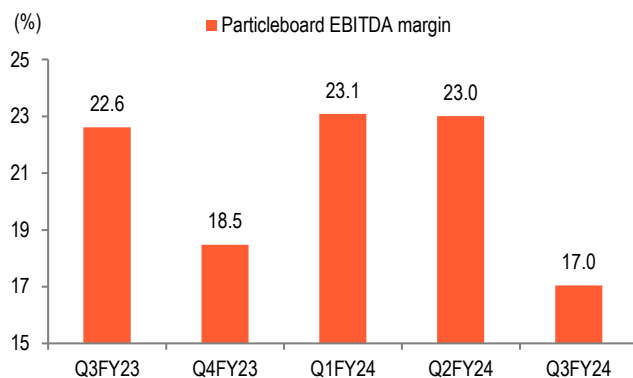
Source: Company, BOBCAPS Research

**Fig 9 – Particleboard volumes grew at a healthy pace of 17.9% YoY due to a low base...**



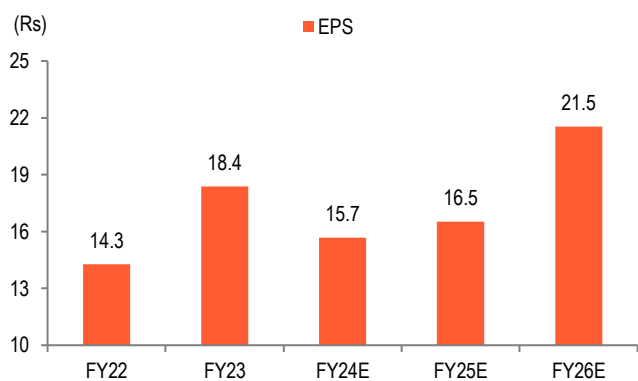
Source: Company, BOBCAPS Research

**Fig 10 – ...but segment margin fell sharply on lower realisation and higher input costs**



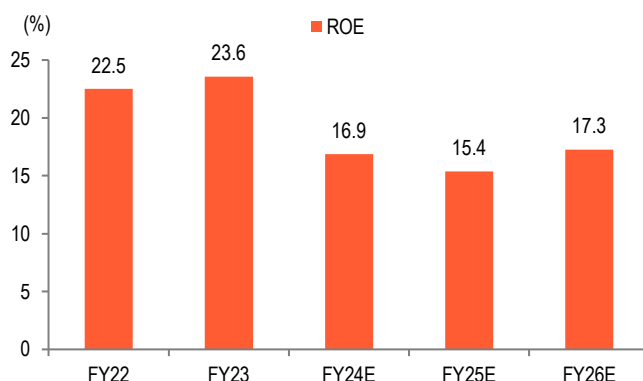
Source: Company, BOBCAPS Research

**Fig 11 – CPBI's EPS is forecast to grow at a nominal 5% CAGR over FY23-FY26E**



Source: Company, BOBCAPS Research

**Fig 12 – ROE is also projected to decline from 23.6% in FY23 to 17.3% in FY26E**



Source: Company, BOBCAPS Research

## Valuation methodology

Our TP reduces to Rs 700 (vs. Rs 800) as we cut FY24/FY25/FY26 EPS estimates by 14%/13%/10% due to the weak Q3FY24 result and cautious near-term outlook. We now expect a nominal 5% EPS CAGR over FY23-FY26 and maintain our HOLD rating due to (a) the near-term earnings risk from a weak demand environment and supply-side pressure in the MDF and particleboard segments; and (b) expensive valuations with the stock currently trading at 45.6x one-year forward P/E vs. the five-year average of 27.3x.

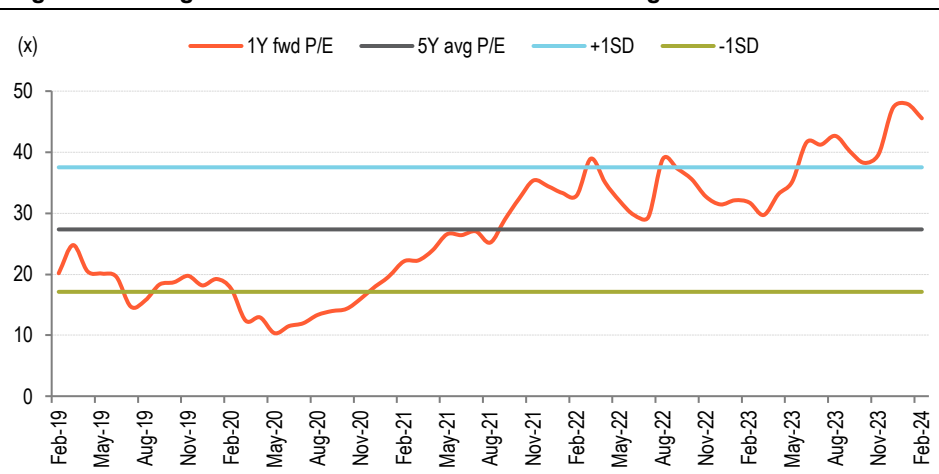
Our target P/E multiple remains at 40x on Sep'25E EPS – a 46% premium to the historical multiple considering CPBI could gain market share across segments on near-completion of a large growth capex programme and rerating of valuation multiples across the building material sector. For a detailed sector view, see our report of 17 January: [Strong foundations](#).

**Fig 13 – Revised estimates**

Consolidated (Rs bn)	New			Old			Change (%)		
	FY24E	FY25E	FY26E	FY24E	FY25E	FY26E	FY24E	FY25E	FY26E
Revenue	38.5	42.7	50.3	39.4	45.4	53.2	(2.4)	(5.9)	(5.5)
EBITDA	5.4	6.0	7.9	6.1	6.9	8.3	(12.4)	(12.7)	(4.7)
EBITDA Margin (%)	14.0	14.1	15.7	15.6	15.2	15.5	(160bps)	(110bps)	13bps
Adjusted PAT	3.5	3.7	4.8	4.1	4.3	5.3	(14.2)	(13.5)	(10.1)
EPS (Rs)	15.7	16.5	21.5	18.3	19.1	24.0	(14.2)	(13.5)	(10.1)

Source: BOBCAPS Research

**Fig 14 – Trading at 45.6x on 1Y forward P/E vs. 5Y average of 27.3x**



Source: Company, BOBCAPS Research

**Fig 15 – Key assumptions**

(%)	FY21A	FY22A	FY23A	FY24E	FY25E	FY26E
<b>Revenue mix</b>						
Plywood	53.4	53.1	55.9	56.4	54.6	50.9
Laminates	19.5	19.0	18.0	17.1	17.7	17.0
MDF	16.8	18.5	17.6	19.3	21.6	23.9
Particleboard	4.2	5.0	4.8	4.0	3.9	6.2
Others	6.0	4.5	3.8	3.3	2.2	2.0
<b>Sales volume growth</b>						
Plywood	(8.8)	33.9	21.3	4.5	8.3	9.9
Laminates	(10.9)	22.1	6.9	7.6	12.5	10.0
MDF	(3.9)	20.8	4.1	15.1	32.6	30.5
Particleboard	(12.4)	32.7	0.1	2.7	10.0	87.4
<b>Adjusted EBITDA margin</b>						
Plywood	11.2	12.9	10.7	11.3	12.4	12.6
Laminates	18.1	15.9	14.8	11.6	12.5	12.5
MDF	25.6	31.8	27.4	22.0	18.3	22.7
Particleboard	19.3	27.3	27.3	20.1	17.8	20.0

Source: Company, BOBCAPS Research

## Key risks

- Better-than-expected pickup in the real estate market and faster ramp-up of new projects would be key upside risks to our estimates.
- Sharp corrections in MDF or particleboard prices and delays in completion of ongoing projects with significant cost overruns represent key downside risks.

## Sector recommendation snapshot

Company	Ticker	Market Cap (US\$ bn)	Price (Rs)	Target (Rs)	Rating
Apollo Pipes	APOLP IN	0.3	672	600	SELL
Astral	ASTRA IN	6.1	1,875	2,000	HOLD
Century Plyboards	CPBI IN	2.0	748	700	HOLD
Cera Sanitaryware	CRS IN	1.3	8,240	8,100	HOLD
Finolex Industries	FNXP IN	1.6	217	230	HOLD
Greenpanel Industries	GREENP IN	0.6	383	400	HOLD
Greenply Industries	MTLM IN	0.4	237	300	BUY
Hindware Home Innovation	HINDWARE IN	0.4	463	700	BUY
Kajaria Ceramics	KJC IN	2.5	1,306	1,400	HOLD
Prince Pipes & Fittings	PRINCPIN IN	1.0	724	800	HOLD
Somany Ceramics	SOMC IN	0.4	727	900	BUY
Supreme Industries	SI IN	6.5	4,176	4,300	HOLD

Source: BOBCAPS Research, NSE | Price as of 5 Feb 2024

## Financials

### Income Statement

Y/E 31 Mar (Rs mn)	FY22A	FY23A	FY24E	FY25E	FY26E
<b>Total revenue</b>	<b>30,270</b>	<b>36,466</b>	<b>38,452</b>	<b>42,686</b>	<b>50,292</b>
EBITDA	5,356	5,927	5,367	6,032	7,871
Depreciation	743	775	923	1,211	1,558
EBIT	4,614	5,151	4,444	4,820	6,313
Net interest inc./(exp.)	(114)	(170)	(289)	(333)	(333)
Other inc./(exp.)	231	477	454	372	372
Exceptional items	48	340	0	0	0
EBT	4,682	5,119	4,608	4,860	6,352
Income taxes	1,550	1,278	1,118	1,184	1,559
Extraordinary items	0	0	0	0	0
Min. int./Inc. from assoc.	(1)	(8)	0	0	0
<b>Reported net profit</b>	<b>3,131</b>	<b>3,833</b>	<b>3,490</b>	<b>3,676</b>	<b>4,793</b>
Adjustments	48	255	0	0	0
<b>Adjusted net profit</b>	<b>3,178</b>	<b>4,088</b>	<b>3,490</b>	<b>3,676</b>	<b>4,793</b>

### Balance Sheet

Y/E 31 Mar (Rs mn)	FY22A	FY23A	FY24E	FY25E	FY26E
Accounts payables	2,528	2,749	2,965	3,293	3,882
Other current liabilities	1,546	1,619	1,619	1,619	1,619
Provisions	71	85	92	102	120
Debt funds	2,182	3,134	7,115	7,115	7,115
Other liabilities	436	470	470	470	470
Equity capital	223	223	223	223	223
Reserves & surplus	15,346	18,921	22,062	25,371	29,685
Shareholders' fund	15,542	19,106	22,248	25,556	29,870
<b>Total liab. and equities</b>	<b>22,305</b>	<b>27,163</b>	<b>34,508</b>	<b>38,155</b>	<b>43,076</b>
Cash and cash eq.	2,610	2,782	1,428	(384)	(165)
Accounts receivables	3,524	3,903	4,116	4,569	5,383
Inventories	5,264	5,290	5,476	6,147	7,385
Other current assets	755	969	1,046	1,161	1,369
Investments	3	1	1	1	1
Net fixed assets	7,745	10,671	15,248	25,467	27,909
CWIP	1,766	2,362	6,010	10	10
Intangible assets	20	17	17	17	17
Deferred tax assets, net	1	2	2	2	2
Other assets	617	1,164	1,164	1,164	1,164
<b>Total assets</b>	<b>22,305</b>	<b>27,163</b>	<b>34,508</b>	<b>38,155</b>	<b>43,076</b>

### Cash Flows

Y/E 31 Mar (Rs mn)	FY22A	FY23A	FY24E	FY25E	FY26E
<b>Cash flow from operations</b>	<b>2,649</b>	<b>4,385</b>	<b>3,997</b>	<b>3,946</b>	<b>4,659</b>
Capital expenditures	(2,622)	(4,865)	(9,148)	(5,431)	(4,000)
Change in investments	(1)	2	0	0	0
Other investing cash flows	183	137	454	372	372
<b>Cash flow from investing</b>	<b>(2,440)</b>	<b>(4,726)</b>	<b>(8,694)</b>	<b>(5,058)</b>	<b>(3,628)</b>
Equities issued/Others	0	0	0	0	0
Debt raised/repaid	752	952	3,981	0	0
Interest expenses	(114)	(170)	(289)	(333)	(333)
Dividends paid	(334)	(223)	(349)	(368)	(479)
Other financing cash flows	82	(54)	0	0	0
<b>Cash flow from financing</b>	<b>386</b>	<b>506</b>	<b>3,343</b>	<b>(700)</b>	<b>(812)</b>
<b>Chg in cash &amp; cash eq.</b>	<b>595</b>	<b>164</b>	<b>(1,354)</b>	<b>(1,812)</b>	<b>219</b>
<b>Closing cash &amp; cash eq.</b>	<b>2,610</b>	<b>2,782</b>	<b>1,428</b>	<b>(384)</b>	<b>(165)</b>

### Per Share

Y/E 31 Mar (Rs)	FY22A	FY23A	FY24E	FY25E	FY26E
Reported EPS	14.1	17.2	15.7	16.5	21.5
Adjusted EPS	14.3	18.4	15.7	16.5	21.5
Dividend per share	1.5	1.0	1.6	1.7	2.2
Book value per share	70.0	86.0	100.1	115.0	134.4

### Valuations Ratios

Y/E 31 Mar (x)	FY22A	FY23A	FY24E	FY25E	FY26E
EV/Sales	5.5	4.6	4.3	3.8	3.2
EV/EBITDA	30.9	28.2	31.0	27.1	20.3
Adjusted P/E	52.4	40.7	47.7	45.3	34.7
P/BV	10.7	8.7	7.5	6.5	5.6

### DuPont Analysis

Y/E 31 Mar (%)	FY22A	FY23A	FY24E	FY25E	FY26E
Tax burden (Net profit/PBT)	67.9	79.9	75.7	75.6	75.5
Interest burden (PBT/EBIT)	101.5	99.4	103.7	100.8	100.6
EBIT margin (EBIT/Revenue)	15.2	14.1	11.6	11.3	12.6
Asset turnover (Rev./Avg TA)	135.7	134.2	111.4	111.9	116.8
Leverage (Avg TA/Avg Equity)	1.4	1.4	1.6	1.5	1.4
<b>Adjusted ROAE</b>	<b>20.4</b>	<b>21.4</b>	<b>15.7</b>	<b>14.4</b>	<b>16.0</b>

### Ratio Analysis

Y/E 31 Mar	FY22A	FY23A	FY24E	FY25E	FY26E
<b>YoY growth (%)</b>					
Revenue	42.1	20.5	5.4	11.0	17.8
EBITDA	59.6	10.6	(9.4)	12.4	30.5
Adjusted EPS	59.3	28.6	(14.6)	5.3	30.4

### Profitability & Return ratios (%)

EBITDA margin	17.7	16.3	14.0	14.1	15.7
EBIT margin	15.2	14.1	11.6	11.3	12.6
Adjusted profit margin	10.5	11.2	9.1	8.6	9.5
Adjusted ROAE	22.5	23.6	16.9	15.4	17.3
ROCE	27.3	25.3	16.7	15.9	18.1

### Working capital days (days)

Receivables	42	39	39	39	39
Inventory	63	53	52	53	54
Payables	30	28	28	28	28

### Ratios (x)

Gross asset turnover	2.6	2.6	2.1	1.6	1.5
Current ratio	1.9	1.7	1.5	1.4	1.6
Net interest coverage ratio	40.4	30.3	15.4	14.5	19.0
<b>Adjusted debt/equity</b>	<b>0.0</b>	<b>0.0</b>	<b>0.3</b>	<b>0.3</b>	<b>0.2</b>

Source: Company, BOBCAPS Research | Note: TA = Total Assets



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**BUY** – Expected return >+15%

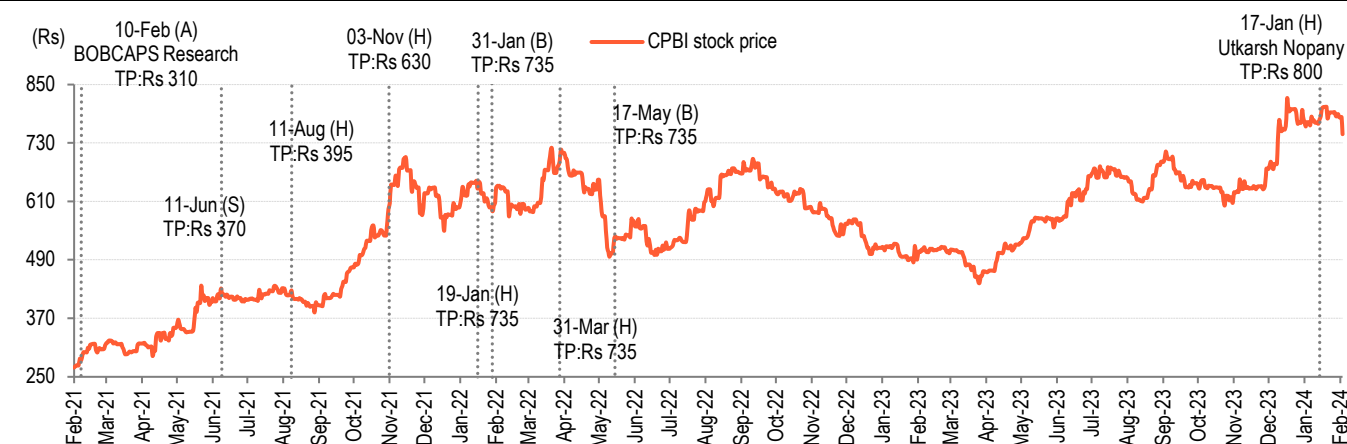
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**Note:** Recommendation structure changed with effect from 21 June 2021

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