

BUY

TP: Rs 3,585 | ▲ 22%

RELIANCE INDUSTRIES

| Oil & Gas

| 08 August 2024

Quick pointers from FY24 Annual Report

- Retail market share at ~3.5% and targeting growth rate double that of market; Digital Services positioned to lead in FWAs and 5G
- Recognising New Energy as a much wider canvas with large potential, and gearing to develop ecosystem with competitive manufacturing
- Reiterate BUY with a TP of Rs 3,585. RIL's consumer businesses remain key beneficiaries of India's growth story

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We summarise key pointers from RIL's FY24 Annual Report.

Reliance Retail: ~3.5% market share: RIL retail has captured 3.5% market share of the Indian Retail market and aims to grow at more than double the rate (>20%) of market growth of 10% CAGR over 2023-27E indicated by RIL.

Digital Services positioned to lead FWAs: Leveraging standalone 5G architecture, Jio aims to lead the market on fixed wireless access (FWA) and targets 100mn premises. Jio has already scaled up Jio AirFiber offerings across 5,900 towns.

New Energy offers much wider canvas: RIL sees New Energy as ambitious, transformational, and more global in scope than anything it has ever done before. RIL targets the first train of 20GW solar PV (photovoltaic) manufacturing by the end of 2024 and scale up to 20GW in a phased manner over 2026. It targets industrialising sodium-ion cell production at the MW level in 2025 and first 50MWh/year lithium battery cells pilot in 2026.

M&E: Growing scale and ambitions: Targeting to capitalise on 1bn connected screens by 2030, advertising for SMBs on digital medium, experiential viewing.

O2C and O&G: While Oil to Chemicals (O2C) is planning to focus on leveraging external changes, Oil & Gas (O&G) is likely to focus on leveraging existing infrastructure. We infer this as lower investments in these businesses near term.

Succession pointers: RIL has widened the scope of professional leadership across businesses and is grooming the next generation of family for leadership roles.

Reiterate BUY: We have an SOTP-based TP of Rs 3,585 with target multiples for Refining (7.5x), Petrochemicals (8.5x), Jio Infocomm (11x) and Retail (34x). Refer to [Structural position to tide over near-term hiccups](#), published on 20 July, for details on our forecasts and valuation.

Key changes

Target	Rating
◀ ▶	◀ ▶

Ticker/Price	RIL IN/Rs 2,930
Market cap	US\$ 236.1bn
Free float	50%
3M ADV	US\$ 217.8mn
52wk high/low	Rs 3,218/Rs 2,220
Promoter/FPI/DII	50%/21%/17%

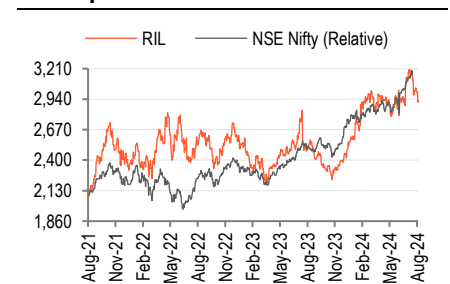
Source: NSE | Price as of 7 Aug 2024

Key financials

Y/E 31 Mar	FY24P	FY25E	FY26E
Total revenue (Rs)	90,10,640	93,49,965	1,03,34,266
EBITDA (Rs mn)	16,22,187	17,65,754	20,32,313
Adj. net profit (Rs)	6,96,067	7,79,541	9,28,386
Adj. EPS (Rs)	102.9	115.2	137.2
Consensus EPS	102.9	119.4	137.8
Adj. ROAE (%)	9.2	9.4	10.2
Adj. P/E (x)	28.5	25.4	21.4
EV/EBITDA (x)	13.9	12.7	11.0
Adj. EPS growth (%)	5.0	12.0	19.1

Source: Company, Bloomberg, BOBCAPS Research | P - Provisional

Stock performance



Source: NSE



RIL FY24 Annual Report – Key takeaways

Reliance Retail at 3.5% market share of Indian market

- **Retail market in India:** The Indian Retail market's size was US\$ 951bn in 2023, and RIL expects this to be US\$ 1.4tn in 2027 with a 2023-27 CAGR of 10%.
- **Implied market share for Reliance Retail:** The implied market share for Reliance Retail is 3.5%, based on US\$ 38bn in value of sales/services. RIL is targetting 20-25% CAGR with a gain in market share.
- **Current scale-up:** >1bn footfalls, >1.2bn customer transactions in FY24.
- **Identified opportunities:** (a) strengthening of end-to-end value chain to serve fast fashion, (b) scale up own brands and formats.
- **Challenges for roll-out:** Supply of quality real estate and trained manpower.

Digital Services – RIL positioned to lead market in FWAs

- **Key growth drivers:** 5G, FWAs, ahead-of the curve investments in next-gen network and digital technologies.
- **5G market size:** Subscribers to grow to 800mn by 2029, as per Ericsson Mobility Report.
- **FWAs – positioning for market leadership:** With the advantage of Standalone 5G architecture, Jio is positioned for market leadership. Jio expects FWAs to pick up particularly in rural and has expanded offerings to 5,900 towns. Jio sees 100mn premises as an opportunity. Against this, its national competitor, Bharti Airtel considers the top 60mn households as a target segment and is currently offering FWAs across 1,300 cities.
- **5G infrastructure is taking hold:** India has deployed 435k 5G BTS (base transceiver station). Jio reckons that 70% of new smartphones are 5G enabled.
- **Fixed broadband scale-up:** Up 20% YoY to 40mn as of Mar'24.
- **Identified opportunities** capitalise on standalone 5G and JioBharat device platform. Targets Wi-Fi connections for 100mn premises, and taking indigenous technology to the rest of the world.
- **Challenges ahead:** Creation of device eco system, developing new use cases, and increasing engagements across its digital platforms.
- **Financing tie-ups in FY24:** (a) US\$ 4.45bn term loan for Jio Infocomm (US\$ 2bn new, US\$ 2.5bn refinancing), (c) US\$ 2.83bn of Export Credit Agencies-supported facility for Jio Infocomm for 5G capex.

Media and Entertainment – growing scale and ambitions

- **Current reach:** 12.7% TV viewership share, 227mn monthly reach of the digital news portfolio, 225mn average monthly reach of JioCinema.

- **Market size:** Media and Entertainment (M&E): US\$ 27.9bn in 2023, 8% YoY growth. Digital sub-segment: 13.5% CAGR over 2023-26 to reach size of US\$ 955bn.
- **Identified opportunities:** 1bn connected screens by 2030, advertising for small and medium businesses (SMB) on digital medium, experiential viewing.
- **Challenges ahead:** Rising content costs, fragmented viewership, volatility in revenue/earnings with strong linkages to macroeconomy.

O2C – Focus on leveraging external market changes

- **Less focus on large investments near term:** Identified opportunities largely talk about external market changes, which indicates to us that there is no focus on large investments in the near term.
- **Identified opportunities:** Capacity rationalisation in developed markets, potential Chinese consumer demand revival, placing products strategically based on netback across regions and transitioning to renewable fuel production.
- **Key challenges:** Increased freight exposure, limited presence in end-user markets, meeting of sustainability mandates while ensuring profitability, global over-capacity in certain products.
- **Threats:** Tightening heavy crude supply, challenge to fuel products from sustainability regulations, increased exports from China and imports from countries with trade agreements.

Oil & Gas – Focus on leveraging existing infrastructure

- **KG Basin new wells:** Three additional wells in R Cluster and one in Satellite Cluster proposed for incremental recovery of 240bcf.
- **CBM:** Drilling horizontal wells for the first time under 40 multi-lateral horizontal well programme in Sohagpur (West). It has drilled 13 wells and put into production ten of them. The existing CBM operation produced 0.64mmscmd with 300 wells.
- **Focus on leveraging existing infrastructure:** The identified opportunities focus on leveraging existing infrastructure, which we infer as less incremental investment in the near term.

New Energy – Much wider canvas

- **Wider canvas:** We quote an RIL statement, “Far more ambitious, far more transformational, and far more global in scope than anything we have ever done before.”

Journey ahead

- **2025:** First train of module and cell of 20GW of solar PV manufacturing by end of 2024, and industrialise sodium ion cell production at a MW level.
- **2026:** Scale up PV factory to 20GW in a phased manner, establish a battery giga factory starting with a 50MWh/year lithium battery cells pilot.

- **2027:** Establish cell-to-pack manufacturing facility of 50GWh.
- **2030:** Establish and enable 100GW of renewable energy.
- **2035:** Net carbon zero.

Progress pointers

- **PLI:** PLI secured for 300MWe Electrolysers and 90ktpa green hydrogen (GH2).
- **Renewable energy development:** Got allocated land in Gujarat. Signed first renewable energy power purchase agreement with Maharashtra State Electricity Distribution Company Limited (MSEDCL) for 128MW over 25 years. RIL signed an MoU with Brookfield for onshore renewable power and decarbonisation equipment manufacturing in Australia.
- **Green hydrogen:** RIL signed an MoU with the government of Maharashtra for 100ktpa of green hydrogen production with potential Rs150bn in capex.
- **Carbon fibre:** Focusing on large-scale manufacture of carbon fibre to reduce cost of wind turbine production.
- **Pilot hydrogen fuel cell-powered luxury coach:** Launched in Jul'23 in collaboration with BharatBenz. Offers range of 400km.

Business profile

- **Canvas:** Includes renewable energy generation, GH2 manufacturing, green chemicals manufacturing, and development of energy storage to maximise use of renewable energy. Aims to back it up with cost competitive manufacturing as well as modular approach for easy scale up on a large scale.
- **Goal:** To be a partner of choice for leading global climate technology and product companies.
- **Location:** Manufacturing giga factory planned at Jamnagar. However, development of renewable energy and GH2 at a suitable competitive location.
- **Challenges ahead:** Developing new energy ecosystem.

Market size

- **India energy storage demand:** ~74GW (47GW Battery Energy Storage System [BESS] and 27 GW Pumped Storage [PSP]) with storage of ~411 GWh (BESS ~236 GWh and PSP ~175 GWh) by 2031-32.
- **India battery demand:** ~100GWh/year by 2030 from electric vehicles (EV).
- **India stationary battery pack demand:** ~30GWh/year by 2030.

Succession pointers

- **Retail leadership:** Subramaniam V, Director of Reliance Retail, and Isha Ambani, Director of Reliance Retail Ventures, have been identified as the first two leaders in the management chain.

- **Digital leadership:** Akash Ambani identified as a leader followed by Isha Ambani and Anant Ambani along with other management team.
- **O2C:** Nikhil and Hital Meswani lead O2C followed by Akash, Isha and Anant Ambani and other management teams.
- **M&E and O&G** led by professionals.
- **New Energy** leadership team not highlighted yet.

Valuation methodology

Forecasts

We expect 11% annual growth in RIL's EBITDA over FY24-FY27, mainly driven by 22% CAGR for the Consumer business.

Fig 1 – RIL's EBITDA mix

	FY22	FY23	FY24P	FY25E	FY26E	FY27E	FY21/24 CAGR (%)	FY24/27E CAGR (%)
EBITDA (Rs bn)								
O2C	527	621	624	588	615	618	-	-
Oil & Gas	55	136	203	189	176	148	-	-
Cyclical subtotal	582	757	827	777	790	766	-	-
Digital Services	394	490	555	689	877	1,029	-	-
Retail	124	179	230	267	332	410	-	-
Consumer subtotal	518	669	786	956	1,209	1,439	-	-
Others	(16)	(4)	9	33	33	33	-	-
Consolidated business EBITDA	1,084	1,422	1,622	1,766	2,032	2,238	-	-
EBITDA YoY growth (%)								
O2C	na	17.7	0.5	(5.8)	4.6	0.5	11.9	(0.3)
Oil & Gas	NM	149.0	49.5	(7.0)	(7.1)	(15.8)	395.4	(10.1)
Cyclical subtotal	(26.9)	30.1	9.3	(6.1)	1.8	(3.1)	(0.8)	(2.5)
Digital Services	18.2	24.3	13.3	24.1	27.2	17.4	27.4	22.8
Retail	26.5	44.8	28.5	15.9	24.4	23.4	39.7	21.2
Consumer subtotal	20.1	29.2	17.4	21.7	26.4	19.1	30.4	22.4
Consolidated	34.3	31.1	14.1	8.9	15.1	10.1	29.8	11.3
EBITDA composition (% of total)								
O2C	48.6	43.7	38.5	33.3	30.3	27.6	-	-
Oil & Gas	5.0	9.6	12.5	10.7	8.6	6.6	-	-
Cyclical subtotal	53.6	53.2	51.0	44.0	38.9	34.2	-	-
Digital Services	36.4	34.5	34.2	39.0	43.1	46.0	-	-
Retail	11.4	12.6	14.2	15.1	16.4	18.3	-	-
Consumer subtotal	47.8	47.1	48.4	54.2	59.5	64.3	-	-

Source: Company, BOBCAPS Research

Fig 2 – Key assumptions

	Unit	FY23	FY24P	FY25E	FY26E	FY27E
Exchange rate	INR/USD	80.4	82.8	83.5	83.5	83.5
Energy						
Oil price	US\$/bbl	95.0	84.7	85.0	85.0	85.0
Refining margin	US\$/bbl	11.5	11.5	10.2	9.5	9.5
Petrochem EBITDA	US\$/ton	285	263	257	278	278
O2C throughput	mt	66.4	71.0	71.0	71.0	71.0
Gas realisation- KG D6	US\$/mmbtu	10.7	11.2	9.9	10.2	8.5
Gas production- KG D6	mmscmd	19.0	27.1	29.0	29.0	29.0
Jio Digital Services						
No of subscribers	mn	439	482	507	536	561
ARPU	Rs	177	181	198	226	245
Retail						
Revenue growth	% YoY	32.0	18.3	15.5	20.3	17.6
EBITDA margin	%	7.5	8.0	8.4	8.8	9.2

Source: Company, BOBCAPS Research

BUY with TP of Rs 3,585

We have an SOTP-based TP of Rs 3,585 for RIL, with unchanged target multiples. For our SOTP valuation, we first arrive at a Mar'25 fair value using one-year forward multiple on FY26 estimates and then roll forward the same to Jun'25 to arrive at our 12-month forward TP.

We maintain BUY on RIL given 22% upside potential. In our view, the company will deliver structural profit growth while balancing its capex outlay and risk profile.

Fig 3 – Valuation summary

Business (Rs bn)	Fair Value		Value/share (Rs)	Valuation basis
	(US\$ bn)	(Rs bn)		
Energy				
Refining	31	2,608	385	7.5x FY26E EBITDA
Petrochem	40	3,318	490	8.5x FY26E EBITDA
Upstream	18	1,468	217	Combination of DCF and reserve multiple
New energy	15	1,281	189	Option value
Energy total	105	8,674	1,282	-
Jio Infocomm	79	6,557	969	11x FY26E EBITDA, RIL share
Digital Services	11	883	131	6x FY26E Sales, RIL share
Reliance Retail	119	9,830	1,453	34x FY26E EBITDA, RIL share
Consumer business total	209	17,270	2,553	-
Media business	3	280	41	Combination of market value and book value
Enterprise value	317	26,224	3,876	-
Net Debt	24	1,968	291	-
Equity value	293	24,256	3,585	-
TP (rounded to nearest Rs 5)			3,585	26.1x FY26E EPS

Source: BOBCAPS Research

Key risks

We highlight key risks to our estimates below:

O2C and Oil & Gas businesses: Lower-than-assumed oil price, gas price, gross refining margin and petrochemical crack movements on easing of the demand-supply balance, or adverse regulatory moves (such as higher windfall taxes or caps on gas price) are key downside risks.

Digital Services: Downside risks in this business include lower growth in subscriber base, slower penetration in home broadband segment, slower rise in average tariffs, inferior operating margin and slower pickup in Digital Services than our assumptions.

Reliance Retail: Below-expected revenue growth driven by slower economic activity as well as lower market share gains against unorganised retail and competition are primary downside risks. Higher competitive intensity can also push operating margin below our current assumptions. RIL has invested more than US\$ 1bn in acquiring assets and capabilities, and the pace of integration will pose added challenges.

New Energy: Slower-than-expected evolution and integration of New Energy businesses with existing businesses would be a key downside risk.

Corporate risk: Succession planning with orderly transfer of management control to the next generation is the key to continuity. Chairman Mukesh Ambani has already announced his intent to stay at the helm for five more years and to mentor his children Akash, Isha and Anant for “collective leadership”, while inducting them into RIL’s board.

Sector recommendation snapshot

Company	Ticker	Market Cap (US\$ bn)	Price (Rs)	Target (Rs)	Rating
Bharat Petroleum Corp	BPCL IN	17.8	344	315	HOLD
Gujarat State Petronet	GUJS IN	2.2	333	335	HOLD
Hindustan Petroleum Corp	HPCL IN	10.1	397	460	BUY
Indian Oil Corp	IOCL IN	29.0	172	165	SELL
Indraprastha Gas	IGL IN	4.6	548	600	HOLD
Mahanagar Gas	MAHGL IN	2.1	1,813	1,875	HOLD
Petronet LNG	PLNG IN	6.5	363	325	SELL
Reliance Industries	RIL IN	236.1	2,930	3,585	BUY

Source: BOBCAPS Research, NSE | Price as of 7 Aug 2024

Financials

Income Statement

Y/E 31 Mar (Rs mn)	FY23A	FY24P	FY25E	FY26E	FY27E
Total revenue	87,78,350	90,10,640	93,49,965	1,03,34,266	1,12,05,479
EBITDA	14,21,620	16,22,187	17,65,754	20,32,313	22,38,112
Depreciation	(4,03,030)	(5,08,320)	(5,50,234)	(6,04,986)	(6,79,139)
EBIT	10,18,590	11,13,867	12,15,520	14,27,327	15,58,973
Net interest inc./(exp.)	(1,95,710)	(2,31,180)	(2,28,676)	(2,28,676)	(2,28,676)
Other inc./(exp.)	1,17,340	1,60,570	1,71,922	1,82,488	2,15,494
Exceptional items	0	0	0	0	0
EBT	9,40,220	10,43,257	11,58,766	13,81,139	15,45,791
Income taxes	(2,03,760)	(2,57,070)	(2,77,650)	(3,13,748)	(3,26,136)
Extraordinary items	0	0	0	0	0
Min. int./Inc. from assoc.	(73,620)	(90,120)	(1,01,575)	(1,39,005)	(1,66,640)
Reported net profit	6,62,840	6,96,067	7,79,541	9,28,386	10,53,015
Adjustments	0	0	0	0	0
Adjusted net profit	6,62,840	6,96,067	7,79,541	9,28,386	10,53,015

Balance Sheet

Y/E 31 Mar (Rs mn)	FY23A	FY24P	FY25E	FY26E	FY27E
Accounts payables	14,71,720	17,83,770	15,97,784	15,37,653	14,79,493
Other current liabilities	11,23,260	11,52,800	11,92,400	11,98,636	12,05,528
Provisions	37,850	42,190	42,190	42,190	42,190
Debt funds	34,20,960	35,18,090	35,18,090	35,18,090	35,18,090
Other liabilities	17,16,220	17,95,750	19,31,237	19,52,944	19,96,491
Equity capital	67,660	67,660	67,660	67,660	67,660
Reserves & surplus	70,91,060	78,67,150	85,77,167	94,33,416	1,04,19,094
Shareholders' fund	71,58,720	79,34,810	86,44,827	95,01,076	1,04,86,754
Total liab. and equities	1,60,58,820	1,75,50,480	1,83,51,174	1,93,14,240	2,04,58,836
Cash and cash eq.	6,86,640	9,72,250	9,92,629	11,71,691	16,04,838
Accounts receivables	2,84,480	3,16,280	3,47,511	3,70,693	3,92,846
Inventories	14,00,080	15,27,700	15,80,226	16,39,235	17,00,871
Other current assets	11,46,450	12,89,130	12,89,130	12,89,130	12,89,130
Investments	23,55,600	22,56,720	22,56,720	22,56,720	22,56,720
Net fixed assets	70,95,350	76,49,960	98,10,566	1,07,09,180	1,13,76,201
CWIP	29,37,520	33,88,550	18,79,500	16,82,700	16,43,340
Intangible assets	1,52,700	1,49,890	1,49,890	1,49,890	1,49,890
Deferred tax assets, net	0	0	0	0	0
Other assets	0	0	0	0	0
Total assets	1,60,58,820	1,75,50,480	1,83,06,173	1,92,69,239	2,04,13,835

Cash Flows

Y/E 31 Mar (Rs mn)	FY23A	FY24P	FY25E	FY26E	FY27E
Cash flow from operations	12,02,980	12,12,927	10,63,197	13,86,506	15,75,150
Capital expenditures	(25,33,630)	(15,13,960)	(12,01,790)	(13,06,800)	(13,06,800)
Change in investments	16,67,980	(21,340)	0	0	0
Other investing cash flows	13,790	2,83,600	1,71,922	1,82,488	2,15,494
Cash flow from investing	(8,51,860)	(12,51,700)	(10,29,868)	(11,24,312)	(10,91,306)
Equities issued/Others	10	0	0	0	0
Debt raised/repaid	(2,75,650)	1,42,880	0	(1,50,000)	(1,50,000)
Interest expenses	0	0	0	0	0
Dividends paid	(50,830)	(56,478)	(69,524)	(72,137)	(67,337)
Other financing cash flows	3,00,210	1,92,980	1,01,575	1,39,005	1,66,640
Cash flow from financing	(26,260)	2,79,382	32,051	(83,132)	(50,697)
Chg in cash & cash eq.	3,24,860	2,40,609	65,380	1,79,062	4,33,147
Closing cash & cash eq.	6,86,640	9,27,249	9,92,629	11,71,691	16,04,838

Per Share

Y/E 31 Mar (Rs)	FY23A	FY24P	FY25E	FY26E	FY27E
Reported EPS	98.0	102.9	115.2	137.2	155.6
Adjusted EPS	98.0	102.9	115.2	137.2	155.6
Dividend per share	7.5	8.3	10.3	10.7	10.0
Book value per share	1,058.0	1,172.7	1,277.7	1,404.2	1,549.9

Valuations Ratios

Y/E 31 Mar (x)	FY23A	FY24P	FY25E	FY26E	FY27E
EV/Sales	2.6	2.5	2.4	2.2	2.0
EV/EBITDA	15.8	13.9	12.7	11.0	9.9
Adjusted P/E	29.9	28.5	25.4	21.4	18.8
P/BV	2.8	2.5	2.3	2.1	1.9

DuPont Analysis

Y/E 31 Mar (%)	FY23A	FY24P	FY25E	FY26E	FY27E
Tax burden (Net profit/PBT)	70.5	66.7	67.3	67.2	68.1
Interest burden (PBT/EBIT)	92.3	93.7	95.3	96.8	99.2
EBIT margin (EBIT/Revenue)	11.6	12.4	13.0	13.8	13.9
Asset turnover (Rev./Avg TA)	56.6	53.6	52.2	55.0	56.5
Leverage (Avg TA/Avg Equity)	2.1	2.2	2.2	2.1	2.0
Adjusted ROAE	8.9	9.2	9.4	10.2	10.5

Ratio Analysis

Y/E 31 Mar	FY23A	FY24P	FY25E	FY26E	FY27E
YoY growth (%)					
Revenue	26.1	2.6	3.8	10.5	8.4
EBITDA	31.1	14.1	8.9	15.1	10.1
Adjusted EPS	16.8	5.0	12.0	19.1	13.4
Profitability & Return ratios (%)					
EBITDA margin	16.2	18.0	18.9	19.7	20.0
EBIT margin	11.6	12.4	13.0	13.8	13.9
Adjusted profit margin	7.6	7.7	8.3	9.0	9.4
Adjusted ROAE	8.9	9.2	9.4	10.2	10.5
ROCE	6.8	6.9	7.0	7.8	8.1
Working capital days (days)					
Receivables	11	12	13	13	12
Inventory	75	86	89	92	95
Payables	76	80	81	69	61
Ratios (x)					
Gross asset turnover	0.9	0.9	0.8	0.7	0.7
Current ratio	0.9	1.0	1.1	1.2	1.3
Net interest coverage ratio	5.2	4.8	5.3	6.2	6.8
Adjusted debt/equity	0.4	0.3	0.3	0.2	0.2

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

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 SEBI Research Analyst Registration No: **INH000000040 valid till 03 February 2025**
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Recommendation scale: Recommendations and Absolute returns (%) over 12 months

BUY – Expected return >+15%

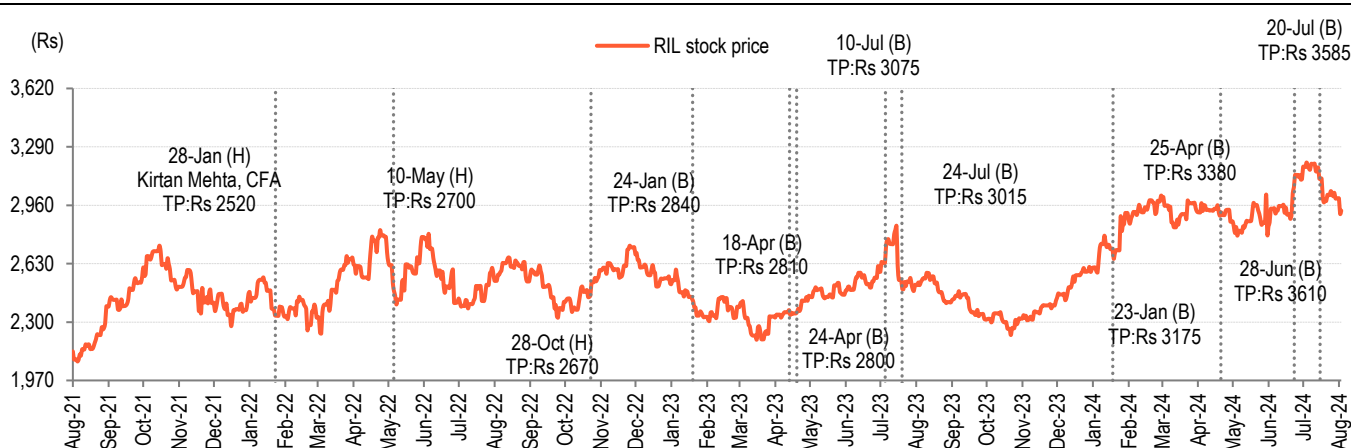
HOLD – Expected return from -6% to +15%

SELL – Expected return <-6%

Note: Recommendation structure changed with effect from 21 June 2021

Our recommendation scale does not factor in short-term stock price volatility related to market fluctuations. Thus, our recommendations may not always be strictly in line with the recommendation scale as shown above.

Ratings and Target Price (3-year history): RELIANCE INDUSTRIES (RIL IN)



B – Buy, H – Hold, S – Sell, A – Add, R – Reduce

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