

ADD

TP: Rs 1,515 | ▲ 3%

RELIANCE INDUSTRIES

Oil & Gas

02 May 2020

RJio, Retail drive earnings; cut to ADD on limited upside

Key highlights from Reliance Industries' (RIL) Q4FY20 results: (a) Reported GRMs surprised on the higher side, at US\$ 8.9/bbl (US\$ 7.1 estimated), while petchem EBITDA underperformed. (b) EBITDA for retail missed estimates; RJio was in line. RIL reassured investors of its commitment to deleveraging, outlining plans to raise Rs 1tn (Rs 540bn rights issue, Rs 430bn Facebook deal). We reset our Mar'21 TP from Rs 1515 (from 1550) to factor in the equity dilution and higher debt reduction. The recent stock run-up caps upsides; cut from BUY to ADD.

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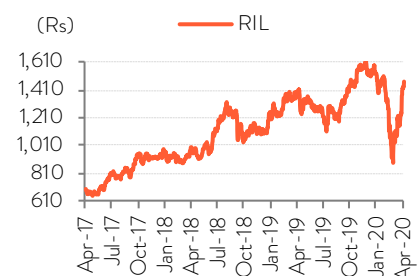
Inventory loss hits cyclical business earnings: Reported GRMs outperformed at US\$ 8.9/bbl as RIL maximised utilisation and raised light distillate output. However, GRMs do not factor in inventory loss of US\$ 4.3/bbl (reported in exceptional items below EBITDA). Adj. GRMs could therefore be well below our estimates, reflecting demand erosion due to the Covid-19 pandemic. A crash in polymer and polyester spreads has induced a decline in petchem EBITDA to Rs 59bn (-18% QoQ), coming in much below our estimates. Q1FY21 would likely be worse for cyclicals given the global economic shutdown.

Ticker/Price	RIL IN/Rs 1,466
Market cap	US\$ 122.6bn
Shares o/s	6,339mn
3M ADV	US\$ 292.7mn
52wk high/low	Rs 1,618/Rs 876
Promoter/FPI/DII	50%/24%/26%

Source: NSE

Robust performance across consumer businesses: RJio ARPU improved to Rs 131 (+1.7% QoQ), with slightly better subscriber additions (~18mn), leading to in-line EBITDA. Rising data consumption (~25%) during the economic lockdown could boost Q1FY21 earnings. Retail business EBITDA at Rs 26bn (+33% YoY) underperformed marginally. Q1 is expected to be worse for retail, with only the grocery segment running partial operations during the lockdown.

STOCK PERFORMANCE



Source: NSE

Fundraising plans put deleveraging on track: RIL plans to raise Rs 540bn through a rights issue. This coupled with the Rs 430bn Facebook and Rs 70bn BP deals offers assurance of a ~Rs 1tn fund raise in Q1FY21. We thus increase our FY21 debt reduction estimate by Rs 500bn. In an update on the US\$ 15bn Saudi Aramco stake sale, RIL stated that due diligence was being conducted.

KEY FINANCIALS

Y/E 31 Mar	FY18A	FY19A	FY20P	FY21E	FY22E
Total revenue (Rs mn)	4,082,650	5,830,940	6,116,450	3,697,210	4,507,796
EBITDA (Rs mn)	641,760	841,670	882,170	948,636	1,378,438
Adj. net profit (Rs mn)	352,869	400,860	443,240	421,312	748,947
Adj. EPS (Rs)	52.2	59.3	65.6	62.3	110.8
Adj. EPS growth (%)	17.4	13.6	10.6	(4.9)	77.8
Adj. ROAE (%)	12.7	11.7	11.1	9.2	13.6
Adj. P/E (x)	28.1	24.7	22.4	23.5	13.2
EV/EBITDA (x)	17.4	13.3	13.0	12.6	8.8

Source: Company, BOBCAPS Research

BOB Capital Markets Ltd is a wholly owned subsidiary of Bank of Baroda

Important disclosures, including any required research certifications, are provided at the end of this report.



FIG 1 – QUARTERLY PERFORMANCE (STANDALONE)

(Rs mn)	Q4FY20	Q4FY19	YoY (%)	Q3FY20	QoQ (%)	FY20	FY19	YoY (%)
Gross revenue	802,980	908,160	(11.6)	938,280	(14.4)	3,652,020	4,015,830	(9.1)
Less: Excise duty	30,430	29,750	2.3	38,630	(21.2)	149,020	138,850	7.3
Less: GST recovered	32,990	40,760	(19.1)	35,890	(8.1)	143,220	160,820	-
Net sales	739,560	837,650	(11.7)	863,760	(14.4)	3,359,780	3,716,160	(9.6)
Raw material costs	504,470	590,850	(14.6)	618,440	(18.4)	2,373,420	2,652,880	(10.5)
% of sales	68.2	70.5	-	71.6	-	70.6	71.4	-
Other expenditure	121,660	108,080	12.6	115,740	5.1	467,830	474,740	(1.5)
% of sales	16.5	12.9	-	13.4	-	13.9	12.8	-
EBITDA	113,430	138,720	(18.2)	129,580	(12.5)	518,530	588,540	(11.9)
EBITDA margin (%)	15.3	16.6	-	15.0	-	15.4	15.8	-
Depreciation & amortization	26,850	24,650	8.9	25,510	5.3	97,280	105,580	(7.9)
Interest	41,610	27,910	49.1	25,200	65.1	121,050	97,510	24.1
Other income	39,460	27,150	45.3	38,670	2.0	145,410	88,220	64.8
PBT	84,430	113,310	(25.5)	117,540	(28.2)	445,610	473,670	(5.9)
Provision for tax	16,180	27,750	(41.7)	21,690	(25.4)	94,130	122,040	(22.9)
Exceptional item	(42,450)	-	-	-	-	(42,450)	-	-
PAT	25,800	85,560	(69.8)	95,850	(73.1)	351,480	351,630	(0.0)
Adj. PAT	68,250	85,560	(20.2)	95,850	(28.8)	393,930	351,630	12.0
Other comprehensive income	(47,910)	610,400	-	(12,880)	-	-	-	-
Total Income	(22,110)	695,960	(103.2)	82,970	(126.6)	351,480	351,630	(0.0)
Adj. EPS (Rs)	10.8	13.5	(20.3)	15.1	(28.8)	62.2	55.5	12.0
GRMs (US\$/bbl)	8.9	8.2	8.5	9.2	(3.3)	8.5	9.2	(8.4)
Refining throughput (mmt)	18.3	16.0	14.4	18.1	1.1	67.3	67.8	(0.7)
Petrochemical production (mmt)	9.9	9.4	5.3	9.9	-	36.5	37.2	(1.9)

Source: Company, BOBCAPS Research

FIG 2 – QUARTERLY PERFORMANCE (CONSOLIDATED)

(Rs mn)	Q4FY20	Q4FY19	YoY (%)	Q3FY20	QoQ (%)	FY20	FY19	YoY (%)
Gross revenues	1,512,090	1,551,510	(2.5)	1,690,980	(10.6)	6,592,050	6,252,120	5.4
Less: Excise duty	30,430	29,750	2.3	38,630	(21.2)	149,020	138,850	7.3
Less: GST recovered	119,260	125,860	(5.2)	120,560	(1.1)	475,600	421,180	-
Net sales	1,362,400	1,395,900	(2.4)	1,531,790	(11.1)	5,967,430	5,692,090	4.8
EBITDA	217,820	211,530	3.0	226,260	(3.7)	882,170	841,670	4.8
EBITDA margin (%)	16.0	15.2	-	14.8	-	14.8	14.8	-
Depreciation & amortisation	63,320	52,950	19.6	55,450	14.2	222,030	209,340	6.1
Interest	60,640	48,940	23.9	54,040	12.2	220,270	164,950	33.5
Other income	41,330	28,260	46.2	34,050	21.4	139,560	83,860	66.4
PBT	135,190	137,900	(2.0)	150,820	(10.4)	579,430	551,240	5.1
Exceptional item	(42,670)	-	-	(1,770)	-	(44,440)	-	-
Provision for tax	26,770	34,310	(22.0)	31,210	(14.2)	137,260	153,900	(10.8)
PAT	65,460	104,270	(37.2)	118,410	(44.7)	398,800	398,370	0.1
Adj. PAT	108,130	104,270	3.7	120,180	(10.0)	443,240	398,370	11.3
Other comprehensive income	183,160	617,730	70.3	(21,560)	-	152,930	587,650	-
Share of P&L from associate	(290)	680	-	570	-	1,070	1,030	-
Total Income	248,620	722,000	(65.6)	96,850	156.7	551,730	986,020	(44.0)
Adj. EPS (Rs)	17.1	17.6	(3.1)	19.0	(10.0)	74.8	67.2	11.3

Source: Company, BOBCAPS Research

FIG 3 – QUARTERLY PERFORMANCE SEGMENT-WISE (CONSOLIDATED)

(Rs mn)	Q4FY20	Q4FY19	YoY (%)	Q3FY20	QoQ (%)	FY20	FY19	YoY (%)
Petrochemicals revenues	322,060	424,140	(24.1)	369,090	(12.7)	1,452,640	1,720,650	(15.6)
% Sales	16.8	22.3	-	17.6	-	17.9	22.3	-
EBITDA	59,380	93,610	(36.6)	72,520	(18.1)	319,790	376,450	(15.1)
EBITDA margins (%)	18.4	22.1	-	19.6	-	22.0	21.9	-
% Total RIL EBITDA	27	43	-	33	-	147	173	-
EBIT	45,530	79,750	(42.9)	58,800	(22.6)	266,790	321,730	(17.1)
Refining revenues	848,540	878,440	(3.4)	1,037,180	(18.2)	3,875,220	3,939,880	(1.6)
% Sales	44.3	46.1	-	49.6	-	47.8	51.0	-
EBITDA	66,140	49,640	33.2	65,300	1.3	211,098	230,380	(8.4)
EBITDA margins (%)	7.8	5.7	-	6.3	-	5.4	5.8	-
% Total RIL EBITDA	30	23	-	30	-	97	106	-
EBIT	57,060	41,760	36.6	56,570	0.9	180,488	198,680	(9.2)
Oil & Gas	6,250	10,690	(41.5)	8,730	(28.4)	32,110	50,050	(35.8)
% Sales	0.3	0.6	-	0.4	-	0.4	0.6	-
EBITDA	(460)	2,580	(117.8)	640	(171.9)	5,813	18,605	(68.8)
EBITDA margins (%)	(7.4)	24.1	-	7.3	-	18.1	37.2	-
% Total RIL EBITDA	0	1	-	0	-	3	9	-
EBIT	(4,850)	(2,670)	(81.6)	(3,660)	32.5	(9,808)	(13,790)	28.9
Organized Retail	382,110	366,630	4.2	453,270	(15.7)	1,629,360	1,305,660	24.8
% Sales	19.9	19.2	-	21.7	-	20.1	16.9	-
EBITDA	25,560	19,230	32.9	27,270	(6.3)	96,540	62,010	55.7
EBITDA margins (%)	6.7	5.2	-	6.0	-	5.9	4.7	-
% Total RIL EBITDA	12	9	-	13	-	44	28	-
EBIT	20,620	17,210	19.8	23,890	(13.7)	84,190	55,460	51.8
Digital Service	186,320	143,280	30.0	175,550	6.1	684,620	486,600	40.7
% Sales	9.7	7.5	-	8.4	-	8.4	6.3	-
EBITDA	64,520	45,150	42.9	58,330	10.6	222,400	152,880	45.5
EBITDA margins (%)	34.6	31.5	-	33.2	-	32.5	31.4	-
% Total RIL EBITDA	30	21	-	27	-	102	70	-
EBIT	41,040	26,650	54.0	38,570	6.4	142,660	87,840	62.4
Others revenues	171,550	82,600	107.7	48,790	251.6	437,340	227,220	92.5
% Sales	8.9	4.3	-	2.3	-	5.4	2.9	-
EBITDA	2,680	1,320	(103.0)	2,200	21.8	26,528	1,345	1,872.7
EBITDA margins (%)	1.6	1.6	-	4.5	-	6.1	0.6	-
Total Revenues	1,916,830	1,905,780	0.6	2,092,610	(8.4)	8,111,290	7,730,060	4.9
Less: Inter segment transfers	411,450	354,270	16.1	401,630	2.4	1,519,240	1,474,730	3.0
Reported Gross Sales	1,505,380	1,551,510	(3.0)	1,690,980	(11.0)	6,592,050	6,255,330	5.4
Less: GST recovered	119,260	125,860	(5.2)	120,560	(1.1)	475,600	421,180	12.9
Reported Net Sales	1,386,120	1,425,650	(2.8)	1,570,420	(11.7)	6,116,450	5,834,150	4.8
Total Reported EBITDA	217,820	211,530	3.0	226,260	(3.7)	882,170	841,670	4.8

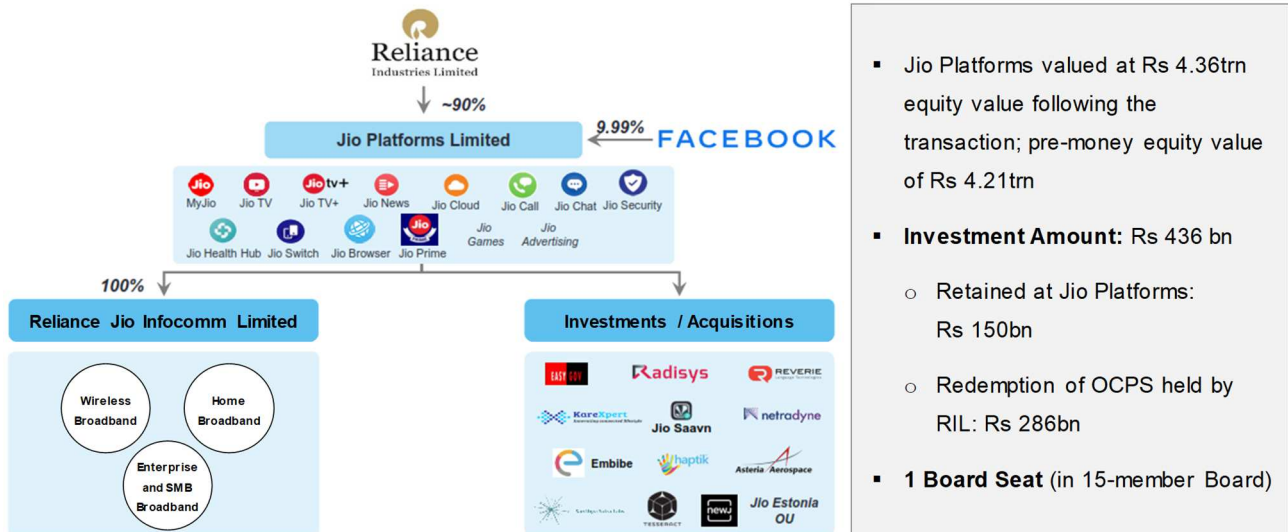
Source: Company, BOBCAPS Research

Earnings webinar takeaways

Integrated outlook towards consumer businesses – RJio and Retail

- The Facebook deal opens up multiple opportunities for RIL to integrate its consumer businesses, through partnership between WhatsApp, Jio and retail.

FIG 4 – RIL-FACEBOOK DEAL



Source: Company

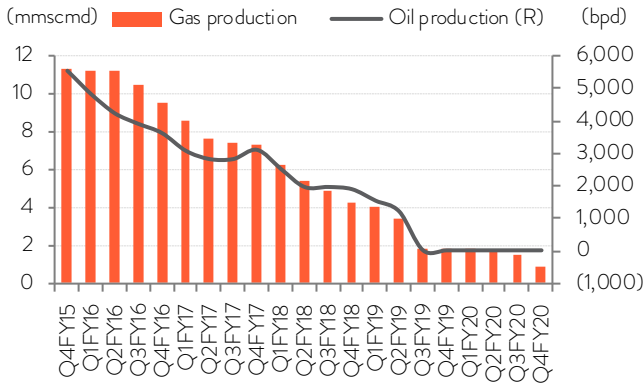
- RJio added ~18mn subscribers (net) in Q4FY20, marginally above estimates. This could slow down significantly in Q1FY21 due to the economic lockdown.
- Management expects ARPU expansion to continue through FY21, from the current Rs 131 to Rs 165 by end-FY22, as most discount offers have expired.
- The economic lockdown would take the biggest toll on retail earnings in Q1FY21. However, RIL has disclosed individual segment EBITDA for the first time in Q4, with the fashion business leading operating margins at 29%.

Cyclicals – Refining and Petrochemicals underperform

- RIL’s GRMs at US\$ 8.9/bbl outperformed on higher light distillate spreads. If we adjust for US\$ 4.3/bbl in inventory loss (assuming the entire Rs 43bn inventory loss is for oil), net GRMs are well below estimates.
- Refining operating costs were much below estimates at ~US\$ 2.15/bbl due to the crash in oil prices. However, the lockdown has shaved at least 25% off refinery utilisation levels since Apr’20.

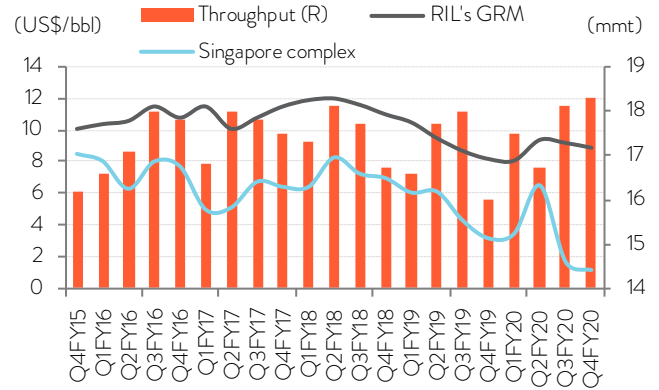
- Petrochemical EBITDA underperformed estimates despite improvement in integrated chain margins. Production volumes outperformed at 9.9mmt (flat QoQ). Sales volumes (not disclosed) are likely to have been significantly affected in Q4 and would worsen in Q1FY21.

FIG 5 – DOMESTIC PRODUCTION



Source: Company, BOBCAPS Research

FIG 6 – REFINING BUSINESS OPERATIONAL TRENDS



Source: Company, BOBCAPS Research

Valuation methodology

RIL recently announced plans to raise Rs 540bn through a rights issue. This coupled with the Rs 430bn Facebook and Rs 70bn BP deals offers assurance of a ~Rs 1tn fund raise in Q1FY21. We thus increase our FY21 debt reduction estimate by Rs 500bn. We cut FY21E earnings by 20% to factor in lower petchem, refining (on lower utilisation) and retail business earnings.

We reset our Mar'21 SOTP-based target price from Rs 1,550 to Rs 1,515, adjusting for lower net debt as well as share dilution from the rights issue. Following the recent stock run-up, RIL is trading at 23x/13x FY21E/FY22E EPS. Upsides from current levels look limited – downgrade from BUY to ADD.

FIG 7 – REVISED ESTIMATES

Consolidated (Rs mn)	FY21E			FY22E		
	Old	New	Var (%)	Old	New	Var (%)
Revenue	3,996,719	3,697,210	(7.5)	4,186,967	4,507,796	7.7
EBITDA	1,092,380	948,636	(13.2)	1,358,263	1,378,438	1.5
EBITDA margin (%)	27.3	25.7	-	32.4	30.6	-
PAT	494,442	421,312	(14.8)	719,247	748,947	4.1
PAT margin (%)	12.4	11.4	-	17.2	16.6	-
EPS (Rs)	78.0	62.3	(20.1)	113.5	110.8	(2.4)

Source: Company, BOBCAPS Research

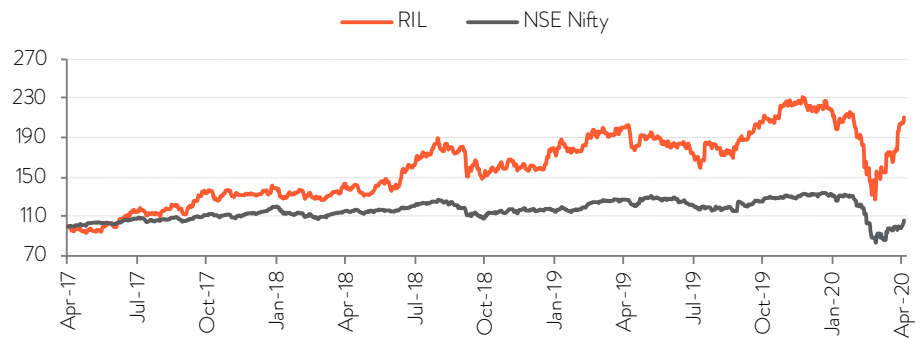
Our SOTP valuation is outlined below:

- **Cyclicals:** Refining (Rs 271/sh) and petrochemical (Rs 261/sh) businesses valued at 6x FY22E EBITDA respectively (at par with global peers)
- **RJio:** Valued at Rs 680/sh based on 8.5x FY22E EBITDA of Rs 541bn. We estimate FY21/FY22 ARPUs at Rs 148/Rs 160
- **Retail:** Valued at Rs 665/sh based on 20x FY22E EBITDA

FIG 8 – SOTP VALUATION SUMMARY

Business	Fair Value		Value/share (Rs)	Comments
	(US\$ bn)	(Rs bn)		
Refining	24	1,829	271	6x FY22E EBITDA
Petrochem	23	1,762	261	6x FY22E EBITDA
Cyclical business value	47	5,480	531	
E&P business	1	60	10	Includes KG-D6, shale and PMT
Jio	61	4,600	682	8.5x FY22E EBITDA
Reliance Retail	53	4,133	665	20x FY22E EBITDA
Enterprise value	162	12,338	2,085	
Net Debt	33	3,144	370	Consolidated net debt
Equity value	130	9,802	1,515	13.5x FY22E EPS

Source: BOBCAPS Research

FIG 9 – RELATIVE STOCK PERFORMANCE

Source: NSE

Key risks

- **Global slowdown:** RIL's valuations are highly sensitive to GRM and petrochemical crack movements. A slowdown in global economies can affect these spreads and hurt our valuation outlook.
- **Lower operating margins in RJio:** We factor in aggressive ramp-up in RJio's subscriber numbers (>450mn) and ARPUs (~Rs 160/mth) by FY22. Operating margins could trend well below our estimates if the pricing war among telecom operators resumes. The telecom business also carries regulatory risks pertaining to tariffs and spectrum usage that could hamper RJio's earnings outlook.
- **Lower growth in retail revenues:** RIL has been significantly outperforming estimates on retail business revenue growth. The economic slowdown could affect the outlook on retail revenues and hurt valuations.

FINANCIALS

Income Statement

Y/E 31 Mar (Rs mn)	FY18A	FY19A	FY20P	FY21E	FY22E
Total revenue	4,082,650	5,830,940	6,116,450	3,697,210	4,507,796
EBITDA	641,760	841,670	882,170	948,636	1,378,438
Depreciation	(167,060)	(209,340)	(222,030)	(327,588)	(367,861)
EBIT	474,700	632,330	660,140	621,048	1,010,578
Net interest income/(expenses)	(80,520)	(164,950)	(220,270)	(216,159)	(200,177)
Other income/(expenses)	88,620	86,350	139,560	154,846	186,171
Exceptional items	10,870	0	(44,440)	0	0
EBT	482,800	553,730	579,430	559,735	996,571
Income taxes	(133,460)	(153,900)	(137,260)	(138,423)	(247,624)
Min. int./Inc. from associates	590	1,030	1,070	0	0
Reported net profit	360,800	400,860	398,800	421,312	748,947
Adjusted net profit	352,869	400,860	443,240	421,312	748,947

Balance Sheet

Y/E 31 Mar (Rs mn)	FY18A	FY19A	FY20P	FY21E	FY22E
Accounts payables	1,068,610	1,083,090	967,990	1,442,997	1,251,569
Other current liabilities	1,688,780	1,442,530	2,209,060	1,009,060	1,009,060
Provisions	41,380	41,820	36,800	52,944	52,672
Debt funds	1,816,040	2,719,420	3,102,210	2,902,210	2,102,210
Other liabilities	498,280	687,620	729,620	740,365	763,812
Equity capital	59,220	59,260	63,390	67,616	67,616
Reserves & surplus	2,871,300	3,850,250	3,978,260	5,075,523	5,791,526
Shareholders' fund	2,930,520	3,909,510	4,041,650	5,143,139	5,859,142
Total liabilities and equities	8,079,000	9,966,790	11,167,490	11,370,875	11,118,626
Cash and cash eq.	42,550	110,810	309,200	72,332	68,682
Accounts receivables	175,550	300,890	196,560	242,834	213,620
Inventories	608,370	675,610	739,030	976,660	880,895
Other current assets	514,840	744,760	737,390	858,738	781,537
Investments	828,620	2,356,350	2,767,670	2,767,670	2,467,670
Net fixed assets	3,980,720	3,863,770	5,223,990	5,769,250	5,858,030
CWIP	1,870,220	1,794,630	1,091,060	570,801	725,601
Intangible assets	58,130	119,970	102,590	112,590	122,590
Total assets	8,079,000	9,966,790	11,167,490	11,370,875	11,118,626

Source: Company, BOBCAPS Research

Cash Flows

Y/E 31 Mar (Rs mn)	FY18A	FY19A	FY20P	FY21E	FY22E
Net income + Depreciation	507,120	608,350	620,830	748,900	1,116,808
Changes in working capital	598,380	(653,830)	694,690	(1,114,101)	10,480
Other operating cash flows	(70,660)	116,700	(53,120)	(144,101)	(162,723)
Cash flow from operations	1,034,840	71,220	1,262,400	(509,302)	964,564
Capital expenditures	(812,550)	(14,950)	(878,680)	(352,589)	(611,441)
Change in investments	13,010	(1,331,690)	(409,780)	10,000	10,000
Other investing cash flows	85,190	(47,850)	120,640	154,846	486,171
Cash flow from investing	(714,350)	(1,394,490)	(1,167,820)	(187,743)	(115,270)
Equities issued/Others	570	40	4,130	531,208	0
Debt raised/repaid	(240,930)	917,090	382,790	(200,000)	(800,000)
Dividends paid	(39,160)	(42,810)	(54,854)	(52,706)	(52,944)
Other financing cash flows	(28,650)	482,540	(44,440)	0	0
Cash flow from financing	(308,170)	1,356,860	287,626	278,502	(852,944)
Changes in cash and cash eq.	12,320	33,590	382,206	(418,543)	(3,650)
Closing cash and cash eq.	42,550	76,140	493,016	72,332	68,682

Per Share

Y/E 31 Mar (Rs)	FY18A	FY19A	FY20P	FY21E	FY22E
Reported EPS	60.9	67.6	62.9	62.3	110.8
Adjusted EPS	52.2	59.3	65.6	62.3	110.8
Dividend per share	5.3	6.8	6.5	6.5	6.5
Book value per share	494.9	659.7	637.6	760.6	866.5

Valuations Ratios

Y/E 31 Mar (x)	FY18A	FY19A	FY20P	FY21E	FY22E
EV/Sales	2.7	1.9	1.9	3.2	2.7
EV/EBITDA	17.4	13.3	13.0	12.6	8.8
Adjusted P/E	28.1	24.7	22.4	23.5	13.2
P/BV	3.0	2.2	2.3	1.9	1.7

DuPont Analysis

Y/E 31 Mar (%)	FY18A	FY19A	FY20P	FY21E	FY22E
Tax burden (Net profit/PBT)	71.5	72.4	82.9	75.3	75.2
Interest burden (PBT/EBIT)	104.0	87.6	81.0	90.1	98.6
EBIT margin (EBIT/Revenue)	11.6	10.8	10.8	16.8	22.4
Asset turnover (Revenue/Avg TA)	53.7	64.6	57.9	32.8	40.1
Leverage (Avg TA/Avg Equity)	2.7	2.6	2.7	2.5	2.0
Adjusted ROAE	12.7	11.7	11.1	9.2	13.6

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

Ratio Analysis

Y/E 31 Mar	FY18A	FY19A	FY20P	FY21E	FY22E
YoY growth (%)					
Revenue	33.7	42.8	4.9	(39.6)	21.9
EBITDA	38.9	31.2	4.8	7.5	45.3
Adjusted EPS	17.4	13.6	10.6	(4.9)	77.8
Profitability & Return ratios (%)					
EBITDA margin	15.7	14.4	14.4	25.7	30.6
EBIT margin	11.6	10.8	10.8	16.8	22.4
Adjusted profit margin	8.6	6.9	7.2	11.4	16.6
Adjusted ROAE	12.7	11.7	11.1	9.2	13.6
ROCE	7.3	7.9	7.0	6.1	9.4
Working capital days (days)					
Receivables	12	15	15	22	18
Inventory	73	58	62	57	69
Payables	97	79	72	160	157
Ratios (x)					
Gross asset turnover	0.9	1.0	0.9	0.5	0.5
Current ratio	0.4	0.6	0.5	0.7	0.7
Net interest coverage ratio	5.9	3.8	3.0	2.9	5.0
Adjusted debt/equity	0.6	0.7	0.7	0.6	0.3

Source: Company, BOBCAPS Research

Disclaimer

Recommendations and Absolute returns (%) over 12 months

BUY – Expected return >+15%

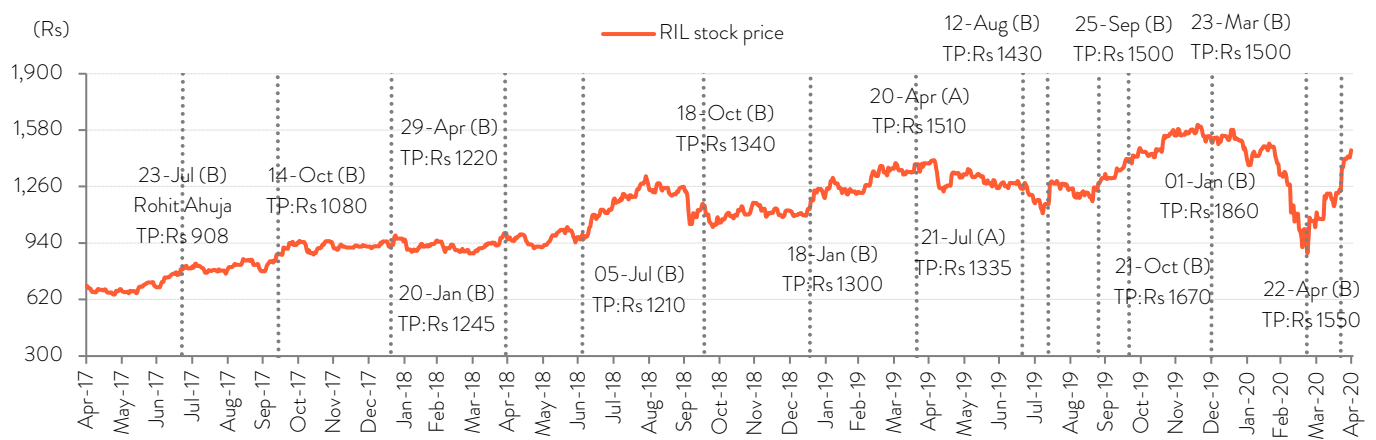
ADD – Expected return from >+5% to +15%

REDUCE – Expected return from -5% to +5%

SELL – Expected return <-5%

Note: Recommendation structure changed with effect from 1 January 2018 (Hold rating discontinued and replaced by Add / Reduce)

HISTORICAL RATINGS AND TARGET PRICE: RELIANCE INDUSTRIES (RIL IN)



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

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