

Estimate change	↔
TP change	↔
Rating change	↔

CMP: INR3,736 **TP: INR4,250 (+14%)** **Buy**

3Q beats estimates despite demand constraints

No change in spending commentary; reiterate BUY

Bloomberg	TCS IN
Equity Shares (m)	3,752
M.Cap.(INRb)/(USDb)	13668.6 / 164.6
52-Week Range (INR)	3929 / 3070
1, 6, 12 Rel. Per (%)	-1/3/-9
12M Avg Val (INR M)	6836
Free float (%)	27.7

Financials & Valuations (INR b)

Y/E Mar	2024E	2025E	2026E
Sales	2,417	2,684	2,998
EBIT Margin (%)	24.4	25.1	26.2
PAT	468	538	622
EPS (INR)	125.7	146.8	170.1
EPS Gr. (%)	9.0	16.8	15.9
BV/Sh. (INR)	241	233	224

Ratios

RoE (%)	51.5	61.9	74.4
RoCE (%)	43.7	50.3	59.5
Payout (%)	90.0	90.0	90.0

Valuations

P/E (x)	29.7	25.4	21.9
P/BV (x)	15.5	16.0	16.6
EV/EBITDA (x)	20.8	18.2	15.8
Div Yield (%)	3.0	3.5	4.1

Shareholding pattern (%)

As On	Sep-23	Jun-23	Sep-22
Promoter	72.3	72.3	72.3
DII	10.1	9.8	8.6
FII	12.5	12.5	13.1
Others	5.4	5.4	6.1

FII Includes depository receipts

- TCS reported revenue of USD7.28b in 3QFY24, up 1.0% QoQ in constant currency (CC) terms and 140bp above our estimates despite a weak demand environment and seasonal weakness. The growth was aided by strong India performance (up 26% QoQ, partially aided by BSNL deal execution). TCS reported deal wins of USD8.1b (down 28% QoQ but up 3% YoY, book-to-bill ratio at 1.1x), in line with our expectations.
- EBIT improved 70bp QoQ to 25.0%, 50bp ahead of our estimates, aided by lower subcontracting costs and cost savings, which more than compensated for adverse seasonality. 3Q headcount declined 5.7k (-1% QoQ). Attrition (LTM) declined by 160bp QoQ to 13.3%. TCS expects attrition to continue to soften in the near term. Reported PAT was negatively impacted by a one-time cost of USD115m associated with legal payout to Epic System.
- Management commentary regarding the spending environment in IT services remains unchanged, with continued pause in discretionary deals adversely affecting business. While the company views its deal pipeline and booking as robust, it continues to expect improvement in client sentiment after the positive commentary by the US Fed in Dec'23.
- In the near term, North America and BFSI were hit by furloughs and project completions in 3Q. TCS expects the vertical to return to growth in 4Q. With tailwinds from BSNL and good LTM deal wins (USD39.5b, up 12% YoY), we expect TCS to be among the few large-cap companies to grow in double digits in FY25 (est. 10.5% YoY CC) and we factor in a USD revenue CAGR of 9.0% over FY23-26E.
- 3Q EBIT margin beat of 50bp QoQ was surprising given the expected margin drag from the BSNL deal, which scaled up during the quarter. With the continued optimization of workforce and ongoing moderation in attrition, the pressure on operating margin should further ease, helping it improve EBIT margin over the next two years. We expect FY25E/FY26E EBIT margins to be at 25.1%/26.2%, up from 24.4% in FY24. This suggests that TCS will touch the lower end of its long-term margin guidance (26-28%) by 4QFY25.
- Excluding the one-off item, TCS has delivered INR PAT growth of 11% in 9MFY24. It generated FCF of INR103.5b in 3Q and had INR457b in Cash and Investments as of 3QFY24. The company announced a dividend of INR27 per share in 3Q, including a special dividend of Rs18 per share.
- We have kept our FY24 EPS estimate unchanged but have raised FY25-FY26 EPS estimates by ~2.0%. Over FY23-26E, we expect a USD revenue CAGR of ~9% and an INR EPS CAGR of ~14%. Our TP of INR4,250 implies 25x FY26E EPS, with a 14% upside potential. We reiterate our **BUY** rating on the stock.

3Q revenue and margin beat estimates, TCV moderates QoQ

- USD revenue stood at USD7.28b, +1.0% QoQ CC and above our estimates of a 0.4% QoQ decline. YoY CC growth was +1.7%.
- Growth was driven by Mfg, Life Science and Utility, while BFSI, Retail and Communications remained muted.
- EBIT margin of 25.0% (up 70bp QoQ) was above our estimate of 24.5%, mainly due to a further decline in headcount by 5.7k QoQ (vs. 6.3k decline in 2Q)
- Deal TCV moderated QoQ to USD8.1b vs. USD11.2b reported in 2Q, while YoY growth was up 4%. Book to bill stood at 1.1x.
- PAT came in at INR117b (19.4% PAT margin), in line with our estimates.
- Dividend of Rs27/share in 3Q (including special dividend of Rs18/share).

Key highlights from management commentary

- The overall demand environment remains positive (barring furlough impact), with strong deal-signing across the board. The deal ramp-ups and execution have been timely with few exceptions, and the revenue conversion remains strong.
- The softness in BFSI was due to furloughs and the closure of a large program in North America. Hence, revenue growth declined in 3Q. TCS expects BFSI to gain momentum in 4Q and will continue to strengthen going forward.
- Clients are evaluating their investment after having invested in new-age technologies. Given the current macro challenges, clients are more comfortable investing in projects that yield benefits in the short term.
- The BSNL deal is progressing well, and TCS has started commissioning with the delivery of 2,500 equipment, and is rolling out radio in few circles.
- Seasonality affected margins by 80bp in 3Q, which was more than offset by efficiency and productivity improvements (60bp) and reduction in subcon (70bp).

Valuation and view

- Given its size, order book and exposure to long-duration orders and portfolio, TCS is well positioned to withstand the weakening macro environment and ride on the anticipated industry growth.
- Owing to its steadfast market leadership position and best-in-class execution, the company has been able to maintain its industry-leading margin and demonstrate superior return ratios.
- We maintain our positive stance on TCS. Our TP of INR4,250 implies 25x FY26E EPS, with a 14% upside potential. We reiterate our **BUY** rating.

Quarterly performance (IFRS)

(INR b)

Y/E March	FY23				FY24E				FY23	FY24E	FY23	Variance
	1Q	2Q	3Q	4Q	1Q	2Q	3Q	4QE				
Revenue from IT Services (USD m)	6,780	6,877	7,075	7,195	7,226	7,210	7,281	7,477	27,927	29,194	7,163	1.7
QoQ (%)	1.3	1.4	2.9	1.7	0.4	-0.2	1.0	2.7	8.6	4.5	-0.7	164bp
Overall revenue (INR b)	528	553	582	592	594	597	606	621	2,255	2,417	597	1.5
QoQ (%)	4.3	4.8	5.3	1.6	0.4	0.5	1.5	2.4			0.0	154bp
YoY (%)	16.2	18.0	19.1	16.9	12.6	7.9	4.0	4.9	17.6	7.2	2.5	157bp
GPM (%)	38.4	39.5	40.1	40.1	39.5	40.1	40.8	40.6	39.6	40.3	40.2	59bp
SGA (%)	15.3	15.5	15.5	15.7	16.4	15.8	15.8	15.6	15.5	15.8	15.7	8bp
EBITDA	134	145	156	157	150	157	164	168	592	639	158	3.5
EBITDA Margin (%)	25.3	26.2	26.8	26.5	25.2	26.3	27.1	27.1	26.2	26.4	26.6	50bp
EBIT	122	133	143	145	138	145	152	155	542	591	146	3.7
EBIT Margin (%)	23.1	24.0	24.5	24.5	23.2	24.3	25.0	25.0	24.1	24.4	24.5	52bp
Other Income	6	8	4	9	12	8	7	11	27	39	10	-29.5
PBT	128	141	146	154	150	153	159	166	569	629	156	1.5
ETR (%)	25.5	25.8	25.7	25.7	25.8	25.8	25.8	25.5	25.7	25.7	25.5	31bp
PAT	95	105	109	114	111	114	118	124	423	468	116	1.1
Exceptional Items	0	0	0	0	0	0	-7	0	0	-7	0	
Reported PAT	95	105	109	114	111	114	111	124	423	461	116	-4.7
QoQ (%)	-4.4	9.9	4.0	5.1	-2.8	2.3	-2.5	11.4			2.3	-483bp
YoY (%)	5.4	8.4	11.0	14.8	16.8	8.7	2.0	8.1	10.0	9.0	7.0	-505bp
EPS (INR)	26.0	28.5	29.6	31.1	30.3	31.0	30.3	33.7	115.3	125.7	31.7	-4.6

Key performance indicators

Y/E March	FY23				FY24E				FY23	FY24E
	1Q	2Q	3Q	4Q	1Q	2Q	3Q	4QE		
Revenue (QoQ CC %)	3.5	4.0	2.2	0.6	0.0	0.1	1.0	2.2		
Costs (as a percentage of revenue)										
COGS	61.6	60.5	59.9	59.9	60.5	59.9	59.2	59.4	60.4	59.7
SGA	15.3	15.5	15.5	15.7	16.4	15.8	15.8	15.6	15.5	15.8
Margins										
Gross Margin	38.4	39.5	40.1	40.1	39.5	40.1	40.8	40.6	39.6	40.3
EBIT Margin	23.1	24.0	24.5	24.5	23.2	24.3	25.0	25.0	24.1	24.4
Net Margin	18.0	18.9	18.7	19.3	18.7	19.1	19.4	19.9	18.8	19.3
Operating Metrics										
Headcount (k)	606	616	614	615	615	609	603		615	
Attrition (%)	19.7	21.5	21.3	20.1	17.8	14.9	13.3		20.1	
Deal win TCV (USD b)	8.2	8.1	7.8	10	10.2	11.2	8.1		34.1	
Key verticals (YoY CC %)										
BFSI	13.9	13.1	11.1	9.1	3.0	-0.5	-3.0		16.7	
Retail	25.1	22.9	18.7	13.0	5.3	1.0	-0.3		20.6	
Key geographies (YoY CC %)										
North America	19.1	17.6	15.4	9.6	4.6	0.1	-3.0		17.5	
UK	12.6	14.8	15.4	17.0	16.1	10.7	8.1		14.3	
Continental Europe	12.1	14.1	9.7	8.4	3.4	1.3	0.5		15.1	



Highlights from management commentary

3QFY24 performance and demand outlook

- The overall demand environment remains positive (barring furlough impact), with strong deal-signing across the board. The deal ramp-ups and execution have been timely with few exceptions, and the revenue conversion remains strong.
- The softness in BFSI was due to furloughs and the closure of a large program in North America. Hence, revenue growth declined in 3Q. TCS expects BFSI to gain momentum in 4Q and will continue to strengthen going forward.
- Within BFSI, insurance and P&P (products & platform) are performing well, while banking and capital market remain soft. The company is witnessing a

strong opportunity on the cost optimization front and is gaining market share over its peers.

- Overall, the proportion of discretionary and non-discretionary revenue remains similar, which indicates balanced growth in both the spending buckets.
- Clients are evaluating their investment after having invested in new-age technologies. Given the current macro challenges, clients are more comfortable investing in projects that yield benefits in the short term. However, TCS firmly believes that enterprise spending should resume as the macro headwind recedes.
- The deal-signing momentum improved YoY in 3Q. The company signed two mega deals in 3Q, and it is not seeing any sign of softness in deal-signing activities.
- Some verticals, especially Retail, have started showing green shoots, while Manufacturing, Energy & Utility and Life Science are performing well and are expected to maintain their growth momentum.
- The BSNL deal is progressing well, and TCS has started commissioning with the delivery of 2,500 equipment, and is rolling out radio in few circles.

Margin performance and outlook

- Seasonality affected margins by 80bp in 3Q, which was more than offset by efficiency and productivity improvements (60bp) and reduction in subcon (70bp).
- The management remains committed to achieving the margin band of 26-28% in the long term, with disciplined execution, productivity, improved utilization, and better realization.
- Additionally, the company is focusing on further optimizing its subcon expenses (below pre-Covid) while rationalizing its employee pyramid and putting more freshers into the billing cycle.

Exhibit 1: Weak growth in key regions

Geographies	Contribution to revenue (%)	QoQ growth (%)
North America	50.6	-1.2
Latin America	2.1	6.0
UK	16.4	0.4
Continental Europe	15.0	1.7
India	6.1	25.7
Asia Pacific	7.8	1.0
MEA	2.0	-8.2

Source: Company, MOFSL

Exhibit 2: Weakness continues in selective verticals

Verticals	Contribution to revenue (%)	QoQ CC growth (%)
BFSI	31.7	-1.8
Retail and CPG	15.7	-0.3
Communications and Media	6.7	-1.9
Manufacturing	8.6	2.2
Life Sciences and Healthcare	10.9	1.0
Technology and Services	8.4	-1.4
Regional Markets and Others	5.7	2.8

Source: Company, MOFSL

Valuation and view

- Given its size, order book and exposure to long-duration orders and portfolio, TCS is well positioned to withstand the weakening macro environment and ride on the anticipated industry growth.
- Owing to its steadfast market leadership position and best-in-class execution, the company has been able to maintain its industry-leading margin and demonstrate superior return ratios.
- We maintain our positive stance on TCS. Our TP of INR4,250 implies 25x FY26E EPS, with a 14% upside potential. We reiterate our **BUY** rating.

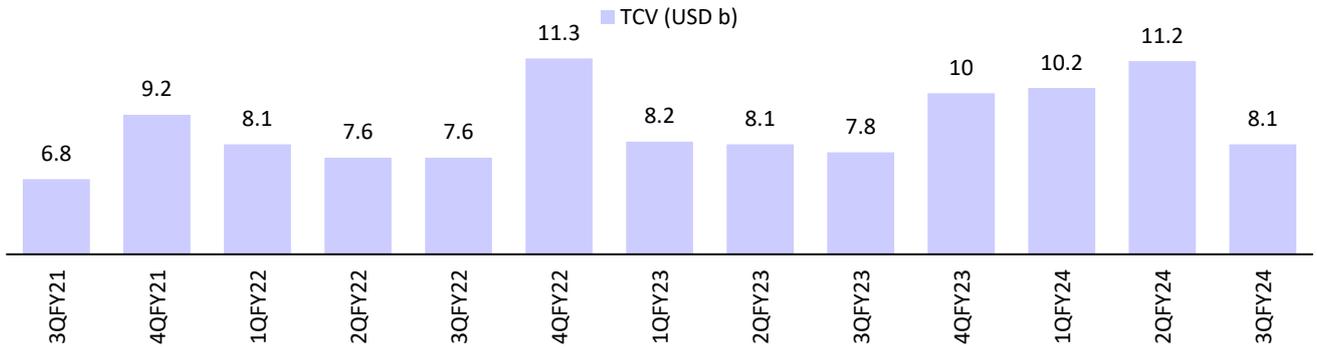
Exhibit 3: Revisions to our estimates

	Revised			Earlier			Change		
	FY24E	FY25E	FY26E	FY24E	FY25E	FY26E	FY24E	FY25E	FY26E
USD:INR	82.8	83.0	83.0	82.8	83.0	83.0	0.0%	0.0%	0.0%
USD revenue (m)	29,194	32,333	36,124	28,995	32,102	35,910	0.7%	0.7%	0.6%
Growth (%)	4.5	10.8	11.7	3.8	10.7	11.9	70bps	0bps	-10bps
EBIT margin (%)	24.4	25.1	26.2	24.2	24.8	26.0	30bps	30bps	20bps
PAT (INR b)	459	536	621	461	525.9	613.4	-0.3%	1.9%	1.2%
EPS	125.7	146.8	170.1	126.0	143.7	167.6	-0.2%	2.1%	1.5%

Source: MOFSL

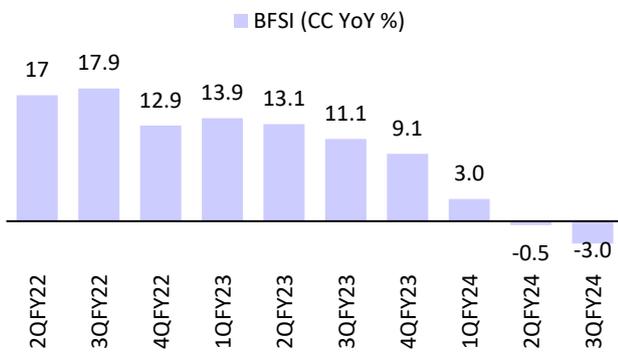
Story in charts

Exhibit 4: Deal wins remain resilient in 3QFY24 despite furloughs



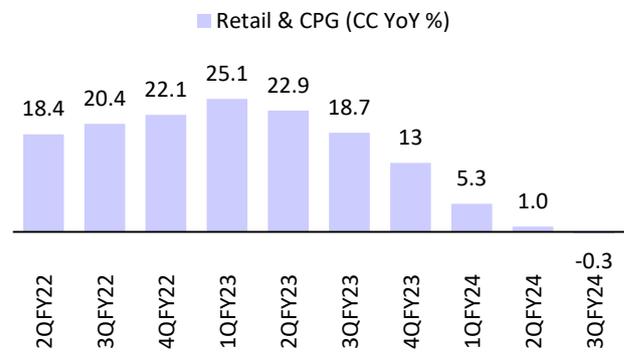
Source: Company, MOFSL

Exhibit 5: BFSI revenue declined



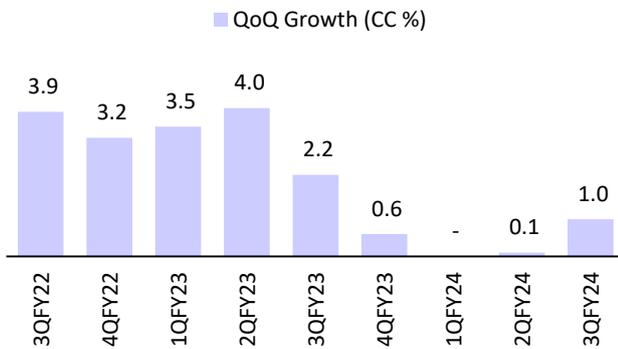
Source: Company, MOFSL

Exhibit 6: Retail continues to see softness



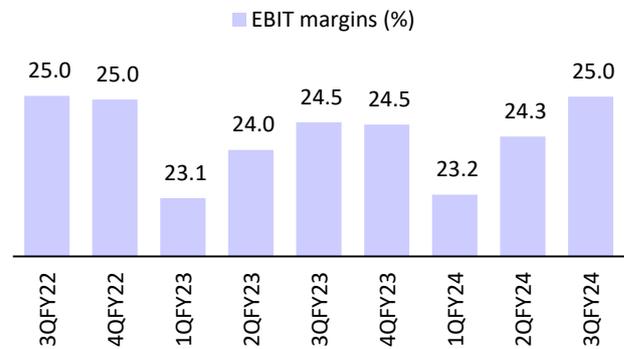
Source: Company, MOFSL

Exhibit 7: TCS delivers good growth despite furloughs



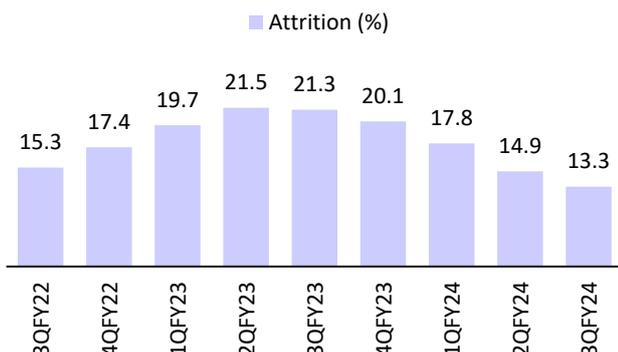
Source: Company, MOFSL

Exhibit 8: Margins see strong recovery



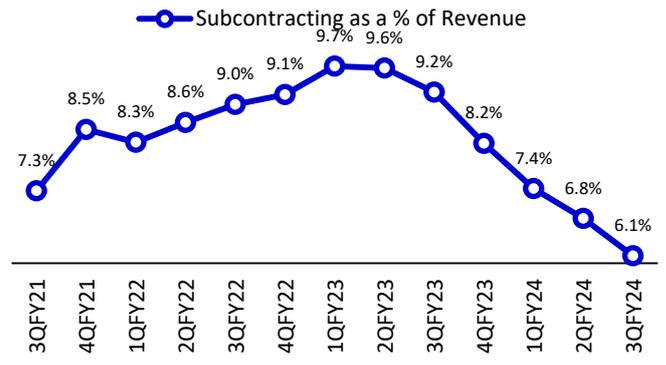
Source: Company, MOFSL

Exhibit 9: LTM Attrition starting to moderate



Source: Company, MOFSL

Exhibit 10: Sub-contracting moderates meaningfully



Source: Company, MOFSL

Operating metrics

Exhibit 11: Operating metrics

	3QFY22	4QFY22	1QFY23	2QFY23	3QFY23	4QFY23	1QFY24	2QFY24	3QFY24
Verticals (%)									
BFSI	32.1	31.9	32.1	33.6	33.1	32.9	32.5	32.6	31.7
Retail & CPG	14.5	15.4	15.9	16.1	16.0	16.0	16.1	15.9	15.7
Communication & Media	6.6	6.7	6.8	7.3	7.2	7.1	7.0	6.9	6.7
Manufacturing	9.6	10.0	9.9	8.2	8.2	8.2	8.3	8.5	8.6
Life Sciences & Healthcare	9.8	10.0	10.1	10.7	10.8	10.9	11.0	10.9	10.9
Technology & Services	8.6	8.7	8.8	9.1	9.0	8.9	8.7	8.6	8.4
Energy & Utilities				5.0	5.2	5.4	5.5	5.6	5.7
Regional markets & Others	18.8	17.3	16.4	10.0	10.5	10.6	10.9	11.0	12.3
Geographies (%)									
North America	50.7	51.6	53.2	54.3	53.7	52.4	52.0	51.7	50.6
Latin America	1.7	1.7	1.8	1.7	1.8	1.8	2.0	2.0	2.1
UK	15.6	15.6	14.9	14.5	14.9	15.7	16.4	16.5	16.4
Continental Europe	16.0	15.5	15.2	14.5	14.8	15.1	14.9	14.9	15.0
India	5.5	5.1	4.8	5.1	5.1	5.0	4.9	4.9	6.1
Asia Pacific	8.6	8.5	8.3	8.0	7.9	8.0	7.8	7.8	7.8
MEA	1.9	2.0	1.8	1.9	1.8	2.0	2.0	2.2	2.0
QoQ growth (%)									
BFSI	2.1	2.0	1.9	6.2	1.3	1.1	-0.8	0.1	-1.8
Retail & CPG	-0.4	9.0	4.5	2.7	2.2	1.7	1.1	-1.5	-0.3
Communication & Media	4.6	4.2	2.8	8.9	1.5	0.3	-1.0	-1.6	-1.9
Manufacturing	-0.1	6.9	0.2	-16.0	2.9	1.7	1.7	2.2	2.2
Life Sciences & Healthcare	1.0	4.7	2.3	7.5	3.8	2.6	1.4	-1.1	1.0
Technology & Services	0.7	3.8	2.4	4.9	1.7	0.6	-1.8	-1.4	-1.4
Energy and Utilities					7.0	5.6	2.3	1.6	2.8
Regional markets & Others	11.3	-5.6	-4.0	-38.2	8.0	2.7	3.3	0.7	12.9
North America	3.8	4.5	4.4	3.5	1.7	-0.8	-0.3	-0.8	-1.2
Latin America	9.5	2.6	7.2	-4.2	8.9	1.7	11.6	-0.2	6.0
UK	-0.2	2.6	-3.3	-1.3	5.7	7.2	4.9	0.4	0.4
Continental Europe	3.7	-0.6	-0.7	-3.2	5.0	3.8	-0.9	-0.2	1.7
India	11.1	-4.8	-4.7	7.8	2.9	-0.3	-1.6	-0.2	25.7
Asia Pacific	-1.6	1.4	-1.1	-2.2	1.6	3.0	-2.1	-0.2	1.0
MEA	-2.1	8.0	-8.9	7.1	-2.5	13.0	0.4	9.8	-8.2
Total Employees (k)	557.0	592.2	606.3	616.2	614.0	614.8	615.3	609.0	603.3
Net Additions (k)	28.2	35.2	14.1	9.8	-2.2	0.8	0.5	-6.3	-5.7
Attrition (LTM %)	15.3	17.4	19.7	21.5	21.3	20.1	17.8	14.9	13.3

Source: Company, MOFSL

Financials and valuations

Income Statement								(INR b)
Y/E March	FY19	FY20	FY21	FY22	FY23	FY24E	FY25E	FY26E
Sales	1,465	1,569	1,642	1,918	2,255	2,417	2,684	2,998
Change (%)	19.0	7.2	4.6	16.8	17.6	7.2	11.0	11.7
Cost of Services	852	923	971	1,146	1,363	1,444	1,593	1,758
SG&A Expenses	239	260	246	287	350	383	416	456
EBITDA	395	421	465	532	599	651	742	859
As a percentage of Net Sales	27.0	26.8	28.4	27.8	26.6	26.9	27.6	28.7
Depreciation	21	35	41	48	56	60	67	75
EBIT	375	386	425	485	542	591	675	784
As a percentage of Net Sales	25.6	24.6	25.9	25.3	24.1	24.4	25.1	26.2
Other Income	41	37	25	32	27	39	47	51
PBT	416	422	450	517	569	629	722	835
Tax	100	98	115	132	146	161	184	213
Rate (%)	24.1	23.2	25.5	25.6	25.7	25.7	25.5	25.5
PAT	316	324	335	384	423	468	538	622
Extraordinary Gains/Losses	0	0	-10	0	0	-7	0	0
Adjusted PAT	316	324	326	384	423	461	538	622
Minority Interest	1	1	1	1	2	2	2	1
Reported PAT	315	323	324	383	421	459	536	621
Change (%)	21.9	2.8	0.3	18.2	10.0	9.0	16.7	15.9

Balance Sheet								(INR b)
Y/E March	FY19	FY20	FY21	FY22	FY23	FY24E	FY25E	FY26E
Share capital	4	4	4	4	4	4	4	4
Reserves	891	838	861	888	901	876	848	815
Net Worth	894	841	864	891	904	880	851	819
Minority Interest and Others	34	97	102	100	97	121	133	147
Loans	0	0	0	0	0	0	0	0
Capital Employed	929	938	966	992	1,001	1,001	985	966
Gross Block	287	408	449	502	550	608	672	743
Depreciation	171	207	247	295	351	412	479	554
Net Block	116	201	201	207	199	196	193	189
Intangibles	44	45	57	55	52	55	51	55
Other LT assets	69	60	56	70	83	96	98	109
Current Assets	921	902	993	1,083	1,103	1,109	1,121	1,145
Debtors	325	363	367	418	500	530	581	650
Cash and Bank Balance	72	97	69	125	71	89	89	73
Investments	347	261	316	360	401	356	311	266
Other Current Assets	177	182	241	180	131	133	140	156
Current Liab. and Prov.	221	271	342	424	436	448	471	525
Net Current Assets	700	632	651	660	667	661	650	620
Application of Funds	929	938	966	992	1,001	1,007	991	973

Financials and valuations

Ratios

Y/E March	FY19	FY20	FY21	FY22	FY23	FY24E	FY25E	FY26E
Basic (INR)								
EPS	82.3	86.2	86.7	104.0	115.3	125.7	146.8	170.1
Cash EPS	87.6	95.6	97.6	117.0	130.7	142.2	165.2	190.6
Book Value	233.8	224.2	231.1	241.8	247.3	240.7	233.2	224.2
DPS	76.9	71.4	97.2	100.9	115.1	113.1	132.1	153.1
Payout (%)	93.5	82.8	112.1	97.1	99.8	90.0	90.0	90.0
Valuation (x)								
P/E	45.3	43.2	43.0	35.8	32.3	29.7	25.4	21.9
Cash P/E	42.5	39.0	38.2	31.9	28.5	26.2	22.6	19.6
EV/EBITDA	35.9	33.0	29.8	25.6	22.6	20.8	18.2	15.8
EV/Sales	9.7	8.8	8.4	7.1	6.0	5.6	5.0	4.5
Price/Book Value	15.9	16.6	16.1	15.4	15.1	15.5	16.0	16.6
Dividend Yield (%)	2.1	1.9	2.6	2.7	3.1	3.0	3.5	4.1
Profitability Ratios (%)								
RoE	36.1	37.3	38.0	43.7	46.9	51.5	61.9	74.4
RoCE	31.4	31.7	33.2	36.8	40.5	43.7	50.3	59.5
Turnover Ratios								
Debtors (Days)	81	84	82	80	81	80	79	79
Fixed Asset Turnover (x)	12.7	7.8	8.1	9.3	11.3	12.3	13.9	15.8

Cash Flow Statement

Y/E March	FY19	FY20	FY21	FY22	FY23	FY24E	FY25E	FY26E
(INR b)								
CF from Operations	308	370	379	427	462	517	593	684
Cash for Working Capital	-22	-47	9	-28	-42	-14	-22	-33
Net Operating CF	286	324	388	399	420	504	571	651
Net Purchase of FA	-21	-32	-32	-30	-31	-47	-52	-58
Free Cash Flow	265	291	356	370	389	457	519	593
Net Purchase of Invest.	36	118	-50	21	31	45	45	45
Net Cash from Invest.	16	86	-81	-9	0	-2	-7	-13
Proceeds from Equity Issues	0	0	0	0	0	0	0	0
Proceeds from LTB/STB	-2	-13	-211	-195	-57	0	0	0
Others	-2	-9	-6	-7	-8	0	0	0
Dividend Payments	-275	-377	-109	-134	-414	-484	-564	-654
Cash Flow from Fin.	-279	-399	-326	-336	-479	-484	-564	-654
Net Cash Flow	23	14	-18	56	-54	18	-1	-16
Opening Cash Balance	54	77	91	73	130	76	94	94
Add: Net Cash	23	14	-18	56	-54	18	-1	-16
Closing Cash Balance	77	91	73	130	76	94	94	78

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NOTES

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BUY	>=15%
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UNDER REVIEW	Rating may undergo a change
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