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India | Equity Research | Results update

## Bharti Hexacom Limited

Telecom

### Impressive execution across parameters

Bharti Hexacom's (BHL) Q3FY25 EBITDAaL soared 43% YoY; FCF after interest cost was up 97% and net debt slipped 2.5%. BHL has been adding to its already strong AGR market share in both its circles – Rajasthan and North East. BHL exhibited impressive performance across each key parameter – subscriber, smartphone data subscriber, ARPU, capex, FCF and deleverage; and we believe, BHL will likely start rewarding investors with generous dividends. BHL's pre-tax RoCE to reach 21%/29% in FY25E/FY26E. It would benefit further by the sale of its 3.4k tower for INR 11.3bn to Indus Towers. We tweak our EPS estimate a tad; accordingly, our TP stands at INR 1,410 (from INR 1,400) with an unchanged EV/EBITDA multiple of 14x. Maintain **HOLD** as risk-reward at 3.2% FY27E FCFF yield appears to be more balanced.

### Mobile revenue grew 7.3% QoQ/25.5% YoY to INR 22bn

BHL's mobile revenue growth was aided by ARPU growth of 5.9% QoQ/20.5% YoY to INR 241 on residual benefit of tariff increase, w.e.f. Jul'24, while subs base rose 0.49mn (+1.8% QoQ/3.1% YoY) to 27.6mn. Its mobile revenue growth of 7.3% QoQ was better than Bharti Airtel (5.8% QoQ). BHL's revenue has seasonality due to the Rajasthan circle (80% of BHL revenue), which attracts more tourists during the second half of the year. Churn rate fell to 1.9% (vs. 3.2% in Q2FY25), and gross subs add was 2.06mn (vs 2.12mn in Q2FY25).

Smartphone data subs was 21mn, and net add was at 0.45mn (+2.2% QoQ/9.9% YoY). Total minutes rose 5% QoQ/8.9% YoY to 94bn mins, and data usage rose 2.2% QoQ/25.3% YoY to 1,633bn MB.

Home services (FTTH) revenue grew 7.6% QoQ/18.7% YoY to INR 645mn aided by 44k subs net add (+12.5% QoQ/36.9% YoY), while ARPU dipped 2% QoQ/7% YoY to INR 499, as more new subs are coming at base plan.

### EBITDAaL rose 16.7% QoQ/ 43.4% YoY to INR 10bn

EBITDAaL margin stood at 44.4% (+360bp) and incremental EBITDA margin was 93.5%. Network cost rose 1.9% QoQ/7.1% YoY to INR 4.9bn driven by 5G rollout, and recognition of 5G-related costs in P&L (MBB cell site rose 0.5% QoQ/ 4.6% YoY). Roaming charges rose 21.5% YoY to INR 2.3bn. SG&A cost rose 5.6% YoY to INR 1.5bn due to lower churn rate. Employee cost dip 9.3% QoQ/ +12.3% YoY.

### Financial Summary

Y/E March (INR mn)	FY24A	FY25E	FY26E	FY27E
Net Revenue	70,888	85,509	1,00,113	1,13,075
EBITDA	33,612	41,991	51,927	60,901
EBITDA Margin (%)	47.4	49.1	51.9	53.9
Net Profit	8,074	12,444	18,155	24,213
EPS (INR)	16.1	24.9	36.3	48.4
EPS % Chg YoY	(8.2)	194.0	22.4	33.4
P/E (x)	145.3	49.4	40.4	30.3
EV/EBITDA (x)	23.2	18.5	14.8	12.4
RoCE (%)	10.7	15.8	21.6	26.8
RoE (%)	11.4	29.6	31.6	37.4

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#### Market Data

Market Cap (INR)	733bn
Market Cap (USD)	8,379mn
Bloomberg Code	BHARTIHE IN
Reuters Code	BHAX.BO
52-week Range (INR)	1,609 /755
Free Float (%)	15.0
ADTV-3M (mn) (USD)	9.1

Price Performance (%)	3m	6m	12m
Absolute	3.6	30.2	0.0
Relative to Sensex	5.7	32.2	0.0

ESG Score	2023	2024	Change
ESG score	NA	NA	NA
Environment	NA	NA	NA
Social	NA	NA	NA
Governance	NA	NA	NA

Note - Score ranges from 0 - 100 with a higher score indicating higher ESG disclosures.

Source: SES ESG, I-sec research

Earnings Revisions(%)	FY25E	FY26E	FY27E
Revenue	1.4	1.6	1.6
EBITDA	(0.6)	0.2	0.4
EPS	(0.4)	2.1	2.0

#### Previous Reports

29-10-2024: [Q2FY25 results review](#)

06-08-2024: [Q1FY25 result review](#)

D&A declined 0.9% QoQ/ +22.8% YoY to INR 5.3bn on charging 5G-related capex and spectrum (including recently bought spectrum) to P&L. Therefore, BHL's EBIT rose 33.1% QoQ/ 57.2% YoY to INR 6.2bn. Net profit rose to INR 2.6bn vs. INR 2.5bn in Q2FY25 due to exceptional loss of INR 1.1bn, largely towards regulatory levies.

### FCF restricted by higher tax outflow

Operating cashflow after lease and finance cost stood at INR 8.5bn, up 38.6% QoQ/ 17% YoY and was impacted by lower tax payout of INR 1.6bn (INR 2bn in Q2FY25). Cash capex stood at INR 4bn; however, the company has INR 631mn of working capital release, which aided FCF to INR 5.1bn (vs. INR 2.7bn in Q2FY25, which was aided by release of working capital of INR 1.8bn).

Capitalised capex stood at INR 2.8bn (12.6% of revenue) and INR 10.5bn (16.8% of revenue) in 9MFY25. Net debt decreased by INR 5.7bn to INR 43bn on repayment of INR 6bn.

### Other highlights

- Company's board of directors approved the sale of 3.4k towers (including macro sites, ultra lean sites, and cell on wheel; but excluding sites built under USOF) to Indus through slump sale for INR 11.3bn. This implies valuation of INR 3.3mn per tower. BHL indicated that the closure of this deal will impact EBITDAaL slightly, but should be neutral at PAT levels.
- The company plans to accelerate rollout of FWA going forward, and may need additional capex. Company currently has fixed broadband (including FWA) of 3-4mn in 200 cities. FTTH home pass is 2mn.

### Risks

- **Downside risks:** 1) Market share loss in mobile business, and 2) rise in competitive and regulatory intensities.
- **Upside risks:** 1) Higher-than-expected tariff hike, and 2) continued rise in market share in mobile and home businesses.

**Exhibit 1: Bharti Hexacom (consolidated)**

INR mn	Q3FY24	Q4FY24	Q1FY25	Q2FY25	Q3FY25	QoQ (%)	YoY (%)
<b>Revenue</b>	<b>18,006</b>	<b>18,680</b>	<b>19,106</b>	<b>20,976</b>	<b>22,507</b>	<b>7.3</b>	<b>25.0</b>
Network operation cost	4,530	4,564	4,674	4,764	4,853	1.9	7.1
% of revenue	25.2	24.4	24.5	22.7	21.6		
Roaming & access charges	1,897	2,067	2,209	2,238	2,304	2.9	21.5
% of revenue	10.5	11.1	11.6	10.7	10.2		
License fees and spect charges	1,655	1,728	1,734	1,923	2,074	7.9	25.3
% of revenue	9.2	9.3	9.1	9.2	9.2		
Employee cost	260	260	297	322	292	(9.3)	12.3
% of revenue	1.4	1.4	1.6	1.5	1.3		
SGA and other exp	1,389	1,283	1,434	1,710	1,467	(14.2)	5.6
% of revenue	7.7	6.9	7.5	8.2	6.5		
<b>EBITDA</b>	<b>8,275</b>	<b>8,778</b>	<b>8,758</b>	<b>10,019</b>	<b>11,517</b>	<b>15.0</b>	<b>39.2</b>
EBITDA margin (%)	46.0	47.0	45.8	47.8	51.2		
<b>EBITDAaL</b>	<b>6,972</b>	<b>7,453</b>	<b>7,346</b>	<b>8,563</b>	<b>9,995</b>	<b>16.7</b>	<b>43.4</b>
EBITDAaL margin (%)	38.7	39.9	38.4	40.8	44.4		
Depreciation and amortisation	4,329	4,598	4,957	5,361	5,315	(0.9)	22.8
<b>EBIT</b>	<b>3,946</b>	<b>4,180</b>	<b>3,801</b>	<b>4,658</b>	<b>6,202</b>	<b>33.1</b>	<b>57.2</b>
Interest	1,688	1,657	1,615	1,754	1,802	2.7	6.8
Other income	623	487	399	491	450	(8.4)	(27.8)
<b>PBT</b>	<b>2,881</b>	<b>3,010</b>	<b>2,585</b>	<b>3,395</b>	<b>4,850</b>	<b>42.9</b>	<b>68.3</b>
Provision for tax	754	783	656	864	1,184	37.0	56.9
Effective tax rate	26.2	26.0	25.4	25.4	24.4		
Exceptional gain/ (loss)	-	-	(3,183)	-	1,057		
<b>Net income (reported)</b>	<b>2,127</b>	<b>2,227</b>	<b>5,112</b>	<b>2,531</b>	<b>2,609</b>	<b>3.1</b>	<b>22.7</b>
<b>EPS (INR)</b>	<b>4.3</b>	<b>4.5</b>	<b>10.2</b>	<b>5.1</b>	<b>5.2</b>	<b>3.1</b>	<b>22.7</b>

Source: I-Sec research, Company data; Note: EBITDAaL is adjusted for other income and charity &amp; donation

**Exhibit 2: Segmental performance - mobile business EBITDA rose 39.7% YoY/ 14.3% QoQ**

INR mn	Q3FY24	Q4FY24	Q1FY25	Q2FY25	Q3FY25	QoQ (%)	YoY (%)
<b>Mobile services</b>							
Revenue	17,477	18,232	18,604	20,433	21,931	7.3	25.5
Expenses	9,074	9,293	9,676	10,157	10,190	0.3	12.3
<b>EBITDA</b>	<b>8,403</b>	<b>8,939</b>	<b>8,928</b>	<b>10,276</b>	<b>11,741</b>	<b>14.3</b>	<b>39.7</b>
EBITDA (%)	48.1	49.0	48.0	50.3	53.5		
D&A	5,120	4,277	4,825	5,232	5,145	(1.7)	0.5
EBIT	3,283	4,662	4,103	5,044	6,596	30.8	100.9
EBIT (%)	18.8	25.6	22.1	24.7	30.1		
<b>Home &amp; office services</b>							
Revenue	543	547	568	599	645	7.6	18.7
Expenses	326	346	379	411	448	8.8	37.3
<b>EBITDA</b>	<b>217</b>	<b>201</b>	<b>189</b>	<b>188</b>	<b>197</b>	<b>4.8</b>	<b>(9.2)</b>
EBITDA (%)	40.0	36.7	33.3	31.4	30.6		
D&A	135	112	132	129	170	31.8	25.9
EBIT	82	89	57	59	27	(54.2)	(67.1)
EBIT (%)	15.1	16.3	10.0	9.8	4.2		

Source: I-Sec research, Company data

**Exhibit 3: Mobile services KPIs – ARPU rose 5.9% QoQ/ 20.5% YoY**

	Q3FY24	Q4FY24	Q1FY25	Q2FY25	Q3FY25	QoQ (%)	YoY (%)
Subscribers (mn)	26.8	27.3	27.6	27.1	27.6	1.8	3.1
Net adds (mn)	0.24	0.56	0.26	(0.47)	0.49		
Blended churn (%)	2.5	2.0	2.5	3.2	1.9		
ARPU (INR)	200	204	205	228	241	5.9	20.5
Minutes of Use (min/subs)	1,086	1,120	1,086	1,098	1,150	4.7	5.9
Minutes on Network (mn)	86,680	90,882	89,426	89,920	94,379	5.0	8.9
Incremental mins (QoQ, mn)	(532)	4,202	(1,457)	495	4,458		
2G cell sites	24,874	25,704	25,972	26,172	26,335	0.6	5.9

Source: I-Sec research, Company data

**Exhibit 4: Data services KPIs – Smartphone data subs rose 2.2% QoQ/ 9.9% YoY**

	Q3FY24	Q4FY24	Q1FY25	Q2FY25	Q3FY25	QoQ (%)	YoY (%)
<b>Data</b>							
Data subs (mn)	19.1	19.8	20.5	20.6	21.0	2.2	9.9
Net adds (mn)	0.55	0.63	0.69	0.13	0.45		
As % of total subs	71.5	72.3	74.1	75.9	76.2		
Data usage per sub (MB)	23,681	24,543	25,678	25,934	26,210	1.1	10.7
Data volume (mn MB)	13,03,695	14,29,940	15,44,921	15,97,832	16,33,360	2.2	25.3
Incremental data (QoQ, mn MB)	71,881	1,26,245	1,14,980	52,912	35,528		
Smartphone data subs (mn)	19.1	19.8	20.5	20.6	21.0	2.2	9.9
Net adds (mn)	0.55	0.63	0.69	0.13	0.45		
MBB cell sites	77,735	79,835	80,500	80,907	81,340	0.5	4.6
Net adds	2,825	2,100	665	407	433		

Source: I-Sec research, Company data

**Exhibit 5: Home services KPIs – subs growth remains strong 12.5% QoQ/ 36.9% YoY**

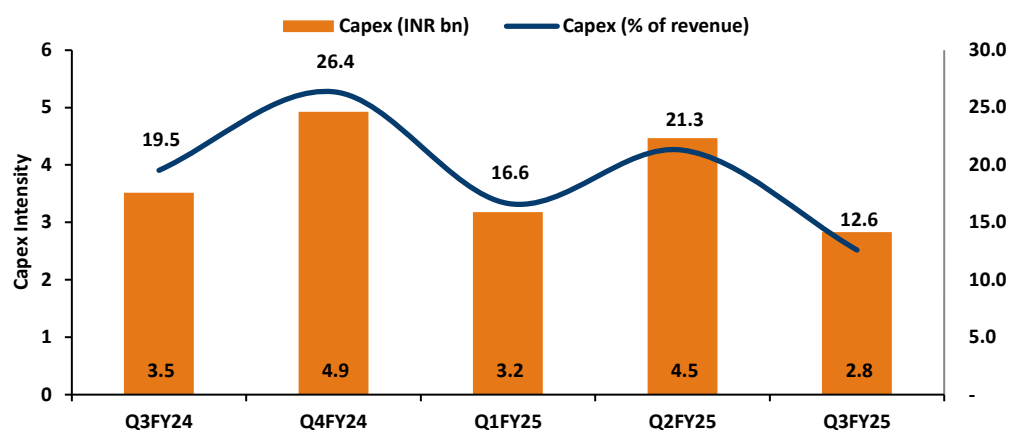
	Q3FY24	Q4FY24	Q1FY25	Q2FY25	Q3FY25	QoQ (%)	YoY (%)
<b>Home subs ('000)</b>	<b>289</b>	<b>305</b>	<b>321</b>	<b>351</b>	<b>395</b>	<b>12.5</b>	<b>36.9</b>
Net add ('000)	22.7	16.3	16.2	30.2	44.0		
<b>ARPU</b>	<b>537</b>	<b>522</b>	<b>514</b>	<b>509</b>	<b>499</b>	<b>(2.0)</b>	<b>(7.0)</b>
Growth (% qoq)	(0.5)	(2.8)	(1.5)	(0.9)	(2.0)		

Source: I-Sec research, Company data

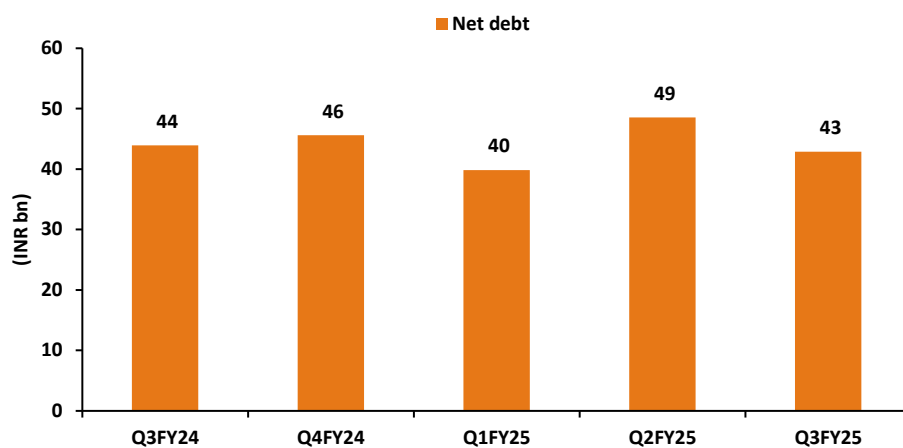
**Exhibit 6: Cashflow analysis**

INR mn	Q3FY24	Q4FY24	Q1FY25	Q2FY25	Q3FY25	QoQ (%)	YoY (%)
Operating cashflow	8,770	8,949	8,610	8,569	10,207	19.1	16.4
Less: Lease cost	(736)	(702)	(755)	(750)	(1,004)		
Interest expenses	(739)	(1,315)	(1,728)	(1,661)	(671)		
<b>Operating cashflow</b>	<b>7,295</b>	<b>6,932</b>	<b>6,127</b>	<b>6,158</b>	<b>8,532</b>	<b>38.6</b>	<b>17.0</b>
Less Capex (incl spectrum)	(5,334)	(4,902)	(4,728)	(5,252)	(4,025)		
<b>FCF</b>	<b>1,961</b>	<b>2,030</b>	<b>1,399</b>	<b>906</b>	<b>4,507</b>		
Change in working capital	646	(2,791)	4,475	1,826	631		
<b>Cashflow available for debt payment</b>	<b>2,607</b>	<b>(761)</b>	<b>5,874</b>	<b>2,732</b>	<b>5,138</b>	<b>88.1</b>	<b>97.1</b>

Source: I-Sec research, Company data

**Exhibit 7: Capex intensity at 12.6% of revenue**


Source: I-Sec research, Company data

**Exhibit 8: Net debt rose INR 5.7bn to INR 43bn in Q3FY25**


Source: I-Sec research, Company data

**Exhibit 9: EV/EBITDA based valuation**

	FY27E
EBITDA (INR mn)	51,971
EV/EBITDA multiple	14.0
Enterprise value (INR mn)	7,27,601
Net debt (INR mn)	24,110
Equity value (INR mn)	7,03,491
No of outstanding shares (mn)	500
Value per share (INR)	1,410

Source: I-Sec research, Company data

### Exhibit 10: Earnings revision

INR mn	New			Old			Change (%)		
	FY25E	FY26E	FY27E	FY25E	FY26E	FY27E	FY25E	FY26E	FY27E
<b>KPI's</b>									
Subs (mn)	28	29	30	28	29	30	(1.5)	(1.5)	(1.4)
ARPU (INR)	227	261	287	228	260	286	(0.4)	0.4	0.4
<b>Financial (INR mn)</b>									
Revenue	85,509	1,00,113	1,13,075	84,323	98,563	1,11,297	1.4	1.6	1.6
EBITDA	41,991	51,927	60,901	42,257	51,833	60,675	(0.6)	0.2	0.4
EBITDA margin (%)	49.1	51.9	53.9	50.1	52.6	54.5			
PAT	14,831	18,155	24,213	14,881	17,785	23,744	(0.3)	2.1	2.0
EPS (INR)	24.9	36.3	48.4	25.0	35.6	47.5	(0.4)	2.1	2.0

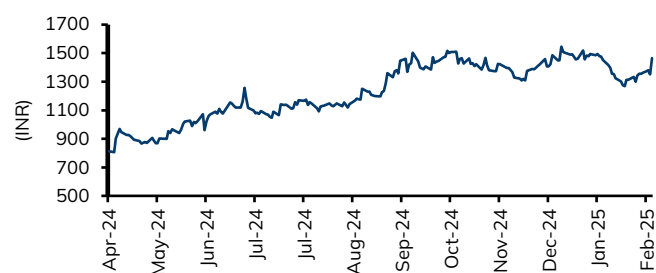
Source: I-Sec research, Company data

### Exhibit 11: Shareholding pattern

%	Jun'24	Sep'24	Dec'24
Promoters	70.0	70.0	70.0
Institutional investors	13.7	13.7	14.2
MFs and others	7.9	7.7	8.2
FIs/Banks	0.0	0.0	0.0
Insurance	1.1	1.0	1.0
FII's	4.7	5.2	5.0
Others	16.3	16.1	15.8

Source: Bloomberg, I-Sec research

### Exhibit 12: Price chart



Source: Bloomberg, I-Sec research

## Financial Summary

### Exhibit 13: Profit & Loss

(INR mn, year ending March)

	FY24A	FY25E	FY26E	FY27E
Net Sales	70,888	85,509	1,00,113	1,13,075
<b>Operating Expenses</b>	<b>37,276</b>	<b>43,518</b>	<b>48,186</b>	<b>52,173</b>
EBITDA	33,612	41,991	51,927	60,901
<b>EBITDA Margin (%)</b>	<b>47.4</b>	<b>49.1</b>	<b>51.9</b>	<b>53.9</b>
Depreciation & Amortization	17,392	21,396	22,638	23,744
EBIT	16,220	20,595	29,288	37,157
Interest expenditure	6,444	6,888	6,976	6,843
Other Non-operating Income	2,487	1,865	1,959	2,056
Recurring PBT	12,263	15,572	24,271	32,370
<b>Profit / (Loss) from Associates</b>	-	-	-	-
<b>Less: Taxes</b>	<b>4,189</b>	<b>3,924</b>	<b>6,116</b>	<b>8,157</b>
PAT	5,044	14,831	18,155	24,213
Less: Minority Interest	-	-	-	-
Extraordinaries (Net)	-	-	-	-
Net Income (Reported)	5,044	14,831	18,155	24,213
<b>Net Income (Adjusted)</b>	<b>8,074</b>	<b>12,444</b>	<b>18,155</b>	<b>24,213</b>

Source Company data, I-Sec research

### Exhibit 14: Balance sheet

(INR mn, year ending March)

	FY24A	FY25E	FY26E	FY27E
Total Current Assets	21,596	26,484	35,265	42,482
of which cash & cash eqv.	743	2,122	7,632	12,236
Total Current Liabilities & Provisions	55,090	63,792	71,965	78,575
<b>Net Current Assets</b>	<b>(33,494)</b>	<b>(37,308)</b>	<b>(36,699)</b>	<b>(36,093)</b>
Investments	2,376	-	-	-
Net Fixed Assets	1,11,999	1,23,157	1,24,535	1,26,161
ROU Assets	28,596	28,596	28,596	28,596
Capital Work-in-Progress	4,445	4,445	4,445	4,445
Total Intangible Assets	-	-	-	-
Other assets	12,029	13,930	15,656	16,976
Deferred Tax Assets	8,578	8,578	8,578	8,578
<b>Total Assets</b>	<b>1,85,174</b>	<b>2,00,745</b>	<b>2,12,631</b>	<b>2,22,793</b>
<b>Liabilities</b>				
<b>Borrowings</b>	<b>48,346</b>	<b>46,346</b>	<b>41,346</b>	<b>36,346</b>
<b>Deferred Tax Liability</b>	<b>6,817</b>	<b>8,223</b>	<b>9,627</b>	<b>10,874</b>
Provisions	228	275	322	364
Other Liabilities	-	-	-	-
Equity Share Capital	2,500	2,500	2,500	2,500
Reserves & Surplus	43,887	51,303	58,564	65,828
<b>Total Net Worth</b>	<b>46,387</b>	<b>53,803</b>	<b>61,064</b>	<b>68,328</b>
Minority Interest	-	-	-	-
<b>Total Liabilities</b>	<b>1,85,174</b>	<b>2,00,745</b>	<b>2,12,631</b>	<b>2,22,793</b>

Source Company data, I-Sec research

### Exhibit 15: Quarterly trend

(INR mn, year ending March)

	Mar-24	Jun-24	Sep-24	Dec-24
Net Sales	18,680	19,106	20,976	22,507
% growth (YOY)	7.8	13.6	20.7	25.0
EBITDA	8,778	8,758	10,019	11,517
Margin %	47.0	45.8	47.8	51.2
Other Income	487	399	491	450
Extraordinaries	-	(3,183)	-	1,057
Adjusted Net Profit	2,227	5,112	2,531	2,609

Source Company data, I-Sec research

### Exhibit 16: Cashflow statement

(INR mn, year ending March)

	FY24A	FY25E	FY26E	FY27E
<b>Operating Cashflow</b>	<b>34,764</b>	<b>41,250</b>	<b>45,810</b>	<b>52,744</b>
Working Capital Changes	697	4,745	4,626	3,966
Capital Commitments	(20,935)	(28,010)	(18,900)	(19,845)
<b>Free Cashflow</b>	<b>14,526</b>	<b>17,985</b>	<b>31,537</b>	<b>36,865</b>
<b>Other investing cashflow</b>	<b>9,384</b>	<b>4,241</b>	<b>1,959</b>	<b>2,056</b>
Cashflow from Investing Activities	9,384	4,241	1,959	2,056
Issue of Share Capital	-	-	-	-
Interest Cost	(5,356)	(6,888)	(6,976)	(6,843)
Inc (Dec) in Borrowings	(15,000)	(2,000)	(5,000)	(5,000)
Dividend paid	(750)	(7,416)	(10,893)	(16,949)
Others	-	-	-	-
Cash flow from Financing Activities	(24,036)	(20,847)	(27,985)	(34,317)
<b>Chg. in Cash &amp; Bank balance</b>	<b>(126)</b>	<b>1,379</b>	<b>5,510</b>	<b>4,604</b>
Closing cash & balance	398	2,122	7,632	12,236

Source Company data, I-Sec research

### Exhibit 17: Key ratios

(Year ending March)

	FY24A	FY25E	FY26E	FY27E
<b>Per Share Data (INR)</b>				
Reported EPS	10.1	29.7	36.3	48.4
Adjusted EPS (Diluted)	16.1	24.9	36.3	48.4
Cash EPS	43.2	58.6	71.4	84.9
Dividend per share (DPS)	4.0	14.8	21.8	33.9
Book Value per share (BV)	92.8	107.6	122.1	136.7
Dividend Payout (%)	39.7	50.0	60.0	70.0
<b>Growth (%)</b>				
Net Sales	7.7	20.6	17.1	12.9
EBITDA	20.7	24.9	23.7	17.3
EPS (INR)	(8.2)	194.0	22.4	33.4
<b>Valuation Ratios (x)</b>				
P/E	145.3	49.4	40.4	30.3
P/CEPS	33.9	25.0	20.5	17.3
P/BV	15.8	13.6	12.0	10.7
EV / EBITDA	23.2	18.5	14.8	12.4
EV / Sales	11.0	9.1	7.7	6.7
Dividend Yield (%)	0.3	1.0	1.5	2.3
<b>Operating Ratios</b>				
Gross Profit Margins (%)	-	-	-	-
EBITDA Margins (%)	47.4	49.1	51.9	53.9
Effective Tax Rate (%)	34.2	25.2	25.2	25.2
Net Profit Margins (%)	7.1	17.3	18.1	21.4
NWC / Total Assets (%)	(18.1)	(18.6)	(17.3)	(16.2)
Net Debt / Equity (x)	1.0	0.8	0.6	0.4
Net Debt / EBITDA (x)	1.3	1.1	0.6	0.4
<b>Profitability Ratios</b>				
RoCE (%)	10.7	15.8	21.6	26.8
RoE (%)	11.4	29.6	31.6	37.4
RoIC (%)	11.5	16.2	22.7	29.7
Fixed Asset Turnover (x)	0.6	0.7	0.8	0.9
Inventory Turnover Days	-	-	-	-
Receivables Days	22.9	22.9	22.9	22.9
Payables Days	76.5	73.4	70.5	67.6

Source Company data, I-Sec research



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