



DALAL & BROACHA
STOCK BROKING PVT. LTD.

Analyst: Mayank Babla (022) 67141412

Q4FY20 Result Update@ Dalal&Broacha

Neutral

Current Price 232

Target Price

52 Week Range 200/581

Key Share Data

Market Cap (Rs.Bn) 25.48

Market Cap (US\$ Mn) 336.10

No of o/s shares (Mn) 109.97

Face Value 5

Monthly Avg.

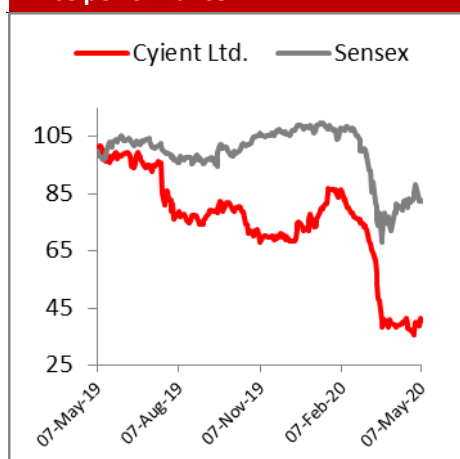
Vol(BSE+NSE)'000 1382.32

BSE Code 532175

NSE Code CYIENT

Bloomberg CYL:IN

Price performance



% Shareholding

	Mar-20	Dec-19
Promoters	22.87	22.82
Public	77.13	77.18
Others	0.00	0.00
Total	100	100

Consolidated Financials (In INR Mn)

	INR Mn	Net Sales	% Growth	EBITDA	Margin (%)	PAT	Margin (%)	EPS	% Growth	P/E (x)	ROE (%)	ROCE (%)
FY18		39,139	9.1%	5,354	13.7%	4,104	10.4%	36.5	11%	6.4x	18.4%	17.5%
FY19		46,175	18.0%	6,436	13.9%	4,909	10.6%	43.7	20%	5.3x	20.0%	18.9%
FY20		44,274	(4.1%)	5,893	13.3%	3,602	8.1%	32.0	-27%	7.2x	13.3%	13.1%
FY21E		38,456	(13.1%)	5,072	13.2%	3,321	8.6%	29.5	-8%	7.9x	11.2%	10.2%
FY22E		45,319	17.8%	6,284	13.9%	4,264	9.4%	37.9	28%	6.1x	13.1%	12.1%

Cyient's Q4FY20 numbers were disappointing and way below our estimates across the board

- Dollar revenue came in at \$149.2 Mn, -4% qoq / -9.8% yoy and 2% below our est. of \$152 Mn

- INR revenue came in at INR 10,736 Mn, -2.9% qoq / -7.7% yoy and 2.6% below our estimate

- EBIT (adjusted for one-offs) stood at INR 905 Mn, -14.1% qoq / -35.6% yoy and -22% below our estimate

- EBIT margins came in at 8.4%, -110 bps qoq / -365 bps yoy and 210 bps below our expectations

- APAT stood at INR 754 Mn, -31.8% qoq / -58.1% yoy and -36.3% vs our estimate

- Adjusted EPS came in at INR 6.9 vs INR 10.1 / 16.1 in Q3FY20 / Q4FY19 respectively

Concall KTAs

(i) FPI Cap of 49% on company's shareholding removed

(ii) Top-line performance in Q4FY20 7% lower than expectations or \$11.7 Mn gap between actual and expected performance mainly due to COVID. Impact mainly from shifting to WFH and regulatory approvals from clients. Expected 100 bps of improvement in Margins but lower volumes disturbed the distribution of fixed costs

(iii) Expected DLM business to grow 12.7% higher than actual (-5% yoy) which was mainly impacted due to global lockdowns and thus company could not source RM or control logistics of finished goods

(iv) Semiconductor and Energy & Utilities amongst the most impacted verticals. Business worth \$5 Mn impacted in E&U due to on-field nature of work. Semicon business impacted to the tune of \$1.5 Mn due to RM challenges

COVID-19 impact

(i) Q1 will be very challenging due to severe challenges in Aerospace, Comms, Energy, Transport, Industrial Geospatial, Semiconductor and Healthcare business in the near term. Expect QoQ de-growth of 15-20% in Q1FY21. Volumes to be impacted more than pricing. Expect margins to be impacted in line with lower volumes.

(ii) Boeing has stated that commercial airline deliveries will be impacted by at least 50%. Therefore, **expect a huge impact in Aerospace & Defence vertical** (80% of A&D business is from commercial airlines and balance from Defence). Defence is holding up well so far

(iii) Expect huge impact in near term in Comms segment due to on-field nature of work

(iv) E&U vertical: mining is doing well while O&G impacted due crude price

(v) Transportation: Rail Transport impacted due to global lockdowns

(vi) Industrial: going to be severely impacted

(vii) Geospatial: impacted due to on-field nature of work

(viii) Healthcare: impacted as non-COVID related healthcare is out of focus. 1 in 6 doctors in US are furloughed

(ix) Expect performance to bounce-back in Q2FY21 based on current order book and its expected execution. Margins in Q2 to be similar to current quarter after dip in Q1FY21 and margins in H2FY21 to be similar to Q3FY20 margins


Q4FY20 Result Update@ Dalal&Broacha
Other Key Highlights
One-offs during the quarter

Note	Exceptional Items	₹ Mn	Description
1	Impairment of Global Services Engineering Asia intangible asset	109	Carrying value of the asset has been impaired during the quarter, based on forecast of underlying business contracts. However, business in total will continue
2	Impairment of intangible asset under development	222	One-time charge of Rs. 222 Mn relating to costs incurred on development of customized UAV systems in a subsidiary in view of the potential delays in materialization of orders.
3	Impairment of Certsafe IP	73	Carrying value of the asset has been impaired during the quarter, based on forecast of underlying business contracts
4	Reversal of earn-outs (Certon and AnSem)	-333	Reversal on contingent consideration payable on past acquisitions which are not contractually payable due to one off lower performance for the year
5	IHAL receivable write-off	37	Carrying value of the asset has been written off during the quarter, based on recoverability assessment.
6	One off tax provision	194	
	i. Impact of Tax Ordinance 2019	56	Switchover of effective tax rate from current regime to Ordinance and related deferred tax impact.
	ii. Provision for tax under Vivad Se Vishwas (VSV) scheme	44	Availment of VSV scheme and related provisions
	iii. Other tax provisions	94	One time impact of settled assessments and other provisions

(Source: Company)

(i) Other income was impacted by Unrealized Forex Loss (losses in Euro & Dollar denominated loans but notional in nature) and lower Tax incentives from exports. Expect tax incentives to come in Q1FY21

(ii) INR 109 Impairment in subsidiary in Singapore (Global Services Engineering Asia) as expected lower future cash flows than previously estimated

(iii) INR 222 Mn impairment of Intangible Under development – basically amount invested in UAV systems for the Central Govt. where orders did not materialize as expected

(iv) INR 333 Mn of reversals of earn-outs as acquisitions (Certon & Ansem) performed lower than initially expected during the year

(v) Write off of INR 37 Mn in carrying value of assets in JV with IHAL

(vi) Tax One-offs: INR 56 Mn – settled deferred tax as company shifted to new tax regime; INR 44 Mn settled long standing dispute with Tax Authority through Vivad Se Vishwas Scheme; INR 94 Mn as other settlements of previous assessments

Gap between actual performance and management's expectations

Factors	Impact \$ Mn	Description
Offshore & Onsite Covid-19 Impact	4.0	-3Mn offshore and -1Mn onsite
DLM (Covid-19)	1.2	Supply chain issues
Semiconductor Supply Chain (Covid-19)	1.5	Delay in component shipments from China
E&U licence revenue	2.0	License fee to be recognized over implementation schedule
E&U Execution Challenges	3.0	Field work challenges in NAM utilities
Total	11.7	

(Source: Company)

Other Key Highlights
EBIT Margin walk

EBIT margin (adjusted for one-offs) stood at 8.4% in Q4FY20, -120 bps qoq. This was mainly due to lower Utilization (-140 bps), change in business mix (-70 bps), impact of lower volumes spread on usual costs such as SGA and depreciation (-120 bps). This was offset by decrease in SGA cost (as per cost management initiatives during FY20) to the tune of +210 bps and currency of +20 bps.

Cash Position

- Net Cash stands at \$80 Mn as of Q4FY20 which is \$130 Mn of gross cash minus \$50 Mn of net debt on the books
- Cyient generated FCF of INR 1175 Mn during the quarter vs INR 1944 Mn / INR 402 Mn in Q3FY20 / Q4FY19 respectively
- FCF to EBITDA at 74% in Q4FY20 vs 95.7% / 15.8% in Q3FY20 / Q4FY19 respectively



Q4FY20 Result Update@ Dalal&Broacha

Quarterly Performance

YE March (Rs. mn)	Q4 FY20	Q3 FY20	Q-o-Q change %	Q4 FY19	Y-o-Y change %	Q4 FY20 Est.	Deviation %
Total Revenue (USD Mn)	150	155	(3.5%)	165	(9.4%)	152	-1.7%
Total Revenue (INR Mn)	10,736	11,059	(2.9%)	11,629	(7.7%)	11,028	-2.6%
Less:							
Cost of Revenues	6,787	6,901	(1.7%)	7,382	(8.1%)	6,974	-2.7%
SG&A Expenses	2,612	2,636	(0.9%)	2,581	1.2%	2,426	7.7%
Total Expenditure	9,399	9,537	(1.4%)	9,963	(5.7%)	9,400	0.0%
EBIDTA	1,337	1,522	(12.2%)	1,666	(19.7%)	1,628	-17.9%
Less: Depreciation	479	469	2.1%	261	83.5%	468	2.4%
EBIT	858	1,053	(18.5%)	1,405	(38.9%)	1,160	-26.0%
Interest Paid	125	119	5.0%	83	50.6%	119	
Other income (expense), net	539	498	8.2%	789	(31.7%)	497	8.5%
Extraordinary Expense	0	0		35		0	
Profit Before Tax	868	1,432	(39.4%)	2,076	(58.2%)	1,537	-43.5%
Tax	245	279	(12.2%)	373	(34.3%)	354	-30.7%
Deferred Tax	156	54		(55)		0	
PAT before Minority Interest	467	1,099	(57.5%)	1,758	(73.4%)	1,184	-60.6%
Minority Interest	10	(7)	N.A.	(6)	N.A.	0	
Share of Profit of Associates	(5)	(23)		2		0	
Profit After Tax	452	1,083	(58.3%)	1,766	(74.4%)	1,184	-61.8%
Adjusted PAT	856	1,083		1,801		1,184	
Basic & Diluted EPS (Rs.)	4.1	9.8	(58.3%)	16.1	(74.4%)	10.8	-61.8%
Basic & Diluted Outstanding (mn)	110	110		110		110	
Margin Analysis %			Change In bps		Change In bps		
EBIDTA Margin	12.5%	13.8%	-131	14.3%	-187	14.8%	-231
EBIT Margin	8.0%	9.5%	-153	12.1%	-409	10.5%	-253
PBT Margin	8.1%	12.9%	-486	17.9%	-977	13.9%	-586
NPM	4.2%	9.8%	-558	15.2%	-1,098	10.7%	-652
Effective Tax Rate (%)	46.2%	23.3%	2,294	15.3%	3,088	23.0%	2,320
Cost Analysis %			Change In bps		Change In bps		
Cost of Revenues/ Sales	63.2%	62.4%	82	63.5%	-26	63.2%	-2
Other income/ PBT	62.1%	34.8%	2,732	38.0%	2,409	32.3%	2,980

- EBIT margin (adjusted for one-offs) stood at 8.4% in Q4FY20, -120 bps qoq. This was mainly due to lower Utilization (-140 bps), change in business mix (-70 bps), impact of lower volumes spread on usual costs such as SGA and depreciation (-120 bps). This was offset by decrease in SGA cost (as per cost management initiatives during FY20) to the tune of +210 bps and currency of +20 bps.

- Management expects margins to dip in Q1FY21 followed by recovery in Q2FY21. Margins in Q2FY21 to recover to Q4FY20 levels and H2FY21 margins to be similar to Q3FY20 margins

Segmental Analysis

Industry-wise performance in Services Business

By Industry (% Terms)	Q1FY19	Q2FY19	Q3FY19	Q4FY19	Q1FY20	Q2FY20	Q3FY20	Q4FY20
Aerospace & Defense	37%	34%	34%	34%	35%	34%	32%	34%
Transportation	12%	12%	12%	12%	13%	13%	11%	11%
Semiconductor	5%	6%	5%	6%	6%	5%	5%	4%
Medical and Cons. Electronics	3%	2%	2%	2%	2%	2%	2%	3%
Utilities	11%	14%	15%	13%	12%	13%	15%	12%
Communications	22%	24%	23%	22%	22%	22%	24%	26%
Portfolio	11%	9%	9%	11%	10%	11%	11%	11%
By Industry (\$ Terms)	Q1FY19	Q2FY19	Q3FY19	Q4FY19	Q1FY20	Q2FY20	Q3FY20	Q4FY20
Aerospace & Defense	53.1	49.3	49.6	49.8	48.4	47.6	45.1	45.4
Q-o-Q	1.8%	-7.1%	0.5%	0.5%	-2.8%	-1.8%	-5.1%	0.6%
Y-o-Y	22.7%	5.9%	2.2%	-4.5%	-8.8%	-3.6%	-9.0%	-8.9%
Transportation	17.3	17.2	17.3	18.1	17.7	18.2	15.6	15.1
Q-o-Q	19.6%	-0.3%	0.7%	4.2%	-2.3%	3.3%	-14.7%	-3.0%
Y-o-Y	38.3%	14.5%	6.0%	25.2%	2.2%	5.9%	-10.3%	-16.6%
Semiconductor	6.9	8.5	6.8	8.2	7.6	6.9	6.9	5.3
Q-o-Q	41.0%	23.6%	-19.8%	21.2%	-7.8%	-9.4%	-0.1%	-22.9%
Y-o-Y	10.9%	53.8%	31.3%	69.3%	10.7%	-18.8%	1.1%	-35.7%
Medical and Cons. Electronics	4.0	2.8	2.9	2.9	3.2	3.4	3.4	3.3
Q-o-Q	-15.3%	-30.6%	4.2%	1.7%	7.9%	6.1%	-0.1%	-1.7%
Y-o-Y	10.9%	-6.1%	3.3%	-37.7%	-20.6%	21.4%	16.3%	12.5%
Energy & Utilities	16.3	20.9	21.7	19.3	17.0	18.5	20.3	15.3
Q-o-Q	-19.3%	28.3%	3.9%	-11.2%	-11.9%	9.1%	9.7%	-24.5%
Y-o-Y	0.3%	-2.2%	-6.6%	-4.5%	4.3%	-11.3%	-6.3%	-20.3%
Communications	32.0	34.9	33.8	32.8	29.8	30.4	34.2	33.7
Q-o-Q	-1.5%	9.1%	-3.1%	-3.1%	-9.1%	2.2%	12.3%	-1.3%
Y-o-Y	10.9%	11.5%	6.5%	1.0%	-6.8%	-12.7%	1.1%	2.9%
Portfolio	16.0	12.6	12.4	15.9	14.3	15.3	14.7	14.3
Q-o-Q	13.0%	-21.5%	-1.0%	27.7%	-9.6%	6.6%	-3.8%	-2.9%
Y-o-Y	32.1%	8.7%	3.3%	12.1%	-10.3%	21.8%	18.4%	-10.0%

(Source: Company, D&B Research)

- Although A&D was largely flat qoq (-0.6% qoq), company expects severe impact in the near term (cancellations, deferral of payments / spends) due to challenges arising from COVID situation
- Comms, Energy (O&G), Geospatial & Industrial (part of Portfolio) businesses to be impacted due to on-field nature of work
- Semicon impact in near term due to demand side challenges such as lower demand for consumer electronics and industrial
- Medical segment impacted due to lower elective surgeries and focus on COVID situation. Therefore, non-COVID related healthcare severely impacted. Stat: 1 in 6 doctors in the US are furloughed

**Q4FY20 Result Update@ Dalal&Broacha****Valuation & Outlook**

Cyient is trading at 7.9x and 6.1x FY21e / FY22e EPS. The company is continuously facing several headwinds over the last 2 years, ranging from client specific issues previously and now topped with COVID situation. Exposure to highly macro-sensitive sectors (A&D, Comms, Transport, Semicon, Geospatial, E&U, etc) coupled with client issues has dented business severely in Q4FY20. These highly sensitive industries contribute >80% of topline. A subdued DLM performance due to lockdowns will be an additional impact (in a business which is already facing profitability issues | EBIT margin of (0.6)% in Q4FY20).

Lower volumes and the resulting lack of revenue growth have impacted margins as well and will continue facing challenges in the near term. Owing to the lack of visibility in the business and client's industries due to COVID, we believe that a bounce-back will be difficult to achieve even in the latter half of FY21e due to Cyient's on-field nature of work in several industries. We expect the stock to remain under continuous pressure over the next 6-12 months period because of low visibility on earnings. A satisfactory recovery in FY22e depends on several moving parts as survival of many businesses (particular to the industries Cyient is present in, specifically Airlines) comes in question. We believe that FY22e will be a bounce-back year but on a very low base. We believe that other domestic ER&D peers such as Tata Elxsi and LTTS have comparatively manoeuvred their business and tackled the situation in a better manner by reducing dependence on single industries (hence it is not an apple to apple comparison).

Although current valuations of 6.1x FY22e are aggressively cheap, however owing to low visibility in the business, we recommend investors to wait until COVID situation recedes (owing to the excessively sensitive nature of the business to the global situation) before entering this stock and therefore we have a NEUTRAL view at CMP.



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Profit & Loss A/c					
YE March (Rs. mn)	FY18	FY19	FY20	FY21E	FY22E
Total Revenue	39,139	46,175	44,274	38,456	45,319
Less:					
Cost of Services	3,272	3,936	4,066	2,188	4,261
Employee Cost	21,877	25,374	24,776	24,088	26,616
SG&A Expenses & Other	8,837	10,288	9,683	7,600	9,064
Total Operating Expenditure	33,785	39,739	38,381	33,384	39,035
EBIDTA	5,354	6,436	5,893	5,072	6,284
Less: Depreciation	1,052	1,114	1,878	1,685	1,858
EBIT	4,302	5,322	4,015	3,387	4,426
<i>Growth %</i>	<i>12.6%</i>	<i>23.7%</i>	<i>-24.6%</i>	<i>-15.6%</i>	<i>30.7%</i>
Interest Paid	204	326	486	500	500
Non-operating Income	1,519	1,340	1,583	1,384	1,586
Profit Before tax	5,567	6,336	4,708	4,272	5,512
Tax	1,380	1,512	1,181	1,025	1,323
Net Profit before Minority	4,187	4,824	3,527	3,247	4,189
Minority Interest	(23)	(23)	(13)	(13)	(13)
Profit/Loss of Associates	(156)	62	62	62	62
Net Profit	4,008	4,863	3,576	3,295	4,238
Adjusted Profit	4,104	4,909	3,602	3,321	4,264
Reported Diluted EPS Rs	36.1	43.7	32.0	29.5	37.9
<i>Growth %</i>	<i>17.9%</i>	<i>21.1%</i>	<i>-26.6%</i>	<i>-7.8%</i>	<i>28.4%</i>
Adjusted Diluted EPS Rs	36.5	43.7	32.0	29.5	37.9

Key Ratios					
EBIDTA (%)	13.7%	13.9%	13.3%	13.2%	13.9%
NPM (%)	10.4%	10.6%	8.1%	8.6%	9.4%
RoE (%)	18.4%	20.0%	13.3%	11.2%	13.1%
RoCE (%)	17.6%	19.5%	13.2%	10.2%	12.1%
Tax Rate %	24.8%	23.9%	25.1%	24.0%	24.0%
Book Value Per share (Rs.)	208.5	228.1	252.3	274.4	302.9
Valuation Ratios					
P/E (x)	6.4x	5.3x	7.2x	7.9x	6.1x
EV/EBITDA	3.2x	2.7x	2.3x	1.8x	0.8x
P/BV (x)	1.1x	1.0x	0.9x	0.8x	0.8x
Market Cap. / Sales (x)	0.7x	0.6x	0.6x	0.7x	0.6x

Free Cash Flow Statement					
YE March (Rs. mn)	FY18	FY19	FY20	FY21E	FY22E
EBITDA	5,354	6,436	5,893	5,072	6,284
FC Investment	644	709	1,107	1,000	1,133
WC Changes	-1,560	-1,049	1,124	912	465
Depreciation Tax Shield	261	266	471	404	446
Tax Expenses	1,327	1,536	1,478	1,217	1,508
FCF	2,084	3,408	4,903	4,171	4,554

Key Ratios (Consolidated)					
YE March (Rs. mn)	FY18	FY19	FY20	FY21E	FY22E
Key Operating Ratios					
EBITDA Margin (%)	13.7%	13.9%	13.3%	13.2%	13.9%
Tax / PBT (%)	24.8%	23.9%	25.1%	24.0%	24.0%
Net Profit Margin (%)	10.4%	10.6%	8.1%	8.6%	9.4%
RoE (%)	18.4%	20.0%	13.3%	11.2%	13.1%
RoCE (%)	17.5%	18.9%	13.1%	11.1%	12.7%
Current Ratio (x)	2.9x	2.8x	3.2x	3.9x	3.9x
Dividend Payout (%)	32.0%	26.4%	25.0%	25.0%	25.0%
Book Value Per Share (Rs.)	208.5	228.1	252.3	274.4	302.9
Financial Leverage Ratios					
Interest Coverage (x)	26.2x	19.7x	12.1x	10.1x	12.6x
Growth Indicators %					
Sales Growth (%)	9.1%	18.0%	(4.1%)	(13.1%)	17.8%
EBITDA Growth (%)	12.2%	20.2%	(8.4%)	(13.9%)	23.9%
Net Profit Growth (%)	17.9%	21.1%	(26.6%)	(7.8%)	28.4%
Diluted EPS Growth (%)	17.9%	21.1%	(26.6%)	(7.8%)	28.4%
Turnover Ratios					
Debtors	62	59	66	73	63

Balance Sheet (Consolidated)					
YE March(Rs. mn)	FY18	FY19	FY20	FY21E	FY22E
Liabilities					
Equity Capital	563	552	563	563	563
Reserves & Surplus	22,876	25,089	27,790	30,281	33,479
Equity	23,439	25,641	28,353	30,844	34,042
Net Worth	23,439	25,641	28,353	30,844	34,042
Minority Interest					
Net Deferred tax liability/(Asset)	1,590	2,220	1,728	1,846	1,931
Total Loans	676	1,136	1,596	2,056	2,516
Capital Employed	25,705	28,997	31,677	34,746	38,489
Assets					
Gross Block	7,616	8,325	9,432	10,432	11,565
Less: Depreciation	4,396	4,795	6,673	8,358	10,216
Net Block	3,220	3,530	2,759	2,074	1,349
Capital WIP	213	300	133	115	136
Investments	568	583	559	486	572
Intangible Assets	5,057	6,990	6,990	6,990	6,990
Current Assets					
Sundry Debtors	6,913	8,137	7,763	7,586	8,071
Current Investments	1,130	278	896	707	674
Cash and Bank Balance	9,807	9,705	14,067	18,823	23,649
Loans and Advances	4,120	4,852	3,896	3,115	3,399
Other Current Assets	1,986	2,684	1,860	1,461	1,496
Total Current Assets	25,268	27,489	30,239	33,219	39,088
Less:Current Liabilities					
Sundry Creditors	3,813	3,712	4,522	4,299	5,026
Provisions	229	289	236	205	265
Other Current Liabilities	4,579	5,894	4,649	4,038	4,759
Total Current Liabilities	8,621	9,895	9,407	8,542	10,050
Capital Applied	25,705	28,997	31,273	34,342	38,085

Cash Flows (Consolidated)					
YE December (Rs. Mn)	FY18	FY19	FY20	FY21E	FY22E
PAT	4,054.0	4,908.5	3,601.5	3,321.1	4,263.8
Less: Non Operating Income	(1,519.0)	(1,340.0)	(1,583.0)	(1,384.4)	(1,586.2)
Add: Depreciation	1,052.0	1,114.0	1,878.0	1,685.0	1,858.1
Add: Interest Paid	204.0	326.0	486.0	500.0	500.0
Operating Profit before WC Changes	3,974.0	4,947.0	4,321.0	4,060.1	4,974.2
Net Cash From Operations	2,414.0	3,898.0	5,444.7	4,971.8	5,439.3
Cash Flow from Investing Activities					
(Inc)/Dec in Fixed Assets	(1,255.0)	(1,424.0)	(1,106.9)	(1,000.0)	(1,133.0)
Cash Flow from Financing Activities					
Inc/(Dec) in Total Loans	149.0	460.0	460.0	460.0	460.0
Dividend Paid	(1,296.0)	(1,296.0)	(900.4)	(830.3)	(1,065.9)
Net Cash from Financing Activities	(1,676.0)	(1,942.5)	(1,811.7)	(752.0)	(1,020.6)
Net Inc/Dec in cash equivalents	1,026.0	(102.0)	4,361.8	4,756.6	4,826.1
Opening Balance	8,781.0	9,807.0	9,705.0	14,066.8	18,823.4
Closing Balance Cash and	9,807.0	9,705.0	14,066.8	18,823.4	23,649.4



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