

## Pressure on margin sustains...

**About the stock:** Amber is a leading solution provider for air conditioner OEM/ODM industry in India.

- The company has a product portfolio including RACs, RAC components and other non AC components
- Derives ~50% of its revenues from RACs and the rest from components and mobility applications

**Q3FY23 Results:** Robust demand for components drives topline. Margins remained under pressure.

- Consolidated revenue increased 38% YoY ~₹ 1348 crore led by strong demand for components (aided by new customer additions)
- EBITDA margin declined 173 bps YoY to 5.8% dragged by lower gross margin and lower operating leverage
- Lower EBITDA and higher interest costs resulted in a decline in PAT by ~54% YoY to ₹ 15.1 crore

**What should investors do?** Amber's share price has grown by ~1.63x over the past five years (from ~₹ 1250 in January 2018 to ~₹ 2037 levels in January 2023).

- We maintain our **HOLD** rating on the stock

**Target Price and Valuation:** We roll over our valuation on FY25E. We value the stock at 25x FY25E EPS with a revised target price of ₹ 2150/share.

### Key triggers for future price performance:

- The AC industry is likely to grow 30% YoY in FY23E supported by a revival in the real estate industry and changing lifestyle. Amber having the largest market share of ~26% (in terms of bills of materials), will be a major beneficiary of increased RAC demand
- With the component business contributing ~50% to its topline, Amber is a major beneficiary of the PLI scheme provided by Govt
- New export opportunities (of components) in US and the Middle East

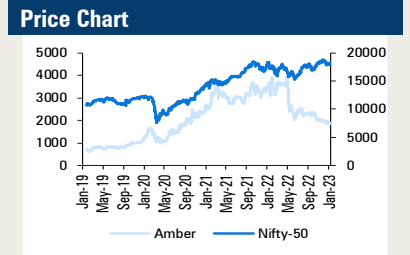
**Alternate Stock Idea:** We like Polycab India in our coverage.

- Polycab is the market leader in the wire & cable business with organised market share of 22%-24%. In the FMEG segment, it is growing through new product launches and dealer addition across India. Robust b/s with a three-year average RoE, RoCE of 18%, 22%, respectively
- BUY with a target price of ₹ 3380



Particulars	
Particular	Amount
Market Cap (₹ Crore)	6,856.7
Total Debt (FY22) (₹ Crore)	1,031.8
Cash & Inv (FY22) (₹ Crore)	562.6
EV (₹ Crore)	7,325.9
52 week H/L	4026/ 1843
Equity capital (₹ Crore)	33.7
Face value (₹)	10.0

Shareholding pattern					
(in %)	Dec-21	Mar-22	Jun-22	Sep-22	Dec-22
Promoter	40.3	40.3	40.3	40.3	40.3
FII	29.1	28.1	26.9	26.4	27.1
DII	9.3	9.2	8.8	13.9	11.5
Others	21.4	22.4	24.1	19.4	21.1



### Recent event & key risks

- Key Risk:** (i) Lower demand of RAC and its component (ii) Strong recovery in EBITDA margin led by increased backward integration

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### Key Financial Summary

₹ Crore	FY19	FY20	FY21	FY22	3 Year CAGR (FY19-22)	FY23E	FY24E	FY25E	3 Year (CAGR 22-25E)
Net sales	2752.0	3962.8	3030.5	4206.4	15%	6428.2	8134.1	9512.9	31%
EBITDA	212.9	309.3	220.3	275.4	9%	398.5	520.6	618.3	31%
EBITDA Margin(%)	7.7	7.8	7.3	6.5		6.2	6.4	6.5	
Net Profit	94.8	164.1	83.3	111.3	6%	148.6	233.7	293.5	38%
EPS (₹)	30.1	52.2	24.7	33.0		44.1	69.4	87.1	
P/E(x)	67.5	39.0	82.3	61.6		46.1	29.3	23.4	
RoE (%)	9.6	14.5	5.2	6.4		8.4	11.6	12.7	
RoCE (%)	12.3	14.3	7.7	6.8		9.8	13.0	14.4	

Source: Company, ICICI Direct Research

## Key takeaways of recent quarter & conference call highlights

### Q3FY23 Results: Strong topline growth on favourable base; adverse product mix lead to pressure on EBITDA margin

- Consolidated revenue up 38.4% YoY to ₹ 1348.3 crore led by strong demand for components. RAC & components segment grew sharply by ~43 % YoY to ₹ 905 crore supported by strong growth in components. However, RAC sales increased marginally by 5% as a result of subdued demand during the quarter
- Mobility segment revenue increased ~29% YoY to ~ ₹ 110 crore on a favourable base and revival in government capex. Electronics segment revenue grew ~49.1% YoY to ₹ 261 crore as a result of customer addition and addition of wearables & hearables segment
- Gross margin declined ~123 bps YoY due to a change in product mix. As a result, EBITDA margin declined 173 bps YoY to 5.8% due to higher other operating expenses and forex loss
- PAT declined ~54% to ₹ 15 crore tracking lower EBITDA as well as higher interest outgo (up ~135% YoY mainly due to higher debt)

### Q3FY23 Earnings Conference Call highlights:

#### Demand Outlook:

- Amber witnessed subdued demand for RACs in October and November 2022. There was a pickup in demand from mid-December onwards. The management expects a boost in demand in Q4FY23 as a result of pent-up demand and approaching summer season
- Amber's revenue contribution from RACs to consolidated revenue has declined from 80% to 60% in the last four years
- Companies in India have started in-house assembly of RACs in order to reap the benefits of the PLI scheme. As a result, the company has strategised to increase its focus on supply of components to these brands
- The company aims to maintain ~26-28% share in the manufacturing footprint of RAC industry
- As per the management, demand for components for refrigerators, washing machines, microwave ovens, water purifiers and fans is also increasing
- The company is expanding the manufacturing footprint of electronics division with a new facility in South India
- In the mobility division (Sidwal), the company has received orders from Indian Railways for Vande Bharat Express and RTTS trains. The order book of mobility is at ₹ 700 crore
- The company is expecting ~30% growth in motors division in FY24 led by strong order book and new product additions

#### Margins & Profitability:

- Change in product mix (sharp increase in low margin component business) dragged overall EBITDA margin of the company. The EBITDA margin of the component business ranges between 3% and 7%
- The company will be taking price hikes in RACs in Q4FY23 post transition to BEE norms, which is in line with the industry

#### Capex:

- The management has increased its capex guidance to ~₹ 625-650 crore in FY23 vs. ₹ 600 crore earlier as the company added three new plants in Chennai in addition to its greenfield facility in Sri city
- The three plants in Chennai are for production of components, injection moulding machines, copper tubing, electronics, PCBAs and compressor parts for refrigerators
- The company has envisaged a capex of ~₹ 275 crore for FY24

### Amber Ent - ESG Disclosure Score\*

ESG Disclosure Score			
Score	FY20	FY21	FY22
Environmental	-	-	28.0
Social	-	-	30.6
Governance	-	-	66.1
<b>Overall ESG Score</b>	-	-	<b>41.6</b>

Source: Bloomberg, ICICI Direct Research, \*Score ranges from 0 - 100 with a higher score indicating higher ESG

Exhibit 1: Peer Comparison

Company	Mcap ₹ cr	Revenue				EBITDA margin				PAT				RoCE				RoE				PE			
		FY21	FY22	FY23E	FY24E	FY21	FY22	FY23E	FY24E	FY21	FY22	FY23E	FY24E	FY21	FY22	FY23E	FY24E	FY21	FY22	FY23E	FY24E	FY21	FY22	FY23E	FY24E
Dixon	20,648	6448	10697	15522	19499	4	4	4	4	160	190	344	507	24	18	28	31	22	19	32	34	128	108	60	41
Amber	6,863	3031	4206	6428	8134	7	7	6	6	83	111	149	234	8	7	10	13	5	6	8	12	82	62	46	29

Source: ICICI Direct Research

Despite a sequential recovery, Amber’s Q3FY23 EBITDA margin at 5.8% (5.4% in 9MFY23) is much below than its pre-Covid margin range of ~7-8%. The lower margin is attributable to strong growth in the electronics and RAC components business (both together contributes ~40% in total revenues) which commands low EBITDA margin in the range of 3-7%. Going forward, we believe the company’s growing focus on components is likely to keep consolidated EBITDA margin lower than its pre-Covid level margin. We cut our PAT estimate by ~3.5% & ~13% for FY23E and FY24E, respectively, factoring in downward revision of our EBITDA margin estimates. On the revenue front, the company reported revenue growth of 38.4% YoY in Q3FY23 (three year CAGR of ~20%) led by customer additions and diversification into new product segments. The management has reiterated industry leading growth for the company in FY24 (i.e. 30%+) supported by wallet share gains and addition of new customers. We introduce FY25E estimates with revenue CAGR of 31% over FY22-25E led by component revenue CAGR of 37%. We maintain our HOLD rating on the stock with a revised target price of ₹ 2150/share (valuing the stock at 25x FY25E EPS).

**Exhibit 2: Variance Analysis**

	Q3FY23	Q3FY22	YoY (%)	Q2FY23	QoQ (%)	Comments
Revenue	1348.3	974.3	38.4	750.4	79.7	Strong topline growth led by component and mobility division
Other Income	8.9	8.6	3.7	12.2	-27	
Raw Material Exp	1118.5	796.2	40.5	592.4	88.8	Change in product mix dragged overall gross margin down by 123 bps YoY (~400 bps QoQ)
Employee cost	54.2	39.7	36.7	47.6	13.8	Higher employee expenses is attributable to ESOP of ₹ 7 crore
Other Expenditure	97.1	64.8	49.8	73.7	31.7	
Total Expenditure	1269.8	900.7	41.0	713.8	77.9	
EBITDA	78.5	73.6	6.6	36.7	114.1	
EBITDA Margin (%)	5.8	7.6	-173 bps	4.9	94 bps	Lower gross margins and higher operating costs dragged overall EBITDA margin by 173 bps YoY
Depreciation	36.3	27.1	34.1	31.8	14.2	
Interest	28.9	12.3	134.8	24.4	18.7	Sharp increase in interest costs is largely attributable to higher debt on the book
Exceptional items						
PBT	22.2	42.8	-48.2	-7.3	-403.5	
Total Tax	7.1	9.9	-27.9	-5.0	-241.9	
PAT	15.1	32.9	-54.2	-2.3	-758.2	Sharp increase in interest costs and lower EBITDA margin dragged overall PAT in Q3

**Key Metrics**

RAC & components	905.0	634.0	42.7	357.0	153.5	Strong growth in component revenue (up by 86% YoY to ₹ 552 crore) is attributable to consolidation of new business (AmberPR & Pravartaka). However RAC sales increased albeit a slow pace of 5% YoY dragged by lower offtake
Motor Division	72.0	80.0	-10.0	47.0	53.2	Lower volume offtake from key customers led to decline in segment revenue
Electronic Division	261.0	175.0	49.1	241.0	8.3	Addition of new customers helped drive overall segment revenue
Mobility Division	110.0	85.0	29.4	105.0	4.8	Revival in infrastructure expenditure (in transport segments) drove overall segment revenue

Source: Company, ICICI Direct Research

**Exhibit 3: Change in estimates**

(₹ crore)	FY23E			FY24E			FY25E	Comments
	Old	New	% Chg	Old	New	% Chg	Introduced	
Revenue	6,066.9	6,428.2	6.0	7,687.2	8,134.1	5.8	9,512.9	We have revised our revenue estimates upward for FY23E-24E factoring in Q3FY23 performance. We model revenue CAGR of 31% over FY22-25E led by strong component revenue segment growth
EBITDA	376.1	398.5	6.0	530.4	520.6	(1.9)	618.3	
EBITDA Margin (%)	6.2	6.2	0bps	6.9	6.4	-50bps		We lowered our margin estimates considering rising proportion of 6.5 component segment revenue (component segment EBITDA margin ranges between ~3%-7%)
PAT	154.0	148.6	(3.5)	269.4	233.7	(13.3)	293.5	
EPS (₹)	45.7	44.1	(3.5)	80.0	69.4	(13.3)	87.1	

Source: ICICI Direct Research

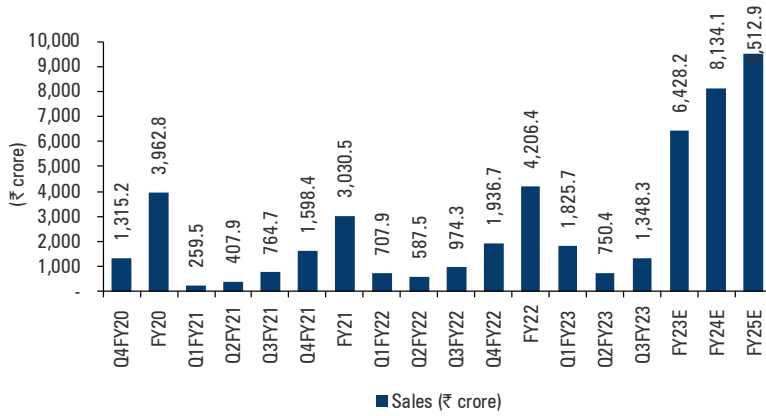
**Exhibit 4: Assumptions**

(%)	Current					FY25E	Earlier		Comments
	FY20	FY21	FY22	FY23E	FY24E	Introduced	FY23E	FY24E	
RAC & components	36.7	(23.5)	36.6	53.2	24.6	13.0	49.4	22.8	We build in segment revenue CAGR of 29% over FY22-25E on a favourable base and pick in plant utilisation of newly acquired business
Mobility & other components	69.7	(23.6)	45.0	51.7	31.7	27.1	30.2	34.0	New customer additions in the non AC component business along with healthy order book of Sidwal will drive segment revenue CAGR at ~36% over FY22-25E

Source: ICICI Direct Research

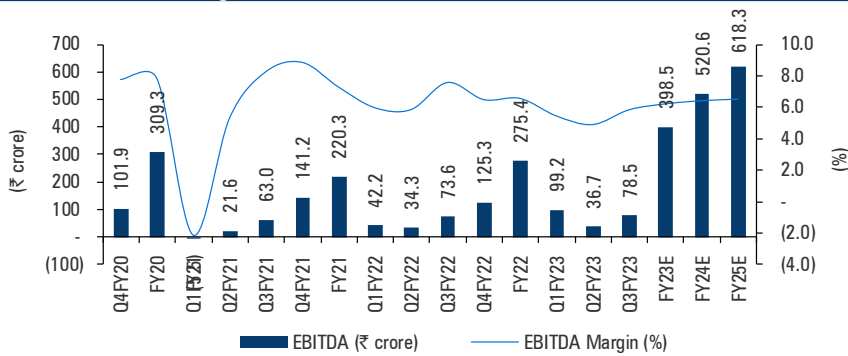
## Financial story in charts

Exhibit 5: Revenue trend



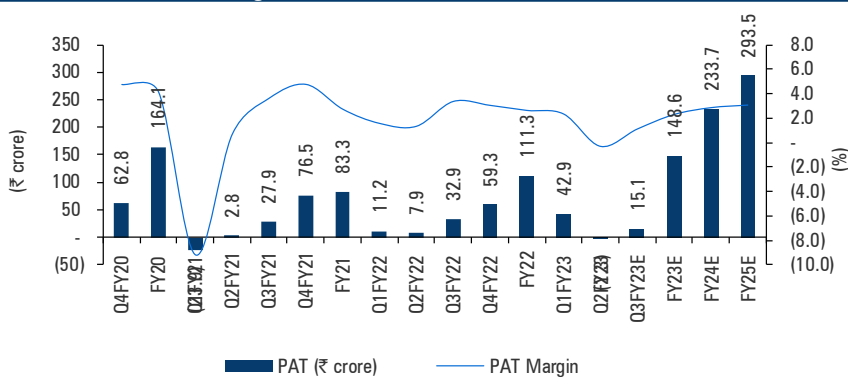
Source: Company, ICICI Direct Research

Exhibit 6: EBITDA margin movement



Source: Company, ICICI Direct Research

Exhibit 7: PAT & PAT margin movement



Source: Company, ICICI Direct Research

## Financial Summary

Exhibit 8: Profit and loss statement				
	₹ crore			
(Year-end March)	FY22	FY23E	FY24E	FY25E
<b>Revenue</b>	<b>4,206.4</b>	<b>6,428.2</b>	<b>8,134.1</b>	<b>9,512.9</b>
Growth (%)	38.8	52.8	26.5	16.9
<b>Expenses</b>				
Raw material expense	3,524.9	5,367.6	6,848.9	8,009.8
Employee expenses	150.0	212.1	260.3	313.9
Other expenses	251.4	450.0	504.3	570.8
Total Operating Exp	3,931.0	6,029.7	7,613.5	8,894.5
<b>EBITDA</b>	<b>275.4</b>	<b>398.5</b>	<b>520.6</b>	<b>618.3</b>
Growth (%)	25.0	44.7	30.6	18.8
Depreciation	107.9	140.1	170.8	199.8
Interest	46.4	103.5	87.0	74.7
Other Income	33.2	43.1	48.8	47.6
PBT	154.3	198.0	311.6	391.4
Total Tax	42.9	49.4	77.9	97.8
<b>PAT</b>	<b>111.3</b>	<b>148.6</b>	<b>233.7</b>	<b>293.5</b>

Source: Company, ICICI Direct Research

Exhibit 9: Cash flow statement				
	₹ crore			
(Year-end March)	FY22	FY23E	FY24E	FY25E
Profit after Tax	111.3	148.6	233.7	293.5
Add: Depreciation	107.9	140.1	170.8	199.8
(Inc)/dec in Current Assets	-421.9	-545.2	-528.4	-569.4
Inc/(dec) in CL and Provisions	439.6	381.0	616.9	498.6
Others	46.4	103.5	87.0	74.7
<b>CF from operating activities</b>	<b>283.4</b>	<b>228.1</b>	<b>580.0</b>	<b>497.2</b>
(Inc)/dec in Investments	-105.6	105.6	0.0	0.0
(Inc)/dec in Fixed Assets	-530.6	-650.0	-270.0	-200.0
Others	-29.2	4.0	-59.5	-48.1
<b>CF from investing activities</b>	<b>-665.4</b>	<b>-540.3</b>	<b>-329.5</b>	<b>-248.1</b>
Issue/(Buy back) of Equity	0.0	0.0	0.0	0.0
Inc/(dec) in loan funds	682.4	50.0	-230.0	-130.0
Dividend paid & dividend tax	-8.1	0.0	0.0	0.0
Others	-19.6	-210.1	-87.0	-74.7
<b>CF from financing activities</b>	<b>654.7</b>	<b>-160.1</b>	<b>-317.0</b>	<b>-204.7</b>
Net Cash flow	272.7	-472.4	-66.5	44.4
Opening Cash	290.0	562.6	90.2	23.7
Closing Cash	562.6	90.2	23.7	68.1

Source: Company, ICICI Direct Research

Exhibit 10: Balance Sheet				
	₹ crore			
(Year-end March)	FY22	FY23E	FY24E	FY25E
<b>Liabilities</b>				
Equity Capital	33.7	33.7	33.7	33.7
Reserve and Surplus	1,700.5	1,742.5	1,976.2	2,269.7
Total Shareholders funds	1,734.2	1,776.2	2,009.9	2,303.4
Total Debt	1,031.8	1,081.8	851.8	721.8
Other non current liabilities	202.9	202.9	202.8	202.9
<b>Total Liabilities</b>	<b>2,969.0</b>	<b>3,061.0</b>	<b>3,064.5</b>	<b>3,228.2</b>
<b>Assets</b>				
Gross Block	1,947.4	2,597.4	2,867.4	3,067.4
Less: Acc Depreciation	565.2	705.4	876.2	1,076.0
Total Fixed Assets	1,487.7	1,997.6	2,096.8	2,097.0
Goodwill	145.7	145.7	145.7	145.7
Inventory	840.8	1,144.7	1,448.5	1,694.1
Debtors	1,314.9	1,585.0	1,782.8	2,085.0
Loans and Advances	1.8	2.8	3.5	4.1
Other CA	128.1	98.3	124.4	145.5
Cash	562.6	90.2	23.7	68.1
Total Current Assets	2,848.3	2,921.1	3,383.0	3,996.8
Creditors	1,702.1	1,937.3	2,451.4	2,866.9
Provisions	18.6	20.8	26.3	30.8
Other CL	222.8	366.5	463.7	542.3
Total Current Liabilities	1,943.5	2,324.5	2,941.4	3,440.0
Net current assets	904.8	596.6	441.6	556.8
Other non current assets	430.8	321.2	380.5	428.7
<b>Total Assets</b>	<b>2,969.0</b>	<b>3,061.0</b>	<b>3,064.5</b>	<b>3,228.2</b>

Source: Company, ICICI Direct Research

Exhibit 11: Key ratios				
(Year-end March)	FY22	FY23E	FY24E	FY25E
<b>Per share data (₹)</b>				
EPS	33.0	44.1	69.4	87.1
Cash EPS	65.1	85.7	120.0	146.4
BV	514.7	527.2	596.5	683.6
DPS	2.4	0.0	0.0	0.0
<b>Operating Ratios (%)</b>				
EBITDA Margin	6.5	6.2	6.4	6.5
PAT Margin	2.6	2.3	2.9	3.1
Asset Turnover	2.2	2.5	2.8	3.1
Inventory Days	73.0	65.0	65.0	65.0
Debtor Days	114.1	90.0	80.0	80.0
Creditor Days	147.7	110.0	110.0	110.0
<b>Return Ratios (%)</b>				
RoE	6.4	8.4	11.6	12.7
RoCE	6.8	9.8	13.0	14.4
RoIC	8.2	9.3	12.2	13.8
<b>Valuation Ratios (x)</b>				
P/E	61.6	46.1	29.3	23.4
EV / EBITDA	26.2	19.7	14.8	12.1
EV / Net Sales	1.7	1.2	0.9	0.8
Market Cap / Sales	1.6	1.1	0.8	0.7
Price to Book Value	4.0	3.9	3.4	3.0
<b>Solvency Ratios</b>				
Debt / Equity	0.6	0.6	0.4	0.3
Current Ratio	1.3	1.4	1.4	1.4
Quick Ratio	0.8	0.9	0.8	0.8

Source: Company, ICICI Direct Research

Exhibit 12: ICICI Direct universe (Consumer Discretionary)

Sector / Company	CMP (₹)	TP(₹)	Rating	M Cap		EPS (₹)				P/E (x)				EV/EBITDA (x)				RoCE (%)				RoE (%)			
				(₹ Cr)	FY21	FY22	FY23E	FY24E	FY21	FY22	FY23E	FY24E	FY21	FY22	FY23E	FY24E	FY21	FY22	FY23E	FY24E	FY21	FY22	FY23E	FY24E	
Asian Paints (ASIPAI)	2,811	3,180	Hold	2,69,575	33.4	32.2	41.3	49.5	84.1	87.4	68.0	56.7	54.6	55.5	45.4	37.9	29.6	27.1	32.6	33.7	25.0	23.0	27.5	27.7	
Berger Paints (BERPAI)	563	670	Hold	54,684	7.4	8.6	10.2	12.1	76.0	65.6	55.1	46.5	45.8	41.3	34.8	29.9	24.9	23.3	28.7	30.8	21.3	21.2	25.8	27.2	
Kansai Nerolac (KANNER)	410	515	Hold	22,096	9.8	6.9	10.4	13.1	41.6	59.0	39.6	31.4	26.2	34.0	24.2	19.4	17.2	12.1	17.3	20.0	13.2	9.2	13.4	15.2	
Pidilite Industries (PIDIND)	2,382	2,965	Hold	1,20,958	22.2	23.8	30.9	43.2	107.4	100.2	77.1	55.1	71.6	65.3	51.5	37.8	23.3	21.7	25.6	31.0	19.6	18.4	21.4	25.5	
Sheela Foam (SHEFOA)	1,238	1,659	Buy	12,078	24.4	22.3	25.4	32.9	50.8	55.6	48.8	37.6	33.4	39.0	33.7	25.7	24.3	18.0	19.8	23.5	20.1	15.6	16.2	18.8	
Bajaj Electricals (BAJELE)	1,142	1,275	Hold	13,116	16.5	10.8	23.5	33.1	69.2	105.4	48.6	34.5	44.0	52.0	31.8	23.9	15.1	13.5	22.4	25.3	10.7	7.8	15.8	18.7	
Crompton Greaves(CROGR)	339	415	Hold	21,249	9.8	9.2	8.9	11.1	34.5	36.7	38.0	30.5	28.0	27.7	24.6	20.4	34.4	16.2	16.6	20.5	31.9	24.0	21.7	23.4	
Havells India (HAVIND)	1,191	1,420	Buy	74,592	16.7	19.1	18.2	26.1	71.5	62.4	65.4	45.6	46.9	41.2	43.5	30.9	24.9	23.7	23.6	30.2	20.1	20.0	19.9	25.3	
Polycab India (POLI)	2,817	3,380	Buy	42,098	59.3	61.4	80.7	90.1	47.5	45.9	34.9	31.3	37.1	32.4	22.5	20.2	20.6	20.2	25.8	24.3	17.9	15.6	19.2	18.4	
Symphony (SYMLIM)	956	1,215	Hold	6,688	15.3	17.3	26.1	34.8	62.5	55.3	36.6	27.5	46.8	40.4	28.2	21.2	15.2	15.9	24.5	29.0	14.9	14.4	23.6	27.4	
V-Guard Ind (VGUARD)	251	310	Buy	10,750	4.7	5.3	5.4	7.9	53.2	47.1	46.8	32.0	33.6	31.6	30.1	19.6	23.9	21.2	23.7	25.4	16.7	16.2	17.8	22.9	
Voltas Ltd (VOLTAS)	778	1,005	Hold	25,731	16.0	15.3	16.1	23.3	48.7	50.9	48.3	33.4	39.4	36.8	35.7	25.5	15.0	14.0	16.5	20.3	10.6	9.2	10.9	14.2	
Amber Enterprises (AMBEN)	2,037	2,150	Hold	6,863	24.7	33.0	44.1	69.4	82.4	61.7	46.2	29.4	30.9	26.2	19.7	14.8	7.7	6.8	9.8	13.0	5.2	6.4	8.4	11.6	
Dixon Technologies (DIXTEC)	3,479	4,730	Buy	20,648	27.3	32.1	57.9	85.4	127.6	108.5	60.1	40.8	72.0	54.8	33.8	24.7	23.5	17.7	27.8	31.5	21.7	19.1	31.8	34.2	
Supreme Indus (SUPIND)	2,398	2,600	Buy	30,461	77.0	76.2	61.7	77.6	31.1	31.5	38.9	30.9	23.1	24.1	26.6	21.0	33.1	25.9	22.4	26.6	30.9	25.2	20.1	23.1	
Astral Ltd (ASTPOL)	2,010	2,275	Buy	40,377	20.3	24.4	22.1	32.7	98.9	82.3	90.9	61.5	62.0	52.7	52.0	39.7	27.5	26.6	23.3	27.7	21.5	21.0	17.3	22.0	
EPL (ESSPRO)	159	175	Hold	5,024	7.7	7.0	8.6	10.6	20.5	22.7	18.5	15.0	8.6	9.5	7.9	6.8	16.2	12.6	15.9	18.5	14.8	12.1	14.7	17.1	
Time Techno (TIMTEC)	87	125	BUY	1,967	4.8	8.5	9.8	13.2	18.2	10.2	8.8	6.6	6.6	5.3	4.7	3.9	8.7	11.3	12.5	14.7	5.7	9.3	10.4	12.6	
Moldtek Packaging (MOLPLA)	1,006	1,045	Hold	3,346	17.2	20.4	26.7	34.4	58.5	49.4	37.7	29.3	36.4	28.0	22.4	17.7	20.1	18.6	27.6	27.9	18.7	13.9	24.3	24.3	

Source: Bloomberg, ICICI Direct Research

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Hold: -5% to 15%;

Reduce: -15% to -5%;

Sell: <-15%



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