

CMP: ₹ 446

Target: ₹ 530 (19%)

Target Period: 12 months

November 9, 2022

BUY



## Pharma CRAMs muted but non-Covid inquiries start

**About the stock:** Dedicated CRAMs supports the global life sciences industry and fine chemical majors in their NCE development endeavours. Its services include custom synthesis, process R&D, scale up and contract manufacturing.

- In Q2FY23, CRAMs pharma vertical contributed 39% of sales. Besides pharma CRAMs, Suven has also developed and supplied intermediates/technical for specialty chemicals CRAMs, which accounted for 54% of sales. Generic formulations accounted for 7% of sales
- Suven is currently on a three pronged investment plan, 1) relocating R&D centre, 2) replacement and upgradation of blocks at Suryapet facility and 3) additional new block in line with FDA regulations at Pashamylaram facility

**Q2FY23 Results:** Muted Q2 numbers due to de-growth in pharma CRAMs, which was offset by growth in specialty chemical CRAMs.

- Revenue declined 7.5% YoY to ₹ 278 crore
- EBITDA was at ₹ 100 crore, down 18% YoY with margins at 35.9%
- Consequent PAT was at ₹ 72.2 crore (down 25.6% YoY)

**What should investors do?** Suven's share price has grown by ~1.4x over the past two years (from ~₹ 320 in November 2020 to ~₹ 446 levels in November 2022).

- We upgrade from HOLD to **BUY** as recent correction in the stock provides reasonable upside in the backdrop of a revival in pharma CRAMs inquiries and stable outlook for specialty chemicals CRAMs

**Target Price and Valuation:** Valued at ₹ 530 i.e. 30x P/E on FY24E EPS of ₹ 17.7.

### Key triggers for future price performance:

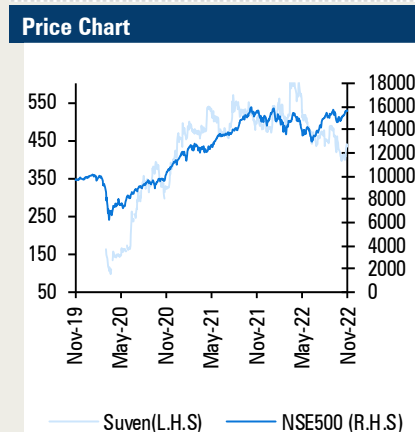
- Focus on research by global innovators has intensified post Covid and augurs well for pharma CRAMs operations that remains a key growth driver
- Progress of molecules across the development journey and high-value, high-margin business, involving the commercial supply of intermediates (for five molecules) to clients
- Progress on specialty chemicals on the CRAMs fronts with current execution of two molecules. Ongoing development of other molecules
- Formulations:** Supplies from OSD facility of Casper Pharma and subsequent operational performance in ramping up filings in this segment

**Alternate Stock Idea:** Apart from Suven, in our coverage we like Syngene.

- Syngene with years of experience in operating in the niche of CRO/CRM. The company is well poised to capitalise on growing opportunities globally

Particulars	
Particular	Amount
Market Capitalisation	₹ 11354 crore
Debt (FY22)	₹ 96 crore
Cash (FY22)	₹ 47 crore
EV	₹ 11402 crore
52 week H/L (₹)	631/386
Equity capital	₹ 25.5 crore
Face value	₹ 1

Shareholding pattern				
(in %)	Dec-21	Mar-22	Jun-22	Sep-22
Promoter	60.0	60.0	60.0	60.0
Others	40.0	40.0	40.0	40.0



### Recent Event & Key risks

- Casper Pharma received EIR from the USFDA
- Key Risks:** (i) B2B model with heavy reliance on guidance, (ii) cGMP related deviations in generics

### Research Analyst

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### Key Financial Summary

Key Financials (₹ Crore)	FY20	FY21	FY22	CAGR (FY20-22)	FY23E	FY24E	CAGR (FY22-24E)
Revenues	833.8	1009.7	1320.2	25.8	1325.1	1511.8	7.0
EBITDA	384.8	442.4	579.4	22.7	515.0	626.9	4.0
EBITDA margins (%)	46.1	43.8	43.9		38.9	41.5	
Net Profit	317.0	362.3	453.8	19.6	375.4	450.2	-0.4
EPS (₹)	12.5	14.2	17.8		14.7	17.7	
PE (x)	35.8	31.3	25.0		30.2	25.2	
EV to EBITDA (x)	29.9	25.6	18.8		21.0	16.9	
RoE (%)	37.5	30.7	29.7		20.6	20.5	
RoCE (%)	35.6	31.2	37.5		26.0	25.6	

## Key takeaways of recent quarter & conference call highlights

### Q2FY23 Results: Muted numbers amid CRAM's pharma slowdown

- Revenue declined 7.5% YoY to ₹ 278 crore, de-growth amid dent in CRAMS Pharma, which was offset by growth in CRAMS specialty chemicals. EBITDA margins saw YoY de-growth of 454 bps to 35.9%, mainly due to change in sales mix, higher contribution from CRAMS specialty chemicals have impacted margins
- Suven's numbers missed I-direct estimates mainly due to fluctuations in quantum of revenue contribution from CRAMs Pharma. CRAMS in specialty chemicals is expected to ramp up in FY24 with likely repeat business in the third molecule and another new molecule in late development stage. In formulations, the management is guiding for operationalisation of Casper Pharma from March, 2023. Suven is investing ₹ 600 crore for modernisation, technology upgradation, which likely stems from the need to cater to the changed priorities and requirements of its clients, the benefits from this may be visible in the long run. However, we continue to emphasise on the company's foray into formulations with Casper Pharma, in a highly competitive space of generic OSD in US with diminishing returns

### Q2FY23 Earnings Conference Call highlights

- **CRAMs - Pharma.** In Q2FY23, there were no Covid sales, which is likely to be present in Q3 and Q4 of FY23. The management is indicating that FY23 is a transformative year for big pharma companies as they gradually step up investments from Covid to non-Covid molecules. The company expects to fill a lost Covid opportunity of FY22 through organic growth in FY23. The company has eight commercialised molecules in the pipeline
- **CRAMs- Specialty Chemicals:** The company has two commercialised molecules in the pipeline. The third molecule that was commercialised by Suven in FY22 is expected to witness repeat volumes post nine to 12 months
- **Formulations:** In Q2FY23, formulation sales: ₹ 18.4 crore vs. ₹ 19.3 crore in Q2FY22. The management is expecting to resume operations from June, 2023
- Capex guidance for FY23 and FY24: ₹ 250 crore. About ₹ 200 crore for Suryapet facility work to begin. Most of the spend will be incurred this year. About ₹ 200 crore for R&D centre relocation work in two to three years and ₹ 200 crore for additional block at Pashamylaram from FY24
- The management guided for flat to positive growth for FY23 and guided for 40%+ EBITDA margins for FY23. Eventually it guided for a ramp up in both Pharma CRAMs followed by speciality chemicals CRAMs

**Exhibit 1: Variance Analysis**

	Q2FY23	Q2FY22	11FY23	YoY (%)	QoQ (%)	Comments
Revenue	278.4	301.0	338.8	-7.5	-17.8	Revenue decreased 7.5% YoY to ₹278 crores, YoY de-growth amid dent in CRAMS Pharma which was offset by growth in CRAMS speciality chemicals.
Raw Material Expenses	86.0	92.6	97.1	-7.1	-11.5	
Gross margins (%)	69.1	69.2	71.3	-12.3	-222.1	
Employee Expenses	28.6	23.2	26.6	23.5	7.7	
Other Expenditure	63.8	63.4	64.2	0.5	-0.7	
EBITDA	100.0	121.8	150.9	-17.9	-33.7	
EBITDA (%)	35.9	40.5	44.5	-453.9	-861.5	YoY de-growth of 454 bps to 35.9%, mainly due to change in sales mix, higher contribution from CRAMS speciality chemicals have impacted margins.
Interest	0.3	1.2	1.5	-75.0	-79.8	
Depreciation	12.0	9.2	11.5	31.1	4.6	
Other Income	10.9	5.0	11.0	116.6	-1.0	
PBT before EO & Forex	98.6	116.5	149.0	-15.3	-33.8	
Forex & EO	0.0	0.0	0.0			
Profit from Associates	0.0	17.5	0.0	-100.0		
PBT	98.6	133.9	149.0	-26.4	-33.8	
Tax	26.4	36.9	41.4	-28.5	-36.2	
Net Profit	72.2	97.0	107.5	-25.6	-32.9	Profit decreased 25.6 % YoY to ₹72.2 crore.
<b>Key Metrics</b>						
CRAMS - Pharma	108.4	144.4	210.2	-24.9	-48.4	Decreased 25% YoY to ₹108.4 crore
CRAMS - Spec Chem	151.5	137.3	117.4	10.3	29.1	Grew 10.3% YoY to ₹152 crore
Formulations & Others	18.4	19.3	11.2	-4.5	64.3	

Source: Company, ICICI Direct Research

**Exhibit 2: Change in estimates**

₹ Crore)	FY23E			FY24E			Comments
	Old	New	Change	Old	New	Change	
Revenue	1,443.3	1,325.1	-8.2	1,641.3	1,511.8	-7.9	Changed mainly due to lower growth visibility amid gradual transformation by big pharma from Covid to non-Covid investments
EBITDA	606.2	515.0	-15.0	668.8	626.9	-6.3	
EBITDA Margin (%)	42.0	38.9	-313 bps	40.8	41.5	72 bps	Changed mainly due to additional opex from Casper Pharma in FY24 and Non covid opportunities in CRAMS Pharma
PAT	433.3	375.4	-13.4	472.0	450.2	-4.6	
EPS (₹)	17.0	14.7	-13.4	18.5	17.7	-4.6	

Source: ICICI Direct Research

**Exhibit 3: Assumptions**

₹ crore)	Current				Earlier		Comments
	FY21	FY22	FY23E	FY24E	FY23E	FY24E	
CRAMS - Pharma	623.7	773.0	703.6	809.1	886.3	1,019.2	
CRAMS - Spec Chem	305.9	463.2	539.9	604.7	469.1	525.4	Expecting Revenue from third molecule which ws commercialized in FY22 by suven
Formulations & Others	80.2	84.0	81.6	98.0	87.9	96.7	Expecting incremental contribution in FY24 from Casper Pharma

Source: ICICI Direct Research

Exhibit 4: ICICI Direct Coverage Universe (Healthcare)

Company	I-Direct	CMP	TP	Rating	M Cap	EPS (₹)				PE(x)				RoCE (%)				RoE (%)			
	Code	(₹)	(₹)		(₹ cr)	FY21	FY22	FY23E	FY24E	FY21	FY22	FY23E	FY24E	FY21	FY22	FY23E	FY24E	FY21	FY22	FY23E	FY24E
<b>Hospitals</b>																					
Apollo Hospitals	APOHOS	4348	5,080	Buy	62616	7.9	59.1	79.0	101.0	553.2	73.5	55.1	43.0	6.3	15.1	15.3	18.8	2.5	15.1	17.4	18.9
Narayana Hrudalaya	NARHRU	738	800	Buy	15057	-0.7	16.7	20.6	22.7	NA	44.1	35.9	32.5	1.2	20.5	19.6	19.7	-1.3	23.0	22.3	19.9
Shalby	SHALIM	143	150	Buy	1548	3.9	5.4	7.5	9.9	36.5	26.4	19.2	14.5	6.5	8.4	11.7	14.3	5.1	6.7	8.6	10.4
Aster DM	ASTDM	266	250	Buy	13313	3.0	10.5	10.8	16.7	90.0	25.3	24.7	16.0	5.4	9.0	9.4	12.5	4.4	13.3	12.0	15.6
Healthcare Global	HEAGLO	297	345	Buy	4133	-13.9	3.9	4.5	8.8	-13.9	76.9	65.4	33.7	-0.9	5.0	9.4	12.1	-0.9	5.0	6.8	11.6
<b>MNC Pharma</b>																					
Abbott India	ABBIND	19280	21,140	Hold	40488	325.0	375.9	427.7	528.6	59.3	51.3	45.1	36.5	33.8	36.6	37.1	37.3	26.5	28.3	28.9	28.8
P&G Health	MERLIM	4202	4,500	Hold	7143	106.5	116.0	124.8	140.6	39.5	36.2	33.7	29.9	32.2	39.8	36.0	33.8	25.1	31.2	28.1	26.2
Sanofi India	SANOFI	5630	6,385	Hold	12949	207.4	410.1	270.5	264.8	27.1	13.7	20.8	21.3	32.3	33.3	41.1	50.7	24.5	25.9	31.2	38.7
Pfizer	PFIZER	4399	4,480	Hold	20234	108.8	133.9	140.4	149.3	40.4	32.9	31.3	29.5	27.6	26.1	22.4	21.8	20.8	21.4	17.9	17.7
<b>Pharma</b>																					
Ajanta Pharma	AJAPHA	1250	1,495	Buy	16001	51.0	55.6	60.1	71.1	24.5	22.5	20.8	17.6	29.0	27.0	24.4	24.5	21.8	21.8	19.9	19.9
Alembic Pharma	ALEMPHA	618	590	Reduce	12176	62.8	27.8	15.3	26.9	9.8	22.3	40.4	23.0	25.1	10.6	6.5	10.5	24.1	10.4	5.6	9.1
Aurobindo Pharma	AURPHA	543	615	Hold	31791	55.0	47.4	41.1	51.3	9.9	11.5	13.2	10.6	16.9	12.9	11.5	13.3	14.7	11.3	9.0	10.1
Biocon	BIOCON	279	320	Hold	33496	6.3	5.7	5.5	11.3	44.5	49.0	51.2	24.6	7.7	7.5	4.1	6.5	9.9	8.1	2.8	5.5
Zydus Lifesciences	CADHEA	449	405	Hold	45372	23.3	21.0	21.0	23.8	19.2	21.4	21.4	18.9	13.8	12.0	11.8	11.7	18.4	12.6	11.4	11.6
Cipla	CIPLA	1130	1,350	Buy	91171	29.9	32.9	38.6	45.8	37.8	34.3	29.3	24.7	16.3	16.7	17.9	19.0	13.1	12.7	13.3	14.1
Dr Reddy's Labs	DRREDD	4517	4,750	Buy	74981	117.3	126.9	203.4	191.0	38.5	35.6	22.2	23.6	13.1	13.0	19.1	18.1	11.1	11.0	15.4	13.0
Glenmark Pharma	GLEPHA	424	440	Hold	11950	32.9	42.7	39.5	44.9	12.9	9.9	10.7	9.4	13.9	14.8	14.7	14.4	13.1	13.2	11.0	11.2
Ipsa Laboratories	IPCLAB	891	985	Hold	22634	44.9	34.8	27.5	35.1	19.8	25.6	32.5	25.4	27.1	17.4	14.3	16.3	24.2	16.1	11.4	13.0
Jubilant Pharmova	JUBLIF	386	340	Hold	6143	37.4	26.0	15.9	26.1	10.3	14.9	24.3	14.8	13.7	9.0	6.1	8.6	12.6	7.8	4.6	7.0
Lupin	LUPIN	692	610	Reduce	31479	26.9	11.9	11.8	27.7	25.8	58.3	58.8	25.0	9.6	3.4	5.8	10.9	8.8	4.4	4.2	9.2
Natco Pharma	NATPHA	616	735	Hold	11281	24.2	9.3	41.6	42.3	25.5	66.2	14.8	14.6	13.1	4.6	18.1	16.9	10.7	4.0	15.5	13.9
Sun Pharma	SUNPHA	1012	1,225	Buy	242695	30.0	32.0	34.8	40.1	33.7	31.7	29.1	25.2	14.2	18.2	18.0	18.7	15.5	16.0	15.2	15.2
Torrent Pharma	TORPHA	1645	1,730	Hold	55594	37.0	32.0	40.0	46.7	44.5	51.3	41.1	35.2	17.6	19.7	19.1	21.4	21.4	18.2	19.8	19.7
Indoco Remedies	INDREM	354	525	Buy	3253	10.1	16.8	21.6	29.2	35.0	21.0	16.4	12.1	11.7	17.5	17.6	23.9	12.1	17.1	18.6	20.6
Caplin Point	CAPPOI	738	1,000	Buy	5607	81.7	85.3	70.4	73.0	9.0	8.6	10.5	10.1	25.3	23.7	22.6	0.0	20.4	20.2	18.7	17.5
Advanced Enzymes	ADVENZ	294	265	Reduce	3293	13.1	10.7	8.5	12.1	22.5	27.5	34.7	24.4	19.4	14.3	10.2	13.2	15.1	11.0	8.1	10.4
Hester Biosciences	HESPHA	2000	2,070	HOLD	1735	44.4	45.7	35.9	51.8	43.4	42.2	53.7	37.3	16.2	10.9	9.3	11.8	16.5	15.0	10.8	14.0
<b>API/CRAMS</b>																					
Divi's Lab	DIVLAB	3290	3,685	HOLD	87178	74.7	111.5	93.0	113.5	44.0	29.5	35.4	29.0	27.6	30.2	22.8	24.4	21.3	25.2	18.4	19.2
Hikal	HIKCHE	352	290	Hold	4324	10.8	13.0	3.8	14.4	32.6	27.0	91.8	24.4	15.1	13.6	5.6	13.8	14.3	15.0	4.3	14.2
Syngene Int.	SYNINT	620	710	Buy	24866	10.1	9.9	11.5	14.6	61.3	62.9	53.8	42.6	11.5	11.7	12.8	15.2	13.5	12.9	12.4	13.7
Granules India	GRANUL	367	375	Buy	9093	22.2	16.6	21.9	26.8	16.5	22.0	16.7	13.7	24.0	15.6	18.6	20.5	25.3	16.0	17.6	17.9
Laurus Labs	LAULAB	450	675	Buy	24178	18.3	15.4	20.7	27.0	24.6	29.2	21.7	16.7	31.7	21.3	23.6	26.0	37.9	24.7	25.6	25.6
Suven Pharmaceutical	SUVPH	436	530	BUY	11126	14.2	17.8	17.0	17.6	30.7	24.5	25.7	24.7	31.2	37.5	28.7	25.0	30.7	29.7	23.0	20.0

Source: ICICI Direct Research

## Financial Summary

Exhibit 5: Profit and loss statement				
	₹ crore			
(Year-end March)	FY21	FY22	FY23E	FY24E
<b>Revenues</b>	<b>1,009.7</b>	<b>1,320.2</b>	<b>1,325.1</b>	<b>1,511.8</b>
Growth (%)	NA	30.8	0.4	14.1
Raw Material Expenses	301.9	399.1	391.8	446.5
Employee Expenses	76.2	100.5	128.1	128.5
Other Manufacturing Expenses	189.1	241.2	290.2	309.9
Total Operating Expenditure	567.3	740.8	810.1	884.9
<b>EBITDA</b>	<b>442.4</b>	<b>579.4</b>	<b>515.0</b>	<b>626.9</b>
Growth (%)	15.0	31.0	-11.1	21.7
Interest	11.1	6.2	2.3	6.2
Depreciation	31.6	39.1	47.6	65.7
Other Income	14.2	92.4	49.7	45.4
PBT before Exceptional Items	413.9	626.5	514.8	600.3
Less: Forex & Exceptional Items	0.0	0.0	0.0	0.0
PBT	467.7	667.6	514.8	600.3
Total Tax	105.3	213.8	139.5	150.1
PAT before MI	362.3	453.8	375.4	450.2
Minority Interest	0.0	0.0	0.0	0.0
PAT	362.3	453.8	375.4	450.2
<b>Adjusted PAT</b>	<b>362.3</b>	<b>453.8</b>	<b>375.4</b>	<b>450.2</b>
Growth (%)	14.3	25.2	-17.3	19.9
EPS	14.2	17.8	14.7	17.7
<b>EPS (Adjusted)</b>	<b>14.2</b>	<b>17.8</b>	<b>14.7</b>	<b>17.7</b>

Source: Company, ICICI Direct Research

Exhibit 6: Cash flow statement				
	₹ crore			
(Year-end March)	FY21	FY22	FY23E	FY24E
Profit/(Loss) after taxation	358.2	483.3	375.4	450.2
Add: Depreciation & Amortization	31.2	38.3	47.6	65.7
Net Increase in Current Assets	-25.5	-229.0	15.8	-57.6
Net Increase in Current Liabilities	15.1	35.0	1.8	18.6
Others	-4.7	-3.9	0	0
<b>CF from operating activities</b>	<b>383.4</b>	<b>330.0</b>	<b>442.9</b>	<b>478.5</b>
(Inc)/dec in Fixed Assets	-110.8	-75.2	-250.0	-200.0
(Inc)/dec in Investments	-200.5	-56.1	-50.0	-50.0
Others	0.0	-4.7	4.3	4.8
<b>CF from investing activities</b>	<b>-311.3</b>	<b>-135.9</b>	<b>-295.7</b>	<b>-245.2</b>
Inc / (Dec) in Equity Capital	0.0	0.0	0.0	0.0
Inc / (Dec) in sec. Loan	-42.4	-48.2	0.0	0.0
Dividend & Dividend Tax	-25.5	-101.8	-76.4	-82.7
Others	-8.67	-6.39	-2.33	-1.55
<b>CF from financing activities</b>	<b>-76.6</b>	<b>-156.4</b>	<b>-78.7</b>	<b>-84.3</b>
Net Cash flow	-4.4	37.7	68.5	149.0
Opening Cash	14.1	9.7	47.3	115.8
<b>Closing Cash</b>	<b>9.7</b>	<b>47.3</b>	<b>115.8</b>	<b>264.8</b>
Free Cash Flow	272.6	254.8	192.9	278.5

Source: Company, ICICI Direct Research

Exhibit 7: Balance Sheet				
	₹ crore			
(Year-end March)	FY21	FY22	FY23E	FY24E
Equity Capital	25.5	25.5	25.5	25.5
Reserve and Surplus	1,155.4	1,501.7	1,800.7	2,168.2
Total Shareholders fund	1,180.8	1,527.2	1,826.2	2,193.7
Total Debt	141.2	95.6	95.6	95.6
Deferred Tax Liability	30.9	54.3	59.7	65.7
Minority Interest	0.0	0.0	0.0	0.0
Other Non Current Liabilities	7.4	9.4	10.3	11.3
<b>Source of Funds</b>	<b>1,360.4</b>	<b>1,686.4</b>	<b>1,991.8</b>	<b>2,366.3</b>
Gross Block - Fixed Assets	568.8	695.0	845.0	1,095.0
Accumulated Depreciation	127.6	160.8	208.4	274.1
Net Block	441.2	534.2	636.6	820.9
Capital WIP	96.3	30.0	130.0	80.0
Net Fixed Assets	537.5	564.2	766.6	900.9
Investments	541.8	598.3	648.3	698.3
Inventory	201.1	283.4	278.2	317.1
Cash	9.7	47.3	115.8	264.8
Debtors	102.4	236.4	217.8	227.8
Loans & Advances & Other CA	0.0	0.0	0.0	0.0
Total Current Assets	384.2	646.7	699.4	906.0
Creditors	82.9	105.9	104.0	118.5
Provisions & Other CL	31.2	37.3	41.0	45.1
Total Current Liabilities	114.1	143.2	144.9	163.6
Net Current Assets	270.1	503.5	554.5	742.4
LT L&A, Other Assets	11.0	20.4	22.4	24.6
Deferred Tax Assets	0.0	0.0	0.0	0.0
<b>Application of Funds</b>	<b>1,360.4</b>	<b>1,686.4</b>	<b>1,991.8</b>	<b>2,366.3</b>

Source: Company, ICICI Direct Research

Exhibit 8: Key ratios				
(Year-end March)	FY21	FY22	FY23E	FY24E
<b>Per share data (₹)</b>				
EPS	14.2	17.8	14.7	17.7
Cash EPS	13.5	14.4	13.6	17.0
BV	46.4	60.0	71.7	86.2
DPS	2.0	5.0	3.0	3.3
Cash Per Share	5.0	6.3	8.2	10.8
<b>Operating Ratios (%)</b>				
Gross Profit margins	70.1	69.8	70.4	70.5
EBITDA margins	43.8	43.9	38.9	41.5
Net Profit margins	35.9	34.4	28.3	29.8
Asset Turnover	1.8	1.9	1.6	1.4
Inventory days	243.1	259.2	259.2	259.2
Debtor days	37.0	65.3	60.0	55.0
Creditor days	100.3	96.9	96.9	96.9
<b>Return Ratios (%)</b>				
RoE	30.7	29.7	20.6	20.5
RoCE	31.2	37.5	26.0	25.6
RoIC	38.3	47.9	38.5	39.0
<b>Valuation Ratios (x)</b>				
P/E	31.3	25.0	30.2	25.2
EV / EBITDA	25.6	18.8	21.0	16.9
EV / Revenues	11.2	8.3	8.2	7.0
Market Cap / Revenues	11.2	8.6	8.6	7.5
Price to Book Value	9.6	7.4	6.2	5.2
<b>Solvency Ratios</b>				
Debt / Equity	0.1	0.1	0.1	0.0
Debt/EBITDA	0.3	0.2	0.2	0.2
Current Ratio	3.3	4.2	4.0	3.9

Source: Company, ICICI Direct Research

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Hold: -5% to 15%;

Reduce: -15% to -5%;

Sell: <-15%



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