

Transcript

“Orbit Corporation Conference Call”



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Moderators: *Mr. Pujit Aggarwal, MD & CEO, Orbit Corporation*
Mr. Ram Yadav, Head – Finance & Strategies, Orbit Corporation
Mr. Akshit Shah, Research Analyst, SBICAP Securities Ltd

Moderator: Ladies and gentlemen good day and welcome to the Q3 FY12 earnings conference call for Orbit Corporation hosted by SBICAP Securities Limited. We have with us today Mr Pujit Aggarwal, the Managing Director and CEO and Mr Ram Yadav, the Head - Finance and Strategies. As a reminder all participants' lines will be in the listen-only mode. There will be an opportunity for you to ask questions at the end of today's presentation. If you should you need assistance during the conference please signal an operator by pressing “*” then “0” on your touchtone phone. I would like to hand the conference over to Mr. Akshit Shah. Thank you and over to you Sir.

Akshit Shah: Thank you. Good evening everyone and thank you for joining in. I would like to hand it over to Mr. Pujit Aggarwal. Thank you and over to you sir.

Pujit Aggarwal: Thank you Akshit. Good evening again. Warm welcome to everybody on the Orbit conference call. So finally I must say that you know there is a Hindi song, which is Dukh key Badal Gaye rey Bhaiya ... so now ultimately we are seeing that the old times and the clouds of despair are finally waning off. We are seeing basically on the back of the fact that the new notification for the development control regulations in Mumbai has

been notified on January 6, 2012. By virtue of that a lot of free areas have been cleared, clarified and a lot of issues which were pending in the eyes of developers, authorities and buyers have all got streamlined and that will now help us in applying for permissions.

We have already started that and you will start seeing launch across the city, across developers so that is huge positive for developers in Mumbai. Having said that I must also tell you that there is an act known as the Maharashtra Ownership Flats Act (MOFA). The government is initiating changes in the MOFA act again to bring it more in line with the reality, which is also a very nice fact, a lot of issues like carpet area registration whether parking can be sold, not sold compensations to be given in cases of delays, redress mechanisms, those all are going to be covered under MOFA and the parent body which will govern MOFA, would be the same cabinet has also approved setting up of the housing regulatory authority and housing appellate tribunal, so that will set the tone and the tempo for development for elite developers, elite buyers so on and so forth, so that another huge positive as far as regulatory side is concerned.

Third is that new municipal commissioner has also set timeline for approvals so he said that 60-75 days for approvals to be given, but there is a caveat, which is that you have to meet all the pre-conditions. So if suppose you apply for the building for approval he said that he will give you within 60-75 days, but you have to obtain all the pre-approvals NOCs, which is you will need a clearance, you would need a high rise clearance, you would need MOEF clearance, if the project is more than 20,000 square meters in size. You would need heritage committee clearance, if the project falls in a heritage briefing or if it a listing heritage building so and so forth, so therefore once you comply with that give that to the building proposal department, they will then pass the particular proposal that is 60-75 days then it is done, but our expectation is that projects which falls in to the CRZ, they normally would take about two years for approval today; however with these changes it would take about nine months.

The other thing is the projects, which are outside to CRZ that would take you, now about a year, year-and-half for approval. Those would now be approved within about six months, so of course you will have clear-cut timelines for all these approvals. Again as far as the regulations are concerned, we are seeing which is not from the real estate, but more from the RBI and the interest rates. We are seeing that RBI is now cutting interest rates or rather they have indicated that they would be doing, so they are cutting CRR, which would bring in liquidity.

So this year in 2012, we will see that whether it happens in January, February, March or April, May, June that should be seen, but you will start seeing the fall in interest rates, which we all are expecting and we know it has happened, we will see liquidity coming back into the system, which is absolutely in line with what everybody is expecting and with the way the stock market reacting so therefore that holds, we will see buyers coming back because at 12%, 13% home loan rate it was not looking good, developers

even at Orbit our margins were getting impacted. EBITDA margins are at 39% but PAT margins at 5%, therefore we are feeling the pinch ourselves, so once the rates comes down we will start seeing the positive impact on the balance sheet also. As far as pricing and volumes are concerned in real estate sector in Mumbai, I will break it up into three parts, first part is commercial office space.

In the last one year we have seen about 20-30%, correction across the board in commercial real estate on the back of good supply. Offtake is also there, it is slow but there is offtake. As far as the residential supply is concerned the supply is not been there because project approvals are not there, demand is huge, prices were high so the absorption was not there, but what we are witnessing now over the last may be 60 odd days is that demand is seeming to come back in not such a trickle, but more than a trickle. We are seeing that we are going ahead in terms of the residential side, sales are taking place now and in addition to the sales taking place, we will keep seeing projects getting launched, the absorption taking place at the present level. So our assessment over here is that residential rates will remain more or less stable.

As far as retail price is concerned, front line shops on the main road, which is there so street shopping is continuing to be very aggressive and very positive. Prices are high for shops, but if you look at the same shops in the mall for retail are down by about 20%, because a few of malls are not doing very well, so that is the general outlook as far as pricing in concerned and volumes are concerned. We will see as I mentioned earlier because of the new laws the launches taking place. In the new law one of the thing which has come out very nice is the fungible FSI scheme where they said that 35% extra area which was earlier there in the form of architecture elevation, flower beds etc which was then converted in to your regular floor plates or regular livable areas. Those have now been regularized and what they are also saying is that along with that you have to pay a premium for that fungible FSI to the BMC. So based on that you can regularize it and use it as your regular space, which is your livable space so that is as far as industry is concerned and I think I just quickly put it over to Ram to just share the Q3 quick numbers after which we can take the question. Over to you now.

Ram Yadav:

While during this quarter, revenues have stayed almost stagnant if we compare it with the Q2, we had a total 105 Crores, out of which, 50 Crores was more of extraordinary item because of lock stock barell sale of one of the project, so if we compare with that say about 53 Crores this quarter we have done 73.5cr against that margins are still under pressure given that the cost of interest has been quite high and still it has to go a long way to match the price of revenues to start pushing upon the profit after tax margin. EBITDA had already started improving, while the jump of about 7-8% during the quarter, but we expect somewhere between 35% is what our target is for the next year.

As far as our sale is concerned, we have seen that the sale has started picking up. January was a bit of colder month for at least the first half, the inquiries have already started building up and in our view I think the February second half and the March could

see substantial amount. We did a total of 32,921 square feet of sale during the quarter for about 71 Crores larger part of it has come from Andheri, but in Q4 we are looking at doing a bit of fire sale both in Lower Parel as well as Andheri. As far as the targets of December is concerned, during the last concall we had indicated that we would be doing close to 45,000 square feet of sale, of which we have already in my view exceeded it to that extent we had indicated that will be going close to about 20,000 in Residency Park 15,000 in Orbit Terraces and another 10,000 square feet from Orbit Enclave and Orbit Laburnum. As far as Orbit Terraces is concerned, we were waiting for the permissions which only came during the last couple of days in December, so the work has just started there and we expect as the inquires are building up so probably at little stable prices we would be able to push the sales in that project too to meet the target probably, we may exceed and I am more on the positive side exceeding the targets of the sales side.

As far as the delivery is concerned, we mentioned that the Q3 and Q4 would remain in line where the delivery would still be subdued given the three of our new projects that we are planning to launch. We may see the delivery starting to get up on the higher side on probably strong Q2 onwards in the next financial year. As far as the debt is concerned, we have kept on check the total debt, which has increased during the quarter is just about 12 Crores on the debt side, but if we look at the cash which is lying in our Orbit Highcity Pvt. Ltd which of course we cannot utilize for purposes other than Mandwah project itself, so on a net basis if we adjust the cash our debt in a way has come down but I mean as I said the fact that money is only for Mandwah project that cannot be used for projects. As far as recoveries are concerned we have seen the recoveries process has already started. We would say that recoveries would only pace up, some recoveries would come in Q4 and some would come in Q1 next year, but the real cash flow from the sale would start coming some where between Q2 and Q3 next year.

The larger part out of this close to 93 Crores, which is already due billed for is from our BKC WTC project where we have close to about 65 Crores pending. Last quarter it was 80 Crores billed amount, but not reaching us. This time 15 Crores has already been received. We have received close to similar amount in the January month, so we are progressing on that too. The unbilled amount would still remain high probably till Q3 of the next financial year, given the fact that there are a lot of projects which will come in to closer end which we should be receiving our final permissions like OC and BCC during that period. We had indicated that we will be looking at a total cash flow between 200 and 250 Crores in between Q3 and Q4 of which we have indicated that 50 Crores from Ocean Parque. So out of 150 Crores, we have already achieved close to about 68 Crores and we are very comfortable to state that the balance we will be able to receive. As far as the 50 Crore against Ocean Parque is concerned, we are making our efforts on the best-case basis. I would still say that we are confident, but that is something that we would still say that a little amount of uncertainties, we will lose on that.

As far as our other projects are concerned things are moving, as we had indicated. Status of permissions though on the sentiment side has surely changed, but as far as the new permissions for all the project are concerned which we are looking at launching, we are now getting into the process of outlying between February and March is when we would be applying for these permissions substantially and given that these permissions should take between 2 and 3 months, we may start looking at launching new projects between May end and June so some part of sales from the new launches would start coming from Q1 itself.

As far as the new acquisitions are concerned, as we have said that it may take another six to nine months. We are reworking on our strategy to engage with the partners and as there would be clarity which will emerge over a period of time next three to four months, we will come back on how much square feet will be holding on to that so right now we are just keeping that on the hold. As far as one more project which is at Kemps Corner is concerned which was not yet brought into the main books, we would be looking at closing the project and probably bringing in to the main stream and that could be one of the new launches that we will see between Q1 and Q2 of next financial year.

Mandwah though we had started the pre-launch somewhere in October 2010, between August and October 2010, but we had to held back on the basis that we would relaunch the project on the basis that we have 100% of the permission that we had been given before we take the ground and launch it again. So we are holding on to that hand we already confident that the permission would be in place in just six months and as far as sub-provisions related to the final permission as said we have made considerable amount of progress on that. So that is from me for now because numbers have already been disclosed and put on the website. I am not delving much into that. I would leave the forum for the questions. Thank you.

Moderator: Thank you. The first question is from Adhidev Chattopadhyay from Edelweiss. Please go ahead.

Adhidev Chattopadhyay: Thanks for taking my question. I have got a few questions, first just to clarify I think heard a call that you are talking about some fire sale in Lower Parel and Andheri, so could you just clarify what is the nature of this sales? Is just like will giving a bulk discount or is it an overall price.

Pujit Aggarwal: It is basically a group bulk and also when you would be trying to bunch together about 20,000-25,000 square feet of this all together and doing marketing on that rather than depending on the open market sell.

Adhidev Chattopadhyay: Secondly I see that you have said the areas under review for Lalbaug and then the new project at NS Road, just to clarify are we seeing the possible increase in the area on account of amended DCR?

Pujit Aggarwal: No, the reason that we have mentioned the review that we are looking at resizing both the projects as far as project at NS Road is concerned we would be looking at bringing in a partner on that and as far as Orbit Midtown Lalbaug is concerned we are revisiting our strategy of whether to acquire further at this point of time or start the construction and then we may look at building up the pipeline later.

Adhidev Chattopadhyay: Okay thirdly this new project you said at Kemps corner, so what would be the land acquisition or whatever the initial outgo have we already spent the money or do we have some payments to be left?

Ram Yadav: The project is already there in the hand, but about 50% of the project lies in Mr. Aggarwal's name as promoter and 50% is held by outside the company. We are still negotiating the terms and once it is done then we will bring into the main stream. As far as Mr. Aggarwal's portion is concerned, it will come at cost, and as far as other party is concerned, we would come back on how the terms are set.

Adhidev Chattopadhyay: Finally this time Santa Cruz project, when do we see the phase one getting launched, any specific guidance on that?

Ram Yadav: Well, as far as Santa Cruz is concerned, we are looking right now in this situation between May and June and even in that project we may look at either roping in a strategic partner or probably even looking at partial exit.

Adhidev Chattopadhyay: Okay, my final question relates to the approvals process obviously the amended DCR you have it would result in faster approvals. Just to get some clarity, obviously we have a number of ongoing projects across the city, so how does it change? Are there any projects for you to re apply for any approvals or are just it will be under the old DCR, will you just clarify broadly?

Pujit Aggarwal: As far as the projects are concerned, if sanction has been obtained which is an IOD, in that case it is up to the developer, it is his choice whether he would like to go in as per the old regime or it is his choice if he would like to go in to the fungible FSI new regime. So that choice would be made by the developer. If he chooses to stay with the old then he continues to do his construction. If he chooses to change then he has to go in for the amendment and re-apply. Therefore as far as we are concerned, ongoing projects where IODs have been obtained and CC etc., where work is on, we are not going to go in the fungible FSI scheme. That would only be for prospective projects as far as Orbit is concerned.

Adhidev Chattopadhyay: Okay, so have we seen a pick up in the approvals, in the last couple of months or something overall for the markets, what is your sense on that?

Pujit Aggarwal: Yes, of course. As far as Orbit is concerned, last two-three months lot of cobwebs have been cleared, lot of pending approvals have been secured and more so the fresh approvals for these new projects, we are in the process of securing that. So, we are

seeing a change in the overall mindset of the government where for one year they were just sitting and they wanted to review and they wanted to take a call on what needs to be done, what need not be done. They have done that and now it is an open market. So we are ready to run now or already running.

Adhidev Chattopadhyay: Okay sir. Thanks a lot. I will come back later if I have more questions.

Moderator: Thank you. We will take the next question from the line of Akshit shah.

Akshit Shah: Hi sir. I thought of just dropping and asking some questions. Sir, my first question is regarding Terraces. Now, since we have completed around 30-35 floors and the overall plan is for 60 floors. So have we got the overall plan approved and got the CC for that?

Pujit Aggarwal: Yes, we have got a basic approval and there are certain other compliances, which are pending. So in the meantime we would meet those compliances and we would make sure that those approvals are in place. So the potentiality of the FSI is there with us but to get the approval, we need certain things to be done, so those are being matched.

Akshit Shah: But we do not need to go for the revision in plans and all?

Pujit Aggarwal: No, not at all.

Akshit Shah: Okay, sir regarding Kilachand property, Kilachand and Lalbaug we are working our numbers but because of the fungible FSI rule, are we scaling down some area on that, earlier we would have done some calculations on that but because of this can we expect some reduction in salable area in these projects?

Pujit Aggarwal: As far as Kilachand is concerned, it was in CRZ, so, therefore that is out of the purview of the present law because the present law fungible FSI scheme is not applicable in CRZ. So, that is out, as far as Lalbaug is concerned, certainly we will be looking at seeing what is the total area which is why we have said that it is under review and we will come back to you with what the numbers are, but let me tell you that in any case the areas at Orbit which we were generating with all these areas were far less than 35% fungible FSI. So, if at all there would be an impact it would be on the positive side, not on the negative side.

Akshit Shah: Okay, great. My next question is for Ram. For residency park, in terms of value, we have sold something like 20-21 Crores of project during the quarter and the project is around 51% completed, but if I see whatever we have received from this project is something like 4-4.5 Crores. So if you can reconcile this?

Ram Yadav: See, the deal basically took place somewhere just before the Christmas and this amount we had received was just a token amount at that point of time and we have received certain more amount in the month of January.

- Akshit Shah:** Okay, by now it would have been at the same level?
- Ram Yadav:** Orbit Laburnum as well as Orbit Residency Park has been done to basically expedite more on the cash flow. Laburnum has come; Residency Park would come in.
- Akshit Shah:** My next question was actually for Laburnum where we have not yet started free sale construction and we have got almost full money for the sale. So have we sold it at a discount?
- Ram Yadav:** Yes, we have actually sold it at a discount. We are generally selling out in the market at somewhere between Rs.44000 and Rs.45000 a square feet, whereas in this particular sale has been done at Rs.35000.
- Akshit Shah:** Okay, that is a big discount, but do you plant to continue this for this quarter as well?
- Ram Yadav:** Now not for Residency or for Laburnum. Terraces as I said, we may look at the prices. So I am not suggesting there will be a deep cut in the price, but we would look at doing things. It will be more depending on when we are doing the sale how much is the person looking at and how much he can put the cash upfront
- Akshit Shah:** Okay understood, thanks.
- Moderator:** Thank you. We have the next question again from the line of Mr. Adhidev Chattopadhyay from Edelweiss. Please go ahead.
- Adhidev Chattopadhyay:** Sir, my first question pertains to the WTC. I just said you received 15 Crores in the last quarter and around 15 Crores in January, I guess another balance 150 Crores we have to receive. So is there any timeline, is the nitty-gritty better in terms of when will the balance cash be received?
- Pujit Aggarwal:** See, last time we had indicated that as far as WTC cash flows are concerned, they will be coming between six and nine months. So we maintain that and that would basically come under basis of receiving the BCC.
- Adhidev Chattopadhyay:** Just as a housekeeping question. What is the total construction spend you will be doing in FY'12 and any guidance for next year if possible?
- Pujit Aggarwal:** Well, we have stopped talking of the next year guidance at least in this meeting. We would surely do a detailed one, when we are talking about our Q4 annual results during that time. As far as Q4 is concerned, I have already given my guidance.
- Adhidev Chattopadhyay:** Okay, thank you.
- Moderator:** Thank you. We have the next question from the line of Mr. Tejas Sheth from Emkay Global. Please go ahead.

Tejas Sheth: Hello sir. I just wanted to understand that this new FSI norm which has come up, how helpful they are in our area of business which pertains mainly to cluster developments and redevelopment part of this?

Pujit Aggarwal: It is very good because earlier what would happen is that when we were developing, every tenant would say give me extra area, so what we would do is, we would make flower beds and then that guy would convert it into his regular floor, plate and make it into a habitable unit etc. Now they have said nothing doing, you take that extra area, for tenants you give it free and for the free sale also you get that extra area and you pay a price for it. So effectively what will happen is that, all areas where we were, kind of indirectly mentioning that your total area is this much, usable area is this much, built up area is so much everything will go away and now release in new law and based on the new act that I spoke about in the introduction, we will sell on carpet areas, so as far as the BMC plan is concerned, as far as physical construction is concerned, and sale plan is concerned, where all three match. So it is fantastic. I think the regulation in terms of the transparency that is bringing forth, it is a step in the right direction and it is one of the greatest blessings that the Mumbai city could have received.

Tejas Sheth: So it is more now the communication will be much more clear and cleaner?

Pujit Aggarwal: Communication, documentation, ownership, everything will be much more clear in procedure.

Tejas Sheth: Sir, just another thing I wanted to understand, does this change our salable area in our Santa Cruz project?

Pujit Aggarwal: Not really because that is under SRA. SRA is still not impacted with these fungible FSI norms as yet. So it is not impacting, one and secondly, even if SRA comes in line, with the fungible FSI scheme, in that case also we have a height restriction in Santa Cruz because right above the funnel of the flight part, therefore the amount of FSI that we will be able to use, it will be still that same, given the FSI whatever 7 - 8 lakhs square feet salable. It will remain that much.

Tejas Sheth: Just last question, could it have been really sounding very positive on this whole permission getting cleared and number of months coming down by nearly half, how sure you are this time on this to take place, because in past also we have been knowing that the government would just go back on what actions it takes. This time how sure we are?

Pujit Aggarwal: See I think the thing is already taken place where the team is been notified the municipal commissioner has sent circulars and it is going on so therefore I am absolutely sure that this is a given part because now from here we cannot change track. They said that this is the way and I am not going to like permit anything which is here or there so you know if you recollect 20-30 years back chief ministers would change the planning norms, they would change for example some reservations around plot and they would ultimately once it was discovered they would loose their chief ministership and

say there is whatever the thing is that so what would happen is that thinking if a municipal commissioner were to use his discretionary powers now in that case he would then stand under this scrutiny of the law under the public and the government so I do not think now they would use the discretionary powers because everything is so crystal clear.

Tejas Sheth: But can change in power at BMC leap of orders?

Pujit Aggarwal: No, see basically BMC power which is there as far as you know the present elections are concerned that impact more, the construction projects of the BMC impacts roads, impact water and contract given by the BMC basically it does not impact crediting approval processes because that falls under the UD department there is where the BMC has a planning authority falls under the state government.

Tejas Sheth: Okay fine. That is it I think it clears about. Thank you.

Moderator: Thank you. The first question is from Prem Khurana from B&K Securities. Please go ahead.

Prem Khurana: Good evening sir. Most of my questions have been answered just couple of questions. First one is kind of housekeeping kind of question, for Orbit Haven face value has gone up as on Rs.199 million but there is no change and corresponding change in area, what you be able to share some thoughts on this?

Pujit Aggarwal: Basically two apartments have changed hence where we have bought and sold it and the calculation had happened at somewhere close to about Rs.54000 odd value and this has happened about 72000. So that has resulted it to close 19 Crores addition.

Prem Khurana: Second question I mean in your opening remark you kind of mentioned that you are planning to do some fire sale in couple of your projects and in your opening remarks you also make improving market scenario so just wanted to understand if you wanted to do fire sale at this point do you think you could give a negative signal?

Pujit Aggarwal: When I said fire sale I did not anywhere mean that it is giving under desperation. The whole idea was that rather than depending on advertisements and then opening it to all we are basically looking at group of buyers who have already started coming so there are a lot of people who are interested and they are coming around and making inquiries for group deals it is only opened for those guys because see for past about one year and two months there was no way that we had even opened the sales because nobody was sure about the areas that they want to get nobody was sure about the regulations that would come in place and how it is going to hit them and so now as that clarity has come and there are a lot of people who had been anyway hovering around with such deals, so we are only looking at that. So fire sales, in no way, means distress sales.

Prem Khurana: Thanks.

- Moderator:** Thank you. We have next question is from Sneha Poddar from Sharekhan. Please go ahead.
- Sneha Poddar:** Good evening sir. First of all when will the Laburnum start construction?
- Pujit Aggarwal:** Good question. I think as Ram mentioned a short while back that by March we would be ready to make the applications and another three months after that so I believe by July we should be able to break ground at Laburnum.
- Sneha Poddar:** Given the kind of clearances with all the approvals which are pending in some of the projects so which are likely to get launched in say Q2?
- Ram Yadav:** Q3 and Q2 we are basically looking at three launches. We are looking at the one phase of Santa Cruz, we are looking at the Laburnum itself and we have been looking at launching one project at Napeansea Road.
- Sneha Poddar:** Sir the one, which has 60,000 square feet area and sir can you throw more light on the Kemps Corner project I mean in terms of by when the deal be closing and what is the area and all?
- Pujit Aggarwal:** Well we expect that and then we wish that the deal gets closed may be ASAP even before March, but even on the outer side may be by May-end, we have to close it anywhere because then we have to also apply for the permission and that would be based on how we are settling our partners. If you are basically asking me when it may get launched we are planning that it should get launched in the Diwali.
- Sneha Poddar:** Okay thanks a lot.
- Moderator:** Thank you. We have next question is from Sumit Kothari from PCS Securities. Please go ahead.
- Sumit Kothari:** Thanks for taking my questions because if I see the presentation I see that there is not too much money spent on the land acquisition like the NSR roadblock project I mean individual planning to complete the acquisition for the whole projects?
- Ram Yadav:** You see basically what we have been doing is our focus for the next ~18 months is going to be on monetizing the project and trying to scale up the sales, so we are currently looking at on a project-to-project level investment either it is going to be by way of the pre-sales that we do before even we take over and complete acquisition or it may be some strategic investors there we make it in this project individually, so we clearly are looking at this two, three things one that we are not going to increase the debt now going forward at least on next 12 to 18 months. In fact, we are only going to get reducing. Number two we are looking at investment on the scaling up side of the projects where the existing pipeline is there from the investment which would basically start from outside and the surpluses that we will be generating will be basically using it

to either invest in the construction on probably retiring the high cost debt. Third is not on acquiring the new project that will basically for another two 18 to 24 months as going to the basically improving the ROE.

Sumit Kothari: Thank you.

Moderator: Thank you. That was the last question from the participants. I would now like to hand the conference back to the management line for closing comments.

Pujit Aggarwal: Thank you so much. Well it was great talking to everybody and as usual we know I look forward to our next concall.

Moderator: Thanking all on behalf of SBICAP Securities that concludes this conference call. Thank you for joining us. You may now disconnect your lines.

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Key to investment Ratings

Guide to the expected return over the next 12 months. **1=BUY** (expected to give absolute returns of 20 or more percentage points); **2=ACCUMULATE/ADD** (expected to give absolute returns between 10 to 20 percentage points); **3=REDUCE** (expected to give absolute returns between 0 to 10 percentage points); **4=SELL** (expected to give absolute negative returns)

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