

Opportunity looms on potential cycle reversal

The agrochemical destocking phenomena had caught manufacturers off guard in FY24. Recent commentaries by global agrochemical majors and ag-chem retailers have been somewhat positive (click [here](#) for our FY25 outlook for agrochemicals) indicating that the destocking is nearing its end. In our view, restocking and normalcy will come unannounced, just like the destocking. SRF stands to gain from the cycle reversal on the back of its product pipeline of active ingredients, offering it an opportunity size of USD 400mn-500mn. Its specialty chemicals sales in FY24 clocked ~USD 445mn. Our current estimates have baked in incremental USD 370mn sales over FY24-27E. Moreover, our margin estimate for the chemicals division is not factoring in benefit from forward integration and positive operating leverage. Hence, there is unlikely to be downward revisions to our specialty chemicals estimates. In fact, there remains an upside risk if the reversal is as profound as the down-cycle. We reiterate BUY with unchanged estimates and Sep'25 TP of INR 2,795 (SoTP based).

- New AI pipeline has the potential to double SRF's specialty chemicals sales over the next 3 years:** We believe SRF's specialty chemicals growth (owing to its strong product pipeline) has been clouded by concerns such as inventory destocking, pricing pressures, etc. We highlight that SRF has the potential to double its current specialty chemicals sales over FY24-27E on the back of new product launches. Basis our calculations, opportunity size for SRF's upcoming active ingredients (AI) could be USD 400-500mn (while the final formulations market could be USD 2.6-2.8bn) (refer **Exhibit 1**).
- Forward integration in some of its existing intermediate offerings augurs well:** We had highlighted in our deep dive report (click [here](#)) that SRF has been supplying intermediates for several patented AIs such as Tetraniliprole, Pinoxaden, Cyclobutrifluram, etc. We believe SRF could forward integrate and supply final AI to its customers, in certain cases. Its export registration for Tetraniliprole (refer **Exhibit 2**) indicates a possibility towards supplying that to Bayer. Tetraniliprole was registered by Bayer in various geographies in CY21-22 and has a peak sales potential of EUR 300mn. This could translate to USD 60mn-80mn opportunity for SRF. Besides this, SRF also has the potential to manufacture Mefentrifluconazole (peak sales of > EUR 1bn) using its own intermediate (TFMAP) (Note: recently, Deccan has started supplying this AI to BASF; Deccan isn't backward integrated for TFMAP).
- Maintain BUY with Sep'25 TP of INR 2,795:** Besides specialty chemicals, PTFE sales would start contributing meaningfully from 2HFY25. On the ref gas front, as we had highlighted in our earlier report (click [here](#)) that the domestic R32 gas pricing has been robust, which should be able to offset the weakness in the export markets. Overall, SRF should benefit from forward integration and positive operating leverage. This should help lift its margins. However, margin improvement for its chemicals business isn't our base case scenario. Hence, there remains an upside risk to our estimates. We continue to maintain BUY with unchanged estimates and a SoTP-based Sep'25 TP of INR 2,795.

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Recommendation and Price Target

Current Reco.	BUY
Previous Reco.	BUY
Current Price Target (12M)	2,795
Upside/(Downside)	13.7%
Previous Price Target	2,795
Change	0.0%

Key Data – SRF IN

Current Market Price	INR2,459
Market cap (bn)	INR728.9/US\$8.7
Free Float	42%
Shares in issue (mn)	296.2
Diluted share (mn)	296.2
3-mon avg daily val (mn)	INR1,484.6/US\$17.8
52-week range	2,697/2,040
Sensex/Nifty	79,243/24,045
INR/US\$	83.5

Price Performance

%	1M	6M	12M
Absolute	6.4	-0.5	6.5
Relative*	1.0	-9.1	-14.1

* To the BSE Sensex

Financial Summary					(INR mn)
Y/E March	FY23A	FY24A	FY25E	FY26E	FY27E
Net Sales	145,918	129,104	151,071	176,255	203,999
Sales Growth (%)	18.5	-11.5	17.0	16.7	15.7
EBITDA	35,292	25,841	31,695	39,313	47,442
EBITDA Margin (%)	23.7	19.7	21.0	22.3	23.3
Adjusted Net Profit	21,623	13,357	16,952	22,173	27,887
Diluted EPS (INR)	73.0	45.1	57.2	74.9	94.1
Diluted EPS Growth (%)	14.5	-38.2	26.9	30.8	25.8
ROIC (%)	18.2	10.4	11.2	13.1	15.0
ROE (%)	22.9	12.3	13.9	15.9	17.2
P/E (x)	33.7	54.5	43.0	32.9	26.1
P/B (x)	7.1	6.3	5.6	4.9	4.2
EV/EBITDA (x)	21.5	29.8	24.3	19.4	15.9
Dividend Yield (%)	0.3	0.3	0.3	0.4	0.4

Source: Company data, JM Financial. Note: Valuations as of 27/Jun/2024

JM Financial Research is also available on:
Bloomberg - JMFR <GO>,
Thomson Publisher & Reuters,
S&P Capital IQ, FactSet and Visible Alpha

Please see Appendix I at the end of this
S&P Capital IQ, FactSet and Visible Alpha

Please see Appendix I at the end of this
report for Important Disclosures and

Exhibit 1. Opportunity size for SRF could be USD 400-500mn (out of USD ~2.6-2.8bn final formulation size)

Active Ingredients	USD mn	Innovator
Flonicamide	100-150	Ishihara
Lufenuron	150-200	Syngenta
Fluxapyroxad	490	BASF
Bicyclopyrone	250-300	Syngenta
Sulfentrazone	250-300	FMC
Tetraniliprole	320	Bayer
Mefentrifluconazole	1070	BASF
Total	~2,600-2800	

Source: Industry, JM Financial

Exhibit 2. SRF has built the capability to manufacture Tetraniliprole in-house

23.	437957-Export/9(3)2023	Gharda Chemicals Limited	Mesotrione 48% w/v SC	31.03.2024	Indigenous manufacture
24.	437983-Export/9(3)2023	India Pesticides Limited	Propanil 35% + Thiobencarb (Benthiocarb) 31% EC For Manufacture for Export (HERBICIDE)	31.03.2024	Indigenous manufacture
25.	437157-Export/9(3)2023	Tagros Chemicals India Private Limited	Clothianidin 140 + Lambda cyhalothrin 100 g/L ZC	31.03.2026	Indigenous manufacture
26.	437325-Export/9(3)2023	SRF LIMITED	Tetraniliprole Technical 90.0% w/w min.	31.03.2024	Indigenous manufacture

Source: Industry, JM Financial

Exhibit 3. Tetraniliprole has a peak sales potential of EUR 300mn



- Fast-acting and long-lasting control of all important **caterpillars** and selected **beetles** and **sucking pests**

- **Diamide insecticide** with active ingredient **Tetraniliprole**
- Expansion in Asia Pacific; recently launched in key markets like China and Vietnam and **now registered in 21 countries**
- Use in key crops; **corn, rice, potatoes, fruits & nuts and vegetables**

Peak Sales Potential ~€300m



Source: Bayer, JM Financial

Assumptions and Estimates

Exhibit 4. Key assumptions

INR mn	FY18	FY19	FY20	FY21	FY22	FY23	FY24	FY25E	FY26E	FY27E
Segment revenues										
Technical textiles	18,388	17,349	13,576	12,401	20,852	18,939	18,980	20,546	21,984	23,084
Chemicals	16,114	24,454	29,750	36,447	52,408	74,109	62,970	75,516	92,007	1,08,385
Packaging films	17,823	26,533	26,040	32,917	47,792	51,828	44,893	50,035	57,035	67,035
Others	4,573	2,716	2,783	2,320	3,403	3,926	4,653	5,085	5,340	5,607
Unallocated	49	57	54	87	119	99	112	112	112	112
Total	56,849	70,996	72,094	83,998	1,24,337	1,48,703	1,31,385	1,51,071	1,76,255	2,03,999
YoY growth (%)										
Technical textiles	-9%	-6%	-22%	-9%	68%	-9%	0%	8%	7%	5%
Chemicals	-6%	52%	22%	23%	44%	41%	-15%	20%	22%	18%
Packaging films	26%	49%	-2%	26%	45%	8%	-13%	11%	14%	18%
Others	526%	-41%	2%	-17%	47%	15%	19%	9%	5%	5%
Unallocated	15%	16%	-5%	61%	37%	-17%	13%	0%	0%	0%
Total	9%	25%	2%	17%	48%	20%	-12%	15%	17%	16%
Revenue contribution (%)										
Technical textiles	32%	24%	19%	15%	17%	13%	14%	14%	12%	11%
Chemicals	28%	34%	41%	43%	42%	50%	48%	50%	52%	53%
Packaging films	31%	37%	36%	39%	38%	35%	34%	33%	32%	33%
Others	8%	4%	4%	3%	3%	3%	4%	3%	3%	3%
Unallocated	0%	0%	0%	0%	0%	0%	0%	0%	0%	0%
Segmental EBIT										
Technical textiles	2,529	2,615	1,515	1,769	4,714	2,617	2,742	2,876	3,078	3,232
Chemicals	2,694	3,843	5,115	7,281	13,969	23,407	16,274	18,879	23,462	27,638
Packaging films	2,298	4,115	5,556	8,977	9,463	5,562	2,065	2,502	3,422	6,033
Others	444	218	318	256	204	348	930	763	801	841
Total	7,964	10,790	12,504	18,283	28,350	31,934	22,011	25,020	30,763	37,744
EBIT margins (%)										
Technical textiles	13.8%	15.1%	11.2%	14.3%	22.6%	13.8%	14.4%	14.0%	14.0%	14.0%
Chemicals	16.7%	15.7%	17.2%	20.0%	26.7%	31.6%	25.8%	25.0%	25.5%	25.5%
Packaging films	12.9%	15.5%	21.3%	27.3%	19.8%	10.7%	4.6%	5.0%	6.0%	9.0%
Others	9.7%	8.0%	11.4%	11.0%	6.0%	8.9%	20.0%	15.0%	15.0%	15.0%
Total	14.0%	15.2%	17.3%	21.8%	22.8%	21.5%	16.8%	16.6%	17.5%	18.5%

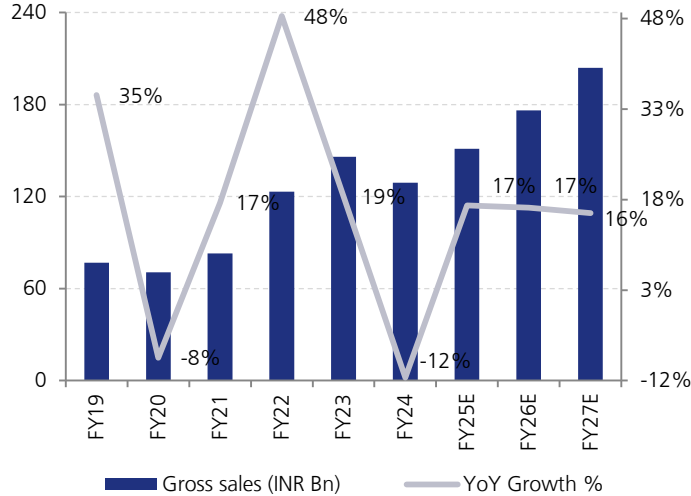
Source: Company, JM Financial

Exhibit 5. Segment-wise break down of chemicals business revenues

(INR mn)	FY20	FY21	FY22	FY23	FY24	FY25E	FY26E	FY27E
Segment-wise break down								
Specialty Chemicals	16,238	23,894	31,003	41,650	36,970	42,516	53,145	68,145
Fluorochemicals, refrigerant gases, PTFE	9,291	8,940	17,241	26,419	23,650	30,375	35,844	36,769
Other	3,461	3,117	3,508	4,298	2,350	2,625	3,019	3,472
Total revenues	28,990	35,951	51,751	72,366	62,970	75,516	92,007	108,385
YoY growth (%)								
Specialty Chemicals		47%	30%	34%	-11%	15%	25%	28%
Fluorochemicals, refrigerant gases, PTFE		-4%	93%	53%	-10%	28%	18%	3%
Other		-10%	13%	23%	-45%	12%	15%	15%
Total revenues		24%	44%	40%	-13%	20%	22%	18%
% share								
Specialty Chemicals	56%	66%	60%	58%	59%	56%	58%	63%
Fluorochemicals, refrigerant gases, PTFE	32%	25%	33%	37%	38%	40%	39%	34%
Other	12%	9%	7%	6%	4%	3%	3%	3%
Total revenues	100%	100%	100%	100%	100%	100%	100%	100%

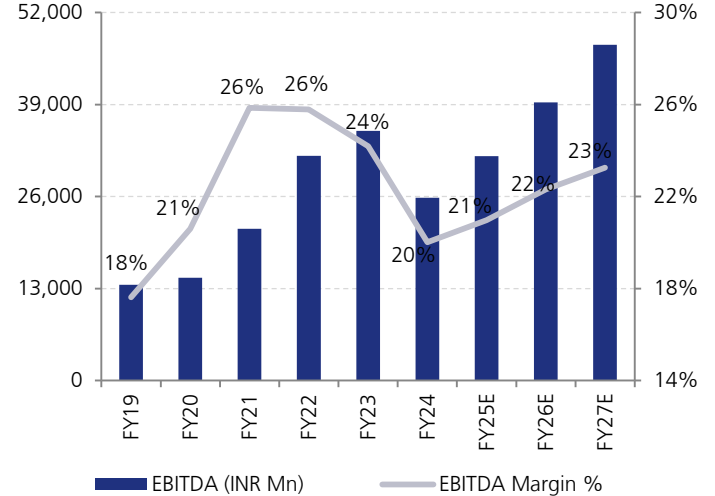
Source: Company, JM Financial

Exhibit 6. Sales expected to see 16% CAGR over FY24-27E



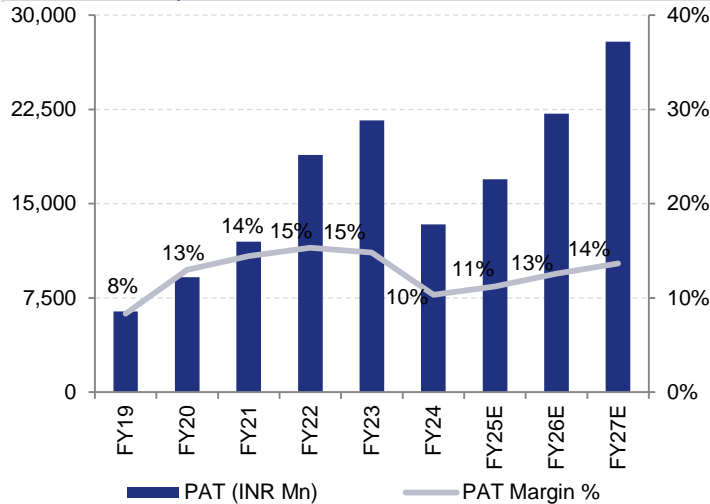
Source: Company, JM Financial

Exhibit 7. EBITDA expected to see 22% CAGR over FY24-27E



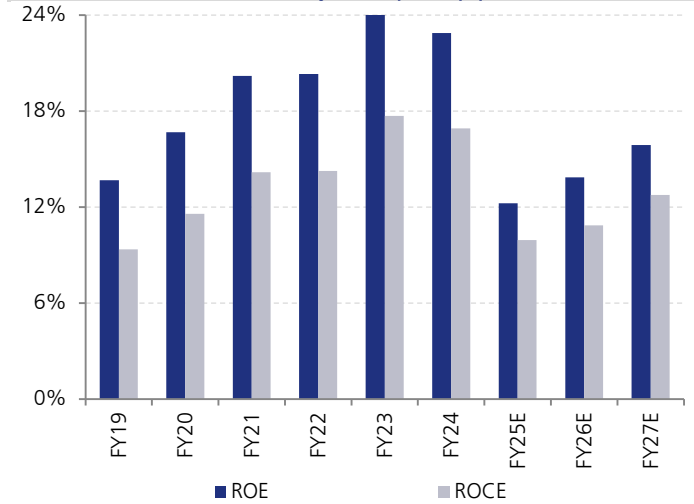
Source: Company, JM Financial

Exhibit 8. PAT expected to see 28% CAGR over FY24-27E



Source: Company, JM Financial

Exhibit 9. SRF's RoE/RoCE likely to be pick up post FY25E



Source: Company, JM Financial

Valuation

Exhibit 10. Our Sep'25 TP for SRF stands at INR 2,795/share

Segments	Sep'26 EBITDA (INR bn)	EV/EBITDA multiple (x)	Value (INR bn)	Value (INR/share)
Technical Textile Business	4	6	23	79
Chemicals Business	31	25	784	2,646
Packaging Films Business	7	6	44	150
Others	1	6	8	26
Total Business EBITDA	44		859	2,901
Less: Gross Debt			39	131
Add: Cash & Cash Equivalents			7	25
TP			828	2,795
Sep'26E consolidated EPS				84
Implied P/E multiple				33

Source: JM Financial

Exhibit 11. SRF is currently trading at ~39x 1-year forward consensus P/E multiple



Source: JM Financial

Exhibit 12. Chemical companies peer valuation

Company	Rating	CMP (INR)	TP (INR)	P/E (x)				P/B (x)				EV/EBITDA (x)				ROE (%)			
				FY24	FY25E	FY26E	FY27E	FY24	FY25E	FY26E	FY27E	FY24	FY25E	FY26E	FY27E	FY24	FY25E	FY26E	FY27E
SRF	BUY	2,458	2,795	54.5	42.9	32.8	26.1	6.3	5.6	4.9	4.2	29.8	24.3	19.4	15.9	12.3	13.9	15.9	17.2
UPL	BUY	568	650	NM	24.7	15.9	NM	1.6	1.5	1.4	NM	15.2	9.2	8.0	NM	-3.4	6.2	9.0	NM
PI Industries	HOLD	3,824	3,850	34.8	36.9	31.6	27.3	6.7	5.6	4.8	4.1	27.0	23.5	20.2	17.3	21.0	16.5	16.4	16.1
Deepak Nitrite	BUY	2,512	2,685	41.5	32.8	27.2	23.2	7.0	5.8	4.9	4.1	29.9	21.5	18.0	15.1	18.2	19.4	19.6	19.1
Clean Science	BUY	1,408	1,765	61.3	48.9	36.3	28.5	12.4	10.0	7.9	6.2	44.1	34.2	26.0	20.0	22.1	22.6	24.2	24.3
Navin Fluorine	BUY	3,623	4,105	81.6	56.9	40.7	32.2	7.8	7.1	6.2	5.4	48.8	35.3	26.2	21.6	10.0	13.0	16.2	18.0
Fine Organics	SELL	4,868	3,840	40.5	38.1	37.6	37.1	8.0	6.8	6.0	5.3	29.0	26.5	25.9	25.2	21.8	19.4	16.9	15.0
Galaxy Surfactants	HOLD	2,728	2,620	32.1	30.6	27.7	25.4	4.4	3.9	3.4	3.0	20.3	18.9	17.1	15.5	14.8	13.6	13.2	12.7
PCBL Ltd.	BUY	254	335	19.5	19.9	15.4	12.0	2.9	2.6	2.2	1.9	13.5	10.3	8.9	7.6	16.2	13.8	15.4	16.8
Aether Industries	BUY	895	1,005	123.7	71.6	47.0	35.8	5.8	5.3	4.8	4.2	81.3	44.5	30.2	22.3	5.8	7.7	10.8	12.5
Anupam Rasayan	HOLD	768	860	65.6	45.9	30.7	23.2	3.1	2.8	2.6	2.3	24.5	20.3	15.4	12.6	5.0	6.4	8.8	10.5
Archean Chemicals	BUY	657	715	25.4	15.1	12.0	10.3	4.8	3.7	2.9	2.3	16.8	9.7	7.2	5.6	20.4	27.6	26.8	24.5
Tatva Chintan Pharma Chem	HOLD	1,098	1,130	84.6	50.1	36.9	26.2	3.5	3.3	3.1	2.8	37.3	26.3	19.9	15.0	4.8	6.8	8.6	11.1

Source: Companies, JM Financial

Financial Tables (Consolidated)

Income Statement						(INR mn)
Y/E March	FY23A	FY24A	FY25E	FY26E	FY27E	
Net Sales	145,918	129,104	151,071	176,255	203,999	
Sales Growth	18.5%	-11.5%	17.0%	16.7%	15.7%	
Other Operating Income	2,784	2,282	0	0	0	
Total Revenue	148,703	131,385	151,071	176,255	203,999	
Cost of Goods Sold/Op. Exp	71,252	66,956	76,291	89,009	102,000	
Personnel Cost	8,138	9,350	10,285	11,314	12,445	
Other Expenses	34,020	29,238	32,799	36,620	42,113	
EBITDA	35,292	25,841	31,695	39,313	47,442	
EBITDA Margin	23.7%	19.7%	21.0%	22.3%	23.3%	
EBITDA Growth	11.1%	-26.8%	22.7%	24.0%	20.7%	
Depn. & Amort.	5,753	6,726	8,169	9,156	10,190	
EBIT	29,539	19,115	23,526	30,157	37,252	
Other Income	749	830	900	900	900	
Finance Cost	2,048	3,023	2,410	2,260	1,935	
PBT before Excep. & Forex	28,240	16,922	22,016	28,796	36,217	
Excep. & Forex Inc./Loss(-)	0	0	0	0	0	
PBT	28,240	16,922	22,016	28,796	36,217	
Taxes	6,617	3,565	5,064	6,623	8,330	
Extraordinary Inc./Loss(-)	0	0	0	0	0	
Assoc. Profit/Min. Int.(-)	0	0	0	0	0	
Reported Net Profit	21,623	13,357	16,952	22,173	27,887	
Adjusted Net Profit	21,623	13,357	16,952	22,173	27,887	
Net Margin	14.5%	10.2%	11.2%	12.6%	13.7%	
Diluted Share Cap. (mn)	296.2	296.2	296.2	296.2	296.2	
Diluted EPS (INR)	73.0	45.1	57.2	74.9	94.1	
Diluted EPS Growth	14.5%	-38.2%	26.9%	30.8%	25.8%	
Total Dividend + Tax	2,133	2,137	1,950	2,550	3,207	
Dividend Per Share (INR)	7.2	7.2	6.6	8.6	10.8	

Source: Company, JM Financial

Cash Flow Statement						(INR mn)
Y/E March	FY23A	FY24A	FY25E	FY26E	FY27E	
Profit before Tax	28,240	16,922	22,016	28,796	36,217	
Depn. & Amort.	5,753	6,726	8,639	9,673	10,707	
Net Interest Exp. / Inc. (-)	2,048	3,023	2,410	2,260	1,935	
Inc (-) / Dec in WCap.	-559	-1,145	-3,436	-2,254	-4,170	
Others	-1,388	-762	0	0	0	
Taxes Paid	-5,077	-3,826	-5,064	-6,623	-8,330	
Operating Cash Flow	29,017	20,939	24,566	31,853	36,359	
Capex	-28,382	-22,169	-20,000	-22,000	-22,000	
Free Cash Flow	635	-1,231	4,566	9,853	14,359	
Inc (-) / Dec in Investments	-1,642	1,073	0	0	0	
Others	410	-1,177	0	0	0	
Investing Cash Flow	-29,614	-22,273	-20,000	-22,000	-22,000	
Inc / Dec (-) in Capital	0	300	0	0	0	
Dividend + Tax thereon	0	0	0	0	0	
Inc / Dec (-) in Loans	1,736	5,055	-2,000	-4,000	-9,000	
Others	459	-6,072	-4,360	-4,810	-5,142	
Financing Cash Flow	2,196	-717	-6,360	-8,810	-14,142	
Inc / Dec (-) in Cash	1,599	-2,052	-1,794	1,043	216	
Opening Cash Balance	4,481	6,045	3,994	2,200	3,242	
Closing Cash Balance	6,080	3,994	2,200	3,242	3,459	

Source: Company, JM Financial

Balance Sheet						(INR mn)
Y/E March	FY23A	FY24A	FY25E	FY26E	FY27E	
Shareholders' Fund	103,271	114,790	129,793	149,416	174,096	
Share Capital	2,974	2,974	2,974	2,974	2,974	
Reserves & Surplus	100,296	111,816	126,819	146,442	171,122	
Preference Share Capital	0	0	0	0	0	
Minority Interest	0	0	0	0	0	
Total Loans	43,541	49,202	47,202	43,202	34,202	
Def. Tax Liab. / Assets (-)	7,906	9,112	9,201	9,201	9,201	
Total - Equity & Liab.	154,717	173,104	186,199	201,822	217,502	
Net Fixed Assets	121,681	137,703	149,064	161,391	172,684	
Gross Fixed Assets	125,108	163,810	183,810	205,810	227,810	
Intangible Assets	1,147	1,195	1,195	1,195	1,195	
Less: Depn. & Amort.	28,630	35,356	43,995	53,668	64,375	
Capital WIP	24,055	8,053	8,053	8,053	8,053	
Investments	5,027	5,349	5,352	5,352	5,352	
Current Assets	60,651	61,492	66,962	74,546	83,656	
Inventories	22,743	23,265	27,223	30,905	35,770	
Sundry Debtors	17,856	19,428	22,734	25,593	29,622	
Cash & Bank Balances	6,080	3,994	2,200	3,242	3,459	
Loans & Advances	2,459	2,111	2,111	2,111	2,111	
Other Current Assets	11,513	12,694	12,694	12,694	12,694	
Current Liab. & Prov.	32,642	31,440	35,179	39,466	44,189	
Current Liabilities	25,606	24,587	28,326	32,613	37,336	
Provisions & Others	7,036	6,853	6,853	6,853	6,853	
Net Current Assets	28,009	30,052	31,783	35,080	39,467	
Total - Assets	154,717	173,104	186,199	201,822	217,502	

Source: Company, JM Financial

Dupont Analysis					
Y/E March	FY23A	FY24A	FY25E	FY26E	FY27E
Net Margin	14.5%	10.2%	11.2%	12.6%	13.7%
Asset Turnover (x)	1.0	0.8	0.8	0.9	1.0
Leverage Factor (x)	1.5	1.5	1.5	1.4	1.3
RoE	22.9%	12.3%	13.9%	15.9%	17.2%

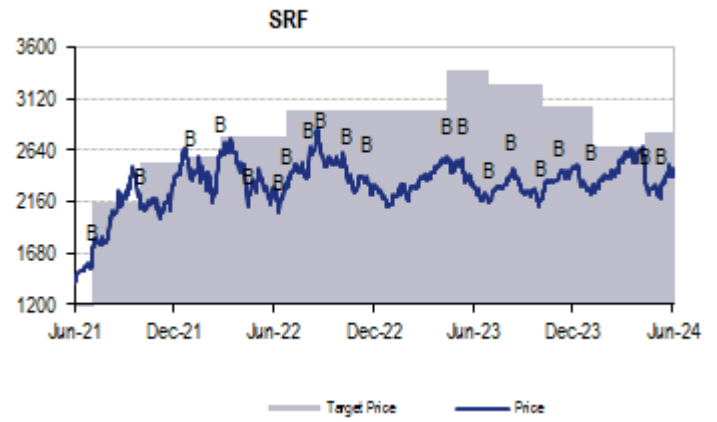
Key Ratios					
Y/E March	FY23A	FY24A	FY25E	FY26E	FY27E
BV/Share (INR)	348.6	387.5	438.1	504.4	587.7
ROIC	18.2%	10.4%	11.2%	13.1%	15.0%
ROE	22.9%	12.3%	13.9%	15.9%	17.2%
Net Debt/Equity (x)	0.3	0.4	0.3	0.2	0.2
P/E (x)	33.7	54.5	43.0	32.9	26.1
P/B (x)	7.1	6.3	5.6	4.9	4.2
EV/EBITDA (x)	21.5	29.8	24.3	19.4	15.9
EV/Sales (x)	5.1	5.9	5.1	4.3	3.7
Debtor days	44	54	55	53	53
Inventory days	56	65	66	64	64
Creditor days	72	76	79	80	81

Source: Company, JM Financial

History of Recommendation and Target Price

Date	Recommendation	Target Price	% Chg.
29-Jul-21	Buy	2,141	
26-Oct-21	Buy	2,530	18.2
25-Jan-22	Buy	2,575	1.8
20-Mar-22	Buy	2,765	7.4
10-May-22	Buy	2,765	0.0
5-Jul-22	Buy	2,765	0.0
22-Jul-22	Buy	3,000	8.5
30-Aug-22	Buy	3,000	0.0
21-Sep-22	Buy	3,000	0.0
6-Nov-22	Buy	3,000	0.0
14-Dec-22	Buy	3,000	0.0
10-May-23	Buy	3,380	12.7
7-Jun-23	Buy	3,380	0.0
25-Jul-23	Buy	3,245	-4.0
5-Sep-23	Buy	3,245	0.0
30-Oct-23	Buy	3,040	-6.3
30-Nov-23	Buy	3,040	0.0
31-Jan-24	Buy	2,665	-12.3
9-May-24	Buy	2,795	4.9
6-Jun-24	Buy	2,795	0.0

Recommendation History



APPENDIX I

JM Financial Institutional Securities Limited

Corporate Identity Number: U67100MH2017PLC296081

Member of BSE Ltd. and National Stock Exchange of India Ltd.

SEBI Registration Nos.: Stock Broker - INZ000163434, Research Analyst - INH000000610

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Definition of ratings	
Rating	Meaning
Buy	Total expected returns of more than 10% for stocks with market capitalisation in excess of INR 200 billion and REITs* and more than 15% for all other stocks, over the next twelve months. Total expected return includes dividend yields.
Hold	Price expected to move in the range of 10% downside to 10% upside from the current market price for stocks with market capitalisation in excess of INR 200 billion and REITs* and in the range of 10% downside to 15% upside from the current market price for all other stocks, over the next twelve months.
Sell	Price expected to move downwards by more than 10% from the current market price over the next twelve months.

* REITs refers to Real Estate Investment Trusts.

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