

Gas Utilities

India

Sector View: **Cautious**

NIFTY-50: **22,536**

April 08, 2025

Delhi EV policy 2.0 weakens CNG growth outlook

The Delhi government's draft EV policy 2.0 further pushes its drive to phase out CNG. It proposes that from August 15, 2025, no CNG auto-rickshaw/3W goods carrier registration will be allowed; existing CNG auto permits will not be renewed and will be replaced by e-Auto permits. It also specifies the target of moving public transport buses and garbage collection vehicles to become 100% electric. We have a grim outlook on IGL's CNG volume growth. The new EV policy reinforces our view. With the Delhi government taking strict measures against CNG, we believe Mumbai could follow. SELL rating on IGL (FV of Rs150) and MGL (FV of Rs1,030).

Delhi EV policy 2.0 targets faster switch to EVs for all vehicle categories

According to media reports, the Delhi government has brought a new EV policy 2.0 to replace the existing EV policy 2020 (was to expire on March 31, 2025; extended by 15 days). Key proposed measures include (1) no CNG auto-rickshaw/3W goods carrier registration from August 15, 2025, (2) for existing autos, permits will be substituted/re-issued with e-auto permits, (3) all solid waste and garbage collection vehicles will be transitioned to EVs; all garbage collectors would achieve a 100% EV fleet by end-2027, (4) public buses of DTC and DIMTS are likely to be converted into e-buses and (5) private car owners with two cars can buy only an EV as the third car. The policy also proposes that no 2W running on petrol, diesel or CNG will be allowed from August 15, 2026.

We note that in 2023, with the Delhi Motor Vehicle and Delivery Service Provider Scheme, 2023, Delhi is already implementing an aggressive conversion of aggregator/delivery vehicles, with a target of an all-EV fleet by 2030.

Our volume forecasts are conservative; EV policy 2.0 reinforces our conviction

We have been bearish on IGL's volume outlook, driven by a combination of a declining price advantage of CNG (versus petrol/diesel) and rising EV share. We have noted that the share of CNG in new autos has declined from over 90% a decade ago to below 25%. The share of 3W in IGL's CNG volumes has declined from 18-20% to just 7-8%. Even for other public transport categories, such as buses, taxis and CVs, the CNG vehicle addition pace is slowing. Only for private cars, partly due to the OEM push, CNG vehicles were growing. The requirement of a third car as EV may slow down the pace of CNG vehicle additions for PVs.

Other large metros such as Mumbai could follow Delhi's policies

We note that after a PIL a few months ago, the Bombay HC raised concerns about pollution in Mumbai. It suggested that, just as in Delhi, diesel vehicles can be phased out. The Maharashtra government has appointed a seven-member committee to suggest measures to replace diesel vehicles with EV or CNG vehicles. In our view, with Delhi taking measures against CNG, it may be prudent for bigger metros such as Mumbai to also opt for EVs that have zero tailpipe emissions. In our view, with BS-VI norms, the tailpipe emission for diesel/petrol vehicles will not be much inferior to CNG. Thus, the switch should be for EV and not for another fossil fuel such as CNG, in our view.

Company data and valuation summary

Company	Rating	Price (Rs)	Fair Value	Upside
		08-Apr-25	(Rs)	(%)
IGL	SELL	180	150	(17)
MGL	SELL	1,312	1,030	(21)

Source: Bloomberg, Company data, Kotak Institutional Equities estimates

Prices in this report are based on the market close of April 08, 2025

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3W accounts for 7-8% of IGL's and ~30% of MGL's CNG volumes

Exhibit 1: IGL and MGL's indicative CNG volume breakup

	IGL	MGL
3W auto-rickshaws	~7-8%	~30%
Private cars	~35-40%	~30%
Taxis (including aggregators)	~20%	18-21%
Buses	~20%	7-8%
Others (LGVs, CVs)	~15%	12-13%

Source: Company, Kotak Institutional Equities estimates

Public transport vehicles (3W, taxis, buses) typically consume more CNG versus private cars

Exhibit 2: Indicative per vehicle CNG consumption (kg/day)

	kg/day
Private cars	~1.5
3W - Autos	1.5-1.7
3W - Goods vehicle	~4
4W - Taxis	~4.5
4W - Goods vehicles	~7
MHCV/HCVV	~20-25
Buses	~30-35

Source: Company, Kotak Institutional Equities estimates

Delhi already has a policy for aggressive conversion of aggregators/delivery vehicles to EVs

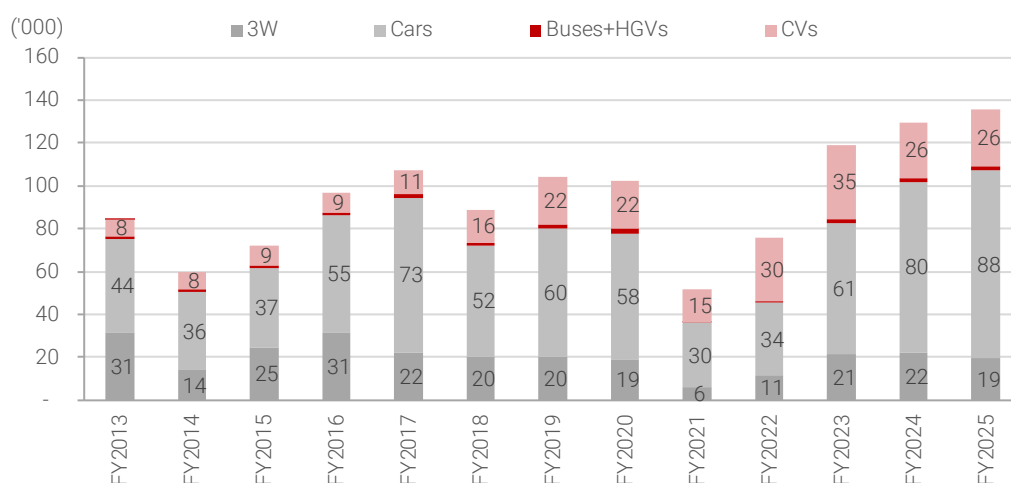
Exhibit 3: Delhi government's 2023 scheme targets for EV adoption in new aggregators/delivery vehicles

Period from notification	Target for aggregators		Target for delivery vehicles	
	3W	4W	2W & 3W	4W
0-6 months	10%	5%	10%	5%
1 year	25%	15%	25%	15%
2 years	50%	25%	50%	25%
3 years	75%	50%	75%	50%
4 years	100%	75%	100%	75%
5 years		100%		100%

Source: Delhi Government, Kotak Institutional Equities

CNG vehicle sales growth recently driven only by 4W PV; volumes moderating for other segments

Exhibit 4: Delhi NCR—CNG vehicle addition trends, March fiscal year-ends, FY2013 onward (thousands)



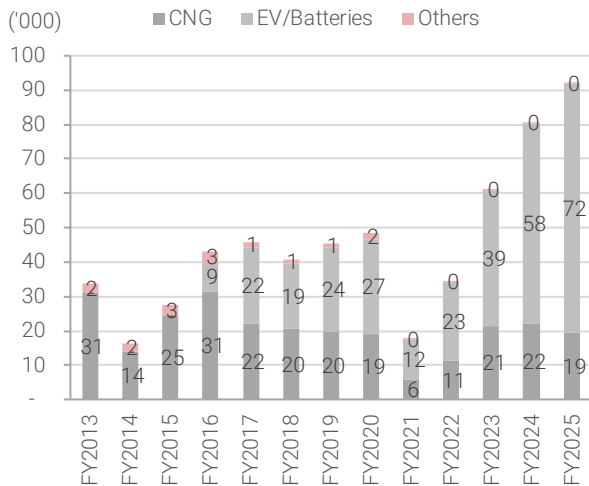
Notes:

- (a) Delhi NCR vehicle addition data for Delhi NCT, Ghaziabad, Noida/Greater Noida, Gurgaon and Faridabad.
- (b) Actual CNG vehicle addition numbers will likely be higher due to retrofitting of existing petrol vehicles.

Source: Vahan, Kotak Institutional Equities

CNG 3W additions declined yoy in FY2025

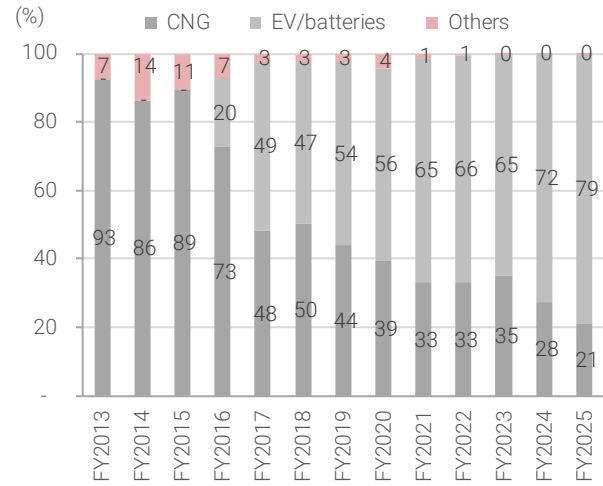
Exhibit 5: Delhi NCR-3W auto-rickshaw addition, March fiscal year-ends (thousand vehicles)



Source: Vahan, Kotak Institutional Equities

Share of CNG in new 3W now ~21% (90-93% a decade ago)

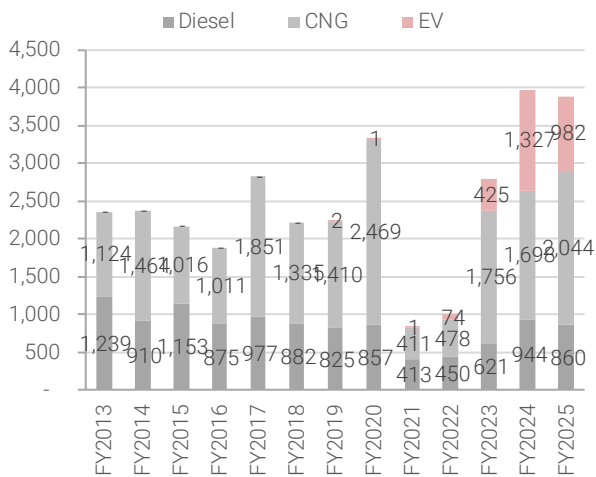
Exhibit 6: Delhi NCR-3W auto-rickshaws' fuel-wise CNG addition share, March fiscal year-ends (%)



Source: Vahan, Kotak Institutional Equities

EV bus additions were rising, but moderated in FY2025

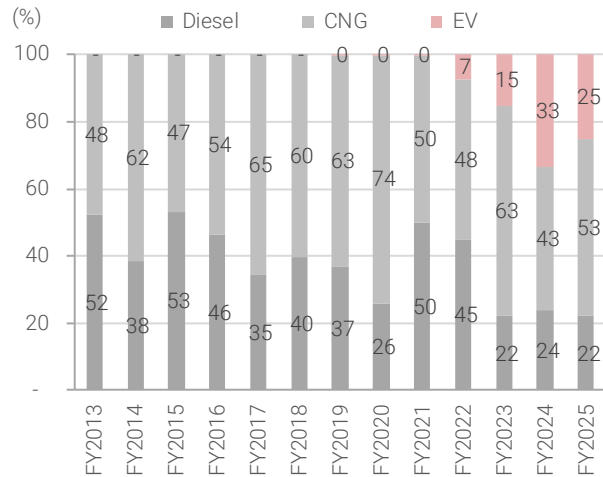
Exhibit 7: Delhi NCR-bus addition trends, March fiscal year-ends (thousand vehicles)



Source: Vahan, Kotak Institutional Equities

Share of incremental buses on EV ~25-33% in past two years

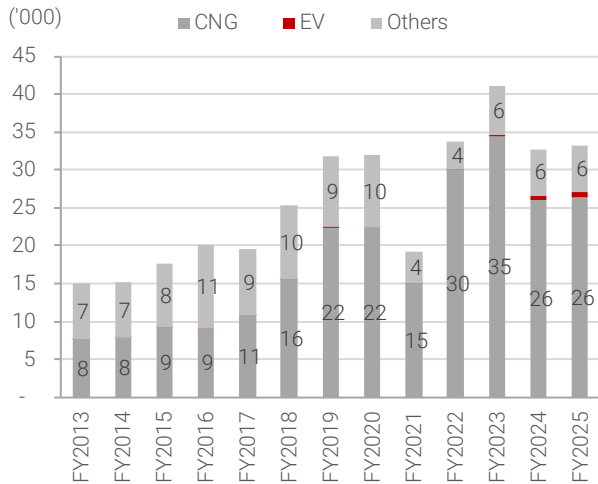
Exhibit 8: Delhi NCR-bus addition trends, March fiscal year-ends (%)



Source: Vahan, Kotak Institutional Equities

CV vehicle addition has slowed recently

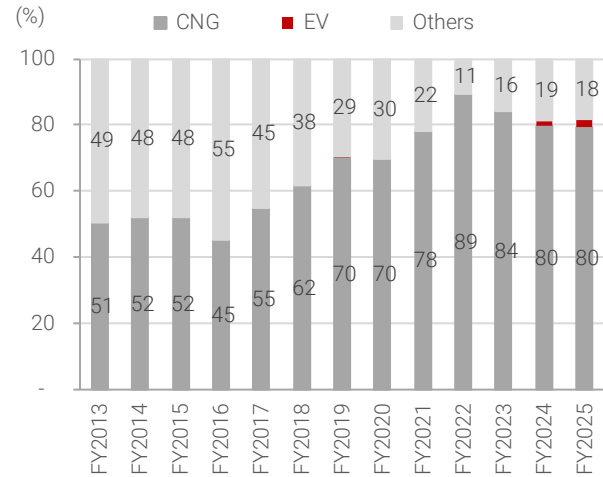
Exhibit 9: Delhi NCR—CV addition trends, March fiscal year-ends (thousand vehicles)



Source: Vahan, Kotak Institutional Equities

Share of CNG in CV is nearly 80% currently

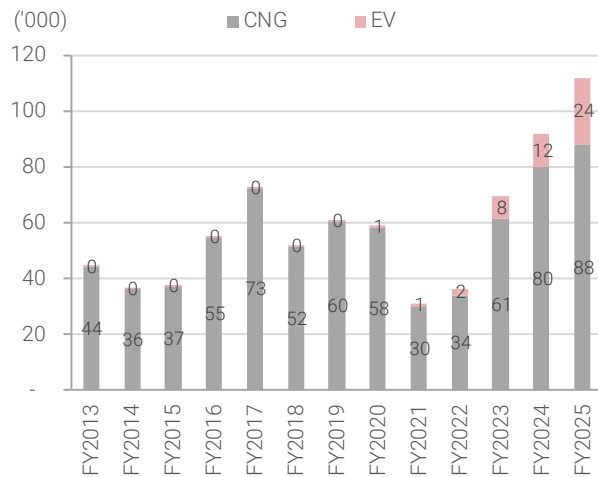
Exhibit 10: Delhi NCR—CV addition trends, March fiscal year-ends (%)



Source: Vahan, Kotak Institutional Equities

EV 4W addition as proportion of CNG rising

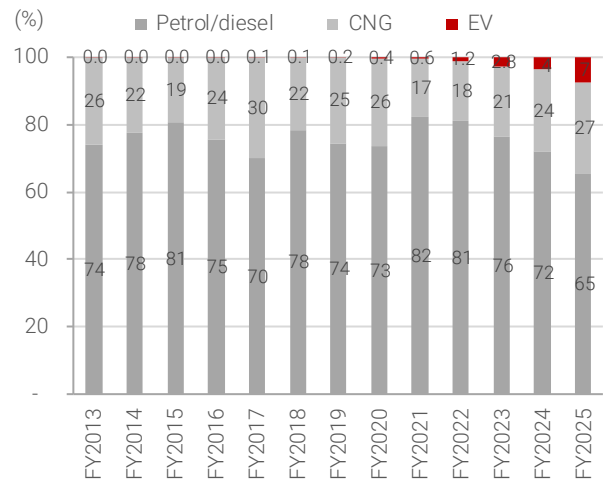
Exhibit 11: Delhi NCR—4W PV addition trends, March fiscal year-ends (thousand vehicles)



Source: Vahan, Kotak Institutional Equities

Share of CNG in 4W PVs increased in recent years on OEM push; share of EVs is ~7%

Exhibit 12: Delhi NCR—4W PV addition share, March fiscal year-ends (%)



Source: Vahan, Kotak Institutional Equities

IGL: Maintain SELL with FV Rs150

Exhibit 13: Key assumptions for IGL, March fiscal year-ends, 2018-28E

	2018	2019	2020	2021	2022	2023	2024	2025E	2026E	2027E	2028E
Sales volume (mmscmd)											
CNG	3.87	4.39	4.75	3.72	5.06	6.05	6.28	6.70	7.06	7.27	7.40
PNG	1.31	1.52	1.69	1.61	1.93	2.04	2.15	2.30	2.47	2.66	2.84
Domestic	0.30	0.33	0.39	0.46	0.50	0.54	0.62	0.70	0.77	0.85	0.92
Commercial/Industrial	0.56	0.69	0.81	0.78	0.96	1.00	1.03	1.09	1.20	1.30	1.41
Other CGD companies	0.45	0.50	0.49	0.36	0.47	0.50	0.50	0.50	0.50	0.50	0.50
Total (mmscmd)	5.2	5.9	6.4	5.3	7.0	8.1	8.4	9.0	9.5	9.9	10.2
- Growth (%)	12.9	14.0	9.4	(17.5)	31.2	15.7	4.5	6.5	5.9	4.2	3.3
Operating metrics (Rs/scm)											
Gross margin	11.1	11.0	11.9	13.9	13.0	12.5	13.6	11.5	11.9	11.9	11.7
Operating cost	5.2	5.2	5.5	6.3	5.6	5.7	5.9	6.0	6.0	6.1	6.2
Operating profit	5.9	5.8	6.4	7.6	7.4	6.9	7.7	5.5	5.8	5.8	5.4

Source: Company, Kotak Institutional Equities

We value IGL at Rs150/share using DCF methodology

Exhibit 14: Calculation of equity value using discounted cash flow analysis (Rs mn)

	2024	2025E	2026E	2027E	2028E	2029E	2030E	2031E	2032E	2033E	2034E
Assumptions											
Volumes (mcm/d)	8.4	9.0	9.5	9.9	10.2	10.6	10.9	11.3	11.6	12.0	12.3
Growth (%)	4.5	6.5	5.9	4.2	3.3	3.3	3.2	3.2	3.0	2.9	2.8
Unit margins (Rs/scm)	7.7	5.5	5.8	5.8	5.4	5.3	5.2	5.0	5.2	5.1	4.6
DCF model											
EBITDA	23,669	18,004	20,345	21,042	20,319	20,356	20,687	20,577	22,027	22,126	20,862
Adjusted tax expense	(4,226)	(2,861)	(3,268)	(3,264)	(2,921)	(2,797)	(2,773)	(2,645)	(2,924)	(2,866)	(2,459)
Change in working capital	(3,828)	1,157	1,118	1,279	1,410	1,343	1,322	1,299	1,095	1,162	1,208
Operating cash flow	15,614	16,301	18,195	19,057	18,808	18,902	19,236	19,231	20,198	20,423	19,611
Capital expenditure	(12,021)	(17,000)	(15,000)	(13,000)	(12,000)	(10,000)	(9,000)	(9,000)	(8,000)	(8,000)	(7,500)
Free cash flow	3,593	(699)	3,195	6,057	6,808	8,902	10,236	10,231	12,198	12,423	12,111
Discounted cash flow-now		(687)	2,801	4,741	4,757	5,553	5,701	5,088	5,414	4,923	4,286
Discounted cash flow-1 year forward			3,137	5,310	5,329	6,220	6,385	5,698	6,066	5,514	4,800
Discounted cash flow-2 year forward				5,947	5,969	6,968	7,151	6,382	6,794	6,178	5,376
		Now	+1-year	+2-years							
Discount rate (%)		12.0%	12.0%	12.0%							
Total PV of free cash flow		42,576	52,829	60,118							
Terminal value assumption											
Growth in perpetuity		2.0%	2.0%	2.0%	Sensitivity of 12-month fair value to WACC and perpetual growth						
FCF in terminal year		12,111	12,354	12,601							
Exit FCF multiple (X)		10.2	10.2	10.2	WACC (%)	Perpetual growth (%)					
Exit EV/EBITDA multiple (X)		5.9	6.0	6.2			0.0%	1.0%	2.0%	3.0%	4.0%
Terminal value		123,535	126,006	128,526		11.0%	150	153	158	164	171
PV of terminal value		43,712	44,587	45,478		11.5%	146	150	154	159	165
Value of extant CGD business		86,289	97,416	105,597		12.0%	143	146	150	154	159
Value of 50% stake in CUGL and MNGL		68,200	75,020	81,772		12.5%	141	143	146	150	155
Net debt		(30,524)	(30,299)	(25,075)		13.0%	138	140	143	146	150
Equity value		185,012	202,735	212,444							
Shares outstanding (mn)		1,400	1,400	1,400							
Fair value of IGL (Rs), including dividends		132.2	150	166							

Exhibit 15: Profit model, balance sheet, cash model, March fiscal year-ends, 2018-26E (Rs mn)

	2018	2019	2020	2021	2022	2023	2024	2025E	2026E	2027E
Profit model (Rs mn)										
Net sales	45,921	57,648	64,853	49,408	77,100	141,326	140,000	153,267	163,856	176,727
EBITDA	11,144	12,570	15,196	14,830	18,811	20,255	23,669	18,004	20,345	21,042
Other income	1,021	1,462	1,564	1,502	2,150	2,762	3,632	3,877	3,904	4,189
Finance cost	(17)	(21)	(81)	(113)	(132)	(106)	(92)	(97)	(102)	(107)
Depreciation	(1,813)	(2,011)	(2,523)	(2,904)	(3,171)	(3,634)	(4,138)	(4,661)	(5,463)	(6,165)
Pretax profits	10,335	12,000	14,157	13,315	17,659	19,277	23,072	17,122	18,683	18,959
Extraordinary items	—	—	817	—	—	—	—	—	—	—
Current tax	(3,169)	(3,703)	(3,345)	(2,955)	(4,168)	(4,316)	(5,084)	(3,814)	(4,233)	(4,299)
Deferred tax	(448)	(430)	(263)	(303)	(342)	(511)	(507)	(507)	(507)	(507)
Adjusted net profits including associates	7,217	8,421	11,673	11,726	15,407	16,479	20,209	15,802	17,215	17,685
Adjusted EPS including associates (Rs)	5.2	6.0	8.3	8.4	11.0	11.8	14.4	11.3	12.3	12.6
Balance sheet (Rs mn)										
Total equity	35,129	41,299	50,624	58,719	69,362	70,866	85,517	90,969	97,213	103,316
Deferred tax liability	2,253	2,678	2,119	2,422	3,272	3,168	3,695	4,202	4,709	5,215
Borrowings	—	—	—	—	—	—	—	—	—	—
Customer deposits	5,447	6,493	7,716	8,897	10,413	11,904	13,276	14,557	15,824	17,052
Current liabilities	6,453	9,024	11,264	15,837	21,477	31,822	28,717	30,452	31,169	32,272
Total liabilities and equity	49,282	59,493	71,723	85,874	104,523	117,759	131,206	140,180	148,915	157,856
Cash	5,580	6,071	21,799	11,323	13,616	26,332	21,493	16,269	14,601	15,655
Current assets	4,044	4,433	5,226	6,598	7,345	12,982	18,184	20,042	20,908	21,961
Total fixed assets	28,181	33,549	42,116	49,695	63,803	71,673	79,954	92,292	101,829	108,663
Investments	11,477	15,440	2,581	18,258	19,758	6,773	11,576	11,576	11,576	11,576
Total assets	49,282	59,493	71,723	85,874	104,523	117,759	131,206	140,180	148,915	157,856
Free cash flow (Rs mn)										
Operating cash flow, excl. working capital	7,952	8,901	11,887	11,987	15,198	15,832	19,185	14,092	16,010	16,636
Working capital	841	2,671	1,720	3,473	3,777	6,469	(3,828)	1,157	1,118	1,279
Capital expenditure	(4,699)	(6,807)	(9,632)	(8,829)	(13,370)	(11,221)	(12,021)	(17,000)	(15,000)	(13,000)
Other income	959	490	452	1,349	798	1,618	2,096	3,877	3,904	4,189
Free cash flow	5,053	5,254	4,427	7,979	6,403	12,698	5,431	2,126	6,032	9,104
Ratios (%)										
Net debt/equity	(15.9)	(14.7)	(43.1)	(19.3)	(19.6)	(37.2)	(25.1)	(17.9)	(15.0)	(15.2)
RoAE	19.6	19.3	23.5	17.7	19.7	19.7	21.4	13.9	14.1	13.4
RoACE	17.1	16.9	19.1	15.5	17.3	17.2	18.6	12.1	12.3	11.7
Adjusted CRoCI	22.9	21.6	23.7	20.0	21.6	21.7	22.3	15.5	15.5	14.7

Source: Company, Kotak Institutional Equities estimates

MGL: Maintain SELL with FV of Rs1,030

Exhibit 16: Key assumptions for MGL, March fiscal year-ends, 2018-28E

	2018	2019	2020	2021	2022	2023	2024	2025E	2026E	2027E	2028E
Sales volume (mmscmd)											
CNG	2.0	2.2	2.1	1.4	2.1	2.5	2.6	2.9	3.1	3.2	3.3
PNG	0.7	0.8	0.8	0.8	0.9	0.9	1.0	1.2	1.2	1.3	1.4
Domestic	0.3	0.4	0.4	0.5	0.5	0.5	0.5	0.6	0.6	0.6	0.7
Commercial	0.2	0.2	0.2	0.1	0.2	0.2	0.2	0.2	0.2	0.2	0.3
Industrial	0.2	0.2	0.2	0.2	0.3	0.3	0.3	0.4	0.4	0.4	0.5
Total volumes	2.7	2.9	3.0	2.2	3.0	3.4	3.6	4.0	4.3	4.5	4.6
Growth in volumes (%)	5.1	9.2	0.1	(25.1)	35.6	14.1	5.4	12.2	6.4	3.8	3.8
Operating metrics (Rs/scm)											
Gross margin	12.2	13.0	14.7	17.4	13.8	14.9	19.9	15.8	14.8	14.9	14.9
Operating cost	4.3	4.7	5.0	5.8	5.4	5.4	5.9	6.1	6.1	6.3	6.6
Operating profit	7.9	8.3	9.7	11.6	8.4	9.5	13.9	9.8	8.7	8.6	8.3

Source: Company, Kotak Institutional Equities estimates

We value MGL at Rs1,030 using DCF methodology

Exhibit 17: Calculation of equity value using discounted cash flow analysis (Rs mn)

	2024	2025E	2026E	2027E	2028E	2029E	2030E	2031E	2032E	2033E	2034E
Assumptions											
Volumes (mcm/d)	3.6	4.0	4.3	4.5	4.6	4.8	5.0	5.2	5.4	5.6	5.7
Growth (%)	5.4	12.2	6.4	3.8	3.8	4.4	4.0	3.6	3.1	3.5	3.0
Unit margins (Rs/scm)	13.9	9.8	8.7	8.6	8.3	8.1	8.0	8.0	7.8	7.5	7.5
DCF model											
EBITDA	18,426	14,429	13,712	14,059	14,114	14,365	14,628	15,264	15,277	15,268	15,616
Adjusted tax expense	(3,650)	(2,602)	(2,340)	(2,344)	(2,283)	(2,279)	(2,285)	(2,391)	(2,347)	(2,304)	(2,356)
Change in working capital	511	816	1,230	919	951	947	884	773	739	716	634
Operating cash flow	15,288	12,643	12,602	12,633	12,782	13,032	13,228	13,646	13,669	13,680	13,895
Capital expenditure	(7,709)	(8,863)	(8,139)	(7,937)	(7,582)	(7,181)	(6,958)	(6,575)	(6,030)	(5,646)	(5,609)
Free cash flow	7,579	3,780	4,463	4,696	5,200	5,851	6,270	7,071	7,639	8,033	8,286
Discounted cash flow-now		3,780	3,985	3,743	3,700	3,717	3,557	3,581	3,453	3,243	2,986
Discounted cash flow-1 year forward			4,463	4,193	4,145	4,164	3,983	4,011	3,869	3,632	3,344
Discounted cash flow-2 year forward				4,696	4,643	4,665	4,462	4,492	4,333	4,069	3,746
		Now	+1-year	+2-years							
Discount rate (%)		12.0%	12.0%	12.0%							
Total PV of free cash flow		35,746	38,850	41,622							
Terminal value assumption											
Growth in perpetuity		2.0%	2.0%	2.0%	Sensitivity of 12-month fair value to WACC and perpetual growth						
FCF in terminal year		8,286	8,451	8,620							
Exit FCF multiple (X)		10.2	10.2	10.2	Perpetual growth (%)						
Exit EV/EBITDA multiple (X)					WACC (%)	0.5%	1.5%	2.0%	2.5%	3.5%	
Terminal value		5.4	5.5	5.6		11.0%	1046	1086	1110	1136	1199
PV of terminal value		84,514	86,204	87,928		11.5%	1012	1047	1068	1091	1145
Enterprise value		30,458	31,067	31,688		12.0%	981	1012	1030	1050	1097
Net debt		66,203	69,916	73,310		12.5%	952	980	996	1013	1054
Equity value		(22,328)	(24,428)	(26,979)		13.0%	926	951	965	980	1016
Valuations for UEPL (1X purchase price)		88,531	94,344	100,289							
		5,620	5,620	5,620							
Shares outstanding (mn)		99	99	99							
Fair value of MGL, including dividends (Rs)		953	1,030	1,136							

Source: Kotak Institutional Equities estimates

Exhibit 18: Profit model, balance sheet, cash model, March fiscal year-ends, 2019-27E (Rs mn)

	2019	2020	2021	2022	2023	2024	2025E	2026E	2027E
Profit model (Rs mn)									
Net sales	28,040	29,721	21,525	35,602	62,993	62,445	69,595	79,780	85,650
EBITDA	8,985	10,528	9,338	9,243	11,842	18,426	14,429	13,712	14,059
Other income	777	990	805	857	1,119	1,753	1,855	2,127	2,374
Interest	(3)	(65)	(72)	(75)	(94)	(115)	(121)	(127)	(133)
Depreciation	(1,259)	(1,617)	(1,737)	(1,963)	(2,311)	(2,736)	(3,095)	(3,623)	(4,122)
Pretax profits	8,499	9,835	8,335	8,063	10,555	17,328	13,067	12,090	12,177
Extraordinary items	(129)	567	—	—	—	—	—	—	—
Current tax	(2,614)	(2,332)	(1,978)	(1,858)	(2,573)	(4,069)	(3,052)	(2,866)	(2,939)
Deferred tax	(291)	(136)	(163)	(235)	(82)	(368)	(343)	(318)	(293)
Adjusted net profits	5,549	7,367	6,195	5,970	7,900	12,891	9,672	8,906	8,946
Adjusted EPS (Rs)	56.2	74.6	62.7	60.4	80.0	130.5	97.9	90.2	90.6
Balance sheet (Rs mn)									
Total equity	23,989	29,527	32,324	35,973	41,342	51,429	57,716	63,504	69,319
Deferred tax liability	2,048	1,636	1,802	2,038	2,116	2,471	2,813	3,131	3,424
Borrowings	18	6	8	8	11	27	—	—	—
Customer deposits	5,179	5,817	6,355	7,150	8,203	9,409	9,668	10,470	11,247
Current liabilities	3,176	4,299	5,522	7,169	8,652	8,925	10,270	10,952	11,409
Total liabilities and equity	34,410	41,285	46,011	52,338	60,323	72,260	80,468	88,057	95,399
Cash	2,988	2,295	5,119	4,652	2,279	3,985	6,058	8,609	11,834
Current assets	3,551	3,602	4,574	6,011	9,491	8,900	9,267	9,789	10,090
Total fixed assets	21,331	24,174	26,069	30,792	35,455	41,005	46,773	51,290	55,106
Investments	6,540	11,215	10,250	10,883	13,098	18,370	18,370	18,370	18,370
Total assets	34,410	41,285	46,011	52,338	60,323	72,260	80,468	88,057	95,399
Free cash flow (Rs mn)									
Operating cash flow, excl. working capital	6,422	8,378	7,448	7,380	9,559	14,724	11,255	10,719	10,986
Working capital	418	1,374	602	1,657	134	907	1,238	961	933
Capital expenditure	(3,625)	(4,349)	(3,397)	(6,490)	(7,131)	(7,709)	(8,863)	(8,139)	(7,937)
Free cash flow	2,455	2,113	3,610	3,629	3,198	2,953	5,485	5,668	6,356
Investments	(1,138)	(3,765)	1,287	(357)	(1,748)	(4,413)	—	—	—
Other income	377	475	(2,331)	1,440	2,384	(557)	1,855	2,127	2,374
Ratios (%)									
Debt/equity	—	0.0	0.0	0.0	—	—	—	—	—
Net debt/equity	(12.4)	(7.8)	(15.8)	(12.9)	(5.5)	(7.7)	(10.5)	(13.6)	(17.1)
RoAE	22.4	27.7	19.0	16.6	19.4	26.5	16.9	14.0	12.8
RoACE	19.0	22.1	16.1	14.1	16.5	22.6	14.6	12.2	11.2
Adjusted CRoCI	24.6	26.5	20.5	18.3	20.0	25.6	17.7	15.3	14.1

Source: Company, Kotak Institutional Equities estimates

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ADD. We expect this stock to deliver 5-15% returns over the next 12 months.

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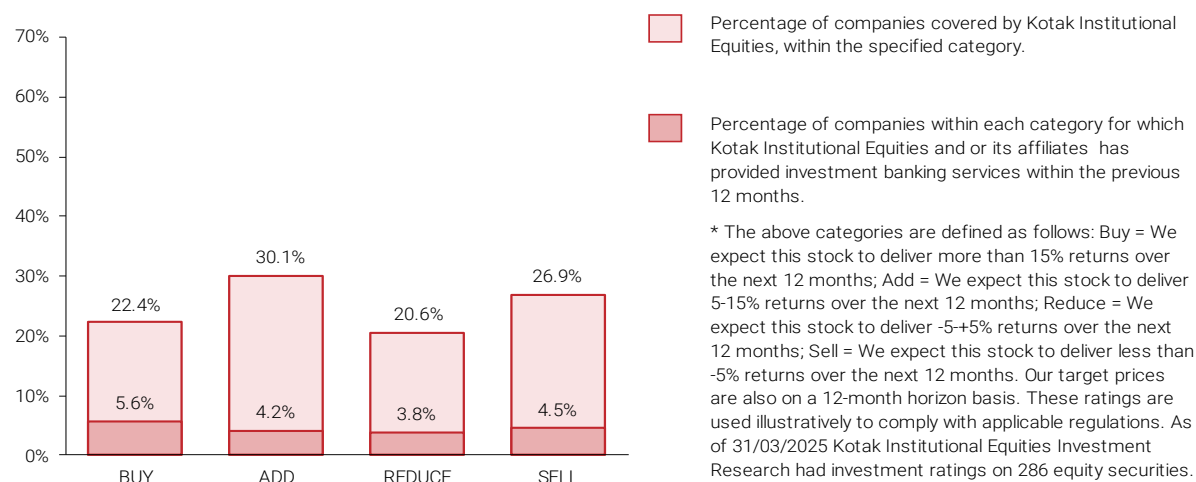
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