

Textile

Global retailers' commentary underpins improved inventory position, optimistic outlook



In this note we seek to cover commentaries by global retailers across inventory position and demand outlook to present a clearer framework on Indian textile export demand. Global retailers continued their efforts to reduce excess inventory on books during their latest earning season. Global retailers witnessed an inventory decline during 1QCY24 and expect to maintain optimal stock positions. The global demand outlook for CY24 continues to be relatively stronger vis-à-vis CY2023 (Walmart sales to grow 3.5-4.5% in 2Q). In tandem with global retailers' commentary, Indian Home textile and apparel exporters expect demand to improve in coming quarters. Any normalisation of demand in CY24 (led by hospitality / residential) amidst improved global retailers' inventory position leaves headroom for export demand recovery by Indian exporters (refer positive demand guidance by Indian players in exhi 2), implying orders pick up in coming quarters. Extended runway for revenue growth over next 3 years (courtesy impending FTAs / 'China+1'), GOI's increased focus on textile ecosystem (rebates/PLI) and deflation in commodity price (cotton price off highs and range bound) make a strong case for improvement in FY25 earnings trajectory. Deleveraged balance sheet (refer exhi. 10) of Indian textile players leave ample room for chasing revenue growth as / when structural demand drivers pick pace. Huge addressable market size / top-notch execution/ de-leveraged balance sheet bodes well for key players in the home textile/ apparel sector.

- **Global retailers continue to lighten their inventory position (refer exhi 1):** Global retailers during their latest earnings have continued their efforts to reduce the excess inventory on books. GAP saw inventory decline of 15% YoY in the latest quarter and expects inventory to be down significantly more than sales in 2Q. TJX and Nike (apparel segment) given their sharp focus on liquidating excess inventory have been able to achieve lower inventory – down 5% for TJX. Large retailers like Walmart and Target have also lowered their inventory position. The global demand outlook for CY24 continues to be better placed than CY23.
- **Indian textile players optimistic about demand revival (refer exhibit 2):** Indian Home textile and apparel exporters expect demand to improve significantly given that the inventory destocking cycle is now coming to an end with many fashion brands showing reduced inventory, improved financial performance and renewed appetite to buy. Any normalisation of demand in CY24 amidst improved global retailers' inventory position leaves headroom for export demand recovery by Indian exporters.
- **'China + 1' theme picking pace (refer exhi. 3/4/5/6):** China has been losing market share across the world (refer exhi. 3/4) apparel exports aided by rising labour costs (refer exhi. 5) and geopolitical tensions. This has led to a potential shift of exports from China towards other countries, creating new opportunities and growth in the other Asian countries for the apparel industry. Some of the biggest brands across the globe have already begun reducing their exposure to China over the past few years. (refer exhi. 6). We believe India's competency across factor cost and a well-established textile ecosystem (across cotton segment) will allow it to benefit from the 'China+1' theme.
- **UK FTA offers additional growth opportunity (refer exhi. 7/8):** UK imports USD\$24bn in apparel with India's share a mere USD\$1.4bn. In contrast, UK imports UD\$4.5bn from Bangladesh and US\$ 6.2bn from China. Indian players have lower market penetration in UK due to tariff disadvantages vs Pakistan, Turkey, and Bangladesh (refer exhi. 7/8). However, FTA with UK will allow duty free exports to UK, improving India's competitiveness. A ~20% market gain from China over the next 3-4 years is required to help India near double its exports to UK. UK FTA, subject to UK elections, could provide a potentially provide a clear runway for double digit revenue CAGR in case of Indian textile exporters over the coming decade.

Ashutosh Somani

ashutosh.somani@jmfl.com | Tel: (91 22) 66303083

Anirudh Nagpal

anirudh.nagpal@jmfl.com

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Commentary by Global retailers on Inventory

Walmart: "Customers responded, and we saw strong sell-throughs. Our merchants are doing a great job, including managing inventory, where we finished down 2.7% globally".

TJX: "So, the inventory, so as we said in our release, on an average per-store basis, inventories are down 5%. However, store inventories are in line with last year".

Nike: "We maintained disciplined inventory management, ending Q1 down 15% year over year...returning to our goal of managing a healthy stock-to-sales ratio".

Target: "...with inventories down 7% at the enterprise level."

Commentary by Indian textile players on demand

Key apparel exporter: "The inventory destocking cycle is now coming to an end with many fashion brands showing reduced inventory, improved financial performance and the renewed appetite to buy."

Welspun Living: "On domestic market front, we continue to see growth in hospitality and residential segments in all our key markets in India."

Himatsingka Seide: "Any growth that will be coming through is really because of enhancing market share, enhancing client mix and product mix. So the absolute demand remains stable."





Indo Count: "The inventory built up towards year-end is aligned to service expected higher business activity in FY '25. The home textiles market is strong, driven by global demand from the hospitality and residential sector."

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 report for Important Disclosures and Disclaimers and Research Analyst Certification.




- **India's share in US imports of cotton sheets stood at 62% during CYTD'24:** India's cotton sheet export vols. to the US increased 31% YoY during CYTD24 / ~65% YoY in Mar'24. India's cotton sheet export value to the US grew by 15% YoY during CYTD24 and 38% YoY in Mar'24. However, despite challenges, Indian exports have reported an increase in market share to 62% in CYTD24 (vs 59% in CY23) and Mar'24 stood at 65%.
- **India's share in US imports of terry towels stood at 38% during CY23:** India's terry towel export vols. to the US increased by ~3% YoY during CYTD24 / ~45% YoY in Mar'24. While exports in value terms decreased by 9% YoY to USD179mn during CYTD24 and increased by 35% YoY in Jan'24 (refer exhibit 4). However, Indian exports of terry towel have reported a fall in market share to 43% in CYTD24 (vs 44% in CY23) and Mar'24 stood at 46%.
- **Commodity prices remain flat; sector remains well placed amidst reasonable valuations:** The prices for cotton/ yarn remained range bound over the 12 months. The Cotton spread between China and India is significantly lower at INR 28/ kg for the month of May'24 due to China Cotton price falling more than the Indian cotton price. Textile companies currently trade at relatively reasonable valuations, leaving room for growth as when structural demand drivers (UK FTA/ 'China+1') kick-in.

Exhibit 1. Global Retailers' commentary on inventory / demand

Company	Commentary
 Walmart	<p>Inventory: 'Customers responded, and we saw strong sell-throughs. Our merchants are doing a great job, including managing inventory, where we finished down 2.7% globally. <u>Our inventory levels continue to come down</u> with Walmart US declining about 4% and Sam's down nearly 5% at quarter-end, while we sustained strong sales and healthy in-stock rates'.</p> <p>Outlook: 'We currently expect Q2 sales to increase between 3.5% and 4.5% and for operating income growth in line with that at roughly 3% to 4.5%. <u>Our Q1 results and the midpoint of our 2Q guidance suggest that we should be at the high end or even slightly above our sales and operating income guidance for the year</u>'.</p>
 Target	<p>Inventory: 'We feel really good about our inventory position <u>as we step into Q2 here with inventories down 7%</u> at the enterprise level. But most importantly, that efficiency on inventory is coming with a stronger in-stock position. We're always solving for both. And that one-two punch of lower inventories, the higher in-stocks is the outcome that we want, and it's the outcome we're getting'.</p> <p>Outlook: 'Now, I want to turn to our expectations for the second quarter and the remainder of the year. <u>In the second quarter, we are planning for a comparable sales increase in the 0% to 2% range</u>. While this is below the growth rate we'd expect to deliver over time, it reflects the continued cautious approach to our near-term outlook, which has served us well in recent quarters'.</p>
 TJX	<p>Inventory: 'So, the inventory, so as we said in our release, <u>on an average per-store basis, inventories are down 5%</u>. However, store inventories are in line with last year. So, in FY '24, we packed away or FY '23, we packed away a lot of inventory that we start. That we bled through in FY '24. So, in the first quarter, you have that pack away inventory that was much higher than we would normally want to carry and pack away in the first quarter'.</p> <p>Outlook: 'So that, again, gives us confidence that we're still appealing to a lot of customers still picking up a lot of customers that are new to us'. 'So that gives us the confidence to, again, <u>be confident about the 2% to 3% comp</u> we have going forward for the remainder of the year'.</p>
 GAP	<p>Inventory: '<u>We maintained disciplined inventory management, ending Q1 down 15% year over year</u>. Over the last year, we have meaningfully rationalized overall inventory levels, returning to our goal of managing a healthy stock-to-sales ratio, where inventory growth lagged sales growth. With that principle in mind, <u>second-quarter inventory is planned to be down in the low single-digit range versus last year</u>'.</p> <p>Outlook: 'As a result of our strong first-quarter results, we are increasing our outlook for fiscal 2024, reflecting higher sales and meaningfully higher operating income growth compared to our prior expectations. <u>We now expect fiscal-year 2024 net sales to be up slightly year over year excluding the 53rd week compared to our prior outlook for net sales to be roughly flat</u>'.</p>

Source: Company, JM Financial

Exhibit 2. Indian Textile players commentary on inventory / demand

Company	Commentary
 <p>Welspun Living</p>	<p>Global Inventory: Net Debt stood lower by INR180 crores from INR1,534 crores reported a year ago due to increased working capital, including inventory of inputs including cotton and finished goods, at the end of FY'24.</p> <p>Demand: <u>On domestic market front, we continue to see growth in hospitality and residential segments in all our key markets in India.</u> U.S. retail sales continued the upward trend sequentially on a month-to-month basis in February '24 and March '24, growing by 0.9% and 0.7%, respectively, leading to strong buying by retailers. The company is well set to achieve a further top line growth of 11% to 12% in FY'25. I think I must just add on here, the opportunity for India is immense in the categories that China is displacing.</p>
 <p>Himatsingka Seide</p>	<p>Demand: The demand environment remains largely stable and we remain focused on expanding our global client base, while enhancing our channel and market presence across all the key markets that we operate in. <u>Any growth that will be coming through is really because of enhancing market share, enhancing client mix and product mix.</u> So the absolute demand remains stable.</p> <p>And as far as inventory is concerned, we want to try to see how we can reduce that further.</p>
 <p>Indo Count</p>	<p>Global Inventory: <u>The inventory built up towards year-end is aligned to service expected higher business activity in FY '25.</u> Inventory levels with the retailers are normalized. And we are getting impacted only due to the inflationary measures so that discretionary product is not bought to the extent what it used to be pre-COVID level.</p> <p>Demand: <u>The home textiles market is strong, driven by global demand from the hospitality and residential sector.</u> While India leads in home textiles, there is room to increase our global market share by leveraging the China Plus One strategy. When the FTA happens, there will be a good development that we will come to level playing field with Pakistan and Bangladesh who enjoys duty-free access, just like how UAE and Australia, the business is inching up.</p>

Source: Company, JM Financial

Exhibit 3. US imports of cotton sheets

	CY23	YoY (%)	YTD24	YoY (%)	Mar'24	YoY (%)
Value (USD mn)						
World	1,194	-16.0%	279	7.6%	106	25.2%
India	702	0%	172	15.2%	69	37.9%
China	129	-37.2%	25	-22.0%	7	-25.7%
Pakistan	244	-28.1%	60	8.0%	21	19.2%
ROW	119	-31.4%	21	-1.7%	8	17.6%
Volume (mn sq. mts)						
World	765	-12.8%	191	18.1%	73	41.3%
India	349	16.1%	89	30.9%	38	65.0%
China	93	-37.4%	17	-35.0%	4	-43.5%
Pakistan	276	-21.6%	76	20.6%	28	42.7%
ROW	47	-38.2%	9	13.5%	3	46.8%
Realisation (USD/mt)						
World	3.1	-3.6%	2.9	-8.9%	2.9	-11.4%
India	4.0	-13.9%	3.8	-12.0%	3.7	-16.4%
China	2.8	0.3%	2.9	7.3%	3.6	31.5%
Pakistan	1.8	-8.4%	1.57	-11.1%	1.5	-16.4%
ROW	5.1	10.9%	4.6	-13.4%	5.3	-19.9%

Source: OTEXA, JM Financial

Exhibit 4. US imports of terry and other towels

	CY23	YoY (%)	YTD24	YoY (%)	Mar'24	YoY (%)
Value (USD mn)						
World	1,654	-12.0%	419	-6%	166	15.4%
India	724	-4.4%	179	-9%	77	35.3%
China	311	-18.3%	83	9%	29	5.9%
Pakistan	367	-10.8%	88	-25%	37	-4.4%
ROW	252	-23.6%	70	17%	24	10.1%
Volume (mn sq. mts.)						
World	280	-8.8%	71	0%	27	24.4%
India	106	-3.4%	26	3%	10	44.6%
China	41	-12.9%	10	10%	3	4.6%
Pakistan	100	-8.1%	25	42%	10	8.7%
ROW	34	-20.0%	11	0%	4	50.4%
Realisation (USD/mt)						
World	5.9	-3.5%	5.9	-6%	6.2	-7.3%
India	6.9	-1.1%	7.0	-11%	7.6	-6.4%
China	7.5	-6.2%	8.1	0%	8.7	1.2%
Pakistan	3.7	-3.0%	3.5	-47%	3.8	-12.0%
ROW	7.4	-4.5%	6.6	116%	6.5	-26.8%

Source: OTEXA, JM Financial

Exhibit 5. Cotton prices (USD/kg)

	FY23	FY24	YoY (%)	CMP
Cotlook A	2.6	2.0	-22%	2.1
US	2.3	1.8	-20%	1.8
India	2.7	1.9	-29%	1.91
China	2.4	2.3	-5%	2.3
China India spread	(0.2)	0.4	-238%	0.41

Source: Bloomberg, JM Financial

Exhibit 6. Exchange rate: Local currency/USD

Country	Currency	FY23	YoY dep. %	FY24	YoY dep. %	CMP
India	INR	80.3	8%	82.8	3%	83.5
China	CNY	6.9	7%	7.2	4%	7.2
Pakistan	PKR	225.6	35%	285.3	26%	278.3

Source: Bloomberg, JM Financial

Exhibit 7. India yarn/cotton prices

(INR/kg)

	FY23	FY24	YoY (%)	CMP
Cotton - Shankar 6	220	161	-27%	159
Cotton yarn	301	236	-22%	235
Yarn Cotton Spread	81	75	-7%	76

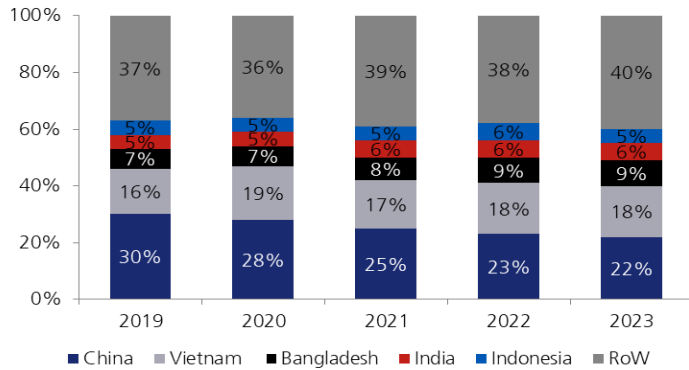
Source: Bloomberg, Tecoya, JM Financial

Exhibit 8. US imports value: Country wise market share

Category	CY23			YTD'24			Mar'24		
	India	China	Pakistan	India	China	Pakistan	India	China	Pakistan
Category 360: Pillow cases	58%	13%	18%	58%	14%	18%	63%	11%	16%
Category 361: Cotton sheets	59%	11%	20%	62%	9%	22%	66%	7%	20%
Category 362: Bedspreads & quilts	21%	40%	23%	21%	39%	28%	23%	36%	30%
Category 363: Terry & other towels	44%	19%	22%	43%	20%	21%	46%	17%	22%
Category 369: Bedding & pillow covers	29%	29%	16%	27%	31%	16%	31%	25%	19%
Category 360, 361, 362, 363, 369	38%	24%	19%	38%	25%	20%	42%	20%	21%

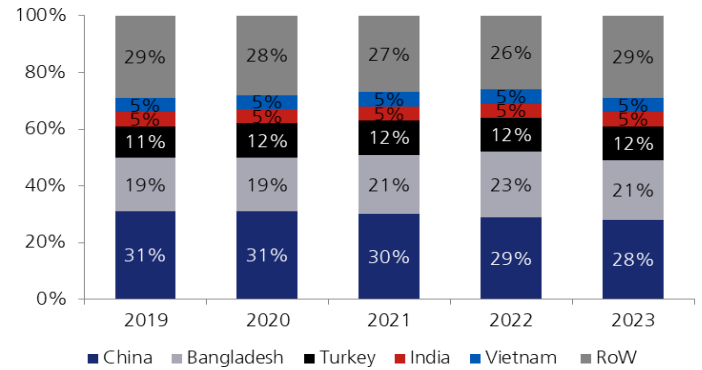
Source: OTEXA, JM Financial

Exhibit 9. Major exporting countries to US



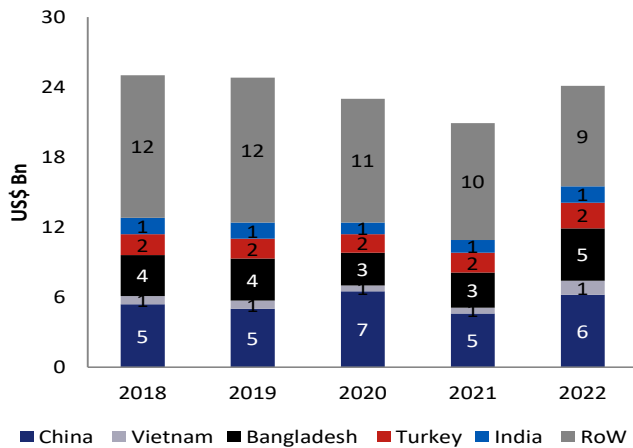
Source: Key Apparel Exporter, JM Financial

Exhibit 10. Major exporting countries to EU-27



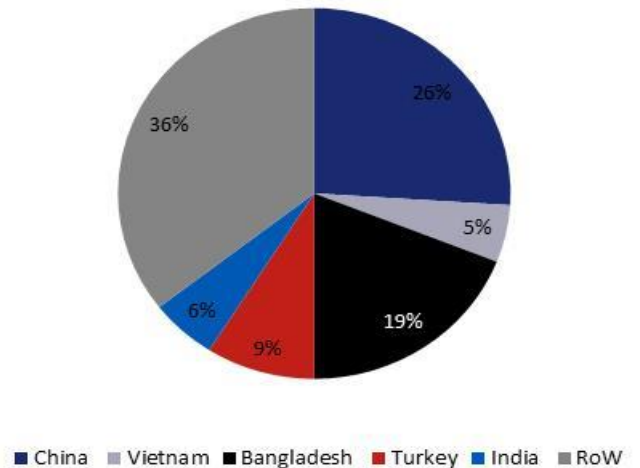
Source: Key Apparel Exporter, JM Financial

Exhibit 11. UK Apparel imports (US\$ bn)



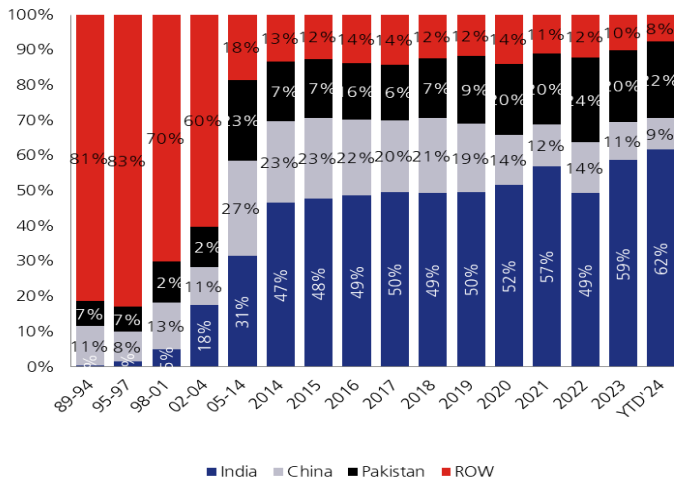
Source: Industry, JM Financial

Exhibit 12. China dominates UK apparel imports



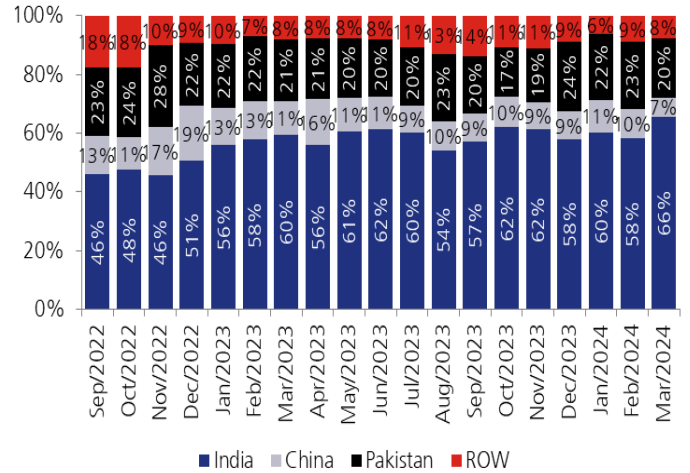
Source: Industry, JM Financial, updated on Dec2023

Exhibit 13. Mkt share (value) for US imports of cotton sheets—yearly



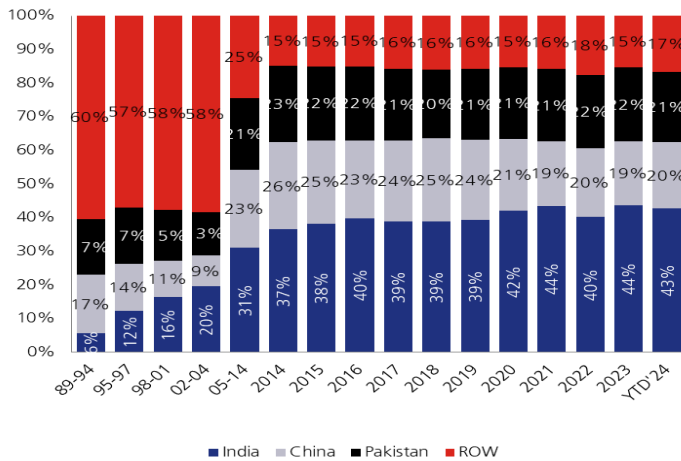
Source: OTEXA, JM Financial; Note: For category 361 as per OTEXA

Exhibit 14. Mkt share (value) for US imports of cotton sheets—mthly



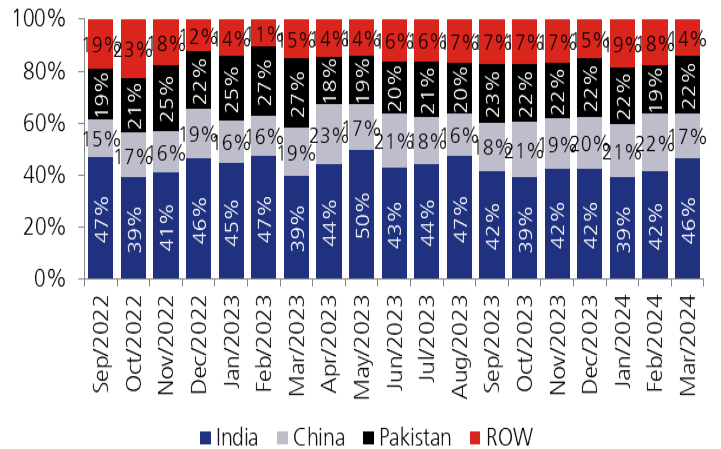
Source: OTEXA, JM Financial; Note: For category 361 as per OTEXA

Exhibit 15. Mkt share (value) for US imports of terry towels—yearly



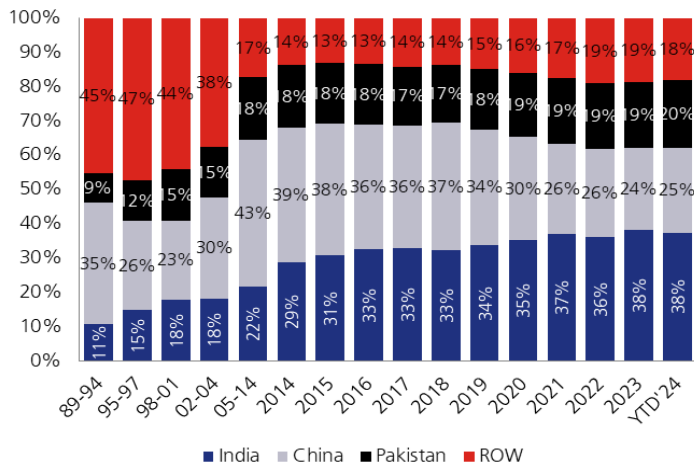
Source: OTEXA, JM Financial; Note: For category 363 as per OTEXA

Exhibit 16. Mkt share (value) for US imports of terry towels—monthly



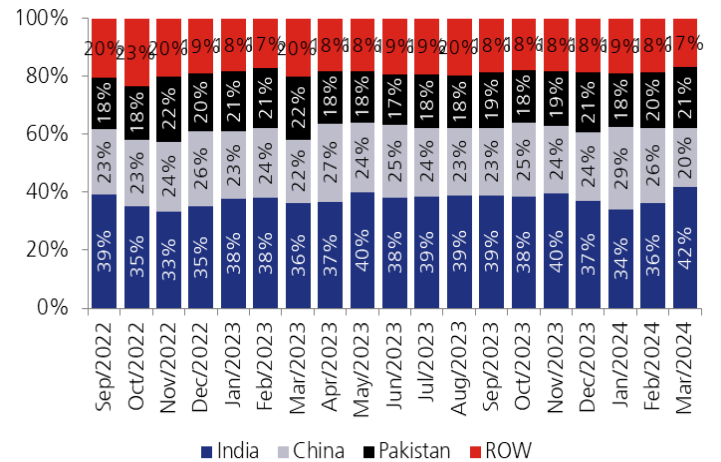
Source: OTEXA, JM Financial; Note: For category 363 as per OTEXA

Exhibit 17. Mkt shr (value) for US imports of cotton made ups—yearly



Source: OTEXA, JM Financial; Note: For sum of category 360,361,362,363 & 369 as per OTEXA

Exhibit 18. Mkt shr (value) for US imports of cotton made ups—mthly



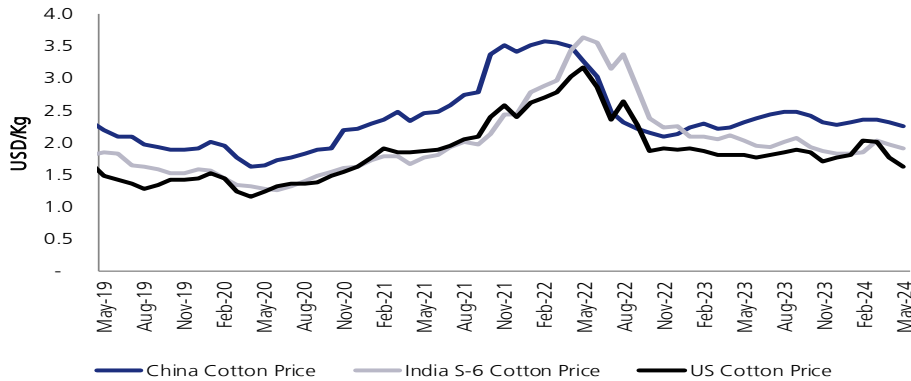
Source: OTEXA, JM Financial; Note: For sum of category 360,361,362,363 & 369 as per OTEXA

Exhibit 19. India's cotton balance sheet (mn tons)

	2021/22	2022/23	2023/24	2024/25P
Production	5.3	5.7	5.6	5.4
Consumption	5.4	5.1	5.2	5.5
Surplus/(Deficit)	(0.1)	0.5	0.3	(0.0)
Exports	0.8	0.2	0.4	0.4
Ending stocks	1.9	2.6	2.7	2.4

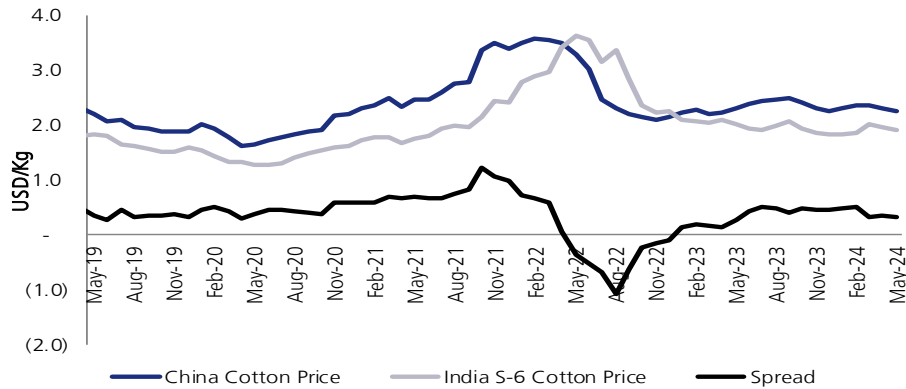
Source: USDA, JM Financial

Exhibit 20. Comparison of cotton prices in various regions



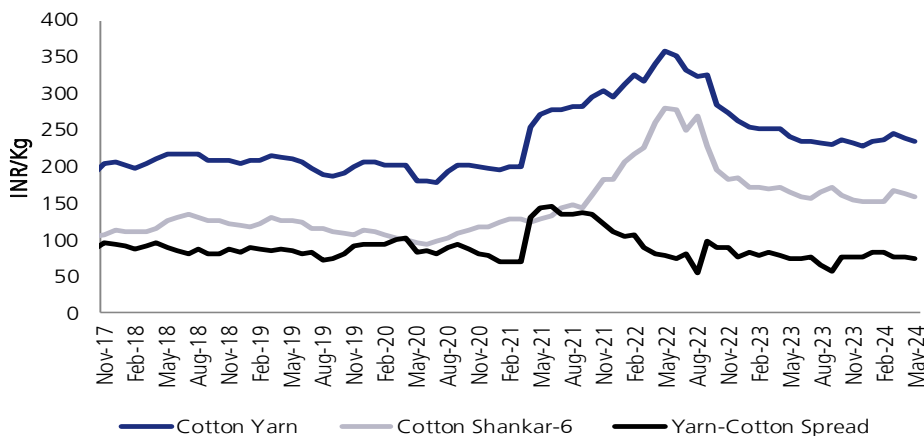
Source: Bloomberg, JM Financial; Note: S-6 = Shankar 6 cotton

Exhibit 21. Cotton price spread between India and China



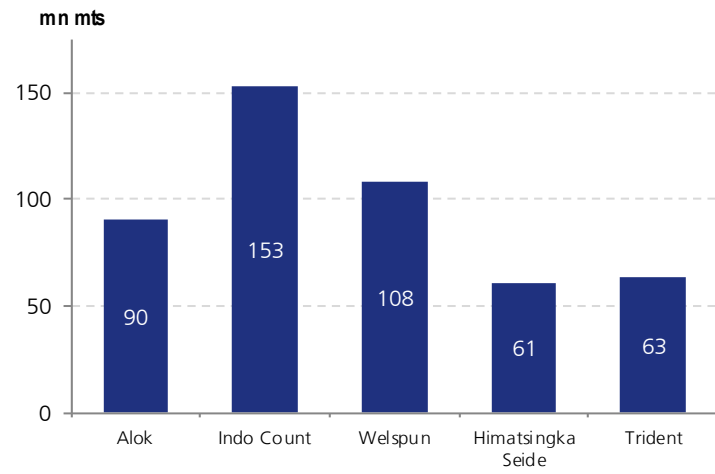
Source: Bloomberg, JM Financial; S-6 = Shankar 6 cotton

Exhibit 22. Yarn-cotton spread



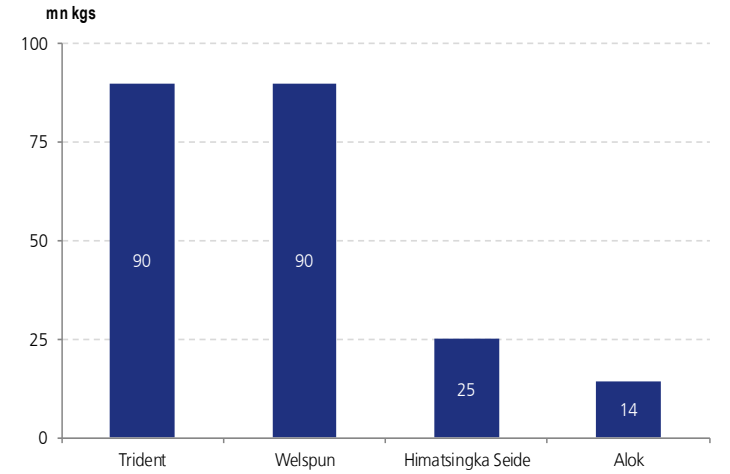
Source: Bloomberg, Crisil, JM Financial

Exhibit 23. Installed capacity of Indian bed sheet players



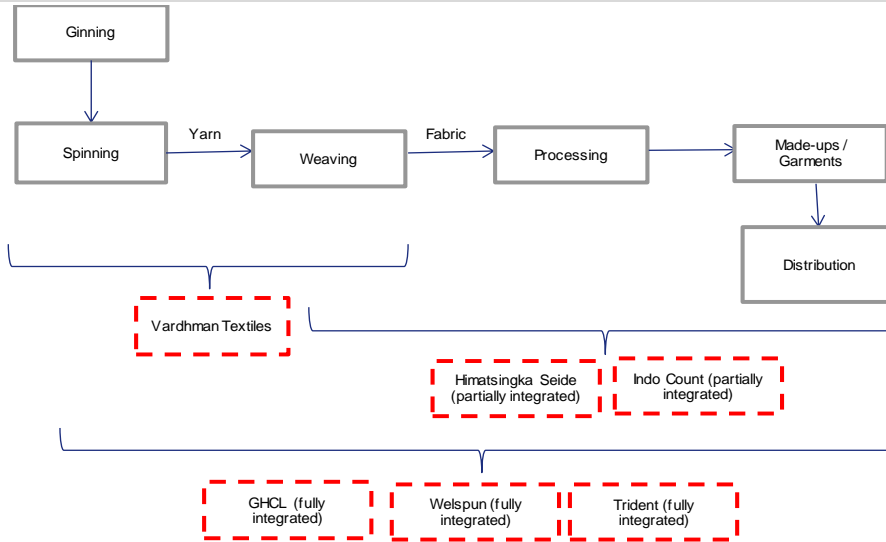
Source: Company, JM Financial; Note: 1 Capacity utilisation may be much lower, 2 ICNT added 22mn mts capacity in FY17, 3 WLSI added 18 mn capacity in 1QFY23, 4 Himatsingka Seide added 15 mn mts capacity in 3QFY19; 5 Trident added 43 mn mts capacity in FY16 end, further company added 55,000 mts/day at end of 2Q; Home textiles business of GHCL now acquired by ICNT

Exhibit 24. Installed capacity of Indian terry towel players



Source: Company, JM Financial; Note: Himatsingka added 25mn capacity in Oct'19; Welspun added 10mn ton capacity in FY19 respectively

Exhibit 25. Textile value chain



Source: JM Financial. Note – Home textiles business of GHCL now acquired by ICNT

Exhibit 26. Comparative Valuation

Companies	P/E			EV/EBITDA			RoE		
	FY24E	FY25E	FY26E	FY24E	FY25E	FY26E	FY24E	FY25E	FY26E
Trident	26.4	21.9	26.5	19.0	16.1	13.8	13%	14%	13%
Welspun Living	23.5	17.7	19.3	10.7	8.6	9.6	14%	16%	13%
Indo Count Industries	19.7	15.6	NA	11.5	9.9	NA	16%	17%	NA
Himatsingka Seide	13.8	10.3	NA	6.2	5.6	NA	8%	9%	NA
Luolai Lifestyle Technolog-A	13.1	10.9	9.8	8.9	7.7	6.7	14%	16%	17%
Shenzhen Fuanna Bedding-A	15.1	15.0	13.6	9.4	8.6	8.0	15%	16%	17%
Vardhman Textiles	82.0	49.3	40.9	14.0	8.9	7.4	7%	10%	11%
Arvind Ltd	20.0	15.4	11.0	9.5	7.8	5.9	10%	12%	14%
KPR Mills	30.8	25.8	21.3	19.9	17.2	14.7	22%	22%	22%
SP Apparel	14.6	10.8	8.6	8.9	6.9	5.3	14%	16%	17%
Crystal International	43.4	39.2	NA	2.2	2.0	NA	12%	13%	NA
Makalot industries	18.3	16.7	NA	12.2	11.1	NA	27%	29%	NA
Shenzhou International	19.9	16.7	13.2	13.1	11.0	8.9	16%	18%	21%
Eclat Textile	24.8	21.6	NA	17.0	15.0	NA	23%	25%	NA

Source: Bloomberg, JM Financial; Note: Valuation as of 4th April'24;

Exhibit 27. USDA world cotton production, supply and trade

(million tons)

	2019/20	2020/21	2021/22	2022/23	2023/24	2024/25P	YoY (%)
Production							
India	6.4	6.0	5.3	5.7	5.6	5.4	(1.9)
China	5.9	6.4	5.8	6.7	6.0	5.9	(10.4)
United States	4.3	3.2	3.8	3.2	2.6	3.5	(16.4)
Pakistan	1.4	1.0	1.3	0.8	1.5	1.4	71.8
Total	26.6	24.3	25.2	25.8	24.6	25.9	(4.5)
USE Dom. Consumption							
China	7.2	8.7	7.3	8.2	8.2	8.5	-
India	4.4	5.4	5.4	5.1	5.2	5.5	2.1
Pakistan	2.0	2.3	2.3	1.9	2.1	2.1	12.7
Bangladesh	1.5	1.7	1.9	1.5	1.7	1.7	9.8
Turkey	1.4	1.7	1.9	1.6	1.5	1.6	(6.7)
Total	22.3	26.3	25.3	24.2	24.6	25.4	1.8
Surplus (production - consumption)							
China	(1.3)	(2.3)	(1.5)	(1.5)	(2.2)	(2.6)	47.1
India	2.0	0.6	(0.1)	0.5	0.3	(0.0)	(39.9)
Pakistan	(0.7)	(1.4)	(1.0)	(1.0)	(0.7)	(0.7)	(35.4)
Total	4.3	(2.0)	(0.1)	1.6	0.0	0.5	(99.9)
Imports							
China	1.6	2.8	1.7	1.4	2.8	2.6	107.0
Bangladesh	1.5	1.9	1.8	1.4	1.6	1.7	14.5
Pakistan	0.9	1.2	1.0	1.0	0.7	0.8	(24.5)
Total	8.8	10.7	9.3	8.1	9.4	9.8	16.1
Exports							
United States	3.4	3.6	3.2	2.8	2.7	2.8	(3.6)
India	0.7	1.3	0.8	0.2	0.4	0.4	82.0
Total	8.9	10.6	9.3	8.1	9.4	9.8	16.8
Ending Stocks							
China	8.0	8.5	8.4	8.1	8.8	8.9	7.6
India	3.9	2.9	1.9	2.6	2.7	2.4	4.2
United States	1.6	0.7	0.8	0.9	0.5	0.8	(41.2)
Pakistan	0.7	0.5	0.4	0.3	0.5	0.4	41.0
Total	19.1	16.9	16.6	18.1	18.1	18.1	0.4
Stock to Use ratio							
China	112%	98%	114%	100%	107%	105%	#DIV/0!
India	89%	54%	34%	50%	51%	43%	201%
United States	110%	41%	43%	57%	36%	49%	617%
Pakistan	46%	28%	22%	21%	28%	25%	417%
World	86%	64%	66%	75%	74%	71%	20%

Source: JM Financial

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

Registered Office: 7th Floor, Cnergy, Appasaheb Marathe Marg, Prabhadevi, Mumbai 400 025, India.

Board: +91 22 6630 3030 | Fax: +91 22 6630 3488 | Email: jmfinancial.research@jmfl.com | www.jmfl.com

Compliance Officer: Mr. Sahil Salastekar | Tel: +91 22 6224 1073 | Email: sahil.salastekar@jmfl.com

Grievance officer: Mr. Sahil Salastekar | Tel: +91 22 6224 1073 | Email: instcompliance@jmfl.com

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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.
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* REITs refers to Real Estate Investment Trusts.

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