

## Q2FY2025 Results Preview

## Sector: Consumer Goods

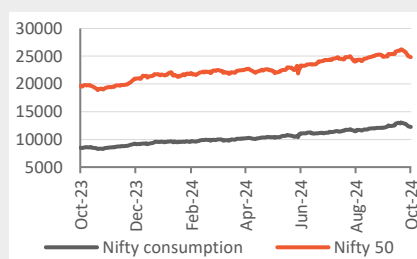
## Sector View: Positive

## Our coverage universe

Companies	CMP (Rs)	Reco.	PT (Rs)
Allied Blenders and Distillers	310	Positive	450
Asian Paints	3,062	Buy	3,385
Bajaj Consumer Care	230	Buy	315
Britannia Industries	6,120	Buy	6,570
Colgate-Palmolive (India)	3,695	Hold	UR
Dabur India	569	Buy	750
Emami	733	Buy	1,020
Godrej Consumer Products	1,332	Buy	1,675
Heritage Foods	583	Positive	724
Hindustan Unilever	2,833	Buy	3,260
Indigo Paints	1,433	Buy	1,750
ITC	510	Buy	595
Jyothy Labs	534	Buy	655
Marico	679	Buy	821
Mrs Bectors Food Specialities	1,811	Positive	2,233
Nestle India	2,574	Hold	2,681
Radico Khaitan	2,007	Buy	2,489
Tata Consumer Products	1,111	Buy	1,315
Varun Beverages	542	Positive	750
Zyduz Wellness	1,912	Buy	3,000

UR - Under Review

## Price chart



Source: Sharekhan Research; NSE website

## Summary

- Domestic demand stayed stable in Q2 with rural demand outpacing urban demand. Out-of-home consumption was impacted by heavy rains/floods in most parts of the country. International business revenue growth moderated due to currency depreciation.
  - Sharekhan's consumer goods revenues grew by 6% y-o-y driven by mid-single digit volume growth, while pricing growth stood at low single-digit.
  - Most key input prices rose y-o-y, which will impact gross margins in Q2. Higher ad-spends and promotions would keep OPM lower y-o-y.
  - Most companies expect growth to be much better in H2FY2025 supported by above average monsoon and regular government interventions. However, global uncertainties remain a key risk.
- Preferred Picks:** HUL, ITC, Britannia Industries, Dabur India, Emami, Radico Khaitan and Varun Beverages.

In Q2FY2025, domestic consumer demand remained stable with rural growth outpacing urban growth. Out-of-consumption (especially for foods & beverages categories) was affected by heavy rains and flood-like situation in the most parts of India. On the international front, growth will be impacted by currency depreciation while growth will be in double digits on a constant currency basis. Consumer goods companies in our coverage are expected to report low to mid-single digit volume growth. With price hikes in some categories, the pricing growth will be added to overall revenue growth in Q2. We expect our consumer goods universe's revenues to grow by 6% y-o-y largely driven by volume growth. With key input prices (vegetable oils and agri-commodities) seeing an uptick in the recent past, the gross margins are expected to marginally decline or remain flat for most companies under our coverage. Higher ad-spends and promotional expenses with large focus on improving sales volume will lead to lower OPM on a y-o-y basis during the quarter. PAT growth is expected to be lower compared to revenue growth in Q2FY2025.

- Revenues to grow in mid-to-high single digits; largely volume-led growth:** Revenue of our consumer goods universe is expected to grow by 6% y-o-y in Q2FY2025. Consumer demand remained stable with rural growth outpacing urban growth. Out-of-consumption (especially for foods & beverages categories), and exterior paints will be affected by heavy rains/floods in many parts of the country, while categories such as value-added hair oil (VAHO) or hair color is yet to see material recovery. On the international front, growth will be impacted by currency depreciation, while growth will be in double digits on a constant currency basis. Dabur is expected to post decline in revenues while GCPL will post flat revenues. Paints companies such as Asian Paints and Indigo paints will achieve lower revenue growth of 2-6%. Companies such as Varun beverages and Tata Consumer products will post double-digit revenue growth with recent acquisitions adding to revenue during the quarter. Companies such as Britannia, Colgate, Marico, Zyduz Wellness and Jyothy Labs are expected to post a volume-led revenue growth of 8-11% in Q2FY2025.
- Increasing input prices and higher ad-spends to put dent on OPM:** Key input prices have seen an uptick in the last six months. Palm oil, Copra, LLP and raw tea prices have gone up by 9%, 33%, 18% and 25%, y-o-y respectively. Companies are gradually taking price hikes in the portfolio, which will not be enough to cover inflation in the input prices. Hence, we believe gross margins for companies under our coverage will remain lower or will stay flat in Q2FY2025. Companies have maintained their thrust on improving volume growth in a stable demand and hence will continue to spend heavily on ad-spends/promotional offerings in the near term. Hence, OPM of consumer goods companies is expected to be lower on y-o-y basis. Few exceptions would be - Emami, Colgate, Tata Consumer Products and Zyduz Wellness - which are likely to post y-o-y OPM expansion of 50-150 bps. Overall, PAT growth for Sharekhan's consumer goods universe will be lower as compared to revenue growth in Q2.
- Sector outlook - H2 is expected to be better compared to H1:** Demand environment remained stable in Q2 with rural growth outpacing urban growth. Monsoon season was above normal and well spread out, which will help agri production to be better in the current year. This will not only boost rural consumption but will also help agri inflation to stabilise in the near term. Management of some consumer goods companies have indicated double-digit revenue growth in H2FY2025 driven by mix of volume and price-led growth. Global uncertainties will lead to volatility in the raw material prices and currency movement. This will put pressure on the margins of the consumer goods companies in the quarters ahead. Companies will opt for a gradual price increase to mitigate the impact of higher raw material prices. We expect operating profit growth to be lower compared to revenue growth in the near term. On the other hand, an increase in commodity prices will reduce the competition intensity from small/regional players in the quarters ahead.

## Valuation and Picks

In the current uncertain environment, we remain selective in the consumer goods space with large preference to companies in the large cap and mid-cap space having good earnings growth prospects in the medium term and offering good entry opportunity post recent correction. In the large-cap space, we like ITC, HUL and Britannia Industries while in mid-to-large cap space we like Emami, Dabur India and Varun Beverages. The companies like HUL, Dabur India and Emami are play on the recovery in the rural market. In alcoholic beverages we continue to like Radico Khaitan on back of its strong focus on premiumization.

**Leaders for Q2FY2025:** Colgate Palmolive (India), Emami and Britannia Industries.

**Laggards for Q2FY2025:** Asian Paints, Dabur India and Nestle India.

**Preferred Picks:** HUL, ITC, Britannia Industries, Dabur India, Emami, Radico Khaitan and Varun Beverages.

**Q2FY2025 estimates**

Companies	Net sales (Rs cr)			Gross margin (%)			OPM (%)			Adjusted PAT (Rs cr)		
	Q2 FY25E	Q2 FY24	Y-o-Y (%)	Q2 FY25E	Q2 FY24	Y-o-Y (bps)	Q2 FY25E	Q2 FY24	Y-o-Y (bps)	Q2 FY25E	Q2 FY24	Y-o-Y (%)
Allied Blenders and Distillers	809	851	-5.0	40.5	39.2	130	9.1	8.4	77	29	11	-
Asian Paints	8,675	8,479	2.3	42.8	43.4	-57	17.4	20.2	-284	1,026	1,203	-14.7
Bajaj Consumer Care	231	235	-1.8	56.0	55.1	86	14.4	15.6	-126	34	37	-8.9
Britannia Industries	4,760	4,433	7.4	43.2	42.9	26	19.2	19.7	-49	636	588	8.3
Colgate-Palmolive (India)	1,642	1,471	11.6	70.3	68.8	153	34.1	32.8	128	398	340	17.0
Dabur India	3,016	3,204	-5.9	47.9	48.3	-47	17.3	21.8	-441	384	541	-29.0
Emami	909	865	5.1	71.0	70.1	92	28.2	27.0	117	216	198	9.3
Godrej Consumer Products	3,723	3,602	3.4	55.0	54.9	11	20.3	20.1	25	479	443	8.0
Heritage Foods	1,036	979	5.9	26.0	18.9	711	9.5	4.8	469	62	24	-
Hindustan Unilever	15,794	15,276	3.4	52.5	52.7	-23	23.3	24.2	-90	2,713	2,722	-0.3
Indigo Paints	296	279	6.1	45.0	45.6	-57	14.1	15.1	-101	23	25	-9.3
ITC	17,615	16,550	6.4	56.7	57.3	-63	35.5	36.5	-99	5,035	4,927	2.2
Jyothy Labs	796	732	8.6	51.0	49.2	179	18.6	18.5	10	114	104	9.5
Marico	2,700	2,476	9.0	50.0	50.5	-48	19.4	20.1	-69	382	360	6.1
Mrs Bectors Food Specialities	484	415	16.8	47.5	46.7	80	14.7	15.6	-89	40	37	6.9
Nestle India	5,314	5,037	5.5	57.0	56.5	51	23.8	24.3	-53	856	829	3.3
Radico Khaitan	1,044	925	12.9	42.0	44.1	-214	13.4	13.1	27	67	62	9.1
Tata Consumer Products	4,309	3,734	15.4	44.5	42.5	200	14.9	14.4	53	346	369	-6.3
Varun Beverages*	4,628	3,871	19.6	55.5	55.3	19	23.0	22.8	17	567	514	10.2
Zydus Wellness	475	440	8.0	49.0	45.2	383	5.3	3.8	153	17	6	-
<b>Grand Total</b>	<b>78,255</b>	<b>73,852</b>	<b>6.0</b>				<b>23.7</b>	<b>24.6</b>	<b>-82</b>	<b>13,424</b>	<b>13,342</b>	<b>0.6</b>

Source: Company, Sharekhan estimates; \*Varun Beverage is a calendar year-ending company

**Trend in key input prices**

Particulars	Q2FY24	Q3FY24	Q4FY24	Q1FY25	q-o-q %	Q2FY25	y-o-y %
Copra (Rs./kg)	84.4	91.3	80.3	85.7	31.3	112.5	33.3
LLP (Rs./Ltr)	76.5	84.0	85.0	85.0	5.9	90.0	17.6
Palm oil prices (MYR/tonne)	3,762	3,673	4,000	3,972	3.0	4,093	8.8
Mentha oil (Rs./kg)	1,081	1,053	1,010	998	1.9	1,017	-5.9
Raw tea (Rs./kg)	179.0	171.0	121.1	195.3	14.9	224.4	25.4
Wheat (Rs./kg)	25.1	27.0	26.1	25.3	8.9	27.6	9.8
Sugar (Rs./kg)	37.6	39.8	38.3	38.8	-0.6	38.6	2.5
Titanium dioxide (Rs./kg)	375.0	356.0	345.0	342.0	-0.6	340.0	-9.3

Source: Sharekhan Research

**Valuations**

Companies	CMP (Rs)	Reco.	Price target (Rs.)	P/E (x)		
				FY2024	FY2025E	FY2026E
Allied Blenders and Distillers	310	Positive	450	-	46.3	27.6
Asian Paints	3,062	Buy	3,385	52.9	54.8	47.1
Bajaj Consumer Care	230	Buy	315	21.1	19.7	17.2
Britannia Industries	6,120	Buy	6,570	68.9	61.3	54.1
Colgate-Palmolive (India)	3,695	Hold	UR	75.1	65.3	59.3
Dabur India	569	Buy	750	55.7	47.5	40.2
Emami	733	Buy	1,020	40.1	33.2	28.8
Godrej Consumer Products	1,332	Buy	1,675	67.0	55.8	47.7
Heritage Foods	583	Positive	724	50.7	28.0	21.5
Hindustan Unilever	2,833	Buy	3,260	67.3	61.4	54.8
Indigo Paints	1,433	Buy	1,750	45.8	41.3	32.7
ITC	510	Buy	595	31.1	28.0	24.6
Jyothy Labs	534	Buy	655	53.0	48.1	40.9
Marico	679	Buy	821	58.3	51.5	44.4
Mrs Bectors Food Specialities	1,811	Positive	2,233	75.9	71.3	56.1
Nestle India	2,574	Hold	2,681	-	70.3	61.8
Radico Khaitan	2,007	Buy	2,489	-	67.0	50.3
Tata Consumer Products	1,111	Buy	1,315	72.7	66.3	53.5
Varun Beverages*	542	Positive	750	86.0	68.6	52.6
Zydus Wellness	1,912	Buy	3,000	43.8	31.1	24.5

Source: Company, Sharekhan estimates; UR – Under Review; \*Varun Beverage is a calendar year-ending company

**Company-wise expectations**

Company	Q2FY25E	Y-o-Y (%)	Q-o-Q (%)	Comment
<b>Allied Blenders &amp; Distillers</b>				
Sales (Rs. crore)	809	-5.0	6.7	We expect 5% y-o-y decline in revenues.
OPM (%)	9.1	77	-65	OPM is expected to rise by ~80 bps y-o-y mainly aided by softening of raw material prices (gross margin expected to be higher by 130 bps y-o-y).
Adjusted PAT (Rs. crore)	29	-	-	Lower interest expense compared to Q2FY24 will aid strong y-o-y growth in PAT.
<b>Asian Paints</b>				
Sales (Rs. crore)	8,675	2.3	-3.3	We expect 1% y-o-y growth in standalone (domestic) business, ~7% y-o-y growth in the international business and mid teens y-o-y growth in subsidiaries, resulting in ~2% y-o-y growth in the consolidated revenue. Domestic decorative paint business is likely to post 5% volume growth.
OPM (%)	17.4	-284	-149	Gross margin decline of ~60 bps and higher employee expenses and advertisement spends would lead to a ~280 bps y-o-y decline in OPM.
Adjusted PAT (Rs. crore)	1,026	-14.7	-10.8	In line with a ~12% y-o-y decline in the operating profit due to muted revenue growth and negative operating leverage, adjusted PAT is likely to decline by ~15% y-o-y.
<b>Bajaj Consumer Care</b>				
Sales (Rs. crore)	231	-1.8	-6.2	Revenue is expected to decline by ~2% y-o-y with consistent pressure on ADHO volumes. New products to post ~18% y-o-y growth.
OPM (%)	14.4	-126	-53	Despite a ~90 bps y-o-y expansion in the gross margin, OPM is likely to decline by ~130 bps y-o-y due to negative operating leverage.
Adjusted PAT (Rs. crore)	34.0	-8.9	-8.5	Adjusted PAT is likely to decline by ~9% y-o-y, in line with ~10% y-o-y decline in the operating profit.

**Company-wise expectations**

Company	Q2FY25E	Y-o-Y (%)	Q-o-Q (%)	Comment
<b>Britannia Industries</b>				
Sales (Rs. crore)	4,760	7.4	12.0	Revenue is expected to grow by 7.4% y-o-y driven by ~7% y-o-y growth in the standalone business (~12% volume growth) and double-digit growth in subsidiaries.
OPM (%)	19.2	-49	146	Despite a ~30 bps y-o-y rise in gross margin, OPM is expected to be lower by ~50 bps y-o-y due to higher other expenses.
Adjusted PAT (Rs. crore)	636	8.3	20.0	Adjusted PAT is likely to grow by 8% y-o-y, driven by 5% y-o-y operating profit growth and lower interest cost.
<b>Colgate-Palmolive (India)</b>				
Sales (Rs. crore)	1,642	11.6	9.7	Revenue is expected to grow by ~12% y-o-y with expected volume growth of 9% in toothpaste category.
OPM (%)	34.1	128	9	OPM is expected to be higher by ~130 bps y-o-y, largely aided by gross margin expansion of ~150 bps y-o-y.
Adjusted PAT (Rs. crore)	397.8	17.0	9.3	PAT is expected to grow by ~17% y-o-y; in-line with 16% y-o-y operating profit growth.
<b>Dabur India</b>				
Sales (Rs. crore)	3,016	-5.9	-9.9	Consolidated revenue is expected to decline by ~6% y-o-y due to a decline in domestic business revenue (impacted by distributor inventory correction in GT channel and unfavourable weather), while international business is expected to post double-digit CC growth.
OPM (%)	17.3	-441	-221	OPM is expected to decline by ~440 bps y-o-y, mainly due to negative operating leverage and investments behind brands.
Adjusted PAT (Rs. crore)	384	-29.0	-22.3	Operating profit decline of 25% y-o-y coupled with higher depreciation charges would lead to ~29% y-o-y decline in PAT.
<b>Emami</b>				
Sales (Rs. crore)	909	5.1	0.3	Revenue is expected to grow by ~5% y-o-y driven by ~3% y-o-y volume growth.
OPM (%)	28.2	117	430	OPM is expected to expand by ~120 bps y-o-y aided by ~90 bps y-o-y rise in the gross margin.
Adjusted PAT (Rs. crore)	216	9.3	27.3	In line with operating profit growth of ~10% y-o-y, PAT is expected to grow by ~9% y-o-y.
<b>Godrej Consumer Products</b>				
Sales (Rs. crore)	3,723	3.4	11.8	Consolidated revenue growth of ~3% to be led by high single digit growth in the standalone and Indonesia business while Africa will post decline in revenues due to currency devaluation and restructuring of the business model.
OPM (%)	20.3	25	-146	Due to higher input costs, OPM is expected to remain largely flat y-o-y at ~20%.
Adjusted PAT (Rs. crore)	479	8.0	1.7	In line with operating profit growth of ~5%, adjusted PAT to grow by 8% y-o-y.
<b>Heritage Foods</b>				
Sales (Rs. crore)	1,036	5.9	0.3	We expect value-added products to grow by 22% y-o-y, milk products to register 5% y-o-y growth and ice-cream to grow by 20% y-o-y, while fat products are expected to decline by 22% y-o-y leading to muted 6% y-o-y revenue growth.
OPM (%)	9.5	469	42	Softening of raw material prices would aid in 710 bps and 470 bps y-o-y expansion in gross margin and OPM, respectively.
Adjusted PAT (Rs. crore)	62	-	3.5	Operating profit growth of 1.1x y-o-y would lead to 1.6x y-o-y growth in PAT.
<b>Hindustan Unilever</b>				
Sales (Rs. crore)	15,794	3.4	3.0	Revenue is expected to grow by ~3% y-o-y, with 3-6% y-o-y growth across categories.
OPM (%)	23.3	-90	-23	Higher advertisement spends and other expenses would lead to ~90 bps y-o-y decline in OPM.
Adjusted PAT (Rs. crore)	2,713	-0.3	5.4	PAT is expected to be flat y-o-y at Rs. 2,713 crore
<b>Indigo Paints</b>				
Sales (Rs. crore)	296	6.1	-4.8	We expect ~6% y-o-y revenue growth led by ~5% y-o-y volume growth.
OPM (%)	14.1	-101	-114	Gross margin decline of ~60 bps coupled with higher employee expenses would lead to a ~100 bps y-o-y decline in OPM.
Adjusted PAT (Rs. crore)	23	-9.3	-13.8	PAT is expected to decline by ~9% y-o-y due to a ~1% y-o-y decline in the operating profit coupled with higher depreciation charges.

**Company-wise expectations**

Company	Q2FY25E	Y-o-Y (%)	Q-o-Q (%)	Comment
<b>ITC</b>				
Sales (Rs. crore)	17,615	6.4	3.6	Cigarette business revenues are expected to grow by ~7% y-o-y, with volume growth at 3% y-o-y, while non-cigarette FMCG business is expected to grow by 8% y-o-y. Hotel business is expected to grow by 15% y-o-y; Agri business is expected to grow by 6% y-o-y, while Paper business is likely to be flat y-o-y.
OPM (%)	35.5	-99	-152	OPM is expected to decline by ~100 bps y-o-y, mainly due to a ~60 bps y-o-y contraction in gross margin.
Adjusted PAT (Rs. crore)	5,035	2.2	2.3	In line with operating profit growth of ~4% y-o-y, PAT is expected to grow by ~2% y-o-y.
<b>Jyothy Labs</b>				
Sales (Rs. crore)	796	8.6	7.3	Revenue is expected to grow by ~9% y-o-y aided by 10%/9%/8%/1% y-o-y growth in fabric care/personal care/dishwashing/mosquito repellents segments respectively.
OPM (%)	18.6	10	59	Despite a ~180 bps y-o-y expansion in gross margin, OPM is expected to be flat y-o-y mainly due to higher employee cost, increased advertisement spends and higher other expenses.
Adjusted PAT (Rs. crore)	114	9.5	12.0	PAT is expected to grow by ~10% y-o-y, in line with y-o-y operating profit growth of 9%.
<b>Marico</b>				
Sales (Rs. crore)	2,700	9.0	2.2	Domestic volume growth is expected to be better q-o-q. Parachute Coconut Oil registered mid single-digit volume growth, while Saffola Oils posted low single digit revenue growth and Value Added Hair Oils (VAHO) was subdued amidst competitive headwinds in the bottom of the pyramid segment. Foods and Digital-first brands sustained their robust momentum. International business delivered low teen CC growth.
OPM (%)	19.4	-69	-430	Rise in copra prices would lead to ~50/~70 bps y-o-y decline in gross margin/OPM, respectively.
Adjusted PAT (Rs. crore)	382	6.1	-19.4	In line with 5% y-o-y growth in the operating profit, PAT is expected to grow by ~6% y-o-y.
<b>Mrs Bectors Food Specialities</b>				
Sales (Rs. crore)	484	16.8	10.2	Revenue is expected to grow by ~17% y-o-y driven by 20% y-o-y growth in the biscuit segment (16% volume growth) and 14% y-o-y growth in the bakery segment (10% volume growth).
OPM (%)	14.7	-89	19	Despite an 80 bps y-o-y rise in gross margin, OPM is expected to be lower by ~90 bps y-o-y due to higher other expenses.
Adjusted PAT (Rs. crore)	40	6.9	13.0	Operating profit growth of 10% y-o-y coupled with higher interest expenses would lead to a ~7% y-o-y growth in PAT.
<b>Nestle India</b>				
Sales (Rs. crore)	5,314	5.5	10.4	Revenue growth is expected to be at ~6% y-o-y, with India business likely to report ~6% y-o-y growth (4% volume growth), while international business is expected to decline by ~5% y-o-y.
OPM (%)	23.8	-53	64	Gross margin is expected to be higher by 50 bps y-o-y, while OPM is expected to decline by ~50 bps y-o-y due to negative leverage.
Adjusted PAT (Rs. crore)	856	3.3	14.7	In line with operating profit growth of ~3% y-o-y, PAT is expected to grow by ~3% y-o-y.
<b>Radico Khaitan</b>				
Sales (Rs. crore)	1,044	12.9	-8.1	Revenue growth of 13% y-o-y would be led by 12% y-o-y volume growth in Prestige & above segment, while Regular segment is expected to post 15% y-o-y volume decline. We expect non-IMFL business to post ~44% y-o-y growth.
OPM (%)	13.4	27	27	Gross margin is expected to decline by 210 bps y-o-y due to rise in raw material prices, while savings in selling & distribution expenses would aid in ~30 bps y-o-y rise in OPM.
Adjusted PAT (Rs. crore)	67	9.1	-11.6	Operating profit growth of 13% y-o-y coupled with higher interest and depreciation expenses would lead to a 9% y-o-y growth in PAT.

**Company-wise expectations**

Company	Q2FY25E	Y-o-Y (%)	Q-o-Q (%)	Comment
<b>Tata Consumer Products</b>				
Sales (Rs. crore)	4,309	15.4	-1.0	Revenue is expected to grow by ~15% y-o-y driven by 28% y-o-y growth in India foods business, 6% y-o-y growth in India beverages business, 10% y-o-y growth in international tea and 8% y-o-y growth in US coffee business.
OPM (%)	14.9	53	-43	Despite a 200 bps y-o-y rise in gross margin, expansion in OPM is expected to lower at ~50 bps y-o-y due to higher other expenses (higher ad-spends).
Adjusted PAT (Rs. crore)	346	-6.3	-5.9	Despite operating profit growth of 20%, PAT is expected to decline by ~6% y-o-y due to lower other income, higher interest expense and higher incidence of tax.
<b>Varun Beverages</b>				
Sales (Rs. crore)	4,628	19.6	-36	We expect ~20% y-o-y revenue growth driven by mix of ~19% y-o-y volume growth and ~1% y-o-y growth in realisations.
OPM (%)	23.0	17	-470	Gross margin and OPM are expected to be largely flat y-o-y at 55.5% and 23%, respectively.
Adjusted PAT (Rs. crore)	567	10.2	-55.1	Despite operating profit growth of 23%, PAT is expected to grow by ~10% y-o-y due to higher interest expense, depreciation charges and higher incidence of tax.
<b>Zydus Wellness</b>				
Sales (Rs. crore)	475	8.0	-43.5	Revenue growth is expected to be at 8% y-o-y.
OPM (%)	5.3	153	-	Gross margin is expected to improve by 380 bps y-o-y, while higher employee, advertisement and other expenses would moderate OPM expansion to ~150 bps y-o-y.
Adjusted PAT (Rs. crore)	17	-	-88.7	PAT is expected to come in at Rs. 17 crore versus Rs. 6 crore in Q2FY2024.

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# Sharekhan

by BNP PARIBAS

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