



J.B. Chemicals and Pharmaceuticals Ltd

India and CMO drive momentum, Retain Buy

JB Chemicals (JBCP) Q2FY25 performance was largely in line with our estimates on all fronts. Higher-than-expected revenue from the formulations business and lower finance cost resulted in improved overall profitability. Revenue witnessed growth of 13.5% YoY/ flat QoQ to Rs 10 Bn. The YoY increase was mainly driven by a significant growth in the formulations business, domestic formulations grew by 22% YoY and export formulations grew by 14% YoY. Gross margins were flat YoY and QoQ to 66.2% on favourable product mix, cost optimization efforts and price growth. The pick-up in export formulations business and healthy order book of CDMO for seasonally strong H2, we expect overall exports growth to accelerate for FY25E. We have introduced our FY27E estimates and strongly believe that JBCP's domestic business is likely to register 15% CAGR over FY24-27E, on the account of market share gain and Rx increase in the acquired portfolio and improving MR productivity. We anticipate an EPS CAGR of 22% over FY24-FY27E aided by 1) strong growth from domestic business expansion and diversification into new therapies, 2) increased contribution from new acquisitions, 3) scaling up of high margin CDMO business and 4) robust FCF generation. We maintain our Buy rating on the stock with similar target price to Rs 2,217, valuing the company at 36x Sept'26E EPS.

Domestic formulations business - The domestic business grew 22% YoY, while excl. the ophthalmology portfolio it has registered growth of 12% YoY vs 9% (SMIFS estimates). JBCP continue to outperform the IPM and remain one of the fastest growing companies. It had reported growth of 11% YoY vs IPM growth of 7.6% in Q2FY25. Each of the major brands Cilacar, Cilacar-T, Rantac, Nicardia, Metrogyl and Sporlac have gained ranking as per IQVIA MAT Sept'24 data. Razel franchise recorded growth of 28% to Rs 930 Mn sales MAT Sept'24. Ophthalmology revenue remains on target for FY25E. We expect domestic formulations business revenue to deliver CAGR growth of 15% from FY24 to FY27E.

Export formulations and CDMO - Exports formulations business bounced back strongly with growth of 14% YoY and 3.4% QoQ basis to Rs.3 Bn in Q2FY25. South Africa and US business registered double digit growth while Russia and branded generics export market recorded high single digit growth. CDMO business declined by 18% YoY and 11% QoQ. Muted CDMO business due to seasonality impacted due to material availability challenges. Despite muted H1, annual growth remains healthy with seasonally strong H2FY25E for CDMO business aiming to expand in new categories like motion sickness, pain mgt., sleep disorder etc. We expect the company to deliver revenue growth of 13.8% over FY24-FY27E in export formulations business and 14.2% CAGR growth over FY24-27E in CDMO business.

EBITDA Margins - EBITDA came in at Rs 2,705 Mn up 11% YoY with OPM of 27%, contracted by 59bps YoY mainly on elevated freight cost related to exports. We expect EBITDA margins for FY25 and FY27 to see a sharp pick up from 25.7% in FY24 to 28%-29%. This improvement will be driven by improved gross margin, continuous cost optimization efforts, and a stronger product mix from domestic and exports business.

Valuation: JBCP is well-positioned to capitalize on immediate growth opportunities. We expect 29% EPS CAGR over FY24-26E aided by 1) Strong growth from domestic business (CAGR of 15% FY24-FY27E), 2) ~30% growth over FY24-FY26E from acquired portfolios, 3) scaling up of high margin CDMO business on the back of new therapy launches and 4) robust FCF generation. We maintain our Buy rating on the stock with similar target price to Rs 2,217, valuing the company at 36x Sept'26E EPS.

Y/E Mar (Rs mn)	Q2FY25	Q2FY24	YoY (%)	Q1FY25	QoQ (%)	Q2FY25E	Var. (%)
Revenues	10,006	8,817	13.5	10,044	-0.4	9,927	0.8
Cost of raw materials	3384	2982	13.5	3398	-0.4		
Employee expense	1706	1483	15.0	1669	2.2		
Other expense	2211	1918	15.3	2174	1.7		
EBITDA	2,705	2,435	11.1	2,804	-3.5	2,680	0.9
EBITDA Margin (%)	27.0%	27.6%	(59) bps	27.9%	(88) bps	27.0%	4 bps
Depreciation	419	322	30.2	408	2.7		
Interest	21	104	-80.1	56	-63.5		
Other Income	100	77	29.9	59	68.9		
PBT	2,365	2,087	13.4	2,398	-1.4		
Tax	620	581	6.7	630	-1.7		
Effective Tax Rate (%)	26.2	27.8	(163) bps	26.3	(8) bps		
Consolidated PAT	1,746	1,506	15.9	1,768	-1.3	1,738	0.4

Source: Company, SMIFS research

Y/E Mar (mn)	Revenue	YoY (%)	EBITDA	EBITDA (%)	Adj. PAT	YoY (%)	Adj. EPS	RoE (%)	RoCE (%)	Adj P/E (x)	EV/EBITDA (x)
FY23	31,493	29.9	6,958	22.1	4,099	6.4	26.5	17.7	14.1	34.6	20.8
FY24	34,840	10.6	8,967	25.7	5,525	34.8	35.6	20.4	16.7	38.6	23.7
FY25E	40,887	17.4	11,270	27.6	7,349	33.0	47.4	23.2	20.4	39.2	25.2
FY26E	46,433	13.6	13,124	28.3	9,051	23.2	58.3	24.2	20.3	31.9	21.3
FY27E	51,802	11.6	14,829	28.6	10,063	11.2	64.8	22.7	19.0	28.7	18.6

Source: Company, SMIFS research estimates

Rating: **Buy** Return: **19%**
 Current Price: **1,858** Target Price: **2,217**

Earlier recommendation

Previous Rating: Buy
 Previous Target Price: 2,215

Market data

Bloomberg: JBCP:IN
 52-week H/L (Rs): 2029/1377
 Mcap (Rs bn/USD bn): 286/3.4
 Shares outstanding (mn): 155
 Free float: 46%
 Avg. daily Vol (3M Avg.): 2.2
 Face Value (Rs): 1.0

Source: Bloomberg, SMIFS research

Shareholding pattern (%)

	Sep-24	Jun-24	Mar-24	Dec-23
Promoter	53.7	53.7	53.7	53.8
FIIs	13.6	12.1	11.0	10.3
DIIIs	16.8	17.6	18.3	18.5
Public/others	15.8	16.4	16.7	17.2

Promoters Pledging

Pledge share 0.0 0.0 0.0 0.0

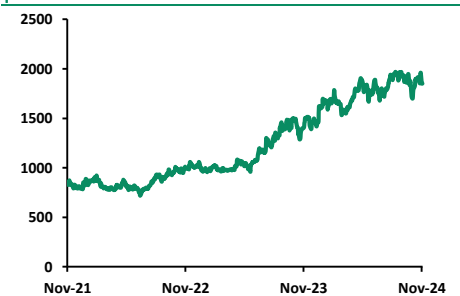
Source: BSE

Price performance (%) *

YE Mar (R)	1M	3M	12M	36M
NIFTY 50	-2.4	-0.4	24.7	35.0
NIFTY 500	-1.6	-0.1	32.6	48.3
JBCP IN	9.2	-3.0	28.0	124.4

* As on 7th Nov 2024; Source: AceEquity, SMIFS research

3 Year Price Performance Chart



Source: NSE

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Key takeaways from the management call

Financial highlights:

- 1) The domestic to international business mix was 59:41 during the quarter.
- 2) The gross margin remained at similar level to 66.2%, excluding ophthal business which has limited margin, GM improved by 150bps driven by cost optimization efforts, favorable product mix, and price increases.
- 3) ESOP costs was at Rs 140 mn and expects Rs 250-300 mn for H2FY25E.
- 4) Material availability challenges for CDMO resolved, hence sales got deferred to Q3.
- 5) Finance costs decreased significantly from Rs 100 mn in Q2FY24 to Rs 20 mn, driven by a significant reduction in gross debt.

Domestic business: During the quarter growth in domestic business stood at 22% YoY. The growth was comprised of 5% volume growth, 6% price growth and 2% from new products. Including the ophthalmology portfolio, the company has a field force of 2,300, with MR productivity standing at Rs 0.7 mn.

Export business: Exports business revenue grew by 3%, reaching at Rs 4.1 bn vs Rs 4.0 Bn. Exports formulations business witnessed strong growth of 14% YoY growth to Rs 3 bn. South Africa and US reported double digit growth while Russia and ROW market reported high single digit growth.

CDMO: The CDMO business remained subdued in H1FY25. CDMO sales of USD 2 mn were deferred to Q3FY25 due to challenges with material availability, which also affected the Q2FY25 performance. The supply of immunity and wellness lozenges other than EU countries is likely to start in CY25. Melatonin lozenges are set to be launched in global markets in FY26E, while flurbiprofen lozenges will be introduced in Brazil (start of FY27).

Key brands performance:

- **Major brands:** all the top 5 brands are now in the top 150 brands of the IPM.
- **Azmarda:** The brand achieved sales of Rs 670 mn, with expectations of annual growth between 15-20%. Management targets 5,000-6,000 units of quarterly increase for Azmard. With market consolidation JBCP continue to dominate the market among the top 3 players.
- **Razel:** Razel franchise is growing at 28% YoY reaching at Rs 930 mn.
- **Sporlac:** Sporlac brand grew at 3-year CAGR of more than 20% and successful generate revenue of Rs 1.4 Bn in Q2.
- **Pediatric portfolio:** shown strong growth in Q2, with the new launch of pediatric syrup formulation becoming a Rs 240 mn brand. Rinex syrup is expected to generate ~ Rs 100 mn annually.

Ophthalmic business: in Q2FY25 sales grew by 19% YoY to Rs 570 mn vs Rs 480mn in Q1FY25. As per IQVIA Rx data, the ophthalmology business generated 670,000 prescriptions in the January-March 2024 period, which increased to 760,000 prescriptions in the July-September 2024 period. The company currently covers 13,500 ophthalmologists across India, with plans to expand coverage to 16,000-17,000 ophthalmologists in the future. The portfolio has strong presence in Glaucoma, Eye Pain, Antiallergic, and Antibiotic treatments.

Other guidance:

- CDMO business expects to grow by 20% in H2 and remain flat annually.
- Domestic business to grow by 12-14% in H2, driven by chronic portfolios.
- EBITDA margin to be in the range of 26-28% for FY25E.
- In H2FY25, management plans to deploy ~Rs 500-550 mn in CAPEX, with 10-15% of the total CAPEX allocated to growth initiatives each year.
- Aims to launch at least one new product each quarter in ophthalmic portfolio.
- Export business expected to grow at double digit in H2FY25E, driven by new product launches.

Quarterly financials & key performance indicators

Fig 1: Quarterly Financials

Y/E March (Rs mn)	Q3FY23	Q4FY23	Q1FY24	Q2FY24	Q3FY24	Q4FY24	Q1FY25	Q2FY25
Net Sales	7,927	7,623	8,962	8,817	8,445	8,617	10,044	10,006
Raw Materials	2,990	2,749	3,100	2,982	2,736	3,003	3,398	3,384
Employee Costs	1,383	1,356	1,488	1,483	1,517	1,527	1,669	1,706
Other Expenditure	1,806	1,882	2,054	1,918	1,961	2,106	2,174	2,211
EBITDA	1,748	1,636	2,321	2,435	2,231	1,981	2,804	2,705
Other Income	31	46	56	77	74	166	59	100
Depreciation	284	318	314	322	340	407	408	419
EBIT	1,495	1,364	2,064	2,190	1,964	1,740	2,455	2,386
Interest	83	140	121	104	125	94	56	21
Exceptional items	0	0	0	0	0	0	0	0
PBT	1,412	1,225	1,943	2,087	1,840	1,646	2,398	2,365
Tax	351	348	520	581	504	384	630	620
Tax rate (%)	24.9	28.4	26.8	27.8	27.4	23.4	26.3	26.2
PAT before MI and Asso.	1,061	876	1,423	1,506	1,336	1,262	1,768	1,746
Share of Associate / JV	0	0	0	0	0	0	0	0
Minority Interest	0	0	0	0	0	0	0	0
Consolidated PAT	1,061	876	1,423	1,506	1,336	1,262	1,768	1,746
Adjusted PAT	1,061	876	1,423	1,506	1,336	1,262	1,768	1,746
YoY Growth (%)								
Revenue	32.0	22.1	14.2	8.9	6.5	13.0	12.1	13.5
EBITDA	36.4	31.0	34.4	31.9	27.7	21.1	20.8	11.1
Adj PAT	26.5	3.3	35.5	35.6	25.9	44.0	24.2	15.9
QoQ Growth (%)								
Revenue	-2.1	-3.8	17.6	-1.6	-4.2	2.0	16.6	-0.4
EBITDA	-5.3	-6.4	41.8	4.9	-8.4	-11.2	41.5	-3.5
Adj PAT	-4.5	-17.4	62.4	5.8	-11.3	-5.5	40.2	-1.3
Margin (%)								
RMC/revenue (%)	37.7	36.1	34.6	33.8	32.4	34.8	33.8	33.8
Gross margin (%)	62.3	63.9	65.4	66.2	67.6	65.2	66.2	66.2
Employee cost/revenue (%)	17.5	17.8	16.6	16.8	18.0	17.7	16.6	17.0
Other expenses/revenue (%)	22.8	24.7	22.9	21.7	23.2	24.4	21.6	22.1
EBITDA margin (%)	22.0	21.5	25.9	27.6	26.4	23.0	27.9	27.0
Adj PAT margin (%)	13.4	11.5	15.9	17.1	15.8	14.6	17.6	17.4

Source: Company, SMIFS research

Fig 2: Quarterly sales break-up

Revenue in INR Mn	3QFY23	4QFY23	Q1FY24	Q2FY24	Q3FY24	Q4FY24	Q1FY25	Q2FY25
Domestic Formulations	4,070	3,800	4,890	4,810	4,620	4,650	5,950	5,880
% growth	46%	29%	17%	11%	14%	22%	22%	22%
Export Formulations	2,670	2,550	2,750	2,630	2,650	2,670	2,900	3,000
% growth	11%	17%	12%	9%	-1%	5%	5%	14%
CDMO	957	1,000	1,190	1,150	890	1,090	1,060	940
% growth	91%	18%	19%	5%	-7%	9%	-11%	-18%
APIs	230	270	130	230	290	210	130	190
% growth	-4%	0%	-38%	0%	26%	-22%	0%	-17%
Total Revenue	7,927	7,623	8,962	8,817	8,445	8,617	10,044	10,006

Outlook and Valuation

JBCP is well-positioned to capitalize on immediate growth opportunities. We expect 29% EPS CAGR over FY24-26E aided by 1) Strong growth from domestic business (CAGR of 16% FY24-FY27E), 2) 35% growth over FY24-FY26E from acquired portfolios, 3) scaling up of high margin CDMO business on the back of new therapy launches and 4) robust FCF generation. We maintain our Buy rating on the stock with similar target price to Rs 2,217, valuing the company at 36x Sept'26E EPS.

Fig 3: Key Assumptions

Segmental Revenue (Rs mn)	FY23	FY24	FY25E	FY26E	FY27E
Base Business	11,270	12,268	13,806	15,563	16,868
Acquired Brands	2,758	3,658	5,781	6,696	7,618
Contrast Media + Other Brands	2,369	3,044	3,720	3,932	4,275
Total Domestic Revenue	16,397	18,970	23,307	26,191	28,761
Export Formulations	10,103	10,690	12,378	14,097	15,772
CDMO	4,058	4,320	4,431	5,331	6,431
API	936	860	772	814	839
Total Exports	15,096	15,870	17,581	20,242	23,041
Total Revenue	31,493	34,840	40,887	46,433	51,802

Source: Company, SMIFS Research Estimates

Fig 4: Change in Estimates

Particulars	New Estimates		Old Estimates		Change	
	FY25E	FY26E	FY25E	FY26E	FY25E	FY26E
Revenues	40,887	46,433	41,218	46,934	-0.8%	-1.1%
Gross Profit	26,848	30,605	27,222	31,053	-1.4%	-1.4%
Gross Margin	65.7%	65.9%	66.0%	66.2%	(34) bps	(29) bps
EBITDA	11,270	13,124	11,567	13,441	-2.6%	-2.4%
EBITDA Margin (%)	27.6%	28.3%	28.1%	28.6%	(54) bps	(33) bps
PAT	7,349	9,051	7,574	9,306	-3.0%	-2.7%
Adj EPS	47.4	58.3	48.8	60.0	-3.0%	-2.8%

Fig 5: 1-year forward P/E



Source: AceEquity, SMIFS research

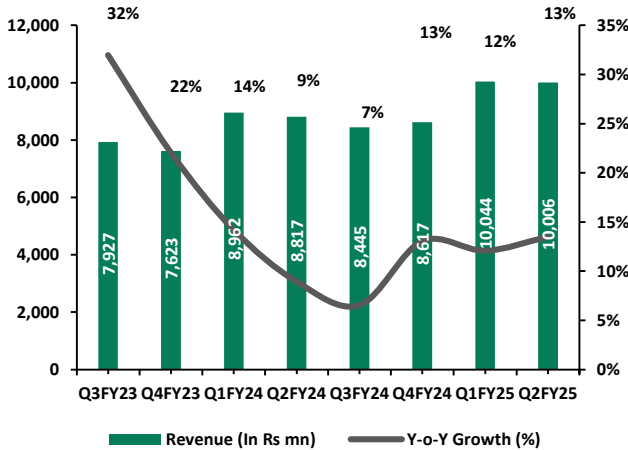
Fig 6: 1-year forward EV/EBITDA



Source: AceEquity, SMIFS research

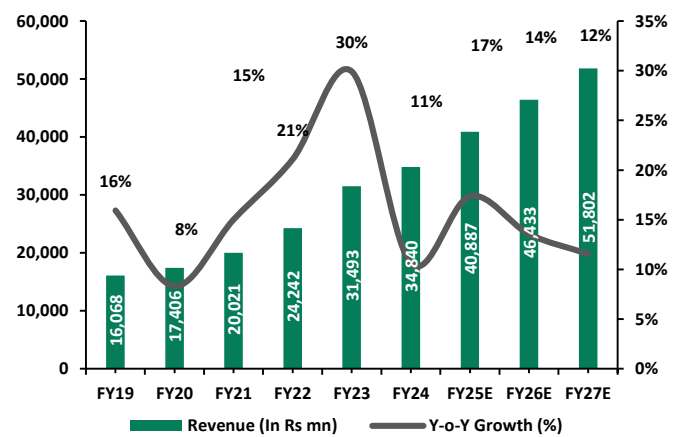
Story In Charts

Fig 7: Revenues (Quarterly)



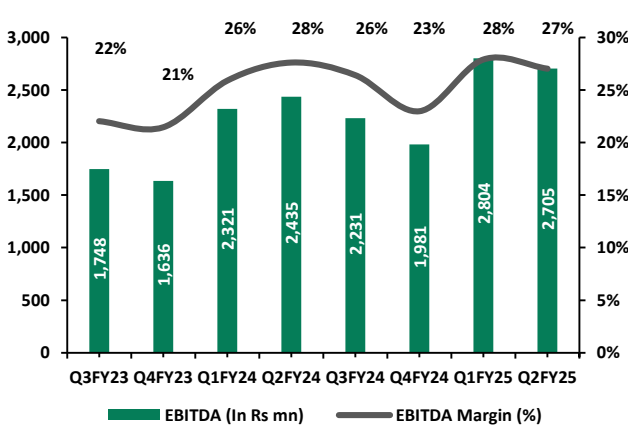
Source: AceEquity, SMIFS Research

Fig 8: Revenues (Yearly)



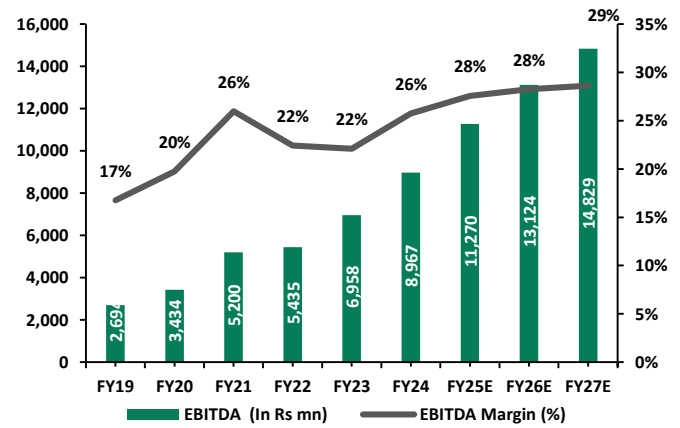
Source: AceEquity, SMIFS Research

Fig 9: EBITDA & Margin (Quarterly)



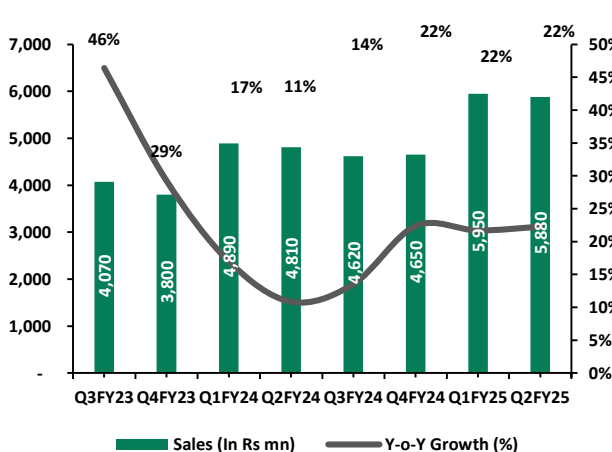
Source: AceEquity, SMIFS Research

Fig 10: EBITDA & Margin (Yearly)



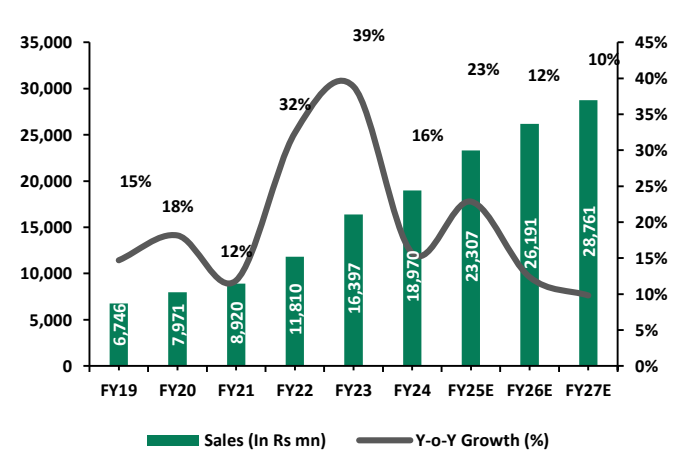
Source: AceEquity, SMIFS Research

Fig 11: Domestic Formulations Sales (Quarterly)



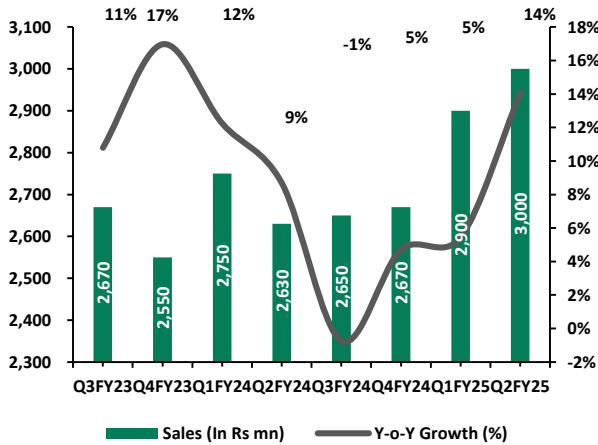
Source: AceEquity, SMIFS Research

Fig 12: Domestic Formulations Sales (Yearly)



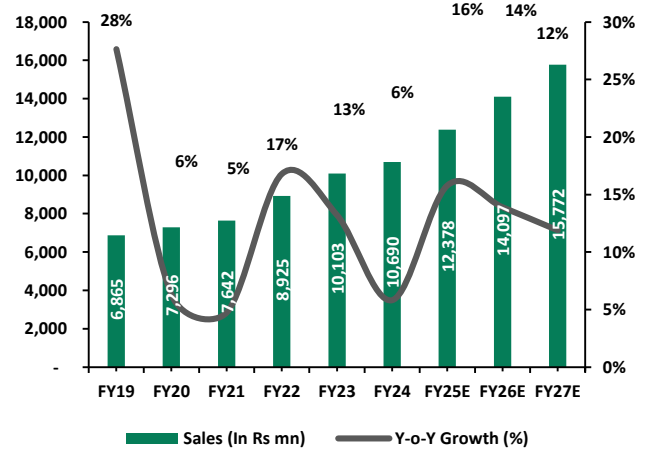
Source: AceEquity, SMIFS Research

Fig 13: Export Formulations Sales (Quarterly)



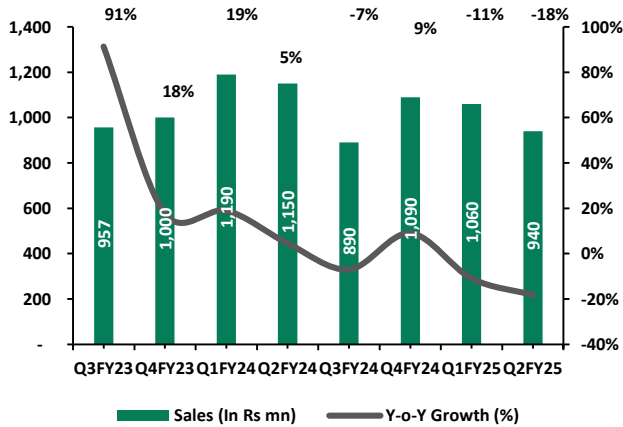
Source: AceEquity, SMIFS Research

Fig 14: Export Formulations Sales (Yearly)



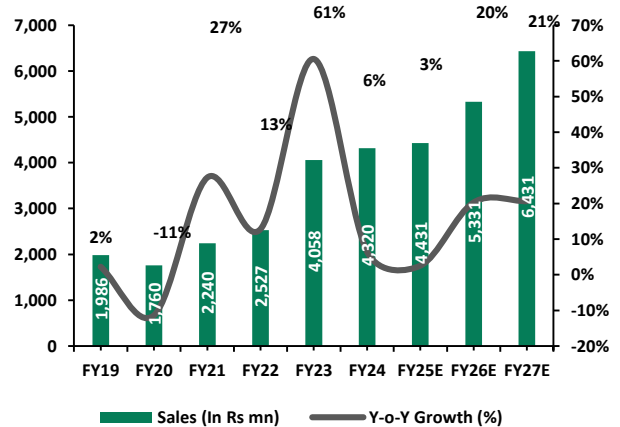
Source: AceEquity, SMIFS Research

Fig 15: CDMO Business Sales (Quarterly)



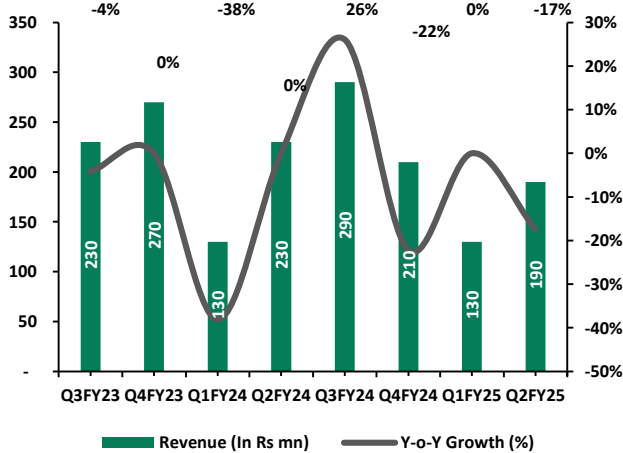
Source: AceEquity, SMIFS Research

Fig 16: CDMO Business Sales (Yearly)



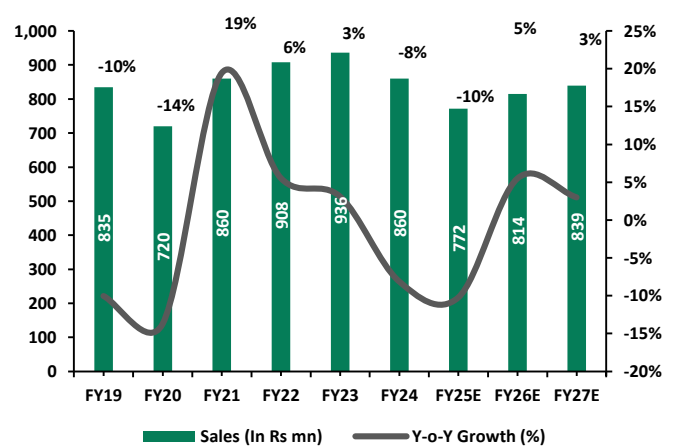
Source: AceEquity, SMIFS Research

Fig 17: API Sales (Quarterly)



Source: AceEquity, SMIFS Research

Fig 18: API Sales (Yearly)



Source: AceEquity, SMIFS Research

Financial Statements

Income Statement					
YE March (Rs mn)	FY23	FY24	FY25E	FY26E	FY27E
Revenues	31,493	34,840	40,887	46,433	51,802
Raw Materials	11,682	11,821	14,040	15,828	17,981
% of sales	37.1	33.9	34.3	34.1	34.7
Personnel	5,435	6,014	6,762	7,607	8,132
% of sales	17.3	17.3	16.5	16.4	15.7
Other Expenses	7,419	8,038	8,816	9,874	10,861
% of sales	23.6	23.1	21.6	21.3	21.0
EBITDA	6,958	8,967	11,270	13,124	14,829
Other Income	99	373	327	929	1,036
Depreciation & Amortization	1,144	1,383	1,682	1,920	2,360
EBIT	5,913	7,957	9,916	12,133	13,505
Finance cost	361	443	117	66	87
Core PBT	5,453	7,141	9,472	11,139	12,382
Exceptional items	0	0	0	0	0
PBT	5,553	7,513	9,799	12,067	13,418
Tax-Total	1,452	1,989	2,450	3,017	3,354
Effective tax rate (%)	26.2	26.5	25.0	25.0	25.0
PAT	4,101	5,525	7,349	9,051	10,063
Share of Associates	0	0	0	0	0
Non-controlling interest	2	0	0	0	0
Consolidated PAT	4,099	5,525	7,349	9,051	10,063
Adjusted PAT	4,099	5,525	7,349	9,051	10,063

Source: Company, SMIFS Research Estimates

Key Ratios					
YE March	FY23	FY24	FY25E	FY26E	FY27E
Growth Ratio (%)					
Revenue	29.9	10.6	17.4	13.6	11.6
EBITDA	28.0	28.9	25.7	16.4	13.0
Adjusted PAT	6.4	34.8	33.0	23.2	11.2
Margin Ratios (%)					
Gross Profit	62.9	66.1	65.7	65.9	65.3
EBITDA	22.1	25.7	27.6	28.3	28.6
EBIT	18.8	22.8	24.3	26.1	26.1
Core PBT	17.3	20.5	23.2	24.0	23.9
Adjusted PAT	13.0	15.9	18.0	19.5	19.4
Return Ratios (%)					
ROE	17.7	20.4	23.2	24.2	22.7
ROCE	14.1	16.7	20.4	20.3	19.0
ROIC	15.3	19.5	23.7	26.9	27.6
Turnover Ratios (days)					
Gross Block Turnover (x)	0.4	0.4	0.3	0.4	0.4
Adj OCF/Adj PAT (%)	144.0	136.9	106.6	106.2	110.3
Inventory	49.9	52.6	52.6	52.6	52.6
Debtors	66.7	72.0	75.0	75.0	75.0
Creditors	27.7	37.3	38.0	38.0	38.0
Cash conversion cycle	89.0	87.3	89.6	89.6	89.6
Solvency Ratio (x)					
Debt-equity	0.2	0.1	0.0	0.0	0.0
Net debt-equity	0.1	0.0	-0.1	-0.2	-0.3
Gross Debt/EBITDA	0.8	0.4	0.1	0.1	0.1
Current Ratio	2.8	2.1	3.0	3.6	4.1
Interest coverage ratio	16.1	17.1	82.0	170.8	143.6
Dividend					
DPS	8.9	10.1	15.0	17.0	17.0
Dividend Yield (%)	0.0	0.0	0.0	0.0	0.0
Dividend Payout (%)	0.3	0.3	0.3	0.3	0.3
Per share Ratios (Rs)					
Basic EPS (reported)	26.5	35.6	47.4	58.3	64.8
Adjusted EPS	26.5	35.6	47.4	58.3	64.8
CEPS	33.9	44.5	58.2	70.7	80.0
BV	160.2	188.4	220.7	262.0	309.9
Valuation (x)*					
Adj P/E	34.6	38.6	39.2	31.9	28.7
P/BV	5.7	7.3	8.4	7.1	6.0
EV/EBITDA	20.8	23.7	25.2	21.3	18.6
EV/Sales	4.6	6.1	6.9	6.0	5.3
Adjusted Market Cap /Core PBT	25.9	29.7	30.3	25.4	22.5
Adjusted Market Cap /Adj OCF	23.9	28.1	36.6	29.4	25.1

Source: Company, SMIFS Research Estimates

Balance Sheet					
YE March (Rs mn)	FY23	FY24	FY25E	FY26E	FY27E
Source of funds					
Capital	155	155	155	155	155
Reserves & Surplus	24,649	29,078	34,099	40,511	47,937
Minority Interest	0	0	0	0	0
Shareholders' Funds	24,804	29,233	34,255	40,667	48,092
Total Loan Funds	5,724	3,777	1,022	772	1,022
Other liabilities	1,205	1,693	1,878	1,878	1,878
Total Liabilities	31,733	34,703	37,154	43,317	50,992
Application of funds					
Gross Block	11,293	12,207	14,207	17,207	21,207
Net Block	5,320	5,716	6,034	7,114	8,754
Capital WIP	444	633	633	633	633
Quasi cash Investments	0	0	0	0	0
Other Investments	138	237	237	237	237
Other non-current assets	14,356	14,822	14,822	14,822	14,822
Inventories	4,305	5,025	5,897	6,697	7,472
Sundry Debtors	5,758	6,869	8,402	9,541	10,644
Current Investments	1,922	3,647	3,647	3,647	3,647
Cash & Bank Balances	788	955	1,709	5,429	10,145
Other current Assets	2,507	2,037	2,037	2,037	2,037
Total Current Assets	15,280	18,534	21,691	27,351	33,945
Sundry Creditors	2,386	3,563	4,257	4,834	5,393
Other Current Liabilities	1,419	1,675	2,006	2,006	2,006
Total Current Liabilities	3,805	5,239	6,263	6,841	7,400
Net Current Assets	11,475	13,295	15,428	20,510	26,545
Total Assets	31,733	34,703	37,154	43,317	50,992

Source: Company, SMIFS Research Estimates

Cash Flow					
YE March (Rs mn)	FY23	FY24	FY25E	FY26E	FY27E
Operating profit before WC changes	7,511	9,387	11,598	14,053	15,865
Net changes in working capital	(299)	(56)	(1,195)	(1,362)	(1,319)
Tax Paid	(955)	(1,325)	(2,450)	(3,017)	(3,354)
Cash flow from operating activities	6,257	8,006	7,953	9,674	11,192
Adj. OCF	5,903	7,563	7,836	9,609	11,105
Capital expenditure	-726	-1,269	-2,000	-3,000	-4,000
Adj FCF	5,177	6,294	5,836	6,609	7,105
Cash flow from investing activities	-9,618	-4,038	-2,000	-3,000	-4,000
Debt	5,232	-1,916	-2,755	-250	250
Dividend	-1,276	-1,570	-2,328	-2,638	-2,638
Interest and Lease	-419	-569	-117	-66	-87
Cash flow from financing activities	3,565	-3,855	-5,200	-2,954	-2,475
Net change in cash	204	113	753	3,720	4,716

Source: Company, SMIFS Research Estimates

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