

India

HOLD (no change)

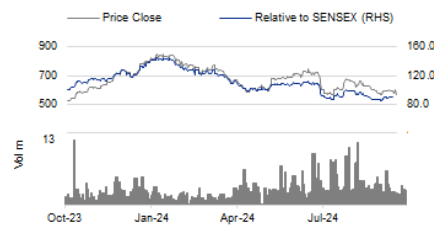
Consensus ratings*: Buy 8 Hold 5 Sell 1

Current price:	Rs569
Target price:	Rs570
Previous target:	Rs675
Up/downside:	0.2%
InCred Research / Consensus:	-14.3%
Reuters:	BIRS.NS
Bloomberg:	BSOFT IN
Market cap:	US\$1,872m Rs157,400m
Average daily turnover:	US\$29.1m Rs2444.0m
Current shares o/s:	280.6m
Free float:	59.1%

*Source: Bloomberg

Key changes in this note

- Expect 7% revenue CAGR over FY24-27F.
- Expect 9.6% EBIT CAGR over FY24-27F.
- Expect 11% PAT CAGR over FY24-27F.



Source: Bloomberg

Price performance	1M	3M	12M
Absolute (%)	(9.9)	(20.7)	8.1
Relative (%)	(4.2)	(20.8)	(13.5)

Major shareholders	% held
Kotak Emerging Equity Scheme	4.7
HDFC Flexi Cap Fund	3.6
Aditya Birla Sun Life Multi Cap Fund	2.4

Research Analyst(s)



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Birlasoft

Getting closer to entry valuation

- 2QFY25 growth largely in line, but material miss on the margin front.
- TCV bookings likely impacted by portfolio skew and remains monitorable.
- Margin commentary echoes our underlying thesis that growth aspirations are limited by vendor's ability to forego margin in the near term.

2QFY25 results summary

Birlasoft's (BSOFT IN) 2QFY25 revenue growth at 2.2%/2.9% qoq/yoy in constant currency or CC terms was aided by ERP and digital services, manufacturing, financial services (FSI) & energy & utilities (E&U) verticals while life sciences and IMS dragged. The ramp-up of high onsite-centric vendor consolidation deals requiring pricing flexibility led to material EBITDA margin miss at 12.1% and aptly summarizes our underlying '[Margin is king](#)' thesis. TCV softness was likely driven by the portfolio mix's skew towards manufacturing, whereas the current recovery is driven by FSI. This, coupled with cautious spending amid the forthcoming US presidential elections, and seasonal furlough are headwinds to 3QFY25F revenue while wage hike is a key headwind to margin.

Portfolio skew likely impacted bookings

New deal TCV (down 5.3%/46.7% qoq/yoy vs. -12.1/+17.5% qoq/yoy in 1Q) at US\$89m and renewals (-28.8%/-54.8% qoq/yoy to US\$47m) led to 15%/49.8% qoq/yoy decline in total TCV to US\$136m. TTM TCV, at US\$754m, was also soft (15.2%/19.3% qoq/yoy decline) led by new (-16.9%/-17.1% qoq/yoy) and renewals (-13.3%/-21.4% qoq/yoy). Management expects the TCV performance to improve in 2HFY25F driven by a strong deal pipeline, resumption of the renewal cycle and ongoing client discussions.

Execution to remain soft in 3QFY25F as well

The EBITDA margin miss at 12.1% (down ~261bp qoq; 172bp below estimate) was driven by the absence of one-time benefits (~160bp), higher onsite mix from consolidation deals requiring upfront investments (~50bp) and pricing flexibility (~50bp). Management expects 1) ~150bp of wage hike impact in 3QFY25F, 2) recovery from 4QFY25F led by offshoring, utilization improvement, and operating efficiency in digital and data businesses, & 3) four-to-six quarters to reach the aspirational band (15-16%), given rising competitive intensity.

Retain HOLD rating with a lower TP of Rs570 vs. Rs675 earlier

We model ~7% US\$ revenue CAGR over FY24F-27F and ~11% PAT (Rs) CAGR. We retain our HOLD rating and a lower target price of Rs570 (vs. Rs675 earlier) led by trimming of estimates and despite 1) shifting to FY27F earnings, and 2) applying a similar discount to the increased target multiple of Tata Consultancy Services (TCS). We also applied the target PE/G multiple to FY24-27F PAT CAGR (FY24-26F earlier) as weakness in the current fiscal distorts the base. Growth moderation driven by client-specific challenges, weak order booking and margin execution are key downside risks while the better-than-expected growth led by M&A activity is an upside risk.

Financial Summary

	Mar-23A	Mar-24A	Mar-25F	Mar-26F	Mar-27F
Revenue (Rsm)	47,948	52,781	55,078	61,541	68,018
Operating EBITDA (Rsm)	6,715	8,362	6,911	8,616	10,883
Net Profit (Rsm)	4,826	6,238	5,270	6,698	8,557
Core EPS (Rs)	17.1	22.2	18.8	23.9	30.5
Core EPS Growth	4.6%	29.8%	(15.5%)	27.1%	27.8%
FD Core P/E (x)	33.22	25.60	30.30	23.84	18.66
DPS (Rs)	3.5	6.5	7.5	9.5	11.0
Dividend Yield	0.62%	1.14%	1.32%	1.67%	1.93%
EV/EBITDA (x)	22.42	17.42	20.51	16.02	12.20
P/FCFE (x)	40.06	28.77	32.20	30.85	23.72
Net Gearing	(39.9%)	(46.0%)	(53.3%)	(57.6%)	(62.4%)
P/BV (x)	6.55	5.25	4.75	4.24	3.70
ROE	19.2%	22.7%	16.5%	18.8%	21.2%
% Change In Core EPS Estimates			(25.50%)	(21.51%)	
InCred Research/Consensus EPS (x)					

SOURCE: INCRED RESEARCH, COMPANY REPORTS

Figure 1: Quarterly performance

Y/E Mar (Rsm)	2QFY25	2QFY24	YoY (%)	1QFY25	QoQ (%)	2QFY25F	Var. (%)
Revenue (US\$m)	163.3	158.3	3.2	159.1	2.6	162.3	0.6
Revenue (Rsm)	13,682	13,099	4.5	13,274	3.1	13,595	0.6
USD-INR realization	83.8	82.7	1.3	83.4	0.4	83.8	0.0
EBITDA	1,653	2,071	(20.2)	1,951	(15.3)	1,876	(11.9)
EBITDA margin (%)	12.1	15.8	(373bp)	14.7	(261bp)	13.8	(172bp)
EBIT	1,431	1,856	(22.9)	1,745	(18.0)	1,665	(14.1)
EBIT margin (%)	10.5	14.2	(371bp)	13.1	(269bp)	12.2	(179bp)
Depreciation	222	215	3.4	206	8.0	211	5.4
Net other income	266	99	169.0	303	(12.4)	298	(10.8)
PBT	1,697	1,955	(13.2)	2,049	(17.2)	1,963	(13.6)
Provision for tax	422	504	(16.4)	547	(22.8)	501	(15.7)
% tax rate	24.9	25.8	(94bp)	26.7	(182bp)	25.5	(64bp)
Net profit	1,275	1,451	(12.1)	1,501	(15.1)	1,463	(12.8)
EPS (Rs)	4.5	5.2	(12.1)	5.3	(15.1)	5.2	(12.7)

SOURCE: INCRED RESEARCH, COMPANY REPORTS

Key conference-call highlights

- **Guidance:** Although growth trajectory could be muted in 3QFY25F, Birlasoft expects an uptick from 4QFY25F.
- **Demand environment:** The demand environment remains challenging, with client budgets on hold pending the US presidential elections. Clients continue to focus on cost reduction vs. transformation projects. Vendor consolidation deals are adding to the pricing pressure. Despite the challenges, management is optimistic about the order pipeline driven by opportunities in ERP & hyperscaler and anticipates conversion of delayed deals.
- **Vertical and service line commentary**
 - **BFSI** grew 1.4% qoq, and the company aims to win market share with consolidation-led deals.
 - **Manufacturing & ENU:** Both verticals showed strong growth, each increasing 4.7% qoq driven by the ramp-up of previously delayed projects, particularly in ERP.
 - **Life sciences & services** vertical could remain soft driven by the ongoing challenges and timing of project completion.
 - **The digital and data business** rebounded strongly in 2QFY25, with 6.6% qoq growth driven by the start of delayed projects and rising demand for digital transformation services.
 - **Infrastructure services** saw a sequential decline of ~19%, but the company expects the growth trajectory to improve.
- Expects TCV bookings to improve in 2HFY25F led by renewals and a strong pipeline.

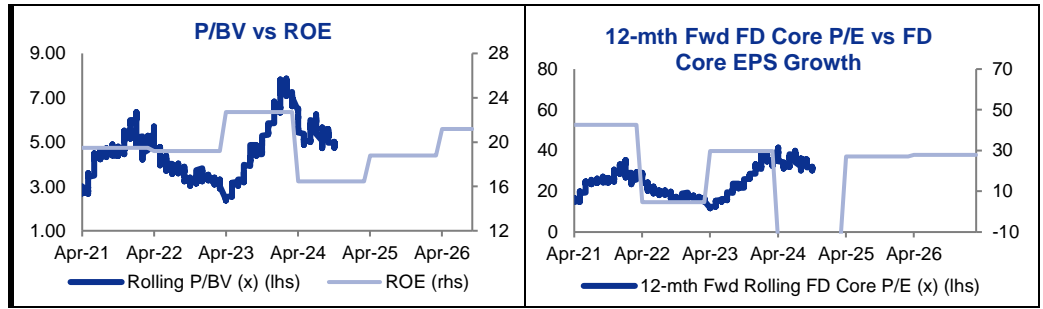
Figure 2: Operating metric trend

Operating trends	1QFY23	2QFY23	3QFY23	4QFY23	1QFY24	2QFY24	3QFY24	4QFY24	1QFY25	2QFY25
Revenue (US\$m)	148.6	148.8	148.4	149.1	153.6	158.3	161.3	163.9	159.1	163.3
Growth yoy (%)	15.7	8.7	3.5	1.8	3.4	6.4	8.7	9.9	3.6	3.2
Growth qoq (%)	1.5	0.1	-0.3	0.5	3.0	3.1	1.9	1.6	-2.9	2.6
Revenue (Rsm)	11,544	11,921	12,219	12,264	12,628	13,099	13,430	13,625	13,274	13,682
Growth yoy (%)	22.1	17.8	14.0	11.3	9.4	9.9	9.9	11.1	5.1	4.5
Growth qoq (%)	4.8	3.3	2.5	0.4	3.0	3.7	2.5	1.5	-2.6	3.1
EBIT margin (%)	13.0	13.1	11.2	11.9	13.6	14.2	14.4	14.7	13.1	10.5
US\$-INR realized rate	77.7	80.1	82.3	82.3	82.2	82.7	83.3	83.1	83.4	83.8
Headcount	12,565	12,758	12,530	12,193	12,235	12,322	12,356	12,595	12,865	12,865
Utilization (%)	82.5	82.4	84.0	84.8	84.9	86.5	87.1	86.3	81.7	82.0
LTM attrition (%)	27.9	27.4	25.5	22.1	18.8	15.0	12.6	12.4	11.6	11.8
Vertical (%)	1QFY23	2QFY23	3QFY23	4QFY23	1QFY24	2QFY24	3QFY24	4QFY24	1QFY25	2QFY25
BFSI	17.8	19.1	20.1	20.5	20.7	21.1	20.6	21.2	23.6	23.3
Energy & Utilities	14.3	14.1	13.9	14.9	14.3	13.7	14.5	14.8	15.8	16.1
Lifesciences	26.5	25.0	26.0	24.5	24.4	24.0	23.9	22.1	21.4	20.6
Manufacturing	41.4	41.8	40.0	40.1	40.7	41.1	41.1	41.9	39.2	40.0
Vertical (US\$m)	1QFY23	2QFY23	3QFY23	4QFY23	1QFY24	2QFY24	3QFY24	4QFY24	1QFY25	2QFY25
BFSI	26.5	28.4	29.8	30.6	31.8	33.4	33.2	34.7	37.5	38.0
Energy & Utilities	21.2	21.0	20.6	22.2	22.0	21.7	23.4	24.3	25.1	26.3
Lifesciences	39.4	37.2	38.6	36.5	37.5	38.0	38.6	36.2	34.0	33.6
Manufacturing	61.5	62.2	59.4	59.8	62.5	65.1	66.3	68.7	62.4	65.3
Vertical yoy (%)	1QFY23	2QFY23	3QFY23	4QFY23	1QFY24	2QFY24	3QFY24	4QFY24	1QFY25	2QFY25
BFSI	17.7	14.7	17.5	21.4	20.2	17.5	11.4	13.7	18.1	13.9
Energy & Utilities	11.1	7.2	-2.8	0.5	3.4	3.4	13.4	9.2	14.4	21.2
Lifesciences	31.1	12.3	20.7	15.5	-4.8	2.1	-0.1	-0.8	-9.2	-11.5
Manufacturing	8.4	4.7	-8.4	-11.4	1.6	4.6	11.7	14.9	-0.2	0.4

Vertical qoq (%)	1QFY23	2QFY23	3QFY23	4QFY23	1QFY24	2QFY24	3QFY24	4QFY24	1QFY25	2QFY25
BFSI	5.0	7.4	5.0	2.5	4.0	5.1	-0.5	4.6	8.1	1.3
Energy & Utilities	-3.9	-1.3	-1.7	7.7	-1.1	-1.3	7.8	3.7	3.6	4.6
Lifesciences	24.5	-5.5	3.7	-5.3	2.6	1.4	1.5	-6.0	-6.0	-1.2
Manufacturing	-8.8	1.1	-4.6	0.7	4.6	4.1	1.9	3.6	-9.2	4.7
Incremental revenue (US\$m)	1QFY23	2QFY23	3QFY23	4QFY23	1QFY24	2QFY24	3QFY24	4QFY24	1QFY25	2QFY25
BFSI	1.3	2.0	1.4	0.7	1.2	1.6	-0.2	1.5	2.8	0.5
Energy & Utilities	-0.9	-0.3	-0.4	1.6	-0.3	-0.3	1.7	0.9	0.9	1.2
Lifesciences	7.8	-2.2	1.4	-2.1	0.9	0.5	0.6	-2.3	-2.2	-0.4
Manufacturing	-6.0	0.7	-2.8	0.4	2.7	2.5	1.2	2.4	-6.3	3.0
New deal wins (US\$m)	1QFY23	2QFY23	3QFY23	4QFY23	1QFY24	2QFY24	3QFY24	4QFY24	1QFY25	2QFY25
Order intake	112	138	102	114	80	167	94	107	94	89
qoq (%)	-10.4	23.2	-26.1	11.8	-29.8	108.8	-43.7	13.8	-12.1	-5.3
yoy (%)	19.1	32.7	-15.7	-8.8	-28.6	21.0	-7.8	-6.1	17.5	-46.7
TTM order intake	462	496	477	466	434	463	455	448	462	384
Clients (%)	1QFY23	2QFY23	3QFY23	4QFY23	1QFY24	2QFY24	3QFY24	4QFY24	1QFY25	2QFY25
Top 5	30.7	31.1	31.7	32.8	33.3	33.6	34.5	35.4	36.2	36.7
Top 6-10	16.3	16.1	16.2	15.9	16.3	17.4	17.5	16.7	16.4	15.8
Top 11-20	16.1	16.5	16.2	15.2	14.3	12.9	12.7	12.7	12.5	12.4
Non top 20	36.9	36.3	35.9	36.1	36.1	36.1	35.3	35.2	34.9	35.1
Clients (US\$m)	1QFY23	2QFY23	3QFY23	4QFY23	1QFY24	2QFY24	3QFY24	4QFY24	1QFY25	2QFY25
Top 5	45.6	46.3	47.0	48.9	51.1	53.2	55.6	58.0	57.6	59.9
Top 6-10	24.2	24.0	24.0	23.7	25.0	27.5	28.2	27.4	26.1	25.8
Top 11-20	23.9	24.6	24.0	22.7	22.0	20.4	20.5	20.8	19.9	20.2
Non top 20	54.8	54.0	53.3	53.8	55.4	57.1	56.9	57.7	55.5	57.3
Clients yoy (%)	1QFY23	2QFY23	3QFY23	4QFY23	1QFY24	2QFY24	3QFY24	4QFY24	1QFY25	2QFY25
Top 5	16.5	13.8	12.0	11.7	12.1	14.9	18.3	18.6	12.6	12.7
Top 6-10	35.7	12.9	3.5	2.5	3.4	15.0	17.4	15.5	4.2	-6.3
Top 11-20	16.5	12.1	7.5	-0.8	-8.2	-16.8	-14.8	-8.2	-9.5	-0.8
Non top 20	7.8	1.7	-4.5	-5.0	1.1	5.8	6.9	7.2	0.1	0.3
Clients qoq (%)	1QFY23	2QFY23	3QFY23	4QFY23	1QFY24	2QFY24	3QFY24	4QFY24	1QFY25	2QFY25
Top 5	4.2	1.4	1.7	4.0	4.6	4.0	4.6	4.3	-0.7	4.1
Top 6-10	4.7	-1.1	0.4	-1.4	5.6	10.0	2.5	-3.0	-4.7	-1.1
Top 11-20	4.8	2.6	-2.1	-5.7	-3.1	-7.0	0.3	1.6	-4.5	1.8
Non top 20	-3.2	-1.5	-1.4	1.0	3.0	3.1	-0.4	1.3	-3.8	3.2
Incremental revenue (US\$m)	1QFY23	2QFY23	3QFY23	4QFY23	1QFY24	2QFY24	3QFY24	4QFY24	1QFY25	2QFY25
Top 5	1.8	0.7	0.8	1.9	2.2	2.0	2.5	2.4	-0.4	2.3
Top 6-10	1.1	-0.3	0.1	-0.3	1.3	2.5	0.7	-0.9	-1.3	-0.3
Top 11-20	1.1	0.6	-0.5	-1.4	-0.7	-1.5	0.1	0.3	-0.9	0.4
Non top 20	-1.8	-0.8	-0.7	0.5	1.6	1.7	-0.2	0.8	-2.2	1.8
Client metrics	1QFY23	2QFY23	3QFY23	4QFY23	1QFY24	2QFY24	3QFY24	4QFY24	1QFY25	2QFY25
Active clients	300	301	299	288	285	278	272	259	258	261
Revenue per active client	1.9	2.0	2.0	2.1	2.1	2.2	2.3	2.5	2.5	2.5
US\$1m+	82	76	83	83	86	85	83	87	88	89
US\$5m+	25	27	24	26	27	27	26	26	23	24
US\$10m+	13	14	13	13	13	11	11	12	12	12
Per employee analysis	1QFY23	2QFY23	3QFY23	4QFY23	1QFY24	2QFY24	3QFY24	4QFY24	1QFY25	2QFY25
Revenue (US\$ m) - TTM	575	587	592	595	600	609	622	637	643	648
Employees (average TTM)	12,195	12,368	12,514	12,512	12,429	12,320	12,277	12,377	12,535	12,670
Revenue per employee (TTM)	47,176	47,477	47,322	47,548	48,266	49,464	50,690	51,475	51,267	51,112

SOURCE: INCRED RESEARCH, COMPANY REPORTS

BY THE NUMBERS



Profit & Loss

(Rs mn)	Mar-23A	Mar-24A	Mar-25F	Mar-26F	Mar-27F
Total Net Revenues	47,948	52,781	55,078	61,541	68,018
Gross Profit	19,817	22,298	22,001	24,617	27,888
Operating EBITDA	6,715	8,362	6,911	8,616	10,883
Depreciation And Amortisation	(823)	(850)	(885)	(923)	(1,000)
Operating EBIT	5,892	7,512	6,026	7,693	9,883
Financial Income/(Expense)	42	836	1,052	1,262	1,557
Pretax Income/(Loss) from Assoc.					
Non-Operating Income/(Expense)					
Profit Before Tax (pre-EI)	5,934	8,348	7,078	8,955	11,440
Exceptional Items					
Pre-tax Profit	5,934	8,348	7,078	8,955	11,440
Taxation	(1,108)	(2,110)	(1,808)	(2,257)	(2,883)
Exceptional Income - post-tax					
Profit After Tax	4,826	6,238	5,270	6,698	8,557
Minority Interests					
Preferred Dividends					
FX Gain/(Loss) - post tax					
Other Adjustments - post-tax					
Net Profit	4,826	6,238	5,270	6,698	8,557
Recurring Net Profit	4,826	6,238	5,270	6,698	8,557
Fully Diluted Recurring Net Profit	4,826	6,238	5,270	6,698	8,557

Cash Flow

(Rs mn)	Mar-23A	Mar-24A	Mar-25F	Mar-26F	Mar-27F
EBITDA	6,715	8,362	6,911	8,616	10,883
Cash Flow from Invt. & Assoc.					
Change In Working Capital	(800)	(730)	241	(690)	(657)
(Incr)/Decr in Total Provisions					
Other Non-Cash (Income)/Expense					
Other Operating Cashflow					
Net Interest (Paid)/Received					
Tax Paid	(1,315)	(1,807)	(1,808)	(2,257)	(2,883)
Cashflow From Operations	4,600	5,825	5,344	5,669	7,344
Capex	(577)	(262)	(386)	(492)	(612)
Disposals Of FAs/subsidiaries					
Acq. Of Subsidiaries/investments					
Other Investing Cashflow	3,094	(6,007)	1,298	1,508	1,802
Cash Flow From Investing	2,517	(6,269)	912	1,015	1,190
Debt Raised/(repaid)					
Proceeds From Issue Of Shares					
Shares Repurchased					
Dividends Paid	(5,994)	(1,240)	(2,105)	(2,666)	(3,087)
Preferred Dividends					
Other Financing Cashflow	(368)	(438)	(246)	(246)	(246)
Cash Flow From Financing	(6,362)	(1,678)	(2,350)	(2,912)	(3,333)
Total Cash Generated	755	(2,123)	3,906	3,773	5,201
Free Cashflow To Equity	4,022	5,562	4,959	5,177	6,731
Free Cashflow To Firm	7,117	(445)	6,256	6,684	8,534

SOURCE: INCRED RESEARCH, COMPANY REPORTS

BY THE NUMBERS...cont'd

Balance Sheet					
(Rs mn)	Mar-23A	Mar-24A	Mar-25F	Mar-26F	Mar-27F
Total Cash And Equivalents	10,425	14,586	18,491	22,264	27,465
Total Debtors	9,071	10,365	10,110	11,128	12,113
Inventories					
Total Other Current Assets	2,201	2,723	2,723	2,723	2,723
Total Current Assets	21,698	27,674	31,325	36,115	42,302
Fixed Assets	2,390	2,036	1,536	1,105	718
Total Investments	1,014	3,023	3,023	3,023	3,023
Intangible Assets	5,034	5,052	5,052	5,052	5,052
Total Other Non-Current Assets	1,737	1,472	1,472	1,472	1,472
Total Non-current Assets	10,175	11,582	11,083	10,652	10,264
Short-term Debt					
Current Portion of Long-Term Debt					
Total Creditors	2,313	2,805	2,792	3,119	3,448
Other Current Liabilities	3,927	4,653	4,653	4,653	4,653
Total Current Liabilities	6,240	7,458	7,444	7,772	8,100
Total Long-term Debt					
Hybrid Debt - Debt Component					
Total Other Non-Current Liabilities	1,150	1,357	1,357	1,357	1,357
Total Non-current Liabilities	1,150	1,357	1,357	1,357	1,357
Total Provisions					
Total Liabilities	7,390	8,815	8,802	9,129	9,457
Shareholders Equity	24,483	30,441	33,606	37,639	43,109
Minority Interests					
Total Equity	24,483	30,441	33,606	37,639	43,109

Key Ratios					
	Mar-23A	Mar-24A	Mar-25F	Mar-26F	Mar-27F
Revenue Growth	16.1%	10.1%	4.4%	11.7%	10.5%
Operating EBITDA Growth	4.9%	24.5%	(17.4%)	24.7%	26.3%
Operating EBITDA Margin	14.0%	15.8%	12.5%	14.0%	16.0%
Net Cash Per Share (Rs)	34.65	49.92	63.83	77.28	95.81
BVPS (Rs)	86.89	108.47	119.75	134.12	153.61
Gross Interest Cover	31.70	37.67	24.54	31.33	40.25
Effective Tax Rate	18.7%	25.3%	25.5%	25.2%	25.2%
Net Dividend Payout Ratio	20.4%	29.2%	39.9%	39.8%	36.1%
Accounts Receivables Days	66.83	67.20	67.84	62.98	62.36
Inventory Days					
Accounts Payables Days	28.60	30.64	30.88	29.21	29.86
ROIC (%)	32.3%	39.5%	31.6%	42.8%	53.9%
ROCE (%)	18.5%	20.0%	13.8%	15.9%	18.1%
Return On Average Assets	14.6%	15.8%	11.0%	12.9%	14.9%

SOURCE: INCRED RESEARCH, COMPANY REPORTS

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Add	The stock's total return is expected to exceed 10% over the next 12 months.
Hold	The stock's total return is expected to be between 0% and positive 10% over the next 12 months.
Reduce	The stock's total return is expected to fall below 0% or more over the next 12 months.
<i>The total expected return of a stock is defined as the sum of the: (i) percentage difference between the target price and the current price and (ii) the forward net dividend yields of the stock. Stock price targets have an investment horizon of 12 months.</i>	
Sector Ratings	Definition:
Overweight	An Overweight rating means stocks in the sector have, on a market cap-weighted basis, a positive absolute recommendation.
Neutral	A Neutral rating means stocks in the sector have, on a market cap-weighted basis, a neutral absolute recommendation.
Underweight	An Underweight rating means stocks in the sector have, on a market cap-weighted basis, a negative absolute recommendation.
Country Ratings	Definition:
Overweight	An Overweight rating means investors should be positioned with an above-market weight in this country relative to benchmark.
Neutral	A Neutral rating means investors should be positioned with a neutral weight in this country relative to benchmark.
Underweight	An Underweight rating means investors should be positioned with a below-market weight in this country relative to benchmark.