



Ashok Leyland Ltd

Good show, benefits of ongoing upcycle is clearly visible!

Operational performance at its best, beaten across parameters. We maintain BUY rating on Ashok Leyland for a target price of Rs 189 per share as the company has been gaining market share across segments & geographies, and traction should continue. In our opinion, the company is taking serious efforts in filling products gaps & expanding its network, the full benefit of the same is yet to come. Margin improvement should continue majorly led by 1) operating leverage, 2) better mix as the market is tilted towards MHCVs & buses, 3) commodities have been supportive, & 4) internal efficiencies. Reiterate BUY to play the superlative CV upcycle, we see good potential in the ongoing upcycle.

Q3FY23 result analysis – Operational performance at its best

- The result was above estimates across parameters. Volumes 47.5K units (+40% YoY & 5% QoQ), realization Rs 18,98,505 (+17% YoY & 4% QoQ). Blended realization growth was higher than expected largely led by volumes tilted towards MHCVs (~65% in Q3FY23 vs. ~57% in Q3FY22) and price increases taken several times in the last one year. Supported further by increasing contribution from other businesses, offset by continued discounting in the market.
- EBITDA Margin improved to 8.8% (+479bps YoY & +233bps QoQ) driven by soft commodity prices and operating leverage benefits. Margin has been improving since last three consecutive quarters, from 4.4% in Q1FY23 to 8.8% in Q3FY23.
- PAT Rs3.6bn (vs Rs58mn in Q3FY22 & Rs2bn in Q2FY23) outperformed our estimates of Rs2.9bn due to superior operational performance.

Gaining market share across geographies & segments, traction should be good

- The company has been gaining market share driven by its AVTR range in MHCVs and Dost/Bada Dost in LCV range, plus increasing its reach further.
- Expect continued traction in the coming years as it is filling product gaps and the full benefit of network expansion yet to come. Higher growth in buses segment and better placed in fast growing commercial trucks in the ongoing upcycle should continue to benefit higher than its peers.
- LCV is very large sub-segment (~65%) in the CV industry, where the company has less presence, however, plans to launch products in it.
- Domestic MHCV market share improved to 32.9% in Q3FY23 (+688bps YoY & 95bps QoQ). Domestic LCV share touched at 11.6% (+71bps YoY & 39bps QoQ). Export MHCV share improved to 48.3% in Q3FY23 (+1,815bps YoY & 803bps QoQ). Export LCV share reached

Y/E Mar (Rs mn)	Q3 FY23	Q3 FY22	YoY (%)	Q2FY23	QoQ (%)	Q3 FY23e	Var. (%)
Volumes (No)	47,562	34,077	39.6	45,295	5.0	47,562	-
Realization (Rs)	1,898,505	1,624,310	16.9	1,824,914	4.0	1,861,413	2.0
Total Income	90,297	55,352	63.1	82,660	9.2	88,533	2.0
Gross margin (%)	23.7	22.1	166 bps	22.0	173 bps	-	-
EBITDA	7,973	2,239	256.1	5,373	48.4	6,910	15.4
EBITDA margin (%)	8.8	4.0	479 bps	6.5	233 bps	7.8	102 bps
Other income	316	176	79.1	200	58.0	-	-
PBT	5,596	(149)	-	3,035	84.4	-	-
Reported profit	3,613	58	6,173	1,993	81.3	2,926	23.5
Margin (%)	4.0	0.1	390 bps	2.4	159 bps	3.3	70 bps
Adj. PAT (excluded exceptional items)	3,561	(258)	-	1,931	84.4	2,926	21.7

Source: Company, SMIFS Institutional Research

Y/E Mar (Rs mn)	Revenue	YoY (%)	EBITDA	EBITDA (%)	Adj. PAT	YoY (%)	EPS	RoE (%)	RoCE (%)	P/E (x)	EV/EBITDA (x)
FY21	153,015	-12.4	5,351	3.5	-3,046	-	-1.0	-4.3	-0.7	-	43.3
FY22	216,883	41.7	9,945	4.6	1,587	-	0.5	2.2	2.9	232.9	35.2
FY23e	340,579	57.0	24,899	7.3	9,729	513	3.3	12.7	10.3	45.9	16.5
FY24e	410,751	20.6	37,541	9.1	17,939	84	6.1	21.3	17.2	24.9	10.6
FY25e	450,656	9.7	44,331	9.8	21,977	23	7.5	23.3	19.1	20.3	8.6

Source: Company, SMIFS Research Estimates

Rating: **Buy** Upside: **24.2%**
 Current Price: **152** Target Price: **189**

Earlier recommendation	
Previous Rating:	Buy
Previous Target Price:	188

Market data	
Bloomberg:	AL IN
52-week H/L (Rs):	169/93
Mcap (Rs bn/USD bn):	446/5.4
Shares outstanding (mn):	2,936
Free float:	49.0%
Daily vol. (3M Avg):	10.9mn
Face Value (Rs):	1

Source: Bloomberg, SMIFS Research

Shareholding pattern (%)				
	Dec-22	Sep-22	Jun-22	Mar-22
Promoter	51.5	51.5	51.5	51.5
FIs	15.3	17.6	15.1	13.5
DIs	21.3	19.6	21.8	22.0
Public/others	11.9	11.3	11.6	13.0

Source: BSE

Promoters pledging (%)				
Promoters pledged shares	19.0	19.0	19.0	17.8

Source: BSE

Price performance (%) *				
	1M	3M	12M	36M
Nifty 50	-3.2	-2.6	-1.0	51.0
Nifty 500	-4.4	-4.3	-3.0	54.5
Ashok Leyland	2.3	1.8	13.5	97.5

*As on 2nd Feb 2023; Source: AceEquity, SMIFS Research

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at 3.0% (flat YoY & +55bps QoQ). The share gain is commendable across segments & geographies

- We anticipate Ashok Leyland's domestic volumes to improve further in FY24e (+17% YoY) before stabilizing in FY25e (+8% YoY). FY24 volume growth to be driven by filling product gaps, LCVs, market tilted towards MHCVs & buses segment, where the company has a strong foothold.
- Export volumes expected to remain near flat in FY23e at 11.3K units, and is likely to grow at 9% CAGR FY23e-FY25e to touch at 13.4K units by FY25e. Total volumes will be ~182K units in FY23e, and is likely to grow by 12% CAGR FY23e-FY25e to touch 228K units in FY25e
- We are positive on the CV industry growth in FY24e as 1) continued improvement in the economy, 2) additionally supported by the recently announced budget, 3) pickup in the replacement demand and 4) some benefits of start of the testing for vehicles older than 15 years from Apr '23 augurs well.

Margins unlikely to cross-previous peak cycle, but will remain healthy

- In the past cyclical years, Ashok Leyland crossed 11%+ EBITDA Margin, however, this time commodities are at historic highs & hence, we are in the opinion that EBITDA margin will be little lower than the highs of previous upcycle. Still, 9.8% in FY25e is a reasonably strong margin.
- Some more benefit of soft commodity prices expected in Q4FY23. This, along with operating leverage, better mix, lower discounts and internal efficiency improvement measures augurs well for the margins.

Strengthening EV plans

- Switch Mobility won in total about 2,600 eBus orders, a very large size. It will take care of all EV related capex. The company is looking for the right strategic partner for investment to support growth plans. The Bada Dost electric version will launch by Jun '23.

Outlook and valuations – sees higher potential in this upcycle

- Assigned 10.5x multiple to FY25e EBITDA of Rs44.3bn and separately valued Hinduja Leyland Finance (1x FY25e BV of Rs17) to arrive at a **fair value of Rs189 per share.**
- Maintained target price. Rollover from Sep '24e to FY25e, while multiple lowered down slightly from 11.0x to 10.5x due to ambiguity.
- Tweaked FY23e estimates higher due to exceptional margin performance in Q3FY23. Slightly lowered down volumes for FY24e/FY25e due to uncertainty, and increased effective tax rate as the management has not yet confirmed about the timing of moving to the new tax regime. Maintain BUY rating on the stock as we see higher potential in this upcycle.

Fig 1. Change in estimates

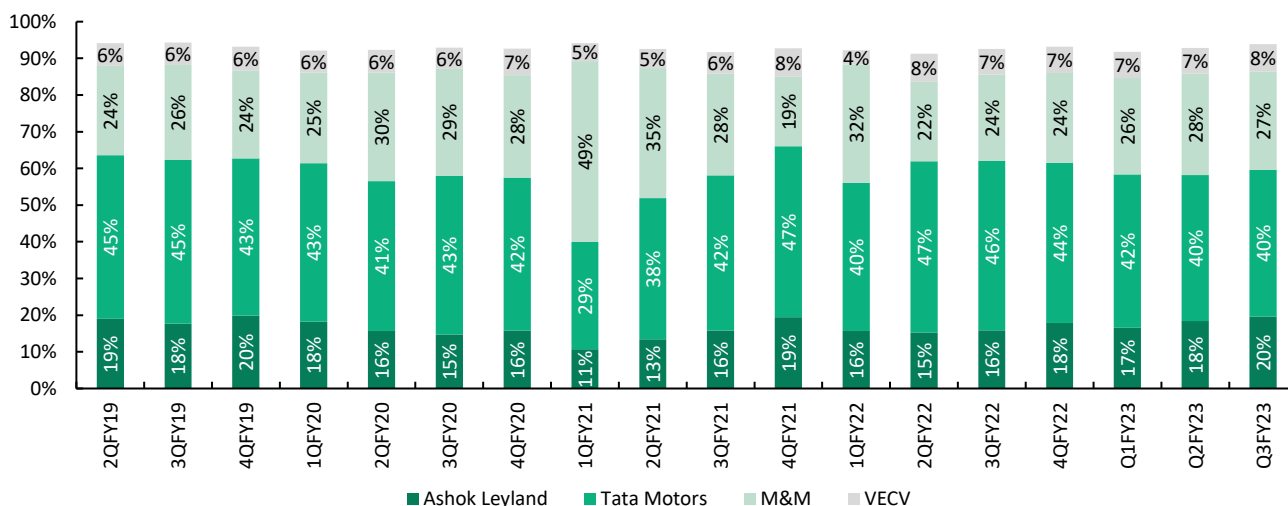
Rs mn	New estimates			Old estimates			Change		
	FY23e	FY24e	FY25e	FY23e	FY24e	FY25e	FY23e	FY24e	FY25e
Total volumes (No.)	182,443	211,911	228,113	182,543	218,913	235,613	-0.1%	-3.2%	-3.2%
Revenue	340,579	410,751	450,656	333,445	415,169	464,006	2.1%	-1.1%	-2.9%
Gross profit	77,311	93,651	105,228	73,024	92,998	106,257	5.9%	0.7%	-1.0%
Gross margin (%)	22.7	22.8	23.4	21.9	22.4	22.9	80 bps	40 bps	45 bps
EBITDA	24,899	37,541	44,331	21,412	37,380	45,307	16.3%	0.4%	-2.2%
EBITDA margin (%)	7.3	9.1	9.8	6.4	9.0	9.8	89 bps	14 bps	7 bps
PAT	9,729	17,939	21,977	8,128	20,290	25,883	19.7%	-11.6%	-15.1%
EPS (Rs)	3.3	6.1	7.5	2.8	6.9	8.8	18.4%	-11.4%	-14.9%

Source: SIAM, Company, SMIFS Research Estimates

Fig 2. Quarterly volume analysis

Volume analysis (No)	Q3FY23	Q3FY22	YoY (%)	Q2FY23	QoQ (%)	9MFY23	9MFY22	YoY (%)	FY23e	FY22	YoY (%)
MHCV - Domestic	28,221	16,667	69.3	25,475	10.8	76,436	36,515	109.3	106,066	65,090	63.0
MHCV - Exports	2,517	2,638	(4.6)	2,366	6.4	7,130	5,354	33.2	9,780	8,795	11.2
Total MHCV	30,738	19,305	59.2	27,841	10.4	83,566	41,869	99.6	115,846	73,885	56.8
% of total volumes	64.6	56.7	798 bps	61.5	316 bps	63.1	52.6	1,047 bps	63.5	57.6	(592) bps
LCV - Domestic	16,405	14,233	15.3	17,040	(3.7)	47,829	36,251	31.9	65,048	52,222	24.6
LCV - Exports	419	539	(22.3)	414	1.2	1,113	1,487	(25.2)	1,550	2,219	(30.2)
Total LCV	16,824	14,772	13.9	17,454	(3.6)	48,942	37,738	29.7	66,597	54,441	22.3
% of total volumes	35.4	43.3	(798) bps	38.5	(316) bps	36.9	47.4	(1,047) bps	36.5	42.4	592 bps
Total volumes (No)	47,562	34,077	39.6	45,295	5.0	132,508	79,607	66.5	182,443	128,326	42.2
Realisation (Rs)	1,898,505	1,624,310	16.9	1,824,914	4.0	1,850,339	1,625,988	13.8	1,866,772	1,690,093	10.5
EBITDA/unit (Rs)	167,642	65,701	155.2	118,631	41.3	124,895	27,445	355.1	136,476	77,499	76.1

Source: SIAM, SMIFS Research

Fig 3. Quarterly CV domestic market share trend (%)


Source: SIAM, SMIFS Research

Q3FY23 – Key takeaways from the management call

Domestic

- Recovery in macro-economic, replacement, announcement of scrappage & infrastructure spends in the recent budget bodes well for strong growth in FY24 as well. Scrappage to generate demand for nine lakh vehicles.
- The viability of fleet operators remains healthy. There is a genuine demand on-ground, all industries are doing well, hence expect good Q4FY23.
- Larger tonnage vehicles like MAV, haulage trucks, trailers, tippers demand increased, and these are profitable products. ICE is gaining traction due to eCommerce.
- Industries contributing are transport, real estate, infrastructure, cement, steel, chemicals, papers, among others.
- MHCV passenger segment seeing good volume growth, expect the trend to continue as volumes yet to reach at peak levels. The demand from schools, offices, inter-city, STUs started.
- Inflation, hike in interest rates, fuel prices remain the concern. The industry is expected to raise prices due to OBD2 from Apr '23.

Market share

- Launched a few products viz. Partner in 9, 10, 11 tons, 13.5m bus, among others. It has been expanding product range further to fill gaps.
- The company has been gaining market share and aims to grow further with new launches and expansion of network across zones. AVTR range of products are supporting in gaining share.

Margin

- Soft commodity prices, vehicle price increase, operating leverage and reduction in cost improved margins in Q3FY23. Offset by an increase in the employee cost due to variable performance pay & bonus provision.
- Retention of price increases are better. Taken net price increase of 4-4.5% since last one year.
- Expect margins to improve as some benefits of soft commodity prices expected to come. Additionally, the product mix is getting better & operating leverage to help. Discounts too are coming-off.

Electric vehicles

- Switch Mobility's order pipeline remains robust. It recently won a 2,100 eBus order from CESL, another 500 units order from Telangana STU. These are very large orders, and material for the company. The potential in EV is growing very fast in India.
- Switch UK to launch eBus in the latter part of this year, and Bada Dost EV is expected to launch by Jun '23.
- It will take care of the capex requirement for electric vehicles.
- Looking for the right strategic partner for Switch Mobility and the team is in the active discussion.

Other key highlights

- FY23e capex Rs6bn and Net debt is Rs20.43bn.
- Aftermarket has been growing at 20-25%. Exports will see marginal growth in FY23e as international markets yet to open.
- Thinking of setting up scrappage centre, but not gone into the capex mode.
- Have sufficient capacity in place, in case require then will do de-bottlenecking

Quarterly financials, operating metrics & key performance indicators

Fig 4. Quarterly Financials

Y/E March (Rs mn)	Q4FY21	Q1FY22	Q2FY22	Q3FY22	Q4FY22	Q1FY23	Q2FY23	Q3FY23
Net Sales	70,005	29,510	44,579	55,352	87,443	72,229	82,660	90,297
Raw Materials	53,834	21,873	34,185	43,131	68,422	57,281	64,466	68,859
Employee Costs	4,016	4,243	4,003	4,324	4,376	4,454	5,271	5,495
Other Expenditure	6,813	4,795	5,043	5,658	6,885	7,291	7,550	7,970
EBITDA	5,342	-1,401	1,347	2,239	7,760	3,203	5,373	7,973
Depreciation	2,185	1,835	1,843	1,897	1,954	1,824	1,768	1,890
Interest	771	707	871	668	765	689	771	804
Other Income	380	134	209	176	242	256	200	316
Exceptional Items	374	-17	2	420	4,703	130	82	69
PBT	3,139	-3,826	-1,155	271	9,987	1,077	3,117	5,665
Tax	728	-1,003	-325	213	973	396	1,124	2,052
Tax rate (%)	23.2	26.2	28.1	78.7	9.7	36.8	36.1	36.2
Reported PAT	2,412	-2,823	-830	58	9,014	681	1,993	3,613
Adjusted PAT	2,132	(2,810)	(832)	(258)	5,487	583	1,931	3,561
YoY Growth (%)								
Revenue	82.4	353.4	57.2	15.0	24.9	144.8	85.4	63.1
EBITDA	192.0	NA	67.5	(11.8)	45.3	NA	298.9	256.1
PAT	NA	NA	NA	NA	(97.4)	NA	NA	NA
QoQ Growth (%)								
Revenue	45.4	(57.8)	51.1	24.2	58.0	(17.4)	14.4	9.2
EBITDA	110.5	NA	NA	66.2	246.6	(58.7)	67.8	48.4
PAT	1,307.7	NA	NA	NA	NA	(89.4)	231.3	84.4
Margin (%)								
RMC/revenue (%)	76.9	74.1	76.7	77.9	78.2	79.3	78.0	76.3
Gross margin (%)	23.1	25.9	23.3	22.1	21.8	20.7	22.0	23.7
Employee cost/revenue (%)	5.7	14.4	9.0	7.8	5.0	6.2	6.4	6.1
Other expenses/revenue (%)	9.7	16.2	11.3	10.2	7.9	10.1	9.1	8.8
EBITDA margin (%)	7.6	(4.7)	3.0	4.0	8.9	4.4	6.5	8.8
PAT margin (%)	3.0	(9.5)	(1.9)	(0.5)	6.3	0.8	2.3	3.9
Per Unit (Rs)								
EBITDA	121,235	(77,890)	48,902	65,701	159,289	80,775	118,631	167,642
Blended Realization	1,588,854	1,640,624	1,618,506	1,624,310	1,794,842	1,821,606	1,824,914	1,898,505

Source: Company, SMIFS Research

Fig 5. Key Assumptions

Operating Details	FY20	FY21	FY22	FY23e	FY24e	FY25e
MHCV - Domestic	71,407	46,005	65,090	106,066	127,759	137,980
MHCV – Exports	7,186	5,764	8,795	9,780	10,758	11,619
Total MHCV	78,593	51,769	73,885	115,846	138,517	149,599
YoY Growth (%)	(45.0)	(34.1)	42.7	56.8	19.6	8.0
LCV – Domestic	44,912	46,671	52,222	65,048	71,689	76,707
LCV – Exports	1,734	2,237	2,219	1,550	1,704	1,807
Total LCV	46,646	48,908	54,441	66,597	73,394	78,514
YoY Growth (%)	(14.4)	4.8	11.3	22.3	10.2	7.0
Total volumes (No)	125,239	100,677	128,326	182,443	211,911	228,113
YoY Growth (%)	(36.5)	(19.6)	27.5	42.2	16.2	7.6
Realisation (Rs)	1,394,731	1,519,856	1,690,093	1,866,772	1,938,316	1,975,583
YoY Growth (%)	(5.3)	9.0	11.2	10.5	3.8	1.9
EBITDA/unit (Rs)	93,713	53,154	77,499	136,476	177,154	194,340
YoY Growth (%)	(41.0)	(43.3)	45.8	76.1	29.8	9.7

Source: Company, SIAM, SMIFS Research Estimates

Financial Statements

Income Statement					
YE March (Rs mn)	FY21	FY22	FY23e	FY24e	FY25e
Revenues	153,015	216,883	340,579	410,751	450,656
Raw Materials	114,033	167,611	263,268	317,099	345,428
% of sales	74.5	77.3	77.3	77.2	76.7
Personnel	15,839	16,946	21,064	23,223	25,359
% of sales	10.4	7.8	6.2	5.7	5.6
Manufacturing & Other Expenses	17,791	22,381	31,348	32,887	35,537
% of sales	11.6	10.3	9.2	8.0	7.9
EBITDA	5,351	9,945	24,899	37,541	44,331
Other Income	1,195	761	1,096	1,294	1,403
Depreciation & Amortization	7,477	7,528	7,506	8,083	8,671
EBIT	(931)	3,179	18,489	30,752	37,064
Finance cost	3,068	3,011	3,056	2,141	2,012
Core PBT	(5,194)	(594)	14,337	27,317	33,648
Exceptional items	-121	5,108	212	0	0
PBT	(4,119)	5,276	15,645	28,610	35,052
Tax-Total	(982)	(142)	5,756	10,672	13,074
Tax Rate (%)	23.8	(2.7)	36.8	37.3	37.3
Reported PAT	(3,137)	5,418	9,888	17,939	21,977
Adjusted PAT	(3,046)	1,587	9,729	17,939	21,977

Source: Company, SMIFS Research Estimates

Key Ratios					
YE March	FY21	FY22	FY23e	FY24e	FY25e
Growth Ratios (%)					
Net Sales	(12.4)	41.7	57.0	20.6	9.7
EBITDA	(54.4)	85.8	150.4	50.8	18.1
Adjusted PAT	-	-	513.0	84.4	22.5
Margin Ratio (%)					
Gross Margin	25.5	22.7	22.7	22.8	23.4
EBITDA Margin	3.5	4.6	7.3	9.1	9.8
EBIT Margin	(0.6)	1.5	5.4	7.5	8.2
Core PBT margin	(3.4)	(0.3)	4.2	6.7	7.5
Adjusted PAT Margin	(2.0)	0.7	2.9	4.4	4.9
Return Ratios					
ROE	(4.3)	2.2	12.7	21.3	23.3
ROCE	(0.7)	2.9	10.3	17.2	19.1
Turnover Ratios (days)					
Gross Block Turnover (x)	1.6	2.1	3.1	3.5	3.6
Adjusted OCF/PAT (in %)	94	1,478	258	169	151
Inventory	54.1	45.9	45.9	45.9	45.9
Debtors	47.8	49.9	48.0	48.0	48.0
Creditors	131.3	131.1	131.1	131.1	131.1
Cash Conversion Cycle	(29)	(35)	(37)	(37)	(37)
Solvency ratio (x)					
Debt-equity	0.5	0.5	0.4	0.3	0.2
Net Debt-Equity	(0.0)	(0.3)	(0.4)	(0.6)	(0.7)
Gross Debt/EBITDA	7.0	4.0	1.3	0.6	0.5
Current ratio	0.9	1.0	1.0	1.0	1.0
Interest coverage ratio	(0.3)	1.1	6.0	14.4	18.4
Dividend					
DPS (Rs.)	0.6	1.0	1.2	3.1	3.7
Dividend Yield (%)	0.8	0.8	0.8	2.0	2.5
Dividend Payout (%)	(57.8)	185.0	35.6	50.0	50.0
Per share (Rs.)					
Basic EPS (reported)	(1.1)	1.8	3.4	6.1	7.5
Adjusted EPS	(1.0)	0.5	3.3	6.1	7.5
CEPS	1.5	3.1	5.9	8.9	10.4
BV	23.8	25.0	27.2	30.2	34.0
Valuation					
P/E	(76.5)	232.9	45.9	24.9	20.3
P/BV	3.3	5.0	5.6	5.0	4.5
EV/EBITDA	43.3	35.2	16.5	10.6	8.6
EV/Sales	1.5	1.6	1.2	1.0	0.8
Adj Mcap/Core PBT	(47.1)	58.9	24.2	13.0	10.3
Adj Mcap/Adj OCF	(68.0)	13.3	15.1	12.3	10.9

Source: Company, SMIFS Research Estimates

Balance Sheet					
YE March (Rs mn)	FY21	FY22	FY23e	FY24e	FY25e
Sources of funds					
Capital	2,936	2,936	2,936	2,936	2,936
Reserves & Surplus	66,837	70,434	76,861	85,830	96,819
Shareholders' Funds	69,772	73,369	79,796	88,766	99,755
Total Loan Funds	37,713	39,435	33,331	23,493	22,101
Other non-current liabilities	6,187	5,646	6,468	6,915	7,221
Total Liabilities	113,673	118,450	119,595	119,173	129,077
Application of funds					
Gross Block	102,681	104,669	112,218	119,876	127,645
Net Block	67,609	63,043	63,085	62,661	61,758
Capital WIP	3,719	1,943	1,939	1,921	1,888
Investments	30,687	48,196	55,600	59,799	62,188
Other non current assets	7,970	7,918	8,381	8,628	8,728
Inventories	21,423	20,752	33,122	39,895	43,459
Sundry Debtors	28,160	31,110	44,788	54,017	59,264
Cash & Bank Balances	8,230	10,470	12,187	13,397	24,784
Other current Assets	16,703	19,906	19,906	19,906	19,906
Total Current Assets	74,515	82,238	110,003	127,214	147,413
Sundry Creditors	51,647	68,752	94,556	113,890	124,065
Other Current Liabilities	19,180	16,136	24,856	27,159	28,834
Total Current Liabilities	70,827	84,888	119,412	141,049	152,899
Net Current Assets	3,689	(2,650)	(9,409)	(13,835)	(5,486)
Total Assets	113,673	118,450	119,595	119,173	129,077

Source: Company, SMIFS Research Estimates

Cash Flow					
YE March (Rs mn)	FY21	FY22	FY23e	FY24e	FY25e
Operating profit before WC changes					
	5,491	10,059	25,643	38,182	45,035
Net chg in working capital	(6,058)	15,696	8,289	4,897	3,129
Income tax paid (net)	779	714	(5,756)	(10,672)	(13,074)
Cash flow from operating activities (a)	211	26,469	28,176	32,408	35,090
Adjusted OCF	(2,856)	23,460	25,120	30,267	33,078
Capital expenditure	(6,166)	(3,933)	(7,608)	(7,686)	(7,760)
Adj. FCF	(9,021)	19,526	17,511	22,581	25,318
Cash flow from investing activities (b)	(9,752)	(14,589)	(14,446)	(11,232)	(9,447)
Debt	4,901	(2,568)	(5,494)	(8,854)	(1,253)
Dividend Paid	-	(1,761)	(3,461)	(8,969)	(10,989)
Interest and Lease Expenses	(2,841)	(2,909)	(3,056)	(2,141)	(2,012)
Cash flow from financing activities (c)	2,060	(7,238)	(12,011)	(19,965)	(14,254)
Net chg in cash (a+b+c)	(7,481)	4,643	1,719	1,211	11,389

Source: Company, SMIFS Research Estimates

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