

BSE SENSEX	S&P CNX
33,043	10,295
Bloomberg	RBL IN
Equity Shares (m)	361.7
M.Cap.(INRb)/(USD\$b)	1,33.1 / 2.1
52-Week Range (INR)	600 / 320
1, 6, 12 Rel. Per (%)	-2/-15/35
Avg. Val, INR m	983
Free float (%)	100.0

CMP: INR524 TP: INR665 (+27%)
Buy
Financials & Valuations (INR b)

Y/E March	2018E	2019E	2020E
NII	17.2	21.8	28.8
OP	13.4	17.8	23.6
NP	6.7	9.4	12.6
NIM (%)	3.4	3.2	3.2
EPS (INR)	16.4	23.0	30.8
BV/Sh. (INR)	159.0	178.0	203.4
ABV/Sh. (INR)	154.3	171.7	195.9
RoE (%)	12.4	13.7	16.2
RoA (%)	1.2	1.3	1.3

Valuations

P/E(X)	32.1	22.8	17.0
P/BV (X)	3.3	2.9	2.6
P/ABV (X)	3.4	3.1	2.7
Div. Yield (%)	0.5	0.7	0.9

Strong growth with improving profitability and healthy asset quality

- RBL's 2QFY18 PAT increased 68% YoY (7% below estimate), mainly due to opex missing estimates by 5% (higher expansion costs), despite total income (INR6.6b, +4%/+40% QoQ/YoY) being largely in line with estimates. Key positives are: a) Loan growth of 8% QoQ and 35% YoY. b) Fee income growth of 38% YoY, driven by a 150% increase in distribution/CC fees. c) Margin improvement of 20bp QoQ to 3.7%, driven partly by a reduction in cost of funds from CASA inflows and partly by capital from QIP.
- Absolute GNPA's increased 6% QoQ (+77% YoY) to 1.44% of loans (-2bp QoQ). Sequential decline in asset quality was caused by a 30%/20% increase in DB&FI/BBB portfolios, where GNPA ratios stood at 2.81%/1.49% (+42bp/+8bp QoQ), while asset quality in Commercial Banking improved with a decline in GNPA to 2% from 2.6% in the earlier quarter.
- Loan growth was led by non-wholesale book growth of 41% YoY, increasing the share of non-wholesale to 40.4% from 38.8% a year ago. Strong CASA growth of 56% YoY (ahead of deposit growth of 31% YoY) led to CASA ratio improving 380bp YoY (+160bp QoQ) to 23.7%.
- Other highlights:** a) PAR>90 dpd in micro-banking stood at 4.68% (the bank maintained PAR guidance of 5% and credit cost guidance of 2.5% on this book). b) Post QIP in August 2017, Tier 1 ratio stood at 13.87%. c) Fees to assets improved 10bp QoQ to 1.6%. d) Cost to core income ratio stood at 57% v/s 58% in 1Q.

Valuation view: With a diverse product portfolio, no legacy issues, highly capable management and low market share, we expect RBL to report industry-leading loan CAGR of ~35% over FY17-20. We expect stable/improving margins due to a changing loan mix toward high-yielding loans, a sharp fall in cost of bulk deposits and an improvement in the CD ratio. Strong balance sheet growth is expected to drive operating leverage. We cut FY18E PAT by ~5% to account for continued high expansion costs, and maintain **Buy** with a TP of INR665 based on 3.5x Sept-19E BV.

Quarterly Performance

	FY17				FY18				(INR Million)	
	1Q	2Q	3Q	4Q	1Q	2Q	3Q	4Q	FY17	FY18
Interest Income	8,637	9,019	9,612	9,863	10,428	10,913	11,618	12,481	37,132	45,440
Interest Expense	6,190	5,990	6,396	6,342	6,644	6,711	7,148	7,714	24,918	28,216
Net Interest Income	2,447	3,029	3,216	3,522	3,784	4,202	4,471	4,767	12,213	17,223
% Change (Y-o-Y)									49.1	41.0
Other Income	1,675	1,691	1,823	2,366	2,569	2,411	2,584	3,314	7,555	10,879
Net Income	4,122	4,721	5,038	5,887	6,353	6,612	7,055	8,082	19,768	28,102
Operating Expenses	2,277	2,530	2,687	3,070	3,239	3,581	3,563	4,337	10,564	14,720
Operating Profit	1,845	2,191	2,351	2,818	3,114	3,032	3,492	3,745	9,204	13,382
% Change (Y-o-Y)									69.7	45.4
Other Provisions	426	781	362	821	945	749	700	960	2,389	3,354
Profit before Tax	1,419	1,410	1,989	1,997	2,169	2,283	2,792	2,785	6,815	10,029
Tax Provisions	445	512	703	695	759	776	935	889	2,354	3,360
Net Profit	973	899	1,287	1,301	1,410	1,506	1,857	1,896	4,460	6,669
% Change (Y-o-Y)						67.6	44.3	45.7	52.5	49.5
Operating Parameters										
NIM (Cal, %)	2.7	3.2	3.2	3.3	3.4	3.6	3.6	3.5	3.0	3.4
Deposit Growth (%)		37.8	43.9	42.1	37.3	30.8	32.8	25.0	25.0	25.0
Loan Growth (%)		44.0	46.3	38.7	39.7	35.0	35.4	35.0	35.0	35.0
CD Ratio (%)	86.3	89.0	89.2	85.1	87.8	91.8	91.0	92.0	85.1	92.0
Core CASA ratio (%)	18.5	19.9	23.2	22.0	22.1	0.0	0.0	0.0	22.0	27.0
Tax Rate (%)	31.4	36.3	35.3	34.8	35.0	34.0	33.5	31.9	34.5	33.5
Asset Quality										
Gross NPA (INR b)	2.5	2.7	2.9	3.6	4.6	4.9	5.3	6.0	3.6	6.0
Gross NPA (%)	1.1	1.1	1.1	1.2	1.5	1.4	1.5	1.5	1.2	1.5

E: MOSL Estimates

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Motilal Oswal research is available on www.motilaloswal.com/Institutional-Equities, Bloomberg, Thomson Reuters, Factset and S&P Capital.

Exhibit 1: Quarterly performance v/s our estimates and reasons for deviation (INR m)

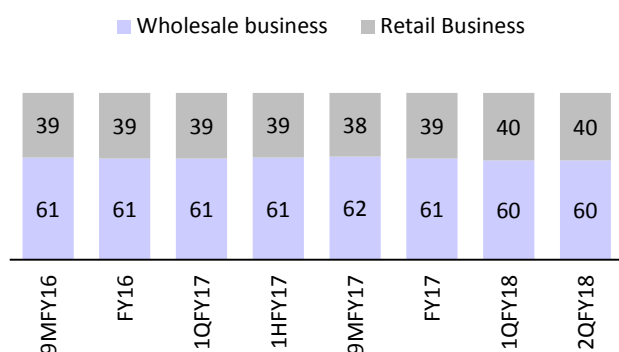
Y/E March	2QFY18A	2QFY18E	Var. (%)	Comments
Interest Income	10,913	11,079	-1	
Interest Expense	6,711	6,777	-1	
Net Interest Income	4,202	4,302	-2	
% Change (YoY)	39	39		
Other Income	2,411	2,495	-3	
Net Income	6,612	6,796	-3	
Operating Expenses	3,581	3,407	5	Retail expansion leading to opex growth
Operating Profit	3,032	3,390	-11	
% Change (YoY)	38	49		
Other Provisions	749	950	-21	Provisions were lower than expected
Profit before Tax	2,283	2,440	-6	
Tax Provisions	776	817	-5	
Net Profit	1,506	1,622	-7	Opex miss drove PAT miss
% Change (YoY)	68	44		

Source: MOSL

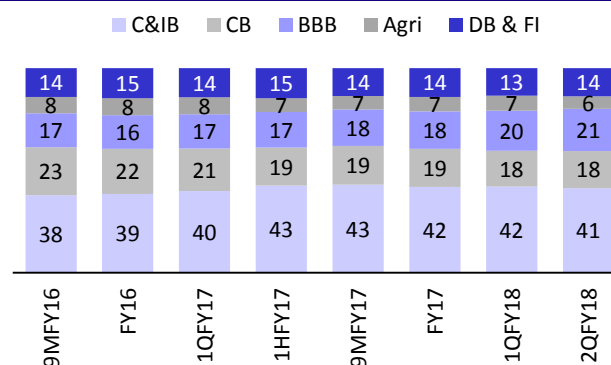
Robust loan growth of 8% QoQ was broad-based across segments; retail share steady QoQ at 40%

Robust loan growth; share of retail loans increases

- Loan growth of 8% QoQ was spread evenly across retail and wholesale, keeping retail share stable at ~40% sequentially.
- Retail growth was driven by BBB with 13% sequential growth (+59% YoY). DB&FI grew 10% QoQ led largely by 13% QoQ growth in micro-banking; management is cautious on growth in micro-banking division owing to asset quality concerns. Agri book declined 9% sequentially (+23% YoY).
- Corporate loans grew 6% QoQ (+31% YoY) led by higher working capital financing in large corporate lending. CB segment grew +12% QoQ and 32% YoY.

Exhibit 2: Share of retail business stable QoQ

Source: MOSL, Company

Exhibit 3: Strong growth across retail segments (%)

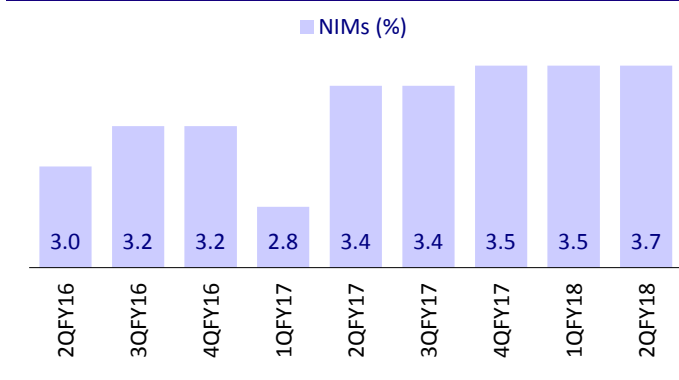
Source: MOSL, Company

Strong CASA deposit inflows continued; CASA ratio increased to 23.7% v/s 22.1% in 1Q

Margins improve 20bp QoQ to 3.7%

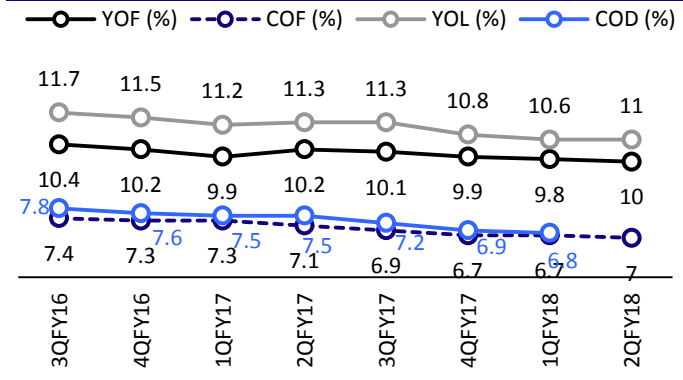
- Bank reported 20bp QoQ improvement in margins to 3.7% (+34bp YoY). NIMs were aided by a) reduced leverage post QIP, and b) re-pricing of bulk deposits and c) healthy CASA inflows.
- CASA deposits increased 56% YoY (+11% QoQ) led by robust 95% increase in SA deposits (+17% QoQ). CASA ratio increased 380bp YoY to 23.7% v/s 19.9% in 2QFY17.
- During the quarter the cost of funds declined 10bp QoQ to 6.6%, while yield on loans stayed stable at 10.6%.

Exhibit 4: NIMs improved 20bp QoQ to 3.7%



Source: MOSL, Company

Exhibit 5: COF declined 10bp QoQ (-60bp YoY)



Source: MOSL, Company

Asset quality stable, DB&FI and BBB books continue to witness elevated stress

Asset quality stable, micro-banking stress stays elevated

- GNPA's increased 6.4% QoQ in absolute terms, but slippages moderated to 1.48% from 2.48% in the prior quarter. GNPA in % terms declined 2bp to 1.44% v/s 1.46% in 1Q.
- Recoveries came in at INR370m, driving net slippages lower at 0.88% compared to 2.43% in 1Q.
- Commercial banking witnessed improvement in asset quality with decline in GNPA to 2% (-60bp QoQ), but stress in the DB&FI/BBB/Agri portfolios (farm loan waiver related) stayed elevated as the 3 segments reported GNPA of 2.81%/1.49%/1.28%.
- Provision coverage ratio increased 28bp QoQ to 58.27% v/s 57.99% in the previous quarter.

Exhibit 6: QoQ Rise in GNPA led by BBB and DB&FI segment

	FY16	1QFY17	1HFY17	9MFY17	FY17	1QFY18	1HFY18
GNPA	2,081	2,527	2,746	2,847	3,573	4,578	4,872
C&IB	171	266	378	378	1,038	1,030	1,028
CB	1,384	1,589	1,592	1,604	1,394	1,438	1,236
BBB	378	472	550	617	763	865	1,037
Agri	66	102	107	117	181	234	264
DB&FI	82	98	119	131	197	1,012	1,307

Source: Company, MOSL

Exhibit 7: GNPA (%) increased the most for DB&FI

	FY16	1QFY17	1HFY17	9MFY17	FY17	1QFY18	1HFY18
GNPA %	0.98	1.13	1.10	1.06	1.20	1.46	1.44
C&IB	0.21	0.30	0.36	0.33	0.84	0.78	0.74
CB	2.96	3.42	3.44	3.29	2.53	2.60	2.00
BBB	1.09	1.26	1.26	1.29	1.42	1.41	1.49
Agri	0.38	0.56	0.64	0.67	0.86	1.03	1.28
DB&FI	0.26	0.31	0.33	0.36	0.48	2.39	2.81

Source: MOSL, Company

Valuation and View

- Post management change in FY10, RBL has turned around the corners in key operating parameters. Bank reported loan CAGR of 58% over FY10-17, earnings CAGR of 57%, RoA improved to 1% v/s 0.2% in FY11 and Tier I stood at 11.4%. RBL has adopted a unique business model whereby a) the bank has adopted a linkages based approach to agricultural lending, b) has used large corporate accounts as an entry strategy to gain access to their supply chain ecosystem, and c) has strategically acquired business banking clients in the emerging sectors (primary bankers to gain lion's share of their wallet).
- RBL's business transformation has coincided with significant investments in human capital (senior management), service offering (product suite), customer acquisition (including inorganic portfolios), technology and brand building (branch expansion and re-branding). With significant capacity already in place, RBL is now primed to sweat its investments and benefit from improving operating efficiencies. We expect gradual improvement in CI ratio to result from digital initiatives.
- We expect strong benefits to accrue to RBL from its partnership with Bajaj Finance in co-branded credit cards. The bank has already booked around 130,000 cards since the launch in 4QFY17. RBL aims to be amongst the top 5 credit card payers in the next 3 years and strives to achieve 2m+ cards over the next 5 years. We expect RBL to leverage on BAFs vast customer base (~12m; 60% don't have credit cards), strong distribution scale, excellent risk and analytics infrastructure. This would enable fast paced credit card customer acquisition at lower operating costs and lower credit costs (as these are tested customers of BAF).
- We have cut our FY18 PAT estimates by ~5% to account for continued high expansion costs. We strongly believe RBL has a potential to generate significant returns in the next three years led by (1) pedigreed leadership team, which is driving high-quality loan growth (CAGR of 35% over FY17-20E), (2) niche business model, (3) improvement in core income, driving down cost-to-income (C/I) ratio. We expect robust EPS CAGR of 40%, with RoA improving by ~30bp to 1.3%. Maintain Buy with a TP of INR665 based on 3.5 Sept 19 BV.

Exhibit 8: We cut FY18 PAT estimates by 5% to account for expansion costs

INR b	Old Estimates			Revised Estimates			Change (%)		
	FY18	FY19	FY20	FY18	FY19	FY20	FY18	FY19	FY20
Net Interest Income	17.1	21.5	28.7	17.2	21.8	28.8	0.5	1.3	0.3
Other Income	11.0	14.6	18.4	10.9	14.8	18.0	-1.3	1.1	-1.9
Total Income	28.2	36.2	47.1	28.1	36.6	46.8	-0.2	1.2	-0.5
Operating Expenses	14.3	18.7	24.3	14.7	18.8	23.2	3.3	0.5	-4.3
Operating Profits	13.9	17.5	22.8	13.4	17.8	23.6	-3.8	2.0	3.4
Provisions	3.4	3.8	4.9	3.4	3.8	4.9	0.0	0.0	0.0
PBT	10.6	13.7	18.0	10.0	14.0	18.7	-5.0	2.5	4.4
Tax	3.5	4.5	5.9	3.4	4.6	6.2	-5.0	2.5	4.4
PAT	7.0	9.2	12.0	6.7	9.4	12.6	-5.0	2.5	4.4
Loans	398	537	725	398	537	725	0.0	0.0	0.0
Deposits	432	614	866	432	614	866	0.0	0.0	0.0
Margins (%)	3.39	3.23	3.21	3.39	3.23	3.21			
Credit Cost (%)	0.97	0.82	0.77	0.85	0.70	0.65			
RoA (%)	1.28	1.28	1.26	1.22	1.32	1.31			
RoE (%)	13.03	13.29	15.50	12.42	13.67	16.15			

Source: MOSL, Company

Exhibit 9: DUPONT Analysis - Return ratios to go up driven by strong core operating profitability

Y/E MARCH	FY13	FY14	FY15	FY16	FY17	FY18E	FY19E	FY20E
Interest Income	8.72	8.67	8.62	8.28	8.45	8.28	7.99	7.95
Interest Expended	6.16	6.48	6.17	5.81	5.67	5.14	4.94	4.95
Net Interest Income	2.55	2.19	2.46	2.47	2.78	3.14	3.05	3.00
Fee income	0.98	1.40	1.53	1.30	1.45	1.71	1.79	1.70
Core Income	3.54	3.60	3.98	3.77	4.23	4.85	4.85	4.70
Operating Expenses	2.22	2.72	2.65	2.32	2.41	2.68	2.63	2.43
Employee cost	1.23	1.19	1.33	1.12	1.02	1.04	1.00	0.91
Others	0.99	1.53	1.32	1.20	1.39	1.65	1.63	1.52
Core Operating Profit	1.31	0.88	1.33	1.46	1.82	2.16	2.22	2.27
Non Interest income	1.25	1.67	1.78	1.48	1.72	1.98	2.07	1.88
Trading and others	0.27	0.27	0.25	0.18	0.27	0.27	0.28	0.19
Operating Profit	1.58	1.15	1.59	1.64	2.10	2.44	2.50	2.46
Provisions	0.22	0.30	0.27	0.35	0.54	0.61	0.54	0.51
PBT	1.36	0.85	1.32	1.29	1.55	1.83	1.96	1.96
Tax	0.44	0.26	0.41	0.41	0.54	0.61	0.65	0.65
Tax Rate	32.2	30.1	30.9	31.7	34.5	33.5	33.0	33.0
RoA	0.92	0.59	0.91	0.88	1.02	1.22	1.32	1.31
Leverage (x)	7.3	8.6	10.7	12.7	12.1	10.2	10.4	12.3
RoE	6.75	5.12	9.76	11.21	12.32	12.42	13.67	16.15

Source: MOSL, Company

Financials and Valuations

Income Statement		(INR Million)						
Y/E March	2013	2014	2015	2016	2017	2018E	2019E	2020E
Interest Income	8,793	13,516	19,531	27,443	37,132	45,440	57,058	76,174
Interest Expense	6,218	10,100	13,967	19,251	24,918	28,216	35,245	47,391
Net Interest Income	2,575	3,416	5,564	8,192	12,213	17,223	21,813	28,784
Change (%)	37.9	32.6	62.9	47.2	49.1	41.0	26.6	32.0
Non Interest Income	1,264	2,610	4,034	4,905	7,555	10,879	14,795	18,050
Net Income	3,840	6,026	9,598	13,097	19,768	28,102	36,607	46,833
Change (%)	51.2	56.9	59.3	36.5	50.9	42.2	30.3	27.9
Operating Expenses	2,244	4,239	5,997	7,673	10,564	14,720	18,761	23,238
Pre Provision Profits	1,596	1,787	3,601	5,424	9,204	13,382	17,846	23,595
Change (%)	40.1	12.0	101.5	50.6	69.7	45.4	33.4	32.2
Provisions (excl tax)	226	462	602	1,144	2,389	3,354	3,827	4,851
PBT	1,370	1,325	2,999	4,280	6,815	10,029	14,020	18,745
Tax	442	398	928	1,355	2,354	3,360	4,627	6,186
Tax Rate (%)	32.2	30.1	30.9	31.7	34.5	33.5	33.0	33.0
PAT	929	927	2,072	2,925	4,460	6,669	9,393	12,559
Change (%)	42.6	-0.2	123.6	41.2	52.5	49.5	40.8	33.7
Profits for Equity SH	929	927	2,072	2,925	4,460	6,669	9,393	12,559
Change (%)	42.6	-0.2	123.6	41.2	52.5	49.5	40.8	33.7
Equity Dividend (Incl tax)	178	288	438	587	813	1,170	1,649	2,204
Core PPP*	1,318	1,334	2,880	4,818	7,965	11,882	15,846	21,795
Change (%)	26.6	1.2	116.0	67.3	65.3	49.2	33.4	37.5

*Core PPP is (NII+Fee income-Opex)

Balance Sheet		(INR Million)						
Y/E March	2013	2014	2015	2016	2017	2018E	2019E	2020E
Share Capital	2,529	2,720	2,935	3,247	3,752	4,078	4,078	4,078
Equity Share Capital	2,529	2,720	2,935	3,247	3,752	4,078	4,078	4,078
Preference Share Capital	0	0	0	0	0	0	0	0
Reserves & Surplus	13,538	17,427	19,370	26,645	38,791	60,763	68,508	78,863
Net Worth	16,067	20,148	22,304	29,892	42,543	64,841	72,586	82,941
Of which Equity Network	16,067	20,148	22,304	29,892	42,543	64,841	72,586	82,941
Deposits	83,405	115,986	170,993	243,487	345,881	432,351	613,939	865,653
Change (%)	76.0	39.1	47.4	42.4	42.1	25.0	42.0	41.0
of which CASA Dep	16,444	23,697	31,574	45,378	76,027	116,548	177,969	261,770
Change (%)	61.3	44.1	33.2	43.7	67.5	53.3	52.7	47.1
Borrowings	27,373	38,955	69,627	105,362	79,798	90,506	101,376	114,084
Other Liabilities & Prov.	2,787	6,892	8,123	12,870	18,526	23,234	29,161	36,624
Total Liabilities	129,634	181,981	271,047	391,611	486,748	610,933	817,062	1,099,303
Cash & Balances with RBI	2,908	9,807	14,557	13,397	29,479	17,456	27,563	46,548
Balances with Banks & money at Call & Short Notice	3,977	2,115	7,147	11,102	12,457	10,457	14,306	19,595
Investments	55,160	64,770	97,923	144,360	134,817	165,825	213,914	278,089
Change (%)	143.6	17.4	51.2	47.4	-6.6	23.0	29.0	30.0
Loans	63,762	98,350	144,498	212,291	294,490	397,562	536,709	724,557
Change (%)	54.3	54.2	46.9	46.9	38.7	35.0	35.0	35.0
Fixed Assets	943	1,343	1,644	1,773	2,587	3,487	4,387	5,287
Other Assets	2,883	5,595	5,278	8,688	12,917	16,146	20,182	25,228
Total Assets	129,634	181,981	271,047	391,611	486,748	610,933	817,062	1,099,303

Asset Quality

GNPA (INR m)	259	778	1,112	2,081	3,569	5,955	8,335	12,302
NNPA (INR m)	69	305	386	1,244	1,899	2,545	3,054	4,522
GNPA Ratio	0.41	0.79	0.77	0.98	1.21	1.50	1.55	1.70
NNPA Ratio	0.11	0.31	0.27	0.59	0.64	0.64	0.57	0.62
Slippage Ratio	0.99	1.00	0.48	1.38	2.51	1.58	1.40	1.50
Credit Cost	0.23	0.37	0.29	0.45	0.60	0.85	0.70	0.65
PCR (Excl Tech. write off)	73.4	60.8	65.3	40.2	46.8	57.3	63.4	63.2

E: MOSL Estimates

Financials and Valuations

Ratios

Y/E March	2013	2014	2015	2016	2017	2018E	2019E	2020E
Spreads Analysis (%)								
Avg. Yield-Earning Assets	9.0	9.0	9.0	8.5	8.7	8.6	8.3	8.3
Avg. Yield on loans	11.7	11.4	11.6	10.9	10.4	9.8	9.3	9.3
Avg. Yield on Investments	6.5	6.9	6.4	6.2	7.1	6.9	6.4	6.4
Avg. Cost-Int. Bear. Liab.	7.3	7.6	7.1	6.5	6.4	5.9	5.7	5.6
Avg. Cost of Deposits	7.4	7.7	7.6	7.3	6.7	5.7	5.3	5.2
Interest Spread	1.7	1.4	1.9	2.0	2.3	2.6	2.6	2.7
Net Interest Margin	2.7	2.4	2.7	2.7	3.0	3.4	3.2	3.2
Profitability Ratios (%)								
RoE	6.8	5.1	9.8	11.2	12.3	12.4	13.7	16.2
RoA	0.9	0.6	0.9	0.9	1.0	1.2	1.3	1.3
Int. Expense/Int.Income	70.7	74.7	71.5	70.1	67.1	62.1	61.8	62.2
Fee Income/Net Income	23.0	30.3	26.8	26.7	26.2	25.4	27.3	28.7
Non Int. Inc./Net Income	32.9	43.3	42.0	37.5	38.2	38.7	40.4	38.5
Efficiency Ratios (%)								
Cost/Income*	58.4	70.3	62.5	58.6	53.4	52.4	51.2	49.6
Empl. Cost/Op. Exps.	55.3	43.6	50.2	48.2	42.2	38.6	37.9	37.3
Busi. per Empl. (INR m)	77.6	84.6	105.1	124.9	138.2	156.9	191.4	232.2
NP per Empl. (INR lac)								
* ex treasury and Recoveries from written off accounts								
Asset-Liability Profile (%)								
Loans/Deposit Ratio	76.4	84.8	84.5	87.2	85.1	92.0	87.4	83.7
CASA Ratio	19.7	20.4	18.5	18.6	22.0	27.0	29.0	30.2
Investment/Deposit Ratio	66.1	55.8	57.3	59.3	39.0	38.4	34.8	32.1
G-Sec/Investment Ratio	59.1	61.8	77.4	71.2	72.7	72.7	72.7	72.7
CAR	0.0	0.0	0.0	0.1	0.1	0.1	0.1	0.1
Tier 1	0.0	0.0	0.0	0.1	0.1	0.1	0.1	0.1
Valuation								
Book Value (INR)	63.5	74.0	76.0	92.0	113.4	159.0	178.0	203.4
Change (%)	19.5	16.6	2.6	21.1	23.2	40.3	11.9	14.3
Price-BV (x)					4.6	3.3	2.9	2.6
Adjusted BV (INR)	63.2	72.9	74.7	88.2	113.4	154.3	171.7	195.9
Price-ABV (x)					4.6	3.4	3.1	2.7
EPS (INR)	3.7	3.4	7.1	9.0	11.9	16.4	23.0	30.8
Change (%)	21.2	-7.2	107.3	27.6	32.0	37.6	40.8	33.7
Price-Earnings (x)					44.1	32.1	22.8	17.0
Dividend Per Share (INR)	0.6	0.9	1.2	1.5	1.8	2.5	3.5	4.6
Dividend Yield (%)	0.1	0.2	0.2	0.3	0.3	0.5	0.7	0.9

E: MOSL Estimates

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