

LIC Housing Finance

Estimate change



TP change



Rating change



Bloomberg	LICHF IN
Equity Shares (m)	505
M.Cap.(INRb)/(USD\$)	199.7 / 2.7
52-Week Range (INR)	465 / 186
1, 6, 12 Rel. Per (%)	12/23/-26
12M Avg Val (INR M)	2106

Financials & Valuations (INR b)

Y/E March	2020	2021E	2022E
NII	46.8	50.1	56.8
PPP	42.7	45.1	51.2
PAT	24.0	30.6	34.1
EPS (INR)	47.6	60.7	67.6
EPS Gr. (%)	-1.2	27.5	11.4
BV/Sh (INR)	352	402	458

Ratios

NIM (%)	2.3	2.3	2.4
C/I ratio (%)	12.6	12.5	12.1
RoAA (%)	1.2	1.4	1.4
RoE (%)	14.3	16.1	15.7
Payout (%)	16.8	17.5	17.5

Valuations

P/E (x)	8.3	6.5	5.9
P/BV (x)	1.1	1.0	0.9
Div. Yield (%)	2.0	2.3	2.6

Shareholding pattern (%)

As On	Dec-20	Sep-20	Dec-19
Promoter	40.3	40.3	40.3
DII	17.9	12.6	15.1
FII	29.3	34.4	32.7
Others	12.5	12.6	11.9

FII Includes depository receipts

CMP: INR396
TP: INR520 (+31%)
Buy

Sharp revival in disbursements; Stage 2 loans inch up

- LICHF's PAT was up 22% YoY (in line) to INR7.3b. While PPOP of INR11.6b was largely in line with our estimate, low credit costs of INR1.9b (v/s our estimate of INR2.8b) led to the PAT beat.
- Similar to peers, LICHF delivered strong loan growth in home loans, while it saw LAP and Builder disbursements similar to prior quarters. Collection efficiency improved to 98% in Dec'20.

36% YoY increase in Home loan disbursements

- Home loan disbursements recovered sharply and increased 36% YoY to INR145b. On the other hand, LAP and Builder loan disbursements stood at 90-95% of YoY levels.
- The total loan book grew 3% QoQ/7% YoY to INR2.13t. The loan mix was largely stable with the share of Home loans/LAP at 77%/16%.
- The share of disbursements from cities other than the top seven is up to 62% from 57% YoY.

Over 550bp spike in Stage 2 loans

- While the GNPL ratio improved 10bp to 2.7%, Stage 2 loan ratio spiked 560bp QoQ to 7%. Excluding the SC order, Stage 3 loans would have been ~100bp higher.
- The company incurred INR1.3b credit costs in 3QFY21. While standard asset provisions remain negligible, Stage 3 PCR improved 300bp to 50%.

Decline in cost of funds helps spreads

- Cost of funds declined 37bp QoQ and 72bp YoY to 7.5%. As a result, spreads were stable at 1.5%. The incremental cost of funds raised during 2QFY21 was 5.3%, down 56bp QoQ.
- LICHF continues to borrow incrementally from banks, the share of which is up ~175bp QoQ/550bp YoY to ~25%.

Highlights from the concall

- The incremental Home loan yield is slightly more than 7%. On-book Home loan yield is 7.5-7.6%.
- No one-time restructuring has been undertaken so far. LICHF may consider some requests in the next quarter, but it won't be more than 1%.

Valuation and view

Over the past two years, LICHF's GNPL ratio has increased 140bp to 2.7%, driven by both retail and corporate delinquencies. At the same time, growth has been on a decline. However, the company has kept its loan mix stable over the past six quarters – a positive in this environment. Given its parentage, it has been able to raise debt capital at low rates, which should keep margin steady in these tough times. The sharp pick-up in Home loan disbursements is encouraging. We forecast 11% loan book CAGR over FY21-23E. We upgrade our FY21E/FY22E EPS estimate by 4-5% to factor in higher growth and lower provisions. We estimate ~1.4%/15% RoA/RoE over the next two years. Maintain Buy, with a TP of INR520/share (1x FY23E BVPS).

 Research Analyst: **Alpesh Mehta** (Alpesh.Mehta@MotilalOswal.com) | **Piran Engineer** (Piran.Engineer@MotilalOswal.com)

Nitin Aggarwal (Nitin.Aggarwal@MotilalOswal.com) | **Divya Maheshwari** (Divya.Maheshwari@MotilalOswal.com)

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Quarterly performance

(INR m)

Y/E March	FY20				FY21				FY20	FY21E	3QFY21E	Act. v/s est. (%)
	1Q	2Q	3Q	4Q	1Q	2Q	3Q	4QE				
Interest Income	47,845	49,535	49,689	48,985	49,851	49,382	48,761	48,177	1,94,620	1,95,661	49,219	-1
Interest Expense	36,026	37,018	37,152	37,642	37,645	37,002	35,951	34,971	1,47,839	1,45,569	36,447	-1
Net Interest Income	11,819	12,517	12,537	11,342	12,206	12,380	12,810	13,206	46,781	50,093	12,772	0
YoY Growth (%)	17.2	19.3	15.6	-7.2	3.3	-1.1	2.2	16.4	9.5	7.1	4.0	
Fees and other income	228	256	276	-115	-76	437	479	610	2,078	1,450	585	-18
Net Income	12,046	12,773	12,812	11,227	12,130	12,817	13,289	13,816	48,859	51,543	13,357	-1
YoY Growth (%)	16.5	19.4	15.5	-10.9	0.7	0.3	3.7	23.1	9.2	5.5	4.3	
Operating Expense	1,064	1,432	1,383	2,288	1,367	1,615	1,686	1,758	6,167	6,426	1,687	0
Operating Profit	10,982	11,341	11,430	8,940	10,763	11,202	11,603	12,058	42,692	45,117	11,671	-1
YoY Growth (%)	15.7	17.6	15.2	-18.1	-2.0	-1.2	1.5	34.9	6.8	5.7	2.1	
Provisions and Cont.	2,573	2,780	3,977	672	587	1,109	1,907	2,247	10,002	5,849	2,800	-32
Profit before Tax	8,409	8,561	7,453	8,267	10,177	10,093	9,696	9,811	32,690	39,268	8,871	9
Tax Provisions	2,302	839	1,478	4,053	2,002	2,184	2,426	2,027	8,672	8,639	1,836	32
Net Profit	6,107	7,722	5,975	4,214	8,175	7,909	7,270	7,784	24,018	30,629	7,034	3
YoY Growth (%)	7.5	34.7	0.2	-39.2	33.9	2.4	21.7	84.7	-1.2	27.5	17.7	
Key operating parameters (%)												
Yield on loans (Cal.)	9.75	9.89	9.66	9.36	9.49	9.34	9.00	8.60	9.71	9.03		
Cost of funds (Cal.)	8.39	8.42	8.17	8.01	7.94	7.82	7.45	6.97	8.17	7.33		
Spreads (Cal.)	1.37	1.47	1.50	1.35	1.55	1.52	1.54	1.64	1.54	1.71		
Margin (Cal.)	2.41	2.50	2.44	2.17	2.32	2.34	2.36	2.36	2.25	2.23		
Credit Cost (Cal.)	0.52	0.55	0.77	0.13	0.11	0.21	0.35	0.40	0.50	0.27		
Cost-to-Income Ratio	8.8	11.2	10.8	20.4	11.3	12.6	12.7	12.7	12.6	12.5		
Tax Rate	27.4	9.8	19.8	49.0	19.7	21.6	25.0	20.7	26.5	22.0		
Balance Sheet Parameters												
Loans (INR b)	1,978	2,030	2,083	2,106	2,098	2,133	2,202		2,080	2,253		
Change YoY (%)	17.3	15.4	13.7	8.2	6.1	5.1	5.7		7.8	8.3		
Indiv. Disb. (INR b)	94	117	122	109	34	116	160		443	465		
Change YoY (%)	8.4	3.6	6.1	-28.3	-63.9	-0.8	30.7		-5.3	5.0		
Borrowings (INR b)	1,730	1,788	1,850	1,912	1,883	1,903	1,955		1,913	2,061		
Change YoY (%)	17.1	15.8	15.4	12.1	8.8	6.4	5.7		12.1	7.7		
Loans/Borrowings (%)	114.3	113.5	112.6	110.1	111.5	112.1	112.6		108.7	109.3		
Asset Quality Parameters												
GS 3 (INR b)	39.2	48.3	56.9	59.6	59.4	59.5	59.0		59.6			
Gross Stage 3 (% on Assets)	1.98	2.38	2.73	2.83	2.83	2.79	2.68		2.8			
NS 3 (INR b)	21.6	27.5	31.3	33.5	32.7	31.8	29.5		41.0			
Net Stage 3 (% on Assets)	1.10	1.37	1.52	1.61	1.58	1.51	1.36		2.0			
PCR (%)	44.9	43.1	44.9	43.8	44.9	46.6	49.9		31.2			
ECL (%)	0.97	1.08	1.24	1.24	1.27	1.30	1.34					
Loan Mix (%)												
Home loans	76.2	76.5	76.8	76.9	76.8	76.5	77.0					
LAP	16.9	16.7	16.4	16.3	16.2	16.3	15.8					
Non-Individual loans	6.9	6.8	6.9	6.8	7.0	7.2	7.2					
Borrowing Mix (%)												
Banks	13.7	15.5	19.0	22.0	20.0	22.8	24.5					
NCD	72.6	71.7	68.0	65.0	62.0	59.9	56.7					
Subsidiary Debt	1.2	1.2	1.0	1.0	1.0	0.5	0.5					
Deposits	5.3	5.9	6.0	7.0	8.0	8.6	8.7					
NHB	1.3	1.2	1.0	1.0	5.0	5.0	4.7					
CP	6.0	4.6	5.0	4.0	4.0	3.1	4.8					

E: MOFSL estimates



Highlights from the management commentary

Business updates

- Strong growth in disbursements has continued into January. Recovery is seen across the country as against Tier II, III cities earlier.
- **INR14b worth of project loans (14 cases) has been referred to the SWAMIH fund. One case has been processed and others are in the pipeline.**
- **The incremental Home loan yield is slightly more than 7%. On-book Home loan yield is 7.5-7.6%.**
- Yield on-book – Builder: 13%; Incremental yield: 11-12%.
- Less than 5% of disbursements are from balance transfers.
- LICHF is undergoing a digitization and a tech upgradation process in consultation with BCG.

Asset quality

- No one-time restructuring has been undertaken so far. LICHF may consider some requests in the next quarter, but it won't be more than 1%.
- Excluding the SC order impact, GS 3 ratio increased by 1% in 3QFY21.
- Total COVID-19 provisions on its balance Sheet stands at INR4b. This includes Stage 3 provisions.
- GNPL ratio – Individual loans stands at 1.62%, of which Home loans constitute 1.07%; Builder GNPL ratio: 16.22% (INR25.3b).
- Stage 2 loans ratio is slightly lower in Individual loans v/s Builder loans.
- Collection efficiency in the LAP portfolio stands at 96-98%.

Funding

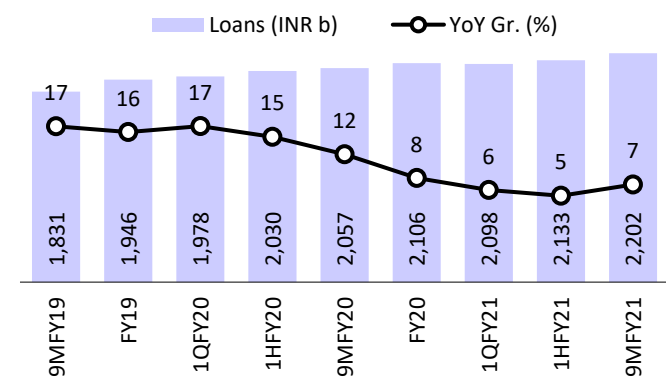
- LICHF raised INR10b via Tier II bonds in 3QFY21.
- Borrowings worth INR67-70b/INR200b will mature in 4QFY21/FY22.
- It has moved bank loans from MCLR to external benchmarks. These loans are at an interest rate of 5-5.5%.

Others

- The company is compliant with NHB provisioning requirements.
- Western India constitutes over 15% of Home loan disbursements.
- Builder loans stands at INR156.02b as per IGAAP and INR157.63b as per Ind AS. The difference is accrued interest.
- Affordable Housing accounted for 30% of disbursements in 3QFY21.

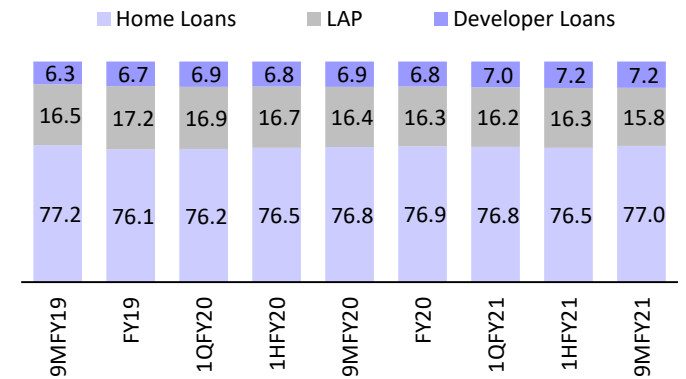
Key exhibits

Exhibit 1: Loan growth picks up sequentially



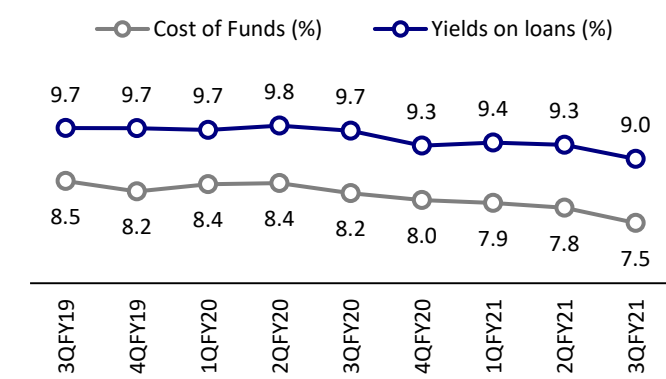
Source: MOFSL, Company

Exhibit 2: Home loan share in loan mix up 50bp QoQ (%)



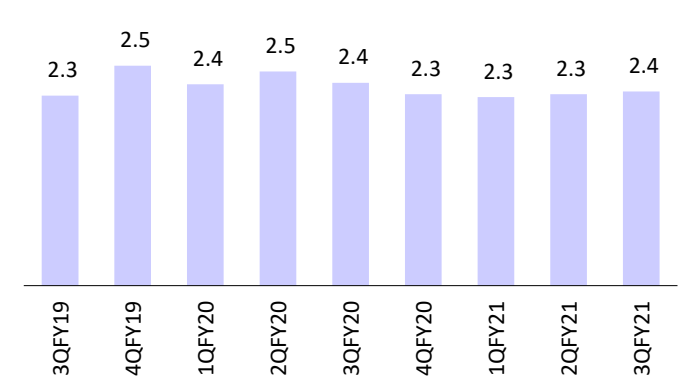
Source: MOFSL, Company

Exhibit 3: Calculated spreads stable at 1.5%



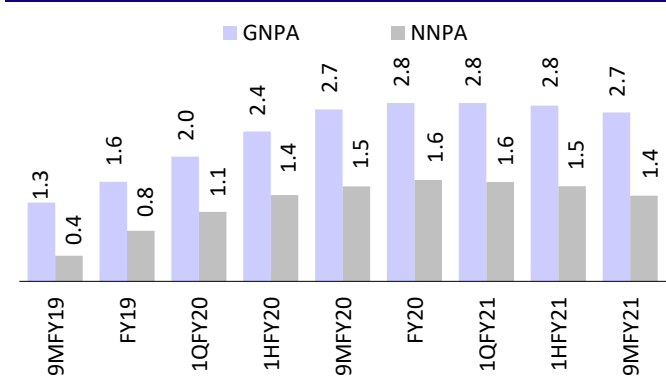
Source: MOFSL, Company

Exhibit 4: Reported margin remains stable (%)



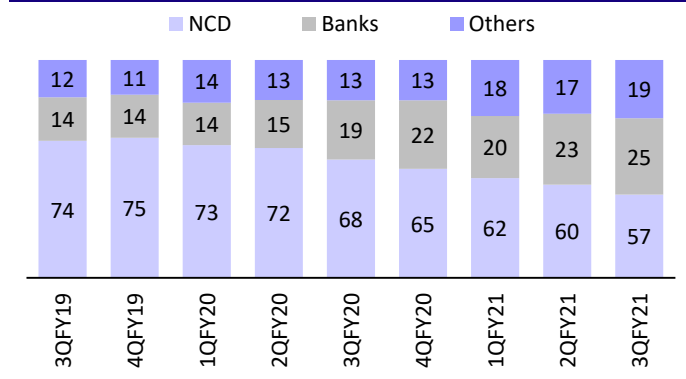
Source: MOFSL, Company

Exhibit 5: GNPA improves 10bp sequentially (%)



Source: MOFSL, Company; Note: Incl. SC dispensation for 9MFY21

Exhibit 6: Trimming dependence on NCDs (%)



Source: MOFSL, Company

Valuation and view

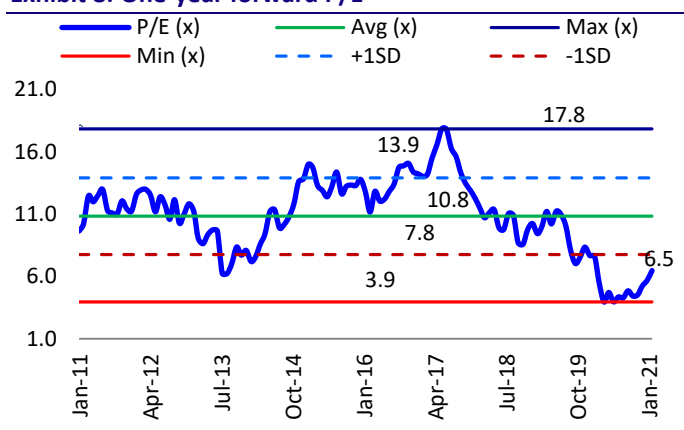
- After the liquidity crisis in Sep’18, parentage and credit rating have been of paramount importance for NBFCs/HFCs. LICHF is well-placed on this front. **The company’s incremental cost of funds is ~5.5% at present.** With cost of funds declining, the company should be able to keep spreads stable in the wake of increasing pricing pressure from banks.
- **While collection efficiency of 98% in Dec’20 is encouraging,** the sharp rise in Stage 2 loans is concerning. We forecast 35bp credit costs in FY22E/FY23E too.
- While loan growth is muted at present, it should start picking up given the healthy trends seen in 3QFY21. **We expect 11% loan book CAGR over FY21-23E.**
- We upgrade our FY21E/FY22E EPS estimate by 4-5% to factor in higher growth and lower provisions. Maintain Buy, with a TP of INR520/share (1x FY23E BVPS).

Exhibit 7: Raise our FY22E/FY23E estimates by 4-5%

INR b	Old estimate			New estimate			Change (%)		
	FY21	FY22	FY23	FY21	FY22	FY23	FY21	FY22	FY23
NII	49.9	55.4	58.8	50.1	56.8	60.8	0.4	2.5	3.5
Other Income	2.1	2.3	2.6	1.5	1.5	1.7			
Net Income	52.1	57.7	61.3	51.5	58.3	62.5	-1.0	1.0	1.9
Operating Expenses	6.5	7.2	7.9	6.4	7.1	7.8	-1.5	-1.4	-1.3
Operating Profit	45.5	50.6	53.5	45.1	51.2	54.7	-0.9	1.3	2.4
Provisions	7.6	9.4	10.2	5.8	8.3	9.2	-22.8	-11.3	-9.4
PBT	38.0	41.2	43.3	39.3	42.9	45.5	3.5	4.2	5.1
Tax	7.9	8.4	8.9	8.6	8.8	9.3			
PAT	30.1	32.7	34.4	30.6	34.1	36.2	1.8	4.2	5.1
Loans	2,249	2,436	2,664	2,253	2,494	2,788	0.2	2.4	4.6
Borrowings	2,057	2,217	2,411	2,061	2,269	2,523	0.2	2.4	4.6
Spreads (%)	1.69	1.78	1.73	1.71	1.81	1.72			
RoAA (%)	1.3	1.3	1.3	1.4	1.4	1.3			
RoAE (%)	15.8	15.1	14.1	16.1	15.7	14.7			

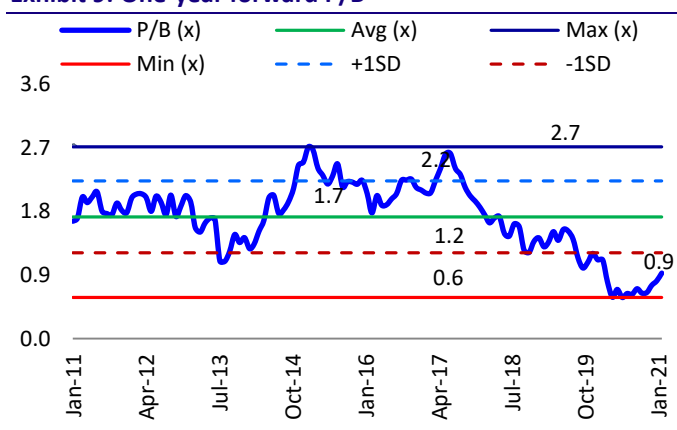
Source: MOFSL, Company

Exhibit 8: One-year forward P/E



Source: MOFSL, Company

Exhibit 9: One-year forward P/B



Source: MOFSL, Company

Valuation matrix

	Rating	CMP (INR)	M-cap (USD b)	P/E (x)			P/BV (x)			RoA (%)			RoE (%)		
				FY21E	FY22E	FY23E	FY21E	FY22E	FY23E	FY21E	FY22E	FY23E	FY21E	FY22E	FY23E
HFCs															
HDFC*	Buy	2,378	57.2	22.8	16.8	12.1	2.6	2.0	1.5	1.8	1.9	1.9	12.5	12.6	12.9
LICHF	Buy	396	2.7	6.6	6.1	5.8	1.0	0.9	0.8	1.3	1.3	1.3	15.8	15.1	14.1
PNBHOUSI	Neutral	335	0.8	5.3	4.7	3.8	0.6	0.6	0.5	1.4	1.5	1.8	12.6	12.8	14.2
AAVAS	Neutral	1,808	2.0	51.1	41.6	32.6	6.0	5.2	4.5	3.3	3.4	3.8	12.4	13.4	14.8
CANF	Buy	481	0.9	13.6	13.3	11.9	2.5	2.1	1.8	2.2	2.1	2.1	19.9	17.2	16.4
REPCO	Buy	244	0.2	5.2	4.9	4.5	0.7	0.7	0.6	2.4	2.3	2.4	15.2	14.0	13.7
Vehicle Finance															
SHTF	Buy	1,292	3.5	12.7	10.5	9.0	1.5	1.3	1.2	2.2	2.5	2.7	12.9	13.4	13.8
MMFS	Buy	155	1.4	21.3	16.7	10.8	1.2	1.2	1.1	1.2	1.4	2.0	6.7	7.2	10.5
CIFC	Buy	397	4.6	19.6	16.3	13.1	3.4	2.8	2.4	2.4	2.7	3.1	18.6	18.8	19.6
Diversified															
BAF	Neutral	4,736	39.6	64.7	32.2	25.4	7.8	6.4	5.2	2.6	4.8	5.0	12.8	21.9	22.7
SCUF	Buy	1,018	0.9	7.9	6.1	4.8	0.8	0.7	0.7	2.8	3.6	4.3	11.2	12.9	14.5
LTFH	Buy	86	2.3	18.4	8.0	5.7	1.1	1.0	0.9	0.8	1.9	2.4	6.4	13.5	16.5
INDOSTAR	Neutral	328	0.5	97.8	26.8	17.9	1.0	1.0	0.9	0.4	1.4	2.3	1.3	3.8	5.4
MASFIN	Buy	879	0.7	30.7	25.6	21.5	4.3	3.8	3.4	3.5	4.1	4.2	14.9	15.9	16.7
Gold Finance															
MUTH	Buy	1,106	6.1	12.5	10.6	9.0	3.1	2.5	2.1	6.6	7.0	7.2	27.3	26.2	25.0
MGFL	Buy	156	1.8	8.0	6.5	5.6	1.8	1.5	1.2	5.3	5.9	6.1	25.5	25.3	24.1
Wholesale															
PIEL	Buy	1,312	4.0	11.9	10.2	8.9	1.0	0.9	0.9	0.0	0.0	0.0	8.4	9.4	10.0
ABCAP	Buy	81	2.7	9.0	8.4	5.9	0.9	0.7	0.5	1.6	1.4	1.5	10.6	8.7	8.9

Financials and valuations

Income Statement								(INR m)
Y/E March	FY16	FY17	FY18	FY19	FY20	FY21E	FY22E	FY23E
Interest Income	1,22,509	1,38,767	1,46,662	1,71,628	1,94,620	1,95,661	1,99,683	2,10,562
Interest Expense	93,068	1,02,315	1,11,439	1,28,915	1,47,839	1,45,569	1,42,909	1,49,761
Net Interest Income	29,441	36,452	35,223	42,713	46,781	50,093	56,774	60,802
Change (%)	31.6	23.8	-3.4	21.3	9.5	7.1	13.3	7.1
Fee Income	1,453	1,102	356	348	394	1,200	607	700
Other Income	893	934	1,388	1,669	1,684	250	900	990
Net Income	31,787	38,489	36,968	44,730	48,859	51,543	58,281	62,492
Change (%)	27.7	21.1	-4.0	21.0	9.2	5.5	13.1	7.2
Operating Expenses	4,687	6,118	4,396	4,754	6,167	6,426	7,052	7,757
Operating Profit	27,100	32,371	32,572	39,976	42,692	45,117	51,229	54,734
Change (%)	28.5	19.4	0.6	22.7	6.8	5.7	13.5	6.8
Provisions/write-offs	1,465	2,813	4,917	6,181	10,002	5,849	8,306	9,243
PBT	25,636	29,558	27,655	33,796	32,690	39,268	42,922	45,492
Tax	9,028	10,247	7,630	9,486	8,672	8,639	8,799	9,326
Tax Rate (%)	35.2	34.7	27.6	28.1	26.5	22.0	20.5	20.5
PAT	16,608	19,311	20,025	24,310	24,018	30,629	34,123	36,166
Change (%)	19.8	16.3	3.7	21.4	-1.2	27.5	11.4	6.0
Proposed Dividend	3,333	3,759	3,998	4,471	4,040	5,352	5,963	6,320

Balance Sheet								(INR m)
Y/E March	FY16	FY17	FY18	FY19	FY20	FY21E	FY22E	FY23E
Capital	1,010	1,010	1,010	1,010	1,010	1,010	1,010	1,010
Reserves and Surplus	90,450	1,21,351	1,37,404	1,57,112	1,76,881	2,02,158	2,30,318	2,60,164
Net Worth	91,460	1,22,361	1,38,413	1,58,122	1,77,891	2,03,168	2,31,328	2,61,174
Borrowings	11,09,310	12,63,170	14,53,099	17,06,670	19,13,317	20,61,250	22,69,320	25,23,019
Change (%)	14.9	13.9	15.0	17.5	12.1	7.7	10.1	11.2
Other liabilities	0	1,19,285	1,19,385	1,41,043	76,848	88,375	1,01,631	1,16,876
Total Liabilities	12,00,769	15,04,816	17,10,898	20,05,835	21,68,056	23,52,793	26,02,279	29,01,069
Investments	2,768	33,694	19,722	35,951	54,964	60,460	66,506	73,157
Change (%)	16.7	1,117.1	-41.5	82.3	52.9	10.0	10.0	10.0
Loans	12,51,730	14,47,167	16,61,623	19,29,927	20,79,880	22,52,733	24,93,758	27,87,867
Change (%)	15.5	15.6	14.8	16.1	7.8	8.3	10.7	11.8
Net Fixed Assets	920	965	971	1,359	2,544	2,925	3,364	3,869
Other assets	-54,649	22,990	28,582	38,598	30,669	36,675	38,651	36,177
Total Assets	12,00,769	15,04,816	17,10,898	20,05,835	21,68,056	23,52,793	26,02,279	29,01,069

E: MOFSL estimates

Financials and valuations

Ratios	(%)							
Y/E March	FY16	FY17	FY18	FY19	FY20	FY21E	FY22E	FY23E
Spreads Analysis (%)								
Yield on loans	10.5	10.3	9.4	9.6	9.7	9.0	8.4	8.0
Cost of funds	9.0	8.6	8.2	8.2	8.2	7.3	6.6	6.3
Spreads Analysis (%)	1.52	1.7	1.2	1.4	1.5	1.7	1.8	1.7
Margin	2.5	2.7	2.3	2.4	2.3	2.3	2.4	2.3
Profitability Ratios (%)								
Adjusted RoAE	19.6	18.1	15.4	16.4	14.3	16.1	15.7	14.7
Adjusted RoAA	1.5	1.4	1.2	1.3	1.2	1.4	1.4	1.3
Int. Expended/Int. Earned	76.0	73.7	76.0	75.1	76.0	74.4	71.6	71.1
Other Inc./Net Income	2.8	2.4	3.8	3.7	3.4	0.5	1.5	1.6
Efficiency Ratios (%)								
Fees/Operating income	1.2	0.8	0.2	0.2	0.2	0.6	0.3	0.3
Op. Exps./Net Income	14.7	15.9	11.9	10.6	12.6	12.5	12.1	12.4
Empl. Cost/Op. Exps.	32.1	40.2	50.8	52.1	48.5	49.8	52.2	54.6
Asset-Liability Profile (%)								
Loans/Borrowings Ratio	112.8	114.6	114.4	113.1	108.7	109.3	109.9	110.5
Debt/Equity (x)	12.1	10.3	10.5	10.8	10.8	10.1	9.8	9.7
Gross NPAs (INR m)	5,678	6,271	13,036	30,754	59,594	82,121	84,615	87,403
Gross NPAs-to-Adv.	0.5	0.4	0.8	1.6	2.8	3.6	3.4	3.1
Net NPAs (INR m)	2,705	2,053	7,117	21,000	41,000	57,485	59,230	61,182
Net NPAs-to-Adv.	0.2	0.1	0.4	1.1	2.0	2.6	2.4	2.2
Valuation								
Book Value (INR)	181.1	242.3	274.1	313.1	352.3	402.4	458.1	517.2
Growth (%)	17.0	33.8	13.1	14.2	12.5	14.2	13.9	12.9
Price-to-BV (x)					1.1	1.0	0.9	0.8
EPS (INR)	32.9	38.2	39.7	48.1	47.6	60.7	67.6	71.6
Growth (%)	19.8	16.3	3.7	21.4	-1.2	27.5	11.4	6.0
Price-to-Earnings (x)					8.3	6.5	5.9	5.5
Dividend Per Share	5.5	6.2	6.8	7.6	8.0	9.1	10.1	10.7
Dividend Yield (%)					2.0	2.3	2.6	2.7

E: MOFSL estimates

Explanation of Investment Rating	
Investment Rating	Expected return (over 12-month)
BUY	>=15%
SELL	< - 10%
NEUTRAL	< - 10 % to 15%
UNDER REVIEW	Rating may undergo a change
NOT RATED	We have forward looking estimates for the stock but we refrain from assigning recommendation

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