

January 20, 2023

## Q3FY23 Result Update

☑ Change in Estimates | ■ Target | ■ Reco

### Change in Estimates

	Current		Previous	
	FY24E	FY25E	FY24E	FY25E
Rating	BUY		BUY	
Target Price	700		700	
NII (Rs.)	11,884	13,996	11,492	13,712
% Chng.	3.4	2.1		
PPoP (Rs.)	9,981	11,723	9,666	11,531
% Chng.	3.3	1.7		
EPS (Rs.)	49.6	58.4	48.5	58.1
% Chng.	2.3	0.5		

### Key Financials - Standalone

Y/e Mar	FY22	FY23E	FY24E	FY25E
Net Int.Inc. (Rs m)	8,162	10,209	11,884	13,996
Growth (%)	2.3	25.1	16.4	17.8
Op. Profit (Rs m)	6,820	8,609	9,981	11,723
PAT (Rs m)	4,711	6,056	6,603	7,780
EPS (Rs.)	35.4	45.5	49.6	58.4
Gr. (%)	3.3	28.5	9.0	17.8
DPS (Rs.)	3.5	2.3	3.0	3.5
Yield (%)	0.7	0.4	0.6	0.7
Margin (%)	3.2	3.3	3.2	3.2
RoAE (%)	16.6	18.1	16.7	16.8
RoAA (%)	1.9	2.0	1.8	1.8
PE (x)	14.7	11.5	10.5	8.9
P/BV (x)	2.3	1.9	1.6	1.4
P/ABV (x)	2.3	2.0	1.7	1.4

### Key Data

CNFH.BO | CANF IN

52-W High / Low	Rs.685 / Rs.407
Sensex / Nifty	60,622 / 18,028
Market Cap	Rs.69bn / \$ 855m
Shares Outstanding	133m
3M Avg. Daily Value	Rs.424.57m

### Shareholding Pattern (%)

Promoter's	29.99
Foreign	-
Domestic Institution	24.69
Public & Others	45.32
Promoter Pledge (Rs bn)	-

### Stock Performance (%)

	1M	6M	12M
Absolute	(4.6)	-	(15.5)
Relative	(2.9)	(8.6)	(17.1)

### Gaurav Jani

gauravjani@plindia.com | 91-22-66322235

### Palak Shah

palakshah@plindia.com | 91-22-66322257

## Earnings quality maintained; NIM a key

### Quick Pointers:

- Steady quarter with PAT beating PLe by 6.5% due to better NII/provisions.
- New MD&CEO expected to join before FY23 end.

**Canfin reported a stable quarter as PAT at Rs1.5bn beat PLe by 6.5% driven by higher NII and lower provisions as AuM growth at ~20% YoY was in-line. Company expects disbursal momentum to improve in Q4 while it envisages a loan growth of 20% in FY24E. As asset quality risks are receding, share of self-employed is gradually rising and over the medium term, it could increase from 26% to 30%. Liability mix has improved with NCD/CP share touching 15%/9% (vs 7%/15% a year ago). While we remain watchful of NIM, overall NIM for FY24 could be higher vs FY23 as only 28% of assets are repriced to RBI rate hikes compared to 65-70% of liabilities. New MD&CEO is expected to join before FY23 end. We raise earnings for FY23/24E by 4%/2% led by better NII. Canfin's structural story is intact with likely RoE of ~17.0% over FY23-25E, while valuation at 1.6x is attractive. We maintain multiple at 2.1x on Sep'24 ABV and keep TP unchanged at Rs700. Retain BUY.**

- PAT beat led by higher NII and lower provisions:** NII was ahead at Rs2.5bn (PLe Rs2.4bn) as funding was lower than expected while AuM growth was – largely in-line at ~20% YoY. NIM was ahead at 3.65% (PLe 3.53%) as funding cost was lower at 7.06% (PLe 7.35%); yields were lower by 9bps at 10.2%, Disbursals were a tad higher at Rs24.4bn (PLe Rs23.6bn), offset by more repayments at Rs11.5bn (PLe Rs11.2bn). Opex was a slight miss at Rs438mn due to employee cost and other opex. PPoP was ahead at Rs2.12bn (PLe Rs2.06bn) due to better NII. Provisions were lower at Rs84mn (PLe Rs140mn) although PCR improved QoQ from 43.4% to 50.7%. GNPA/NNPA were a tad better QoQ at 0.6%/0.3%. PAT was a beat at Rs1.5bn (PLe Rs1.4bn)
- Credit momentum intact:** Credit flow was mainly led by salaried housing (+18.2% YoY, 67% share). However, as pandemic related asset quality risks have been abating, share of self-employed housing in incremental credit is rising with current share at ~30% (vs 16% in Q3FY22). Salaried to non-salaried mix in medium term could be 70:30 from 74:26 now. Company expects current run-rate in disbursals to continue and envisages a 20% YoY AuM growth in FY24E. Karnataka contributes 20-22% to total AUM (Bangalore share at 17%); TN and Telangana are showing good traction. Plan is to expand footprint in MH, Gujarat & Rajasthan (2-3 branches to be opened every year). Borrowing mix has improved with NCD/CP share at 15%/9% (vs 7%/15% a year ago).
- As per management, NIM has bottomed out:** As per the company, NIM for Q3FY23 has bottomed out and could improve from hereon. While NIM remains a key monitorable, only 28% of assets have been repriced to RBI rate hikes compared to 65-70% of liabilities. This suggests that overall NIM for FY24 could be higher vs FY23 and NII growth could surpass loan growth. We see FY24 NIM at 3.3% (vs 3.24% in FY23). OTR pool is at Rs7bn or 2.3% (PCR of 10%); while repayment has not started, 30% customers have started repaying. On MD&CEO succession, new candidate is expected to join before FY23 end.

**Exhibit 1: Higher NII and lower provisions lead to earnings beat**

NII growth was 22% YoY was flat QoQ as CoF increase was lower than expected.

Other income remained flat YoY

Opex has been relatively elevated due to higher employee expenses.

Provision creation lower due to ECL method

Disbursements were more at Rs. 24.4bn was offset by higher repayments, however AuM growth sustained at 20% YoY/4.5% QoQ

NIMs declined QoQ, led by slower increase in yields of 39bps vs CoF 59bps

Asset Quality steady; PCR improved to 50.7%

Financial Statement (Rs mn)	Q3FY23	Q3FY22	YoY gr. (%)	Q2FY23	QoQ gr. (%)
Interest Income	7,046	5,020	40.4	6,522	8.0
Interest Expense	4,529	2,961	53.0	4,010	13.0
<b>Net interest income (NII)</b>	<b>2,517</b>	<b>2,059</b>	<b>22.2</b>	<b>2,512</b>	<b>0.2</b>
Other income	51	64	(21.5)	54	(6.0)
<b>Total income</b>	<b>2,568</b>	<b>2,124</b>	<b>20.9</b>	<b>2,566</b>	<b>0.1</b>
Operating expenses	438	403	8.7	405	8.3
<b>Operating profit</b>	<b>2,129</b>	<b>1,720</b>	<b>23.8</b>	<b>2,161</b>	<b>(1.5)</b>
Total provisions	84	164	(48.5)	132	(36.4)
<b>Profit before tax</b>	<b>2,045</b>	<b>1,557</b>	<b>31.4</b>	<b>2,028</b>	<b>0.8</b>
Tax	530	400	32.6	611	(13.3)
<b>Profit after tax</b>	<b>1,515</b>	<b>1,157</b>	<b>30.9</b>	<b>1,417</b>	<b>6.9</b>
AUM (Rs mn)	301,150	250,910	20.0	288,229	4.5
Disbursements (Rs mn)	24,440	24,720	(1.1)	22,450	8.9
<b>Profitability ratios</b>					
<b>NIM</b>	<b>3.5</b>	<b>3.5</b>	<b>(1)</b>	<b>3.6</b>	<b>(8)</b>
RoAA	2.2	2.0	12	2.1	9
RoAE	17.3	15.8	147	16.8	48
<b>Asset Quality ratios</b>					
Gross NPL (Rs m)	1,811	1,772	2.2	1,787	1.4
Net NPL (Rs m)	893	970	(8.0)	1,012	(11.7)
Gross NPL ratio	<b>0.6</b>	<b>0.7</b>	<b>(10)</b>	<b>0.6</b>	<b>(2)</b>
Net NPL ratio	<b>0.3</b>	<b>0.4</b>	<b>(9)</b>	<b>0.4</b>	<b>(5)</b>
Coverage ratio	50.7	45.2	547	43.4	732
<b>Business &amp; Other Ratios</b>					
Yield on Loans (%)	8.9	8.1	82	8.6	32
Cost of Borrowings (%)	6.6	5.6	107	6.0	59
Spread (%)	2.2	2.5	(25)	2.5	(27)
Cost/Income Ratio	17.1	17.7	(63)	15.8	129

Source: Company, PL

**Exhibit 2: Loan Mix – Demand continues to be strong**

AUM Book Details (Rs mn)	Q3FY23	Q3FY22	YoY gr. (%)	Q2FY23	QoQ gr. (%)
Housing Loans	268,690	225,470	<b>19.2</b>	257,900	<b>4.2</b>
Top-up Personal	15,990	12,420	28.7	14,920	7.2
Mortgage Loans/Flexilap	12,820	9,780	31.1	11,880	7.9
Loans for Sites	2,530	2,180	16.1	2,420	4.5
Others	910	850	7.1	900	1.1
Staff Loans	210	200	5.0	210	-
Builder Loans	-	10	NA	-	NA

Source: Company, PL

## Q3FY23 Concall Highlights

### Assets/Liabilities

- Disbursements were more during the quarter at Rs.24.4bn, however repayments were higher at Rs11.5bn leading to an AUM growth of 20% YoY/4.5% QoQ. For FY23, the management guides for AUM growth of 18% aided by strong demand in the sector despite headwinds of cost inflation. Demand for housing loan is intact due to desire to have ownership of house in the affordable housing segment, despite headwinds of rising prices.
- Geographical diversification - Karnataka contribute 22% to the total AUM (Bangalore contributes 17%). Apart from these states, Tamil Nadu and Telangana are showing good traction. Going forward management plans to diversify in the states Maharashtra, Gujarat & Rajasthan (2-3 branches to be opened every year). In the more established branches focus is on higher ticket size loans, while Tier 2 & Tier 3 cities focus on affordable housing.
- On the **borrowing side**, company borrowed Rs9bn (sanctioned Rs15bn) from NHB (23% of total borrowings). Higher borrowings have been made from NCD as the rates are expected to go up.
- **Capital raise** would be considered in next 2/3 quarters if required.

### Fees/NIMs/Branches

- NIM came to 3.47% declining by 8bps sequentially. Margin compression is expected to continue as 72% of the loans are yet to be repriced (to take place in 3-6 months), while borrowing cost repriced T+2 or quarterly hence COF has gone up faster. With repricing of loans, management expects positive impact on yield of 2%
- Management believes margins have bottomed out and would improve from here on. So far, management has passed on 145bps on hike and expects further 20bps hike. Spreads/NIM in the near term would be in the range of 3.5%/2.5%.
- 5 branches have been opened 9MFY23 and plans to add another 5 branches in Q4FY23. Focus is on increasing the average business per branch to Rs1.6bn from 1.5bn and further to Rs2bn as 25% of the branches are underperforming.

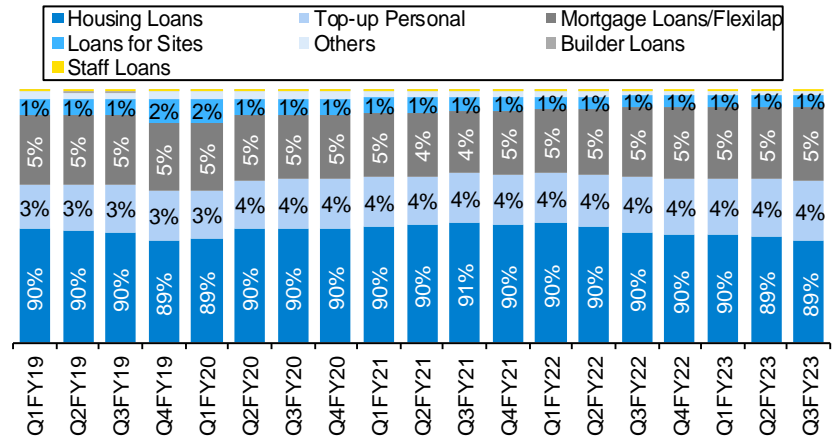
### Asset Quality

- Gross Stage 2 assets are Rs10bn against which provisions of Rs0.5bn exist.
- **Restructuring:** OTR book stood at Rs.7bn. Though the repayment of the book has not yet started, 30% of the customers have started repaying. Provisions of Rs. 0.67bn are O/s on the OTR pool.
- **Credit cost** stood at 0.06% and is expected to remain in the same range going forward. As per the ECL model, any incremental provisions would improve PCR due to higher provisioning on standard book.

### Others

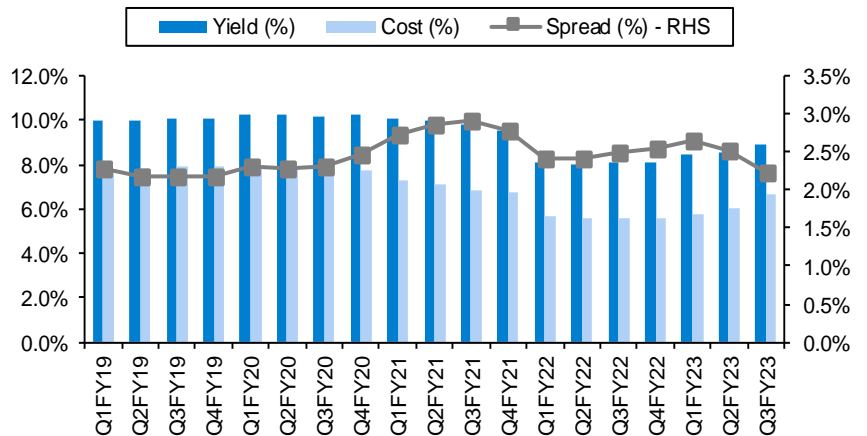
- **Hiring of Top management** – CEO has been selected and is expected to join by end of FY23.

**Exhibit 3: Loan Book continues to remain dominated by Housing (89% share)**



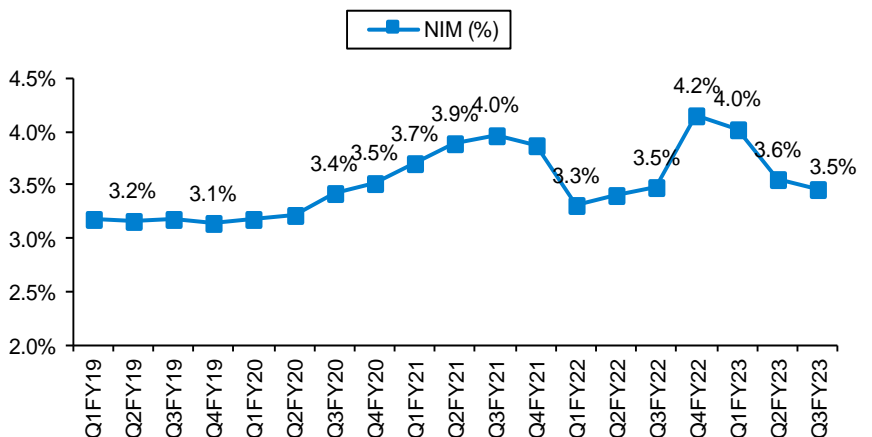
Source: Company, PL

**Exhibit 4: Spreads decline further as cost goes up faster than yields**



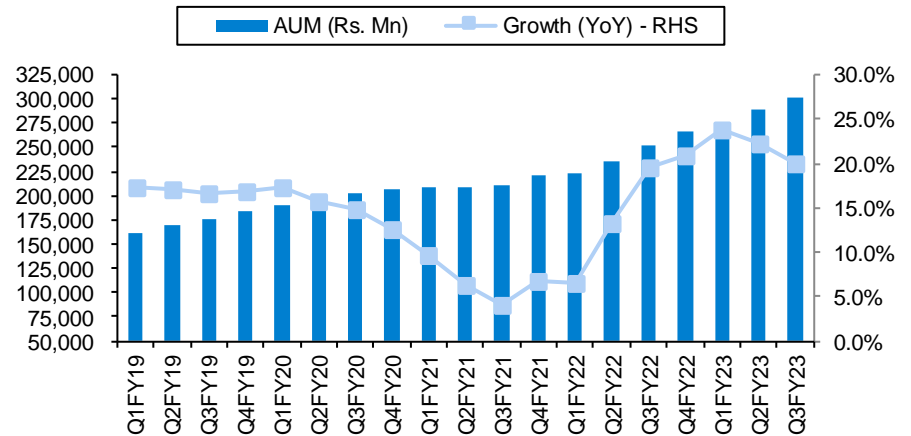
Source: Company, PL

**Exhibit 5: NIM impacted on higher cost of funds**



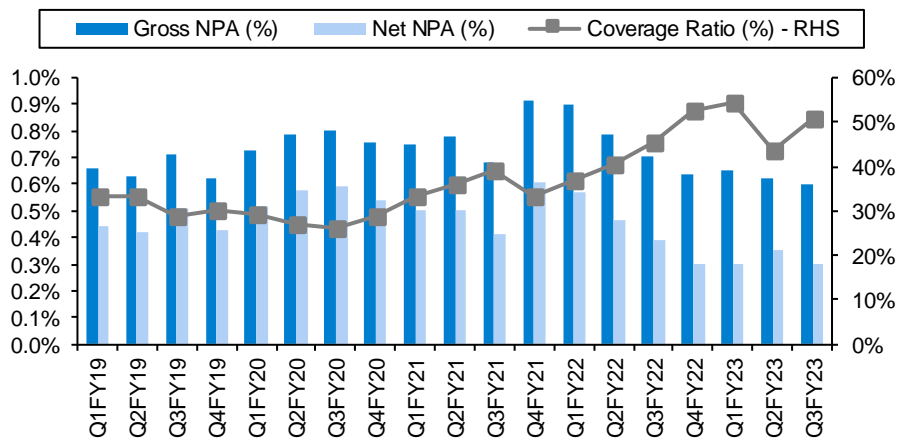
Source: Company, PL

**Exhibit 6: AUM growth was 20% YoY led flat disbursements and higher repayment**



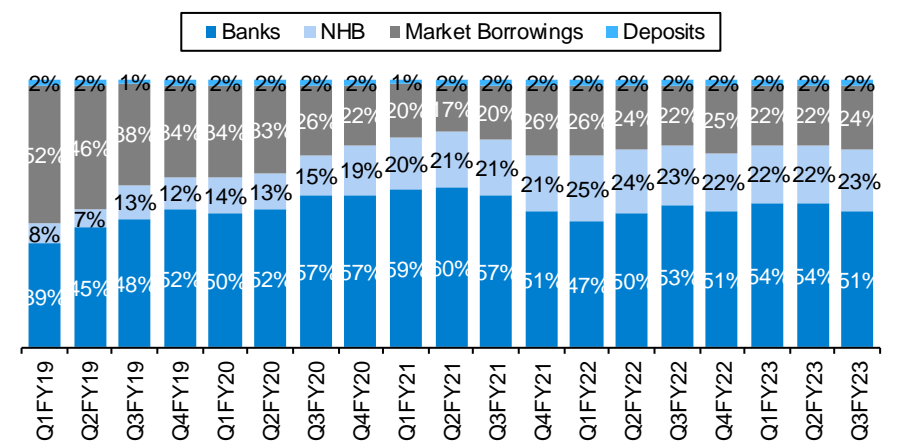
Source: Company, PL

**Exhibit 7: Asset Quality sees marginal blip, PCR down sequentially**



Source: Company, PL

**Exhibit 8: Borrowing mix mainly from Banks and NHB refinance**



Source: Company, PL Research

**Exhibit 9: ROEs to improve on lower provision**

RoE decomposition (%)	FY18	FY19	FY20	FY21	FY22	FY23E	FY24E	FY25E
Interest income	10.3	9.9	10.1	9.3	7.9	8.9	9.9	10.3
Interest expenses	6.8	6.8	6.7	5.6	4.6	5.6	6.6	7.1
<b>Net interest income</b>	<b>3.5</b>	<b>3.2</b>	<b>3.4</b>	<b>3.7</b>	<b>3.3</b>	<b>3.3</b>	<b>3.2</b>	<b>3.2</b>
Other Inc. from operations	0.2	0.1	0.1	0.1	0.1	0.1	0.1	0.1
<b>Total income</b>	<b>3.7</b>	<b>3.3</b>	<b>3.4</b>	<b>3.7</b>	<b>3.3</b>	<b>3.4</b>	<b>3.3</b>	<b>3.3</b>
Employee expenses	0.3	0.2	0.3	0.3	0.3	0.3	0.3	0.3
Other operating expenses	0.2	0.2	0.2	0.2	0.2	0.2	0.2	0.2
<b>Operating profit</b>	<b>3.1</b>	<b>2.7</b>	<b>2.9</b>	<b>3.2</b>	<b>2.7</b>	<b>2.8</b>	<b>2.7</b>	<b>2.7</b>
Tax	1.0	1.0	0.7	0.7	0.7	0.7	0.6	0.6
Loan loss provisions	0.2	0.0	0.3	0.3	0.2	0.10	0.3	0.3
<b>RoAA</b>	<b>2.0</b>	<b>1.7</b>	<b>1.9</b>	<b>2.1</b>	<b>1.9</b>	<b>2.0</b>	<b>1.8</b>	<b>1.8</b>
<b>RoAE</b>	<b>21.3</b>	<b>18.2</b>	<b>19.1</b>	<b>19.2</b>	<b>16.6</b>	<b>18.1</b>	<b>16.7</b>	<b>16.8</b>

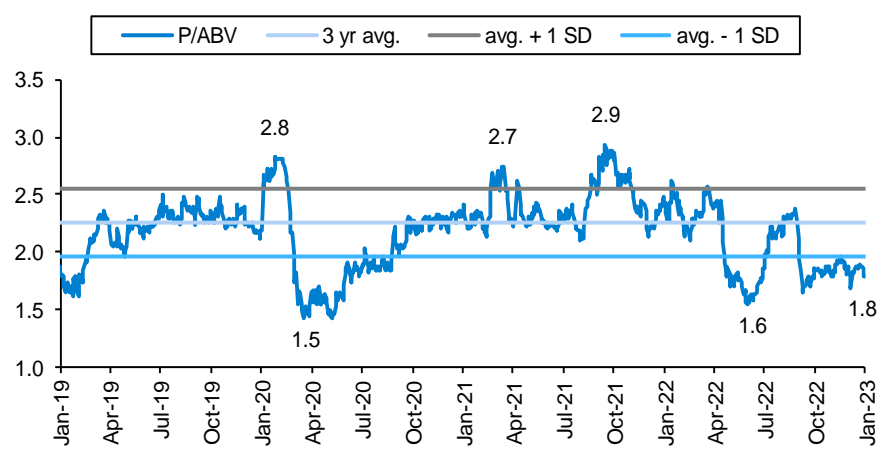
Source: Company, PL

**Exhibit 10: We slightly tweak estimates and credit cost assumptions**

Estimates Change (Rs mn)	Old			Revised			% Change		
	FY23E	FY24E	FY25E	FY23E	FY24E	FY25E	FY23E	FY24E	FY25E
Net interest income	9,868	11,492	13,712	10,209	11,884	13,996	3.5	3.4	2.1
Operating profit	8,335	9,666	11,531	8,609	9,981	11,723	3.3	3.3	1.7
Net profit	5810	6457	7738	6,056	6,603	7,780	4.2	2.3	0.5
Loan Growth (%)	18.0	17.3	17.0	18.0	17.4	17.1	0.0	0.1	0.1
Credit Cost (bps)	12.9	27.1	26.5	11.0	30.5	29.8	(1.9)	3.4	3.3
EPS, Rs.	43.6	48.5	58.1	45.5	49.6	58.4	4.2	2.3	0.5
ABV per share, Rs.	262.5	305.4	356.8	263.9	307.8	359.4	0.5	0.8	0.7
<b>Price target, Rs.</b>	<b>700</b>			<b>700</b>			<b>-</b>		
<b>Recommendation</b>	<b>BUY</b>			<b>BUY</b>			<b>-</b>		

Source: Company, PL

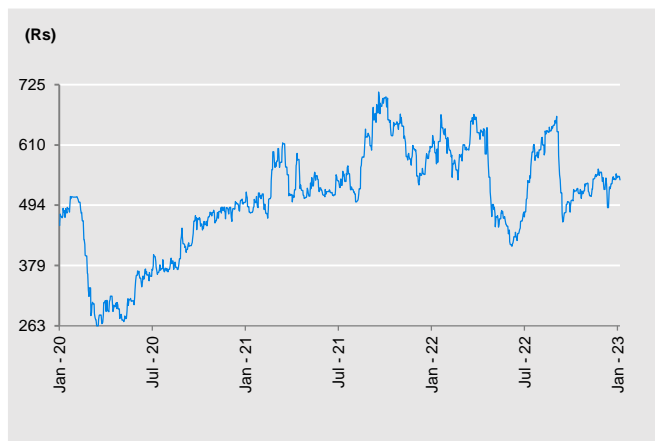
**Exhibit 11: One year forward P/ABV valuation chart**



Source: Company, PL

Income Statement (Rs. m)					Quarterly Financials (Rs. m)				
Y/e Mar	FY22	FY23E	FY24E	FY25E	Y/e Mar	Q4FY22	Q1FY23	Q2FY23	Q3FY23
Int. Inc. / Opt. Inc.	19,697	27,347	36,206	44,675	Int. Inc. / Operating Inc.	5,558	6,065	6,522	7,046
Interest Expenses	11,535	17,139	24,321	30,679	Income from securitization	-	-	-	-
<b>Net interest income</b>	<b>8,162</b>	<b>10,209</b>	<b>11,884</b>	<b>13,996</b>	Interest Expenses	3,185	3,561	4,010	4,529
Growth(%)	2.3	25.1	16.4	17.8	<b>Net Interest Income</b>	<b>2,373</b>	<b>2,504</b>	<b>2,512</b>	<b>2,517</b>
Non-interest income	188	207	249	293	Growth (%)	27.7	38.2	31.0	22.2
Growth(%)	56.2	10.0	20.3	17.6	Non-Interest Income	55	51	54	51
Net operating income	8,350	10,416	12,133	14,289	<b>Net Operating Income</b>	<b>2,428</b>	<b>2,555</b>	<b>2,566</b>	<b>2,568</b>
<b>Expenditures</b>					Growth (%)	26.1	39.8	30.2	20.9
Employees	768	833	1,017	1,242	Operating expenditure	482	405	405	438
Other Expenses	664	850	991	1,156	<b>PPP</b>	<b>1,946</b>	<b>2,150</b>	<b>2,161</b>	<b>2,129</b>
Depreciation	98	124	145	169	Growth (%)	-	-	-	-
Operating Expenses	1,530	1,807	2,153	2,566	Provision	302	(37)	132	84
<b>PPP</b>	<b>6,820</b>	<b>8,609</b>	<b>9,981</b>	<b>11,723</b>	Exchange Gain / (Loss)	-	-	-	-
Growth(%)	(0.6)	26.2	15.9	17.5	Profit before tax	1,643	2,187	2,028	2,045
Provisions	469	320	1,046	1,196	Tax	414	565	611	530
<b>Profit Before Tax</b>	<b>6,351</b>	<b>8,289</b>	<b>8,935</b>	<b>10,528</b>	Prov. for deferred tax liability	-	-	-	-
Tax	1,640	2,234	2,332	2,748	Effective Tax Rate	25.2	25.8	30.1	25.9
Effective Tax rate(%)	25.8	26.9	26.1	26.1	<b>PAT</b>	<b>1,229</b>	<b>1,622</b>	<b>1,417</b>	<b>1,515</b>
<b>PAT</b>	<b>4,711</b>	<b>6,056</b>	<b>6,603</b>	<b>7,780</b>	Growth	20	49	15	31
Growth(%)	3.3	28.5	9.0	17.8	AUM	2,67,110	2,75,380	2,88,229	3,01,150
					YoY growth (%)	20.8	23.9	22.2	20.0
					Borrowing	2,46,556	2,54,080	2,61,313	2,78,000
					YoY growth (%)	35.1	31.8	26.2	18.0
Balance Sheet (Rs. m)					Key Ratios				
Y/e Mar	FY22	FY23E	FY24E	FY25E	Y/e Mar	FY22	FY23E	FY24E	FY25E
<b>Source of funds</b>					CMP (Rs)	521	521	521	521
Equity	266	266	266	266	EPS (Rs)	35.4	45.5	49.6	58.4
Reserves and Surplus	30,400	36,153	42,359	49,673	Book value (Rs)	230.3	273.5	320.1	375.0
Networth	30,666	36,419	42,626	49,939	Adj. BV(Rs)	224.2	263.9	307.8	359.4
Growth (%)	17.5	18.8	17.0	17.2	P/E(x)	14.7	11.5	10.5	8.9
Loan funds	2,46,477	2,97,579	3,51,317	4,12,431	P/BV(x)	2.3	1.9	1.6	1.4
Growth (%)	27.8	20.7	18.1	17.4	P/ABV(x)	2.3	2.0	1.7	1.4
Deferred Tax Liability	-	-	-	-	DPS (Rs)	3.5	2.3	3.0	3.5
Other Current Liabilities	2,046	1,941	2,281	2,668	Dividend Payout Ratio(%)	9.9	5.0	6.0	6.0
Other Liabilities	255	485	573	672	Dividend Yield(%)	0.7	0.4	0.6	0.7
<b>Total Liabilities</b>	<b>2,79,443</b>	<b>3,36,424</b>	<b>3,96,796</b>	<b>4,65,710</b>					
<b>Application of funds</b>					Asset Quality				
Net fixed assets	346	395	434	478	Y/e Mar	FY22	FY23E	FY24E	FY25E
Advances	2,63,781	3,12,385	3,66,760	4,29,655	Gross NPAs(Rs m)	1,706	2,236	2,882	3,668
Growth (%)	20.5	18.4	17.4	17.1	Net NPA(Rs m)	807	1,280	1,641	2,074
Investments	11,260	18,307	23,307	28,171	Gross NPAs to Gross Adv.(%)	0.6	0.7	0.8	0.8
Current Assets	3,252	4,415	5,183	6,072	Net NPAs to net Adv.(%)	0.3	0.4	0.4	0.5
<b>Net current assets</b>	<b>1,206</b>	<b>2,474</b>	<b>2,902</b>	<b>3,404</b>	NPA coverage(%)	52.7	42.7	43.1	43.5
Other Assets	805	922	1,112	1,334					
<b>Total Assets</b>	<b>2,79,443</b>	<b>3,36,424</b>	<b>3,96,796</b>	<b>4,65,710</b>	Du-Pont as a % of AUM				
Growth (%)	26.6	20.4	17.9	17.4	Y/e Mar	FY22	FY23E	FY24E	FY25E
<b>Business Mix</b>					NII	3.3	3.3	3.2	3.2
AUM	2,67,110	3,15,102	3,69,955	4,33,401	NII INCl. Securitization	3.3	3.3	3.2	3.2
Growth (%)	20.8	18.0	17.4	17.1	Total income	3.3	3.4	3.3	3.3
On Balance Sheet	2,67,110	3,15,102	3,69,955	4,33,401	Operating Expenses	0.6	0.6	0.6	0.6
% of AUM	100.00	100.00	100.00	100.00	PPOP	2.7	2.8	2.7	2.7
Off Balance Sheet	-	-	-	-	Total Provisions	0.2	0.1	0.3	0.3
% of AUM	-	-	-	-	RoAA	1.9	2.0	1.8	1.8
					Avg. Assets/Avg. net worth	8.8	9.2	9.3	9.3
					RoAE	16.6	18.1	16.7	16.8
Profitability & Capital (%)					Source: Company Data, PL Research				
Y/e Mar	FY22	FY23E	FY24E	FY25E					
NIM	3.2	3.3	3.2	3.2					
ROAA	1.9	2.0	1.8	1.8					
ROAE	16.6	18.1	16.7	16.8					

Source: Company Data, PL Research

**Price Chart**
**Recommendation History**


No.	Date	Rating	TP (Rs.)	Share Price (Rs.)
1	05-Jan-23	BUY	700	545
2	19-Oct-22	BUY	700	524
3	05-Oct-22	BUY	675	497
4	23-Jul-22	BUY	675	538
5	08-Jul-22	BUY	800	463
6	03-May-22	BUY	800	642
7	09-Apr-22	BUY	800	661

**Analyst Coverage Universe**

Sr. No.	Company Name	Rating	TP (Rs)	Share Price (Rs)
1	AAVAS Financiers	Accumulate	2,250	1,750
2	Axis Bank	BUY	1,100	949
3	Bank of Baroda	BUY	220	181
4	Can Fin Homes	BUY	700	545
5	City Union Bank	BUY	220	178
6	DCB Bank	BUY	150	130
7	Federal Bank	BUY	175	140
8	HDFC	BUY	3,000	2,622
9	HDFC Bank	BUY	1,850	1,601
10	ICICI Bank	BUY	1,090	879
11	IDFC First Bank	UR	-	60
12	IndusInd Bank	BUY	1,500	1,223
13	Kotak Mahindra Bank	Accumulate	2,100	1,820
14	LIC Housing Finance	Accumulate	410	420
15	Punjab National Bank	UR	-	57
16	State Bank of India	BUY	730	605

**PL's Recommendation Nomenclature (Absolute Performance)**

<b>Buy</b>	: > 15%
<b>Accumulate</b>	: 5% to 15%
<b>Hold</b>	: +5% to -5%
<b>Reduce</b>	: -5% to -15%
<b>Sell</b>	: < -15%
<b>Not Rated (NR)</b>	: No specific call on the stock
<b>Under Review (UR)</b>	: Rating likely to change shortly



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### **Prabhudas Lilladher Pvt. Ltd.**

**3rd Floor, Sadhana House, 570, P. B. Marg, Worli, Mumbai-400 018, India | Tel: (91 22) 6632 2222 Fax: (91 22) 6632 2209**

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