

October 13, 2023

Q2FY24 Result Update

☑ Change in Estimates | ☑ Target | ■ Reco

Change in Estimates

	Current		Previous	
	FY24E	FY25E	FY24E	FY25E
Rating	BUY		BUY	
Target Price	3,000		2,800	
Revenue (Rs. m)	25,289	27,716	24,546	26,869
% Chng.	3.0	3.2		
Opex (Rs. m)	7,003	7,549	6,548	6,942
% Chng.	7.0	8.7		
Core EPS (Rs.)	65.6	71.5	63.8	70.7
% Chng.	2.8	1.2		

Key Financials - Standalone

Y/e Mar	FY23	FY24E	FY25E	FY26E
Revenue (Rs m)	21,668	25,289	27,716	30,175
Opex	6,120	7,003	7,549	7,851
Employee	3,127	3,653	3,932	4,087
Others	2,993	3,351	3,617	3,764
Core Inc. (Rs m)	15,549	18,285	20,167	22,324
PAT (Rs mn)	14,239	17,416	18,420	20,295
Core PAT (Rs m)	11,836	14,007	15,267	16,899
Core EPS (Rs.)	55.5	65.6	71.5	79.2
Gr. (%)	2.5	18.3	9.0	10.7
AAuM (Rs bn)	4,348	5,235	5,922	6,587
Gr. (%)	0.2	20.4	13.1	11.2
Core RoAAuM (%)	0.3	0.3	0.3	0.3
Core RoE (%)	25.6	28.9	30.6	32.7
P/Core EPS (x)	26.1	37.3	33.9	30.3

Key Data

52-W High / Low	Rs. 2,800 / Rs. 1,590
Sensex / Nifty	66,408 / 19,749
Market Cap	Rs. 588.6bn / \$ 7,071.2m
Shares Outstanding	213.5m
3M Avg. Daily Value	Rs. 2,232.2m

Shareholding Pattern (%)

Promoter's	52.55
Foreign	16.11
Domestic Institution	20.67
Public & Others	10.67
Promoter Pledge (Rs bn)	-

Stock Performance (%)

	1M	6M	12M
Absolute	4.9	55.3	43.1
Relative	6.2	42.2	26.7

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Higher equity share drove better yields

Quick Pointers:

- Core income beat of 4% driven by stronger growth in equity segment.
- Equity market share further enhanced by 31bps QoQ to 12.3%.

HDFC AMC saw a strong quarter; while QAAuM growth was in-line (+8.1% QoQ), revenue was a 4% beat to PLe leading to better blended yields at 49bps (47bps in Q1'24). Increase in equity mix QoQ and decline in liquid share were major drivers of superior yields. Company remains a top performer in equity within 1-yr and 3-yr buckets while equity market share at 12.3% continues to enhance (+31bps QoQ). Retail presence improved suggested by 1) individual MAAuM higher than industry and 2) larger pie in unique investor additions. With HDFB gaining control post-merger, sales would be boosted due to stronger distribution focus. A rise of 10% in share of HDFC AMC sales by HDFCB could lead to a 4%/5% increase in AAuM and core profits. We see a core PAT CAGR of 13.6% over FY23-25E. Stock is trading at 32x; we maintain multiple at 35x (5-yr avg. of 40x) but as we roll forward to Sep'25E core EPS, our TP increases from Rs2,800 to Rs3,000. Retain BUY.

- Strong quarter led by higher revenue:** QAAuM was in-line at Rs5248bn (PLe Rs5256bn) growing by 8.1% QoQ. However, revenue was higher by 4.1% to PLe at Rs6.43bn (PLe Rs18bn) led by healthy increase in equity share QoQ and decline in share of liquid. Hence annualized yields were ahead at 49bps (PLe 47bps). Opex was a miss at Rs1.76bn (PLe Rs1.69bn) due to other opex. ESOP cost was Rs131mn for Q2'24. Led by revenue beat, operating income was higher at Rs4.67bn (+4% ahead of PLe) resulting in operating yields at 35.6bps (PLe 34.2bps). Other income was largely in-line at Rs1.22bn (PLe Rs1.2bn). Tax expense normalized to 25.7%; it was lower last quarter at 16.4% due to certain investments transitioning from short-term to long-term. Hence core PAT yields declined QoQ by 2bps but were in-line with PLe while core PAT was Rs3.47bn (PLe Rs3.4bn). PAT was 1.2% ahead of PLe at Rs4.38bn.
- Equity market share continues to improve; retail contribution enhancing:** Equity mix (incl. balanced) increased from 51.8% to 55.1% QoQ while that of liquid declined by 2.8% to 13.1% resulting in better yields. Driven by superior equity performance leading to market share gains in net equity flows, market share in equity+bal QAAuM has been enhancing post Q1FY23; it improved QoQ by 31bps to 12.3%. As of Sep'23, basis weighted average equity performance, HDFC AMC remains the top performing fund (rank 1) in the 1-yr and 3-yr bucket. Retail AuM (stickier) is enhancing; in Aug'23 individual MAAuM accounted for 68% of total, compared to 58% for the industry while incremental market share in unique investor base was strong at 38%.
- Pricing slightly improved; opex for FY24E may be 13bps:** Yields in Q2FY24 were as follows: equity 67bps, debt at 27-28bps and liquid at 12bps. Yields on recently launched NFOs ranged between 90-100bps whereas yields on fresh flows in larger schemes were between 50-60bps. Book margins are higher than flow margins although the flow margins slightly improved in Q2FY24. Employee cost rose by 10.9% QoQ majorly led by increase in headcount (116 employees added in Q2'24) towards new vertical to tap HDFCB customers, marketing and sales & distribution. Management suggested that annual increase in employee cost could range between 8-12%.

Exhibit 1: PAT beat at Rs4.38bn led by increase in revenue

Financials (Rs m)	Q2FY24	Q2FY23	YoY gr. (%)	Q1FY24	QoQ gr. (%)
Revenue	6,431	5,447	18.1	5,745	11.9
Total Expenses	1,761	1,558	13.0	1,612	9.2
Employees	929	839	10.8	838	10.9
Other expenses	832	720	15.6	774	7.4
Operating Income	4,670	3,889	20.1	4,133	13.0
Other Income	1,221	1,042	17.2	1,580	(22.7)
Profit before tax	5,891	4,931	19.5	5,714	3.1
Tax	1,516	1,290	17.5	939	61.5
Profit after tax	4,376	3,641	20.2	4,775	(8.4)
Core PAT	3,468	2,872	20.8	3,454	0.4
Profitability ratios (bps)					
Revenue yield	49.0	50.8	N.A.	47.3	N.A.
Employee to AuM	7.1	7.8	(73)	6.9	18
Opex to AuM	12.2	13.2	(98)	12.5	(25)
Core income/AuM	35.6	36.2	(65)	34.0	N.A.
PAT/AuM	33.4	33.9	(58)	39.3	N.A.
Core PAT/AuM	26.4	26.8	(32)	28.5	N.A.
QAAuM (Rs. mn)					
QAAuM	5,247,903	4,292,511	22.3	4,856,309	8.1
Equity	1,872,234	1,332,915	40.5	1,591,471	17.6
Balanced	1,018,495	808,008	26.1	924,685	10.1
Debt	1,300,726	1,172,971	10.9	1,229,158	5.8
Liquid	685,081	739,488	(7.4)	773,226	(11.4)
ETF	96,921	51,474	88.3	91,142	6.3
Index	201,232	114,283	76.1	182,111	10.5
Arbitrage	63,067	62,841	0.4	54,372	16.0
FoF overseas	10,149	10,532	(3.6)	10,144	0.0

Source: Company, PL.

Revenue was higher by 11.9% QoQ led by increase in equity market share.

Operating expenses grew 13% YoY/ 9.2% QoQ led by other opex.

Other income was in-line at 1.22bn.

Revenue yield inched up to 49bps, while RoAAuM declined to 33.4bps

QAAuM growth of 22.3% YoY continues to be driven by equity (+40.5% YoY) and balanced (+26.1% YoY)

Key Q2FY24 Conference Call Highlights

Industry:

- **Industry QAAuM stood at Rs47trn** growing by 20% YoY. Actively managed equity oriented schemes are approaching close to 50% of total AUM, QAAuM stood at Rs23.1trn growing 26% YoY in Q2FY24.
- **Debt fund QAAuM stood at Rs10.3trn in Q2FY24 vs Rs8.8trn in Q4FY23.** Inflows in debt funds remained strong even after implication of tax changes.
- **B30 MAAuM continued healthy growth in Q2FY24**, share of B30 in overall MAAuM and Equity MAAuM stood steady at 17% and 27% respectively.
- **SIP flows for the month of Sep'23 was Rs160bn** as against Rs130bn in Sep'22. Total SIP flows for the quarter were Rs471bn accounting for 27% of industry's gross active equity flows.

Company Performance

- **QAAuM in Q2FY24 crossed the milestone of Rs5trn and stood at Rs5.25trn**, witnessing a growth of 22% YoY. Overall QAAuM market share stood at 12.5% ex-ETF. Actively managed equity oriented funds QAAuM too crossed the milestone of Rs3trn whereas debt funds reported QAAuM growth of 16% YoY and stood at Rs1.3trn.
- **Asset mix in Q2FY24 further shifted towards equity at 58%** of the total QAAUM, which is relatively better than the industry at 51%.
- **SIP flows in Q2FY24 stood at Rs22.4bn growing 56% YoY vs industry growth of 23% YoY** majorly led by improvement in performance of funds, focus on distribution channels, better engagement with customers via marketing and communication. Management suggested focus would continue to build systematic transaction book.
- **Company had 7.9mn unique investors at the end of Q2FY24** and processed 5.86mn systematic transactions totaling to Rs22.4bn vs Rs18.9bn in Jun'23. In Aug'23 Individual investor MAAuM accounted for 68% of total MAAuM, compared to industry average of 58%.
- In Q2FY24, company launched non-cyclical consumer fund, transportation and logistics fund, technology fund, pharma & healthcare fund and Nifty 1-day liquid ETF fund. Company also launched HDFC cancer cure fund and raised over Rs1.8bn from ~1600 clients.

Financial Performance

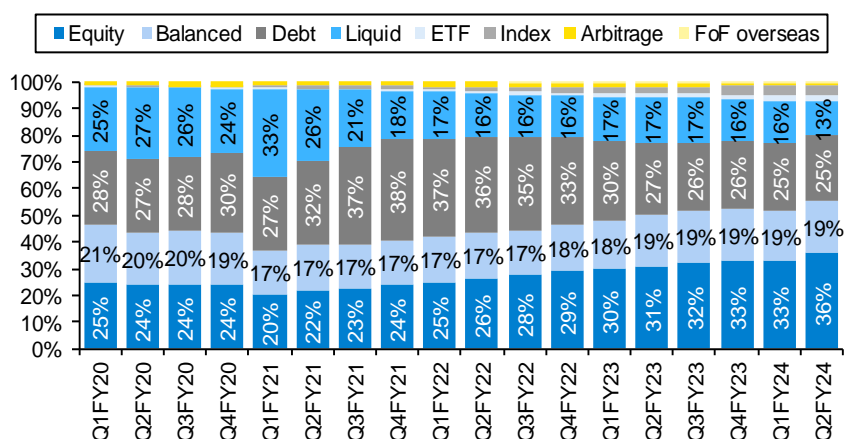
- **Blended yields for the equity were ~67bps in Q2FY24**, debt at ~27-28bps and liquid at ~12bps. Yields on recently launched NFOs ranged between 90-100bps whereas yields on fresh flows in the larger schemes are in the range of ~50-60bps. Management suggested book margins are higher than flow margins although the flow margins have now slightly improved in Q2FY24.

- **Employee cost increased by 10.9% QoQ in Q2FY24** majorly led by increase in headcount towards new vertical to tap HDFC bank customers, marketing, sales and distribution departments. ESOP non-cash component would come down in FY24 as 60% cost was recognized in FY23. Management suggested, annual increase in employee cost to be in the range of ~8-12%.
- **Other expenses saw an uptick of 15.6% YoY** majorly attributed towards general business expenses like business promotion, CSR expense, IT infrastructure etc.
- **Effective tax rate rationalized in Q2FY24 at 25.7%** which was lower in Q1FY24 primarily due to increase in deferred tax charge towards holding period of certain investments transitioning from short-term to long-term.

Outlook

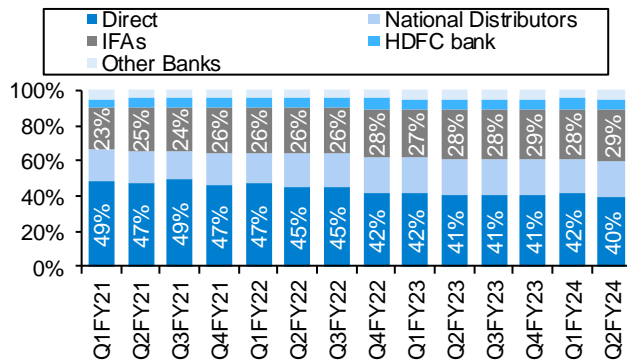
- With the change in control of the promoters from HDFC Ltd to HDFC bank, management is optimistic of the opportunity to tap the distribution channel of HDFC bank and would capitalize on the customer base. Management suggested, flow market share from bank's book is higher than book market share.
- Regarding debt funds, management said positive flows in the industry were mainly in short-end funds. However, it believes that there could be more flows into longer duration funds once interest rates subside further.
- Management suggested SIP book remains attractive given the increasing awareness among investors and company would focus on growing SIP book.
- On the passive income side, company's focus would be to scale up existing fund which includes 20 index funds and 20 ETF funds.
- Company has gained market share across all distribution channel. Moreover, it expects share of distribution from bank to go up in near term.

Exhibit 2: Equity + Bal share increased to ~55%/ liquid declined to ~13%



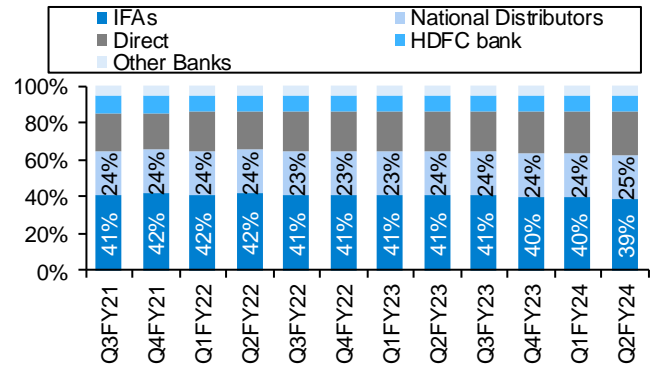
Source: Company, PL

Exhibit 3: Total distribution: Direct dominates at 40%



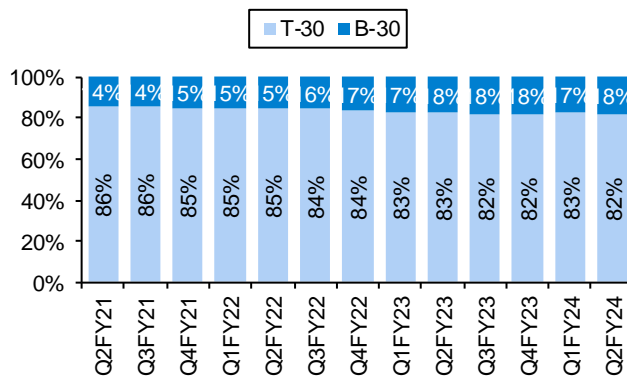
Source: Company, PL

Exhibit 4: Equity Distribution: IFAs dominate at 39%



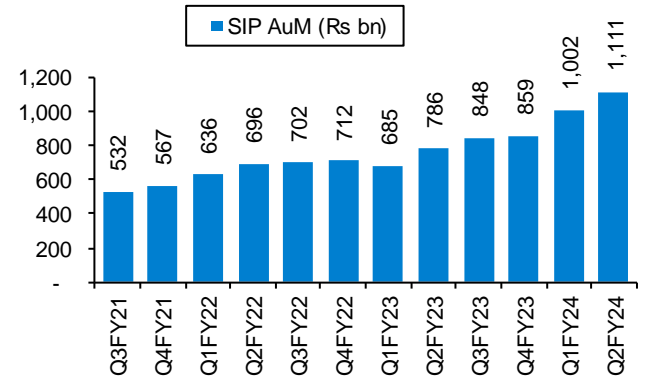
Source: Company, PL

Exhibit 5: T-30: B-30 mix declines to 82:18



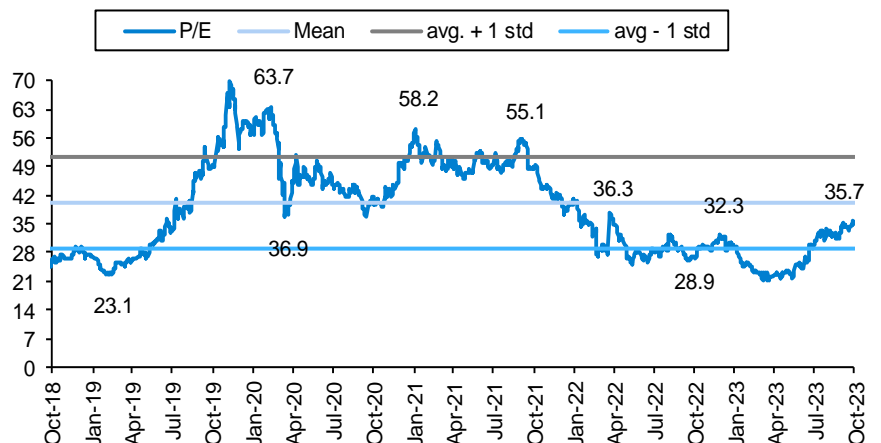
Source: Company, PL

Exhibit 6: SIP AuM continues to grow (+41%YoY/11%QoQ)



Source: Company, PL

Exhibit 7: HDFCAMC one-year fwd. P/Core EPS trades at 35.7x (5-yr avg. 40x)



Source: Company, PL

Financials

Exhibit 8: Quarterly Financials

Particulars (Rs mn)	Q2FY22	Q3FY22	Q4FY22	Q1FY23	Q2FY23	Q3FY23	Q4FY23	Q1FY24	Q2FY24
Revenue	5,423	5,497	5,163	5,216	5,447	5,596	5,410	5,745	6,431
Expenses	1,470	1,507	1,383	1,479	1,558	1,622	1,460	1,612	1,761
Employee	798	775	714	780	839	790	719	731	798
Others	536	599	534	564	587	699	609	645	702
Depreciation	136	133	134	135	132	134	133	129	130
Core Income	3,953	3,989	3,780	3,737	3,889	3,974	3,949	4,133	4,670
Other Income	661	862	647	113	1,042	1,034	969	1,580	1,221
PBT	4,614	4,852	4,427	3,850	4,931	5,007	4,918	5,714	5,891
Tax	1,170	1,254	991	708	1,290	1,313	1,156	939	1,516
PAT	3,444	3,598	3,436	3,142	3,641	3,694	3,762	4,775	4,376
Core PAT	2,951	2,958	2,934	3,050	2,872	2,931	3,021	3,454	3,468
QAAuM	43,89,238	44,69,904	43,21,336	41,53,319	42,92,511	44,47,201	44,97,151	48,56,309	52,47,903
Equity	26.4%	27.5%	28.9%	29.7%	31.1%	32.4%	32.7%	32.8%	35.7%
Balanced	16.9%	17.0%	17.5%	18.4%	18.8%	19.2%	19.4%	19.0%	19.4%
Debt	36.1%	35.0%	32.7%	29.9%	27.3%	25.5%	25.7%	25.3%	24.8%
Liquid	16.4%	15.7%	15.9%	16.6%	17.2%	17.1%	15.8%	15.9%	13.1%
ETF	0.9%	1.0%	1.1%	1.1%	1.2%	1.3%	1.7%	1.9%	1.8%
Index	1.4%	1.7%	2.0%	2.4%	2.7%	2.9%	3.2%	3.7%	3.8%
Arbitrage	1.8%	1.7%	1.6%	1.6%	1.5%	1.3%	1.3%	1.1%	1.2%
FoF overseas	0.0%	0.3%	0.3%	0.3%	0.2%	0.2%	0.2%	0.2%	0.2%
Market share (%)	12.1	11.7	11.3	11.0	11.0	11.0	11.1	11.3	11.2
Equity	9.5	9.3	9.3	9.3	9.3	9.4	9.7	9.8	10.2
Balanced	21.5	19.3	18.5	18.5	18.6	19.0	19.4	19.9	20.3
Eq+Bal	12.2	11.6	11.5	11.4	11.4	11.6	11.9	12.0	12.3
Debt	14.8	14.9	14.6	14.3	14.7	14.8	15.1	14.7	14.7
Liquid	15.3	14.7	13.3	13.1	13.2	13.7	12.8	13.7	11.9
ETF	1.1	1.1	1.1	1.1	1.1	1.2	1.5	1.7	1.7
Index	21.9	19.2	16.6	13.4	11.6	10.9	10.3	10.5	11.2
QAAuM Growth (%)	5.3	1.8	-3.3	-3.9	3.4	3.6	1.1	8.0	8.1
Equity	11.4	6.1	1.5	-1.4	8.1	8.1	2.2	8.1	17.6
Balanced	5.1	2.6	-0.6	0.7	5.9	5.9	1.9	6.0	10.1
Eq+Bal	8.9	4.7	0.7	-0.6	7.3	7.3	2.1	7.3	14.9
Debt	2.7	-1.1	-9.7	-12.2	-5.5	-3.3	1.8	6.5	5.8
Liquid	-0.9	-2.3	-2.5	0.8	7.0	2.6	-6.1	8.5	-11.4
ETF	9.8	8.4	7.9	3.1	8.0	15.1	27.9	20.3	6.3
Index	20.1	22.0	14.4	14.6	14.3	12.6	10.3	28.3	10.5
Arbitrage	24.9	-3.5	-10.9	-2.0	-6.6	-5.7	-1.6	-6.8	16.0
FoF overseas			2.6	-10.0	0.2	-3.6	-0.9	0.8	0.0
Dupont (bps)									
Revenue yield	49.4	49.2	47.8	50.2	50.8	50.3	48.1	47.3	49.0
Opex to AuM	13.4	13.5	12.8	14.2	14.5	14.6	13.0	13.3	13.4
Staff cost	7.3	6.9	6.6	7.5	7.8	7.1	6.4	6.0	6.1
Other opex	4.9	5.4	4.9	5.4	5.5	6.3	5.4	5.3	5.3
Depreciation	1.2	1.2	1.2	1.3	1.2	1.2	1.2	1.1	1.0
Core income/AuM	36.0	35.7	35.0	36.0	36.2	35.7	35.1	34.0	35.6
PAT/AuM	31.4	32.2	31.8	30.3	33.9	33.2	33.5	39.3	33.4
Core PAT/AuM	26.9	26.5	27.2	29.4	26.8	26.4	26.9	28.5	26.4
Profitability (%)									
Staff cost/revenue	14.7	14.1	13.8	15.0	15.4	14.1	13.3	12.7	12.4
Other opex/revenue	9.9	10.9	10.4	10.8	10.8	12.5	11.3	11.2	10.9
Core income/revenue	72.9	72.6	73.2	71.6	71.4	71.0	73.0	71.9	72.6
Tax rate	25.4	25.8	22.4	18.4	26.2	26.2	23.5	16.4	25.7
PAT margin	63.5	65.4	66.5	60.2	66.8	66.0	69.5	83.1	68.0
Core PAT margin	54.4	53.8	56.8	58.5	52.7	52.4	55.8	60.1	53.9

Source: Company, PL

Exhibit 9: Summary Financials (Rs mn)

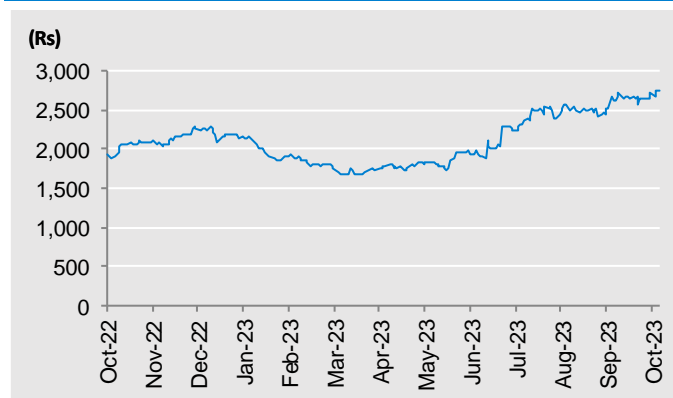
Particulars	FY23	FY24E	FY25E	FY26E	Particulars	FY23	FY24E	FY25E	FY26E
Profit & Loss					Balance Sheet				
Revenue	21,668	25,289	27,716	30,175	Net Worth	61,084	65,787	70,576	75,853
Investment mgmt.	21608	25213	27633	30085	Capital (FV Rs5)	1,067	1,067	1,067	1,067
PMS / Advisory	60	76	83	90	Reserves	60,017	64,720	69,509	74,786
Expenses	6,120	7,003	7,549	7,851	Employee benefit	731	877	1,052	1,262
Employee	3,127	3,653	3,932	4,087	Others	4,139	4,538	4,975	5,456
Others	2,460	2,816	3,056	3,175	Total Liabilities	65,954	71,201	76,603	82,571
Depreciation	533	534	561	589	Cash and Bank	40	40	40	40
Core Income	15,549	18,285	20,167	22,324	Investment	60,792	65,615	70,556	76,021
Other Income	3,158	4,451	4,165	4,486	Fixed assets	1,526	1,602	1,683	1,767
PBT	18,706	22,736	24,333	26,810	Others	3,596	3,943	4,325	4,743
Tax	4,467	5,320	5,913	6,515	Total Assets	65,954	71,201	76,603	82,571
PAT	14,239	17,416	18,420	20,295	AuM Data				
Core PAT	11,836	14,007	15,267	16,899	AAuM	43,47,546	52,35,039	59,22,098	65,86,663
Dividend	10,244	12,714	13,631	15,019	Equity	13,69,580	18,82,527	22,27,300	24,98,999
Growth ratios (%)					Balanced	8,24,645	10,23,061	11,79,041	13,07,094
Revenue	2.4	16.7	9.6	8.9	Debt	11,75,816	12,44,716	13,51,406	15,08,169
Opex	5.9	14.4	7.8	4.0	Liquid	7,25,511	7,35,551	7,71,993	8,30,047
Employee	0.2	16.8	7.7	3.9	ETF	58,539	74,784	90,027	99,519
Others	16.1	14.5	8.5	3.9	Index	1,21,215	2,03,208	2,24,306	2,48,492
Core income	1.1	17.6	10.3	10.7	Arb & FoF	72,239	71,192	78,025	94,343
PAT	2.2	22.3	5.8	10.2	Mix				
Core PAT	2.5	18.3	9.0	10.7	Equity	31.5	36.0	37.6	37.9
DuPont analysis (%)					Balanced	19.0	19.5	19.9	19.8
Revenue	0.50	0.48	0.47	0.46	Debt	27.0	23.8	22.8	22.9
Expenses	0.14	0.13	0.13	0.12	Liquid	16.7	14.1	13.0	12.6
Employee	0.07	0.07	0.07	0.06	ETF	1.3	1.4	1.5	1.5
Others	0.06	0.05	0.05	0.05	Index	2.8	3.9	3.8	3.8
Depreciation	0.01	0.01	0.01	0.01	Arb & FoF	1.7	1.4	1.3	1.4
Core Income	0.358	0.349	0.341	0.339	Growth				
Other Income	0.07	0.09	0.07	0.07	Overall	0.2	20.4	13.1	11.2
PBT	0.43	0.43	0.41	0.41	Equity	17.0	37.5	18.3	12.2
Tax	0.10	0.10	0.10	0.10	Balanced	11.1	24.1	15.2	10.9
PAT (RoAAuM)	0.33	0.33	0.31	0.31	Debt	-23.0	5.9	8.6	11.6
Core RoAAuM	0.272	0.268	0.258	0.257	Liquid	2.4	1.4	5.0	7.5
ROE	24.5	27.5	27.0	27.7	ETF	42.3	27.7	20.4	10.5
Core RoE	25.6	28.9	30.6	32.7	Index	74.3	67.6	10.4	10.8
Other Ratios (%)					Valuations				
Staff cost/revenue	14.4	14.4	14.2	13.5	EPS	66.7	81.6	86.3	95.1
Other opex/revenue	11.4	11.1	11.0	10.5	Core EPS	55.5	65.6	71.5	79.2
Core Income/revenue	71.8	72.3	72.8	74.0	CPS	285.0	307.6	330.8	356.4
Other Income/revenue	14.6	17.6	15.0	14.9	DPS	48.0	59.6	63.9	70.4
Yield on Investments	5.3	6.9	6.0	6.0	Dividend yield	2.4	2.2	2.3	2.6
Effective tax rate	23.9	23.4	24.3	24.3	BVPS	286	308	331	355
PAT margin	65.7	68.9	66.5	67.3	P/B	6.5	8.9	8.3	7.8
Core PAT margin	54.8	55.6	55.2	56.2	P/E	24.5	33.8	31.9	29.0
Dividend payout (%)	71.9	73.0	74.0	74.0	P/core EPS	26.1	37.3	33.9	30.3

Source: Company, PL



Price Chart

Recommendation History



No.	Date	Rating	TP (Rs.)	Share Price (Rs.)
1	08-Mar-23	BUY	2,100	1,797
2	11-Apr-23	BUY	2,100	1,751
3	26-Apr-23	BUY	2,100	1,766
4	07-Jul-23	BUY	2,100	2,260
5	25-Jul-23	BUY	2,800	2,502
6	07-Oct-23	BUY	2,800	2,648

Analyst Coverage Universe

Sr. No.	Company Name	Rating	TP (Rs)	Share Price (Rs)
1	AAVAS Financiers	Hold	1,560	1,726
2	Axis Bank	BUY	1,170	1,001
3	Bank of Baroda	BUY	235	215
4	Can Fin Homes	BUY	900	774
5	City Union Bank	Accumulate	160	129
6	DCB Bank	BUY	150	123
7	Federal Bank	BUY	175	147
8	HDFC	BUY	3,200	2,862
9	HDFC Asset Management Company	BUY	2,800	2,648
10	HDFC Bank	BUY	2,025	1,534
11	ICICI Bank	BUY	1,180	945
12	IDFC First Bank	UR	-	54
13	IndusInd Bank	BUY	1,530	1,435
14	Kotak Mahindra Bank	BUY	2,250	1,744
15	LIC Housing Finance	Hold	430	468
16	Punjab National Bank	UR	-	47
17	State Bank of India	BUY	770	594
18	UTI Asset Management Company	BUY	900	787

PL's Recommendation Nomenclature (Absolute Performance)

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



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