

AXIS BANK LIMITED | Banking

Asset quality holding up; lukewarm deposit growth

**Result and Price Analysis**

3QFY23 marks the manifestation of sequentially higher NII (₹114.6bn; 32% YoY and 10.6% QoQ) and 10% sequential increase in net profit at ₹58.5bn. The bank's reported slippages number were higher (₹38bn v/s 33.8bn in 2QFY23) with GNPA and NNPA ratio narrowed down to 2.38% and 0.47% respectively against the GNPA and NNPA ratio of 2.5% and 0.51% in the previous quarter. The bank's PCR (including TWO) has stood sequentially higher at 93%. Moreover credit off-take (14.6% YoY) maintained, led by corporate credit growth. Furthermore, the BB & below book came down sequentially by 9bps to 0.53% of customer assets and reported lower restructured advances of ₹24.8bn (~33bps of gross loan book). However, deposit growth remained lackluster at 9.9% YoY and 4.6% QoQ. The bank needs to mobilize deposit further to maintain a CDR of below 90%. Therefore, deposit growth is likely to be key monitor-able in coming quarters. The future outlook of asset quality is at manageable level as the strong standard asset coverage (1.53% of gross loans) is likely to absorb delinquencies from restructuring. In view of adequate covid buffer, glimpse of growth rejuvenation and manageable restructuring pool, we have a positive outlook with BUY rating.

Gazing the core

NPA ratio reducing despite higher slippages; restructuring narrowed down further: Axis Bank's total slippages were higher at ₹38bn v/s ₹33.8bn in the previous quarter. The up-gradation & recovery stood lower at ₹20.8bn v/s ₹28.3bn in 2QFY23. The write-offs were ~₹16.5bn. A higher credit off-take (denominator effect) has resulted in 12bps reduction in GNPA ratio. GNPA/NNPA/PCR stood at 2.38%/0.47%/81% against 2.5%/0.51%/80% in the previous quarter. GNPA ratio stable across segments. Retail GNPA at 1.5%, while SME and corporate GNPA ratio is at 1.3% and 3.7% respectively. The restructured pool reported lower meaningfully at ₹24.8bn (33bps of GCA) v/s ₹30bn in the previous quarter. The bank carries a provision of ~23% on restructured loans, which is in excess of regulatory limits.

Key Financials (₹ mn)	FY20	FY21	FY22	FY23E	FY24E
NII	2,52,062	2,92,391	3,31,322	4,26,702	4,87,236
Operating Profit	2,34,381	2,57,022	2,47,420	3,17,433	3,45,425
Reported Profits	16,272	65,885	1,30,255	2,10,339	2,26,882
Net Worth	8,49,478	10,16,030	11,50,255	13,60,604	15,87,486
Loan & Advances	57,14,242	62,37,202	70,76,960	81,38,503	94,40,664
Int. Bearing Liabilities	78,80,591	85,01,792	1,00,68,548	1,10,39,286	1,27,79,308

Key Ratios (%)	FY20	FY21	FY22	FY23E	FY24E
NIM's	3.2	3.4	3.3	3.7	3.8
C/I	42.5	41.7	48.8	45.6	46.8
Gross NPA	4.9	3.7	2.8	2.3	2.0
Tier 1	14.6	17.1	15.0	16.0	16.0
Adj. RoA	0.2	0.7	1.2	1.7	1.6
Adj. RoE	2.1	7.1	12.0	16.8	15.4

Rating	Buy
Current Market Price (₹)	933
12 M Price Target (₹)	1,122
Potential upside (%)	20

Stock Data

FV (₹) :	2
Market Cap Full (₹ bn) :	2,860
Market Cap Free Float (₹ bn) :	2,524
52-Week High / Low (₹) :	970 / 618
2-Year High / Low (₹) :	970 / 616
1 Yr Avg. Dly Traded Volume (in lakh)	103
BSE Code / NSE Symbol	532215 / AXISBANK
Bloomberg :	AXSB:IN

Shareholding Pattern

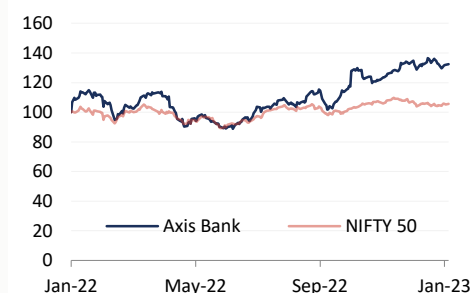
(%)	Dec-22	Sep-22	Jun-22	Mar-22
Promoter	8.19	9.69	9.70	9.70
FPIs	49.45	46.11	46.58	46.93
MFs	23.22	23.69	23.22	22.71
Insurance	5.47	5.70	2.05	1.92
Others	13.67	14.81	18.45	18.74

Source: BSE

Price Performance (%)

(%)	1M	3M	6M	1YR
Axis Bank	2.9%	3.6%	27.6%	32.4%
Nifty 50	1.8%	3.1%	8.4%	5.7%

* To date / current date : January 23, 2023

Axis Bank vs Nifty 50

Corporate segment has 16bps of loan book under restructuring where retail and SME segment carry restructuring of 47bps and 2bps respectively. Around 96% of retail restructured book is secured (with LTV of 40% - 70%) and 100% provision made on unsecured retail restructured book. BB & below rated pool down by 9bps to 0.53% of gross customer assets. Fund based BB & below outstanding down by 10% sequentially, Moreover, Non fund based outstanding in BB & below pool inched down significantly. 100% of restructured corporate book classified as BB & Below. The provision expenses were sequentially higher at ₹14.4bn (v/s ₹5.5bn in the previous quarter). The bank's PCR stood higher sequentially at 81%. PCR (including tech. write offs) stood at 93% and Aggregate PCR (Specific provision + covid provision + General Provision + Contingency Provision) stood at 139% of reported GNPLs and the contingent provisioning (covid + standard asset) stood 1.5% of the gross loan book.

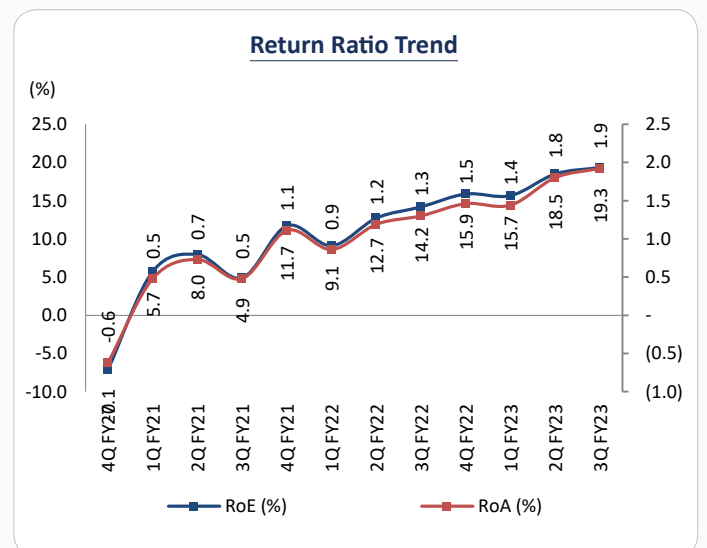
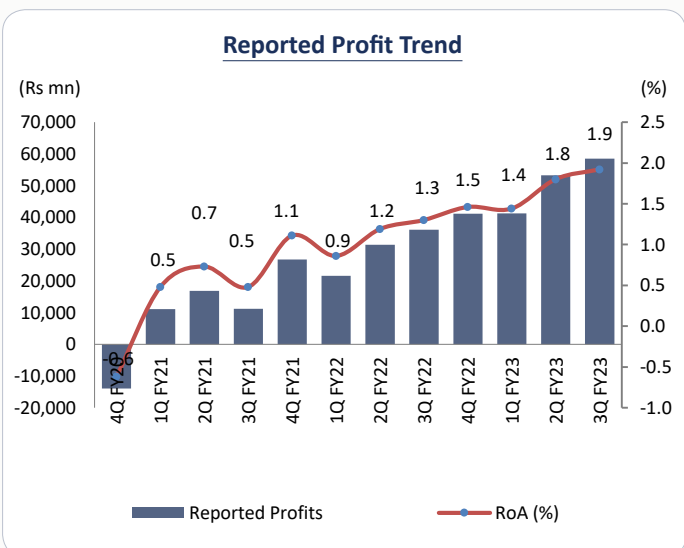
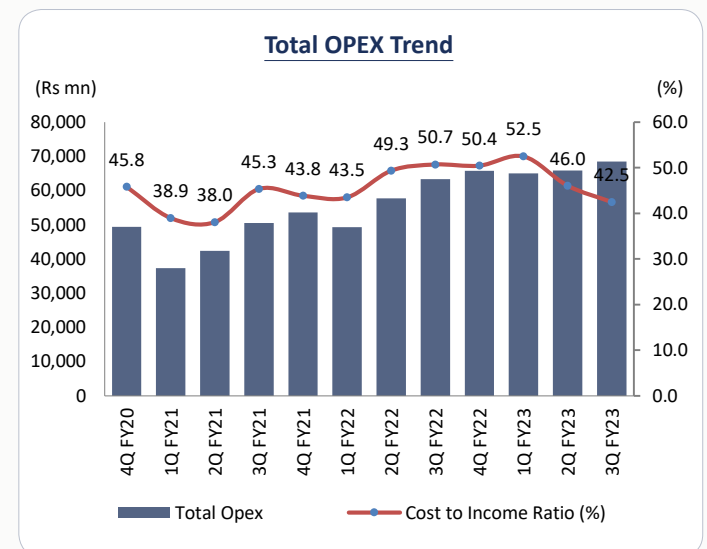
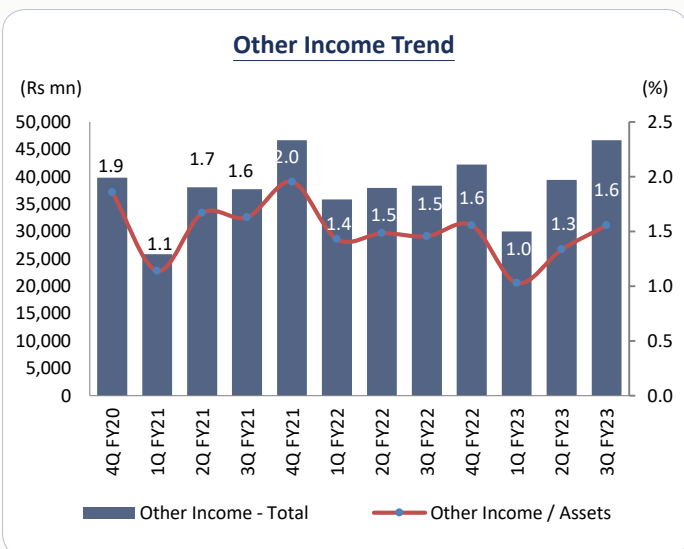
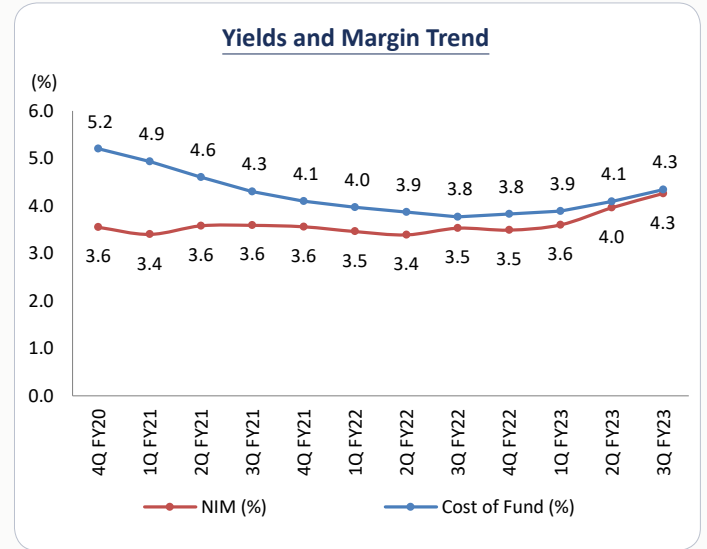
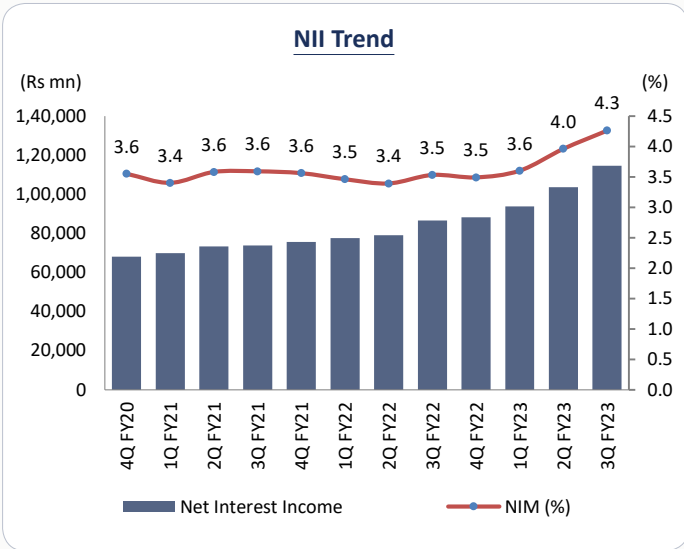
Credit growth maintained; tepid deposit growth: The bank's advances stood at ~₹7.6tn; 14.6% YoY and 4.3% sequentially. Corporate book (32.9% of book) grew healthy by 9.2% QoQ. Retail book (56.3% of book) growth was at 1.4% sequentially. SME book (10.8% of book) grew by 5.1% QoQ. Bank's deposit stood at ₹8.5tn and growth remain at par of 9.9% YoY and 4.6% QoQ. The CASA (QAB) stood at 43%. The bank's CRAR stood at 17.6% with CET 1 of 14.24%. Additionally LCR of 116% with excess SLR of ₹605bn. The RWA to asset sequentially down to 65%. The bank needs to grow the deposits to maintain a CDR of below 90%.

Decent operational quarter driven by higher NIMs: The bank's NII stood at ₹114.6bn; grew by 32% YoY & 10.6% QoQ. The bank's NIMs expanded by 30bps to 4.23% on the back of slightly higher cost of fund (4.34%) and cost of deposit (3.94%). Non – interest income grew by 18.4% QoQ. Management hopes to achieve a structural improvement in NIM going forward, owing to i) improvement in mix of loans versus investments on the assets side, ii) higher share of low cost deposits and iii) reduction in RIDF bonds (which have negative spread) as incremental allocations have stopped as the bank is PSL compliant. A strong NII growth and improved opex (C/I ratio: 42.5% v/s 46.5% in the previous quarter) led to PPOP sequential growth of 20%. Additionally, sequentially higher provisioning expenses (₹14.4bn v/s ₹5.5bn) has resulted in net profit of ₹58.5bn; sequential growth of 10%. The bank's quarterly ROA/ROE stood at 1.9%/19.3%.

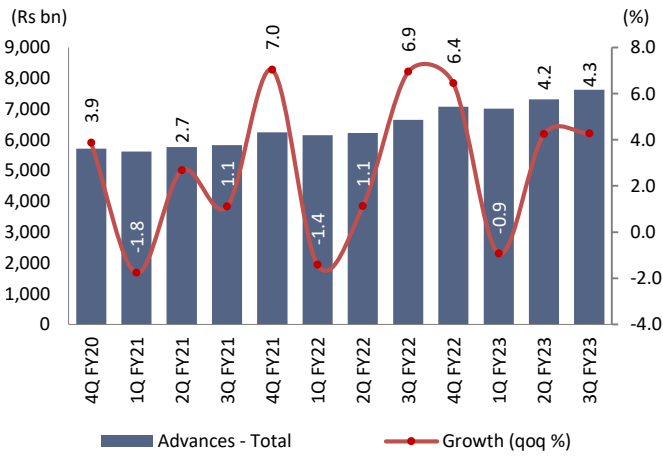
Outlook & Valuations

We value the standalone bank with PBV of 2.2x FY24E Adj. BVPS of ₹510 and arrive at a price target of ₹1,122. We recommend BUY with potential upside of 20% from current level.

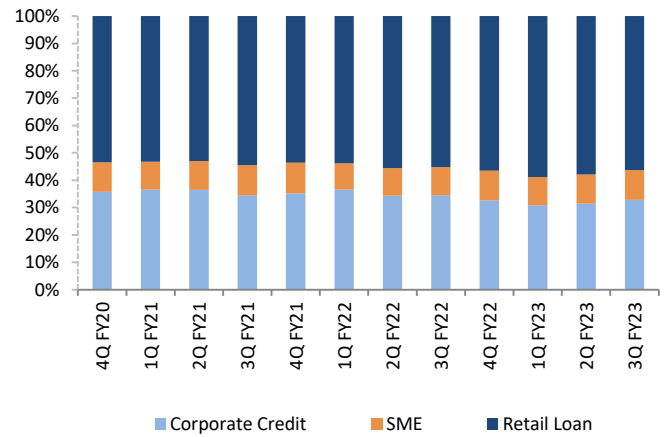
Quarterly story in charts



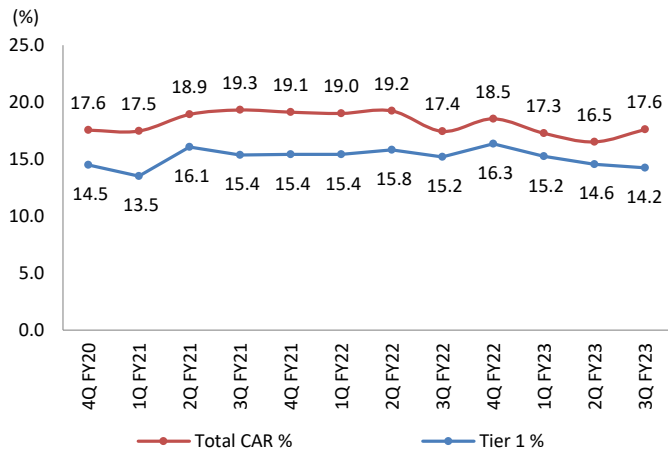
Loan Book Trend



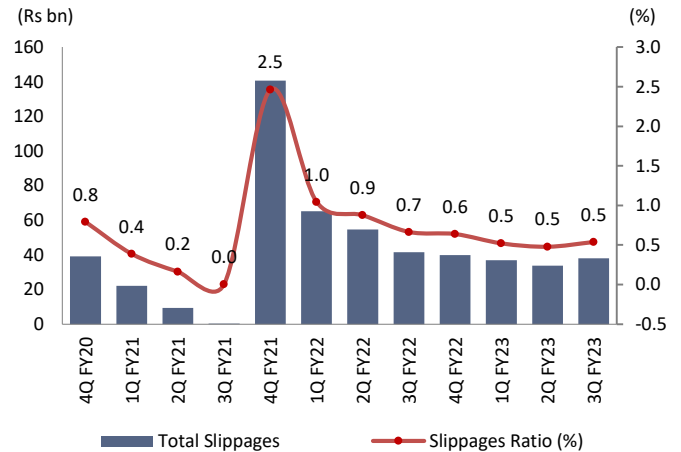
Loan Book Mix



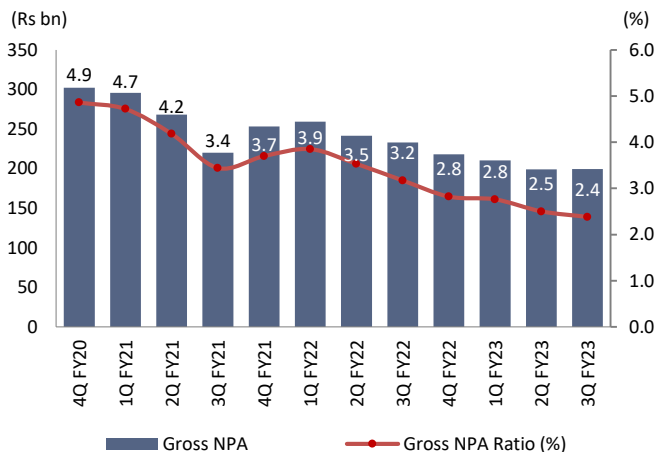
CRAR & Tier 1 Ratio Trend



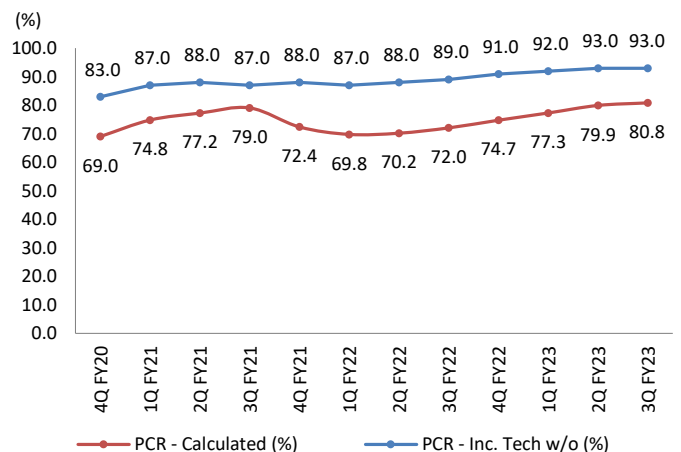
Slippages



Gross NPA Trend



PCR Trend



Recent Performance at a glance

Exhibit 1 : Income Statement Analysis

(₹ mn)	3Q FY23	3Q FY22	% yoy / bps	2Q FY23	% qoq / bps	FY22	FY21	% yoy / bps
Interest Inc.	2,22,264	1,72,611	28.8	2,02,389	9.8	6,73,768	6,36,453	5.9
Interest Expenses	1,07,671	86,086	25.1	98,787	9.0	3,42,446	3,44,062	(0.5)
Net Interest Income	1,14,593	86,525	32.4	1,03,603	10.6	3,31,322	2,92,391	13.3
NII to Net Operative Income	71.1	69.3	181	72.4	(138)	68.5	66.3	219
NIM (%)	4.26	3.5	73	4.0	30	3.3	3.5	(23)
Other Income - Total	46,654	38,404	21.5	39,412	18.4	1,52,205	1,48,382	2.6
Other Income to Net Operative Income	28.9	30.7	(181)	27.6	138	31.5	33.7	(219)
Net Operating Revenue	1,61,248	1,24,929	29.1	1,43,014	12.7	4,83,528	4,40,773	9.7
Employee Expenses	22,811	19,386	17.7	21,667	5.3	76,126	61,640	23.5
Other Opex	45,662	43,928	3.9	44,186	3.3	1,59,982	1,22,111	31.0
Total Opex	68,473	63,314	8.1	65,852	4.0	2,36,108	1,83,751	28.5
Cost to Income Ratio (%)	42.5	50.7	(822)	46.0	(358)	48.8	41.7	714
Pre Provision Profits	92,775	61,615	50.6	77,162	20.2	2,47,420	2,57,022	(3.7)
Provisions & Contingencies - Total	14,377	13,348	7.7	5,498	161.5	73,595	1,68,963	(56.4)
NPA Provisions as % Operating Income	15.5	21.7	(617)	7.1	837	29.7	65.7	(3,599)
Profit Before Tax	78,398	48,267	62.4	71,664	9.4	1,73,826	88,059	97.4
Tax	19,867	12,125	63.9	18,367	8.2	43,571	22,174	96.5
Effective Tax Rate (%)	25.3	25.1	22	25.6	(29)	25.1	25.2	(11)
Reported Profits	58,531	36,142	61.9	53,298	9.8	1,30,255	65,885	97.7
RoA (%)	1.9	1.3	62	1.8	12	1.2	0.7	50
RoE (%)	19.3	14.2	515	18.5	85	12.0	7.6	448

Source: Company, LKP Research

Exhibit 2 : Balance Sheet Analysis

(₹ mn)	2Q FY22	3Q FY22	4Q FY22	1Q FY23	2Q FY23	3Q FY23	QoQ % / bps	YoY % / bps
Net Worth	10,70,830	11,07,457	11,50,255	11,93,778	12,45,642	13,06,449	4.9	18.0
RoE (%)	12.7	14.2	15.9	15.7	18.5	19.3	85	515
Tier 1 %	15.8	15.2	16.3	15.2	14.6	14.2	(31)	(94)
Total CAR %	19.2	17.4	18.5	17.3	16.5	17.6	108	16
RWA - Total	65,14,576	70,12,313	75,21,140	74,91,772	78,22,798	79,52,808	1.7	13.4
Advances - Total	62,17,193	66,48,656	70,76,960	70,11,299	73,08,748	76,20,755	4.3	14.6
Investments	24,98,159	26,64,187	27,55,972	29,77,655	28,76,207	30,51,031	6.1	14.5
Total Assets	1,05,07,381	1,11,30,655	1,17,51,781	1,15,25,803	1,18,52,725	1,22,35,089	3.2	9.9
RoA (%)	1.19	1.30	1.46	1.44	1.80	1.92	12	62
Deposits	73,62,855	77,16,702	82,17,209	80,35,717	81,08,067	84,81,733	4.6	9.9
CASA Deposits	32,75,810	34,48,780	36,97,550	35,11,930	37,46,380	37,77,130	0.8	9.5
CASA Ratio (%)	44.5	44.7	45.0	43.7	46.2	44.5	(170)	(20)
Interest Bearing Liabilities - Total	89,49,950	95,05,677	1,00,68,548	97,41,769	99,22,067	1,03,09,181	3.9	8.5

Source: Company, LKP Research

Exhibit 3: Funding Profile Analysis

(₹ mn)	2Q FY22	3Q FY22	4Q FY22	1Q FY23	2Q FY23	3Q FY23	QoQ % / bps	YoY % / bps
Interest Bearing Liabilities - Total	89,49,950	95,05,677	1,00,68,548	97,41,769	99,22,067	1,03,09,181	3.9	8.5
Deposits	73,62,855	77,16,702	82,17,209	80,35,717	81,08,067	84,81,733	4.6	9.9
CASA Deposits	32,75,810	34,48,780	36,97,550	35,11,930	37,46,380	37,77,130	0.8	9.5
Saving Deposit	22,29,320	22,81,660	24,24,490	24,30,930	25,22,440	25,13,920	(0.3)	10.2
Current Deposit	10,46,490	11,67,120	12,73,060	10,81,000	12,23,940	12,63,210	3.2	8.2
Term Deposits	40,87,045	42,67,922	45,19,659	45,23,787	43,61,687	47,04,603	7.9	10.2
Borrowings	15,87,095	17,88,975	18,51,339	17,06,052	18,14,000	18,27,448	0.7	2.2

Source: Company, LKP Research

Exhibit 4: Assets Quality Analysis

(₹ mn)	2Q FY22	3Q FY22	4Q FY22	1Q FY23	2Q FY23	3Q FY23	QoQ % / bps	YoY % / bps
Total Slippages	54,640	41,470	39,810	36,840	33,830	38,070	12.5	(8.2)
Slippages Ratio (%)	0.88	0.66	0.64	0.52	0.48	0.54	6	(13)
Gross NPA	2,41,486	2,33,012	2,18,223	2,10,368	1,98,937	1,99,610	0.3	(14.3)
Gross NPAs Ratio (%)	3.53	3.17	2.82	2.76	2.50	2.38	(12)	(79)
PCR - Calculated (%)	70.2	72.0	74.7	77.3	79.9	80.8	90	876
Net NPA	72,000	65,131	55,122	47,806	39,955	38,301	(4.1)	(41.2)
Net NPAs Ratio (%)	1.08	0.91	0.73	0.64	0.51	0.47	(4)	(44)
Standard Restructured	43,420	46,430	40,290	34,020	29,960	24,820	(17.2)	(46.5)
Std. Rest. Adv. as % of Advances	0.6	0.6	0.52	0.49	0.41	0.33	(8)	(30)

Source: Company, LKP Research

Annual Projections

Exhibit 5: Profit and Loss Statement

(₹ mn)	FY20	FY21	FY22	FY23E	FY24E
Int. Income	6,26,352	6,36,453	6,73,768	8,22,335	9,38,560
Interest Expenses	3,74,290	3,44,062	3,42,446	3,95,633	4,51,324
Net Interest Income	2,52,062	2,92,391	3,31,322	4,26,702	4,87,236
<i>NIM (%)</i>	3.23	3.37	3.30	3.71	3.75
Other Income - Total	1,55,366	1,48,382	1,52,205	1,56,772	1,61,475
Net Operating Revenue	4,07,428	4,40,773	4,83,528	5,83,473	6,48,711
Employee Exp.	53,210	61,640	76,126	85,261	97,197
Other Opex	1,19,836	1,22,111	1,59,982	1,80,780	2,06,089
Total Opex	1,73,046	1,83,751	2,36,108	2,66,040	3,03,286
<i>C/I Ratio</i>	42.47	41.69	48.83	45.60	46.75
Pre Provision Profits	2,34,381	2,57,022	2,47,420	3,17,433	3,45,425
<i>PPP Growth (yoy %)</i>	23.3	9.7	(3.7)	28.3	8.8
Provisions & Contingencies - Total	1,85,339	1,68,963	73,595	36,735	42,650
<i>Credit Cost (As % of Op. AUM)</i>	2.57	2.14	0.85	0.40	0.40
Profit Before Tax	49,042	88,059	1,73,826	2,80,698	3,02,775
Tax	32,770	22,174	43,571	70,359	75,893
<i>Effective Tax Rate</i>	66.8	25.2	25.1	25.1	25.1
Reported Profits	16,272	65,885	1,30,255	2,10,339	2,26,882
<i>PAT Growth (yoy %)</i>	(65.2)	304.9	97.7	61.5	7.9

Source: Company, LKP Research

Exhibit 6: Balance Sheet

(₹ mn)	FY20	FY21	FY22	FY23E	FY24E
Equity Share Capital	5,643	6,127	6,140	6,150	6,150
Reserves (ex Revel. Reserve)	8,43,835	10,09,903	11,44,115	13,54,454	15,81,336
Net Worth - Ex Revaluation	8,49,478	10,16,030	11,50,255	13,60,604	15,87,486
Deposits	64,01,049	70,73,061	82,17,209	91,07,411	1,05,42,929
Borrowings	14,79,541	14,28,732	18,51,339	19,31,875	22,36,379
Interest Bearing Liabilities	78,80,591	85,01,792	1,00,68,548	1,10,39,286	1,27,79,308
Other Lia. & Prov.	4,21,579	4,43,362	5,31,493	5,32,405	5,47,086
Total Liabilities	91,51,648	99,61,184	1,17,51,781	1,29,33,772	1,49,15,345
Assets					
Cash & Cash Equivalent	9,72,683	6,17,298	11,09,871	7,88,051	9,11,782
Investments	15,67,343	22,61,196	27,55,972	31,19,361	35,84,796
Loan & Advances	57,14,242	62,37,202	70,76,960	81,38,503	94,40,664
<i>Growth (yoy %)</i>	<i>15.5</i>	<i>9.2</i>	<i>13.5</i>	<i>15.0</i>	<i>16.0</i>
Fixed Assets	43,129	42,450	45,724	48,276	54,565
Other Assets	8,54,252	8,03,038	7,63,255	8,39,580	9,23,538
Total Assets	91,51,648	99,61,184	1,17,51,781	1,29,33,772	1,49,15,345

Source: Company, LKP Research

Exhibit 7: Per share data

Y/E Mar	FY20	FY21	FY22	FY23E	FY24E
Face Value	2	2	2	2	2
Adjusted Share O/S (mn)	2,822	3,064	3,070	3,075	3,075
Earnings Per Share	5.8	21.5	42.4	68.4	73.8
<i>EPS (% YoY)</i>	<i>(68.3)</i>	<i>272.9</i>	<i>97.3</i>	<i>61.2</i>	<i>7.9</i>
P/E (x)	161.8	43.4	22.0	13.6	12.6
Book Value	301.1	331.6	374.7	442.5	516.3
<i>BVPS (% YoY)</i>	<i>16.1</i>	<i>10.2</i>	<i>13.0</i>	<i>18.1</i>	<i>16.7</i>
P/BV (x)	3.1	2.8	2.5	2.1	1.8
Adj. BV	301.1	331.6	365.7	436.3	510.0
<i>Adj. BV (% YoY)</i>	<i>16.1</i>	<i>10.2</i>	<i>10.3</i>	<i>19.3</i>	<i>16.9</i>
P/ABV (x)	3.1	2.8	2.6	2.1	1.8

Source: Company, LKP Research

Exhibit 8: Detailed ROA Tree

Y/E Mar	FY20	FY21	FY22	FY23E	FY24E
Yields / Margins					
Yield on Advance	9.1	8.0	7.5	8.0	8.0
Yield on Funds	8.0	7.3	6.7	7.2	7.2
Cost of Funds (CoF)	5.0	4.2	3.7	3.7	3.8
Interest Spread	3.0	3.1	3.0	3.4	3.4
NIM's	3.2	3.4	3.3	3.7	3.8
Interest Income / Assets	7.3	6.7	6.2	6.7	6.7
Interest Exp. / Assets	4.4	3.6	3.2	3.2	3.2
NII / Assets	2.9	3.1	3.1	3.5	3.5
Fee Income / Assets	1.1	1.0	0.9	0.8	0.7
Other Non Core Income / Assets	-	-	-	-	-
Other Income / Assets	1.8	1.6	1.4	1.3	1.2
Net Operating Income / Assets	4.7	4.6	4.5	4.7	4.7
Operating Ratios					
NII to Net Operative Income	61.9	66.3	68.5	73.1	75.1
Other Income to Net Operative Income	38.1	33.7	31.5	26.9	24.9
Empl. Cost/Oper. Exps.	30.7	33.5	32.2	32.0	32.0
Other Op. Exps./Oper. Exps.	69.3	66.5	67.8	68.0	68.0
C/I Ratio	42.5	41.7	48.8	45.6	46.8
Provisions as % PPP	45.5	38.3	15.2	6.3	6.6
Credit Cost (As % of Op. AUM)	2.6	2.1	0.9	0.4	0.4
Effective Tax Rate	66.8	25.2	25.1	25.1	25.1
Employee Exp. / Assets	0.6	0.6	0.7	0.7	0.7
Other Opex/ Assets	1.4	1.3	1.5	1.5	1.5
Total Opex / Assets	2.0	1.9	2.2	2.2	2.2
Operating Profits / Assets	2.7	2.7	2.3	2.6	2.5
Exceptional Items / Assets	-	-	-	-	-
Op Profit ex Except Items / Assets	2.7	2.7	2.3	2.6	2.5
Provisions / Assets	2.2	1.8	0.7	0.3	0.3
Profit Before Tax / Assets	0.6	0.9	1.6	2.3	2.2
Tax Expenses / Assets	0.4	0.2	0.4	0.6	0.5
RoA	0.2	0.7	1.2	1.7	1.6
Leverage (x)	10.8	9.8	10.2	9.5	9.4
RoE	2.1	7.1	12.0	16.8	15.4
Adj. RoA	0.2	0.7	1.2	1.7	1.6
Adj. RoE	2.1	7.1	12.0	16.8	15.4

Source: Company, LKP Research

Exhibit 9: Balance Sheet Ratios

Y/E Mar	FY20	FY21	FY22	FY23E	FY24E
<i>Credit / Deposit Ratio</i>	89.3	88.2	86.1	89.4	89.5
<i>Incremental C/D Ratio</i>	83.6	77.8	73.4	119.2	90.7
<i>Investment Deposit Ratio</i>	24.5	32.0	33.5	34.3	34.0
<i>Dom. SLR Investment / Deposits</i>	19.2	25.6	26.9	26.9	26.3
<i>CASA Ratio</i>	41.5	45.1	45.1	45.1	45.1

Source: Company, LKP Research

Exhibit 10: Credit Quality

Y/E Mar	FY20	FY21	FY22	FY23E	FY24E
<i>Slippage Ratio</i>	4.0	3.0	3.2	1.9	2.0
Gross NPA (Cl Bal)	3,02,338	2,53,148	2,18,223	1,89,915	1,92,194
<i>Gross NPAs Ratio (%)</i>	4.9	3.7	2.8	2.3	2.0
<i>PCR (%)</i>	69.0	72.4	74.7	81.5	79.5
Net NPA (Cl. Bal.)	93,604	69,935	55,122	35,079	39,364
<i>Net NPAs Ratio (%)</i>	1.6	1.1	0.7	0.4	0.4
Total Impaired Loans	3,02,338	2,53,148	2,18,223	1,89,915	1,92,194
<i>Impaired Loan as % of Loan / AUM</i>	5.1	3.8	2.9	2.2	1.9
Total Risk Reserves	2,08,767	1,83,246	1,63,102	1,54,837	1,52,830
Total Risk As % of Loan Book	3.5	2.8	2.2	1.8	1.5

Source: Company, LKP Research

Exhibit 11: Key Assumptions & Forecasts

Y/E Mar	FY20	FY21	FY22	FY23E	FY24E
Loan & Advances	57,14,242	62,37,202	70,76,960	81,38,503	94,40,664
<i>Growth (yoy %)</i>		9.2	13.5	15.0	16.0
Interest Bearing Liabilities	78,80,591	85,01,792	1,00,68,548	1,10,39,286	1,27,79,308
<i>Growth (yoy %)</i>		7.9	18.4	9.6	15.8
Yield on Funds	8.0	7.3	6.7	7.2	7.2
Cost of Funds (CoF)	5.0	4.2	3.7	3.7	3.8
Interest Spread	3.0	3.1	3.0	3.4	3.4
NIM's	3.2	3.4	3.3	3.7	3.8
Other Income Growth	18.3	(4.5)	2.6	3.0	3.0
C/I Ratio	42.5	41.7	48.8	45.6	46.8
Effective Tax Rate	66.8	25.2	25.1	25.1	25.1
<u>Return Ratios</u>					
Adj. RoA	0.2	0.7	1.2	1.7	1.6
Adj. RoE	2.1	7.1	12.0	16.8	15.4
<u>Asset Quality Metrics</u>					
<i>Credit Cost (As % of Op. AUM)</i>	2.6	2.1	0.9	0.4	0.4
<i>Gross NPAs Ratio (%)</i>	4.9	3.7	2.8	2.3	2.0
<i>Net NPAs Ratio (%)</i>	1.6	1.1	0.7	0.4	0.4

Source: Company, LKP Research

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