

Industry	Financial
Bloomberg	MMFS IN
BSE CODE	532720

Profitability got impacted due to one-off expenses

RATING	ACCUMULATE
CMP	417
Price Target	469
Potential Upside	12%

Rating Change	↑
Estimate Change	↔
Target Change	↔

Stock Info

52wk Range H/L	537/351
Mkt Capital (Rs Cr)	25,760
Free float (%)	49%
Avg. Vol 1M (,000)	1463
No. of Shares (Cr)	62
Promoters Pledged %	

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3Q FY19 Result Update-

- Net interest income grew by 20% YoY backed by strong AUM growth of 30% YoY. Other income has grown by 90% YoY. PAT decreased from Rs 396 Cr to Rs 319 Cr YoY. The PAT for Q3FY18 included an exceptional item on account of sale of shares in the subsidiary company, Mahindra Insurance Brokers Ltd. of Rs 50 Cr (Post Tax). There were one-offs on tax due to interest reversal of NPA of 2Q FY19 which was considered in this quarter. The tax rate for 3Q FY19 is 39%.
- Net interest margin declined by 32 bps YoY from 8.45% to 8.13% and 14 bps QoQ from 8.27% to 8.13%. Margin remains under pressure due to excess liquidity and rise in borrowing cost.
- GNPA decreased from 9% to 7.70% QoQ, while NNPA decreased from 6% to 5.80% QoQ. Rs 958 Cr of NPA from balance sheet has been shifted to bad debts. Around 30000 contracts were in bad debts. Rs 400 Cr is the slippages in the quarter. PCR in Q3FY19 increased from 35% to 48% QoQ.
- C/I ratio increased by 431 bps from 35% to 40% QoQ due to higher OPEX. During the quarter M&MFIN opened 17 branches. Employee's expenses grew by 33% QoQ because of additional incentives paid to employees on 25th anniversary (it's a one-time payment). Number of employees also increased by 4% to 21082.

View and Valuation

Despite the slowdown in the auto sales in the industry, AUM growth of M&MFIN remained strong on account of rural based geographical expansion and increasing relationship with various OEMs. We expect strong infra/construction activity and improving rural economy will aid growth going ahead. Improvement in the rural cash flow has helped the asset quality to improve sequentially. NIM has remained under pressure due to excess liquidity & management inability to pass on the entire rise on the cost front to the customer. Going ahead we expect NIM pressure to taper down with rising share pre-owned vehicle in the portfolio. The OPEX is expected to remain elevated as management plans to continue investment in branch & employee front in FY19. Management expects increase in branches to drive loan growth & collection efficiency going ahead, with increasing proximity to the customers. Management has guided credit cost to decline by 25bps going ahead. The stock is currently trading at 2.2x BVPS FY20e. Due to recent correction in stock price, we up-grade the stock from HOLD to ACCUMULATE with unchanged target price of Rs 469.

Key Risks to our rating and target

- Lower delinquency to result in lower credit cost.
- Inability of management to pass on the rising cost will impact NIM.

KEY FINANCIAL/VALUATIONS	FY16	FY17	FY18	FY19E	FY20E
NII	3214	3316	4147	4693	5590
PPP	2088	1929	2534	3029	3596
PAT	673	400	892	1342	1591
NIM %	8.3	7.6	8.1	7.7	7.8
EPS (Rs)	12	7	14	22	26
EPS growth (%)	-19	-40	105	50	19
ROE (%)	11.4	6.4	11.3	13.7	14.6
ROA (%)	1.8	0.9	1.8	2.2	2.2
BV	107	114	151	167	187
P/B (X)	2.3	2.8	2.8	2.5	2.2
P/E (x)	20.5	44.8	28.9	19.2	16.2

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3Q FY 19 Results
Above Expectations
Strong Growth

Financials	3QFY18	4QFY18	1QFY19	2QFY19	3QFY19	YoY %	QoQ%	FY17	FY18	YoY %
Interest Inc.	1,819	2,060	1,926	2,103	2,223	22.2%	5.7%	6,174	7,147	15.8%
Interest Exp.	816	755	849	937	1,019	24.8%	8.7%	2,857	3,000	5.0%
NII	1,003	1,305	1,077	1,167	1,204	20.1%	3.2%	3,316	4,147	25.0%
Other Income	13	13	14	45	24	89.6%	-47.4%	64	59	-7.3%
Total Income	1,015	1,318	1,091	1,212	1,228	20.9%	1.3%	3,380	4,206	24.4%
Ope Exp.	353	493	385	425	483	36.9%	13.8%	1,451	1,671	15.2%
PPP	662	825	706	787	744	12.4%	-5.4%	1,929	2,534	31.4%
Provisions	123	157	294	231	225	83.0%	-2.8%	1,309	1,227	-6.3%
PBT	539	668	412	556	520	-3.7%	-6.5%	620	1,308	110.9%
Tax	208	244	143	174	201	-3%	15.3%	220	481	118.8%
Extra Items	65	-	-	-	-			-	65	
Net Profit	396	424	269	381	319	-19.6%	-16.4%	400	892	123%

NIM continues to remain in pressure, management was not able to pass on interest rate hike.

Net interest income grew by 20% YoY backed by strong AUM growth of 30% YoY. Net interest margin declined by 32 bps YoY from 8.45% to 8.13% and 14 bps QoQ from 8.27% to 8.13% due to decline in yield. The yield on advances has decreased from 25 bps YoY from 15.25% to 15%, while the cost of fund increased by 60 bps YoY from 8.50 % to 9.09%. Margin remains under pressure due to excess liquidity and rise in borrowing cost.

Total income increased by % QoQ while operating expenses increased by 14% QoQ which led to C/I ratio to increase by 431 bps QoQ from 35% to 40%. Other expense increased from Rs 169 Cr to Rs 197 Cr QoQ due to advertisement expenses during festival season for the promotion of non-Mahindra vehicle finance in the market.

Strong sustained loan growth.

AUM grew by 30% YoY and disbursement grew by 21% YoY. Growth was driven by commercial vehicle, Tractor, Pre-owned vehicle and Maruti car sales. Vehicle segment growth was at 31% YoY & Other segment growth at 31% YoY. The portfolio share of Auto is at 26%, Tractors is at 17%, Car is at 21%, Commercial and construction vehicles is at 17%, Pre-owned vehicles is at 9% and other segment is at 10% of the overall portfolio. Management expects disbursement growth to be 25% and AUM growth to be 20% going ahead.

Assets quality improved sequentially.

Slippages during the quarter stood at Rs 400 Cr, while GNPA has decreased from 9% to 7.70% QoQ and NNPA has decreased from 6% to 5.80% QoQ. Rs 958 Cr of NPA from balance sheet has been shifted to bad debts. Around 30000 contracts are under bad debts. PCR ratio increased from 38% to 48% QoQ. Management is seeing positive trend from the rural in assets quality. Management expects Gross NPA to come down by 5% in number of customer terms, while in Value term it will come down by 3%.

Subsidiaries.

Mahindra Rural Housing Finance (MRHFL): Loan book continued its growth at 32% YoY to Rs 7300 Cr. GNPL ratio (under IGAAP) decreased 157 bps YoY to 12.24. PAT 9MFY19 increased from Rs 127 Cr to Rs 168 Cr YoY.

Mahindra Insurance Broker (MIBL): MIBL's total income 9MFY19 grew 42% YoY to 223 Cr. However, 9MFY19 PAT grew by 50% YoY to 30 Cr.

Concall Highlights

- Margin remains under pressure due to excess liquidity and rise in borrowing cost.
- Employee cost for the Q3FY19 increased from Rs 204 Cr to Rs 272 Cr because of additional incentives paid to employees on 25th anniversary (it's a one-time payment). Number of employees also increased by 4% to 21082.
- Other expense increased from Rs 138 Cr to Rs 197 Cr due to advertisement expenses during festival season for the promotion of non-Mahindra vehicle finance in the market.
- PAT for the quarter decreased from Rs 396 Cr to Rs 319 Cr. The PAT for Q3FY18 included an exceptional item on account of sale of shares in the subsidiary company, Mahindra Insurance Brokers Ltd. of Rs 50 Cr (Post Tax). There were one-offs on tax due to interest reversal of NPA of 2Q FY19 which was considered in this quarter. The tax rate for 3Q FY19 is 39%.
- Management expects disbursement growth to be 25% and AUM growth to be 20% going ahead.
- Disbursement in SME Declined in Q3FY19. SME contribute 8% to 10% to the book. Construction, CV, Pre-owned vehicle contributes more to the portfolio.
- In second hand vehicles management expects 15% growth in 2 years.
- Management expects Gross NPA to come down by 5% in number of customer terms, while in Value term it will come down by 3%.
- Management is seeing positive trend from the rural in assets quality and margins.
- Rs 958 Cr of NPA from balance sheet has been shifted to bad debts. Around 30000 contracts under bad debts. Rs 400 Cr are the slippages in the quarter.
- Management expects to add 100 branches.
- In Q3FY19 there was dip in cargo segment, CV due to new overloading rules.
- In car sales Non Maruti base is 35 -40%, while in Maruti it is 60%.
- Karnataka and Tamil Nadu are on watch list because it will contribute less than 8% to the portfolio.

Profitability Matrix

	1QFY18	2QFY18	3QFY18	4QFY18	1QFY19	2QFY19	3QFY19	YoY (+/-)	QoQ (+/-)
C/I Ratio %	43.5	41.1	34.8	37.4	35.3	35.1	39.4	4.59	4.31
Empl. Cost/ Tot. Exp. %	59.8	56.5	57.9	53.3	68.4	56.7	56.2	-1.71	-0.53
Other Exp/Tot. Exp. %	36.8	40.3	39.1	44.4	28.1	39.9	40.7	1.60	0.80
Provision/PPP %	29.8	47.2	18.5	19.1	41.6	29.4	30.2	11.64	0.82
Tax Rate %	32.7	34.5	38.6	36.6	34.7	31.4	38.7	0.11	7.30
Int Exp./Int Inc. (%)	50.4	48.4	44.9	36.7	44.1	44.5	45.8	0.97	1.29
Other Inc./NII %	1.4	2.8	1.2	1.0	1.3	3.9	2.0	0.72	-1.90
PPP/ Net Income %	56.5	58.9	65.2	62.6	64.7	64.9	60.6	-4.59	-4.31
PAT/ Net Income %	26.7	20.4	39.0	32.1	24.7	31.5	26.0	-13.08	-5.52
NII Growth % (YoY)	10.0	(0.0)	34.4	17.4	45.0	49.0	20.1	-14.30	-28.93
PPP Growth YoY %	18.8	5.3	67.7	13.8	65.8	65.9	12.4	-55.31	-53.52
PAT Growth %	131.5	73.0	-2634.87	81	33.6	132.5	(19.6)	2615.27	-152.13

Margin Performance

Margin %	1QFY18	2QFY18	3QFY18	4QFY18	1QFY19	2QFY19	3QFY19	YoY (+/-)	QoQ (+/-)
Yield on Advances	13.5	13.6	14.4	15.4	14.3	14.9	15.0	0.62	0.14
Cost Of Funds	8.4	8.3	8.3	8.0	8.7	9.1	12.0	3.67	2.90
Spreads	5.1	5.4	6.1	7.5	5.6	5.9	3.1	-3.05	-2.76
NIM	7.3	7.5	8.4	9.8	8.0	8.3	8.2	-0.27	-0.12

Exhibit: Yield and Cost

Stable Margins

■ Yield% (Cal.) ■ Cost of Fund % (Cal.)

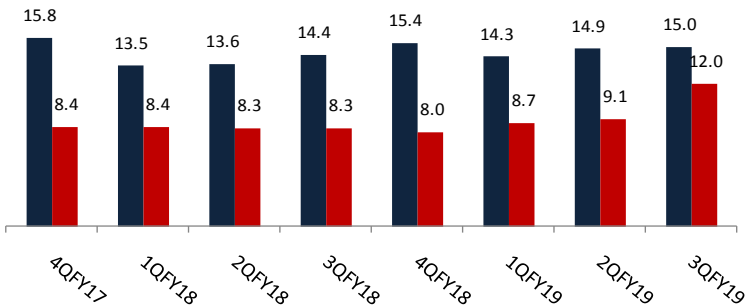
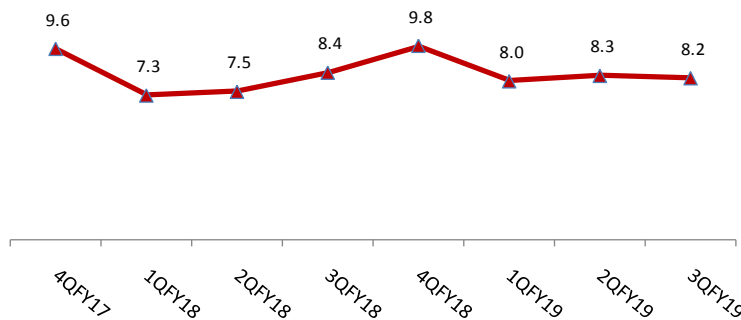


Exhibit: Net Interest Margin

NIM steady

▲ NIM % (Reported)



Asset & Borrowings Growth Trend

	3QFY17	4QFY17	1QFY18	2QFY18	3QFY18	4QFY18	1QFY19	2QFY19	3QFY19
Disbursements	9176	8376	7640	7567	10706	11861	10339	10855	13290
Growth YoY %	15	23	16	0	17	42	18	18	21
Value of Asset Financed	41874	42523	45150	43927	47812	51004	55390	55482	58240
Growth YoY %	15	16	19	10	14	20	23	26	30
AUM	45711	46776	47576	49917	51782	55101	58711	59473	63073
Growth YoY %	13	14	14	14	13	18	21	26	30
Borrowings	34458	35491	35901	38153	37005	40313	42887	46707	50052
Growth YoY %	14	15	15	14	7	14	21	25	43

Exhibit: AUM Growth %

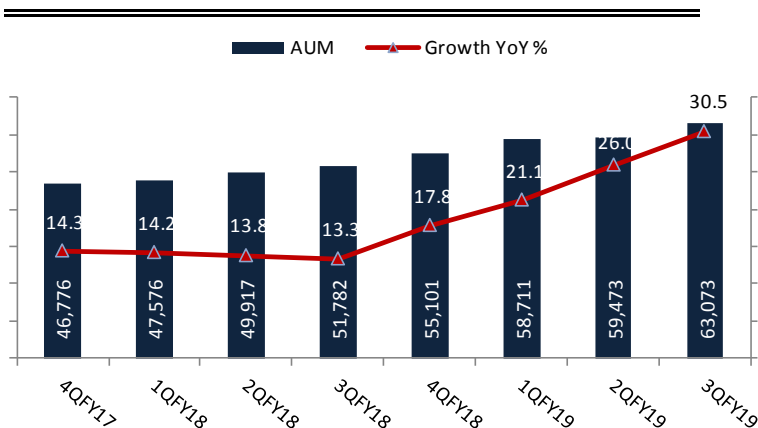
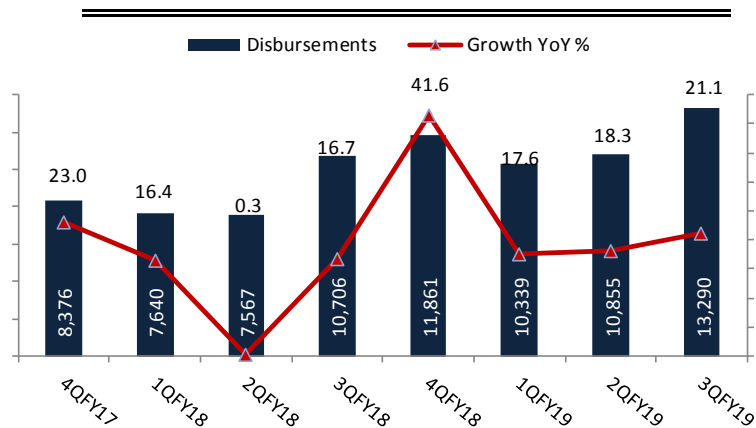


Exhibit: Disbursement Growth %



Borrowings Mix

	3QFY17	4QFY17	1QFY18	2QFY18	3QFY18	4QFY18	1QFY19	2QFY19	3QFY19
Bank Borrowing	26	27	24	24	25	30	30	31	28
Debentures	45	46	49	52	53	48	44	42	44
CP ICD	13	12	13	12	11	12	16	17	13
FD	13	12	11	9	9	8	8	8	9
Securitisation/ Assignment	3	2	2	2	2	2	1	2	6

Asset Quality

	1QFY18	2QFY18	3QFY18	4QFY18	1QFY19	2QFY19	3QFY19	YoY (+/-)	QoQ (+/-)
GNPA	5,014	6,219	6,023	4,699	5,534	5,639	5,065	(1,155)	(574)
GNPA %	10.5	12.5	11.6	8.5	9.4	9.0	7.7	(4.8)	(1.3)
NNPA	1,981	3,043	2,698	1,971	3,592	3,672	3,703	661	32
NNPA %	4.4	6.5	5.6	3.8	6.3	6.0	5.8	(0.7)	(0.2)
Total Specific PCR %	61	51	55	58	35	35	27	(24)	(8)

Exhibit: Asset Quality

Improvement in asset quality

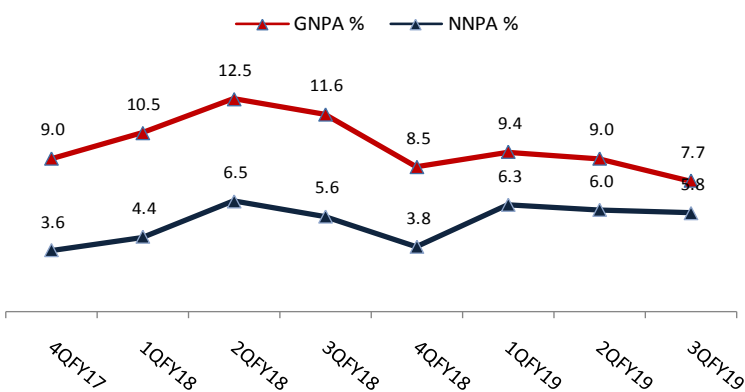


Exhibit: Provisions

PCR declined

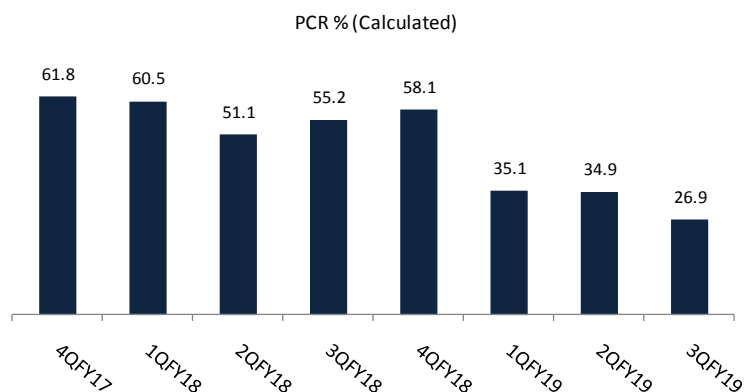


Exhibit: AUM Break Up

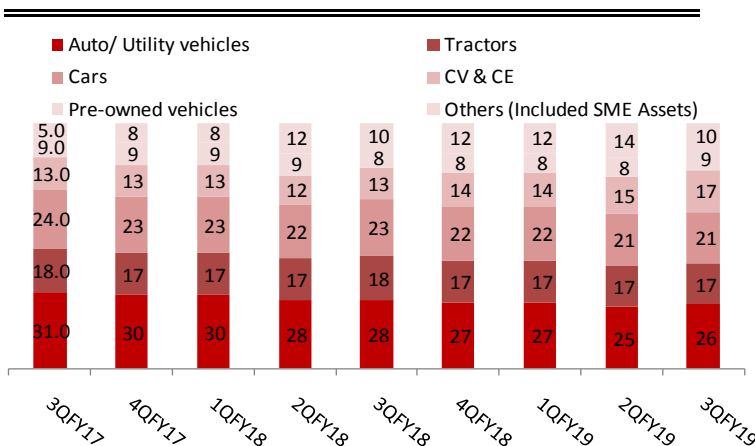
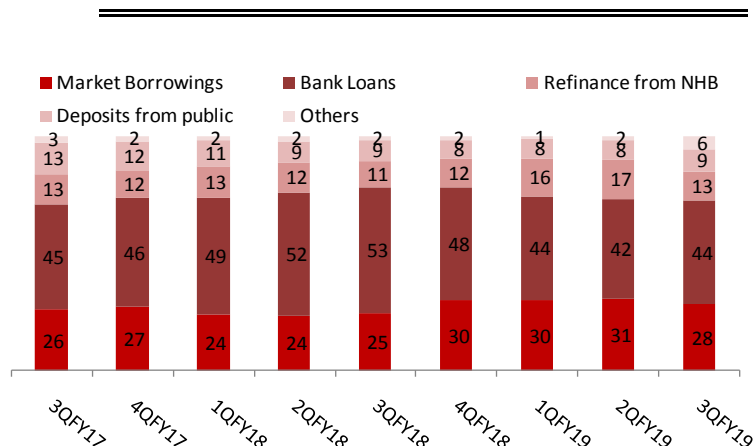


Exhibit: Liability Break Up



Asset Quality

	2QFY18	4QFY18	1QFY19	2QFY19	3QFY19
Total Assets	50,625	55,783	58,711	62,782	65,519
Gross NPA (Stage 3)	6,629	5,042	5,534	5,639	5,065
Less: ECL Provisions (Stage 3)	2,375	1,716	1,942	1,967	1,361
Net NPA (Stage 3)	4,253	3,326	3,592	3,672	3,703
Gross NPA % (Stage 3)	13.1	9.0	9.4	9.0	7.7
Net NPA % (Stage 3)	8.8	6.2	6.3	6.0	5.8
Coverage Ratio(%) – based on Stage 3 ECL	35.8	34.0	35.1	34.9	26.9
Stage 1 & 2 provision to Total Assets (%)	2.1	2.3	2.2	2.1	1.7
Coverage Ratio(%) – including Stage 1 & 2 provision	51.6	59.5	58.3	58.8	48.4

GNPA

	2QFY18	3QFY18	4QFY18	1QFY19	2QFY19	3QFY19
Contracts under NPA	211479	192919	132947	158961	157423	128522
% of Live Cases under NPA	0.1	0.1	0.1	0.1	0.1	0.1
Repossessed Assets (out of above NPA)	13530	15004	11596	12567	12383	14701

Exhibit: Asset Quality

Lower Credit Cost

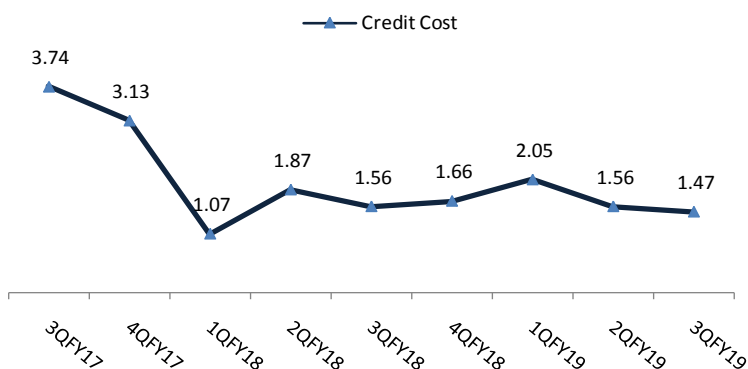
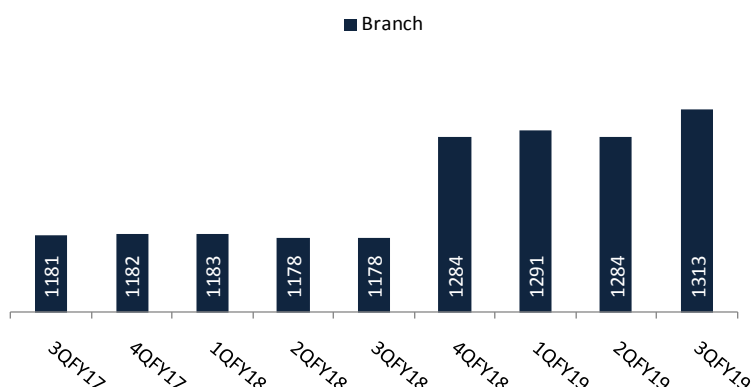


Exhibit: Provisions

Branch



Financial Details

Balance Sheet

Y/E March	FY13	FY14	FY15	FY16	FY17	FY18	FY19E	FY20E
Share Capital	225	225	226	226	226	246	247	247
>> Equity Capital	113	113	113	113	113	123	124	124
>> Preference Capital	113	113	113	113	113	123	124	124
Reserves & Surplus	4,342	4,982	5,557	5,975	6,364	9,180	10,188	11,409
Networth	4,455	5,094	5,669	6,088	6,477	9,303	10,312	11,532
Change (%)	51	14	11	7	6	44	11	12
Total Borrowings	18,859	23,929	26,254	29,440	34,670	39,556	52,064	61,923
Change (%)	35	27	10	12	18	14	32	19
Provisions	962	1,219	1,479	1,955	2,166	2,420	2,707	3,344
Other Liabilities	1,216	1,424	1,672	2,096	2,672	3,089	1,406	(805)
Total Liabilities	25,492	31,666	35,074	39,579	45,985	54,368	66,489	75,994
Investments	561	869	854	1,483	1,890	1,873	2,952	3,371
Loans	24,038	29,617	32,930	36,658	42,523	51,004	61,493	70,221
Change (%)	37	23	11	11	16	20	21	14
Fixed Assets	107	120	110	113	112	120	122	125
Other Assets	441	507	701	739	883	960	1,422	1,623
Cash Balances	345	553	479	585	578	411	500	655
Total Assets	25,492	31,666	35,074	39,579	45,985	54,368	66,489	75,994

Income Statement

Y/E March	FY13	FY14	FY15	FY16	FY17	FY18	FY19E	FY20E
Interest income	3,857	4,922	5,536	5,853	6,174	7,147	8,599	10,553
Interest expended	1,619	2,188	2,497	2,639	2,857	3,000	3,906	4,963
Net Interest Income	2,238	2,734	3,039	3,214	3,316	4,147	4,693	5,590
Change (%)	36	22	11	6	3	25	13	19
Other Income	38	31	49	52	64	59	108	112
Change (%)	43	(17)	55	7	23	(7)	82	4
Total Net Income	2,276	2,765	3,088	3,266	3,380	4,206	4,801	5,702
Change (%)	36	21	12	6	3	24	14	19
Operating Expenses	742	913	1,007	1,178	1,451	1,671	1,772	2,106
Change (%)	25	23	10	17	23	15	6	19
>> Employee Expenses	223	297	459	559	681	852	1,043	1,161
Change (%)	12	33	54	22	22	25	22	11
>> Other Expenses	519	616	548	619	770	820	729	945
Pre-provisioning Profit	1,534	1,852	2,081	2,088	1,929	2,534	3,029	3,596
Change (%)	42	21	12	0	(8)	31	19	19
Provisions	283	506	827	1,050	1,309	1,227	968	1,149
Change (%)	80	79	64	27	25	(6)	(21)	19
PBT	1,251	1,346	1,254	1,038	620	1,308	2,061	2,448
Tax	397	459	422	366	220	481	719	857
Profit After Tax	854	887	832	673	400	827	1,342	1,591
Change (%)	38	4	(6)	(19)	(40)	107	62	19
Adjusted Profit After Tax	883	887	832	673	400	892	1,342	1,591
Change (%)	42	1	(6)	(19)	(40)	123	50	19

Financial Details

Key Ratios

Y/E March	FY13	FY14	FY15	FY16	FY17	FY18	FY19E	FY20E
Balance Sheet Metrics								
AUM	27,913	34,133	36,878	40,933	46,776	55,101	66,121	78,023
>> Off-Book AUM	2,620	2,588	1,765	1,406	820	757	529	468
AUM Growth (%)	35.2	22.3	8.0	11.0	14.3	17.8	20.0	18.0
Borrowing Growth (%)	35.1	26.9	9.7	12.1	17.8	14.1	31.6	18.9
Loan/Borrowing (%)	1.3	1.2	1.3	1.2	1.2	1.3	1.2	1.1
Disbursement (Rs Cr)	23838.5	25400	24331.1	26710.4	31659.2	37772.9	47708.7	52755.8
Disbursement Growth (%)	22.2	6.6	(4.2)	9.8	18.5	19.3	26.3	10.6
CRAR (%)	20	18	18	17	17	22	18	17
>> Tier 1 (%)	17.0	15.5	15.5	14.6	12.8	16.1	14.1	13.8
>> Tier 2 (%)	2.7	2.5	2.8	2.7	4.4	5.9	3.4	3.0
Debt/Equity(x)	4.2	4.7	4.6	4.8	5.4	4.3	5.0	5.4

Assets Quality Metrics

Gross NPA (Rs)	763	1,406	2,100	3,224	4,183	4,699	4,629	6,242
Gross NPA (%)	3.0	4.4	5.9	8.0	9.0	8.5	7.0	8.0
Net NPA (Rs)	260	576	818	1,235	1,600	1,971	3,379	3,433
Net NPA (%)	1.0	1.9	2.4	3.2	3.6	3.8	5.2	4.6
Specific Provision Coverage (%)	66	59	61	62	62	58	27	45
Provision/Average Advances (%)	1.2	1.6	2.3	2.7	3.0	2.4	1.6	1.6

Margin Metrics

Yield On Advances (%)	15.9	15.9	15.6	15.0	14.1	14.0	14.2	14.6
Cost Of Funds (%)	9.9	10.2	10.0	9.5	8.9	8.1	8.5	8.7
Spread (%)	6.0	5.6	5.6	5.6	5.2	5.9	5.7	5.9
NIM on AUM (%)	9.2	8.8	8.6	8.3	7.6	8.1	7.7	7.8

Profitability & Efficiency Metrics

Int. Expense/Int.Income (%)	42.0	44.5	45.1	45.1	46.3	42.0	45.4	47.0
Other Income/NII (%)	1.7	1.1	1.6	1.6	1.9	1.4	2.3	2.0
Operating Profit/Net Income (%)	67.4	67.0	67.4	63.9	57.1	60.3	63.1	63.1
Net Profit/Net Income (%)	38.8	32.1	26.9	20.6	11.8	21.2	27.9	27.9
Cost to Income (%)	32.6	33.0	32.6	36.1	42.9	39.7	36.9	36.9
Employee Exp/Net Income (%)	9.8	10.8	14.9	17.1	20.1	20.3	21.7	20.4
Cost on Average Assets (%)	3.4	3.2	3.0	3.2	3.4	3.3	2.9	3.0
Provision/PPP (%)	18.5	27.3	39.8	50.3	67.9	48.4	32.0	31.9
Tax Rate (%)	31.7	34.1	33.7	35.2	35.5	36.8	34.9	35.0

Valuation Ratio Metrics

EPS (Rs)	15.5	15.6	14.6	11.8	7.0	14.4	21.7	25.8
Change (%)	(74.0)	0.5	(6.2)	(19.1)	(40.5)	105	50.4	18.6
ROAE (%)	23.8	18.6	15.5	11.4	6.4	11.3	13.7	14.6
ROAA (%)	4.0	3.1	2.5	1.8	0.9	1.8	2.2	2.2
Dividend Payout (%)	23.2	24.4	27.4	33.8	34.1	27.7	20.7	19.4
Dividend yield (%)	2.0	1.5	1.5	1.6	0.8	1.0	1.1	1.2
DPS	3.4	3.8	4.0	4.0	2.4	4.0	4.5	5.0
Book Value(Rs)	78.3	89.6	99.7	107.0	113.9	150.6	166.9	186.7
Change (%)	(72)	14	11	7	6	32	11	12
P/B (X)	2.5	2.8	2.5	2.3	2.8	2.8	2.5	2.2
P/E (X)	12.5	16.1	17.4	20.5	44.8	28.9	19.2	16.2

Financial Details

Exhibit: DuPont Analysis

	FY13	FY14	FY15	FY16	FY17	FY18	FY19E	FY20E
<i>Interest Income</i>	17.5	17.2	16.6	15.7	14.4	14.2	14.2	14.8
<i>Interest expended</i>	7.3	7.7	7.5	7.1	6.7	6.0	6.5	7.0
<i>Net Interest Income</i>	10.2	9.6	9.1	8.6	7.8	8.3	7.8	7.8
<i>Non-Fund Based Income</i>	0.2	0.1	0.1	0.1	0.1	0.1	0.2	0.2
<i>Total Income</i>	10.3	9.7	9.3	8.7	7.9	8.4	7.9	8.0
<i>Total Operating Expenses</i>	3.4	3.2	3.0	3.2	3.4	3.3	2.9	3.0
<i>>> Employee Expenses</i>	1.0	1.0	1.4	1.5	1.6	1.7	1.7	1.6
<i>>> Other Expenses</i>	2.4	2.2	1.6	1.7	1.8	1.6	1.2	1.3
<i>Operating Profit</i>	7.0	6.5	6.2	5.6	4.5	5.1	5.0	5.0
<i>Provisions</i>	1.3	1.8	2.5	2.8	3.1	2.4	1.6	1.6
<i>Others</i>	0.1	-	-	-	-	0.1	-	-
<i>PBT</i>	5.8	4.7	3.8	2.8	1.4	2.7	3.4	3.4
<i>Tax</i>	1.8	1.6	1.3	1.0	0.5	1.0	1.2	1.2
PAT/RoAA	4.0	3.1	2.5	1.8	0.9	1.8	2.2	2.2
<i>Equity Multiplier (x)</i>	5.9	6.0	6.2	6.3	6.8	6.4	6.2	6.5
ROAE	23.8	18.6	15.5	11.4	6.4	11.3	13.7	14.6

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