

# The South Indian Bank Ltd

Industry **BANKING**  
Bloomberg **SIB IN**  
BSE CODE **532218**

## Stressed Assets remain elevated; Lower PCR will dampen the Profitability

RATING	NEUTRAL
CMP	10.3
Price Target	10.1
Potential Upside	-2%

Rating Change	↓
Estimate Change	↓
Target Change	↓

### Stock Info

52wk Range H/L	18.5/8.5
Mkt Capital (Rs Cr)	1866
Free float (%)	100%
Avg. Vol 1M (,000)	3968
No. of Shares (Cr)	181
Promoters Pledged %	0%

Fig. In Rs Cr

Financial	FY19	FY20E	FY21E
NII	2020	2320	2562
PPP	1239	1533	1682
PAT	248	353	587
NIM %	2.5	2.6	2.5
EPS (Rs)	1	2	3
EPS	-26.1	42.6	66.3
ROE (%)	4.7	6.4	10.0
ROA (%)	0.3	0.4	0.5
BV	29	31	34
P/B (X)	0.6	0.3	0.3
P/E (x)	12.1	5.3	3.2

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### 2QFY20 Result Update

- ❑ NII grew by 15%/9% YoY/QoQ above our expectations driven by advances growth of 11%/1% YoY/QoQ and NIM improvement. Other income growth of 58%/37% driven by higher treasury gain. Provisions growth jumped to 50% YoY. PAT growth has been at 20%/15% on account of corporate tax rate cut benefit.
- ❑ Opex growth has been at 19%/6% YoY/QoQ mainly on the account of high employee expenses leading to a C/I ratio of 52.50%. Management expects C/I ratio to improve further.
- ❑ Advances and deposits both grew slower at 11%/1% YoY/QoQ. Retail and MSME segment gave cushion to advances growth whereas corporate segment has reported degrowth.
- ❑ Slippages spiked to Rs 435 Cr as against Rs 241 Cr majorly on the account of corporate slippages. But GNPA declined by 4bps QoQ to 4.92% in 2QFY20 on the account of higher write-offs.

### Margins improved

NII grew by 15%/9% YoY/QoQ higher than advances growth on account of NIM expansion. NIM improved by 16/8 bps YoY/QoQ due high yield and low cost. Yield on advances improved by 9 bps QoQ to 9.78%. Yield on total assets also improved by 23/5 bps YoY/QoQ to 8.16%. Cost of deposits also declined by 8 bps QoQ to 6.24%. Margins are expected to be stable going ahead. Management guided NIM of 2.7% by FY20.

### MSME and Retail, growth drivers

Advances grew by 11% YoY/0.5% YoY/QoQ due to growth in retail and MSME segment, whereas corporate segment reported degrowth. Retail segment grew by 20% YoY whereas MSME grew by 17% YoY. Loan mix is expected to be at Retail: 30% (already achieved), corporate: 20%. MSME 25% and rest Agriculture. Agriculture segment also reported robust growth of 20%/4% YoY/QoQ in 2QFY20. Housing loan, LAP and Vehicle loans also reported healthy growth in 2QFY20. Repo rate linked home loan are expected to be at Rs 1000 Cr per quarter going ahead.

### Slippages and reductions both elevated

The bank reported higher slippages of Rs 435 Cr in 2QFY20 as against Rs 241 Cr last quarter, mainly coming from one textile account of Rs 238 Cr. 4 Stressed account i.e. 1HFC amounting Rs 114 Cr, 1 Real estate, Rs 68 Cr, 1 Fitness Accoutres 75 Cr and one exposure to irrigation account of Rs 50 Cr in total Rs 307 Cr is expected to slip to NPA going ahead. ICA for HFC and Irrigation account has been signed. SMA 2 increased to 3.5% from 2.65% last quarter. Reductions have been high at Rs 444 Cr as against Rs 219 Cr last quarter due to write off of Rs 351 Cr in 2QFY20. Slippages guidance of Rs 1000 Cr for FY20, from which Rs 658 Cr is already done till 1HFY20 and remaining, is expected to happen in 2HFY20. Recovery outlook of Rs 500-600 Cr for FY20.

### View and Valuation

Loan book growth moderated on account of slowdown in the economy. Exposure towards stress corporate as well as MSME segment is likely to keep assets quality under pressure. SMA 2 accounts spiked to 3.6% with the high restructuring of MSME loan. Lower capital adequacy ratio with Tier 1 at 9.6% will require capital in the near term and given the lower valuation, dilution is expected to be huge. With the high exposure towards risky assets, SMA 2 and rise in restructuring of MSME portfolio, we turn sceptical towards the earnings improvement. We believe earnings to remain muted in FY21 also on account of lower PCR and reduce earnings estimate for FY21 by 12% and downgrade the stock to NEUTRAL at 0.3x BV FY21e with the target price of Rs 10.

### Key Risks to our rating and target

- ❑ Slow loan book growth
- ❑ Rising stress in MSME segment can increase the delinquency

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## 2QFY20 Results Inline with Expectation

## Moderate Growth

Fig. In Rs Cr

Financials	2QFY19	3QFY19	4QFY19	1QFY20	2QFY20	YoY %	QoQ%	FY18	FY19	YoY %
Interest Inc.	1,697	1,735	1,791	1,895	1,954	15%	3%	6,193	6,877	11.0%
Interest Exp.	1,190	1,216	1,292	1,359	1,370	15%	1%	4,227	4,857	14.9%
NII	506	520	499	536	584	15%	9%	1,966	2,020	2.8%
Other Income	158	187	236	182	249	58%	37%	837	726	-13.3%
Total Income	664	706	735	718	834	25%	16%	2,803	2,746	-2.0%
Ope Exp.	355	374	407	400	422	19%	6%	1,322	1,507	14.0%
PPP	310	332	328	318	411	33%	30%	1,481	1,239	-16.3%
Provisions	205	203	219	205	306	50%	49%	981	858	-12.5%
PBT	105	129	108	113	105	0%	-7%	500	381	-23.9%
Tax	35	45	38	39	21	-41%	-48%	165	133	-19.4%
Net Profit	70	84	71	73	84	20%	15%	335	248	-26%

### Concall Highlights

- Yields improved by 9 bps QoQ ,the reason being reduced yields last two quarters on the account of heavy dependence on CD and now correction to that has happened. Margins are expected to be stable going ahead. Guidance of 2.7% by FY20.
- Pre Provisioning profit grew by 33% YoY due to high income and cost efficiency.C/I ratio is expected to see improvement going ahead.
- Credit cost guidance maintained at 1-1.1% for FY20.
- Advances grew by 11% YoY, the growth coming from Retail, MSME and Agriculture segment.The management guided for 15% advances growth in FY20.
- Business loans declined by 22%/10% YoY/QoQ in 2QFY20, the reason being these are less yield generating assets for the bank.
- The slippages stood at Rs 435 Cr majorly coming from one textile account of Rs 238 Cr in 2QFY20.
- 4 Stressed account i.e. 1HFC amounting Rs 114 Cr,1 Real estate ,Rs 68 Cr,1 Fitness Account,Rs 75 Cr and one exposure to irrigation account ,Rs 50 Cr in total Rs 307 Cr is expected to slip to NPA going ahead.ICA for HFC and Irrigation account has been signed.
- Slippages guidance of Rs 1000 Cr for FY20, from which Rs 658 Cr is already done till 1HFY20 and remaining, is expected to happen in 2HFY20.Recovery outlook of Rs 500-600 Cr for FY20.No recovery is expected from the corporate book going ahead. Normal Slippages number for the bank stands at Rs 150 Cr per quarter.
- Out of Rs 242 Cr of MSME Restructuring for 2QFY20, only 1-2 accounts are area of concern and may slip to NPA .Maximum 20% may slip to NPA.
- PCR (Including technical Write off) guidance of 52% for FY20 and 62% for FY21.Essar provisioning of RS 200 Cr are not part of these. Provisions of Rs 200 Cr per quarter expected .Management guided for provisions to be high for next 3-4 quarters.
- SMA 2 increased to 3.5% from 2.65% last quarter.
- Expected loan mix going ahead: Retail: 30 %( already achieved), Corporate: 20%.MSME :-> 25% and rest Agriculture.
- Repo rate linked home loan are expected to be at Rs 1000 Cr per quarter going ahead.
- All the bulk deposits are of 6 months-2 years tenure.
- BBB & Below book had one project amount Rs 101 Cr and another one is highway Rs 129 Cr. These two accounts are not expected to be NPA.

## Profitability Matrix

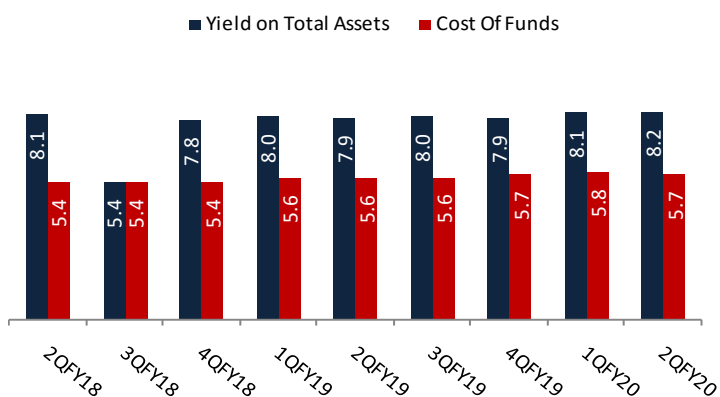
	4QFY18	1QFY19	2QFY19	3QFY19	4QFY19	1QFY20	2QFY20	YoY (+/-)	QoQ (+/-)
C/I Ratio %	53.7	57.9	53.4	53.0	55.4	55.7	50.6	-2.74	-5.10
Empl. Cost/ Tot. Exp. %	53.7	57.0	55.3	54.0	52.0	55.9	55.2	-0.10	-0.67
Other Exp/Tot. Exp.%	46.3	43.0	44.7	46.0	48.0	44.1	44.8	0.10	0.67
Provision/PPP %	47.8	85.9	66.1	61.2	66.9	64.5	74.5	8.38	9.91
Tax Rate %	29.7	39.5	33.3	34.9	35.0	34.9	19.6	-13.65	-15.32
Int Exp./Int Inc. (%)	69.0	70.1	70.1	70.1	72.1	71.7	70.1	-0.05	-1.63
Other Inc./Net Inc. %	26.6	22.8	23.8	26.4	32.1	25.4	29.9	6.13	4.55
PAT/ Net Income %	17.0	3.6	10.6	11.9	9.6	10.2	10.1	-0.42	-0.07
PAT Gr %	51.0	(77.3)	1,523	(27)	(38.2)	218.0	20.5	-1503	-197.51
NII Gr %	12.1	7.3	0.6	2.0	1.5	8.4	15.4	14.72	6.99
PPP Gr %	10.7	(28.9)	(32.7)	0.6	5.4	17.8	32.8	65.52	15.02

## Margin Performance

Margin %	4QFY18	1QFY19	2QFY19	3QFY19	4QFY19	1QFY20	2QFY20	YoY (+/-)	QoQ (+/-)
Yield on Advances	9.6	9.5	9.5	9.6	9.5	9.7	9.8	0.28	0.09
Yield (Total Assets)	7.8	8.0	7.9	8.0	7.9	8.1	8.2	0.23	0.05
Cost of Deposits	6.0	6.1	6.1	6.1	6.3	6.3	6.2	0.17	-0.08
Cost Of Funds	5.4	5.6	5.6	5.6	5.7	5.8	5.7	0.15	-0.10
NIM	2.7	2.6	2.6	2.7	2.5	2.5	2.7	0.08	0.16

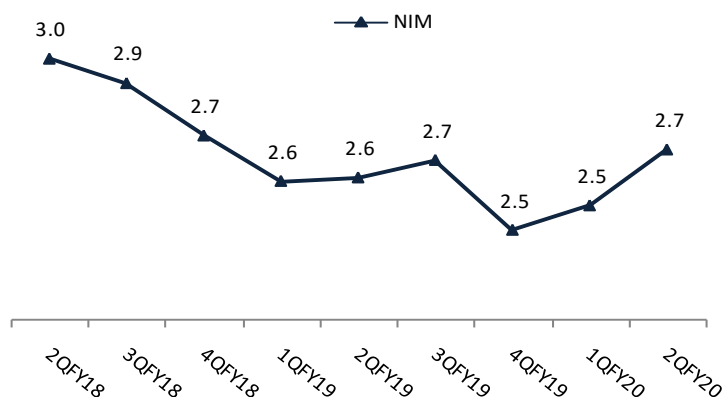
### Exhibit: Yield and Cost

Yield on Total assets increased, cost of fund declined.



### Exhibit: Net Interest Margin

NIM has improved



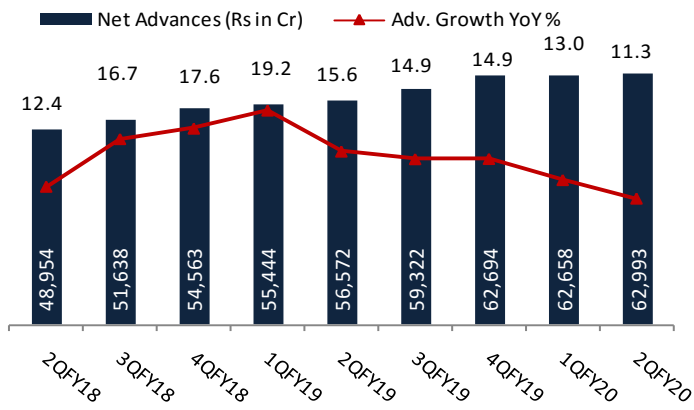
## Other Income Break Up

Fig. In Rs Cr

	2QFY18	3QFY18	4QFY18	1QFY19	2QFY19	3QFY19	4QFY19	1QFY20	2QFY20
Transaction Fees	64	67	69	59	60	71	86	57	57
Technology	29	31	31	32	35	37	33	29	36
Forex	9	7	11	9	11	10	14	13	10
Total Core Fee Income	102	105	111	100	106	118	133	99	103
Growth YoY %	29	40	17	9	4	12	20	(1)	(13)
Other	110	43	55	30	39	43	37	34	63
Profit on Sale of Inv.	68	11	13	16	13	27	65	49	83
Total Other Income	280	159	179	146	158	188	235	182	249
Growth YoY %	92	(39)	30	(34)	(44)	18	31	25	58

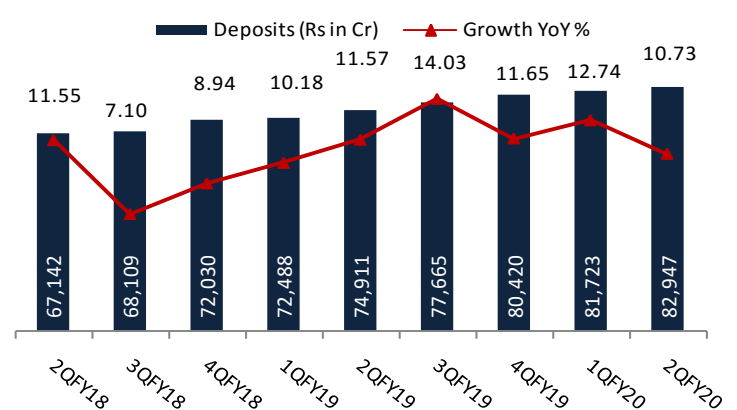
## Exhibit: Advances Growth %

Moderated Advance Growth



## Exhibit: Deposit Growth %

Deposit Growth improves



## Asset Quality

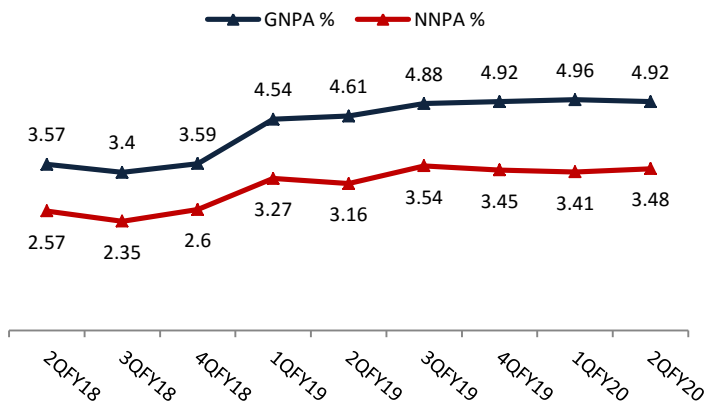
	4QFY18	1QFY19	2QFY19	3QFY19	4QFY19	1QFY20	2QFY20	YoY (+/-)	QoQ (+/-)
GNPA (Rs in Cr)	1,981	2,552	2,646	2,930	3,132	3,154	3,145	19%	0%
GNPA %	3.59	4.54	4.61	4.88	4.92	4.96	4.92	0.31	-0.04
NNPA (Rs in Cr)	1,416	1,814	1,785	2,100	2,164	2,135	2,193	23%	3%
NNPA %	2.60	3.27	3.16	3.54	3.45	3.41	3.48	0.32	0.07
Slippages (Rs in Cr)	614	609	213	659	368	241	435	104%	80%
Stand Restr. Assets %	0.10	0.04	0.04	0.34	0.34	0.47	0.82	0.78	0.35
Net Stress Assets %	2.70	3.31	3.19	3.88	3.79	3.87	4.30	1.11	0.43
PCR %	41	39	42	41	42	45	48	6.20	3.10
Credit Cost %	1.14	1.27	0.95	1.31	1.25	1.17	0.85	-0.10	-0.33
Prov/Avg Adv% (Annl.)	1.12	1.68	1.46	1.40	1.44	1.31	1.95	0.49	0.64

## Sector wise Slippages %

	2QFY18	3QFY18	4QFY18	1QFY19	2QFY19	3QFY19	4QFY19	1QFY20	2QFY20
Agriculture	0.44	0.18	0.71	0.14	0.22	0.04	1.15	0.11	0.17
SME	0.78	0.18	0.30	1.72	0.76	0.80	0.75	0.88	0.63
Retail Credit	0.34	0.38	0.18	0.40	0.42	0.20	0.20	0.39	0.19
Corporate	0.53	-	2.36	1.54	0.09	2.38	0.53	0.12	1.36

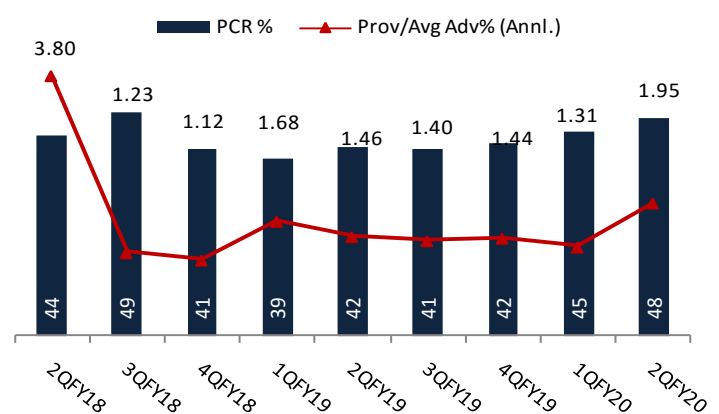
## Exhibit: Asset Quality

GNPA decreased while NNPA increase



## Exhibit: Provisions

PCR has improved



## Financial Details

### Balance Sheet

Fig. In Rs Cr

Y/E March	FY14	FY15	FY16	FY17	FY18	FY19	FY20E	FY21E
<b>Share Capital</b>	<b>134</b>	<b>135</b>	<b>135</b>	<b>180</b>	<b>181</b>	<b>181</b>	<b>181</b>	<b>181</b>
>> Equity Capital	134	135	135	180	181	181	181	181
>> Preference Capital	0	0	0	0	0	0	0	0
Reserves & Surplus	3236	3457	3711	4668	5062	5156	5433	5925
<b>Networth</b>	<b>3370</b>	<b>3592</b>	<b>3846</b>	<b>4848</b>	<b>5243</b>	<b>5337</b>	<b>5614</b>	<b>6106</b>
Deposits	47491	51912	55721	66117	72030	80420	90741	104352
Change (%)	7.3	9.3	7.3	18.7	8.9	11.6	12.8	15.0
>> CASA Deposits	9825	10686	12459	15747	17142	19467	22504	27132
Change (%)	19.3	8.8	16.6	26.4	8.9	13.6	15.6	20.6
Borrowings	2731	2232	2315	1958	4043	4903	5016	5739
Other Liabilities & Provisions	1394	1380	1294	1388	1370	1619	1556	1789
<b>Total Liabilities</b>	<b>54986</b>	<b>59116</b>	<b>63175</b>	<b>74312</b>	<b>82686</b>	<b>92279</b>	<b>102926</b>	<b>117986</b>
Cash & Bank	3218	3595	3099	3888	4221	4823	5042	6016
Investments	14352	14086	14619	19430	18363	19081	22232	25044
Change (%)	14.6	-1.9	3.8	32.9	-5.5	3.9	16.5	12.7
Advances	36230	37392	41086	46389	54563	62694	68963	79308
Change (%)	13.9	3.2	9.9	12.9	17.6	14.9	10.0	15.0
Fixed Assets	412	479	487	656	681	709	744	781
Other Assets	774	3564	3884	3949	4858	4973	5945	6837
<b>Total Assets</b>	<b>54986</b>	<b>59116</b>	<b>63175</b>	<b>74312</b>	<b>82686</b>	<b>92279</b>	<b>102926</b>	<b>117986</b>

### Income Statement

Fig. In Rs Cr

Y/E March	FY14	FY15	FY16	FY17	FY18	FY19	FY20E	FY21E
Interest income	5,015	5,286	5,557	5,847	6,193	6,877	7,863	8,526
Interest expended	3,616	3,920	4,048	4,172	4,227	4,857	5,543	5,964
Net Interest Income	1,399	1,366	1,510	1,675	1,966	2,020	2,320	2,562
Change (%)	9.2	(2.3)	10.5	11.0	17.3	2.8	14.9	10.4
Other Income	368	497	517	716	837	726	896	887
Change (%)	10.0	34.9	4.1	38.3	17.0	(13.3)	23.4	(1.1)
>> Core Fee Income	258	289	320	352	410	457	428	511
>> Treasury Income	70	166	136	253	181	121	311	256
>> Others	41	42	61	111	246	148	157	120
Total Net Income	1,767	1,863	2,027	2,391	2,803	2,746	3,217	3,449
Operating Expenses	883	1,047	1,148	1,176	1,322	1,507	1,684	1,767
Change (%)	15.1	18.6	9.6	2.5	12.4	14.0	11.7	5.0
>> Employee Expenses	529	634	692	677	713	821	911	931
Pre-provisioning Profit	884	816	879	1,215	1,481	1,239	1,533	1,682
Change (%)	4.2	(7.7)	7.7	38.1	21.9	(16.3)	23.7	9.7
Provisions	155	414	370	614	981	858	1,055	944
Change (%)	(3.5)	166.4	(10.7)	66.2	59.7	(12.5)	22.9	(10.6)
PBT	729	446	510	600	500	381	478	738
Tax	221	138	176	208	165	133	125	192
Profit After Tax	508	307	333	393	335	248	353	546
Change (%)	1.0	(39.5)	8.5	17.8	(14.7)	(26.1)	42.6	54.8

## Financial Details

### Key Ratios

Y/E March	FY14	FY15	FY16	FY17	FY18	FY19	FY20E	FY21E
<b>Balance Sheet Metrics</b>								
Loan Growth (%)	13.9	3.2	9.9	12.9	17.6	14.9	10.0	15.0
Deposit Growth (%)	7.3	9.3	7.3	18.7	8.9	11.6	12.8	15.0
C/D Ratio (%)	76.3	72.0	73.7	70.2	75.8	78.0	76.0	76.0
CASA (%)	20.7	20.6	22.4	23.8	23.8	24.2	24.8	26.0
Investment/Deposit (%)	30.2	27.1	26.2	29.4	25.5	23.7	24.5	24.0
CRAR (%)	12.4	12.1	11.8	12.4	12.7	12.6	11.7	10.1
>> Tier 1 (%)	10.8	10.5	9.8	10.9	10.4	10.0	9.6	8.4
>> Tier 2 (%)	1.6	1.6	2.0	1.5	2.3	2.6	2.1	1.7

### Assets Quality Metrics

Gross NPA	433	643	1,562	1,149	1,981	3,132	3,214	3,589
Gross NAP (%)	1.2	1.7	3.8	2.5	3.6	4.9	4.6	4.5
Net NPA	282	357	1,185	675	1,416	2,164	1,992	2,081
Net NPA (%)	0.8	1.0	2.9	1.5	2.6	3.5	2.9	2.6
Slippages (%)	2.0	1.4	4.3	4.2	3.9	3.5	2.3	1.4
Provision Coverage (%)	62.7	61.0	40.2	55.1	41.2	42.5	51.4	56.8
Provision/Average Advances (%)	0.5	1.1	0.9	1.4	1.9	1.5	1.6	1.3

### Margin Metrics

Yield On Advances (%)	11.6	11.3	11.1	10.2	9.4	9.2	9.5	9.2
Yield On Investment (%)	7.1	7.4	7.0	7.2	6.7	6.9	6.7	6.2
Yield on Earning Assets (%)	10.1	9.9	9.8	9.2	8.5	8.5	8.7	8.3
Cost Of Deposits (%)	7.5	7.4	7.1	6.5	5.8	6.0	6.0	5.7
Cost Of Funds (%)	7.4	7.4	7.1	6.5	5.8	5.9	6.1	5.7
Spread (%)	2.6	2.5	2.7	2.6	2.7	2.5	2.6	2.6
NIM (%)	2.8	2.6	2.7	2.6	2.7	2.5	2.6	2.5

### Profitability & Efficiency Metrics

Int. Expense/Int.Income (%)	72.1	74.2	72.8	71.3	68.3	70.6	70.5	69.9
Fee Income/NII (%)	18.4	21.2	21.2	21.0	20.9	22.6	18.4	19.9
Cost to Income (%)	50.0	56.2	56.6	49.2	47.2	54.9	52.3	51.2
Cost on Average Assets (%)	1.8	2.0	2.0	1.8	2.6	2.6	2.6	2.4
Tax Rate (%)	30.4	31.1	34.6	34.6	33.0	34.9	26.2	26.0

### Valuation Ratio Metrics

EPS (Rs)	3.8	2.3	2.5	2.2	1.9	1.4	2.0	3.0
Change (%)	0.6	(39.7)	8.5	(11.8)	(15.0)	(26.1)	42.6	54.8
ROAE (%)	15.9	8.8	9.0	9.0	6.6	4.7	6.4	9.3
ROAA (%)	1.0	0.5	0.5	0.6	0.4	0.3	0.4	0.5
Dividend Payout (%)	21.2	26.4	20.3	18.4	21.6	18.3	12.8	16.6
Dividend yield (%)	3.6	2.4	2.8	1.9	1.8	1.5	2.4	4.8
Book Value (Rs)	25	27	28	27	29	29	31	34
Change (%)	11.7	6.1	7.1	(5.6)	7.8	1.7	5.2	8.8
ABVPS (Rs)	23	24	20	23	21	18	20	22
P/B (X)	0.9	0.9	0.6	0.8	0.8	0.6	0.3	0.3
P/E (X)	5.9	11.1	7.1	9.8	12.3	12.1	5.3	3.4

## Financial Details

## Exhibit: DuPont Analysis

	FY14	FY15	FY16	FY17	FY18	FY19	FY20E	FY21E
<i>Interest Income</i>	9.6	9.3	9.1	8.5	7.9	7.9	8.1	7.7
<i>Interest expended</i>	6.9	6.9	6.6	6.1	5.4	5.6	5.7	5.4
<b><i>Net Interest Income</i></b>	<b>2.7</b>	<b>2.4</b>	<b>2.5</b>	<b>2.4</b>	<b>2.5</b>	<b>2.3</b>	<b>2.4</b>	<b>2.3</b>
<i>Non-Fund Based Income</i>	0.7	0.9	0.8	1.0	1.1	0.8	0.9	0.8
>> <i>Core Fee Income</i>	0.5	0.5	0.5	0.5	0.5	0.5	0.4	0.5
>> <i>Trading and Other Income</i>	0.2	0.4	0.3	0.5	0.5	0.3	0.5	0.3
<i>Core Operating Income</i>	3.2	2.9	3.0	2.9	3.0	2.8	2.8	2.8
<b><i>Total Income</i></b>	<b>3.4</b>	<b>3.3</b>	<b>3.3</b>	<b>3.5</b>	<b>3.6</b>	<b>3.1</b>	<b>3.3</b>	<b>3.1</b>
<i>Total Operating Expenses</i>	1.7	1.8	1.9	1.7	1.7	1.7	1.7	1.6
>> <i>Employee Expenses</i>	1.0	1.1	1.1	1.0	0.9	0.9	0.9	0.8
>> <i>Other Expenses</i>	0.7	0.7	0.7	0.7	0.8	0.8	0.8	0.8
<b><i>Operating Profit</i></b>	<b>1.7</b>	<b>1.4</b>	<b>1.4</b>	<b>1.8</b>	<b>1.9</b>	<b>1.4</b>	<b>1.6</b>	<b>1.5</b>
<i>Provisions</i>	0.3	0.7	0.6	0.9	1.2	1.0	1.1	0.9
<i>Others</i>	-	0.1	-	-	-	-	-	-
<i>PBT</i>	1.4	0.8	0.8	0.9	0.6	0.4	0.5	0.7
<i>Tax</i>	0.4	0.2	0.3	0.3	0.2	0.2	0.1	0.2
<b><i>PAT/RoA</i></b>	<b>1.0</b>	<b>0.5</b>	<b>0.5</b>	<b>0.6</b>	<b>0.4</b>	<b>0.3</b>	<b>0.4</b>	<b>0.5</b>
>> <i>Equity Multiplier (x)</i>	16.4	16.4	16.4	15.8	15.6	16.5	17.8	18.9
<b><i>RoE</i></b>	<b>15.9</b>	<b>8.8</b>	<b>9.0</b>	<b>9.0</b>	<b>6.6</b>	<b>4.7</b>	<b>6.4</b>	<b>9.3</b>



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