4 July 2024

MORNING INDIA

Market snapshot

Equities - India	Close	Chg .%	CYTD.%
Sensex	79,987	0.7	10.7
Nifty-50	24,287	0.7	11.8
Nifty-M 100	56,293	0.8	21.9
Equities-Global	**Close**	**Chg .%**	**CYTD.%**
S&P 500	5,537	0.5	16.1
Nasdaq	18,188	0.9	21.2
FTSE 100	8,171	0.6	5.7
DAX	18,375	1.2	9.7
Hang Seng	6,456	1.3	11.9
Nikkei 225	40,581	1.3	21.3
Commodities	**Close**	**Chg .%**	**CYTD.%**
Brent (US$/Bbl)	88	-1.0	13.0
Gold ($/OZ)	2,356	1.1	14.2
Cu (US$/MT)	9,720	2.0	14.8
Almn (US$/MT)	2,499	0.9	6.5
Currency	**Close**	**Chg .%**	**CYTD.%**
USD/INR	83.5	0.0	0.4
USD/EUR	1.1	0.4	-2.3
USD/JPY	161.7	0.2	14.6
YIELD (%)	**Close**	**1MChg**	**CYTD chg**
10 Yrs G-Sec	7.0	-0.01	-0.2
10 Yrs AAA Corp	7.5	0.00	-0.3
Flows (USD b)	**3-Jul**	**MTD**	**CYTD**
FIIs	0.7	3.77	0.0
DIIs	-0.11	3.32	28.9
Volumes (INRb)	**3-Jul**	**MTD***	**YTD***
Cash	1,449	1388	1260
F&O	5,41,010	4,03,487	3,79,239

Note: Flows, MTD includes provisional numbers.
*Average

Today's top research idea

The Corner Office - ITC: Progressing steadily; expects gradual macro recovery

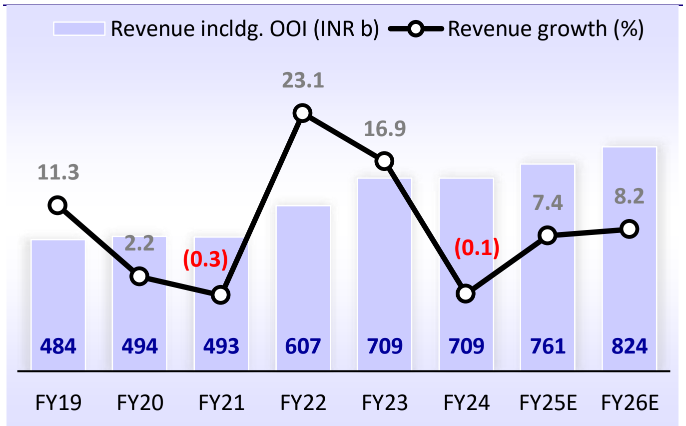
- The company is looking to grow beyond macro recovery by implementing new initiatives and expanding its product portfolio. Cigarette business has recovered well post Covid (now at 97-98% of peak cigarette volume in FY13). Steady macro and government initiatives (stable taxes, control over illegal cigarette, etc.) are expected to further help ITC to sustain volume growth. The management is hopeful for positive steps by the government in the upcoming budget, which should boost consumption expenditure. In the backdrop of steady macros and taxes, we estimate that the company can achieve low to mid-single digit cigarette volume growth with mid to high single-digit EBIT growth in the medium term.
- Rural trends were somewhat similar to the previous quarter, but it is expected that more initiatives by the government will drive consumption. ITC's FMCG business has outperformed peers by focusing on categories that are characterized by low household penetration/low per capita consumption, which in turn leads to a high TAM expansion potential. In the medium term, the growth outlook is positive for the FMGC business. Its paper business is seeing weakness (revenue and margin) and agri business remains volatile due to curbs on agri commodity trading (Govt. regulations). The Union Budget will be a key monitorable for taxes on cigarette business and overall initiatives for consumption boost. We reiterate our BUY rating with SOTP-based TP of INR500.

Research covered

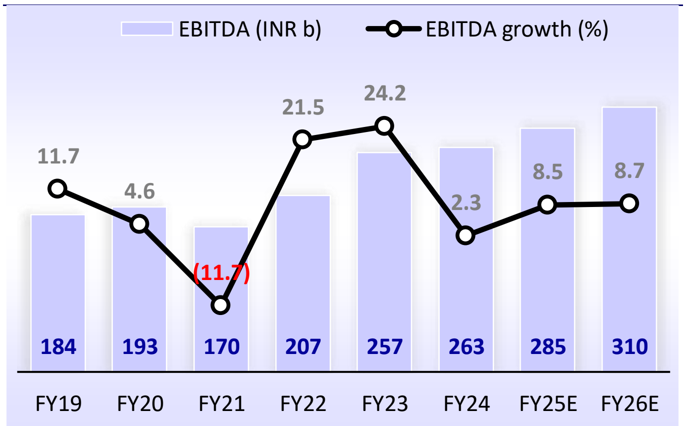
Cos/Sector	Key Highlights
The Corner Office	ITC: Progressing steadily; expects gradual macro recovery
Financials (1QFY25 Preview)	Banks: Earnings growth to moderate; margins bias slightly negative
	NBFCs: Seasonally weak quarter; loan growth still reasonably healthy
	Non Lending: Capital markets-linked companies to deliver decent performance
Other Updates	Bajaj Finance | L&T Finance | Federal Bank | Bandhan Bank | EcoScope

Chart of the Day: ITC: (Progressing steadily; expects gradual macro recovery)

Consol. revenue to record ~8% CAGR over FY24-FY26E…



…supported by high single-digit EBITDA growth



Research Team (Gautam.Duggad@MotilalOswal.com)

In the news today

Kindly click on textbox for the detailed news link

1

Aavas Financiers: Big-bang stake sale brewing as Kedaara, Partners Group explore full exit

In February 2016, a Kedaara-Partners JV acquired Aavas Financiers Ltd. Incidentally, both the promoters, Kedaara Capital and Partners Group, have diluted part stake earlier in the year via the block deal route

2

Marico collaborates with Kaya, to handle sales & marketing of Kaya's personal care products

Marico said that the collaboration with Kaya will give it exclusive rights to handle sales and marketing of Kaya's range of 75+ personal care products outside of Kaya's clinics.

3

Dining out, food delivery market to hit Rs 10 trillion by 2030

The report, titled 'How India Eats', said penetration of online food delivery has steadily increased, rising from 8% to 12% between 2019 and 2023, representing a 2.8 times growth compared to overall food services

4

Oil prices slip after data points to cooling US economy

Brent crude futures were down 30 cents, or 0.34%, at $87.04 a barrel, while U.S. West Texas Intermediate (WTI) crude futures fell 32 cents, or 0.38%, to $83.56 by 0030 GMT, with activity thinned by the U.S. Fourth of July holiday.

5

Q-commerce sales double in a year for FMCG majors, now comprise 33-36% of total e-comm sales

The share of q-commerce sales within the e-commerce sales for the FMCG companies now stands at 33-36% against 17-18% a year ago.

6

SECI to float tender for 500 MW of solar-thermal storage

The move comes amidst the government's increased focus on energy storage capacity of the country to be able to address the intermittency issue of renewable energy sources.

7

Agri trade on e-NAM platform crosses Rs 18,990-crore in Q1

Transactions up 12% on year, spurt in inter-state trade on low base.

Progressing steadily; expects gradual macro recovery

We met with the top management team of ITC, represented by Mr. Supratim Dutta – Executive Director & CFO, to discuss the industry outlook, growth prospects for its business verticals, profitability outlook, and other focus areas. Here are the key takeaways from the discussion: The company is looking to grow beyond macro recovery by implementing new initiatives and expanding its product portfolio. Cigarette business has recovered well post Covid (now at 97-98% of peak cigarette volume in FY13). Steady macro and government initiatives (stable taxes, control over illegal cigarette, etc.) are expected to further help ITC to sustain volume growth. The management is hopeful for positive steps by the government in the upcoming budget, which should boost consumption expenditure. In the backdrop of steady macros and taxes, we estimate that the company can achieve low to mid-single digit cigarette volume growth with mid to high single-digit EBIT growth in the medium term. Rural trends were somewhat similar to the previous quarter, but it is expected that more initiatives by the government will drive consumption. ITC's FMCG business has outperformed peers by focusing on categories that are characterized by low household penetration/low per capita consumption, which in turn leads to a high TAM expansion potential. In the medium term, the growth outlook is positive for the FMGC business. Its paper business is seeing weakness (revenue and margin) and agri business remains volatile due to curbs on agri commodity trading (Govt. regulations). The Union Budget will be a key monitorable for taxes on cigarette business and overall initiatives for consumption boost. **We reiterate our BUY rating with SOTP-based TP of INR500 (implied 27x FY26E EPS).**

Cigarette to sustain steady volume-led growth

ITC's cigarette business has seen volume recovery in FY23 and FY24, with cigarette volume almost at par with its peak volumes in FY13. Stability in taxes and various government initiatives to curb illegal cigarettes have been supporting the legal cigarette market. ITC has done various product innovations in the last 2-3 years to consolidate its market share. The capsule variants have witnessed strong growth, leveraging in-house manufacturing capability, which provides several competitive advantages. ITC has intensified active trade marketing efforts for better last-mile execution. The business achieved 8% YoY growth in net revenue to INR337b in FY24. We model a 6.5% revenue CAGR, 3.5% volume CAGR and 6.5% EBIT growth during FY24-26E with steady macros and taxes.

FMCG business to sustain industry-leading growth

ITC's FMCG businesses outpaced industry growth in urban and rural markets through product innovation, presence in relevant categories and leveraging distribution capabilities. With a portfolio of over 25 Indian brands, including home-grown names, ITC has expanded its footprint in over 70 countries. The Branded Packaged Foods segment is sustaining healthy growth, supported by robust e-commerce collaborations and growing digital sales. The company's multi-channel distribution network now reaches nearly 7m retail outlets, strengthening its market coverage to 2x the pre-pandemic level. Overall FMCG growth was ~10% in FY24. We expect FMCG business margins to likely remain stable, with a gradual improvement over the year.

ITC

Mr Supratim Dutta, Chief Financial Officer

Mr. Dutta was appointed as a Wholetime Director on the Board of ITC effective Jul'22. He is, inter alia, responsible for Finance, Accounting, Internal Audit & IT Functions and also for the Investment Subsidiaries of the Company. He joined ITC in Nov'90. During his career of over three decades at ITC, he was Executive VP - Corporate Finance in charge of the Corporate Treasury, Strategic Planning and Corporate Planning Functions of the Company. He is a qualified Chartered Accountant and Cost Accountant.

Extracts from Annual Report

Tax stability in cigarettes and enforcement actions have helped the legal industry combat illicit trade and regain volumes, boosting domestic and export demand for Indian tobacco.

It is estimated that illicit trade causes an annual revenue loss of around INR210b to the Exchequer.

ITC's vibrant portfolio of over 25 Indian brands, built through organic growth, represents annual consumer spending of nearly INR325b and reaches over 250m households in India.

Challenging FY24 for paperboards & packaging business with gradual recovery expected in FY25

The Paperboards, Paper & Packaging segment faced several challenges, including weak domestic and export demand, cheap Chinese supplies, rising domestic wood costs, and a high base effect. Despite these headwinds, the business strengthened its leadership in the value-added paperboard (VAP) segment through innovation, customized solutions, and strong end-user engagement. The packaging and printing industry also faced subdued demand in key segments and progressive de-cartonization in the liquor industry, creating a challenging operating environment. The recent capacity addition at Nadiad, Gujarat, with state-of-the-art equipment for the western market, has enhanced capabilities in carton packaging, with capacity utilization progressively ramping up. Overall, the business contracted by 8% to INR83b in FY24, with EBIT margins shrinking by 880bp. We expect demand to remain soft in 1QFY25, with recovery in business and margin improvement likely in coming quarters.

The recent capacity addition at Nadiad, Gujarat, with state-of-the-art equipment, has enhanced the business's capabilities in cartons packaging for the western region. Capacity utilization at the facility was ramped up in FY24.

Agri business – focus on value-added products

The Leaf Tobacco Business enhanced its global supply chain by leveraging crop expertise, product quality, and sustainable practices. It expanded its presence in Indian Burley tobacco markets, increasing crop size through sustainable programs. Operational efficiency and customer engagement bolstered its position as India's largest exporter of unmanufactured tobacco. The company is also focused on scaling up value-added agri products such as spices, coffee, etc. Despite a 13% decline in FY24, the agri business EBIT margin improved by 40bp to 8%. While the business may remain volatile on a QoQ basis, we expect steady YoY growth.

The scale of operations in agri business has grown manifold over the years and currently encompasses nearly 3m tons of annual volume throughput in 22 states and over 20 agri-value chains.

Valuation and view

- ITC's core businesses of cigarette and FMCG are seeing steady growth. Key monitorables are overall demand recovery, rural recovery and government's initiatives to drive consumptions. FMCG continues to enjoy industry leading growth over peers due to ITC's category presence (large unorganized mix, under-penetrated, etc.). Consistent margin improvement further provides confidence in growth without compromising profitability.
- After the demerger of its asset-heavy hotels business, ITC's return profile will also improve. Margin improvements in the other FMCG business will further enhance return ratios and valuation multiples.
- Capital efficiency will further improve operating cash flow, leading to a healthy sustainable dividend yield (3-4%).
- **We reiterate our BUY rating with SOTP-based TP of INR500 (implied 27x FY26E EPS).**

Financials: Banks

Result Preview

PAT (INR b)	1Q FY25E	YoY (%)	QoQ (%)
Private Banks			
AUBANK	4.2	9.3	14.1
AXSB	64.1	10.6	-10.1
BANDHAN	8.1	12.9	1,390
DCBB	1.4	11.4	-9.2
EQUITAS	1.7	-8.7	-16.0
FB	9.7	13.8	7.2
HDFCB	154.6	29.3	-6.4
ICICIBC	106.3	10.2	-0.7
IDFCFB	6.8	-11.0	-5.9
IIB	23.4	10.1	-0.5
KMB	35.9	4.0	-13.2
RBK	3.4	18.6	-3.1
Private Total	**419.8**	**15.6**	**-3.7**
PSU Banks			
BOB	46.0	13.1	-5.8
CBK	39.6	12.0	5.3
INBK	22.1	29.1	-1.8
PNB	30.1	139.7	-0.1
SBIN	168.6	-0.2	-18.6
UNBK	35.8	10.6	8.1
PSU Total	**342.1**	**11.5**	**-9.7**
Banks Total	**761.9**	**13.7**	**-6.5**
SBICARD	6.4	8.7	-2.7
Paytm	-8.4	NA	NA

1QFY25 earnings estimates (INR b)

Earnings growth to moderate; margins bias slightly negative

Asset quality outlook healthy; credit cost a key monitorable in FY25

- **Credit growth to remain healthy; estimate 14% growth in systemic loans over FY25-26:** The systemic credit growth remained healthy at 15.5% for the fortnight ended 14th Jun'24. The growth was fueled by sustained momentum in retail and business banking, while the corporate segment experienced a moderate recovery. The home, vehicle, real estate, and small business segments continued to do well, while CV demand remained healthy. Inflation has been showing a downward trend, and we continue to monitor the potential turn in the rate cycle. We estimate systemic loans to clock a 14% growth over FY25-26.
- **Deposit growth sustains at 12.6% YoY; margins bias slightly negative:** The FY25 credit growth has started on a good note, and while deposit accretion remains a challenge, the gap between deposit and credit growth has narrowed to ~3.5% in Jun'24 due to a push for deposits, and competitive TD rates offered by banks. The CD ratio, however, has remained elevated at 79.9%, with most of the banks reporting an increase over the past year. Among the banks under our coverage, we will monitor deposit growth for HDFCB and AXSB. While sector margins have compressed over the past year, select banks have further revised their rates upwards, mainly for short-term deposits amid tight liquidity conditions. This, coupled with a slight moderation in Weighted Average Lending Rate for the system (mainly PSU banks), points to the continued pressure on sector margins in the near term, albeit, at a more calibrated pace.
- **Asset quality outlook healthy; farm loan waivers raise concern on the medium-term performance:** Credit quality for most banks has been robust, leading to controlled provisioning expenses. However, the recent developments related to farm loan waivers could potentially upset the credit culture and would result in an uptick in credit costs, particularly in the agri and unsecured segments (like MFI). We would thus closely monitor the asset quality outlook over the medium term. Nevertheless, we factor in a modest rise in provisioning expenses as: 1) the recovery from the existing NPA/TWO pools moderates, 2) the first quarter is a seasonally weak quarter and is characterized by some rise in agri NPAs, and 3) credit costs normalize gradually after being extremely benign over the recent period.
- **Estimate earnings for our banking coverage universe to clock ~16% CAGR over FY24-26:** We estimate NII for our banking coverage universe to grow ~12.6% YoY in 1QFY25, while PPoP is likely to increase at a modest rate of 9.2% YoY (-5.7% QoQ). For 1QFY25, we thus estimate Private/PSU banks to report earnings growth of 15.6%/11.5% YoY. **We also estimate the earnings of the MOFSL Banking Universe to grow 13.7% (~10.3% ex-HDFCB)/16.3%/16.6% YoY over 1QFY25/FY25/26.** Consequently, we estimate the **Banking sector's earnings to post a >16% CAGR over FY24-26.** Interestingly, we believe **that FY25 is going to be an inflection year as earnings growth after some period of moderation (~27% YoY growth in FY23-24) bottoms out in second half and thereafter begins to accelerate from 2HFY25.**

Private banks: 1QFY25 PAT to grow ~15.0% YoY (+8.3% YoY ex-HDFCB)

- **For our private bank coverage universe (ex-HDFCB**), we estimate a PPoP growth of 10% YoY/flat QoQ and a PAT growth of 8.9% YoY/decline of 2.1% QoQ in 1QFY25. We also estimate earnings to record a 16% CAGR over FY24-26.
- **We estimate 1QFY25 NII growth** of 16.6% YoY (+13.0% YoY ex-HDFCB), with IDFCFB at ~25.0%, HDFCB at ~24.0%, FB at ~19.0%, Bandhan and RBK at ~17% each, IIB at ~15%, and KMB at ~14% YoY.
- Opex is likely to follow a normalized trend as the banks continue with their investments in branches and technology, while the pace of employee hiring has moderated. The moderation in bond yields is likely to aid other income.
- **Slippages broadly remain under control,** which should drive stability/further improvement in asset quality ratios. However, we remain cautious about the ongoing developments around farm loan waivers, which could result in some rise in credit costs in the unsecured segments, mainly MFI.

PSBs: Earnings growth to moderate due to margin compression

- We estimate PSBs to report moderate earnings growth of 11.5% YoY in 1QFY25. NII growth is also likely to moderate to 8.8% YoY as margins maintain a downward bias. Accordingly, we estimate PSBs' earnings to clock a 17% CAGR over FY24-26.
- **Opex intensity will begin to ease** as wage-related provisions were largely accounted for in 3Q and 4QFY24. **Treasury performance is likely to remain healthy**, underpinned by a decline in bond yields and buoyant capital markets. We also expect an improvement in CET-1 for select PSBs, backed by the revised investment regulations.
- Asset quality is anticipated to remain stable due to an improving borrower profile and a low SMA pool, keeping slippages under control. However, with the ongoing developments about **farm loan waivers, the outlook for asset quality** will be closely monitored over the coming quarters. Besides, the ECL provisioning requirement for the next fiscal may also act as an overhang on sector performance.

SFBs: Mixed performance; asset quality to be keenly monitored

- We estimate **AUBANK's 1QFY25 PAT** to grow 9.3% YoY to INR4.2b (+14% QoQ), as the bank reports its first quarter post-merger with Fincare SFB. Its NII is likely to grow 54% YoY, as NIMs improve sharply post-merger. We, however, will keep a close watch on its asset quality, given the adverse impact of the recent farm loan waivers on the MFI segment, and the performance of its card business.
- **EQUITASB** is likely to report a modest quarter, with PAT expected to dip 8.7% YoY amid lower other income and an elevated opex. Business growth is likely to be soft, and we estimate advances to grow at ~15% YoY (+~2.6% QoQ), though AUM growth will be faster. We further estimate NIMs to moderate 7bp QoQ to 8.10%.

Payments/Fintech: Earnings growth to remain modest

- **SBICARDS:** Credit card spending is likely to recover slightly following a dip in 4QFY24, amid lower corporate spending. NIM is anticipated to be broadly stable, while credit costs would remain elevated due to continued asset quality pressure. We, thus, estimate earnings to grow 8.7% YoY (down 2.7% QoQ).
- **PAYTM:** We estimate a 7% YoY decline in GMV in 1QFY25, amounting to INR4.3t. Revenue from its operations is projected to decrease 36% YoY to INR14.9b, while contribution profit is estimated to decline 51% YoY to INR6.4b for 1QFY25. The contribution margin is likely to be ~43%. Adj. operating loss is estimated to be INR4.9b in 1QFY25.

Financials – NBFCs

Company
Aavas Financiers
Bajaj Finance
Can Fin Homes
Chola Inv. & Fin.
CreditAccess Grameen
Five Star Business Finance
Fusion Microfinance
HomeFirst
IIFL Finance
L&T Finance Holdings
LIC Housing Finance
M&M Financial Services
Manappuram Finance
MAS Financial Services
Muthoot Finance
PNB Housing Finance
Poonawalla Fincorp
Repco Home Finance
Shriram Finance
Spandana Sphoorty

Seasonally weak quarter; loan growth still reasonably healthy

Rising CoF leading to NIM moderation; credit costs relatively elevated

- **AUM growth reasonably healthy despite disruptions due to elections:** We expect ~7% YoY growth in AUM for our coverage HFCs. Vehicle financers are projected to report ~25% YoY AUM growth. Gold lenders (including non-gold products) are likely to record ~20% YoY growth. NBFC-MFIs are estimated to post ~25% YoY growth, while diversified lenders are also expected to deliver ~25% YoY growth in AUM. For our coverage universe, we estimate loan growth of ~20% YoY/~4% QoQ in 1QFY25. While loan growth was broad-based, a) gold financiers are expected to report strong gold loan growth, b) micro-financiers are expected to report muted loan growth, and b) select HFCs (impacted by RBI guidelines on interest income recognition only on cheque encashment) might report weaker disbursement momentum.
- **NIM to stay flat or decline due to rising CoB:** The increase in MCLR of banks has kept CoB elevated for NBFCs and hence, prevented NIM expansion. Selectively, fixed-rate lenders like vehicle financiers, who increased lending rates in the prior quarter, have started seeing some NIM expansion. At the sectoral level, we expect NIM to remain flat for vehicle financiers and anticipate NIM compression for HFCs (except PNBHF) and MFIs.
- **Seasonal deterioration in asset quality, but most pronounced in MFIs:** Typical of the first quarter of a fiscal year, we expect a sequential deterioration in asset quality for most lenders. MFIs were affected by elections and heat waves and are expected to exhibit higher forward flows, leading to elevated credit costs. It is yet to be seen whether this is temporary or structural pain for MFIs.
- **PAT growth of ~16% YoY for our coverage universe; loan growth and asset quality likely to recover in subsequent quarters:** We estimate ~22%/20%/16% YoY growth in NII/PPoP/PAT in 1QFY25 for our NBFC – Lending Financials coverage universe. Structurally, we believe that fixed-rate lenders such as vehicle financiers and micro-LAP lenders will benefit from any interest rate cuts whenever they occur. Our top picks in the sector are SHTF, LTFH and PNBHF.

Relatively modest quarter for mortgages; NIM compression to sustain

- April is typically the weakest month for all mortgage lenders. The RBI circular (on interest income recognition only on cheque realization) sent mortgage lenders back to the drawing board to re-strategize their sourcing models. Momentum improved in Jun'24 and is expected to further improve in the coming quarters.
- We anticipate credit costs for LICHF to be at ~50bp (vs. ~60bp in 4QFY24) as we do not expect any further deterioration in asset quality. Margin could contract ~15bp QoQ due to a moderation in yields and a rise in CoF.
- We forecast HomeFirst to report a healthy QoQ improvement in disbursements, leading to a healthy AUM growth. While we expect NIM to remain stable for Aavas (aided by an increase in PLR effective Mar'24), we anticipate it to moderate for HomeFirst because of the ongoing rise in its CoB. Asset quality might exhibit seasonal deterioration but credit costs are likely to remain benign.

- We estimate PNBHF to deliver ~11% YoY growth in loan book as of Jun'24. We estimate ~15bp QoQ NIM expansion. Asset quality will continue to improve in both retail and corporate loan portfolios.
- For Five Star, we expect disbursements to be flat QoQ, which should translate into ~7% QoQ growth in AUM. NIM moderation will continue but we expect credit costs to remain benign.

Vehicle finance – Loan growth modest but NIM expansion likely now

- MMFS reported disbursements of ~INR127b in 1QFY25 (up 5% YoY), while business assets grew ~22% YoY. We now estimate ~18% YoY growth in business assets for MMFS in FY25. We expect credit costs for MMFS to be at ~2.1% in 1QFY25 (vs. credit costs of 2.5% in 1QFY24). We estimate disbursements to remain healthy for CIFC and SHTF, which should translate into ~35%/21% YoY growth in AUM for CIFC/SHTF as of Jun'24.
- We estimate NIM expansion for vehicle financiers in FY25, driven by a rise in yields and stability in CoB. MMFS has already reported a deterioration in its asset quality, resulting in higher levels of Stage 2 and 3. Even for CIFC/SHFL, we expect a minor deterioration in asset quality of vehicle finance, with correspondingly higher credit costs.

Gold finance – Strong growth in gold loans with some compression in NIM

- We expect gold loan financiers to deliver stronger gold loan growth in 1QFY25. We also estimate a modest tonnage growth in the quarter.
- We expect ~7%/6% sequential growth in the gold loan portfolio of MUTH/MGFL. Gold loan NIM could exhibit QoQ compression because of the rise in CoF.

Microfinance – Weak quarter; AUM growth muted and slippages continue

- Disbursements as well as collections were impacted for NBFC-MFIs because of elections and severe heat waves. This could result in muted sequential GLP growth for all three NBFC-MFIs – CREDAG, Fusion, and Spandana – in our coverage universe. We expect AUM to remain flat QoQ for CREDAG and Spandana, while we expect ~2-3% QoQ AUM growth for Fusion in 1QFY25.
- We estimate ~25bp/~10bp QoQ NIM compression for CREDAG/Spandana, we estimate a margin compression of ~20bp for Fusion.
- Flows into forward asset quality buckets have continued for the last three quarters. In addition to the seasonal deterioration in asset quality (typical of 1Q of the fiscal year), there might not be additional slippages because of internal transformation projects or geography-specific issues in NBFC-MFIs such as Fusion or Spandana. We estimate credit costs of ~2.5%/~4.5%/5.5% for CREDAG/Fusion/Spandana in 1QFY25.

Diversified financiers: With stress in personal loans somewhat receding, expect better loan growth

- LTFH reported strong 31% YoY/6% QoQ growth in retail loans. Since the wholesale segment (such as real estate and infrastructure) will continue to moderate, the consolidated loan book could grow ~3% QoQ in 1QFY25. In last quarter, LTFH had one-offs on SR provisions. In the absence of any such one-offs, we estimate credit costs to moderate for LTFH, leading to a sequential improvement in profitability.
- BAF reported ~31% YoY/7% QoQ growth in its AUM. We estimate a ~10bp QoQ contraction in NIM for BAF, with credit costs at ~1.65% (up ~5bp QoQ).
- We expect Poonawalla to report ~55% YoY growth in AUM, driven by ~4% QoQ growth in disbursements. We estimate this to translate into ~60% YoY PAT growth for the company.
- For IIFL Finance, we estimate gold loan AUM to decline to ~INR150b as of Jun'24. Along with muted growth in the MFI business, this could result in a consolidated AUM decline of ~9% QoQ. We estimate a PAT of INR3.5b in 1QFY25 (vs. INR3.7b in 4QFY24).

Financials – Non Lending

Result Preview

Company
Angel One
BSE
CAMS
ICICI Lombard
360ONE WAM
MCX
Star Health
HDFC Life
IPRU Life
SBI Life
Max Financials

Capital markets-linked companies to deliver decent performance

GI players expected to report strong growth in motor and health segments; VNB margins to remain steady

- **Despite volatility during the election period, equity indices continued their upward journey and surged to new all-time highs (Nifty 24,000+, Sensex 79,000+) in 1QFY25. This translated into healthy trends in key parameters (volumes, orders, client additions, etc.) for capital markets-related companies. Angel One and BSE would benefit from these trends.**
- **In the AMC sector, net equity inflows were buoyant in Apr'24 and May'24. Growth in equity AUM was primarily backed by strong SIP flows (all-time high in May'24 at ~INR210b). Total MF AUM grew 6.5% (over Mar'24-May'24) owing to strong growth in equity and money market AUM. The increase in equity AUM should boost the performance of CAMS and 360ONE.**
- **Private life insurance companies saw 16%/18% growth in APE in Apr'24/May'24. In Jun'24, we expect steady growth for the industry. In VNB margins, we expect steady or improving trends QoQ as the rising share of ULIPs could be offset by scale benefits.**
- **Excluding crop, the general insurance sector witnessed steady GWP growth of 16% and 14% in Apr'24 and May'24, respectively. Growth in the health segment was steady at 17% YoY in Apr/May'24 (16.5% in 4QFY24). The motor segment too saw strong growth of 18%/13% YoY in Apr/May'24 (10% in 4QFY24). The health segment' loss ratios are expected to decline on the back of price hikes. We expect STARHEAL and ICICIGI to report improvement in profitability.**
- **We remain positive on the long-term growth potential of non-lending financials, given their broader themes of financialization and digitization of savings. Our top picks in this space are SBILIFE and STARHEAL. While we continue to like the capital market sector, uncertainty around regulations will keep stock performances in check.**

Steady demat account additions; Growth momentum in cash volumes and F&O volumes picked up in second half of 1QFY25

- The retail segment's cash ADTO increased by 13%/5% MoM in Apr'24/May'24. In terms of F&O ADTO, while the momentum in futures remained strong, options volumes bounced back in May'24 and Jun'24 after a sequential decline in Apr'24.
- BSE continued to gain market share in the options segment, reaching 22%/8.7% market share in notional/premium turnover vs. 17.5%/7.2% in Mar'24.
- Incremental demat account additions moderated to 3.1m in Apr'24 and 3.6m in May'24 (average 4.0m per month in 4QFY24).
- MCX is in the process of getting re-validation approval from SEBI for many new products, which were in the pipeline. MCX has witnessed strong traction in F&O volumes in 1QFY25. Futures ADTO increased from INR175b in 4QFY24 to INR259b in 1QFY25 (up 48% QoQ). Options ADTO increased from INR1.14t in 4QFY24 to INR1.47t in 1QFY25 (up 30% QoQ).
- The SEBI issued a circular on 1st Jul'24 to change the way market intermediaries (MIIs) charge brokers and customers. This might affect earnings for brokers from 3QFY25.

Life Insurers: Expect strong APE growth; VNB margins to be steady

- Private life insurance companies saw 16%/18% growth in APE in Apr'24/May'24. In Jun'24, we expect steady growth for the industry. SBILIFE/HDFCLIFE/IPRU/MAXLIFE registered APE growth of 19%/18%/37%/29% in Apr-May'24.
- In VNB margins, we expect steady or improving trends QoQ. While the share of ULIPs continues to increase, demand for annuity, non-par (QoQ) and protection remains strong, especially with the launch of a slew of new products. Scale benefits and a higher share of protection/annuities can offset the impact of a higher share of ULIPs, keeping VNB margins steady.
- For FY25, the impact of changes in product and commission constructs from Oct'24 (post implementation of new surrender regulations) will be a key monitorable.

Steady premium growth for general insurance sector (excluding crop); strong growth in motor segment

- Excluding crop, the general insurance sector witnessed steady GWP growth of 16% and 14% in Apr'24 and May'24, respectively. Growth in the health segment was steady at 17% YoY over Apr/May'24 (16.5% in 4QFY24). The motor segment too saw strong growth of 18%/13% YoY in Apr/May'24 (10% in 4QFY24).
- For ICICIGI, premium growth in Apr/May'24 stood at 23%/22% YoY. GWP growth for ICICIGI was led by an increase in market share of the motor segment and a strong expansion in the health segment.
- For Apr/May'24, STARHEAL saw premium growth of 23%/17% YoY, driven by retail growth of 20%/15% and group health growth of 65%/37% (on lower base).
- Opex ratios would benefit from operating leverage. The health segment's loss ratios are expected to improve YoY, due to the implemented price hikes.

Strong SIP flows, positive net inflows to drive mutual fund AUM growth

- Mutual fund AUM grew 37%/36% YoY, led by strong 56%/55% growth in equity AUM for Apr'24/May'24. Net equity inflows remained buoyant in Apr'24 and May'24. The growth in equity AUM was primarily backed by strong SIP flows.
- The share of equity AUM improved ~30bp in Apr'24 and ~40bp in May'24, reaching 56.6%. SIP flows were strong in Apr'24 and May'24 (SIP flows reached all-time high in May'24).
- This would translate into a healthy operating performance for CAMS and 360 ONE in 1QFY25.

Bajaj Finance

BSE SENSEX	S&P CNX
79,987	24,287

Stock Info

Bloomberg	BAF IN
Equity Shares (m)	619
M.Cap.(INRb)/(USDb)	4493.2 / 53.8
52-Week Range (INR)	8192 / 6188
1, 6, 12 Rel. Per (%)	1/-15/-27
12M Avg Val (INR M)	8669
Free float (%)	45.3

Financials Snapshot (INR b)

Y/E March	FY24	FY25E	FY26E
Net Income	363	442	562
PPP	239	293	380
PAT	144	172	230
EPS (INR)	234	278	371
EPS Gr. (%)	23	19	33
BV/Sh. (INR)	1,241	1,495	1,817
Ratios			
NIM (%)	10.4	9.9	10.0
C/I ratio (%)	34.0	33.8	32.4
RoA (%)	4.4	4.1	4.4
RoE (%)	22.0	20.4	22.4
Payout (%)	15.4	14.8	13.1
Valuations			
P/E (x)	31.1	26.1	19.6
P/BV (x)	5.9	4.9	4.0
Div. Yield (%)	0.5	0.6	0.7

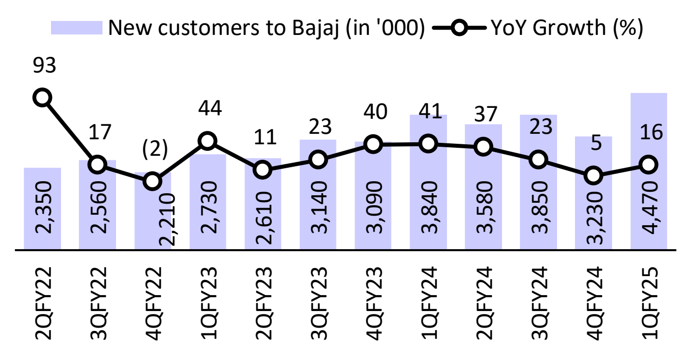
CMP:INR7,259 **Neutral**

Strong customer additions; AUM growth healthy

Momentum returning after RBI revoked ban on eCOM and Insta EMI Card

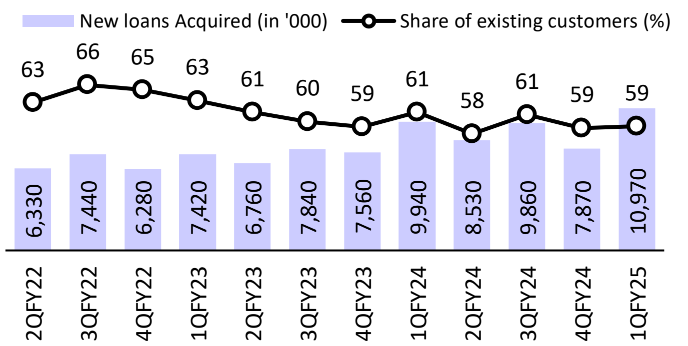
- Total customer base stood at ~88.1m in 1QFY25, up ~21% YoY/5.3% QoQ.
- New customer acquisition was very strong with BAF acquiring ~4.5m new customers (v/s 3.8m YoY). The trend of customer additions in Q1 was significantly stronger than in previous years, indicating that both e-commerce and Insta EMI Card customer acquisitions have regained strong momentum.
- New loans booked rose ~10% YoY to 10.97m (vs. 9.94m in 1QFY24).
- AUM growth was in line with reported AUM at INR3.54t, up ~31% YoY/~7% QoQ.
- Deposits stood at INR627.5b, up 26% YoY.
- AUM growth of ~31% YoY was healthy despite the impact of the RBI's ban on eCOM and Insta-EMI card in Apr'24.
- The consolidated liquidity surplus stood at INR162b (vs. INR157b QoQ). Surplus liquidity stood at ~4.6% of AUM (vs. 4.7% QoQ). Historically, the liquidity surplus tends to remain elevated for BAF in 4Q and 1Q of the fiscal year.

Strong new customer acquisitions



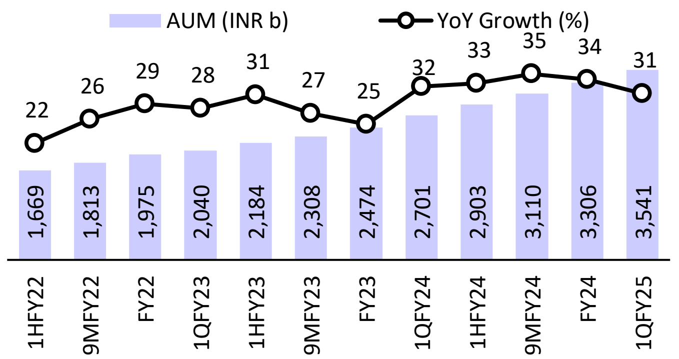
Source: MOFSL, Company

Share of existing customers stable on sequential basis



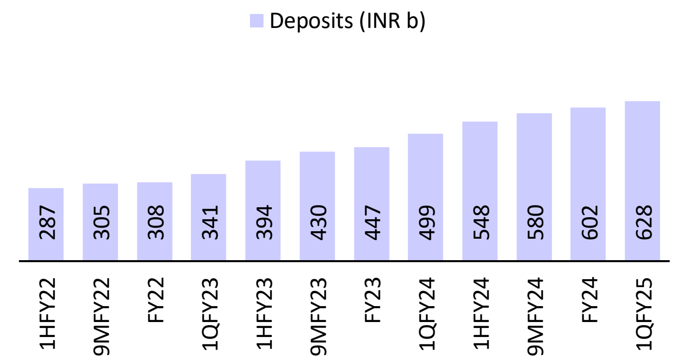
Source: MOFSL, Company

AUM rose 7% QoQ and 31% YoY, implying healthy disbursements



Source: MOFSL, Company

Deposits stood at INR628b, up 26% YoY



Source: MOFSL, Company

L&T Finance

BSE SENSEX	S&P CNX
79,987	24,287

Stock Info

Bloomberg	LTF IN
Equity Shares (m)	2489
M.Cap.(INRb)/(USDb)	469.8 / 5.6
52-Week Range (INR)	194 / 117
1, 6, 12 Rel. Per (%)	14/1/12
12M Avg Val (INR M)	1398
Free float (%)	34.1

Financials Snapshot (INR b)

Y/E March	FY24	FY25E	FY26E
Net Income	75.4	90.4	112.9
PPP	51.7	62.7	81.1
PAT	23.2	28.5	38.3
EPS (INR)	9.3	11.4	15.4
EPS Gr. (%)	42.4	22.9	34.3
BV/Sh. (INR)	94	103	116
Ratios			
NIM (%)	9.6	9.9	9.8
C/I ratio (%)	40.4	39.1	36.0
RoA (%)	2.2	2.5	2.7
RoE (%)	10.3	11.6	14.1
Payout (%)	26.9	26.0	22.5
Valuations			
P/E (x)	20.3	16.5	12.3
P/BV (x)	2.0	1.8	1.6
Div. Yield (%)	1.3	1.6	1.8

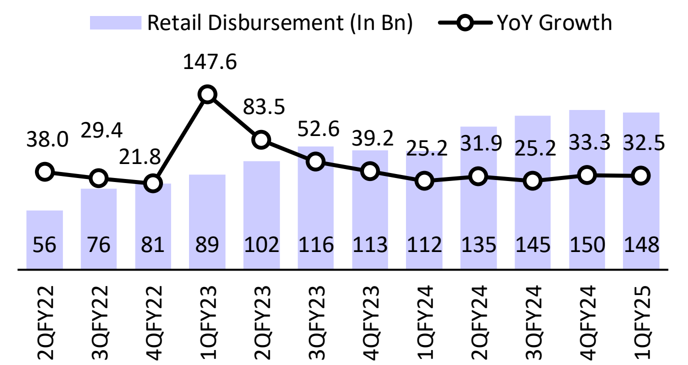
CMP:INR189 — Buy

Retail loans grew ~31% YoY; retail mix now at ~95%

Wholesale loans could have potentially declined to ~INR44b

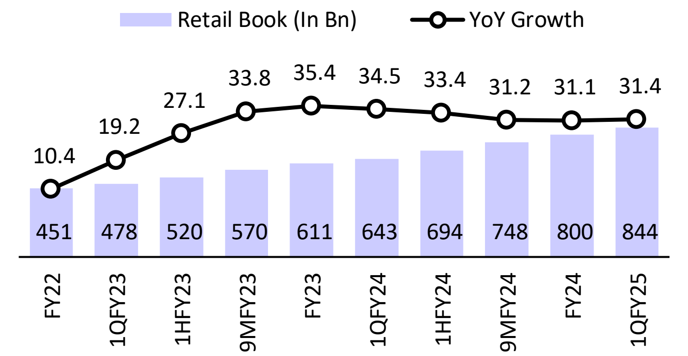
- 1QFY25 retail disbursements rose 33% YoY but declined 1% QoQ to INR148b (INR112b in 1QFY24).
- Rural business disbursements grew 28% YoY. Farmer finance disbursements grew 8% YoY and urban finance disbursements grew 44% YoY.
- Retail loan book grew 31% YoY and 6% QoQ to INR844b.
- Retail loan mix increased to ~95% (vs. 94% in 4QFY24), well ahead of "Lakshya" FY26 retail mix target of over 80%. This implies that the wholesale book could have declined to ~INR44b (from ~INR55b in 4QFY24).

Strong momentum in retail disbursements



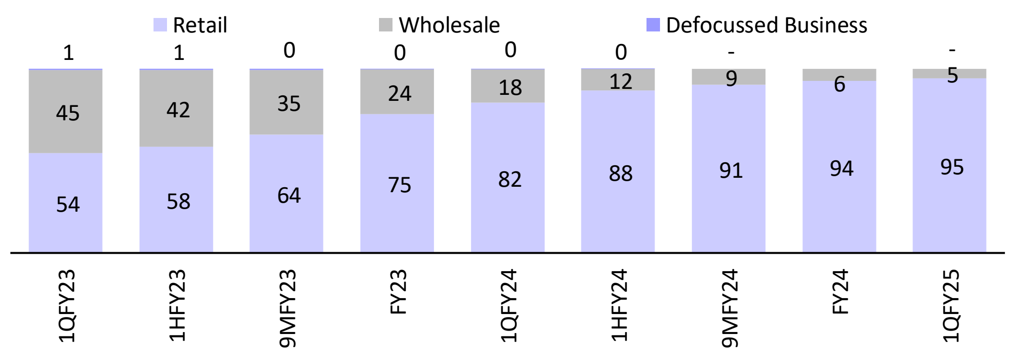
Source: MOFSL, Company

Retail loans grew ~31% YoY



Source: MOFSL, Company

Wholesale mix declined to ~5% (vs. 45% around two years ago)



Source: MOFSL, Company

Federal Bank

BSE SENSEX	S&P CNX
79,987	24,287

Stock Info

Bloomberg	FB IN
Equity Shares (m)	2435
M.Cap.(INRb)/(USDb)	444 / 5.3
52-Week Range (INR)	183 / 126
1, 6, 12 Rel. Per (%)	6/7/17
12M Avg Val (INR m)	2370
Free float (%)	100.0

Financials Snapshot (INR b)

Y/E Mar	FY24	FY25E	FY26E
NII	82.9	97.9	116.9
OP	51.7	65.0	80.2
NP	37.2	42.7	51.1
NIM (%)	3.3	3.2	3.3
EPS (INR)	16.3	17.5	21.0
EPS Gr. (%)	14.5	7.3	19.6
BV/Sh. (INR)	119	135	153
ABV/Sh. (INR)	112	127	144
Ratios			
ROE (%)	14.7	13.8	14.6
ROA (%)	1.3	1.3	1.3
Valuations			
P/E(X)	11.1	10.3	8.6
P/BV (X)	1.5	1.3	1.2
P/ABV (X)	1.6	1.4	1.3

CMP: INR181 — Buy

Business traction robust; CASA ratio steady

Federal Bank (FB) released its quarterly update, underlining the 1QFY25 business numbers. Here are the key highlights:

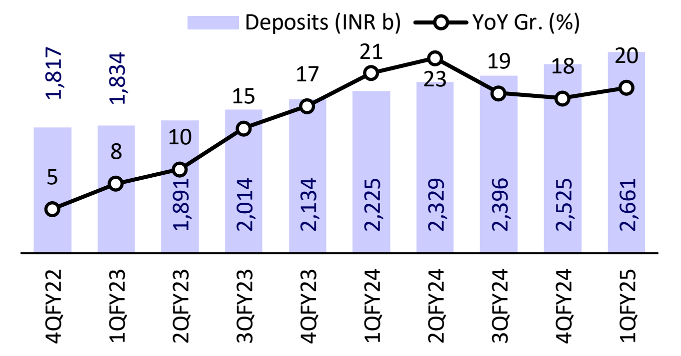
- Gross advances grew 20.1% YoY to ~INR2.24t (+5.4% QoQ). According to the internal classification of the bank, retail credit grew 25% YoY, while wholesale book rose 14% YoY. With this, the share of retail in the total loan mix stood at 56% in 1QFY25.
- Total deposit base surged 19.6% YoY (+5.4% QoQ) to INR2.66t. Total customer deposits grew 19.8% YoY (+5.0% QoQ), while CASA growth stood at 9.9% YoY (+5.0% QoQ). CASA ratio stood at 29.28%, down 10bp QoQ.
- The Certificate of Deposit jumped 16.6% YoY/2.6% QoQ, while the interbank deposits spiked 16.6% YoY/62.7% QoQ.
- Overall, FB reported healthy numbers in both advances and deposits. Advances growth was robust, driven by retail assets and supported by a pick-up in the corporate segment. The bank's deposits showed a healthy traction in a typically weak quarter for the system, with 19.6% YoY/5.4% QoQ growth. CASA growth was also healthy at 9.9% YoY and 5% QoQ, leading to a stable CASA ratio of 29.3%.

Key business trends

INR b	1QFY24	4QFY24	1QFY25	YoY (%)	QoQ (%)
Gross Advances	**1,866**	**2,126**	**2,241**	**20.1%**	**5.4%**
Total Deposits	**2,225**	**2,525**	**2,661**	**19.6%**	**5.4%**
Customer Deposits	2,104	2,400	2,520	19.8%	5.0%
CASA	**709**	**742**	**779**	**10%**	**5%**
CASA ratio (%)	**31.85%**	**29.38%**	**29.28%**	**-257**	**-10**
Certificate of Deposits	92	104	107	16.6%	2.6%

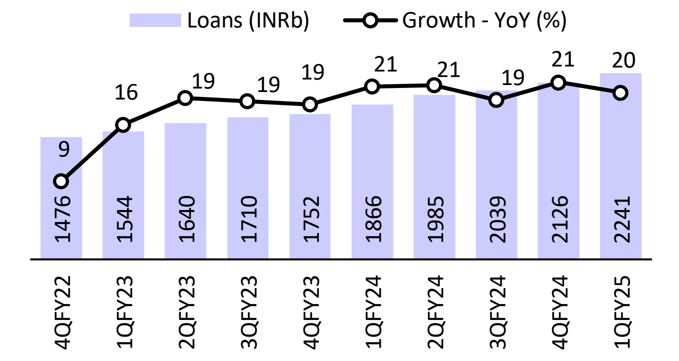
Source: MOSL, Company

Deposits grew ~19.6% YoY (+5.4% QoQ)



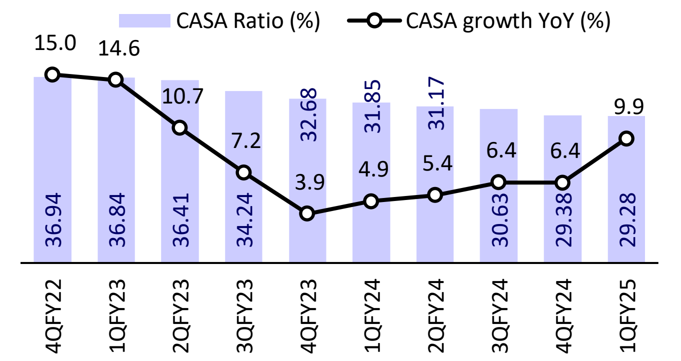
Source: MOSL, Company

Gross advances grew 20.0% YoY (+5.1% kQoQ)



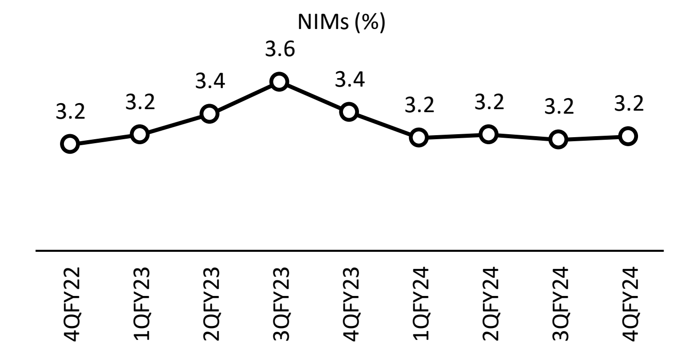
Source: MOSL, Company

CASA ratio declined 10bp QoQ to 29.3%



Source: MOSL, Company

NIM was at 3.2% as of 4QFY24



Source: MOSL, Company

3 July 2024

Update | Sector: Financials - Bank

Bandhan Bank

BSE SENSEX	S&P CNX
79,987	24,287

Bloomberg	BANDHAN IN
Equity Shares (m)	1611
M.Cap.(INRb)/(USDb)	340.1 / 4.1
52-Week Range (INR)	263 / 169
1, 6, 12 Rel. Per (%)	4/-30/-36
12M Avg Val (INR M)	2878
Free float (%)	60.0

Financials Snapshot (INR b)

Y/E March	FY24	FY25E	FY26E
NII	103.3	120.2	138.7
OP	66.4	76.7	86.8
NP	22.3	38.5	44.0
NIM (%)	6.9	7.1	7.0
EPS (INR)	13.8	23.9	27.3
EPS Gr. (%)	1.6	72.7	14.4
BV/Sh. (INR)	134	146	167
ABV/Sh. (INR)	128	141	161
Ratios			
RoE (%)	10.8	17.1	17.5
RoA (%)	1.3	2.0	2.0
Valuations			
P/E(X)	15.2	8.8	7.7
P/BV (X)	1.6	1.4	1.3
P/ABV (X)	1.6	1.5	1.3

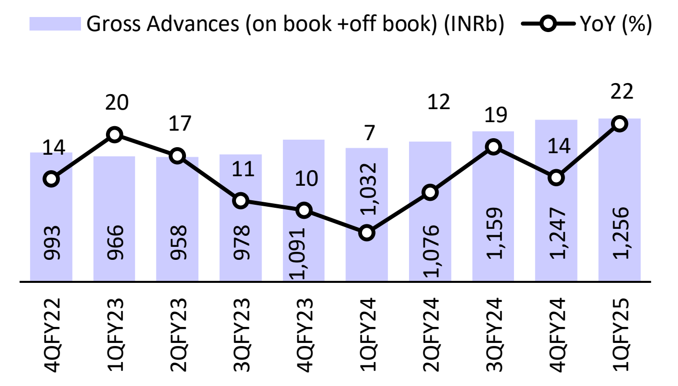
CMP: INR211 — Neutral

Business growth muted in a seasonally weak quarter

BANDHAN released its quarterly business update, highlighting the key trends for 1QFY25:

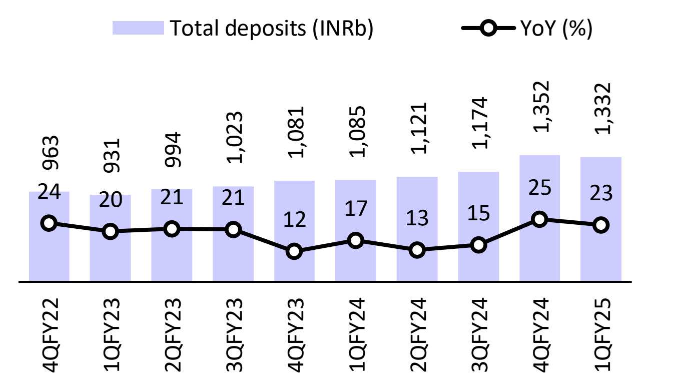
- Gross advances (on and off the book and TLTRO investments) grew 21.8% YoY (+0.7% QoQ) to ~INR1.26t vs. 7.6% QoQ increase in 4QFY24. In 1QFY24, the bank's overall advances declined by 5.5% QoQ after a robust 4QFY23.
- The deposit base stood at INR1.33t, growing 22.8% YoY (declining 1.5% QoQ). CASA deposits moderated 11.4% QoQ (up 13.8% YoY), resulting in a sharp decline in CASA ratio to 33.4% (down 3.7% QoQ). During 4QFY24, Bandhan reported 15.1% QoQ growth in deposits, while CASA mix improved 100bp QoQ.
- Retail deposits (incl CASA) grew 19.2% YoY (down 1.8% QoQ). The proportion of retail deposits declined to 69.1% (vs. 71.2% in 1QFY24). LCR stood at 149.5%.
- On the asset quality front, the overall CE remained stable QoQ at 98.5%, with collection efficiency in the Non-EEB segment at 98.3%.
- BANDHAN reported muted business growth in a seasonally weak quarter. However, the moderation in loan growth was lower than the typical decline witnessed after a busy 4Q in prior years. We await more clarity on the CGFMU claim and the CEO succession; however, the appointment of two new EDs and the recent additional director appointed by the RBI will enable smoother operations over the near term, in our view.

Exhibit 1: Advances grew 21.8% YoY (0.7% QoQ) to ~INR1.26t



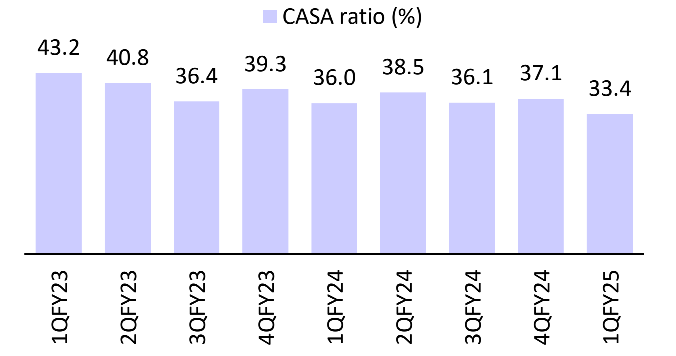
Source: MOFSL, Company

Exhibit 2: Deposits grew 22.8% YoY (-1.5% QoQ) to INR1.33t



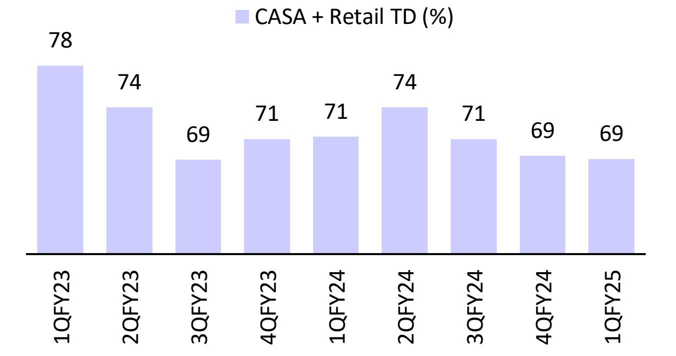
Source: MOFSL, Company

Exhibit 3: CASA ratio declined to 33.4%



Source: MOFSL, Company

Exhibit 4: Retail deposit mix stood at 69% in 1QFY25



Source: MOFSL, Company

Exhibit 5: Collection efficiency in the MFI book stood at 98.5% in Jun'24 (%)

Collection efficiency – excluding NPA	Mar'23	Jun'23	Sep'23	Dec'23	Mar'24	Jun'24
EEB	98.5	98.0	98.0	98.0	99.0	98.5
Non-EEB	98.5	98.0	99.0	98.0	97.6	98.3
Overall bank	**98.5**	**98.0**	**98.0**	**98.0**	**98.8**	**98.5**

Source: MOFSL, Company

EAI – Monthly Dashboard: Economic activity weakened in Apr-May'24

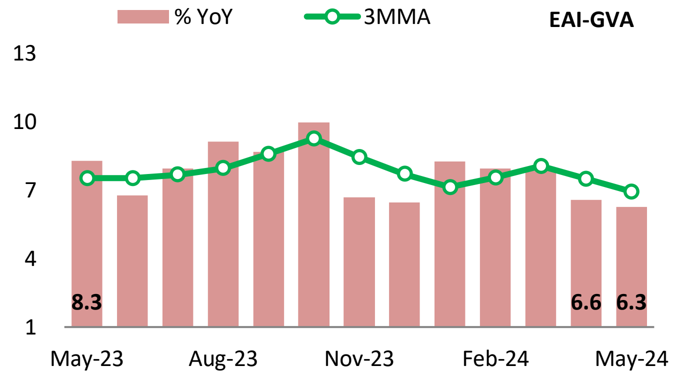
Expect real GDP growth of 6.5-7.0% in 1QFY25 vs. the RBI's projection of 7.3%

- **Preliminary estimates indicate that India's EAI-GVA grew at a 19-month low rate of 6.3% YoY in May'24 (vs. 6.6%/8.3% in Apr'24/May'23), primarily led by 11-month slowest growth in the services sector (led by lower auto sales growth and contraction in core fiscal spending). At the same time, industrial sector growth remained buoyant at 7.6% in May'24, though moderated slightly (vs. 7.8%/10% in Apr'24/May'23). Farm sector growth remained muted at 2.6% in May'24.**
- **EAI-GDP, on the other hand, grew 1.7% YoY in May'24 (the slowest in five months) vs. 5.3%/3.4% YoY in May'23/Apr'24. Although consumption grew at the slowest pace in five months, it was only partly offset by a seven-month high growth in investments and a better contribution from foreign trade. Excluding fiscal spending, EAI-GDP grew 3.1% YoY in May'24, better than 2.5% YoY a month ago, but weaker than +6.1% YoY a year ago.**
- **Selected HFIs portray a mixed picture for Jun'24 growth. The growth slowed last month for some indicators, such as vaahan registrations, power generation, commercial vehicle (CV) sales, and air cargo traffic, while the manufacturing and services PMI remained robust, and toll collections continued to grow decently. Passenger vehicle (PV) sales grew 3.7% in Jun'24, better than the growth in May'24 (the slowest in 29 months), but much weaker than +9.4% YoY in Jun'23.**
- **During the past four quarters, India's real GDP growth has been much better than expected (close to or above 8%), beating all estimates. However, our estimates suggest that EAI-GVA for Apr-May'24 decelerated to a 19-month low of 6.4% and selected HFIs for Jun'24 portray a mixed picture for growth. Thus, we expect 1QFY25 real GDP growth in the range of 6.5-7.0%, lower than the RBI's projection of 7.3%.**

Preliminary estimates indicate that India's EAI-GVA grew 6.6% YoY in May'24, the slowest in 19 months

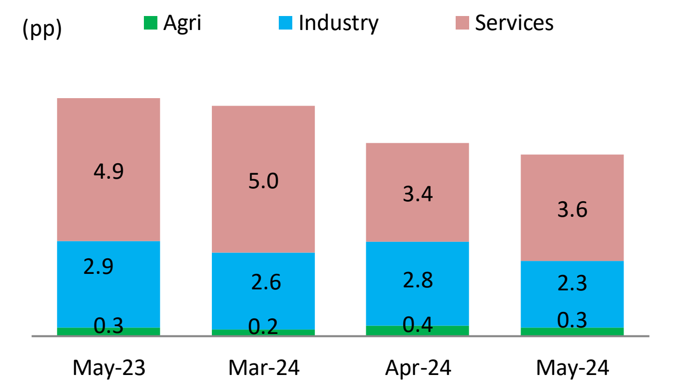
- **EAI-GVA growth at 19-month low in May'24:** Preliminary estimates indicate that India's EAI-GVA grew at a 19-month low rate of 6.3% YoY in May'24 (vs. 6.6%/8.3% in Apr'24/May'23), primarily led by 11-month slowest growth in the services sector (led by lower auto sales growth and contraction in core fiscal spending). At the same time, industrial sector growth remained buoyant at 7.6% in May'24, though moderated slightly (vs. 7.8%/10% in Apr'24/May'23). Farm sector growth remained muted at 2.6% in May'24. *(Exhibits 1 and 2)*
- **EAI-GDP growth at five-month low in May'24:** At the same time, EAI-GDP grew at a five-month lowest rate of 1.7% YoY in May'24 vs. 3.4%/5.3% YoY in Apr'24/May'23. Excluding fiscal spending, EAI-GDP grew 3.1% YoY in May'24, better than 2.5% YoY a month ago but weaker than 6.1% YoY a year ago *(Exhibits 3, 4)*.

Exhibit 1: EAI-GVA growth at 6.3% YoY in May'24, slowest in 19 months…



Please refer to our earlier report for details

Exhibit 2: …led by deceleration in the services sector



Source: Various national sources, CEIC, MOFSL

NLC India: Q1 has been strong for the company, we saw all round improvement, Unit 2 will be commercialised by October and unit 3 will be done by march; Prasanna Kumar Motupalli, Chairman & MD

- Saw substantial improvement in thermal power generation
- South coal block of 9 mt will start production in this fiscal year
- There could be some value unblocking in the renewable segment by Q4FY25 or Q1FY26

Read More

Narayana Health: As of now the health insurance product only covers Narayana Hospitals, not chasing scale, do not plan to be national level insurance provider; Viren Shetty, Executive Vice Chairman

- Comprehensive insurance product would differentiate from competitors
- Entry level insurance plan “Aditi” at a starting price of Rs. 10,000/yr
- Health insurance offering restricted to Mysore and adjoining areas
- Not chasing scale

Read More

IIFL Securities: Increased FPI headroom can lead to passive inflow of $2.8 - $3 b in HDFC Bank. Expect 4-6% up move in the stock; Sriram Velayudhan, VP

- HDFC Bank’s weight increase in MSCI has been the most awaited announcement
- Foreign room has opened around 25% for HDFC Bank
- Expect passive inflow of $2.8-3 bn in HDFC Bank
- $1.5 bn should be futures position in HDFC Bank
- anticipate 4-6% up move in HDFC Bank

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ISMT: Adding 70 megawatts of solar power in phase one; Ravindranath Gumaste, Vice Chairman

- This initiative will lower power costs and align with their green-go policy
- Having started a debottlenecking process to improve efficiency
- Most of the capital expenditure will be funded through internal accruals
- With the increase in solar power capacity, overall margins are expected to improve
- Company is focusing on cost reduction and production efficiency projects
- A couple of approvals are required for the merger with Kirloskar Industries, which is expected to be completed in the next three months
- Aim is to achieve a topline of Rs. 3000 crore

Read More

N O T E S

Explanation of Investment Rating	
Investment Rating	**Expected return (over 12-month)**
BUY	>=15%
SELL	< - 10%
NEUTRAL	> - 10 % to 15%
UNDER REVIEW	Rating may undergo a change
NOT RATED	We have forward looking estimates for the stock but we refrain from assigning recommendation

*In case the recommendation given by the Research Analyst is inconsistent with the investment rating legend for a continuous period of 30 days, the Research Analyst shall within following 30 days take appropriate measures to make the recommendation consistent with the investment rating legend.

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Nainesh Rajani
Email: nainesh.rajani@motilaloswal.com
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Grievance Redressal Cell:

Contact Person	Contact No.	Email ID
Ms. Hemangi Date	022 40548000 / 022 67490600	query@motilaloswal.com
Ms. Kumud Upadhyay	022 40548082	servicehead@motilaloswal.com
Mr. Ajay Menon	022 40548083	am@motilaloswal.com

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