

## Aditya Birla Sun Life AMC

Recommendation	Subscribe
Price Band (Rs per share)	695 – 712
Bidding Date	29 Sep - 1 Oct
Book Running Lead Manager	Citi, BofA, Axis, HDFC Bank, IIFL, JM, MOSL, SBI Cap, ICICI Sec., Kotak, Yes
Registrar	K-Fintech
Sector	Asset Management

Minimum Retail Application- Detail At Cut off Price	
Number of Shares (bid lot)	20
Minimum Application Money	Rs. 14,240
Payment Mode	ASBA

Valuations (FY21)	Upper Band
Market Cap (Rs. Cr)	20,506
EPS	18.3
AUM (Rs Bn)	2693
P/E	39.0
Market Cap / AUM	7.6%

Post Issue Shareholding Pattern	
Promoters	86.5%
Public	13.5%

Offer structure for different categories	
QIB (Including Mutual Fund)	50%
Non-Institutional Investors	15%
Retail	35%
Post Issue Equity (in Rs Cr)	144.0
Issue Size (Rs in cr)	2,702 - 2,768
Face Value (Rs)	5

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**BACKGROUND**

ABSL (Aditya Birla Sun Life) is the largest non-bank affiliated AMC in India since FY18, and among the four largest AMCs in India since FY12. ABSL managed a total AUM of Rs. 2,936.42 billion as on 30 June 2021. ABSL has demonstrated its abilities by successfully tilting its revenue mix towards higher margin segments like equities, individuals and B-30 cities which has helped the company achieve a robust PAT CAGR of 21% over the last 5 years.

#### Details and Objects of the Issue

The public issue consists of an OFS (offer for sale) of Rs. 2,768 Cr by both the promoters viz. – Aditya Birla Capital selling 1% stake and Sun Life selling 12.5% stake. There is no fresh issue of shares. Thus the issue size forms 13.5% of the market cap of ABSL.

#### Investment Rationale

- Largest non-bank affiliated AMC in India.
- Well recognized brand with experienced promoters having presence in multiple countries.
- Growing individual investor customer base driven by strong systematic flows and B-30 (beyond top 30 cities) penetration.
- Robust fund performance supported by research driven investment philosophy.
- Pan-India, diversified distribution network.

#### Valuation and Recommendation

Over FY16-21, ABSL has witnessed strong AUM CAGR of ~15% rising from Rs. 1365 Bn to Rs. 2693 Bn. Revenues and profits have grown at a CAGR of 7% and 21% respectively over the same period. Positive macro-economic factors and a robust industry growth prediction of ~12% CAGR over FY21-FY26E, provide the company with a good opportunity to further grow. ABSL enjoys a strong parentage, solid brand image, a decent distribution network and consistently high ROE of over 30%. **We thus recommend to “subscribe for the long term”.**

Rs. Cr

Financial Snapshot	FY19	FY20	FY21	Q1FY22
Core revenue	1327	1160	1068	303
<b>Growth</b>		<b>-13%</b>	<b>-8%</b>	<b>39%</b>
EBITDA	603	628	601	183
<b>Margin</b>	45.5%	<b>54.1%</b>	<b>56.3%</b>	<b>60.4%</b>
PAT	447	494	526	155
<b>Growth</b>		<b>11%</b>	<b>6%</b>	<b>59%</b>
EPS	15.5	17.2	18.3	5.4
ROE	37%	38%	31%	34%*
QAAUM (Rs Bn)	2465	2475	2693	2755
<b>Growth</b>	<b>0%</b>	<b>0%</b>	<b>9%</b>	
Market Cap / AUM	8.3%	8.3%	7.6%	7.4%
P/E	45.9	41.5	39.0	33.1

Source: Company, NBRR

\* Q1FY22 Valuations are annualised

## Company Background

ABSL is ranked as the largest non-bank affiliated AMC in India by QAAUM since March 31, 2018, and among the four largest AMCs in India by QAAUM since September 30, 2011. ABSL managed total AUM of Rs. 2,936.42 billion under its suite of mutual fund (excluding its domestic Fund of Funds), portfolio management services, offshore and real estate offerings, as of June 30, 2021. ABSL has achieved this leadership position through its focus on consistent investment performance, extensive distribution network, brand, experienced management team and superior customer service.

ABSL is currently set up as a JV between ABCL (51%) and Sun Life AMC (49%). ABCL is the listed non-operating holding company of the financial services businesses of the Aditya Birla group. Sun Life Financial Inc. (a Canadian company), the ultimate holding company of Sun Life AMC, is a leading international financial services organization providing insurance, wealth and asset management solutions to individual and corporate clients. Sun Life Financial Inc. had a market capitalization of C\$37.43 billion and total AUM of C\$1,360.69 billion, as of June 30, 2021.

Since inception in 1994, ABSL has established a geographically diversified pan-India distribution presence covering 284 locations spread over 27 states and six union territories. Its distribution network is extensive and multi-channeled with a significant physical as well as digital presence, and included over 66,000 KYD (know your distributor) compliant MFDs (Mutual Fund Distributors), over 240 national distributors and over 100 banks/financial intermediaries, as of June 30, 2021.

ABSL's focus on improving equity-oriented scheme mix is a significant factor in enhancing its profitability, as equity-oriented schemes generate higher management fees compared to other schemes. Its equity-oriented MAAUM grew at a CAGR of 24.9% from Rs. 323.45 billion as of March 31, 2016 to Rs. 984.80 billion as of March 31, 2021, and further to Rs. 1,080.44 billion as of June 30, 2021. Correspondingly, its share of equity-oriented MAAUM in total MAAUM increased from 23.7% as of March 31, 2016 to 38.1% as of June 30, 2021.

ABSL has maintained a leading position in B-30 (beyond top 30 cities) penetration over the years, which has further contributed to the growth of its individual investor base as well as improvement in profitability. Its B-30 cities MAAUM was Rs. 447.01 billion as of June 30, 2021, and its share of MAAUM from B-30 cities in total MAAUM as of June 30, 2021 was the second highest amongst the five largest AMCs. Its share of MAAUM from B-30 cities in total MAAUM increased from 13.4% as of March 31, 2019 to 15.8% as of June 30, 2021.

ABSL's systematic transactions have also achieved good growth, with its number of outstanding SIPs more than tripling from 0.86 million as of March 31, 2016 to 2.80 million as of June 30, 2021. Correspondingly, its AUM from SIPs grew from Rs. 85.23 billion (representing 25.7% of its total equity-oriented mutual fund AUM) as of March 31, 2016 to Rs. 456.92 billion (representing 41.7% of its total equity-oriented mutual fund AUM) as of June 30, 2021.

The above mentioned attractive increases in equity mix, B-30 penetration and systematic transactions have been largely driven by ABSL's focus on customers, distributors and wide channel distribution across all locations including smaller emerging markets, development of powerful digital platforms, the consistent performance of its schemes and diversity of portfolio of schemes offered, and its dedication to providing superior customer service.

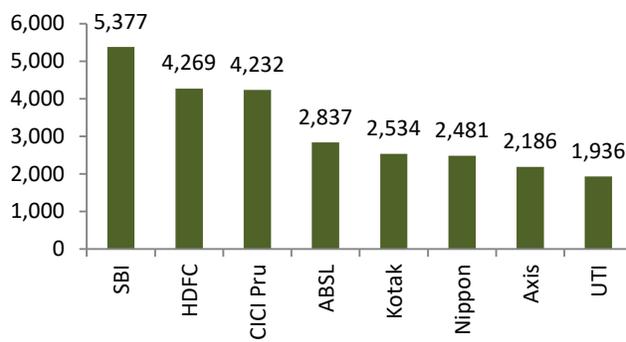
## Aditya Birla Sun Life AMC

### Investment Rationale

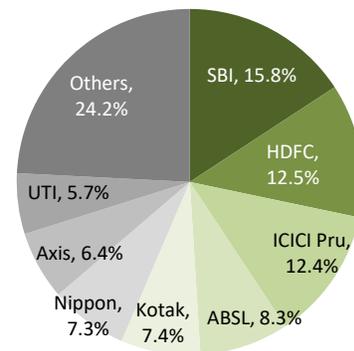
#### Largest Non-bank Affiliated AMC in India

ABSL has maintained its position as the **largest non-bank affiliated AMC in India** by QAAUM since March 31, 2018 as well as **among the four largest AMCs in India by QAAUM since September 30, 2011**. Its total QAAUM grew at a CAGR of 14.6% from Rs. 1,365.03 billion as of March 31, 2016 to Rs. 2,692.78 billion as of March 31, 2021, and further to Rs. 2,754.54 billion as of June 30, 2021.

AMC Size (Rs. Bn.) – on closing AUM



AMC Market Shares



Source: Companies, NBRR

#### Well-Recognized Brand with Experienced Promoters

ABSL benefits from the strong track record, reputation and experience of its Promoters, ABCL (an Aditya Birla group company) and Sun Life AMC, and their respective affiliates, which have enabled ABSL to build a brand that its customers trust and that has a strong recall. **Aditya Birla group is a multi-national conglomerate and, over the last seven decades, has grown to become one of India's largest and most respected corporate groups.** The Aditya Birla group holds a leadership position in a variety of sectors such as metals, cement, carbon black, viscose staple fibre, mobile telecommunications, textiles, fashion retail, chemicals and financial services, among others, and employs approximately 120,000 people with operations in 36 countries around the world. ABCL, one of ABSL's promoters and shareholders, is the listed non-operating holding company of the Aditya Birla group's financial services businesses. **For FY21, ABCL had revenues of Rs. 192.48 billion. As of June 30, 2021, ABCL had a market capitalization of Rs. 283.21 billion and, through its subsidiaries and joint ventures had a consolidated lending book of Rs. 571.82 billion and an active customer base of over 25 million customers.** Powered by more than 22,000 employees, the subsidiaries of ABCL have a nationwide reach with over 850 branches and over 200,000 agents and channel partners as well as several bank partners. The Aditya Birla brand has strong resonance and recall with India's populace, with ABCL being awarded "Brand of the Year" at the Indian Content Marketing Awards 2020.

Sun Life is a Canada based leading international financial services organization providing insurance, wealth and asset management solutions to individual and corporate clients. **Sun Life has operations in a number of markets worldwide, including Canada, the United States, the United Kingdom, Hong Kong, Australia and several countries across Asia. As of June 30, 2021, Sun Life Financial Inc. had a market capitalization of C\$37.43 billion and total AUM of C\$1,360.69 billion, which grew at a rate of 9.5% per annum over the last five years between June 30, 2016 and June 30, 2021.**

## Aditya Birla Sun Life AMC

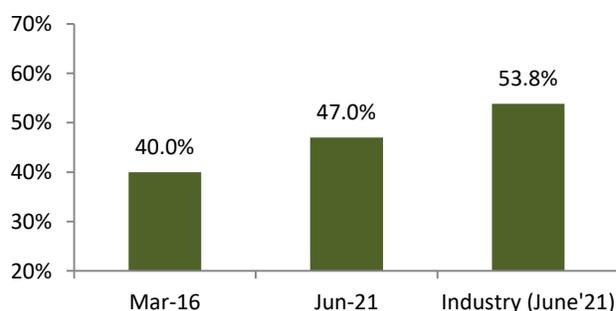
### Growing Individual Investor Customer Base Driven By Strong Systematic Flows and B-30 (beyond 30) Penetration

ABSL's individual investor MAAUM grew a CAGR of 18.4% from Rs. 546.13 billion as of March 31, 2016 to Rs. 1,333.53 billion as of June 30, 2021. ABSL was the fifth largest player in terms of market share in individual AUM among the top 10 AMCs as of June 30, 2021. Correspondingly, ABSL's individual investor MAAUM mix increased from 40.0% as of March 31, 2016 to 47.0% as of June 30, 2021.

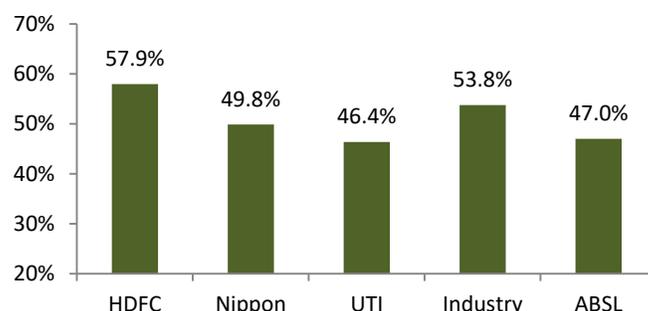
Over the years, SIPs have become a material portion of ABSL's AUM, and accounted for 41.7% of its total equity-oriented mutual fund AUM and 40% of its total individual investor mutual fund AUM, as of June 30, 2021. Its outstanding SIPs grew from 0.86 million as of March 31, 2016 to 2.80 million as of June 30, 2021, and its SIP AUM grew from Rs. 85.23 billion to Rs. 456.92 billion over the same period. Correspondingly, **the share of SIP AUM in total equity-oriented mutual fund AUM increased from 25.7% to 41.7% over the same period, higher than the industry share of 31.4% as of June 30, 2021.**

Focusing its expansion on underpenetrated B-30 cities has helped grow its retail customer acquisition and retention rates. ABSL's MAAUM from B-30 cities was Rs. 447.01 billion as of June 30, 2021. **Its share of MAAUM from B-30 cities in total MAAUM as of June 30, 2021 was the second highest amongst the five largest AMCs in India.** As of June 30, 2021, its market share of MAAUM from B-30 cities was 8.0%. As of June 30, 2021, ABSL had 233 branches located in B-30 cities. A large part of industry growth is expected to come from B-30 cities, and AMCs with an existing large presence in B-30 cities will be well placed to attract customers in these locations due to their established position, infrastructure and distribution capabilities.

Share of Individual AUM in total AUM

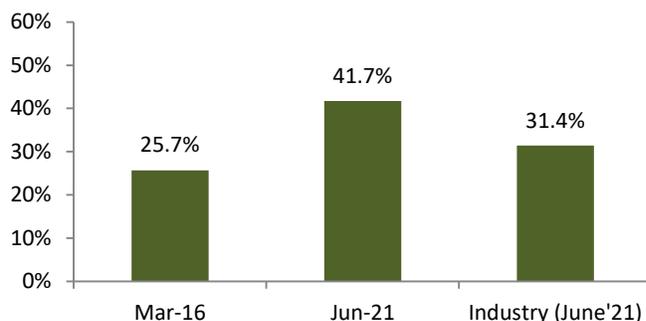


Share of Individual AUM in total AUM

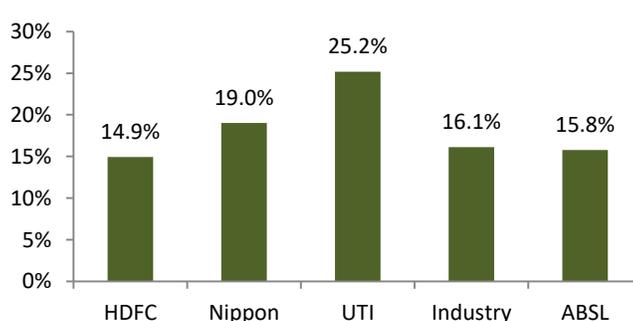


Source: Companies, NBRR

Share of SIP in total equity-oriented AUM



Share of AUM from B-30 cities in total AUM



Source: Companies, NBRR

## Aditya Birla Sun Life AMC

### Robust Fund Performance supported by Research Driven Investment Philosophy

13 of ABSL's top open-ended schemes, which accounted for 64% of its QAAUM as of June 30, 2021 have outperformed their peers under the 10-year annualized return horizon as of June 30, 2021.

#### Performance comparison of a few large funds of ABSL with Industry Peer Averages

	QAAUM (Rs Bn)	3 year return	5 year return	10 year return
<b>Equity Schemes</b>				
ABSL Frontline Equity	198.95	12.5%	12.5%	13.2%
Peer Average		13.4%	13.6%	12.5%
ABSL Flexi Cap	137.44	14.6%	15.7%	15.2%
Peer Average		15.1%	14.7%	14.3%
<b>Debt Schemes</b>				
ABSL Corporate Bond	240.47	9.3%	8.4%	9.1%
Peer Average		8.4%	8.0%	8.5%
ABSL Savings	184.54	7.2%	7.4%	8.4%
Peer Average		5.7%	6.2%	7.5%
<b>Liquid Schemes</b>				
ABSL Liquid	316.83	5.4%	6.0%	7.5%
Peer Average		5.3%	6.0%	7.5%

Source: RHP

### Pan-India, Diversified Distribution Network

ABSL has a presence in 284 locations, comprising 194 branches in India (and three outside India), spread over 27 states and six union territories. **Of the 194 branches; 143 branches were located in B-30 cities.** ABSL's hub and spoke model further enables it to more effectively leverage its extensive branch network as well as keep distribution costs low.

ABSL's capability to build deep and strong relationships with distributors is demonstrated by its **highly diversified distribution network, which included over 66,000 KYD (know your distributor) compliant MFDs (Mutual Fund Distributors) over 240 national distributors and over 100 banks/financial intermediaries, as of June 30, 2021.** The diversification of its distribution base has led to a reduction in the concentration of AUM sourced from the top 10 distributors (in terms of AUM sourced) from 49% in FY16 to 37% in FY21. Also, **ABSL has the lowest concentration of AUM sourced from the top 20 distributors (in terms of AUM sourced), among the top five AMCs in India in terms of QAAUM, as of June 30, 2021.**

MFDs, national distributors and banks/financial intermediaries contributed to 30%, 14% and 9%, respectively, of ABSL's total QAAUM (excluding ETFs) as of June 30, 2021, while its direct marketing efforts contributed to 47%. **ABSL's investment in MFDs has led to an increase in equity-oriented QAAUM from MFDs from Rs. 127.54 billion as of March 31, 2016 to Rs. 519.32 billion as of June 30, 2021.** MFDs, national distributors and banks/financial intermediaries contributed to 51%, 19% and 11%, respectively, of its equity-oriented QAAUM as of June 30, 2021, while its direct marketing efforts contributed to just 19%. Since 2019, ABSL have added over 8,000 MFDs to its distribution network.

## Key Risks

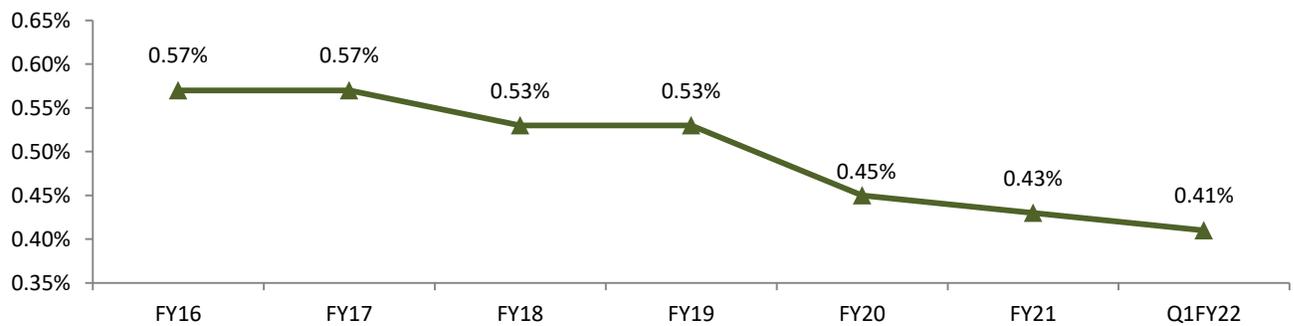
### Competition especially from new market participants offering investment products could reduce ABSL's market share or put downward pressure on its fees and profitability

The MF industry is rapidly evolving and intensely competitive (more than 40 players) and we expect competition to continue and intensify in the future. Low barriers to entry have also resulted in a large number of smaller participants entering the market. Rising competition combined with the trend towards increasing share of ETFs at industry level has led to a decline in fee income and profitability as % of AUM in recent years. New entrants (including discount brokers, fintechs/market place companies, NBFCs) are expected to attract customers, gain market share and reduce profit margins of incumbents by offering passive indexed products /ETFs as well as new innovative products (Quant based and others).

### Any reduction of the expense limits by SEBI may impact financials

SEBI prescribes the upper limits with respect to the TER (total expense ratio). From time to time these TER limits may be reviewed and revised by SEBI. For example, with effect from April 1, 2019, TERs for open-ended equity-oriented schemes were reduced from a range (depending on AUM) of 2.5% to 1.75% to the current range of 2.25% to 1.05%. There is a possibility that TER limits may be reduced further in the future which may impact ABSL's financials.

### Revenue as % of AUM – impact of TER reduction in FY20 on ABSL



Source: Companies, NBRR

### Cyclicality of business; Declines in the Indian equity markets

A large number of the schemes managed by ABSL include active equity investments in Indian equity markets and as such they make up 38% of its AUM. Declines in Indian equity markets would cause AUM managed by ABSL to decline directly as the value of the securities declines, and indirectly as securities investment becomes less attractive for investors resulting in net AUM outflows or redemptions. The equity markets in India have been and may continue to be volatile, including as a result of the ongoing COVID-19 pandemic, and any such volatility will contribute to fluctuations in the AUM managed by ABSL.

### Changes in interest rates and defaults

Many of the schemes managed by ABSL invest in fixed income securities of various issuers, including short-term money market instruments. As of June 30, 2021, 62% of its AUM was invested in domestic fixed income securities. The value of fixed income securities may decline as a result of changes in interest rates, policies of the RBI, an issuer's actual or perceived creditworthiness or an issuer's inability to meet its obligations. Such declines would also result in a decline in ABSL's AUM.

## Aditya Birla Sun Life AMC

### Valuation and Recommendation

Over FY16-21, ABSL has witnessed strong AUM CAGR of ~15% rising from Rs. 1365 Bn to Rs. 2693 Bn. Revenues and profits have grown at a CAGR of 7% and 21% respectively over the same period. Positive macro-economic factors and a robust industry growth prediction of ~12% CAGR over FY21-FY26E, provide the company with a good opportunity to further grow. ABSL enjoys a strong parentage, solid brand image, a decent distribution network and consistently high ROE of over 30%. **We thus recommend to “subscribe for the long term”.**

Parameters	HDFC	Nippon	UTI	Average	ABSL
MF AUM - June 2021 (Rs Cr)	426,900	248,100	193,600	289,533	283,700
<b>AUM Mix as on June 2021</b>					
Equity	45.2%	42.0%	37.5%	41.6%	38.1%
Debt	33.4%	29.2%	19.4%	27.3%	41.2%
Liquid & Money Market	20.5%	11.6%	21.4%	17.9%	20.4%
ETFs	0.9%	17.1%	21.7%	13.2%	0.3%
Total	100.0%	100.0%	100.0%	100.0%	100.0%
Share of Equity as on FY16	35.8%	29.6%	29.8%	31.7%	23.7%
<i>Increase over FY16-June 2021</i>	<i>9.4%</i>	<i>12.4%</i>	<i>7.7%</i>	<i>9.8%</i>	<i>14.4%</i>
<b>Market Share</b>					
Mar-19	14.0%	9.5%	6.5%	10.0%	10.1%
Mar-20	13.7%	7.6%	5.6%	9.0%	9.2%
Mar-21	12.7%	7.2%	5.8%	8.6%	8.4%
Jun-21	12.5%	7.3%	5.7%	8.5%	8.3%
Revenue as % of AAUM (FY21)	0.57%	0.65%	0.60%	0.61%	0.43%
PAT as % of AAUM (FY21)	0.35%	0.32%	0.22%	0.30%	0.21%
ROE	30.1%	23.3%	12.9%	22.1%	33.7%
Core Revenue Growth (FY19-21)	-2%	-15%	-5%	-7%	-10%
PBT Growth (FY19-21)	13%	12%	11%	12%	4%
<b>Client Mix</b>					
B 30 as % of QAAUM	14.9%	19.0%	25.2%	19.7%	15.8%
Individual as % of QAAUM	57.9%	49.8%	46.4%	51.4%	47.0%
Market Cap / AUM	16.2%	11.1%	7.3%	11.5%	7.2%
<i>Equity Mix</i>	<i>45.2%</i>	<i>42.0%</i>	<i>37.5%</i>	<i>41.6%</i>	<i>38.1%</i>
P/E FY21	52.1	40.2	28.5	40.3	39.0
P/E (Q1FY22 annualised EPS)	50.0	37.8	22.7	36.8	33.1

## Aditya Birla Sun Life AMC

### Financials

P&L (Rs. Cr)	FY19	FY20	FY21	Q1FY22
Commision & Fee Income	1327	1160	1068	303
<b>% Growth</b>	<b>6%</b>	<b>-13%</b>	<b>-8%</b>	<b>39%</b>
COGS	144	75	47	6
<b>% of Revenues</b>	<b>10.8%</b>	<b>6.5%</b>	<b>4.4%</b>	<b>2.0%</b>
Employee Cost	278	242	241	69
<b>% of Revenues</b>	<b>20.9%</b>	<b>20.9%</b>	<b>22.5%</b>	<b>22.8%</b>
Other expenses	302	215	179	45
<b>% of Revenues</b>	<b>22.8%</b>	<b>18.5%</b>	<b>16.8%</b>	<b>14.8%</b>
<b>EBITDA</b>	<b>603</b>	<b>628</b>	<b>601</b>	<b>183</b>
<b>EBITDA Margin</b>	<b>45.5%</b>	<b>54.1%</b>	<b>56.3%</b>	<b>60.4%</b>
Depreciation	32	37	37	9
O.I & Gain on Fair Value	80	75	138	33
Interest	6	5	6	1
<b>PBT</b>	<b>646</b>	<b>661</b>	<b>696</b>	<b>206</b>
Tax	199	166	170	51
<b>Tax rate</b>	<b>31%</b>	<b>25%</b>	<b>24%</b>	<b>25%</b>
<b>PAT</b>	<b>447</b>	<b>494</b>	<b>526</b>	<b>155</b>
<b>% Growth</b>	<b>63%</b>	<b>11%</b>	<b>6%</b>	<b>59%</b>
<b>EPS (Post Issue)</b>	<b>15.5</b>	<b>17.2</b>	<b>18.3</b>	<b>5.4</b>
Ratios & Others	FY19	FY20	FY21	Q1FY22
EBITDA Margin (%)	45%	54%	56%	60%
PAT Margin (%)	34%	43%	49%	51%
ROE (%)	37%	38%	31%	9%
ROCE (%)	53%	51%	41%	11%
<b>AUM (Rs. Bn)</b>	<b>2556</b>	<b>2153</b>	<b>2708</b>	<b>2936</b>
<b>Growth</b>		<b>-16%</b>	<b>26%</b>	<b>8%</b>
Turnover Ratios	FY19	FY20	FY21	Q1FY22
Debtors Days	7	13	11	-
Inventory Days	-	-	-	-
Creditor Days	21	15	13	-
Asset Turnover (x)	1.1	0.9	0.6	0.7
Valuation Ratios	FY19	FY20	FY21	Q1FY22
Price/Earnings (x)	45.9	41.5	39.0	33.1
EV/EBITDA (x)	30.8	29.6	31.0	25.4
Price/BV (x)	16.8	15.6	12.0	11.4
EV/Sales (x)	14.0	16.0	17.4	15.3
Mkt Cap/AUM (x)	8.3%	8.3%	7.6%	7.4%

Source: Company Data, NBRR

\* Q1FY22 Valuations are annualised

Balance Sheet (Rs. Cr)	FY19	FY20	FY21	Q1FY22
Share Capital	18	18	18	144
Reserve & Surplus	1,203	1,299	1,687	1,658
<b>Networth</b>	<b>1,221</b>	<b>1,317</b>	<b>1,705</b>	<b>1,802</b>
<b>Total Loans</b>	-	-	-	-
Other non-curr liab.	125	109	99	102
Trade payable	75	47	37	42
Provisions	50	71	95	96
Other Current Liab.	27	28	42	44
<b>Total Equity &amp; Liab.</b>	<b>1,498</b>	<b>1,572</b>	<b>1,978</b>	<b>2,086</b>
Fixed Assets & CWIP	87	75	65	61
Other Intangible Assets	10	12	13	12
Investments	1,138	1,263	1,726	1,852
Current Tax Assets	16	27	17	6
Other non Curr. assets	155	94	56	64
Cash	38	47	56	52
Bank	0	0	0	0
Debtors	26	40	31	26
Other Current assets	29	13	13	13
<b>Total Assets</b>	<b>1,498</b>	<b>1,572</b>	<b>1,978</b>	<b>2,086</b>
Cash Flow (Rs. Cr)	FY19	FY20	FY21	Q1FY22
EBITDA	603	628	601	183
Provisions & Others	(3)	2	1	13
<b>Op. profit before WC</b>	<b>601</b>	<b>630</b>	<b>602</b>	<b>196</b>
Change in WC	(57)	37	61	9
Less: Tax	228	170	151	38
<b>CF from operations</b>	<b>315</b>	<b>497</b>	<b>512</b>	<b>167</b>
Addition to assets	(20)	(16)	(11)	(1)
(Purchase)/Sale of invst.	82	(51)	(338)	(96)
Dividend Received	1	1	9	3
<b>CF from Investing</b>	<b>62</b>	<b>(66)</b>	<b>(340)</b>	<b>(94)</b>
Lease Liability Interest	(6)	(5)	(6)	(1)
Lease Liability Principal	(17)	(19)	(17)	(5)
Dividend paid	(361)	(398)	(140)	(71)
<b>CF from Financing</b>	<b>(384)</b>	<b>(423)</b>	<b>(163)</b>	<b>(77)</b>
<b>Net Change in cash</b>	<b>(6)</b>	<b>8</b>	<b>10</b>	<b>(5)</b>
Cash at beginning	44	38	47	56
Cash at end	38	47	56	52

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