



## INTERNATIONAL JOURNAL OF RESEARCH IN COMMERCE, ECONOMICS AND MANAGEMENT

### CONTENTS

Sr. No.	TITLE & NAME OF THE AUTHOR (S)	Page No.
1.	INTERNATIONAL FINANCIAL REPORTING STANDARD ADOPTION, IMPLICATION ON MANAGEMENT ACCOUNTING AND TAXATION IN NIGERIAN ECONOMY FOLAJIMI FESTUS ADEGBIE	1
2.	MODERN PORTFOLIO THEORY (MPT) AND FINANCIAL ECONOMICS: A THEORY OF LESSER TURF? DR. ANDREY I. ARTEMENKOV	6
3.	THE IMPACT OF STOCK MARKET OPERATIONS ON THE NIGERIA ECONOMY: A TIME SERIES ANALYSIS (1981-2008) DR. OFURUM CLIFFORD OBIYO & TORBIRA, LEZAASI LENE	13
4.	PERFORMANCE APPRAISAL SYSTEM ON COMPANY PAY ROLL EMPLOY, SENIOR, MIDDLE & LOWER MANAGEMENT (A STUDY WITH REFERENCE TO INTERNATIONAL TOBACCO COMPANY LTD., GHAZIABAD) DR. RAGHVENDRA DWIVEDI & KUSH KUMAR	18
5.	CREDIT POLICY AND ITS EFFECT ON LIQUIDITY: A STUDY OF SELECTED MANUFACTURING COMPANIES IN NIGERIA STEPHEN A. OJEKA	25
6.	CREDIT RISK MANAGEMENT IN STATE BANK OF INDIA - A STUDY ON PERCEPTION OF SBI MANAGER'S IN VISAKHAPATNAM ZONE DR. P. VENI & P. SREE DEVI	31
7.	THE ARCHAEOLOGY OF RECESSION: DILEMMA BETWEEN CIVILIZATION AND CULTURE – TWO DIFFERENT APPROACHES OF WEST AND EAST WHILE COMBATING GREAT DEPRESSION DR. V. L. DHARURKAR & DR. MEENA CHANDAVARKAR	38
8.	TRANSFORMING A RETAIL CENTRE INTO A BRAND THROUGH PROFESSIONAL MALL MANAGEMENT DR. N. H. MULLICK & DR. M. ALTAH KHAN	42
9.	IMPACT OF EXCHANGE RATE VOLATILITY ON REVENUES: A CASE STUDY OF SELECTED IT COMPANIES FROM 2005 -2009 K. B. NALINA & DR. B. SHIVARAJ	47
10.	DETERMINING WORKING CAPITAL SOLVENCY LEVEL AND ITS EFFECT ON PROFITABILITY IN SELECTED INDIAN MANUFACTURING FIRMS KARAMJEET SINGH & FIREW CHEKOL ASRESS	52
11.	FUTURE NUTRITION & FOOD OF INDIA – THE AQUA-CULTURE: AN ENVIRONMENTAL MANAGEMENT & CULINARY PARADIGM PERSPECTIVE STUDY FOR A SUSTAINABLE NATIONAL STRATEGY DR. S. P. RATH, PROF. BISWAJIT DAS, PROF. SATISH JAYARAM & CHEF SUPRANA SAHA	57
12.	A STUDY OF NON-FUND BASED ACTIVITIES OF MPFC - WITH SPECIAL REFERENCE TO CAUSES OF FAILURE AND PROBLEMS DR. UTTAM JAGTAP & MANOHAR KAPSE	65
13.	CRM IN BANKING: PERSPECTIVES AND INSIGHTS FROM INDIAN RURAL CUSTOMERS ARUN KUMAR, DEEPAI SINGH & P. ACHARYA	69
14.	DETERMINANTS OF INCOME GENERATION OF WOMEN ENTREPRENEURS THROUGH SHGS REVATHI PANDIAN	78
15.	AGRICULTURAL CREDIT: IMPACT ASSESSMENT DR. RAMESH. O. OLEKAR	81
16.	MICRO FINANCE AND SELF- HELP GROUPS – AN EXPLORATORY STUDY OF SHIVAMOGA DISTRICT MAHESHA. V & DR. S. B. AKASH	87
17.	INFORMAL SMALL SCALE BRICK-KILN ENTERPRISES IN GULBARGA URBAN AREA – AN ECONOMIC ANALYSIS SHARANAPPA SAIDAPUR	91
18.	EXTENT OF UNEMPLOYMENT AMONG THE TRIBAL AND NON-TRIBAL HOUSEHOLDS IN THE RURAL AREAS OF HIMACHAL PRADESH: A MULTI-DIMENSIONAL APPROACH DR. SARBJEET SINGH	98
19.	WOMEN SELF HELP GROUPS IN THE UPLIFTMENT OF TSUNAMI VICTIMS IN KANYAKUMARI DISTRICT DR. C. SIVA MURUGAN & S. SHAKESPEARE ISREAL	106
20.	FOREIGN BANKS IN INDIA – EMERGING LEADER IN BANKING SECTOR DR. C. PARAMASIVAN	110
21.	AN EMPIRICAL EVALUATION OF FINANCIAL HEALTH OF FERTILIZER INDUSTRY IN INDIA SARBAPRIYA RAY	114
22.	A STUDY ON EMPLOYEE ABSENTEEISM IN INDIAN INDUSTRY: AN OVERVIEW R. SURESH BABU & DR. D. VENKATRAMARAJU	119
23.	LONG MEMORY MODELLING OF RUPEE-DOLLAR EXCHANGE RATE RETURNS: A ROBUST ANALYSIS PUNEET KUMAR	124
24.	THE US ECONOMY IN THE POST CRISIS SCENARIO – HOLDING LITTLE CAUSE FOR CHEER C. BARATHI & S. PRAVEEN KUMAR	131
25.	IMPLEMENTATION OF 5 S IN BANKS YADUVEER YADAV, GAURAV YADAV & SWATI CHAUHAN	135
	REQUEST FOR FEEDBACK	149

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## A STUDY OF NON-FUND BASED ACTIVITIES OF MPFC - WITH SPECIAL REFERENCE TO CAUSES OF FAILURE AND PROBLEMS

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### ABSTRACT

*Madhya Pradesh financial corporation is a premier financial institution set up in 1955 by government of Madhya Pradesh under the [SFCE] act 1957. It provide long term and medium financial assistance to industrial /non-industrial units in the state of Madhya Pradesh the corporation also extends other wide-ranging fund & non-fund based services to existing industrial units. The study is to find the reason of the failures of MPFC. In the study many reasons were found for the failure of MPFC they are late entry in the business, limited range of services offered, wrong positioning of source outlet, lack of expertise/ key person, No formal infrastructure and many others*

### KEYWORDS

MPFC, Non Fund Based Activities.

### INTRODUCTION

Today the important problem of industries is finance because finance is a backbone of industries .when we think for establishes new industries or unit at that time first requirement is finance. long term financial assistance for various funds like appraisal for public issue ,underwriting of public/right issue, public issue management, project report preparation ,credit syndication, corporate advisory services is needed to the promoters which financed by MPFC earlier .the MPFC has started non-fund based activities. Here researcher want to find out the causes of failure of non fund based activities of MPFC. These causes will be helpful for another financial institution which is going to enter into non fund based activities or working as a merchant banking.

Madhya Pradesh financial corporation [MPFC] is a premier financial institution set up in 1955 by govt of Madhya Pradesh under the [SFCE] act 1957.it provide long term and medium financial assistance to industrial /non-industrial units in the state of Madhya Pradesh the corporation also extends other wide-ranging fund & non-fund based services to existing industrial units. The corporation has diversified its activities in the recent past. it has also obtained registration as category merchant banker with securities & exchange board of India has set up a separate merchant banking division in the name of MPFC capital market. The division looks after the entire set up merchant banking & financial services & some of the new fund based activities.

### MERCHANT BANKING

An introduction non-fund based activities of MPFC is concern to merchant bank & MPFC had worked as merchant bank from 1994 to 2003. In the last quarter of the financial year 1994-95 a new division of MPFC was set up named as 'capital market division' Madhya Pradesh with its location. largest area abundant natural resources adequate power & conclusive industrial climate have great potential keeping this in mind need of the whole creed of promoters & entrepreneur & this led to the setting up of MPFC capital market. Duly registered as category -1merchant bank with SEBY

### INDIAN FINANCIAL SYSTEM

The Indian financial system is a vast universe this universe is regulated and supervised by two govt. agencies under ministry of finance viz RBI, SEBI.all parts of the system are interconnected with one another and the jurisdiction of the central bank and the capital market regulate overlap in some fields of Indian financial system broadly classified from the point of view of regulates as:-

RBI	SEBI
Foreign exchange market	primary market
Commercial bank	secondary market
Financial institution	derivative market
Primary dealer	

Commercial banks include the public sector banks, Private Banks & foreign banks. The RBI under the banking regulation act and negotiable instruments act regulate the commercial banks. financial institution may be of all India level like IDBI, IFCI, ICICI, NABARD or secretarial financial institution like EXIM, TFCIL et Foreign exchange market c.term loan financing receiving a boost after the merge of refinance corporation of India limited with IDBI, IFCI, was the first term lending institution to be set up IDBI is the apex development financial institution set up to provide funds for the rapid industrialization in India.

The participants in the foreign exchange market includes banks financial institution and are regulated by the RBI primary dealers are the registered participants of the wholesale debt market they bid at auction for government department. Treasury bills which are then retailed to banks & finance institution, who invest in these papers to maintain their statutory liquidity ratio[SLR] SEBI was set up as an autonomous regulatory authority by the govt of India in 1988.to protect the interest of investors in securities & to promote the development of and to regulate the security market and for matters connected there with or incidental there to. It is empowered by two acts namely, the SEBI act 1992 & the securities contract [regulation] act 1956 to perform the function of protecting investors right & regulating the capital markets.

### SECURITIES MARKETS IN INDIA: AN OVERVIEW

The process of economic references & liberalization was set in motion in the mid eighties & its pace was acceralted in 1991.when the economy suffered severally from a precariously low foreign exchange reserve, burgeoning imbalance on the external account declining industrial productivity galloping inflation 7 a rising fiscal deficit. The economic reforms, being an integrated process included deregulation of industry. liberalization on foreign investment, regime, restructuring & liberalization of trade, exchange rate and tax policies, partial disinvestment of government holding in public sector companies & financial sector reforms. The reforms in the real sectors such as trade, industry, and fiscal policy were initiated first in order to create the necessary macroeconomic stability for launching financial sector reforms which sought to improve the functioning of banking & financial institution [FIS] and strengthen money & capital markets including securities market.



The securities market reforms was based on the recommendation of the **phewani Dave, nanddevi,& narsimha committee & the standing high level committee** on capital market & included measure for its liberalization, regulation & development specifically these included.

Repeal of the capital issues[control] act 1974 through which govt used to expropriate and allocate resources from capital market for favored uses enactment of the securities & exchange board of India [SEBI]to regulate & promote development of securities market, setting up of NSE in 1993,passing of the depositaries act 1996 to provide for the maintenance and transfer of ownership of securities in book entry form, amendments to the securities contracts [regulation]act 1956[SCRA]in 1999 provide for the introduction of futures & option, other measure included free pricing of securities ,investor protection measure ,use of information technology, dematerialization of securities ,improvement trading practices, evolution of inefficient & transparent regulatory framework, emergency of several innovative financial product & services etc. These reforms are aimed at creating efficient & competitive securities market subject to effective regulation by SEBI which would ensure investor protection.

The corporate securities market in India elates banks to the 18 century when the securities of the east India company were traded in Mumbai & kolkotta. The brokers used to gather under a banyan tree in Mumbai & under a neem tree in kolkotta for the purpose however the beginning came in the 1850, with the introduction of joint stock companies with limited liability. The 1860 witnessed feverish dealing in securities & reckless speculation this brought brokers in Bombay together in July 1875 to form the first formally organized stock exchange in the country viz the stock exchange Mumbai, Ahmedabad, stock exchange in 1854 & 22 other followed in the 20 century.

## OBJECTIVES

To study the causes of failure of non fund based activities of MPFC.

To find the problems faced by MPFC

## RESEARCH METHOD

The research based on secondary data. The researcher collected the data from the MPFC employee, regional manager and manager of MPFC. The secondary data was collected from the books of merchant banking & ATM directory, magazines & published accounts of MPFC.

## NON –FUND BASED ACTIVITIES OF MPFC

1. Appraisal for public issue.
2. Underwriting in public/rights issue.
3. Public issue management.
4. Project report preparation.
5. Credit syndicate.
6. Corporate advisory service.

**APPRAISAL FOR PUBLIC ISSUE:-** The project appraisal of the company going for public issue is taken up by well qualified and professionally competent officers. the corporation has been in provided financing for more than 4 decades and has developed relevant expertise backed, with rich data base to take up project appraisal of public issue proposal.

**UNDERWRITING OF PUBLIC/RIGHTS ISSUE:-** The corporation undertakes underwriting of shares and debentures for public/right issue. on the strength of the company. Prospect of the issue and the prevailing state of the capital market. The corporation also assisted in arranging underwriting commitments both from institutional and private underwriters.

**PUBLIC ISSUE MANAGEMENT:-** The corporation provides services of issue management acting as lead manager, co-lead managers, advisors to the issue etc. it can also assist in public issue subscription through its wide network of brokers, sub brokers and other market ,intermediaries built up over the years and its zonal and branch offices spread all over the state.

**PROJECT REPORT PREPARATION:-** the corporation also provides services for project report preparation for technology oriented projects, projects for innovative items, based on latest information of technology and market survey of the products. the project contains valuable information from the data bank prepared by professionally qualified managers.

**CREDIT SYNDICATION:-** The Corporation provides services for credit syndication with other financial institution/bank/finance companies in respect of term loan/lease finance/working capital etc.

**CORPORATE ADVISORY SERVICES:-** The corporation provides corporate advisory services including management systems, projects, services, firming, consortium, tie ups, technical assistance etc.

**CORPORATE ADVISORY SERVICES:-** The corporation provides corporate advisory including management systems, projects, services, firming, consortium, tie ups, technical assistance etc.

**TABLE 1: CASES AND FEES RECEIVED OF NON FUND BASED ACTIVITIES OF MPFC**

S. No	Non fund Based activities	1994-95	1995-96	1996-97	1997-98	1998-99	1999-2000	Total Cases and fees received
1	Public Issue appraisal No of Cases	31	19	7	-	-	-	57
	Fees received	16	12.53	9	-	-	-	37.53
2	Underwriting of public issue No. of cases	2	6	-	-	-	-	8
	Fees received	0.26	1.57	-	-	-	-	1.83
3	Public Issue management No. of Cases	-	11	7	2	1	-	21
	Fees Received	-	5.00	4.50	1.75	0.50	-	11.75
Total Fees		16.26	19.1	13.5	1.75	0.50	-	51.17

Source: Annual Report of MPFC

In the year 1995, MPFC started the work of non fund based activities and this year MPFC earned total Rs 16.26 lakhs through non fund activities. In the comparison of 1995, in year 1996 MPFC fee rate is increased due to this reason of AMPFC fees received percentage increased by 17.46% in the comparison of year 1995. In the comparison of 1996, in year 1997, fees received percentage is reduced by 29.32%. In the comparison of year 1997, in the year 1998 fees received percentage is reduced by 87.04% that means fees received percentage is reducing continuously.

In the comparison of year 1998, in the year 1999, fees received percentage is reduced by 71.48%.

In all five years [from 1995-1999]MPFC has completed 21 cases of non fund based activities and MPFC earned total 51.11 lakhs from non fund based activities .average earning per year of MPFC is Rs 2.43 lakh .MPFC has not done any work in other non fund based activities as project report preparation ,credit syndication, and corporation advisory services. This may be due to many reasons they are

## EFFECTS OF NEW ECONOMIC POLICY:

It is well known that new economic policy launched in July 1991 which was containing main roll of liberalization of Indian economy. This new economic policy had some adverse effect which came in existence by middle of decade of 90s foreign investment was invited by the Indian government but investors did not invested there fund in any manner. First they did have a research of Indian economy at the level of infrastructure. After their investigation these investors could choose profit center. Off course these profit centers were the advanced states of India and unfortunately state of Madhya Pradesh found to be a backward state. Naturally big units of foreign investment did not encourage in Madhya Pradesh. So how it might have possible that MPFC could have business of underwriting or public issue management of such big investors? Secondly policy of liberalization produced a bottle neck competition among the Indian industries. Marginal industries could not survive and the industries which were left in the scenario were not in a comfortable position by virtue of a tough

competition. in a such tough condition fund generation by floating share in the market was not a usual trend. Therefore many cases of non fund based activities could not emerge as sound business of MPFC.

#### INTERNATIONAL SLACK

Decade of 90s was a crucial time for world economy especially for the underdeveloped countries like India's world wide slack effecting economy. In such situation these country who were the big borrower of World Bank, Asian bank and other international financing bodies were in a big crunch. Their foreign debts were going up; their liabilities were getting higher and higher then their gross productivity. India was not the exception of such unpleasant situation .small scale sector was the main effected part of the Indian economy. Naturally it was very difficult for the industries to go through capital market activities and to float their public issues in the market resulted a poor play of MPFC in the non fund based activities.

#### HARSHAD MEHTA SCANDAL

One thing is very important that MPFC has started its non fund based activities in 1994-95.when harshad Mehta scandal have been disclosed and Indian share market loosing its reputations and off course attraction too. Before discloser of this scheme, Indian share bazaar was not just more then speculation markets of the industries was entering in the capital market and were managing their funds to the extant of public issues. Public without assessing the actual position of subscriber, investing fund with an intention of overnight millionaire. After discloser of harshad Mehta scandle, suddenly share market got deteriorated. It was no more field of public interest. In such downfall situation MPFC started its capital market division which could not remain unaffected with this down fall. it resulted non growth of non fund based activities.

#### NON PROFESSIONAL ATTITUDE OF MPFC:

Capital market and its related activities were a new concept for the MPFC. when in 1994-95,capital market divison started working it was expected that this division would have services of some qualified personals of capital market ,but it was an unforeseen aspect that MPFC capital market did not have services of well knowledgeable persons of capital market .no doubt, the officers who were handling the capital market division were qualified but steel they were the student of capital market activities not the experienced professionals. They did not have knowledge of public issue management of public issue appraisals. Therefore, this division of such importance could not root in the hearts of capital market users.

#### PROBLEMS:

The corporation took an initiated in the year 1994-95 and started non-fund based activities. A little beat success was however achieved in the initial face but no significant business could returned in analysis of the factual position was carried out in the following results can be enumerated to which the limited success can be attributed to:-

#### WRONG TIMING OR DELAYED ENTRY IN THE BUSINESS:-

The corporation entered into non fund based activities in the business at a very wrong time. in fact, the capital market boom was over by the year 1994-95 which was on the top in the year 91-92.thus in the dying face the corporation made an entry and could attract the left over companies only.

**TABLE 2: ENTRY OF VARIOUS INSTITUTIONS IN NON FUND BASED ACTIVITIES**

S. No.	Name of the Institute	Date of Entry
1	Bank of Baroda	1989-90
2	ICICI	1989-90
3	Industrial finance corporation of India	1989-90
4	DSP Financial Consultant LTD	1989-90
5	Kotak Mahindra Consultant LTD	1989-90
6	PNB Capital service LTD	1989-90
7	SBI Capital Market	1989-90
8	Indian Overseas Bank	1989-90
9	IDBI	1992-93
10	MPFC	1994-95

Source: Merchant Banking 2002

If the MPFC had entered in the non fund based activities in year 1989-90, then MPFC could have done great job. Due to this reason, MPFC non fund base activities work is comparatively less than other institutions.

#### WRONG POSITIONING OF SOURCE OUTLET:-

The corporation set up its capital market elision in the existing building itself on the contrary what should it had done that an independent company should have been set up preferably having its marketing window at Mumbai and other prominent places. As a result the business remained restricted to Indore city only obviously no major business was to come.

**TABLE 3: OFFICES OF FINANCIAL INSTITUTIONS REGARDING NON FUND BASED ACTIVITIES**

S. No.	Name of the Institute	Number of Offices
1	Bank of Baroda	9
2	ICICI	4
3	Industrial Finance Corporation of India	14
4	DSP Financial Consultant LTD	5
5	Kotak Mahindra Consultant LTD	9
6	PNB Capital service LTD	7
7	SBI Capital Market	7
8	Indian Overseas Bank	6
9	IDBI	10
10	MPFC	1

Source: Merchant Banking 2002

#### NO FORMAL INFRASTRUCTURE:

As mentioned earlier, no separate outfit was established similarly the corporation did not provide any business. Specific infrastructure for the activity in absence of which poor services had to be offered resulted into poor response from the market.

#### PROFESSIONAL MANPOWER:

The non fund based activities its only dependent upon the quality of the person offering service the corporation did not attempt to recruit, select and choose skilled man power the service business. This shortcoming resulted into poor response from the market.

#### THE TERM LENDING INSTITUTION IMAGE OF THE CORPORATION:

The corporation has been providing term loans for last many years. The image established by the corporation in the process affected the non fund based activities also. Many clients distance themselves only due to this factor.

#### STIFF COMPETITION IN THE FIELD:

When the corporation entered in this field the leading merchant bankers were already well established in the field. The corporation had to face the stiff competition from them and either much discounted rates and to be offered or 2 and 3 grade customers come to avail this service.

#### LIMITED RANGE OF SERVICES OF OFFERED:

The other non-fund based service provider offer a range of services which can be mentioned as under:-

1. Advisory services
2. company formation



3. legal and other contractual requirement
4. project identifications and feasibility reports
5. project implementation
6. marketing tie-up
7. capital market services
8. public issue management
9. underwriting support
10. register service
11. Stock market support.

As compared to the above range, or activities, the corporation offered only a few of them. Such as project appraisal and underwriting and issue management. This was a major reason of limited success.

#### NO AGGRESSIVE MARKETING STUDY:

As compared to other financial institution, MPFC did not spend money on marketing and advertisement therefore the response remained limited to personal court only.

#### POOR FOLLOW UP:

In the service business, it is the relationship with the customer which counts when a set up provide services to the customer the satisfied customer often comes back to the service provider and the service provider has to follow up the customer. In case of MPFC, there has been no repetition of the customers and this was a major drawback.

#### THE SERVICE ORGANIZATION HAS TO UPGRADE THE SKILL AND MODIFY THE SET UP:

For the success of any service outlet, the institution has to venture into new areas for example with the fall of capital market, many merchant bankers entered into debt market services and with stagnation in debt market, they started taking up assignment for gilt market, government security market. Such a diversification of non fund based activities could not take place in MPFC.

#### NO. OF KEYS:

The MPFC has only one no. of keys. But another institution have many no. of keys, this factor is also affect the business of non fund based activities .number of keys means number of professional manpower. In MPFC only one person, see all the activities of non fund based activities but in other institution, every non fund based services is distributed in different division or sections and different persons managed these services. But in MPFC only one person manages all the services of non fund based activities and in other institution, on fund based activities managed by highly qualified and experienced person.

**TABLE 4: NUMBER OF KEY PERSONS OF VARIOUS INSTITUTIONS REGARDING NON FUND BASED ACTIVITIES**

S. No.	Name of the Institute	No. of key persons
1	Bank of Baroda	10
2	ICICI	23
3	Industrial finance corporation of India	8
4	DSP Financial Consultant LTD	18
5	Kotak Mahindra Consultant LTD	41
6	PNB Capital service LTD	17
7	SBI Capital Market	48
8	Indian Overseas Bank	05
9	IDBI	20
10	MPFC	1

\*Till 2003

#### CONCLUSION

The corporation should set up its capital market at corporate identifiable location. As a main business, MPFC should open windows in most prominent places of country. The MPFC should improve its formal infrastructure. The non fund based activities dependent upon the quality of the person offering service. So MPFC should select skilled man power. The corporation should come out from the image of lending institution. The corporation should contact to its clients for the work of non fund base activities also. The corporation employee's behavior is not well towards customers and normal person. The corporation should arrange some special training camp to change the behavior of employees. The corporation employee's behavior plays very vast role in non fund based activities. Because non fund based activities is totally based on service, well response and behavior with customer and normal person, this behavior will improve the position of corporation.

The Service range of none fund based activities should be increased from eight type of services because client want all types of services at a particular place. So MPFC should start all types of services of non fund based activities. The corporation should do marketing of non fund based activities. The corporation should organize conference, seminars, participation in exhibition and should also sponsor economic events. The MPFC should start some profitable scheme related to non fund based activities which can attract the customers or clients and MPFC should provide special gift to those customers which are taking services of non fund based activities. The corporation should have a live contact with the existing and past customers.

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