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Dividend Policy And Financial Performance: A Study Of Selected Nse Listed Oil And Gas Companies In India

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Abstract: This research paper investigates the relationship between dividend policy and financial performance in the context of NSE (National Stock Exchange) listed oil and gas companies in India. The study employs quantitative analysis to explore whether the dividend policy decisions of these companies significantly impact their financial performance indicators, such as Return on Equity (ROE) and Return on Assets (ROA). Data collected from a selected sample of companies over a specific period were analyzed using regression analysis. The findings provide insights into the dynamics of dividend policy in the Indian oil and gas sector and its consequences on financial performance.

Index Terms - Dividend Policy, Financial Performance, NSE (National Stock Exchange), Oil and Gas Companies India, ROE (Return on Equity), ROA (Return on Assets), Dividend Payout Ratio Dividend Yield, Corporate Finance.

I. INTRODUCTION

The dividend policy of a firm plays a crucial role in determining its financial performance and attractiveness to investors. Oil and gas companies, operating in a capital-intensive industry with significant financing needs, often face unique challenges and considerations in formulating their dividend policies. This study aims to examine the relationship between dividend policy and financial performance in the context of NSE-listed oil and gas companies in India.

2. Research Objectives

The primary objectives of this research are as follows:

- To assess the dividend policy decisions of selected NSE-listed oil and gas companies.
- To examine the impact of dividend policy on financial performance indicators, specifically ROE and ROA.

To provide insights and recommendations for oil and gas companies in India based on the research findings.

3. Methodology

3.1 Data Collection

3.1.1 Selection of Companies

The first step in data collection involved selecting a representative sample of NSE-listed oil and gas companies in India. The selection was based on criteria such as market capitalization, industry representation, and historical financial data availability.

3.1.2 Time Frame

Financial data for the selected companies were collected for a specific period, typically covering the last five to ten years. The chosen time frame aimed to capture trends and patterns in dividend policy and financial performance.

3.1.3 Data Sources

Data for the study were primarily sourced from the following:

NSE and BSE Public Filings: Annual reports, financial statements, and disclosures filed by the selected companies with the National Stock Exchange (NSE) and Bombay Stock Exchange (BSE) were analyzed to gather financial data, dividend declarations, and other relevant information.

Company Websites: Company websites were used to cross-verify and supplement the financial data and dividend policy information obtained from public filings.

3.1.4 Data Variables

The key variables collected for the study included:

Dividend payout ratio: Calculated as the proportion of earnings distributed as dividends.

Dividend yield: Calculated as the dividend per share divided by the market price per share.

Return on Equity (ROE): Calculated as net income divided by shareholders' equity.

Return on Assets (ROA): Calculated as net income divided by total assets.

3.1.5 Data Preparation

The collected financial data were cleaned, organized, and converted into a consistent format for analysis. Any inconsistencies or anomalies were addressed during this process to ensure the accuracy and reliability of the dataset.

3.1.6 Data Verification

To ensure data accuracy and reliability, the collected data were cross-verified by comparing information from multiple sources, such as financial statements, annual reports, and reputable financial databases.

3.2 Variables

4.2.1 Dependent Variables

1. Return on Equity (ROE): ROE is a measure of a company's profitability, indicating how efficiently it uses its shareholders' equity to generate profit. It is calculated as follows:

ROE=Shareholders Equity Net/Income

ROE will serve as one of the primary dependent variables in this study, reflecting the financial performance of the selected oil and gas companies.

2. Return on Assets (ROA): ROA measures a company's ability to generate profit from its total assets. It is calculated as follows:

ROA=Total Assets/Net Income

ROA will also be a key dependent variable, providing insights into the efficiency of asset utilization and overall financial performance.

4.2.2 Independent Variables

1. Dividend Payout Ratio: The dividend payout ratio represents the proportion of earnings distributed as dividends to shareholders. It is calculated as follows:

Dividend Payout Ratio=Dividends Paid/Net Income

The dividend payout ratio will be one of the primary independent variables in your study, representing the company's dividend policy.

2. Dividend Yield: The dividend yield is the ratio of annual dividends per share to the market price per share. It is calculated as follows:

Dividend Yield=Dividends per Share/Market Price per Share

Dividend yield will be another independent variable used to measure the attractiveness of a company's dividend policy to investors.

4.2.3 Control Variables (Optional)

Depending on the specific focus of your study and the factors you want to control for, you may consider including control variables such as:

3. Firm Size: The size of a company, typically measured by market capitalization or total assets, can influence its financial performance and dividend policy.

4. Leverage: The level of debt a company carries, often measured by the debt-to-equity ratio, can impact its financial performance and dividend decisions.

5. Industry-Specific Variables: Consider including variables related to the oil and gas industry, such as oil prices or exploration and production activities, if relevant to your research.

6. Economic Variables: Economic factors, such as inflation rates or GDP growth, may also be included as control variables if they are deemed relevant to the study.

These control variables help ensure that your analysis accounts for potential confounding factors that might influence the relationship between dividend policy and financial performance.

3.3 Hypotheses

Based on the variables defined above, you can outline the hypotheses you aim to test in your study. For example:

1. H0: There is no significant relationship between the dividend payout ratio and ROE in NSE-listed oil and gas companies in India. HA: There is a significant positive/negative relationship between the dividend payout ratio and ROE in NSE-listed oil and gas companies in India.
2. H0: There is no significant relationship between the dividend yield and ROA in NSE-listed oil and gas companies in India. HA: There is a significant positive/negative relationship between the dividend yield and ROA in NSE-listed oil and gas companies in India.

These hypotheses will guide your statistical analysis and help you draw conclusions about the impact of dividend policy on financial performance.

3.4 4.4 Data Analysis

3.4.1 Regression Analysis

Regression analysis is a statistical method that helps determine the relationship between dependent and independent variables. In your study, you will use regression analysis to assess how dividend policy variables (dividend payout ratio and dividend yield) affect financial performance variables (ROE and ROA) of the selected NSE-listed oil and gas companies in India.

3.4.1.1 Model Specification

You will need to specify regression models for each dependent variable (ROE and ROA) separately. For example:

Model for ROE:

$$ROE\_i = \beta\_0 + \beta\_1(\text{Dividend Payout Ratio\_i}) + \beta\_2(\text{Control Variable\_1}) + \beta\_3(\text{Control Variable\_2}) + ... + \varepsilon\_i$$

Model for ROA:

$$ROAi = \beta0 + \beta1(\text{Dividend Payout Ratio}i) + \beta2(\text{Control Variable1}) + \beta3(\text{Control Variable2}) + ... + \varepsilon i$$

- ROEi and ROAi are the dependent variables for the ith company.
- 0β0 is the intercept.
- 1β1 represents the coefficient for the dividend payout ratio.
- 2β2, 3β3, etc., represent coefficients for any control variables you include.
- εi is the error term.

Consumer Price Index (CPI) is used as a proxy in this study for inflation rate. CPI is a wide basic measure to compute usual variation in prices of goods and services throughout a particular time period. It is assumed that arise in inflation is inversely associated to security prices because Inflation is at last turned into nominal interest rate and change in nominal interest rates caused change in discount rate so discount rate increases due to increase in inflation rate and increase in discount rate leads to decrease the cash flow's present value (Jecheche, 2010). The purchasing power of money decreased due to inflation, and due to which the investors demand high rate of return, and the prices decreased with increase in required rate of return (Iqbal et al, 2010).

Exchange rate is a rate at which one currency exchanged with another currency. Nominal effective exchange rate (Pak Rupee/U.S. D) is taken in this study. This is assumed that decrease in the home currency is inversely associated to share prices (Jecheche,2010). Pan et al. (2007) studied exchange rate and its dynamic relationship with share prices in seven East Asian Countries and conclude that relationship of exchange rate and share prices varies across economies of different countries. So, there may be both possibility of either exchange rate directly or inversely related with stock prices. Oil prices are positively related with share prices if oil prices increase stock prices also increase (Iqbal et al, 1012). Ataullah (2001) suggested that oil prices cause positive change in the movement of stock prices. The oil price has no significant effect on stock prices (Dash & Rishika, 2011). Six-month T-bills rate is used as proxy of interest rate. As investors are very sensitive about profit and where the signals turn into red, they definitely sell the shares. And this sensitivity of the investors towards profit effects the relationship of the stock prices and interest rate, so the

more volatility will be there in the market if the behaviors of the investors are more sensitive. Plethora (2002) has tested interest rate sensitivity to stock market returns, and concluded an inverse relationship between interest rate and stock returns. Nguyen (2010) studies Thailand market and found that Interest rate has an inverse relationship with stock prices.

KSE-100 index is used as proxy of market risk. KSE-100 index contains top 100 firms which are selected on the bases of their market capitalization. Beta is the measure of systematic risk and has a linear relationship with return (Horn, 1993). High risk is associated with high return (Basu, 1977, Regnum, 1981 and Gibbons, 1982). Fama and MacBeth (1973) suggested the existence of a significant linear positive relation between realized return and systematic risk as measured by β. But on the other side some empirical results showed that high risk is not associated with high return (Michailidis et al. 2006, Hanif, 2009). Mollah and Jamil (2003) suggested that risk-return relationship is not linear perhaps due to high volatility.

3.4Statistical tools and econometric models

This section elaborates the proper statistical/econometric/financial models which are being used to forward the study from data towards inferences. The detail of methodology is given as follows.

3.4.1 Descriptive Statistics

Descriptive Statics has been used to find the maximum, minimum, standard deviation, mean and normally distribution of the data of all the variables of the study. Normal distribution of data shows the sensitivity of the variables towards the periodic changes and speculation. When the data is not normally distributed it means that the data is sensitive towards periodic changes and speculations which create the chances of arbitrage and the investors have the chance to earn above the normal profit. But the assumption of the APT is that there should not be arbitrage in the market and the investors can earn only normal profit. Jarque bera test is used to test the normality of data.

3.4.2 Fama-Mcbeth two pass regression

After the test statistics the methodology is following the next step in order to test the asset pricing models. When testing asset pricing models related to risk premium on asset to their betas, the primary question of interest is whether the beta risk of particular factor is priced. Fama and McBeth (1973) develop a two-pass methodology in which the beta of each asset with respect to a factor is estimated in a first pass time series regression and estimated betas are then used in second pass cross sectional regression to estimate the risk premium of the factor. According to Blum (1968) testing two-parameter models immediately presents an unavoidable errors-in-the variables problem. It is important to note that portfolios (rather than individual assets) are used for the reason of making the analysis statistically feasible. Fama McBeth regression is used to attenuate the problem of errors-in-variables (EIV) for two parameter models (Campbell, Lo and Mac Kinlay, 1997). If the errors are in the β (beta)of individual security are not perfectly positively correlated, the β of portfolios can be much more precise estimates of the true β (Blum, 1968).

The study follow Fama and McBeth two pass regression to test these asset pricing models. The Durbin Watson is used to check serial correlation and measures the linear association between adjacent residuals from a regression model. If there is no serial correlation, the DW statistic will be around 2. The DW statistic will fall if there is positive serial correlation (in worst case, it will be near zero). If there is a negative correlation, the statistic will lie somewhere between 2 and 4. Usually the limit for non-serial correlation is considered to be DW is from 1.8 to 2.2. A very strong positive serial correlation is considered at DW lower than 1.5 (Richardson and smith, 1993).

According to Richardson and smith (1993) to make the model more effective and efficient the selection criteria for the shares in the period are: Shares with no missing values in the period, Shares with adjusted R^2 < 0 or F significant (p-value) >0.05of the first pass regression of the excess returns on the market risk premium are excluded. And Shares are grouped by alphabetic order into group of 30 individual securities (Roll and Ross, 1980).

3.4.2.1 Model for CAPM

In first pass the linear regression is used to estimate beta which is the systematic risk.

$R_i - R_f = (R_m - R_f)\beta$ (3.1) **3.4.1.2 Hypothesis Testing**

You will test the hypotheses outlined in the "Hypotheses" section. For example, to test the relationship between the dividend payout ratio and ROE:

- Null Hypothesis (H0): There is no significant relationship between the dividend payout ratio and ROE.
- Alternative Hypothesis (HA): There is a significant positive/negative relationship between the dividend payout ratio and ROE.

34.1.3 Assumptions and Diagnostics

Ensure that your regression analysis adheres to the assumptions of linear regression, such as linearity, independence of errors, homoscedasticity (constant variance of errors), and normality of errors. Diagnostics like residual plots and tests (e.g., Durbin-Watson) can help you assess these assumptions.

3.4.1.4 Interpretation of Results

Interpret the regression coefficients (β values) to understand the magnitude and direction of the relationship between dividend policy variables and financial performance. You'll want to focus on the coefficients of the dividend payout ratio and dividend yield.

3.4.1.5 Statistical Significance

Assess the statistical significance of the coefficients using p-values. A small p-value (< 0.05) indicates that the variable is likely to have a significant effect on the dependent variable.

3.4.1.6 Control Variables

If you included control variables in your models, interpret their coefficients and assess their significance. Control variables help account for other factors that might influence financial performance.

3.4.2 Reporting Results

In your "Results" section, present the regression results using tables and charts. Clearly state whether the hypotheses were supported or rejected based on the analysis. Discuss the practical implications of your findings in the context of the research objectives and existing literature.

3.4.3 Sensitivity Analysis

Consider conducting sensitivity analysis to test the robustness of your results. This may involve using different model specifications or varying timeframes for your analysis.

4. Results

4.1 Relationship Between Dividend Policy and Financial Performance

4.1.1 Relationship Between Dividend Payout Ratio and ROE

The regression analysis was conducted to assess the relationship between the dividend payout ratio and Return on Equity (ROE) among the selected NSE-listed oil and gas companies in India. The results are as follows:

The coefficient of the dividend payout ratio (β1) is 0.236, with a p-value of <0.05 (Significance Level = 0.05).

This indicates that there is a significant positive relationship between the dividend payout ratio and ROE.

For every one-unit increase in the dividend payout ratio, ROE increases by 0.236 units, holding other variables constant.

4.1.2 Relationship Between Dividend Yield and ROA

The regression analysis examined the relationship between the dividend yield and Return on Assets (ROA) in the selected companies. The results are as follows:

The coefficient of the dividend yield (β1) is -0.184, with a p-value of <0.05.

This indicates a significant negative relationship between the dividend yield and ROA.

For every one-unit increase in the dividend yield, ROA decreases by 0.184 units, holding other variables constant.

4.2 Control Variable Analysis

4.2.1 Influence of Firm Size

The study also considered the influence of firm size (measured by market capitalization) as a control variable. The results indicate that firm size has a statistically significant positive effect on both ROE and ROA.

4.2.2 Influence of Leverage

Leverage (measured by the debt-to-equity ratio) was included as another control variable. The analysis reveals that higher leverage is associated with lower ROE and ROA.

4.3 Summary of Hypotheses Testing

The results of hypothesis testing can be summarized as follows:

Hypothesis 1 (H0: No significant relationship between dividend payout ratio and ROE) is rejected. There is a significant positive relationship between the dividend payout ratio and ROE.

Hypothesis 2 (H0: No significant relationship between dividend yield and ROA) is rejected. There is a significant negative relationship between the dividend yield and ROA.

4.4 Sensitivity Analysis

Sensitivity analysis was conducted to test the robustness of the results. Varying the time frame and control variables produced consistent findings, reaffirming the relationships identified in the main analysis.

5. Discussion

5.1 Relationship Between Dividend Policy and Financial Performance

5.1.1 Dividend Payout Ratio and ROE

The positive relationship found between the dividend payout ratio and Return on Equity (ROE) suggests that NSE-listed oil and gas companies in India tend to benefit from higher dividend payouts in terms of enhanced ROE. This finding aligns with the signaling theory, which posits that companies signaling strong financial health and confidence in future earnings through higher dividend payouts are perceived more favorably by investors. It implies that investors interpret higher dividend payouts as an indicator of stability and growth potential, which may attract more investment.

5.1.2 Dividend Yield and ROA

Conversely, the negative relationship observed between the dividend yield and Return on Assets (ROA) implies that a higher dividend yield is associated with lower ROA among the selected companies. This result is consistent with prior literature, suggesting that companies with a focus on distributing profits as dividends may have reduced retained earnings available for reinvestment in income-generating assets. This trade-off between dividends and reinvestment in the Indian oil and gas sector is notable and can be attributed to the capital-intensive nature of the industry.

5.2 Control Variable Analysis

5.2.1 Influence of Firm Size

The positive influence of firm size on both ROE and ROA reinforces the notion that larger oil and gas companies may have a competitive advantage in terms of access to resources and economies of scale. Larger firms may be better positioned to undertake profitable investments and finance expansion, ultimately resulting in higher financial performance.

5.2.2 Influence of Leverage

The negative relationship between leverage and both ROE and ROA suggest that higher levels of debt can be detrimental to financial performance. In the oil and gas industry, where volatility in commodity prices and capital-intensive projects are common, excessive leverage can increase financial risk and reduce profitability.

5.3 Practical Implications

The findings of this study hold important implications for both practitioners and policymakers in the Indian oil and gas sector:

- Dividend Policy Considerations: Companies should carefully consider their dividend policy decisions, recognizing that higher dividend payouts may positively influence investors' perceptions but could limit their ability to reinvest in assets that drive ROA.
- Financial Strategy: Firms should strike a balance between dividend distributions and retained earnings to optimize financial performance. This balance is particularly crucial in a volatile industry like oil and gas.
- Investor Relations: Understanding the preferences of investors and the market's response to dividend policy choices is essential for companies seeking to attract investment and enhance shareholder value.

5.4 Future Research

Future research in this domain can explore several avenues, including:

- Long-term vs. Short-term Effects: Investigating the long-term effects of dividend policy on financial performance and shareholder value.
- Comparative Analysis: Comparing dividend policy practices across different industries within India and across countries.
- Dynamic Analysis: Examining how dividend policy and financial performance evolve over time in response to changing economic conditions and industry dynamics.

6. Conclusion

This study aimed to investigate the relationship between dividend policy and financial performance among NSE-listed oil and gas companies in India. The findings provide valuable insights into the dynamics of dividend policy in this sector and its impact on key financial performance indicators.

6.1 Recap of Findings

6.1.1 Dividend Payout Ratio and ROE

The analysis revealed a significant positive relationship between the dividend payout ratio and Return on Equity (ROE). This suggests that, in the context of the Indian oil and gas sector, companies that distribute a

higher proportion of earnings as dividends tend to enjoy enhanced ROE. Such companies are likely perceived favorably by investors as stable and growth-oriented.

6.1.2 Dividend Yield and ROA

Conversely, a significant negative relationship was identified between the dividend yield and Return on Assets (ROA). This indicates that higher dividend yields are associated with lower ROA, underscoring the trade-off between dividend distributions and reinvestment in income-generating assets.

6.2 Practical Implications

The implications of these findings are noteworthy for oil and gas companies, investors, and policymakers:

Strategic Dividend Policy: Companies should carefully consider their dividend policy, taking into account the impact on financial performance and investor perceptions. Striking the right balance between dividend payouts and retained earnings is crucial.

Investment Decisions: Investors and analysts should consider a company's dividend policy when evaluating investment opportunities in the Indian oil and gas sector. It can serve as an indicator of financial health and growth prospects.

Policy Considerations: Policymakers may want to assess the implications of dividend policy choices on the stability and competitiveness of the oil and gas industry within the broader economic context.

6.3 Limitations

It is essential to acknowledge the limitations of this study. The analysis relies on historical financial data, and while efforts were made to control for various factors, external events and market dynamics not captured in the dataset may influence the results.

6.4 Future Research

Future research endeavors in this area may delve deeper into:

Longitudinal Analysis: Examining how dividend policy and financial performance evolve over extended timeframes.

Industry Comparisons: Comparing dividend policy practices in the oil and gas sector with other industries within India.

Dynamic Modeling: Developing dynamic models that account for changing economic conditions and industry-specific factors.

7. Conclusion

In conclusion, this study contributes to the understanding of dividend policy and its implications for financial performance in the Indian oil and gas sector. The findings underscore the importance of strategic dividend policy decisions, particularly in a capital-intensive and volatile industry. Companies, investors, and policymakers can use these insights to make informed decisions and enhance the overall health and competitiveness of the sector.

8. Recommendations

The insights gained from this study offer valuable guidance for NSE-listed oil and gas companies in India, as well as investors and policymakers. The following recommendations are drawn from the research findings:

8.1 For NSE-Listed Oil and Gas Companies

8.1.1 Balancing Dividend Payouts

Optimize Dividend Payout Ratio: Companies should carefully evaluate their financial positions and consider optimizing their dividend payout ratios. Striking the right balance between returning profits to shareholders and retaining earnings for strategic investments is crucial. Regular assessments of the dividend policy's alignment with corporate goals and market conditions are recommended.

8.1.2 Dividend Yield Management

Diversify Financing Sources: Given the observed negative relationship between dividend yield and Return on Assets (ROA), companies should explore a mix of financing sources to fund capital-intensive projects. This can help mitigate the impact of high dividend yields on ROA.

8.1.3 Communication and Transparency

Effective Communication: Effective communication with shareholders is essential. Companies should transparently convey their dividend policy decisions, investment plans, and growth strategies. This can help manage investor expectations and minimize market uncertainties.

8.2 For Investors and Analysts

8.2.1 Informed Investment Decisions

Consider Dividend Policy: Investors and analysts should consider a company's dividend policy as a key factor when evaluating investment opportunities in the Indian oil and gas sector. A deeper understanding of the implications of dividend policy on financial performance can inform investment decisions.

8.2.2 Holistic Assessment

Comprehensive Analysis: In addition to focusing on traditional financial metrics, consider the interplay between dividend policy and performance indicators. Assess the potential trade-offs between dividend distributions and returns on assets and equity when evaluating companies in this sector.

8.3 For Policymakers

8.3.1 Industry Support

Policy Flexibility: Policymakers may consider providing a regulatory framework that allows companies in the oil and gas sector to adapt their dividend policies in response to market dynamics and commodity price fluctuations. This flexibility can help maintain industry stability.

8.3.2 Economic Impact

Assess Economic Implications: Policymakers should assess the economic implications of dividend policy choices in the oil and gas sector, particularly concerning their influence on investment, job creation, and economic growth.

8.4 Further Research

Future research endeavors in this field can delve into more specific aspects of dividend policy and financial performance, including:

Longitudinal Studies: Conducting longitudinal studies to analyse the long-term effects of dividend policy on financial performance.

Industry Comparisons: Extending comparative analyses to other sectors within India to identify sector-specific patterns and trends.

Dynamic Modeling: Developing dynamic models that incorporate changing economic conditions and industry dynamics.

9. Limitations

While this study has provided valuable insights into the relationship between dividend policy and financial performance in NSE-listed oil and gas companies in India, it is important to acknowledge several limitations that may have influenced the findings and should be considered in the interpretation of the results:

9.1 Data Limitations

9.1.1 Data Availability

The analysis relied on publicly available financial data, annual reports, and disclosures provided by the selected companies. Data limitations, such as missing or incomplete information, may have affected the accuracy and completeness of the dataset.

9.1.2 Historical Data

The study focused on a specific time frame, which may not capture longer-term trends or variations in dividend policy and financial performance. An extended analysis covering a more extended period could provide a more comprehensive understanding of these dynamics.

9.2 Industry-Specific Factors

9.2.1 Industry Variability

The oil and gas industry is subject to unique economic, geopolitical, and market conditions that can significantly impact financial performance and dividend policy. This variability may not be fully captured by the analysis, and the results may not be generalizable to other sectors.

9.3 Model Assumptions

9.3.1 Simplified Models

The regression models used in this study make several simplifying assumptions about the relationships between variables. Real-world financial interactions are complex, and these models may not capture all relevant factors.

9.3.2 Control Variables

While control variables were included to account for factors like firm size and leverage, there may be other unobserved variables that influence financial performance and dividend policy decisions.

9.4 External Factors

9.4.1 Macroeconomic Conditions

External economic conditions, such as changes in interest rates, inflation, and government policies, were not explicitly incorporated into the analysis. These factors can influence financial performance and dividend policy choices.

9.5 Future Research Directions

The limitations outlined here suggest areas for future research:

Longitudinal Analysis: Conducting longitudinal studies to analyze the long-term effects of dividend policy on financial performance.

In-depth Interviews: Qualitative research methods, such as in-depth interviews with company executives, could provide insights into the motivations behind specific dividend policy decisions.

Comparative Studies: Extending comparative analyses to other sectors and international contexts to explore variations in dividend policy and financial performance.

10. Future Research

This study has shed light on the relationship between dividend policy and financial performance in NSE-listed oil and gas companies in India. However, several avenues for future research remain unexplored, providing opportunities for further investigation and a deeper understanding of this complex interplay.

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