

HOLD
 TP: Rs 552 | ▼ 1%

AMBUJA CEMENTS

| Cement

| 05 February 2024

Healthy quarter, sustainability key; retain HOLD

- Standalone Q3 revenue grew 7% YoY as volumes increased 7%, cushioning flattish realisations
- EBITDA/t climbed 28% YoY to Rs 1,038/t aided by cost efficiencies and operating leverage
- Maintain HOLD with new TP of Rs 552 (vs. Rs 449) on rollover

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Volume-driven revenue growth: ACEM reported standalone Q3FY24 revenue growth of 7.5% YoY (+12% QoQ) to Rs 44.4bn backed by volume growth of 6.5% YoY (+8% QoQ) to 8.2mn tonnes (including master supply agreement or MSA sales to ACC). Realisations stayed flat YoY (+4% QoQ). Consolidated revenue grew 3% YoY (+9% QoQ) to Rs 81.3bn net of MSA sales, as volumes increased 3% YoY (8% QoQ) to 14.1mt. Blended cement formed 87% of total volumes and premium product contribution made up 22% of trade sales (+20bps YoY).

Cost efficiencies fuel operating performance: Operating cost fell 16% YoY (-9% QoQ) to Rs 3,818/t due to overall cost rationalisation. Energy cost declined 33% YoY (-18% QoQ) to Rs 1,047/t on a 25% YoY fall in kiln fuel cost to Rs 1.84/kcal, whereas logistics cost inched up 2.5% YoY (flat QoQ) to Rs 1,114/t. Clinker purchase cost was elevated at Rs 6.8bn, rising 3.3x YoY (+53% QoQ), as 12% of ACEM’s standalone clinker capacity was under maintenance. EBITDA/t rose 28% YoY (+2% QoQ) to Rs 1,038/t and standalone EBITDA grew 36% (+10% QoQ) to Rs 8.5bn.

Capacity expansion roadmap established: Management expects to add 19.6mt of cement capacity by early FY27. This apart, ACEM plans to set up six plants, each with 2.4mt of capacity, at Maharashtra (three plants), Bihar (two) and Punjab (one), as part of its roadmap to create 140mt of installed capacity by FY28. Clinker expansion projects of 4mt each at Bhatapara (Chhattisgarh) and Maratha (Maharashtra) are due to be commissioned by Q4FY25 and Q2FY26 respectively.

Maintain HOLD: We maintain our FY24 EPS estimate but rationalise FY25 earnings by 4% to build in slower volume growth than earlier expected due to sociopolitical conditions. We now introduce FY26 forecasts for ACEM and pencil in a revenue/EBITDA/PAT CAGR of 8%/23%/13% over FY23-FY26. On rolling valuations over to FY26E, our SOTP-based TP rises to Rs 552 (vs. Rs 449), wherein we value the standalone business at Rs 447 based on an unchanged EV/EBITDA multiple of 13x and add Rs 106 for the ACC stake. Our TP implies a replacement cost of Rs 13bn/mt – ~2x premium to the industry – and carries 1% downside potential; retain HOLD.

Key changes

Target	Rating
▲	◀ ▶

Ticker/Price	ACEM IN/Rs 555
Market cap	US\$ 13.4bn
Free float	37%
3M ADV	US\$ 26.1mn
52wk high/low	Rs 586/Rs 324
Promoter/FPI/DII	63%/11%/17%

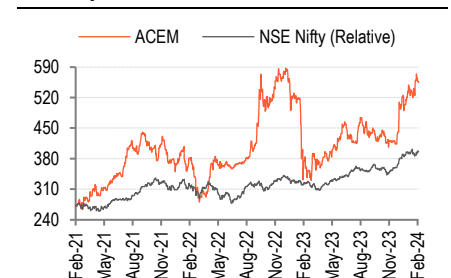
Source: NSE | Price as of 5 Feb 2024

Key financials

Y/E 31 Mar	FY23A	FY24E	FY25E
Total revenue (Rs mn)	3,84,449	3,77,126	4,32,799
EBITDA (Rs mn)	51,224	65,987	75,366
Adj. net profit (Rs mn)	29,024	32,698	34,699
Adj. EPS (Rs)	11.7	16.5	17.5
Consensus EPS (Rs)	11.7	16.4	17.7
Adj. ROAE (%)	9.3	9.5	9.8
Adj. P/E (x)	47.5	33.7	31.8
EV/EBITDA (x)	21.0	16.0	14.2
Adj. EPS growth (%)	(20.0)	40.8	6.1

Source: Company, Bloomberg, BOBCAPS Research | FY23 is for 15 months due to a change in year-end from December to March

Stock performance



Source: NSE



Fig 1 – Earnings call highlights

Parameter	Q3FY24	Q2FY24	Our view
Volumes and Realisations	<p>ACEM's Q3FY24 standalone sales volume (including MSA sales of 1.3mt to ACC) grew 6.5% YoY while the industry grew at 3.5% as per management. Management expects the industry to grow at 6% YoY in Q4, despite the impact of elections in some states.</p> <p>Blended cement formed 87% of total trade volumes and premium product share was at 22%.</p>	<p>ACEM's Q2 standalone sales volume (including MSA sales of 1.2mt to ACC) fell 16% YoY due to weaker growth in July as floods hit its key northern markets. Management indicated double-digit volume growth in Oct'23 driven by 8-10% growth in the eastern region.</p> <p>Blended cement formed 89% of total trade volumes; premium product share was 23.4%.</p>	<p>A clear capacity addition roadmap adds comfort on volume growth. Contribution from the Sanghi Industries (SIL) acquisition should help ACEM keep pace with industry growth in the medium term.</p>
Margins & Cost reduction	<p>EBITDA/t stood at Rs 1,038/t in Q3FY24 with a 19.2% operating margin.</p> <p>Freight cost increased 2.5% YoY to Rs 1,114/t and average lead distance stood at 284km (vs. 291km previously), the rail coefficient stood at 26% and direct dispatch to customer improved to 52%.</p> <p>Kiln fuel cost declined 25% YoY to Rs 1.84/kcal (from Rs 2.45/kcal in Q3FY23).</p>	<p>EBITDA/t came in at Rs 1,018/t in Q2FY24 (margin at 19.5%). Management has guided for EBITDA/t of Rs 1,450-1,500 within a span of ~36 months.</p> <p>Freight cost declined 3.1% YoY to Rs 1,122/t with a reduction in average primary lead distance from 174km at the time of acquisition (from previous promoter) to 165km in Q2 and improvement in rail coefficient (26% to 28%) as well as direct dispatch to customers (44% to 49%).</p> <p>Kiln fuel cost declined 38% YoY to Rs 1.82/kcal (from Rs 2.93/kcal in Q2FY23).</p>	<p>Operating leverage on the improved base is likely to be limited going forward.</p>
Capacity	<p>The SIL acquisition has raised ACEM's cement/clinker capacity by 6.1mt/3.3mt.</p> <p>ACEM expects to commission the following by FY25: a 1.2mt cement capacity at Bathinda (Punjab), a 2.4mt (phase I) GU at Farakka (West Bengal), a 2.4mt GU at Sankrail (WB), and a 1.6mt GU at Sindri (Jharkand). Further, a 2.4mt GU each at Salai Banwa (Uttar Pradesh) and Marwar (Rajasthan) are both expected by Q1FY26. Lastly, a 4.8mt Mundra (Gujarat) GU is scheduled for commissioning by FY27</p> <p>Clinker expansion at Bhatapara Line 3 of 4mt is due to be commissioned by Q4FY25, followed by another 4mt at Maratha line 2 by Q2FY26.</p>	<p>The Ametha unit was commissioned in Q2FY24, enhancing clinker capacity by 3.3mt.</p> <p>Management reiterated that ~40mt of clinker capacity (10 new cement kilns) will be added as part of its medium-term plan of reaching 140mt largely in brownfield capacity by FY28.</p> <p>Management is also targeting the setup of ~35 grinding units at Jalgaon (MaH), Farakka (WB), Kharagpur (WB), Bhatinda (Pun) and Salai Banwa (UP).</p>	<p>ACEM has a healthy roadmap for capacity addition; strong demand remains the key to growth.</p>
Green energy	<p>WHRS capacity as at Q3FY24 was at 119MW and management aims to increase this to 186MW by Mar'25.</p>	<p>WHRS capacity was at 90MW and management aims to increase this to 170MW by Q4FY25.</p>	<p>ACEM's initiatives to shift to alternate energy sources are commendable.</p>
Capex	<p>Management has guided for consolidated capex of Rs 50bn-60bn p.a. over the next 3-4 years (actual cash) and Rs 80bn-100bn p.a. committed capex.</p>	<p>Q2 capex was ~Rs 11bn, funded through internal accruals and cash in hand. Capex for FY24 is guided at Rs 75bn, of which Rs 50bn has been allocated to ACEM and Rs 25bn to ACC.</p>	<p>Capex guidance is in line with the capacity growth targeted by ACEM.</p>

Parameter	Q3FY24	Q2FY24	Our view
Sanghi Industries acquisition	The MSAs signed between ACC-SIL and ACEM-SIL are guided to help raise utilisation of the Sanghipuram unit from the current 25-30% to 75-80% in the near term. Management has shifted sales under the Sanghi brand to its ACEM and ACC brands and will discontinue the Sanghi brand.	ACEM acquired SIL during Q2FY24 at an EV of Rs 50bn. The acquisition is expected to conclude in Q3FY24 and will be funded through internal accruals. Management expects the acquisition to assist its capacity expansion plan of 140mt ahead of FY28.	We expect a meaningful contribution from SIL from FY25/FY26.
Other relevant information	Consolidated cash & cash equivalents at the end of Q3FY24 totalled ~Rs 85.9bn.	Consolidated cash & cash equivalents at the end of Q2FY24 totalled ~Rs 117bn.	ACEM's balance sheet is healthy despite strong capex plans.

Source: Company, BOBCAPS Research | GU: Grinding Unit; EV: Enterprise Value; WHRS: Waste Heat Recovery System

Fig 2 – Key quarterly metrics

(Rs)	Q3FY24	Q3FY23	YoY (%)	Q2FY24	QoQ (%)
Volumes (mt)	8.2	7.7	6.5	7.6	7.9
Cement realisations (Rs/t)	5,414	5,362	1.0	5,223	3.6
Operating costs (Rs/t)*	3,818	4,549	(16.1)	4,206	(9.2)
EBITDA/t (Rs/t)	1,038	813	27.6	1,018	2.0

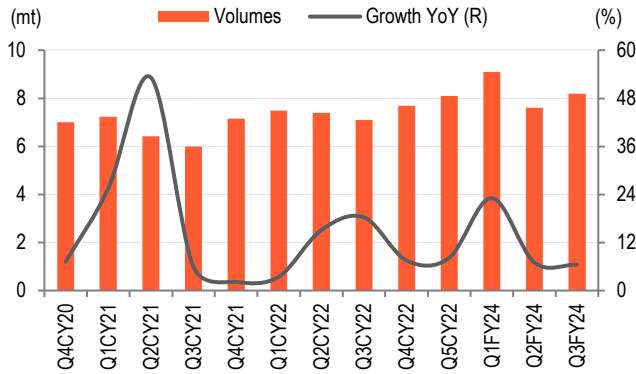
Source: Company, BOBCAPS Research | *Aggregate cost

Fig 3 – Quarterly performance – Standalone

(Rs mn)	Q3FY24	Q3FY23	YoY (%)	Q2FY24	QoQ (%)
Net Sales	44,395	41,285	7.5	39,698	11.8
Expenditure					
Change in stock	561	1,632	(65.6)	(915)	(161.3)
Raw material	3,875	3,782	2.4	3,721	4.1
Purchased products	6,842	2,066	231.2	4,462	53.3
Power & fuel	8,582	12,111	(29.1)	9,653	(11.1)
Freight	9,133	8,362	9.2	8,525	7.1
Employee costs	1,369	1,595	(14.2)	1,490	(8.1)
Other expenditure	5,522	5,475	0.9	5,028	9.8
Total Operating Expenses	35,885	35,024	2.5	31,964	12.3
EBITDA	8,511	6,261	35.9	7,734	10.0
EBITDA margin (%)	19.2	15.2	400bps	19.5	(31bps)
Other Income	1,082	890	21.6	3,781	(71.4)
Interest	454	253	79.6	435	4.3
Depreciation	2,335	1,648	41.6	2,286	2.1
PBT	6,804	5,250	29.6	8,795	(22.6)
Non-recurring items	0	614	0.0	0	0.0
PBT (after non-recurring items)	6,804	4,637	46.7	8,795	(22.6)
Tax	1,668	947	76.1	2,357	(29.2)
Reported PAT	5,137	3,690	39.2	6,438	(20.2)
Adjusted PAT	5,137	4,303	19.4	4,938	4.0
NPM (%)	11.6	10.4	115bps	12.4	(87bps)
Adjusted EPS (Rs)	2.6	2.2	19.4	2.5	4.0

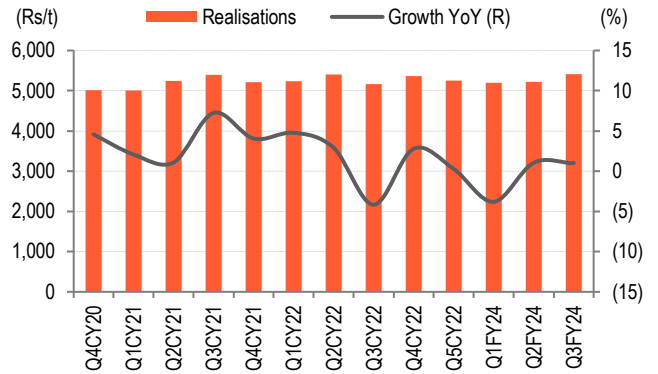
Source: Company, BOBCAPS Research | Other Income for Q2FY24 includes Rs 1,500mn related to tax adjustment of the previous period.

Fig 4 – Volumes ticked up 6.5% YoY



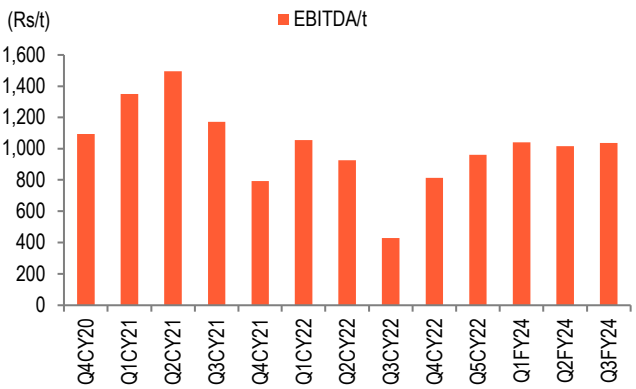
Source: Company, BOBCAPS Research | Note: ACC has changed its accounting Y/E from Dec to Mar; thus, CY22/FY23 consists of 5 quarters

Fig 5 – Low demand support put pricing under pressure



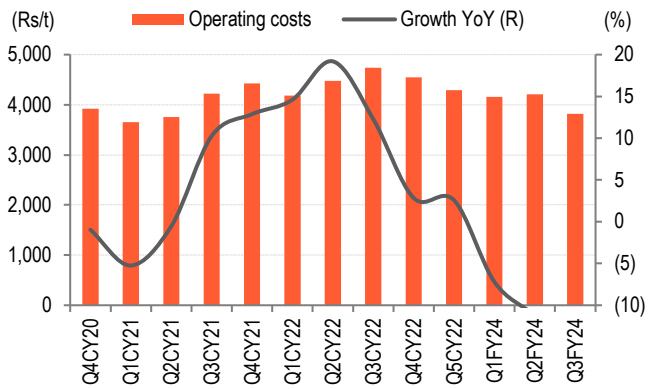
Source: Company, BOBCAPS Research

Fig 6 – On a strong EBITDA/t path



Source: Company, BOBCAPS Research

Fig 7 – Limited levers to reduce operating cost ahead



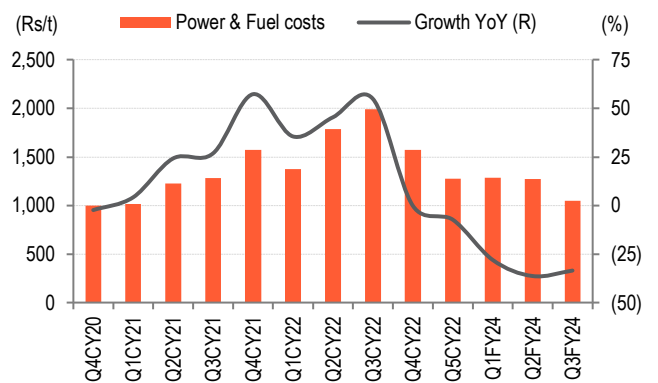
Source: Company, BOBCAPS Research

Fig 8 – Logistics cost expected to decline further



Source: Company, BOBCAPS Research

Fig 9 – Energy cost savings can be limited in medium term



Source: Company, BOBCAPS Research

Valuation methodology

We maintain our FY24 EPS estimate for ACEM but rationalise FY25 earnings by 4% to build in slower volume growth than earlier expected due to socio-political factor. We now introduce FY26 forecasts for the company and pencil in a revenue/EBITDA/PAT CAGR of 8%/23%/13% over FY23-FY26. On rolling valuations over to FY26E, our SOTP-based TP rises to Rs 552 (vs. Rs 449), wherein we value the standalone business at Rs 447 based on an unchanged EV/EBITDA multiple of 13x and add Rs 106 for the ACC stake.

Our TP implies a replacement cost of Rs 13bn/mt – ~2x% premium to the industry – and carries 1% downside potential, leading us to retain our HOLD rating. Though the company’s growth plans are well defined, we await more sustainability on efficiency improvements before revisiting our estimates.

Fig 10 – Revised estimates

(Rs mn)	New			Old			Change (%)		
	FY24E	FY25E	FY26E	FY24E	FY25E	FY26E	FY24E	FY25E	FY26E
Revenue	377,126	432,799	482,274	377,126	438,193	NA	0.0	(1.2)	NA
EBITDA	65,987	75,366	95,295	65,987	77,738	NA	0.0	(3.1)	NA
Adj PAT	32,698	34,699	41,496	32,698	36,075	NA	0.0	(3.8)	NA
Adj EPS (Rs)	16.5	17.5	20.9	16.5	18.2	NA	0.0	(3.8)	NA

Source: BOBCAPS Research

Fig 11 – Key assumptions

Parameter (ACEM consolidated)	FY23	FY24E	FY25E	FY26E
Volumes (mt)	58.96	66.44	75.17	83.09
Realisations (Rs/t)	6,521	5,676	5,757	5,804
Operating costs (Rs/t)	5,743	4,777	4,842	4,739
EBITDA/t (Rs/t)	777	899	916	1,065

Source: Company, BOBCAPS Research

Fig 12 – SOTP valuation summary

Business (Rs mn)	FY26E
Target EV/EBITDA (x)	13
EBITDA (Rs mn)	62,271
Target EV (Rs mn)	836,920
Total EV	836,920
Net debt	(50,300)
Target market capitalisation	887,220
ACEM's standalone value (Rs/sh) (A)	447
Weighted average shares (mn)	1,986
ACC Target M-cap	466,022
ACEM Holding in ACC (50.05%)	233,011
Holding Co discount (10%)	23,301
ACEM Holding in ACC (50.05%) (Post Hold Co Discount)	209,710
Total Equity Shares O/S (mn)	1,986
ACEM's value in ACC (Rs/sh) (B)	106
Target price (Rs/sh) (A+B)	552

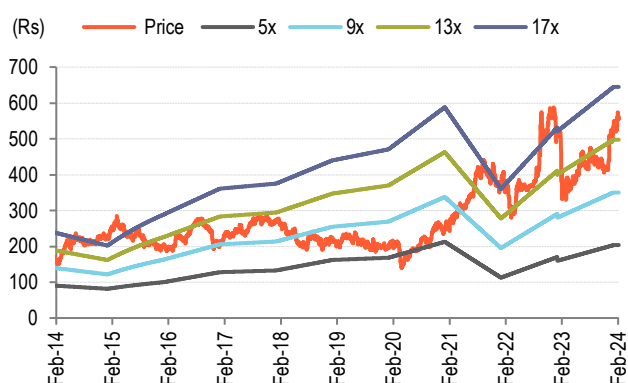
Source: BOBCAPS Research

Fig 13 – Peer comparison

Ticker	Rating	TP (Rs)	EV/EBITDA (x)			EV/tonne (US\$)			ROE (%)			ROCE (%)		
			FY23	FY24E	FY25E	FY23	FY24E	FY25E	FY23	FY24E	FY25E	FY23	FY24E	FY25E
ACEM IN	HOLD	530	21.1	16.1	14.2	193	183	175	9.3	9.5	9.8	9.2	13.8	14.2
ACC IN	HOLD	2,542	24.4	14.6	12.0	161	142	134	7.9	12.8	14.1	7.9	17.5	18.4
UTCEM IN	BUY	11,510	28.6	21.4	17.1	229	227	193	9.6	12.2	14.7	12.0	16.0	19.0
SRCM IN	HOLD	27,836	36.7	22.1	17.8	208	207	202	7.5	11.7	12.4	9.4	15.3	16.6

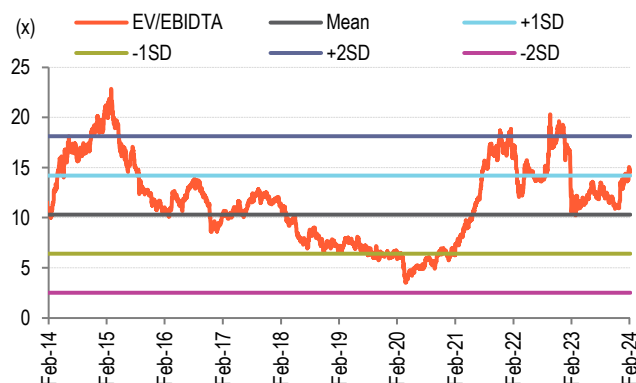
Source: BOBCAPS Research

Fig 14 – EV/EBITDA band: We value ACEM at 13x FY26E EBITDA



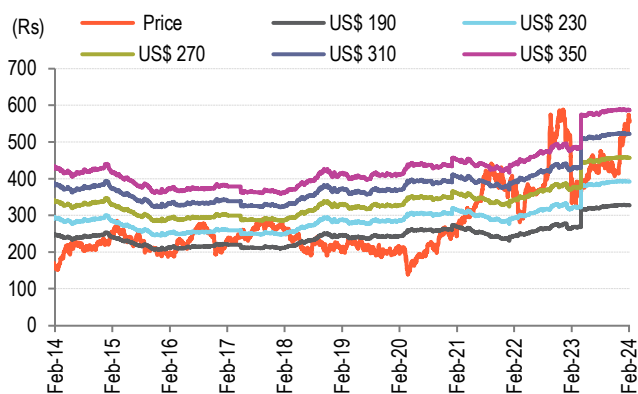
Source: Company, Bloomberg, BOBCAPS Research

Fig 15 – EV/EBITDA 1Y fwd: Trading at premium to mean owing to better opex, pan-India presence and brand recall



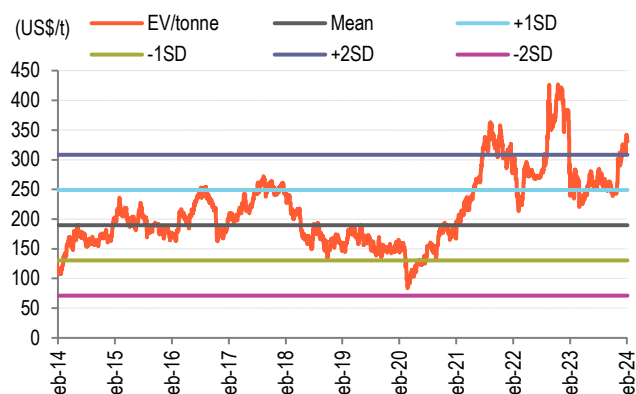
Source: Company, Bloomberg, BOBCAPS Research

Fig 16 – ACEM (standalone) replacement cost band



Source: Company, Bloomberg, BOBCAPS Research

Fig 17 – ACEM (standalone) replacement cost 1Y fwd



Source: Company, Bloomberg, BOBCAPS Research

Key risks

- Faster-than-expected demand revival can take growth ahead of our estimates, representing an upside risk.
- Delays in planned capacity execution and fierce competitive pressure can pose downside risks to our estimates.

Sector recommendation snapshot

Company	Ticker	Market Cap (US\$ bn)	Price (Rs)	Target (Rs)	Rating
ACC	ACC IN	5.7	2,486	2,542	HOLD
Ambuja Cements	ACEM IN	13.4	555	552	HOLD
Dalmia Bharat	DALBHARA IN	4.9	2,194	2,443	HOLD
JK Cement	JKCE IN	4.1	4,317	4,121	HOLD
JK Lakshmi Cement	JKLC IN	1.3	928	551	SELL
Orient Cement	ORCMNT IN	0.7	267	128	SELL
Shree Cement	SRCM IN	11.8	26,955	27,836	HOLD
The Ramco Cements	TRCL IN	2.8	979	661	SELL
Ultratech Cement	UTCEM IN	34.8	9,916	11,510	BUY

Source: BOBCAPS Research, NSE | Price as of 5 Feb 2024

Financials

Income Statement

Y/E 31 Mar (Rs mn)	CY21A	FY23A	FY24E	FY25E	FY26E
Total revenue	2,85,926	3,84,449	3,77,126	4,32,799	4,82,274
EBITDA	62,103	51,224	65,987	75,366	95,295
Depreciation	(11,525)	(16,447)	(14,135)	(16,919)	(20,481)
EBIT	54,103	42,154	57,399	63,947	80,272
Net interest inc./(exp.)	(1,457)	(1,949)	(1,935)	(2,065)	(3,382)
Other inc./(exp.)	3,524	7,377	5,548	5,500	5,458
Exceptional items	0	0	0	0	0
EBT	52,646	40,205	55,464	61,882	76,890
Income taxes	(14,534)	(7,051)	(17,133)	(19,026)	(23,454)
Extraordinary items	0	0	0	0	0
Min. int./Inc. from assoc.	(9,104)	(4,130)	(5,633)	(8,157)	(11,941)
Reported net profit	29,007	29,024	32,698	34,699	41,496
Adjustments	0	0	0	0	0
Adjusted net profit	29,007	29,024	32,698	34,699	41,496

Balance Sheet

Y/E 31 Mar (Rs mn)	CY21A	FY23A	FY24E	FY25E	FY26E
Accounts payables	68,242	72,283	79,512	87,463	96,209
Other current liabilities	43,791	42,707	43,988	45,308	46,667
Provisions	3,062	2,795	2,935	3,082	3,236
Debt funds	4,429	4,860	4,904	4,948	4,994
Other liabilities	7,562	7,004	7,144	7,287	7,432
Equity capital	3,971	3,971	3,971	3,971	3,971
Reserves & surplus	2,49,566	3,13,010	3,39,196	3,67,382	4,02,364
Shareholders' fund	3,24,988	3,87,565	4,19,608	4,56,175	5,03,323
Total liab. and equities	4,52,073	5,17,214	5,58,090	6,04,262	6,61,861
Cash and cash eq.	1,16,943	29,610	51,307	39,476	35,043
Accounts receivables	6,458	11,544	10,849	11,858	13,213
Inventories	27,380	32,728	26,864	29,644	31,711
Other current assets	54,811	1,80,423	2,01,122	2,23,805	2,48,284
Investments	1,981	2,137	2,350	2,585	2,844
Net fixed assets	1,32,622	1,42,485	1,56,641	1,84,286	2,13,655
CWIP	1,09,160	1,13,922	1,04,597	1,08,252	1,12,759
Intangible assets	2,717	4,366	4,361	4,356	4,351
Deferred tax assets, net	0	0	0	0	0
Other assets	0	0	0	0	0
Total assets	4,52,073	5,17,215	5,58,090	6,04,262	6,61,861

Cash Flows

Y/E 31 Mar (Rs mn)	CY21A	FY23A	FY24E	FY25E	FY26E
Cash flow from operations	57,534	10,675	47,115	42,863	56,421
Capital expenditures	(26,271)	(31,773)	(18,960)	(48,215)	(54,353)
Change in investments	7,547	(155)	(214)	(235)	(259)
Other investing cash flows	0	0	0	0	0
Cash flow from investing	(18,724)	(31,928)	(19,174)	(48,450)	(54,612)
Equities issued/Others	(1,063)	(4,996)	225	225	225
Debt raised/repaid	(215)	431	44	45	46
Interest expenses	0	0	0	0	0
Dividends paid	(2,070)	(13,027)	(6,513)	(6,513)	(6,513)
Other financing cash flows	(976)	(48,487)	0	0	0
Cash flow from financing	(4,324)	(66,079)	(6,245)	(6,244)	(6,243)
Chg in cash & cash eq.	34,486	(87,333)	21,697	(11,830)	(4,434)
Closing cash & cash eq.	1,16,943	29,610	51,307	39,476	35,043

Per Share

Y/E 31 Mar (Rs)	CY21A	FY23A	FY24E	FY25E	FY26E
Reported EPS	14.6	11.7	16.5	17.5	20.9
Adjusted EPS	14.6	11.7	16.5	17.5	20.9
Dividend per share	1.0	5.0	2.8	2.8	2.8
Book value per share	163.7	195.2	211.3	229.7	253.5

Valuations Ratios

Y/E 31 Mar (x)	CY21A	FY23A	FY24E	FY25E	FY26E
EV/Sales	3.5	2.8	2.8	2.5	2.4
EV/EBITDA	15.9	21.0	16.0	14.2	12.0
Adjusted P/E	38.0	47.5	33.7	31.8	26.6
P/BV	3.4	2.8	2.6	2.4	2.2

DuPont Analysis

Y/E 31 Mar (%)	CY21A	FY23A	FY24E	FY25E	FY26E
Tax burden (Net profit/PBT)	72.4	82.5	69.1	69.3	69.5
Interest burden (PBT/EBIT)	97.3	95.4	96.6	96.8	95.8
EBIT margin (EBIT/Revenue)	18.9	11.0	15.2	14.8	16.6
Asset turnover (Rev./Avg TA)	67.3	79.3	70.1	74.5	76.2
Leverage (Avg TA/Avg Equity)	1.4	1.4	1.3	1.3	1.3
Adjusted ROAE	12.4	9.3	9.5	9.8	11.1

Ratio Analysis

Y/E 31 Mar	CY21A	FY23A	FY24E	FY25E	FY26E
YoY growth (%)					
Revenue	18.6	7.6	22.6	14.8	11.4
EBITDA	24.1	(34.0)	61.0	14.2	26.4
Adjusted EPS	14.1	(20.0)	40.8	6.1	19.6
Profitability & Return ratios (%)					
EBITDA margin	21.4	13.1	17.2	17.2	19.5
EBIT margin	18.6	10.8	15.0	14.6	16.4
Adjusted profit margin	10.1	7.5	8.7	8.0	8.6
Adjusted ROAE	12.4	9.3	9.5	9.8	11.1
ROCE	16.9	9.2	13.8	14.2	16.3
Working capital days (days)					
Receivables	8	14	11	10	10
Inventory	35	39	26	25	24
Payables	109	97	92	88	89
Ratios (x)					
Gross asset turnover	1.4	1.6	1.4	1.4	1.3
Current ratio	1.8	2.2	2.3	2.2	2.2
Net interest coverage ratio	37.1	21.6	29.7	31.0	23.7
Adjusted debt/equity	0.0	0.0	0.0	0.0	0.0

Source: Company, BOBCAPS Research | Note: TA = Total Assets | FY23 is for 15 months due to a change in year-end from December to March

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BUY – Expected return >+15%

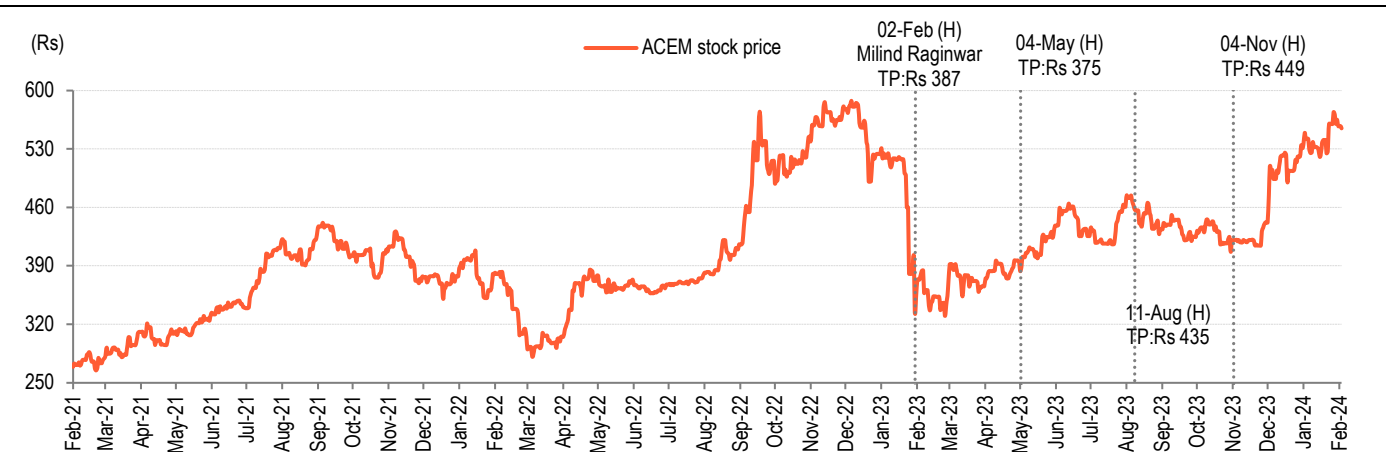
HOLD – Expected return from -6% to +15%

SELL – Expected return <-6%

Note: Recommendation structure changed with effect from 21 June 2021

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Ratings and Target Price (3-year history): AMBUJA CEMENTS (ACEM IN)



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