

# Dalmia Bharat | BUY

## Profitability maintained on cost optimisation

DBEL reported revenue growth of 7% YoY (cement revenue growth of 11%) on 6%/4% volume/realisation growth. Volume growth was primarily led by better demand in the east (+10% YoY). EBITDA/t at INR1,213/t, declined marginally YoY as lower other expenses and better realisation offset the escalation in power/fuel and raw material costs. Net debt declined by INR3.3bn in 2QFY18 and INR9.7bn in 1HFY18 as cash flows were utilised to reduce debt. Net debt to EBITDA stands reduced to 2.2x from 2.4x as on Jun'17 resulting in cost of debt declining to 8.1% (9.4% in 2QFY17). Management is confident of pick up in the demand from low cost housing and infrastructure push by the government. We continue to value the stock at 12x EVE to arrive at a TP of INR3,100 (Sep'18). Maintain BUY.

- 7% revenue growth on volume/realisation growth:** DBEL reported a volume of 3.64mnT, +6.4% YoY led by better demand in the east. Revenue for the quarter at INR18.3bn grew 7% YoY. Cement realisations for the quarter declined 3.4% sequentially at INR4,945/t (4% growth YoY) was in-line with JMFe. Realisation decline on a sequential basis was on account of price cuts taken during the quarter. Capacity utilisation was at 58% in 2QFY18 vs 55% in 2QFY17. OCL reported INR7bn revenue during 2QFY18 growing 8% YoY. OCL's cement volume/realisation grew by 15%/0% YoY.
- Lower other expense helps maintain profitability:** EBITDA for the quarter, at INR4.4bn, grew by 5% YoY. EBITDA/t at INR 1,213/t (vs INR 1,230/t) declined marginally primarily on higher raw material costs (-INR 139/t impact) led by escalating slag costs and higher power and fuel costs (-INR 164/t impact) led by increase in the petcoke prices. Escalating variable costs were partially offset by lower other expenses (INR 263/t of positive impact) and better realisations (INR 27/t of positive impact). Dalmia ex-OCL EBITDA/t improved to INR1,237/t from INR1,218/t in 2QFY17. Company was able to moderate the impact of higher fuel costs through improvement in kiln productivity (+9% YoY) and reduction in auxiliary power consumption (+1% YoY). PAT before OCI for the quarter at INR 1,037mn vs INR 311mn in 2QFY17. OCI at INR 3,833mn included INR 3,799mn on account of revaluation of investment in Indian Energy Exchange.
- Net debt reduced by c.INR3.3bn in 2QFY18:** Company reduced its net debt from c.INR46bn as on Jun'17 to c.INR42.8bn as on Sep'17 (gross debt reduced by INR 1.79bn; INR5.08bn in 1HFY18); reduction in the net debt by c.INR3.3bn during 2QFY18 led to the Net debt to EBITDA ratio being reduced to 2.2x from 2.4x as on Jun'17 and cost of debt reduced to 8.1% (vs 8.3% in 1QFY18).
- Other details:** Schemes of arrangement i) involving Odisha Cement Ltd, Dalmia Bharat Ltd and Dalmia Cement (Bharat) Ltd is pending for sanction by NCLT, Chennai bench and ii) involving Dalmia Cement (Bharat) Ltd and its subsidiaries has been approved by NCLT Chennai branch in Oct'17 and is pending to be filed with ROC Chennai.
- Maintain BUY:** DBEL is trading at 12.9/10.7x EV/EBITDA and at USD187/177 on EV/t basis in FY19E/20E. We maintain BUY with TP of INR3,100 at 12.0x EV/EBITDA (Sep'18).



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### Recommendation and Price Target

Current Reco.	BUY
Previous Reco.	BUY
Current Price Target (12M)	3,100
Upside/(Downside)	2.6%
Previous Price Target	3,100
Change	0.0%

### Key Data – DBEL IN

Current Market Price	INR3,021
Market cap (bn)	INR268.8/USD4.1
Free Float	69%
Shares in issue (mn)	89.0
Diluted share (mn)	89.0
3-mon avg daily val (mn)	INR280.9/USD4.3
52-week range	3,086/1,186
Sensex/Nifty	33,371/10,350
INR/USD	65.0

### Price Performance

%	1M	6M	12M
Absolute	9.7	33.6	49.2
Relative*	4.5	19.5	22.8

\* To the BSE Sensex

### Financial Summary

Y/E March	FY16A	FY17A	FY18E	FY19E	FY20E
Net Sales	64,113	74,044	83,419	95,644	108,981
Sales Growth (%)	90.6	15.5	12.7	14.7	13.9
EBITDA	0	19,019	20,964	24,389	27,860
EBITDA Margin (%)	0.0	25.7	25.1	25.5	25.6
Adjusted Net Profit	0	3,448	5,492	8,399	11,484
Diluted EPS (INR)	0.0	38.7	61.7	94.4	129.1
Diluted EPS Growth (%)	0.0	80.9	59.3	52.9	36.7
ROIC (%)	0.0	7.3	9.3	11.5	14.5
ROE (%)	0.0	7.2	10.6	14.5	17.3
P/E (x)	0.0	78.0	48.9	32.0	23.4
P/B (x)	0.0	5.4	4.9	4.4	3.8
EV/EBITDA (x)	0.0	18.6	16.2	13.5	11.3
Dividend Yield (%)	0.1	0.1	0.2	0.0	0.2

Source: Company data, JM Financial. Note: Valuations as of 07/Nov/2017

JM Financial Research is also available on:  
Bloomberg - JMFR <GO>,  
Thomson Publisher & Reuters  
S&P Capital IQ and FactSet

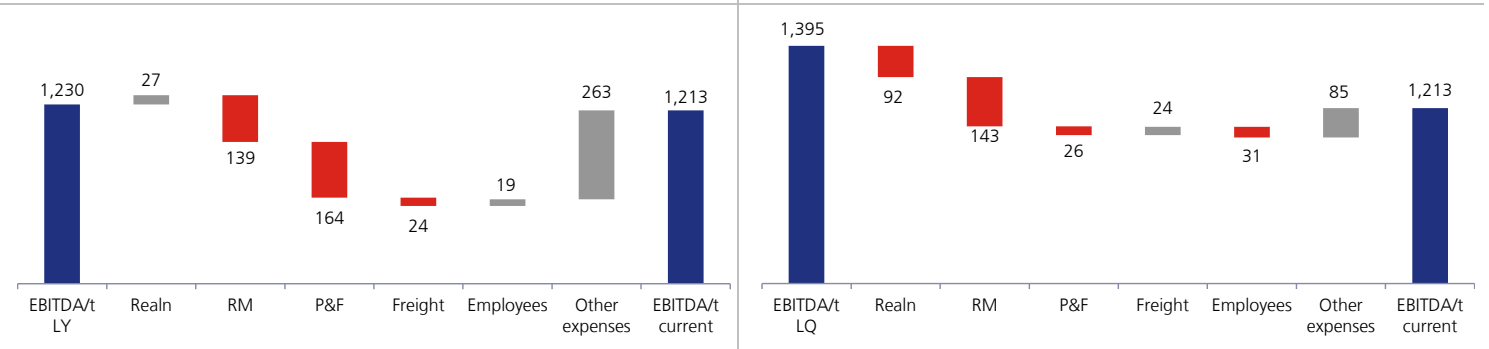
Please see Appendix I at the end of this report for Important Disclosures and Disclaimers and Research Analyst Certification.

Exhibit 1. Operating Performance

(INR/t)

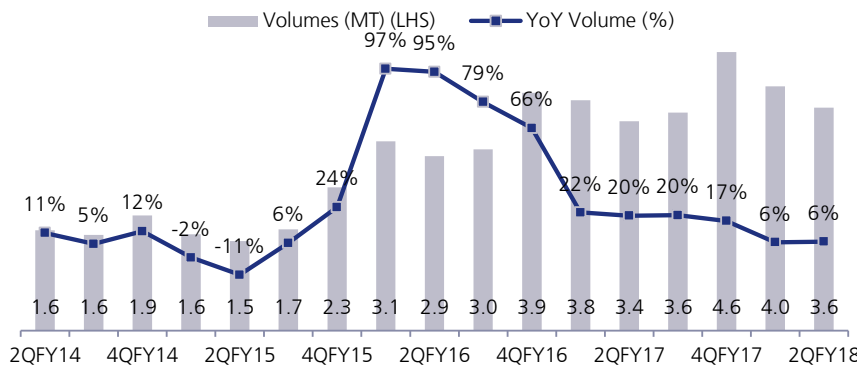
Blended EBITDA/t YoY flow

Blended EBITDA/t QoQ flow



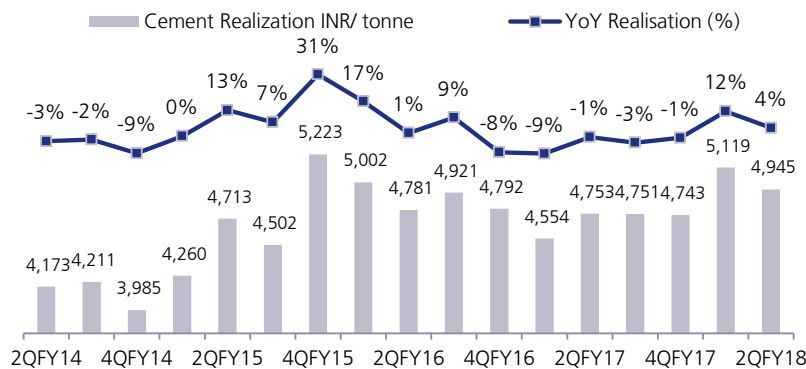
Source: Company, JM Financial

Exhibit 2. Cement volume trends



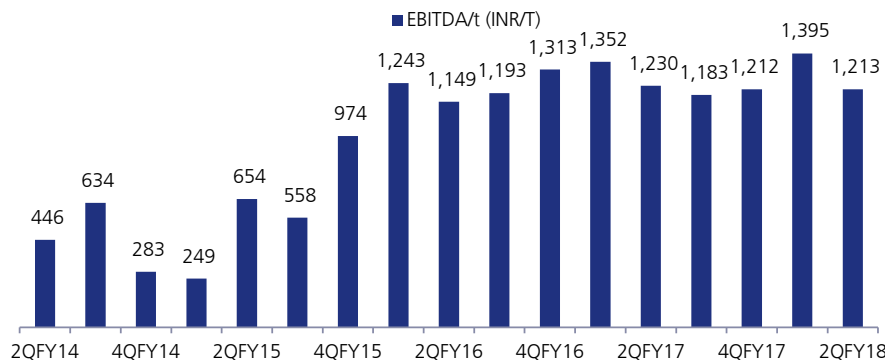
Source: Company, JM Financial

Exhibit 3. Cement realisation trends



Source: Company, JM Financial

Exhibit 4. EBITDA/t trends



Source: Company, JM Financial

## Exhibit 5. Results in brief

	(INR mn)										
	2Q FY18	2Q FY17	%YoY	1Q FY18	%QoQ	1H FY18	1H FY17	%YoY	FY18E	FY17	%YoY
<b>Net Sales(excluding excise)</b>	<b>18,337</b>	<b>17,134</b>	<b>7.0</b>	<b>20,466</b>	<b>-10.4</b>	<b>38,802</b>	<b>34,788</b>	<b>11.5</b>	<b>83,419</b>	<b>74,044</b>	<b>12.7</b>
Other Operating Income	0	0		0		0	121	-100.0	0	0	#DIV/0!
<b>Total Revenues</b>	<b>18,337</b>	<b>17,134</b>	<b>7.0</b>	<b>20,466</b>	<b>-10.4</b>	<b>38,802</b>	<b>34,909</b>	<b>11.2</b>	<b>83,419</b>	<b>74,044</b>	<b>12.7</b>
Expenditure	13,923	12,927	7.7	14,900	-6.6	28,822	25,618	12.5	62,455	54,992	13.6
<b>EBITDA</b>	<b>4,414</b>	<b>4,207</b>	<b>4.9</b>	<b>5,566</b>	<b>-20.7</b>	<b>9,980</b>	<b>9,291</b>	<b>7.4</b>	<b>20,964</b>	<b>19,052</b>	<b>10.0</b>
<b>% margin</b>	<b>24.1</b>	<b>24.6</b>		<b>27.2</b>		<b>25.7</b>	<b>26.6</b>		<b>25.1</b>	<b>25.7</b>	
Other income	922	796	15.8	700	31.6	1,622	1,562	3.8	2,503	2,988	-16.2
Interest	1,974	2,291	-13.8	2,117	-6.7	4,091	4,704	-13.0	8,086	8,900	-9.1
Depreciation	1,548	1,587	-2.5	1,532	1.0	3,080	2,925	5.3	6,241	6,027	3.5
<b>PBT</b>	<b>1,814</b>	<b>1,125</b>	<b>61.3</b>	<b>2,617</b>	<b>-30.7</b>	<b>4,431</b>	<b>3,224</b>	<b>37.4</b>	<b>9,140</b>	<b>7,112</b>	<b>28.5</b>
Tax	584	662	-11.8	622	-6.0	1,206	1,573	-23.3	3,016	2,762	9.2
% tax rate	32.2	58.9		23.7		27.2	48.8		33.0	38.8	
<b>PAT (Reported)</b>	<b>1,230</b>	<b>463</b>	<b>165.9</b>	<b>1,996</b>	<b>-38.4</b>	<b>3,225</b>	<b>1,652</b>	<b>95.3</b>	<b>6,124</b>	<b>4,351</b>	<b>40.7</b>
Extraordinary items	0	0		0		0	-15		0	0	
Share of associates	0	0		0		0	0		0	0	
Less: Minority interest	193	152		357		550	401		650	870	
OCI	3,833	7		-11		3,823	7		3,823	232	
<b>Total Comprehensible Income</b>	<b>4,870</b>	<b>318</b>	<b>1,432.3</b>	<b>1,628</b>	<b>199.1</b>	<b>6,498</b>	<b>1,242</b>	<b>423.1</b>	<b>9,296</b>	<b>3,713</b>	<b>150.4</b>
EPS (INR)	11.7	3.5	233.3	18.4	-36.8	30.1	14.1	113.9	41.6	39.1	6.4
<b>Key Operational matrix</b>											
Cement sales (mn tonnes)	3.64	3.42	6.4	3.99	-8.8	7.63	7.18	6.3	16.25	15.29	6.3
Realisation (INR/tonne)	4,945	4,753	4.0	5,119	-3.4	5,036	4,649	8.3	4,968	4,704	5.6
EBITDA INR/tonne	1,213	1,230	-1.4	1,395	-13.1	1,291	1,294	-0.2	1,284	1,246	3.0

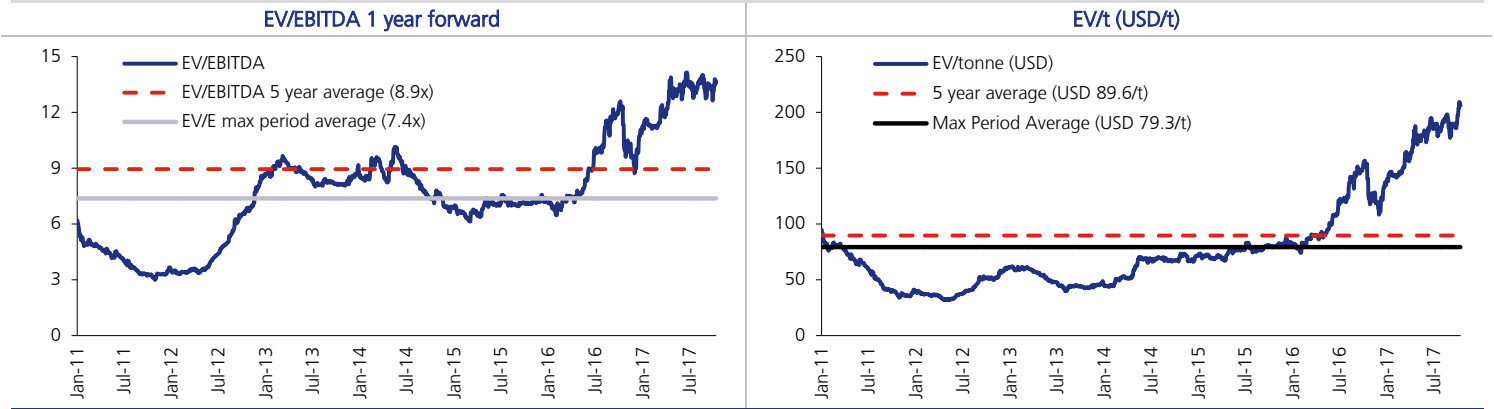
Source: Company, JM Financial

## Exhibit 6. Expenses breakdown

	(INR mn)										
	2Q FY18	2Q FY17	%YoY	1Q FY18	%QoQ	1H FY18	1H FY17	%YoY	FY18E	FY17	%YoY
Raw material	3,510	2,785	26.0	3,800	-7.6	7,309	5,739	27.4	14,792	11,976	23.5
INR/tonne	856	779	9.9	879	-2.6	868	767	13.2	881	761	15.7
Power and fuel	3,044	2,297	32.5	3,234	-5.9	6,278	4,316	45.5	12,777	9,792	30.5
INR/tonne	836	672	24.5	810	3.2	823	601	36.9	781	640	21.9
Freight	3,217	2,940	9.4	3,623	-11.2	6,840	6,114	11.9	13,933	13,435	3.7
INR/tonne	884	860	2.8	908	-2.7	896	852	5.3	851	879	-3.1
(Inc)/dec in stock	-119	-74	61.7	-656	-81.8	-775	343	-326.2	890	890	0.0
INR/tonne	-33	-22	52.0	-164	-80.1	-102	48	-312.8	54	58	-6.6
<b>Total Variable cost</b>	<b>9,651</b>	<b>7,948</b>	<b>21.4</b>	<b>10,000</b>	<b>-3.5</b>	<b>19,651</b>	<b>16,511</b>	<b>19.0</b>	<b>42,392</b>	<b>36,093</b>	<b>17.5</b>
INR/tonne	2,651	2,324	14.1	2,506	5.8	2,576	2,300	12.0	2,591	2,361	9.7
Staff cost	1,606	1,575	2.0	1,636	-1.9	3,242	3,107	4.3	6,906	6,092	13.4
INR/tonne	441	460	-4.2	410	7.6	425	433	-1.8	422	398	5.9
Other expenditure	2,666	3,405	-21.7	3,264	-18.3	5,930	5,999	-1.2	12,647	12,807	-1.3
INR/tonne	732	996	-26.4	818	-10.5	777	836	-7.0	773	838	-7.7
<b>Total fixed cost</b>	<b>4,272</b>	<b>4,979</b>	<b>-14.2</b>	<b>4,899</b>	<b>-12.8</b>	<b>9,171</b>	<b>9,107</b>	<b>0.7</b>	<b>19,553</b>	<b>18,899</b>	<b>3.5</b>
INR/tonne	1,174	1,456	-19.4	1,228	-4.4	1,202	1,268	-5.2	1,195	1,236	-3.3
<b>Tot expenditure (excluding excise)</b>	<b>13,923</b>	<b>12,927</b>	<b>7.7</b>	<b>14,900</b>	<b>-6.6</b>	<b>28,822</b>	<b>25,618</b>	<b>12.5</b>	<b>61,945</b>	<b>54,992</b>	<b>12.6</b>
Cost INR/tonne	3,825	3,780	1.2	3,734	2.4	3,777	3,568	5.9	3,785	3,597	5.3

Source: Company, JM Financial

Exhibit 7. Valuations Charts



Source: Company, JM Financial

## Company background

- Dalmia Bharat Ltd (DBEL) is part of the Dalmia Group—one of the oldest industrial houses in the country with interest in cement, sugar, travel agency, magnesite, refractory and electronic operations spread across the country. The cement business was founded in 1935 and is now housed under DBEL, which is the third largest cement player in India with total installed capacity of 25MT under control through subsidiaries. The company is among the market leaders in the eastern and southern markets with sizeable market share. It also has over 175 MW of installed captive power plants (CPP), which takes care of most of the power requirement for the cement operations.

## Key investment arguments:

- Exposure to high growth southern/eastern markets: The company has exposure to the high-growth southern (48% of capacity) and eastern markets (52% of capacity). These markets are expected register higher growth on increased infrastructure spending. 60% capacity utilisation gives DBEL opportunity to tap the demand revival without significant capex.
- No incremental capex to provide support to the balance sheet: Expansion has been driven by stake acquisition (OCL) and greenfield capacity. Consolidated capacity has grown from 9mnT in FY12 to 25mnT in FY17. Although the company has net debt of INR42.8bn (2.2x ND:EBITDA), we expect free cash flow generation of INR52bn over the FY18-20E, will help in reducing the debt significantly. Improvement in the balance sheet will be a key trigger for outperformance, going forward
- Dalmia's management focus on improving the growth trajectory: With the joining of Mahendra Singhi (from Shree Cement) as CEO, the company has been focusing on consolidating its position as market leader in the southern and eastern markets.

## Valuation and View

- **Significant discount large cap peers:** DBEL is currently trading at 12.9x FY19E EV/EBTIDA, which is at nearly a 10% discount to the large caps. This discount is expected to narrow, as DBEL is expected to remain one of the most efficient players in the industry with the highest EBITDA/t and exposure in the growing southern and eastern markets.

## Key risks

- (1) Any delay in demand recovery can have an adverse impact on earnings; (2) DBEL, with one of the highest leverages in the sector, is vulnerable to rising interest rates/low system liquidity; and (3) regulatory risk—the sector has been under the radar of the Competition Commission of India with few judgements against cement companies (4) cap in the cement price by the government is a risk to the profitability

### Exhibit 8. Volume, realisation and cost outlook

	FY16	FY17	FY18E	FY19E	FY20E
Cement Sales (mn tonnes)	12.8	15.3	16.2	17.6	19.1
YoY Growth (%)	82.1	19.7	6.2	8.5	8.3
Cement Realisations (INR/tonne)	4,749	4,579	4,968	5,267	5,556
YoY Growth (%)	5.0	-3.6	8.5	6.0	5.5
Cement EBIDTA (INR/tonne)	1,238	1,236	1,284	1,378	1,454

Source: Company, JM Financial

## Financial Tables (Consolidated)

Income Statement		(INR mn)				
Y/E March	FY16A	FY17A	FY18E	FY19E	FY20E	
Net Sales	64,113	74,044	83,419	95,644	108,981	
Sales Growth	90.6%	15.5%	12.7%	14.7%	13.9%	
Other Operating Income	0	0	0	0	0	
<b>Total Revenue</b>	<b>64,113</b>	<b>74,044</b>	<b>83,419</b>	<b>95,644</b>	<b>108,981</b>	
Cost of Goods Sold/Op. Exp	11,693	13,721	14,699	16,891	19,324	
Personnel Cost	5,053	6,092	6,664	7,591	8,631	
Other Expenses	31,450	35,212	41,093	46,773	53,166	
<b>EBITDA</b>	<b>0</b>	<b>19,019</b>	<b>20,964</b>	<b>24,389</b>	<b>27,860</b>	
EBITDA Margin	0.0%	25.7%	25.1%	25.5%	25.6%	
EBITDA Growth	0.0%	19.5%	10.2%	16.3%	14.2%	
Depn. & Amort.	5,809	6,027	6,212	6,803	6,865	
EBIT	0	12,992	14,752	17,586	20,995	
Other Income	2,295	2,988	2,503	2,869	3,269	
Finance Cost	7,302	8,900	8,086	6,516	5,685	
PBT before Excep. & Forex	0	7,080	9,168	13,940	18,580	
Excep. & Forex Inc./Loss(-)	0	0	0	0	0	
PBT	0	7,080	9,168	13,940	18,580	
Taxes	2,455	2,762	3,026	4,600	6,131	
Extraordinary Inc./Loss(-)	0	0	0	0	0	
Assoc. Profit/Min. Int.(-)	745	870	650	941	964	
Reported Net Profit	0	3,448	5,492	8,399	11,484	
<b>Adjusted Net Profit</b>	<b>0</b>	<b>3,448</b>	<b>5,492</b>	<b>8,399</b>	<b>11,484</b>	
Net Margin	0.0%	4.7%	6.6%	8.8%	10.5%	
Diluted Share Cap. (mn)	88.7	89.0	89.0	89.0	89.0	
<b>Diluted EPS (INR)</b>	<b>0.0</b>	<b>38.7</b>	<b>61.7</b>	<b>94.4</b>	<b>129.1</b>	
Diluted EPS Growth	0.0%	80.9%	59.3%	52.9%	36.7%	
Total Dividend + Tax	190	265	534	0	643	
Dividend Per Share (INR)	1.8	2.2	4.8	0.0	6.2	

Source: Company, JM Financial

Balance Sheet		(INR mn)				
Y/E March	FY16A	FY17A	FY18E	FY19E	FY20E	
Shareholders' Fund	45,893	49,649	54,345	61,567	71,476	
Share Capital	178	178	178	178	178	
Reserves & Surplus	45,715	49,471	54,167	61,389	71,298	
Preference Share Capital	0	0	0	0	0	
Minority Interest	5,259	6,129	6,780	7,721	8,685	
Total Loans	87,672	80,402	70,402	60,402	55,402	
Def. Tax Liab. / Assets (-)	16,746	15,764	15,764	15,764	15,764	
<b>Total - Equity &amp; Liab.</b>	<b>104,418</b>	<b>151,944</b>	<b>147,291</b>	<b>145,454</b>	<b>151,327</b>	
Net Fixed Assets	126,528	123,086	119,374	115,071	109,707	
Gross Fixed Assets	103,175	106,785	109,285	111,785	113,285	
Intangible Assets	26,947	26,947	26,947	26,947	26,947	
Less: Depn. & Amort.	5,949	11,971	18,183	24,986	31,851	
Capital WIP	2,355	1,325	1,325	1,325	1,325	
Investments	26,665	27,434	21,554	21,554	21,554	
Current Assets	26,502	29,258	35,398	39,438	52,393	
Inventories	0	0	0	0	0	
Sundry Debtors	5,100	5,933	6,856	7,861	8,957	
Cash & Bank Balances	2,336	1,750	5,456	8,105	19,392	
Loans & Advances	682	1,185	1,185	1,185	1,185	
Other Current Assets	18,384	20,391	21,901	22,288	22,860	
Current Liab. & Prov.	24,126	27,835	29,035	30,610	32,327	
Current Liabilities	9,947	10,937	12,137	13,711	15,429	
Provisions & Others	14,179	16,898	16,898	16,898	16,898	
Net Current Assets	2,376	1,424	6,363	8,829	20,067	
<b>Total - Assets</b>	<b>155,570</b>	<b>151,944</b>	<b>147,291</b>	<b>145,454</b>	<b>151,327</b>	

Source: Company, JM Financial

Cash Flow Statement		(INR mn)				
Y/E March	FY16A	FY17A	FY18E	FY19E	FY20E	
Profit before Tax	5,100	7,080	9,168	13,940	18,580	
Depn. & Amort.	5,809	6,027	6,212	6,803	6,865	
Net Interest Exp. / Inc. (-)	7,302	8,900	8,086	6,516	5,685	
Inc (-) / Dec in WCap.	3,054	-2,163	-1,233	183	49	
Others	-1,812	-2,112	-2,503	-2,869	-3,269	
Taxes Paid	-304	-555	-3,026	-4,600	-6,131	
<b>Operating Cash Flow</b>	<b>19,149</b>	<b>17,176</b>	<b>16,705</b>	<b>19,972</b>	<b>21,777</b>	
Capex	-4,141	-3,366	-2,500	-2,500	-1,500	
Free Cash Flow	0	13,810	14,205	17,472	20,277	
Inc (-) / Dec in Investments	-8,067	1,090	5,880	0	0	
Others	-5,024	455	2,503	2,869	3,269	
<b>Investing Cash Flow</b>	<b>-17,232</b>	<b>-1,822</b>	<b>5,883</b>	<b>369</b>	<b>1,769</b>	
Inc / Dec (-) in Capital	11	21	0	0	0	
Dividend + Tax thereon	-534	0	-643	-983	-1,344	
Inc / Dec (-) in Loans	4,129	-6,826	-10,000	-10,000	-5,000	
Others	-8,607	-8,727	-8,239	-6,710	-5,916	
<b>Financing Cash Flow</b>	<b>-5,002</b>	<b>-15,533</b>	<b>-18,882</b>	<b>-17,692</b>	<b>-12,260</b>	
<b>Inc / Dec (-) in Cash</b>	<b>0</b>	<b>-178</b>	<b>3,706</b>	<b>2,649</b>	<b>11,287</b>	
Opening Cash Balance	5,420	1,928	1,750	5,456	8,105	
Closing Cash Balance	0	1,750	5,456	8,105	19,392	

Source: Company, JM Financial

Dupont Analysis						
Y/E March	FY16A	FY17A	FY18E	FY19E	FY20E	
Net Margin	0.0%	4.7%	6.6%	8.8%	10.5%	
Asset Turnover (x)	0.5	0.5	0.6	0.6	0.7	
Leverage Factor (x)	0.0	3.2	2.9	2.5	2.3	
RoE	0.0%	7.2%	10.6%	14.5%	17.3%	

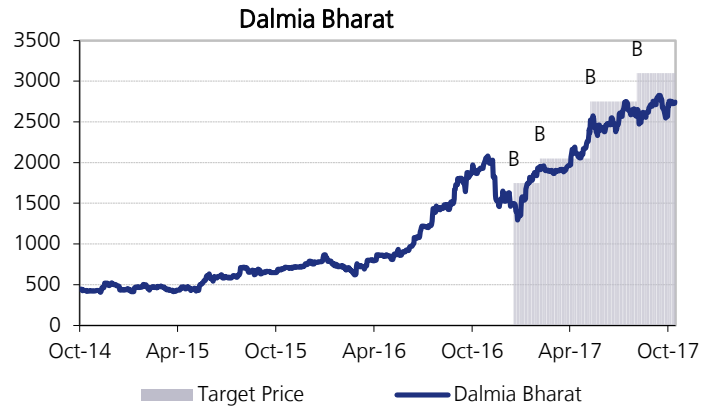
Key Ratios						
Y/E March	FY16A	FY17A	FY18E	FY19E	FY20E	
BV/Share (INR)	0.0	557.9	610.7	691.9	803.2	
ROIC	0.0%	7.3%	9.3%	11.5%	14.5%	
ROE	0.0%	7.2%	10.6%	14.5%	17.3%	
Net Debt/Equity (x)	0.0	1.6	1.2	0.8	0.5	
P/E (x)	0.0	78.0	48.9	32.0	23.4	
P/B (x)	0.0	5.4	4.9	4.4	3.8	
EV/EBITDA (x)	0.0	18.6	16.2	13.5	11.3	
EV/Sales (x)	5.6	4.8	4.1	3.4	2.9	
Debtor days	29	29	30	30	30	
Inventory days	0	0	0	0	0	
Creditor days	0	63	63	63	63	

Source: Company, JM Financial

History of Earnings Estimate and Target Price

Date	FY18E EPS (INR)	% Chg.	FY19E EPS (INR)	% Chg.	Target Price	% Chg.
19-Dec-16	51.8		84.7		1,750	
6-Feb-17	51.5	-0.6	86.5	2.1	2,050	17.1
11-May-17	62.6	21.6	94.1	8.8	2,750	34.1
6-Aug-17	61.9	-1.1	93.2	-1.0	3,100	12.7

Recommendation History



## APPENDIX I

## JM Financial Institutional Securities Limited

Corporate Identity Number: U65192MH1995PLC092522

Member of BSE Ltd. and National Stock Exchange of India Ltd. and Metropolitan Stock Exchange of India Ltd.

SEBI Registration Nos.: BSE - INZ010012532, NSE - INZ230012536 and MSEI - INZ260012539, Research Analyst – INH000000610

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Compliance Officer: Mr. Sunny Shah | Tel: +91 22 6630 3383 | Email: sunny.shah@jmfl.com

Definition of ratings	
Rating	Meaning
Buy	Total expected returns of more than 15%. Total expected return includes dividend yields.
Hold	Price expected to move in the range of 10% downside to 15% upside from the current market price.
Sell	Price expected to move downwards by more than 10%

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