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Monthly volume/price
update

Top picks

- Shree Cement
- UltraTech Cement

INDIA

Cement

Price improves further despite weak volumes in May'19

Our channel checks suggest industry volumes likely declined in low single digit YoY in May'19 impacted by sharp price hikes and production discipline coupled with general elections and labour shortage. Average pan-India prices inched up further by 2.2% MoM (Rs8/bag) and 12% YoY (Rs38/bag) in May'19 led by 2-5% MoM price hike across regions except the South. Besides, benefits of further 3-15% decline in various input prices since Mar'19-end would also flow through in the next few quarters. Our/consensus FY20-21E EBITDA have been upgraded by ~5% over the past two months and with average Q1FY20E realisations higher by Rs20/bag or Rs400/te QoQ, we expect further upgrades over the next few months. SRCM/UTCEM are our top picks. TRCL/JKCE/JKLC are our preferred mid-cap picks.

Volumes likely declined in low single digit YoY to ~28mnte in May'19

- **South region volumes likely increased in mid-single digit YoY** during May'19 owing to low single digit demand growth in Andhra Pradesh/Telangana on high base and likely high single digit demand growth in Karnataka and Tamil Nadu. Average prices broadly stood flat MoM across most states in South.
- **Demand in West region likely increased in low single digit YoY** mainly led by strong demand growth in Maharashtra partly offset by weak demand in Gujarat owing to labour shortage due to the general elections. Average prices likely increased ~3% MoM or Rs9/bag in May'19.
- **Demand in Central and East regions likely declined in low single digit YoY** in May'19 mainly due to slowdown in government projects owing to elections. Average cement prices increased ~2% MoM or Rs7-8/bag during May'19.
- **Demand in North region likely declined in high single digit YoY** led by sharp price hikes, production discipline along with lower government demand on general elections. Average prices increased sharply by ~5% MoM or Rs15/bag during May'19.

Average pan-India prices are up 12% YoY in May'19 led by 22% YoY increase in the North region and 7-13% YoY rise across all other regions. While prices have likely declined by Rs5-10/bag in South, West and Central regions in Jun'19, the same is likely flat MoM in North and East regions. Dealers indicate better MoM volume trends in Jun'19 led by pre-monsoon construction activities. We remain positive on the sector as we believe pan-India clinker utilisation would cross/remain over 80% beyond FY20E enabling EBITDA-accretive price increases over the next few years. Any weakness in cement stocks on concerns of low demand growth would be an opportunity to BUY, in our view.

Valuation summary

Company	Rating	TP (Rs/sh)	P/E (x)			EV/EBITDA (x)			EV/t (USD/t)		
			FY19	FY20E	FY21E	FY19	FY20E	FY21E	FY19	FY20E	FY21E
UTCEM	BUY	5,060	50.8	34.3	26.4	21.1	15.9	12.9	200	176	171
ACC*	ADD	1,825	26.7	20.7	18.6	12.3	10.2	9.2	111	110	110
ACEM*	ADD	245	31.1	22.0	20.2	12.7	10.7	9.9	114	112	112
SRCM	BUY	22,500	61.5	39.0	31.2	24.7	18.3	14.8	238	216	192
DALBHARA	ADD	1,270	74.1	50.2	37.8	13.2	11.1	9.9	149	140	110
TRCL	BUY	890	35.1	25.7	21.3	18.7	14.2	11.9	175	163	139
JKCE	BUY	1,220	27.1	18.9	15.2	11.6	9.8	8.0	118	95	93
ICEM	ADD	122	NM	14.9	11.7	9.5	7.1	6.5	58	57	57
JKLC	BUY	450	88.0	19.3	13.7	13.6	8.4	7.0	77	68	65
ORCMNT	BUY	135	47.0	15.9	13.5	11.2	7.8	7.3	65	64	64
PRSMJ	BUY	113	36.3	18.3	15.0	10.8	8.2	7.0	116	109	101
GRASIM	BUY	1,075	7.5	8.6	7.6	4.8	5.3	4.6	-	-	-

Source: I-Sec research *Dec- year ending

Please refer to important disclosures at the end of this report

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Volumes likely declined in low single digit YoY to ~28mnte in May'19

- Our channel checks suggest industry volumes likely declined in low single digit YoY in May'19 impacted by sharp price hikes and production discipline coupled with general elections and labour shortage.
- Most companies remain confident on >7% demand growth for FY20.

Chart 1: UTCEM expects strong cement demand at 8% CAGR in FY19-FY21E

Demand growth													In %	
FY	'08	'09	'10	'11	'12	'13	'14	'15	'16	'17	'18	'19	'20	'21
Gr.	9.8	8.5	12.1	5.7	7.1	5.4	2.7	3.2	4.6	1.2	9.0	12.3	8.0	8.0
Ind. Util.	83	82	74	70	72	67	66	64	65	64	65	70	72	75

Source: UTCEM presentation- May19, I-Sec research

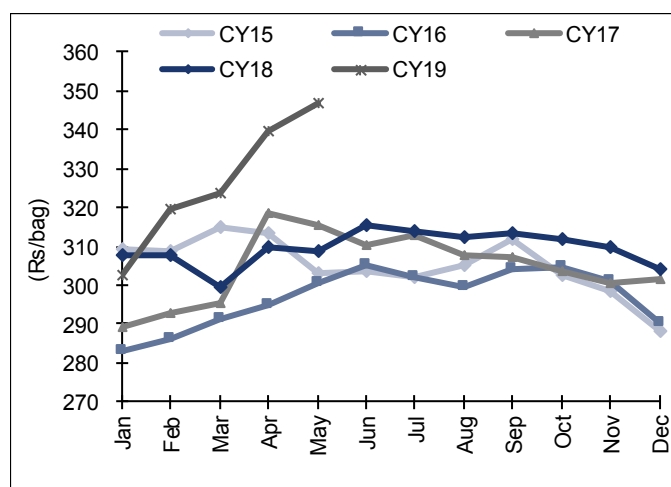
- Besides, benefits of further 3-15% decline in various input prices since Mar'19-end would also flow through in the next few quarters.
- Our/consensus FY20-21E EBITDA have been upgraded by ~5% over the past two months and with average Q1FY20E realisations higher by Rs20/bag or Rs400/te QoQ, we expect further upgrades over the next few months.

Table 1: Utilisation to see rising trend over coming years

Utilisations (%)	FY18	FY19	FY20E	FY21E	FY22E
North	80	82	84	87	88
Central	81	83	83	86	88
East	79	83	84	83	86
West	68	71	71	73	73
South	57	66	68	70	74
All-India	70	75	77	78	81

Source: Industry sources, I-Sec research

Chart 2: Monthly price movement- All India



Source: I-Sec research

Average pan-India prices in May'19 likely up 2% MoM/12% YoY

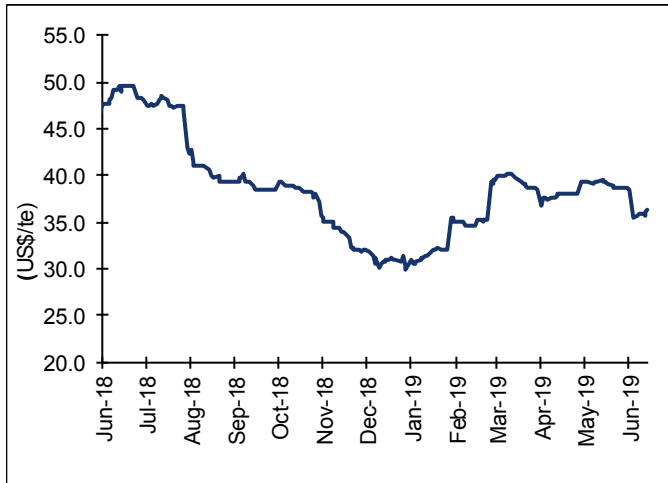
- Average pan-India prices inched up further by 2.2% MoM in May'19 led by 2-5% MoM price hike across regions except South. While it is up 12% YoY in May'19 led by 22% YoY increase in the North and 7-13% YoY rise across all other regions.

Table 2: Average all-India realisation likely increased 2% MoM / 12% YoY

Cement price per bag of 50kg	North	East	West	Central	South	All-India
Avg. May'19	343	340	341	358	350	346
Avg. Apr'19	328	332	332	351	349	339
MoM change (%)	4.6	2.4	2.7	2.0	0.3	2.2
Avg. May'18	282	317	306	317	317	308
YoY change (%)	21.6	7.2	11.5	12.9	10.4	12.3

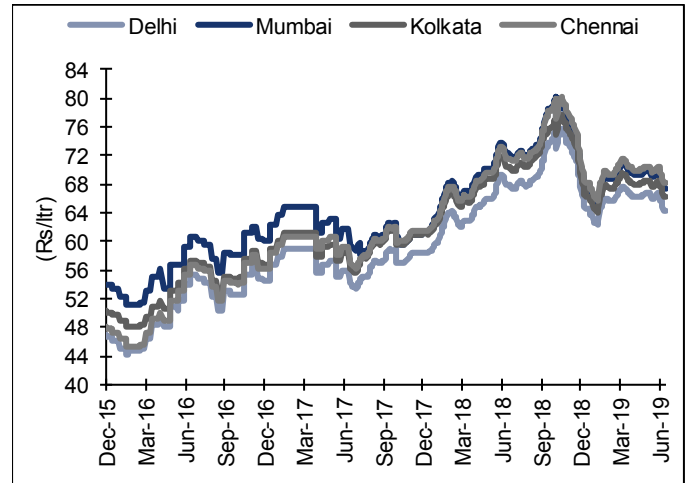
Source: I-Sec research

Chart 3: Average Indonesian coal prices declined 14% YoY in 2MFY20; spot prices are 5% down since Mar'19-end



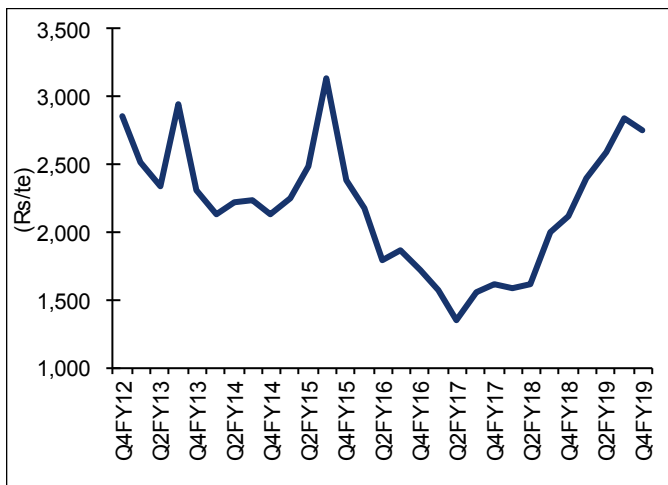
Source: Bloomberg, I-Sec research

Chart 4: Average diesel prices declined 1% YoY in 2MFY20; spot prices are 3% down since Mar'19-end



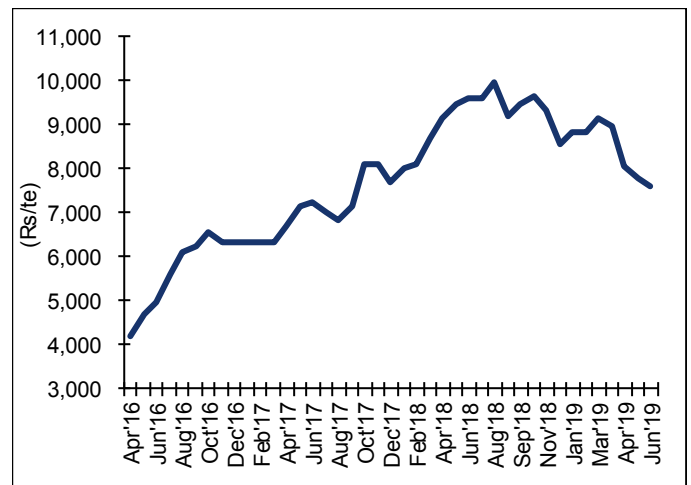
Source: Bloomberg, I-Sec research

Chart 5: Domestic e-auction coal prices have rebound from bottom



Source: Coal India, I-Sec research

Chart 6: Domestic pet coke prices have declined 15% or Rs1,350/te since Mar'19

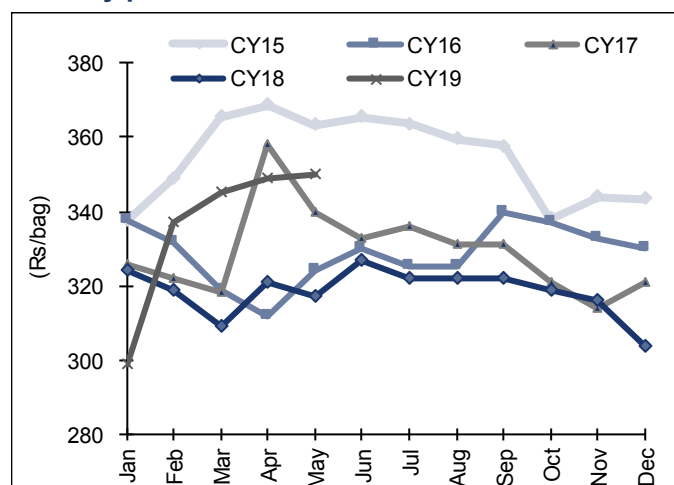


Source: Industry data, I-Sec research

Benefits of decline in input prices (fuel, freight etc.) by 3-15% since Mar'19-end would also flow through in the next few quarters.

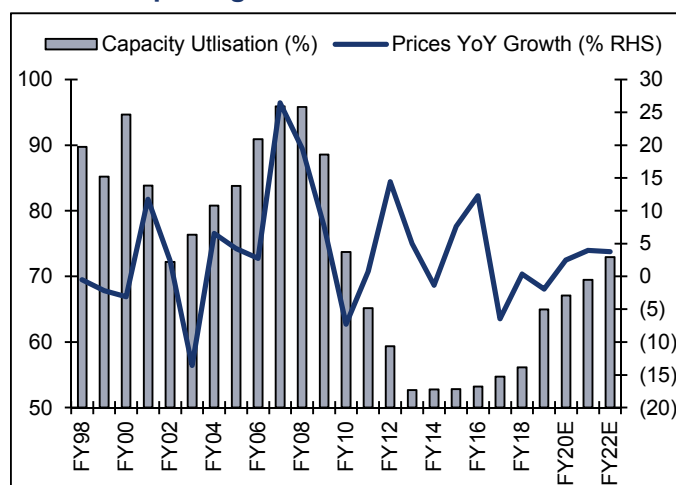
South– Volumes likely increased in mid-single digit YoY; prices stood flat MoM

Monthly price movement



Source: Industry data, I-Sec research

Utilisation/pricing



Source: Industry data, I-Sec research

Table 3: Utilisation in South to see maximum uptick across India over FY19-FY22E

	FY18	FY19	FY20E	FY21E	FY22E
Installed capacity	162	171	177	180	180
Effective capacity	160	165	173	178	180
YoY chg (%)	3.0	2.9	4.6	3.4	0.9
Volumes	91	108	117	125	132
Utilisation (%)	57	66	68	70	74
YoY change (%)	5.5	19.0	8.0	7.0	5.9

Source: Industry data, I-Sec research

Table 4: Few capacity additions expected over FY19-FY21E

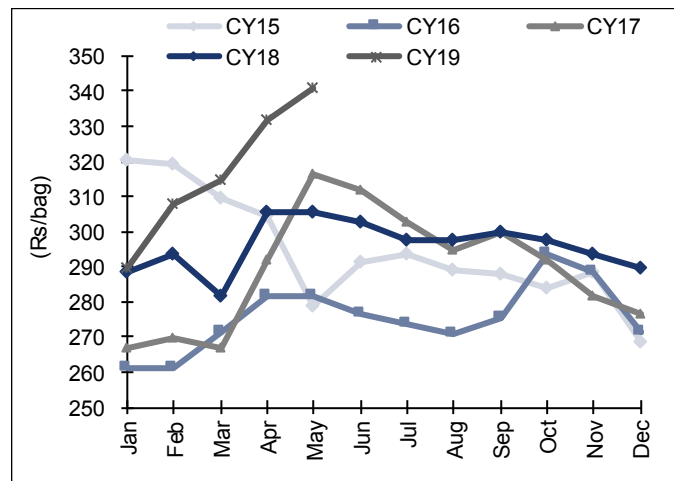
Company	CoD	FY18	FY19	FY20E	FY21E	FY22E
Chettinad	Dec-19			2.5		
JSW	Jun-17	3.0				
KCP	Feb-19		1.7			
NCLI	Sep-17	0.8				
Penna	Sep-18		2.0			
Penna	Sep-19			2.0		
TRCL	Mar-20			1.1		
TRCL	Mar-18	0.2				
TRCL	Sep-20				3.2	
SGC	Jun-18		1.3			
SGC	Sep-19			0.5		
SRCM	Dec-18		3.0			
TANCEM	Dec-18		1.0			
Total		4.0	9.0	6.1	3.2	-

Source: Company, I-Sec research

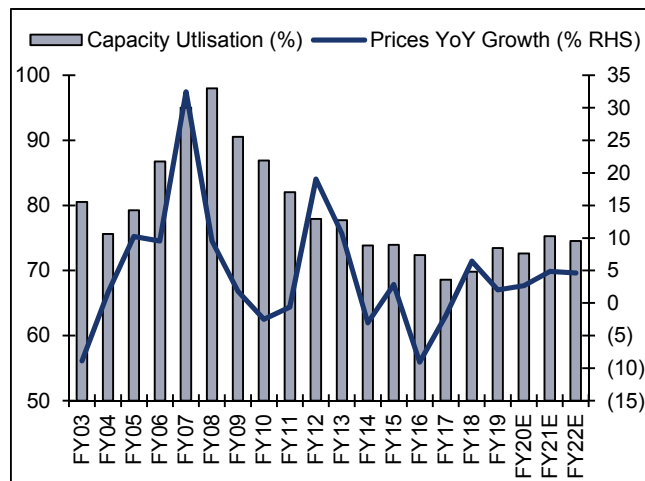
- South region volumes likely increased in mid-single digit YoY during May'19 owing to low single digit demand growth in Andhra Pradesh/Telangana on high base and likely high single digit demand growth in Karnataka and Tamil Nadu.
- Demand in the region is expected to remain strong on the back of continued momentum in Andhra Pradesh/Telangana and revival of demand in Tamil Nadu on receding impact of the sand mining issue.
- Average prices stood flat MoM; while up 10% YoY in May'19.
- Prices in May'19 were Rs360-390/bag in Andhra Pradesh/Telangana; Rs370-400/bag in Tamil Nadu/Karnataka and Rs390-410/bag in Kerala.

Pricing outlook:

- Given prices likely declined by 2.2% YoY in FY19, we factor realisation CAGR of 3.6% over FY19-FY21E for the region.

West– Volumes likely increase in low single-digit YoY; prices increased ~3% MoM**Monthly price movement**

Source: Industry data, I-Sec research

Utilisation/pricing

Source: Industry data, I-Sec research

Table 5: Utilisation in West to increase 200bps over FY19- FY21E

	FY18	FY19	FY20E	FY21E	FY22E
Installed capacity	61	65	67	76	76
Effective capacity	61	63	67	69	76
YoY chg (%)	5.9	2.6	6.0	4.1	9.1
Volumes	42	45	47	51	55
Utilisation (%)	68	71	71	73	73
YoY change (%)	8.0	8.0	5.0	8.0	8.2

Source: Industry data, I-Sec research

Table 6: New players are entering West market in FY19-FY21E

Company	CoD	FY18	FY19	FY20E	FY21E	FY22E
CENT	Apr-17	1.2				
CENT	Apr-19			1.2		
JKCE	Mar-20			0.7		
JSW	Sep-18		1.2			
JSW	Mar-21				2.3	
Penna	Sep-18		1.0			
SNGI	Dec-20				4.0	
SRCM	Sep-20				2.0	
UTCEM	Apr-17	1.2				
Wonder	Dec-18		2.0			
Total		2.4	4.2	1.9	8.3	-

Source: Company, I-Sec research

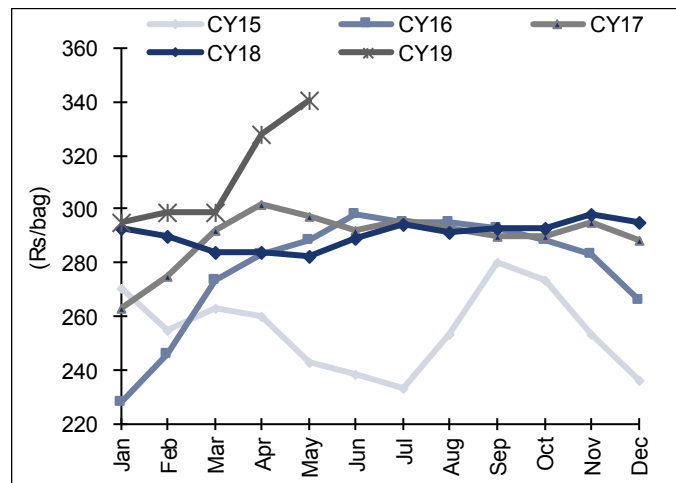
- Demand in the West region likely increased in low single digit YoY mainly led by strong demand growth in Maharashtra partly offset by weak demand in Gujarat owing to labour shortage due to general elections.
- Infrastructure spend is expected to be strong in both Maharashtra and Gujarat due to pick-up in DFCs, Mumbai Metro, many road and irrigation projects and imminent elections in Maharashtra in Sep'19. Commercial/industrial activities are expected to remain high in the West region.
- Average prices increased ~3% MoM; while up 12% YoY in May'19.
- Prices in May'19 were in the range of Rs310-340/bag in Gujarat and Pune and Rs330-350/bag in Mumbai.

Pricing outlook

- We factor a realisation CAGR of 5.6% over FY19-FY21E for the West region. Entry of new players (e.g. SRCM, Wonder and Penna), likely restart of an old capacity (Murli Industries by DALBHARA) and increasing trade flow from South are expected to keep prices volatile in the region.

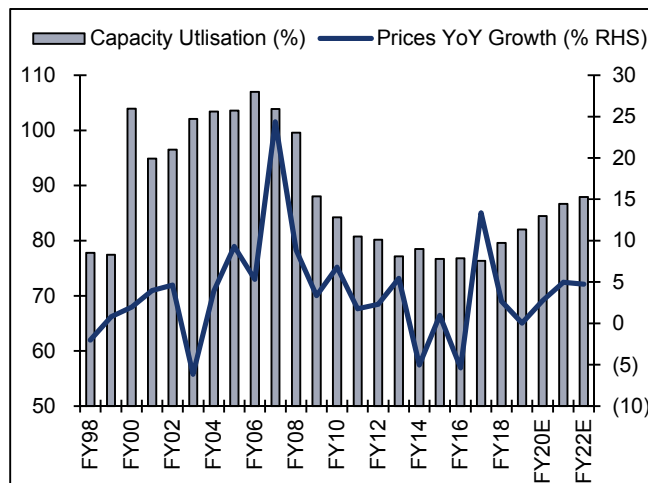
North – Volumes likely declined in high single digit YoY; prices increased ~5% MoM

Monthly price movement



Source: I-Sec research

Utilisation/pricing



Source: I-Sec research

Table 7: Utilisation to rise to 88% by FY22E

	FY18	FY19	FY20E	FY21E	FY22E
Installed capacity	103	103	105	107	112
Effective capacity	98	103	104	105	108
YoY chg (%)	3.6	4.8	1.0	1.4	2.5
Volumes	78	84	88	91	95
Utilisation (%)	80	82	84	87	88
YoY change (%)	8.0	8.0	4.0	4.0	4.0

Source: Industry data, I-Sec research

Table 8: No major capacity addition in FY19-FY21E

Company	CoD	FY18	FY19	FY20E	FY21E	FY22E
ACEM	Dec-20					1.8
Asian	Feb-18	1.5				
JKCE	Sep-19			2.0		
SRCEM	Feb-18	3.6				
UTCCEM	Dec-21					5.0
Total		5.1	-	2.0	1.8	5.0

Source: Company, I-Sec research

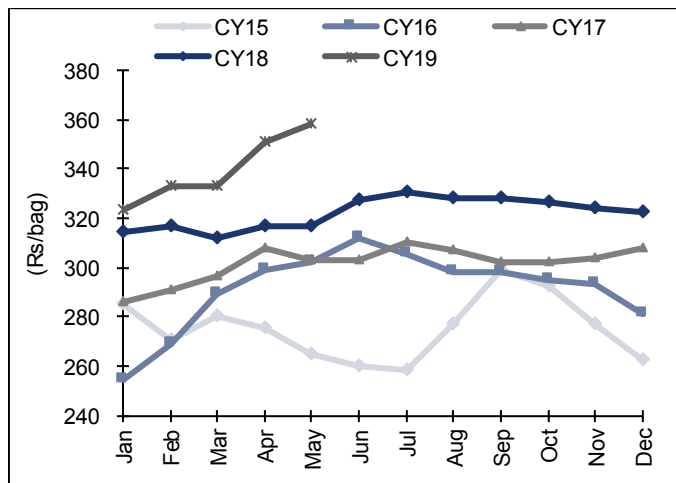
- Demand in the North region likely declined in high single digit YoY led by sharp price hikes, production discipline along with lower government demand on general elections. Domestic cement companies have increased their volumes in Punjab due to stoppage of cement flow from Pakistan.
- Infrastructure spend is expected to improve due to pick-up in DFCs and many road/irrigation projects. HPCL’s US\$6bn-US\$7bn Barmer refinery project may begin work soon, which augurs well for cement demand.
- Average prices increased ~5% MoM; while it is up ~22% YoY in May’19.
- Prices in May’19 were in the range of Rs360-375/bag in Delhi and Punjab and Rs330-350/bag in Jaipur.

Pricing outlook

- Average prices in FY19 are likely to be flat YoY.
- We factor a realisation CAGR of 8.4% over FY19-FY21E; however, absolute cement prices will still be lower than the South.

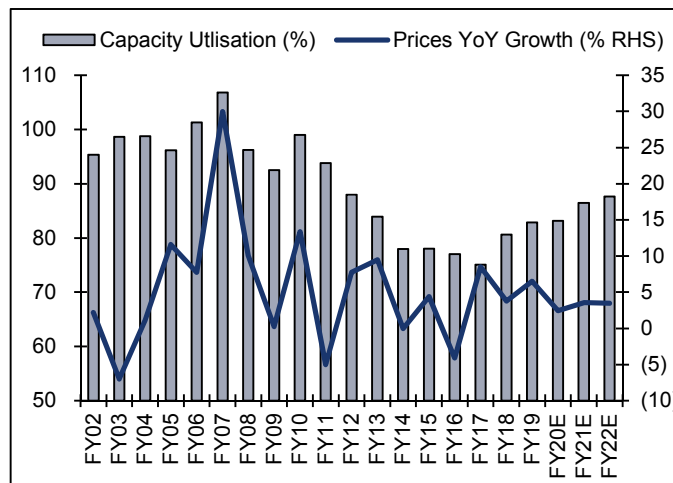
Central – Volumes likely decline in low single digit YoY; prices increased 2% MoM

Monthly price movement



Source: Industry data, I-Sec research

Utilisation/pricing



Source: Industry data, I-Sec research

Table 9: Utilisation to increase 500bps over FY19-FY22E

	FY18	FY19	FY20E	FY21E	FY22E
Installed capacity	54	58	65	66	72
Effective capacity	54	57	62	65	68
YoY chg (%)	0.7	5.6	7.7	5.7	4.4
Volumes	44	48	51	56	60
Utilisation (%)	81	83	83	86	88
YoY change (%)	8.1	8.6	8.1	9.8	5.9

Source: Industry data, I-Sec research

Table 10: Few capacity additions expected over FY19-FY22E

Company	CoD	FY18	FY19	FY20E	FY21E	FY22E
ACC	Dec-21					4.8
BCORP	Mar-21				1.2	
JKCE	Mar-20			1.5		
SGC	Sep-21					1.0
UTCEM	Jun-19			2.0		
UTCEM	Jun-19			2.0		
UTCEM	Apr-18		1.8			
UTCEM	Jun-18		1.8			
Wonder	Sep-19			2.0		
Total		-	3.6	7.5	1.2	5.8

Source: Company, I-Sec research

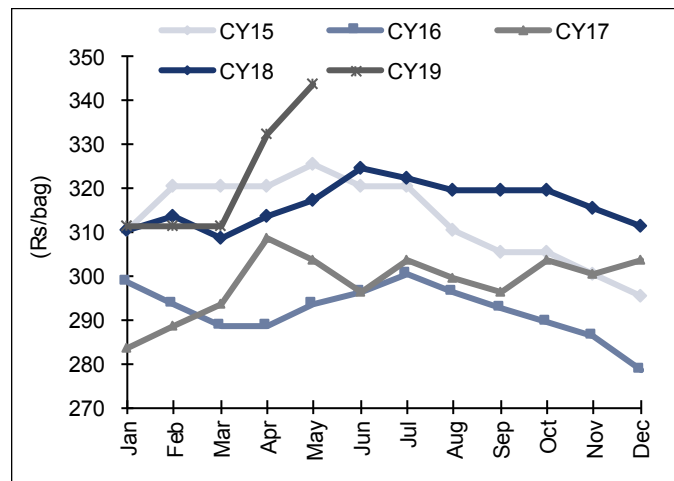
- Demand in the Central region likely decline in low single digit YoY in May'19 led by price hikes in the past few months, production discipline coupled with lower government spends on general elections.
- Infrastructure spending is expected to improve with increasing government focus especially on various road and irrigation projects.
- Average cement prices increased 2% MoM; while it is up 13% YoY in May'19.
- Prices in May'19 were in the range of Rs320-340/bag in Indore/Bhopal and Lucknow.

Pricing outlook

- Average prices were up 5.9% YoY in FY19.
- Pricing discipline is expected to be better owing to consolidation of capacities in the region. We factor a realisation CAGR of 4.5% over FY19-FY21E with absolute cement prices in-line with the South region.

East – Volumes likely decline in low-single digit YoY; prices increased ~2% MoM

Monthly price movement



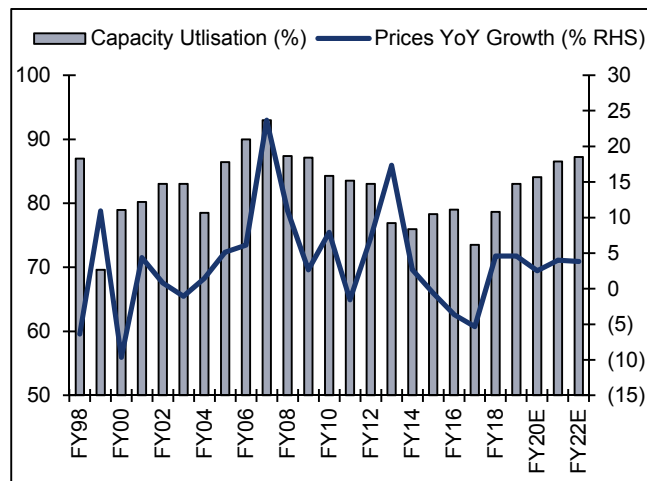
Source: Industry data, I-Sec research

Table 11: Utilisation to remain high despite significant capacity additions over FY19-FY22E

	FY18	FY19	FY20E	FY21E	FY22E
Installed capacity	85	88	98	107	111
Effective capacity	81	86	93	102	110
YoY chg (%)	11.2	6.1	8.6	9.8	7.4
Volumes	64	71	78	85	95
Utilisation (%)	79	83	84	83	86
YoY change (%)	19.0	12.0	10.0	8.0	12.0

Source: Industry data, I-Sec research

Utilisation/pricing



Source: Industry data, I-Sec research

Table 12: More grinding unit additions expected in FY20E-FY22E

Company	CoD	FY18	FY19	FY20E	FY21E	FY22E
ACC	Dec-21					1.1
Emami	Sep-18		1.0			
Emami	Dec-18		2.0			
Emami	Mar-19		0.8			
JKLC	Apr-17	1.0				
JKLC	Apr-19			0.8		
JSW	Dec-17	2.4				
JSW	Mar-21					1.2
JSW	Dec-19			1.2		
DALBHARA	Mar-20			2.6		
DALBHARA	Sep-20				2.6	
DALBHARA	Sep-20				2.6	
Nuvoco	Dec-20				1.0	
STAR	Apr-20				1.0	
TRCL	Apr-19			1.1		
TRCL	Sep-19			0.9		
SGC	Sep-21					1.5
SRCM	Feb-18	2.0				
SRCM	Sep-19			1.8		
SRCM	Jun-19			1.5		
SRCM	Apr-21					2.0
UTCCEM	Mar-18	0.3				
Total		5.7	3.8	9.9	8.4	4.6

Source: Company, I-Sec research

- Demand in the East region likely declined in low single digit YoY in May'19 mainly due to slowdown in government projects owing to elections along with cyclone impact in Odisha.
- Average cement prices increased ~2% MoM; while it is up 7% YoY in May'19.
- Average prices in May'19 hovered around Rs360-380/bag in Bihar, Rs340-360/bag in Odisha and West Bengal, and Rs225-240/bag in Chhattisgarh.

Pricing outlook

- Average prices in FY19 were up 4.1% YoY. We factor a realisation CAGR of 4% over FY19-FY21E with absolute cement prices in-line with the South region.

Any weakness in cement stocks would be an opportunity to BUY

- Benefits of further 3-15% decline in various input prices since Mar'19-end would also flow through in the next few quarters.
- Our/consensus FY20-21E EBITDA has been upgraded by ~5% over the past two months and with average Q1FY20E realisations higher by Rs20/bag or Rs400/te QoQ, we expect further upgrades over the next few months.
- We remain positive on the sector as we believe pan-India clinker utilisation would cross/remain over 80% beyond FY20E enabling EBITDA-accretive price increases over the next few years.
- Any weakness in cement stocks on concerns of low demand growth would be an opportunity to BUY, in our view.
- SRCM/UTCEM are our top picks. TRCL/JKCE/JKLC are our preferred mid-cap picks.

Table 13: Cement stocks have mixed performance in last three months

	Absolute performance (%)			Relative to Sensex (%)		
	1m	3m	YoY	1m	3m	YoY
UTCEM	1.8	13.6	19.5	(4.0)	9.1	8.7
ACC	(1.5)	0.6	18.5	(7.2)	(3.9)	7.7
ACEM	0.5	(4.4)	4.0	(5.2)	(8.9)	(6.9)
SRCM	7.4	15.0	24.8	1.7	10.5	13.9
DALBHARA	9.2	4.0	NA	3.4	(0.5)	NA
ICEM	0.4	(5.0)	(17.0)	(5.4)	(9.5)	(27.8)
TRCL	6.0	8.8	7.0	0.2	4.3	(3.8)
JKCE	19.6	22.1	9.7	13.9	17.6	(1.1)
JKLC	4.2	1.5	6.5	(1.5)	(3.0)	(4.3)
ORCMNT	7.1	25.1	(5.8)	1.4	20.6	(16.6)
PRSMJ	8.1	(4.3)	(14.8)	2.4	(8.7)	(25.6)
GRASIM	6.3	7.9	(13.2)	0.6	3.4	(24.1)

Source: Bloomberg

Key assumptions:

Table 14: Volume growth assumptions over FY18-FY21E

	Total volumes (mnte)				Growth YoY (%)			
	FY18	FY19E	FY20E	FY21E	FY18	FY19E	FY20E	FY21E
UTCEM	64.2	76.6	89.5	101.5	20.4	19.1	16.9	13.4
ACC	26.6	28.4	29.0	29.7	14.6	6.8	2.2	2.5
ACEM	23.0	24.3	24.5	25.1	6.7	5.4	1.0	2.5
SRCM	22.5	27.9	32.1	35.9	9.5	24.0	14.9	11.8
DALBHARA	17.0	18.7	20.3	23.0	10.9	10.1	8.8	13.0
ICEM	11.2	12.4	12.9	13.5	1.2	11.3	4.0	4.0
JKCE	9.4	10.2	11.0	12.8	15.1	8.4	7.2	17.1
TRCL	9.3	11.1	12.2	13.9	11.5	19.4	10.0	14.0
JKLC	9.4	11.1	11.9	12.7	18.5	18.4	6.8	6.8
ORCMNT	5.7	6.4	6.7	7.1	3.5	11.6	5.0	5.0
PRSC	5.6	6.3	6.5	6.8	4.3	11.2	4.0	4.0
Total	204.0	233.4	256.7	282.0	13.1	14.4	10.0	9.8

Source: Company data, I-Sec research

Table 15: Realisation growth assumptions over FY18-FY21E

	Realisation (Rs/te)				Growth YoY (%)			
	FY18	FY19E	FY20E	FY21E	FY18	FY19E	FY20E	FY21E
UTCEM- grey cement	4,324	4,367	4,543	4,680	3.7	1.0	4.0	3.0
UTCEM- blended	4,821	4,804	4,941	5,061	2.5	(0.3)	2.9	2.4
ACC - blended	4,869	5,105	5,312	5,495	3.1	4.9	4.1	3.5
ACC - grey cement	4,523	4,742	4,935	5,105	3.1	4.9	4.1	3.5
ACEM	4,455	4,525	4,646	4,805	4.7	1.6	2.7	3.4
SRCM	4,052	4,088	4,242	4,389	8.2	0.9	3.8	3.5
DALBHARA - cement	4,800	4,796	4,819	4,892	5.2	(0.1)	0.5	1.5
ICEM	4,667	4,603	4,686	4,756	5.2	(1.4)	1.8	1.5
JKCE- blended	4,916	5,072	5,311	5,362	2.1	3.2	4.7	1.0
TRCL	4,637	4,551	4,710	4,790	(0.1)	(1.9)	3.5	1.7
JKLC	3,981	3,873	4,038	4,154	8.3	(2.7)	4.3	2.9
ORCMNT	3,858	3,933	4,122	4,225	14.5	2.0	4.8	2.5
PRSC	4,206	4,423	4,666	4,811	13.3	5.2	5.5	3.1
Weighted average	4,604	4,636	4,779	4,903	4.6	0.7	3.1	2.6

Source: Company data, I-Sec research

Table 16: EBITDA/te growth assumptions over FY18-FY21E

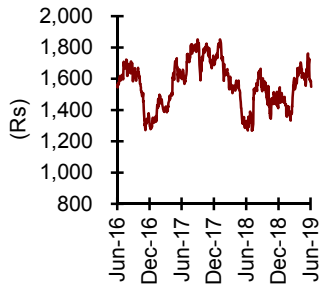
	EBITDA/te* (Rs)				Growth YoY (%)			
	FY18	FY19E	FY20E	FY21E	FY18	FY19E	FY20E	FY21E
UTCEM- consol.	956	887	1,056	1,115	(2.1)	(7.3)	19.0	5.6
ACC	707	747	874	938	15.4	5.6	17.0	7.4
ACEM	824	780	887	909	5.5	(5.3)	13.7	2.5
SRCM	1,073	944	1,138	1,223	(6.3)	(12.0)	20.5	7.5
DALBHARA	1,200	1,040	1,144	1,147	(3.1)	(13.4)	10.0	0.3
ICEM	616	512	659	685	(22.8)	(16.9)	28.5	4.1
JKCE	807	817	981	999	(8.3)	1.2	20.2	1.8
TRCL	1,129	922	1,099	1,148	(18.3)	(18.4)	19.2	4.5
JKLC	459	407	580	623	(1.4)	(11.2)	42.5	7.3
ORCMNT	531	487	676	706	65.6	(8.4)	39.0	4.4
PRSC	619	834	1,006	1,062	9.3	34.7	20.6	5.6
Weighted average	880	821	982	1,036	(1.8)	(6.7)	19.6	5.6

Source: Company data, I-Sec research; *including other operating income

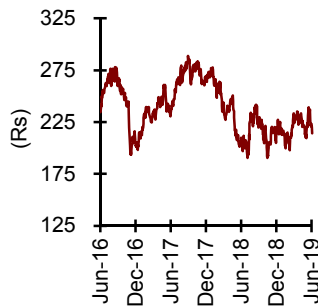
Note: We are not changing reco, target and estimates in this report.

Price charts

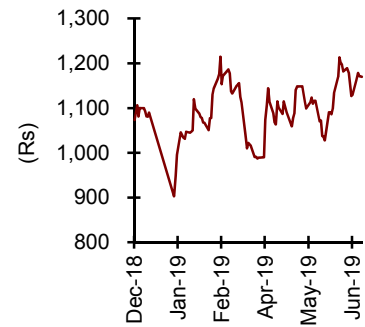
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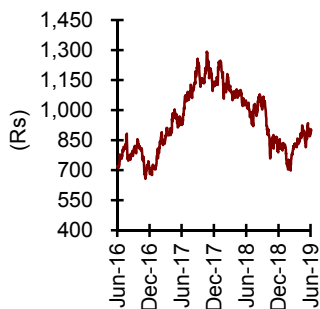
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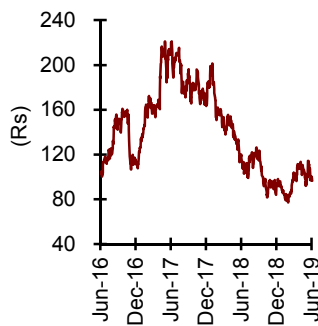
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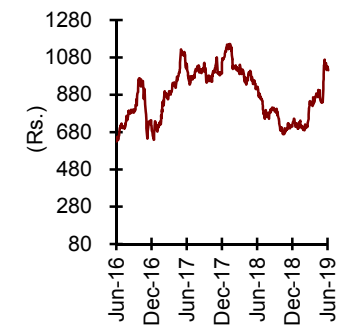
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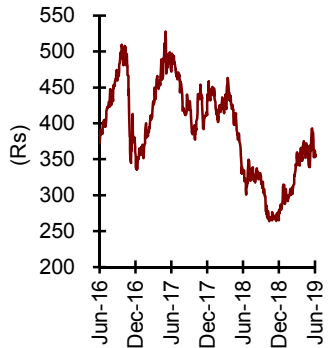
India Cement



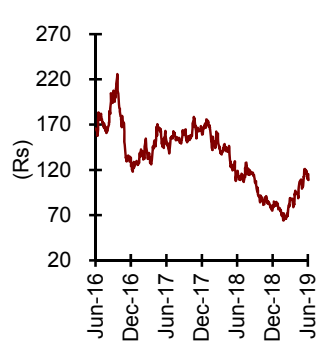
JK Cement



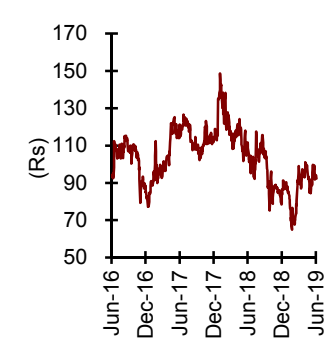
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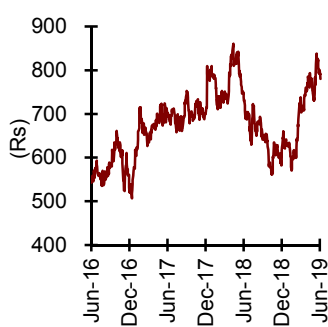
Orient Cement



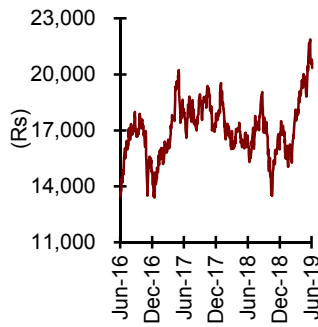
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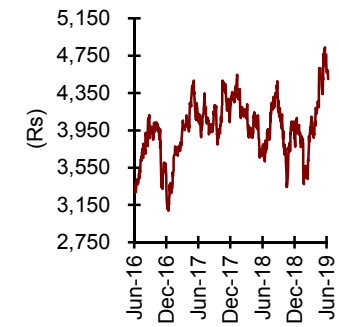
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