

PNB Housing Finance

Estimate change



TP change



Rating change



CMP: INR480

TP: INR525 (+9%)

Neutral

Transitioning from consolidation to growth

PPoP miss but earnings in line, aided by lower credit costs

- PNB Housing Finance (PNBHF) reported 4QFY23 PAT growth of 65% YoY to ~INR2.8b (in line), aided by ~120bp QoQ moderation in credit costs to ~1%. FY23 PAT grew 65% YoY to ~INR10.5b.
- 4QFY23 NII grew 58% YoY to INR5.8b, while PPOP surged 31% YoY to INR4.8b.
- Asset quality improvement was driven by a fall in both retail and Corporate GNPA. Total GNPA/NNPA ratios stood at ~3.8%/2.8% (% of loan assets) and improved 100bp/50bp QoQ. Retail GNPA improved ~30bp sequentially to 2.6%. Corporate GNPA declined to 22% (PQ: 27%).
- Under the new leadership, PNBHF has set up an affordable housing vertical and the management articulated that there will be a strong focus on both the prime and affordable segments. Excluding any one-offs in spreads/margins, we believe that PNBHF has levers to exhibit NIM improvement through product diversification and reduction in borrowing costs. Improvement in asset quality will make it eligible for NHB borrowings, and a potential credit rating upgrade will give it renewed access to the primary debt markets. A better outlook on loan growth, expansion in core margins and lower credit costs have led to an ~8% increase in our FY24 EPS estimates.
- We expect PNBHF to deliver a CAGR of 12%/22% in loans/PAT over FY23-FY25 and ~1.9%/11% RoA/RoE in FY24. However, we would closely track the execution on loan growth, NIM trend and asset quality before turning constructive on the stock. **Maintain Neutral with a TP of INR525 (premised on 0.8x Mar'25E BVPS).**

Business momentum to improve; NIM contracts sequentially

- 4QFY23 disbursements grew 22% YoY to ~INR45b. Disbursements in FY23 grew 33% YoY to ~INR149.6b. AUM remained flat YoY/ QoQ at INR666.2b.
- The rise in bank MCLR rates in Jan/Feb'23 was significantly higher than the PLR increase affected by PNBHF, leading to a contraction in spreads on the securitized pool in 4QFY23. This reduced the yields by 15-20bp and led to a contraction in NIM/spreads.
- Reported NIM (including the impact of securitization) contracted ~95bp QoQ to ~3.7%. The management has guided for steady-state spreads and margin of 2.5% and 3.5%, respectively.

Credit costs moderate driven by healthy improvement in asset quality

- Total GS3 improved ~100bp QoQ, driven by a fall in both retail and corporate GS3. In FY23, PNBHF saw an accelerated reduction in the Corporate loan book through sell-downs, ARC sales, write-offs and resolutions.

Bloomberg	PNBHOUSI IN
Equity Shares (m)	168
M.Cap.(INRb)/(USD\$)	124.7 / 1.5
52-Week Range (INR)	542 / 261
1, 6, 12 Rel. Per (%)	14/40/59
12M Avg Val (INR M)	456
Free float (%)	71.9

Financials & Valuations (INR b)

Y/E March	FY23	FY24E	FY25E
NII	23.0	24.2	26.4
PPP	21.0	22.0	24.2
PAT	10.5	13.6	15.5
EPS (INR)	61.9	52.5	59.6
EPS Gr. (%)	25	-15	13
BV/Sh. (INR)	652	573	624
Ratios			
NIM (%)	4.1	3.9	3.8
C/I ratio (%)	20.2	20.9	20.6
RoAA (%)	1.6	1.9	1.9
RoE (%)	10.0	10.5	9.9
Valuations			
P/E (x)	7.8	9.1	8.1
P/BV (x)	0.7	0.8	0.8
Div. Yield (%)	0.0	1.7	1.9

Shareholding pattern (%)

As on	Mar-23	Dec-22	Mar-22
Promoter	32.5	32.5	32.6
DII	3.7	3.0	2.3
FII	24.3	23.6	24.0
Others	39.5	40.8	41.1

- Corporate GNPA improved to 22% (PQ: 27%). One exposure accounted for ~92% of the Corporate GNPA and is backed by a large real estate developer and the company expects the same to be resolved in FY24. PNBHF guides for select recoveries even from the written-off pool of Corporate NPAs.
- Total restructured pool stood at INR19.8b (~3.3% of loan assets). Out of this, ~INR3b is 90+ dpd and the rest is standard.

Highlights from the management commentary

- The management has guided for retail disbursement growth of 22% and loan growth of 17% over the next 2-3 years.
- In FY24, it expects affordable housing to contribute ~10-12% to the disbursement mix, and ~25% over the medium term.
- PNBHF expects borrowing costs to decline ~40-50bp, driven by a potential credit rating upgrade.

Valuation and View: Maintain Neutral with a TP of INR525

- Over the past year, PNBHF has transformed its business model toward Retail and reduced its corporate loan book (through down-selling and ARC sale) to ~6% of the AUM mix. It targets to scale up affordable housing disbursements to ~25% of the total retail disbursements over the medium term.
- Guidance is positive on loan growth, spreads/margins, asset quality and credit costs. The completion of the equity capital raise through the Rights issue has brought in the much needed confidence capital and could result in a positive rating action (or an upgrade) from credit rating agencies. We are positive about the company's ability to deliver on the guided metrics under the leadership of MD/CEO Mr. Girish Kousgi. However, we will wait to see execution under the new leadership before turning constructive on the stock. **Maintain Neutral with a TP of INR525 (premised on 0.8x Mar'25E BVPS).**

Quarterly performance

(INR M)

	FY22				FY23				FY22	FY23	4QFY23E	v/s Est.
	1Q	2Q	3Q	4Q	1Q	2Q	3Q	4Q				
Interest Income	16,114	14,999	14,112	12,995	12,987	15,975	17,136	15,892	58,220	61,991	16,850	-6
Interest Expenses	11,029	10,348	9,961	9,307	9,303	9,639	9,963	10,081	40,645	38,985	10,488	-4
Net Interest Income	5,085	4,651	4,151	3,688	3,684	6,337	7,173	5,812	17,575	23,006	6,363	-9
YoY Growth (%)	16.1	-25.1	-18.9	-29.0	-27.6	36.2	72.8	57.6	-15.9	30.9	72.5	
Other income	815	865	844	1,264	1,124	868	829	485	3,787	3,306	1,006	-52
Total Income	5,900	5,516	4,995	4,951	4,808	7,205	8,002	6,297	21,363	26,311	7,368	-15
YoY Growth (%)	16.0	-19.1	-23.2	-27.6	-18.5	30.6	60.2	27.2	-15.4	23.2	48.8	
Operating Expenses	1,152	1,186	1,163	1,258	1,214	1,368	1,262	1,468	4,760	5,313	1,342	9
YoY Growth (%)	10.6	11.1	16.7	-13.1	5.4	15.4	8.5	16.7	4.5	11.6	6.7	
Operating Profits	4,748	4,330	3,832	3,693	3,594	5,837	6,740	4,828	16,603	20,998	6,026	-20
YoY Growth (%)	17.3	-24.7	-30.4	-31.4	-24.3	34.8	75.9	30.7	-19.7	26.5	63.2	
Provisions	1,595	1,418	1,295	1,455	483	2,432	3,071	1,403	5,764	7,389	2,118	-34
Profit before Tax	3,153	2,912	2,537	2,238	3,111	3,404	3,669	3,425	10,840	13,609	3,908	-12
Tax Provisions	720	560	653	542	761	778	978	632	2,475	3,149	1,006	-37
Profit after tax	2,433	2,352	1,885	1,695	2,350	2,626	2,691	2,793	8,365	10,460	2,902	-4
YoY Growth (%)	-5.4	-24.9	-18.9	33.5	-3.4	11.7	42.8	64.7	-8.0	25.0	71.2	
Key Operating Parameters (%)												
Rep. Yield on loans	10.31	10.10	9.78	8.53	8.46	9.57	10.65	10.43				
Rep. Cost of funds	7.49	7.29	7.24	7.10	7.21	7.32	7.55	7.76				
Spreads	2.82	2.81	2.54	1.43	1.25	2.25	3.10	2.67				
Net Interest Margins	3.19	3.01	2.67	2.33	2.36	4.14	4.68	3.74				
Cost to Income Ratio	19.5	21.5	23.3	25.4	25.3	19.0	15.8	23.3				
Credit Cost	1.03	0.95	0.88	1.01	0.34	1.69	2.12	0.96				
Tax Rate	22.8	19.2	25.7	24.2	24.5	22.9	26.6	18.5				
Balance Sheet Parameters												
Loans (INR B)	604	593	579	579	573	578	580	593				
Change YoY (%)	-11.1	-11.5	-10.4	-8.4	-5.1	-2.4	0.3	2.3				
AUM (INR B)	718	698	676	660	649	657	658	666				
Change YoY (%)	-14.0	-14.0	-13.0	-11.4	-9.7	-5.8	-2.7	1.0				
Borrowings (Ex Assgn.) (INR B)	583	556	538	532	518	523	525	537				
Change YoY (%)	-13.3	-16.0	-16.1	-11.2	-11.1	-5.9	-2.5	0.8				
Loans /Borrowings (%)	103.6	106.6	107.5	108.9	110.6	110.5	110.5	110.5				
Off BS loans/AUM (%)	15.9	15.1	14.4	12.2	11.6	12.0	11.7	11.0				
Debt/Equity (x)	6.8	5.9	5.9	5.4	5.1	5.0	4.9	4.9				
Asset Quality Parameters (%)												
GS 3 (INR Mn)	36,251	35,110	47,370	47,060	36,390	35,020	28,240	22,700				
Gross Stage 3 (% on loans)	6.00	5.92	8.18	8.12	6.35	6.06	4.87	3.83				
NS 3 (INR Mn)	21,818	19,682	31,610	29,310	24,400	20,770	18,350	16,170				
Net Stage 3 (% on loans)	3.61	3.32	5.61	5.22	4.35	3.68	3.22	2.76				
PCR (%)	39.8	43.9	33.3	37.7	32.9	40.7	35.0	28.8				

E: MOFSL Estimates



Highlights from the management commentary

Guidance

- Retail disbursement growth of 22% over the next 2-3 years and loan growth of 17%;
- Steady-state spreads of 2.5% and NIM of 3.5% and credit costs of 0.6%
- Guides for a further improvement in RoA and should be comparable to any other good HFC. It should be able to cross 2% RoA but RoE can be sustained at current levels;
- Gearing stood at 4.9x as on Mar'23 (~4.0x after the capital raise); comfortable with leverage of 6.0x
- In the medium term, it expects affordable housing to contribute 25% to the disbursement mix, but only ~10-12% in FY24.
- Guides for retail PCR of 30-35%

Retail Loans

- During the quarter, retail disbursements grew 22% YoY and loan book grew ~10% YoY.
- Retail GNPA stood at 2.57% (PQ: 2.86%)

Corporate

- Reducing the book and working on resolutions; corporate book has declined by 27% QoQ.
- Corporate GNPA stood at 22.25% and declined 69% QoQ, driven by ARC sales and write-offs.
- Total Corporate GNPA of INR8.46b across two accounts. One account, which accounts for 92% of GNPA, is backed by a large Real Estate developer. It is still working on resolutions in these two accounts and expects them to be resolved in FY24.
- Expects good resolutions even from the written-off pool of Corporate NPAs.
- It will restart the Corporate business in a very measured way and the idea of starting this business is to increase the retail penetration. The corporate book will not exceed 10% of the loan mix. It will do Corporate business strategically; select developers and select markets; It will start at the end of this year.

Consolidated Loan Book

- FY23 total disbursements grew 33% YoY and total loan book grew ~2% YoY.

Customer Segment

- PNBHF changed the segment from super prime to prime. It has guided for an ideal mix of 70:30 between salaried and self-employed. Incrementally, it would want to get to a zone where the focus is on home loans and more to salaried customers rather than self-employed and SENP.
- There was a lot of attrition in the super-prime segment. The Affordable Housing segment will help it build the book at higher yields; affordable housing yields are ~200bp higher than the prime segment.

Capital Raise

- The company raised a capital of ~INR25b, which will be utilized for growth in prime and affordable segments.

- It is engaging with credit rating agencies and they should positively look at an upgrade.

Borrowing Costs

- Access to cheaper funds from NHB is available since its GNPA/NNPAs have come down drastically over the last year. It should now be able to tap the debt markets as well.
- Expects CoB to decline 40-50bp, driven by an expected credit rating upgrade.

Restructured Book

- Retail restructured pool stood at INR18.7b. It is carrying provisions of 12-13%. Out of this, ~INR3b is 90+ dpd and the rest is standard.
- All accounts have exited the moratorium.
- Wholesale restructured stood at INR1.08b (which is regular and repaying).

Yields

- PNBHF has passed on higher interest rates to customers at the end of 4QFY23 and beginning of 1QFY24. A drop in yields will be reversed in the next quarter. About 94% of the book is retail, and the benefit of the interest rate increase in the last two months will reflect from 1QFY24 onward.
- It has guided for yields of 10% in Prime and 11.5-12% in affordable housing.
- Banks' MCLR increase in Jan/Feb'23 was significantly higher than the PLR increase by PNBHF. Spreads on the securitized pool came down in 4QFY23.
- The share of retail went up and the share of the Corporate book declined; Core interest income was flat QoQ.
- Affordable Housing disbursements stood at INR1.37b in 4QFY23 with yields of 11.5%-11.6%.

Retail Asset Quality

- Recoveries in retail are more than in slippages. It has guided that retail asset quality will continue to gradually improve.
- About 4-6 quarters from now, it will be comparable with some of the best HFCs in the country, with an ideal retail GNPA of 1.25-1.35%.

Operating Expenses

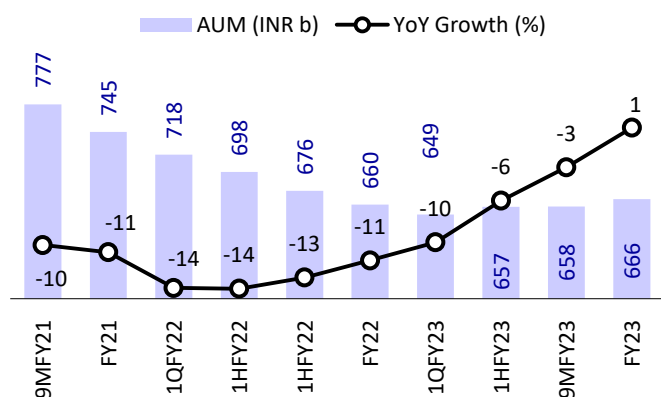
- The opex-to-ATA ratio stood at 0.8%. Most of the investments related to the affordable segment - infrastructure and manpower - have already been completed. So the current level of the opex-to-ATA ratio is sustainable.

Others

- The securitized book has to take into consideration the impact of changes in interest rates.
- Incremental CoB stood at 8.0%-8.1%.
- Provisioning coverage declined primarily because of a decline in the Corporate Book.
- The Affordable Housing segment has 82 branches, which are completely operational, and the company expects a good contribution from the segment in the incremental disbursement mix.

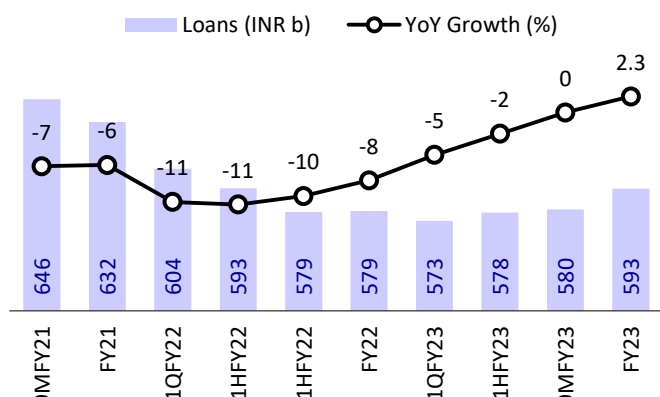
Key exhibits

Exhibit 1: AUM was flat YoY...



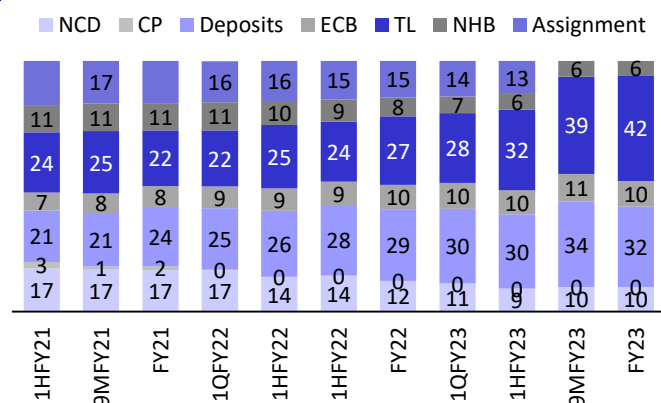
Source: MOFSL, Company

Exhibit 2: ...while on-book loans grew



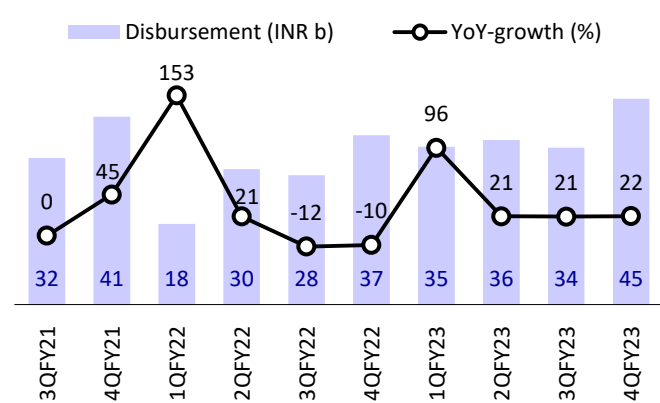
Source: MOFSL, Company

Exhibit 3: Borrowing mix (%)



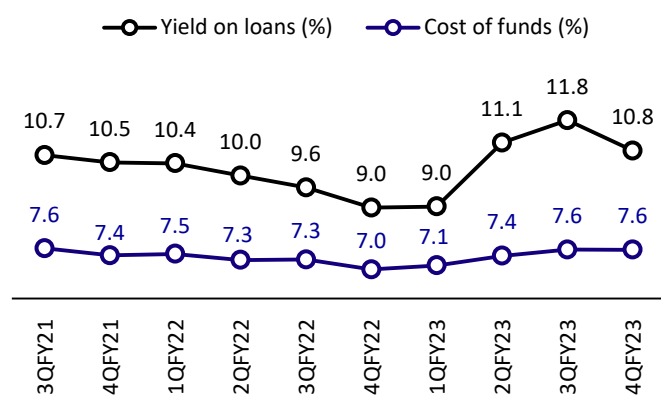
Source: MOFSL, Company

Exhibit 4: Disbursements grew ~31% QoQ



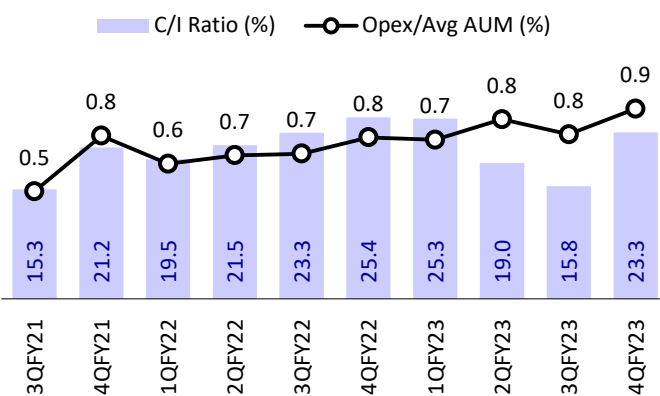
Source: MOFSL, Company

Exhibit 5: Reported spreads contracted ~40bp sequentially

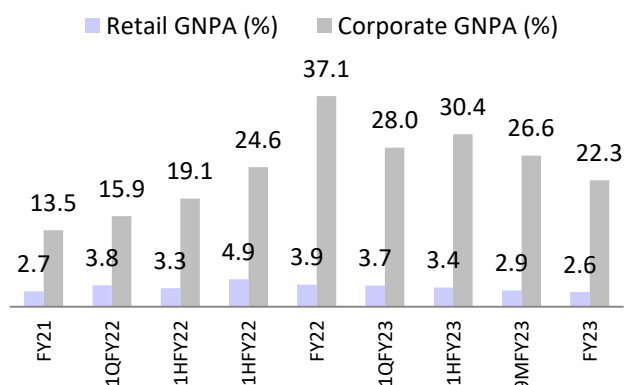


Source: MOFSL, Company, Calculated

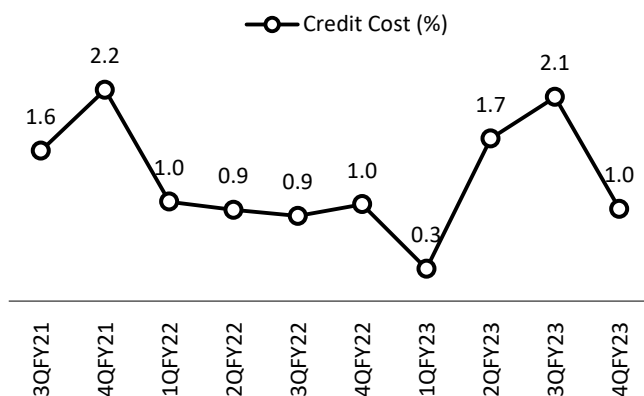
Exhibit 6: C/I ratio increased QoQ (%)



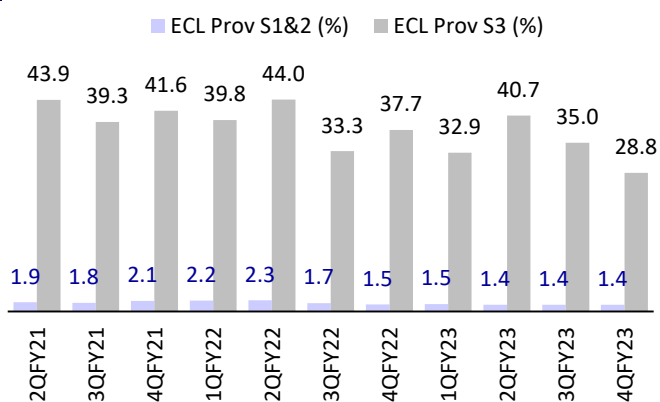
Source: MOFSL, Company, Calculated

Exhibit 7: Both retail and corporate GNPA improve QoQ

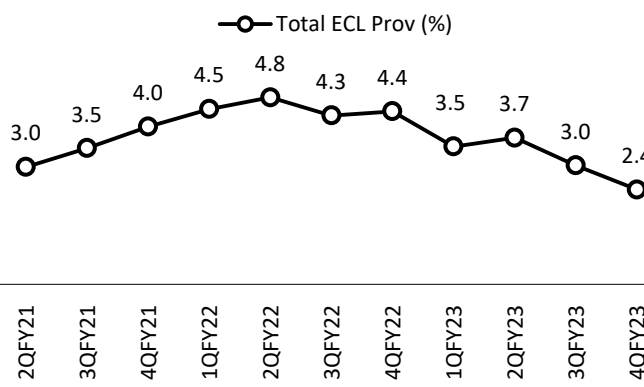
Source: MOFSL, Company

Exhibit 8: Credit costs moderated by ~120bp QoQ (%)

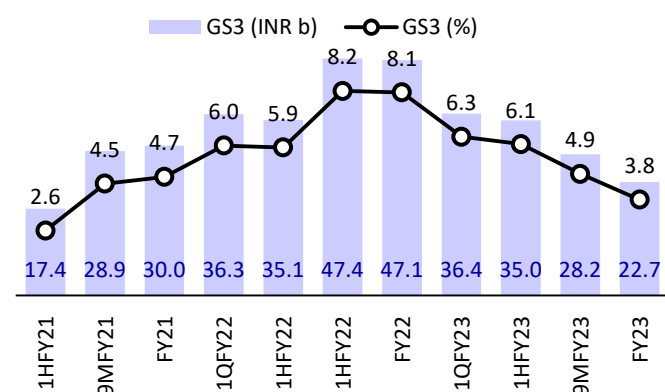
Source: MOFSL, Company

Exhibit 9: Stage 3 PCR declined ~6pp QoQ...

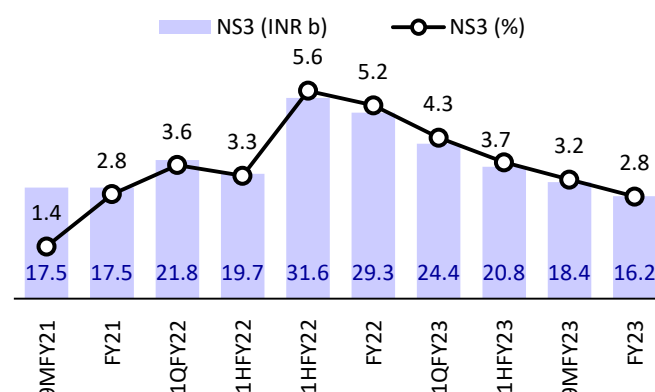
Source: MOFSL, Company

Exhibit 10: ...and ECL/EAD declined to 2.4% of loans

Source: MOFSL, Company

Exhibit 11: GS3 improved ~100bp sequentially...

Source: MOFSL, Company

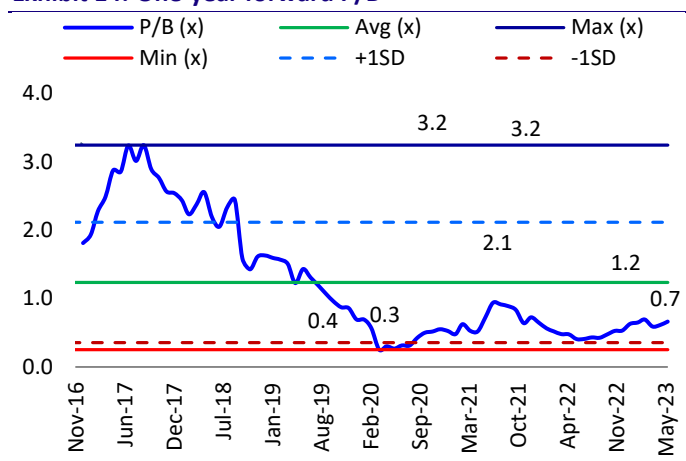
Exhibit 12: ...while NS3 improved ~45bp QoQ

Source: MOFSL, Company

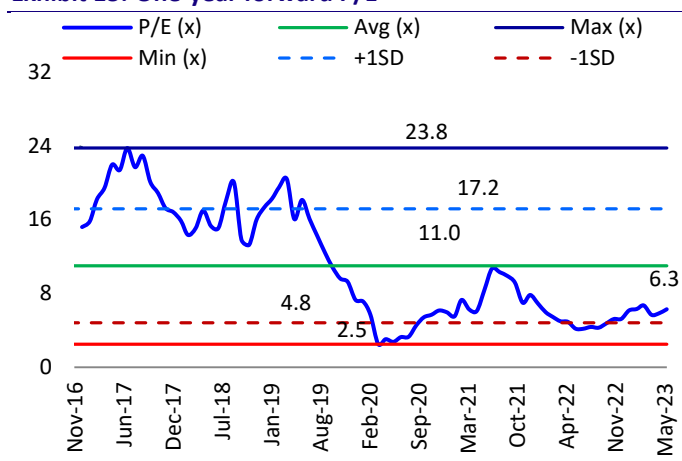
Exhibit 13: Increase our FY24E EPS by 8% to factor in higher loan growth, expansion in core margins and lower credit costs

INR b	Old Est.		New Est.		Change (%)	
	FY24E	FY25E	FY24E	FY25E	FY24E	FY25E
NII	23.1	26.4	24.2	26.4	4.8	0.2
Other Income	4.0	4.4	3.6	4.1	-8.4	-8.2
Total Income	27.0	30.8	27.8	30.5	2.9	-1.0
Operating Expenses	5.7	6.3	5.8	6.3	1.8	0.3
Operating Profits	21.3	24.6	22.0	24.2	3.2	-1.4
Provisions	4.7	4.6	4.3	4.1	-8.5	-10.8
PBT	16.6	19.9	17.7	20.1	6.5	0.8
Tax	4.0	4.8	4.1	4.6	2.0	-3.4
PAT	12.6	15.1	13.6	15.5	7.9	2.2
Loan book	666	762	651	730	-2.3	-4.3
NIM (%)	3.7	3.7	3.9	3.8		
Spreads (%)	2.7	2.7	2.9	2.9		
ROAA (%)	1.8	1.8	1.9	1.9		
RoAE (%)	11.0	11.8	10.5	9.9		

Source: MOFSL estimates

Exhibit 14: One-year forward P/B

Source: MOFSL, Company

Exhibit 15: One-year forward P/E

Source: MOFSL, Company

Financials and valuations

Income statement									(INR M)
Y/E March	FY17	FY18	FY19	FY20	FY21	FY22	FY23	FY24E	FY25E
Interest Income	36,401	50,467	67,929	76,882	71,898	58,220	61,991	68,447	76,605
Interest Expended	26,437	35,366	51,664	58,750	50,998	40,645	38,985	44,277	50,179
Net Interest Income	9,964	15,101	16,265	18,133	20,901	17,575	23,006	24,171	26,426
Change (%)	45.3	51.6	7.7	11.5	15.3	-15.9	30.9	5.1	9.3
Other Operating Income	2,678	4,426	8,904	8,013	4,343	3,787	3,306	3,641	4,079
Net Income	12,642	19,528	25,169	26,146	25,243	21,363	26,311	27,812	30,505
Change (%)	50.6	54.5	28.9	3.9	-3.5	-15.4	23.2	5.7	9.7
Operating Expenses	3,573	4,416	5,935	5,522	4,554	4,760	5,313	5,802	6,286
Operating Income	9,069	15,112	19,234	20,624	20,689	16,603	20,998	22,009	24,218
Change (%)	54.5	66.6	27.3	7.2	0.3	-19.7	26.5	4.8	10.0
Provisions/write offs	1,029	2,766	1,890	12,514	8,619	5,764	7,389	4,304	4,142
PBT	8,040	12,346	17,344	8,110	12,070	10,840	13,609	17,706	20,076
Extraordinary Items	0	0	0	0	0	0	0	0	0
Reported PBT	8,040	12,346	17,344	8,110	12,070	10,840	13,609	17,706	20,076
Tax	2,803	3,934	5,429	2,201	2,978	2,475	3,149	4,072	4,617
Tax Rate (%)	34.9	31.9	31.3	27.1	24.7	22.8	23.1	23	23
DTL on Special Reserve									
Reported PAT	5,237	8,412	11,915	5,909	9,092	8,365	10,460	13,633	15,458
Change (%)	60.0	60.6	41.7	-50.4	53.9	-8.0	25.0	30.3	13.4
PAT adjusted for EO	5,237	8,412	11,915	5,909	9,092	8,365	10,460	13,633	15,458
Change (%)	60.0	60.6	41.7	-50.4	53.9	-8.0	25.0	30.3	13.4
Proposed Dividend	1,196	1,799	1,809	0	0	0	0	2,086	2,334

Balance sheet									(INR M)
Y/E March	FY17	FY18	FY19	FY20	FY21	FY22	FY23	FY24E	FY25E
Capital	1,656	1,666	1,675	1,682	1,683	1,686	1,689	2,595	2,595
Reserves & Surplus	56,340	64,008	73,764	78,296	87,548	97,030	1,08,450	1,46,114	1,59,486
Net Worth	57,996	65,673	75,439	79,978	89,230	98,716	1,10,139	1,48,710	1,62,082
Borrowings	3,53,207	5,37,767	7,18,589	6,77,351	5,93,925	5,30,050	5,36,214	5,99,091	6,71,265
Change (%)	35.8	52.3	33.6	-5.7	-12.3	-10.8	1.2	11.7	12.0
Other liabilities	14,974	26,704	44,662	31,969	30,767	28,530	15,784	17,363	19,099
Total Liabilities	4,26,177	6,30,145	8,38,690	7,89,297	7,13,922	6,57,296	6,62,137	7,65,163	8,52,445
Loans	3,87,347	5,71,648	7,42,879	6,66,280	6,06,447	5,53,359	5,78,398	6,51,186	7,29,635
Change (%)	42.5	47.6	30.0	-10.3	-9.0	-8.8	4.5	12.6	12.0
Investments	33,236	24,130	45,607	20,757	20,448	34,827	31,963	35,159	38,675
Change (%)	104.9	-27.4	89.0	-54.5	-1.5	70.3	-8.2	10.0	10.0
Net Fixed Assets	604	858	1,083	1,353	1,056	935	0	0	0
Other assets	4,990	33,509	49,122	1,00,906	85,971	68,175	51,776	78,818	84,135
Total Assets	4,26,177	6,30,145	8,38,690	7,89,297	7,13,922	6,57,296	6,62,137	7,65,163	8,52,445

E: MOFSL Estimates

Financials and valuations

Ratios									(%)
Y/E March	FY17	FY18	FY19	FY20	FY21	FY22	FY23	FY24E	FY25E
Spreads Analysis (%)									
Avg yield on loans	10.6	10.2	10.1	10.6	10.9	9.7	10.6	10.7	10.8
Avg. cost of funds	8.6	7.9	8.2	8.4	8.0	7.2	7.3	7.8	7.9
Interest Spread	2.0	2.3	1.9	2.1	2.9	2.4	3.0	2.8	2.6
NIM on loans	3.0	3.1	2.5	2.6	3.3	3.0	4.1	3.9	3.8
Profitability Ratios (%)									
RoE	13.2	13.6	16.9	7.6	10.7	8.9	10.0	10.5	9.9
RoA	1.4	1.6	1.6	0.7	1.2	1.2	1.6	1.9	1.9
Int. Expended/Int.Earned	72.6	70.1	76.1	76.4	70.9	69.8	62.9	64.7	65.5
Other Inc./Net Income	21.2	22.7	35.4	30.6	17.2	17.7	12.6	13.1	13.4
Efficiency Ratios (%)									
Op. Exps./Net Income	28.3	22.6	23.6	21.1	18.0	22.3	20.2	20.9	20.6
Empl. Cost/Op. Exps.	28.3	32.6	51.2	42.2	46.4	45.5	50.1	50.9	51.7
Asset Quality (INR m)									
Gross NPA	858	1,861	3,549	18,562	29,990	47,060	22,700	19,808	17,854
GNPA ratio	0.2	0.3	0.5	2.8	4.8	8.1	3.8	3.0	2.4
Net NPA	590	1,438	2,784	11,838	17,500	29,310	16,170	13,469	11,784
NNPA ratio	0.2	0.3	0.4	1.8	2.9	5.3	2.8	2.1	1.6
CAR	20.0	20.0	20.0	20.0	20.0	20.0	20.0	20.0	20.0
VALUATION									
Book Value (INR)	350	394	450	476	530	586	652	573	624
BVPS Growth YoY	107.1	12.6	14.3	5.6	11.5	10.4	11.4	-12.2	9.0
Price-BV (x)					0.9	0.8	0.7	0.8	0.8
EPS (INR)	31.6	50.5	71.1	35.1	54.0	49.6	61.9	52.5	59.6
EPS Growth YoY	22.6	59.7	40.9	-50.6	53.8	-8.2	24.9	-15.2	13.4
Price-Earnings (x)					8.9	9.7	7.8	9.1	8.1
Dividend per share (INR)	6.0	9.0	9.0	0.0	0.0	0.0	0.0	8.0	9.0
Dividend yield (%)					0.0	0.0	0.0	1.7	1.9
E: MOFSL Estimates									

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Explanation of Investment Rating	
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SELL	< - 10%
NEUTRAL	< - 10 % to 15%
UNDER REVIEW	Rating may undergo a change
NOT RATED	We have forward looking estimates for the stock but we refrain from assigning recommendation

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Details of Compliance Officer: Neeraj Agarwal, Email Id: na@motilaloswal.com, Contact No.:022-40548085.

Grievance Redressal Cell:

Contact Person	Contact No.	Email ID
Ms. Hemangi Date	022 40548000 / 022 67490600	query@motilaloswal.com
Ms. Kumud Upadhyay	022 40548082	servicehead@motilaloswal.com
Mr. Ajay Menon	022 40548083	am@motilaloswal.com

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