

Estimate change

TP change

Rating change



Motilal Oswal values your support in the Asiamoney Brokers Poll 2023 for India Research, Sales, Corporate Access and Trading team. We request your ballot.



Bloomberg	ANGELONE IN
Equity Shares (m)	83
M.Cap.(INRb)/(USDb)	143.1 / 1.7
52-Week Range (INR)	1803 / 1000
1, 6, 12 Rel. Per (%)	6/22/7
12M Avg Val (INR M)	714
Free float (%)	61.7

Financial & Valuation (INR b)

Y/E March	2023	2024E	2025E
Revenues	22.9	27.0	31.0
Opex	10.7	13.2	14.4
PBT	11.9	13.5	16.2
PAT	8.9	10.1	12.1
EPS (INR)	107.5	122.2	146.4
EPS Gr. (%)	42.5	13.7	19.8
BV/Sh. (INR)	260.9	336.6	424.5

Ratios (%)

C/I ratio	46.7	48.7	46.5
PAT margin	38.8	37.5	39.1
RoE	47.6	40.9	38.5
Div. Payout	37.3	38.0	40.0

Valuations

P/E (x)	15.9	14.0	11.7
P/BV (x)	6.5	5.1	4.0
Div. Yield (%)	2.3	2.7	3.4

Shareholding pattern (%)

As On	Jun-23	Mar-23	Jun-22
Promoter	38.3	38.5	43.8
DII	12.9	13.0	8.9
FII	14.4	13.3	10.5
Others	34.4	35.2	36.7

CMP: INR1,708
TP: INR2,050 (+20%)
Buy

Revenue misses estimates; expenses in line

NSE bans new Authorized Persons (APs) for six months

- ANGELONE's net revenue grew 24% YoY, but declined 2% QoQ to INR5.2b (6% lower than our estimate) in 1QFY24, primarily led by a miss in the number of orders for the F&O segment. Number of orders at 249m was lower than our estimates.
- Gross broking business grew 18% YoY, driven by the F&O segment, which saw a strong growth of 23% YoY, but declined 7% QoQ to INR4.7b. Cash broking revenue declined 15% YoY, but jumped 20% QoQ to INR558m.
- Interest income grew 6% YoY and 20% QoQ to INR 1.5b. MTF book stood at INR11.4b in 1QFY24 vs. INR11.5b in 4QFY23.
- CI ratio increased significantly at 51.4% (vs. our estimate of 47.4%), a surge of 890bp sequentially. Expenses were broadly in line with our estimates. QoQ surge was on account of INR300m reversal of employee expenses pertaining to lapsed ESOPs in 4Q.
- PAT grew 24% YoY to INR2.2b, a 15% miss on our estimates.
- The Board has declared the 1st Interim Dividend of INR9.25/share.
- NSE, in an Order, has prohibited ANGELONE from onboarding new APs for the next six months and has levied a penalty of INR16.7m. Management does not expect any meaningful impact from this Order; however, it is considering an appeal against the decision.
- We have cut our FY24/FY25 earnings estimates by 5.5%/3.8% to factor in some reduction in the number of F&O orders, leading to lower broking income from the derivative segment. **We reiterate our BUY rating on the stock with a revised TP of INR2,050 (premised on 14x Mar'25E EPS).**

Beat on interest income; Cash & Commodity share improves

- Gross broking business grew 18% YoY, driven by the F&O segment, which saw a strong growth of 23% YoY, but declined 7% QoQ to INR4.7b. Cash broking revenue declined 15% YoY, but jumped 20% QoQ to INR558m.
- Net interest income increased 25% YoY to INR 1.3b (8% higher than our estimates). Other income increased 15% YoY to INR 1088m.

Increase in opex leads to high C/I ratio

- Total Opex increased 21% YoY to INR3.2b (in line with our estimates). A sharp increase in expenses on a QoQ basis (reversal of ESOP expenses in 4QFY23) led to an increase in CIR to 51.4%.
- Employee costs increased 21% YoY to INR1.2b (in line with our estimate), whereas the administration costs increased 23% YoY to INR1.9b.

Highlights from the management commentary

MF strategy – The Associated Person channel primarily focuses on stock broking services. However, by venturing into the distribution business, the company can scale its operations and increase customer loyalty. Additionally, a considerable number of inactive customers have expressed

Prayesh Jain – Research Analyst (Prayesh.Jain@MotilalOswal.com)

Research Analyst: Nitin Aggarwal (Nitin.Aggarwal@MotilalOswal.com) / Nemin Doshi (Nemin.Doshi@MotilalOswal.com)

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- Angel One has expanded its offerings by introducing new services (MF, IPOS, ETFs). In order to cater to the different segments within the broking segment, the company is implementing differentiated programs for each cohort (delivery vs trading – will have different approaches). Education tools play a crucial role in driving customer activation and engagement in these programs.
- **Usage of AI/ML** – Angel One leverages AI/ML technologies throughout the customer journey, encompassing customer support, acquisition (during KYC – such as signature verification), activation stages. Mr Deepak Chandani, who has previous experience at Apple, is now associated with Angel One. It is possible that he may introduce some of the successful customer journey strategies implemented by Apple into Angel One's operations.

Market share improves in F&O and commodities, but declines in cash

- Overall ADTO stood at INR22.7t, up 23% QoQ and 141% YoY. The total number of orders declined to 249m in 1QFY24 from 263m in 4QFY23.
- Its F&O market share improved to 24.5% from 22.8% in 4QFY23. F&O ADTO grew 23% QoQ and 143% YoY to INR22.3t. The number of orders declined to 199m in 1QFY24 from 215m in 4QFY23. Revenue per order is stable at INR23.5.
- Cash ADTO market share improved to 13.4% from 12.3% in 1QFY24. Cash ADTO has also recovered 22% on a QoQ basis to INR33b (down 15% YoY). The number of orders declined 21% YoY (flat QoQ) to 38m. However, revenue per order increased 7% YoY to INR14.7.
- ANGELONE continued to strengthen its position in the Commodity segment as its market share expanded to 56.9% in 1QFY24 from 55.2% in 4QFY23.

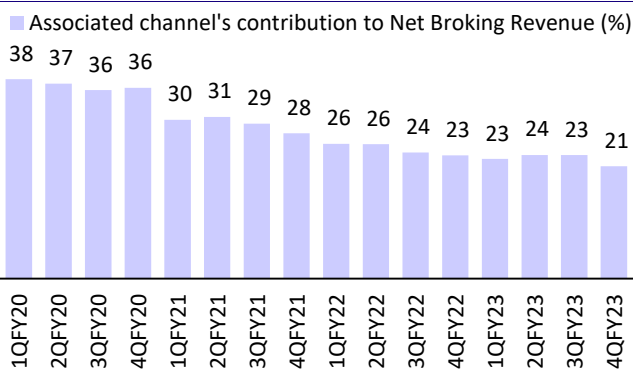
NSE's order against ANGELONE's AP network

The Member and Core Settlement Guarantee Fund Committee of NSE has passed an Order dated 14th Jul'23 against ANGELONE, in respect to an alleged failure to monitor the operations of its APs, thereby resulting in an alleged violation of the Capital Market Segment Regulations and Futures and Options Segment Regulations. Resultantly the following directions have been issued:

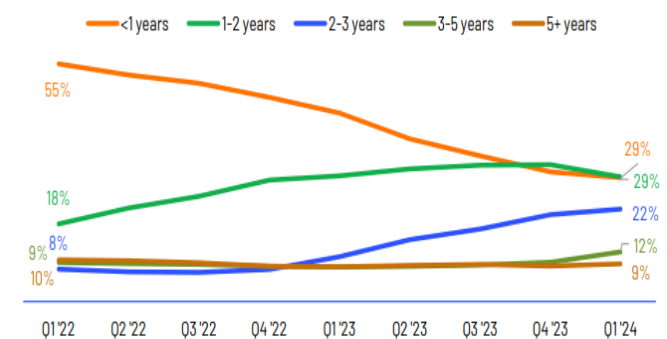
- Monetary penalty of INR16.7m.
- Prohibition from onboarding new APs for a period of six months.
- Direction to conduct inspection of all its APs and submit a report thereof to the satisfaction of the Exchange within six months.
- Direction to submit a detailed report on its investor grievance redressal mechanism comprising:
 - total investor complaints and arbitration matters registered against the company and its APs in the past one year including those pertaining to assured returns and unauthorized trading
 - total investor complaints and arbitration matters redressed/resolved in the past one year from the date of the Order and the timelines for the same; and
 - total pending investor complaints and arbitration matters.

Existing APs to continue as is; it is evaluating an appeal against the Order

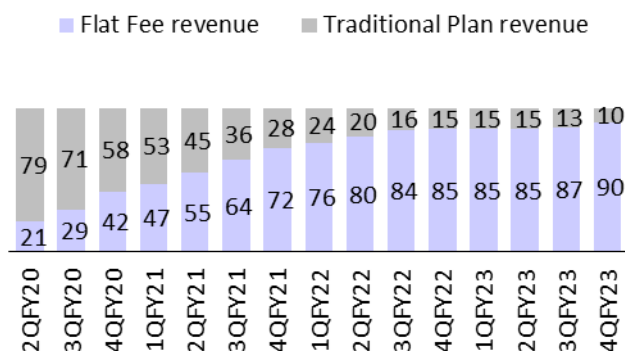
- APs account for 21% of ANGELONE's net broking revenue, while contributing ~25% to the new customer acquisitions.
- ANGELONE has been regularly overseeing the APs and it has a five-step process wherein: 1) audit is conducted, 2) if lapses are found, notices are sent, 3) a penalty is levied, 4) payouts are blocked and 5) finally termination of the license. In case of major lapses such as mismanagement of client funds, the AP is terminated immediately.
- The company has a strong tech-based fraud detection unit and has been regularly filing suspicious transaction reports with the regulator.
- Since 2QFY21, ANGELONE has cancelled licenses for 270 APs, with 83 in 1QFY24 itself.
- The company is evaluating various options including filing an appeal against the Order.
- In the 1QFY24 management call, the company had highlighted its strategy to increase focus on AP network for scaling the business. As per the management, while APs will not be empaneled for broking, ANGELONE can still empanel new APs for distribution of products.
- Incremental growth could be a challenge, especially customer acquisition. However, its existing battery of 21,000+ APs will continue to generate revenue and contribute to customer additions.

Exhibit 1: Share of APs in Net Broking revenue

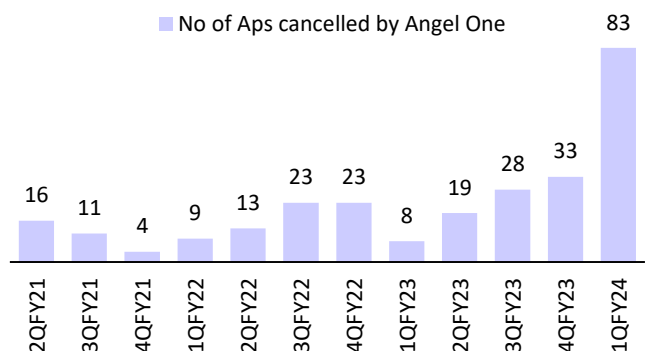
Source: MOFSL, Company

Exhibit 2: Share of revenues as per vintage of customers

Source: MOFSL, Company

Exhibit 3: Traditional plan is primarily driven by APs

Source: MOFSL, Company

Exhibit 4: Trend in cancellation of APs

Source: MOFSL, NSE, Company

Marginal cut in estimates; reiterate BUY

ANGELONE is a perfect play on: 1) the financialization of savings and 2) digitization. 1QFY24 performance was weaker than our estimates. However, since then the traction in volumes and overall activity has picked up momentum. The management continues to invest in technology to strengthen its position. We have cut our FY24/FY25 earnings estimates by 5.5%/3.8% to factor in some reduction in the number of F&O orders, leading to lower broking income from the derivative segment. **We reiterate our BUY rating on the stock with a revised TP of INR2,050 (premised on 14x Mar'25E EPS).**

Quarterly Performance												(INR m)
Y/E March	FY23				FY24E							Act v/s
	1Q	2Q	3Q	4Q	1Q	2QE	3QE	4QE	FY23	FY24E	1QFY24E	Est. (%)
Revenue from Operations	4,203	4,559	4,625	5,313	5,198	5,503	5,688	5,727	18,700	22,116	5,528	-6.0
Other Income	948	1,029	1,126	1,129	1,088	1,214	1,239	1,357	4,232	4,897	1,185	-8.2
Total Income	5,151	5,588	5,751	6,442	6,286	6,718	6,926	7,084	22,932	27,014	6,713	-6.4
Change YoY (%)	51.2	44.0	29.3	26.4	22.0	20.2	20.4	10.0	36.3	17.8	30.3	-27.3
Operating Expenses	2,660	2,662	2,648	2,736	3,230	3,272	3,364	3,308	10,705	13,174	3,181	1.6
Change YoY (%)	52.5	30.5	20.9	19.0	21.4	22.9	27.0	20.9	29.4	23.1	19.6	9.5
Depreciation	65	69	80	89	89	89	89	90	303	355	89	0.0
PBT	2,427	2,857	3,023	3,616	2,967	3,356	3,474	3,687	11,924	13,485	3,443	-13.8
Change YoY (%)	49.6	59.2	36.9	31.8	22.3	17.5	14.9	2.0	42.5	13.1	41.9	-46.8
Tax Provisions	611	721	739	946	759	839	868	909	3,016	3,376	861	-11.8
Net Profit	1,816	2,137	2,284	2,670	2,208	2,517	2,605	2,778	8,907	10,109	2,582	-14.5
Change YoY (%)	49.6	59.0	38.7	30.3	21.6	17.8	14.1	4.0	42.5	13.5	42.2	-48.8
Key Operating Parameters (%)												
Cost to Income Ratio	51.6	47.6	46.0	42.5	51.4	48.7	48.6	46.7	46.7	48.8	47.4	400bps
PBT Margin	47.1	51.1	52.6	56.1	47.2	50.0	50.2	52.0	52.0	49.9	51.3	-409bps
Tax Rate	25.2	25.2	24.4	26.2	25.6	25.0	25.0	24.7	25.3	25.0	25.0	58bps
PAT Margins	35.3	38.2	39.7	41.4	35.1	37.5	37.6	39.2	38.8	37.4	38.5	-334bps
Revenue from Operations (INR m)												
Gross Broking Revenue	4,707	5,187	5,100	5,812	5,575	6,118	6,329	6,419	20,806	24,442	6,112	-8.8
F&O	3,813	4,253	4,182	5,056	4,683	5,151	5,306	5,338	17,304	20,478	5,292	-11.5
Cash	659	674	612	465	558	631	660	676	2,410	2,525	528	5.6
Commodity	188	207	255	232	279	279	304	328	883	1,189	232	19.9
Currency	47	52	51	58	56	57	59	77	208	250	60	-6.9
Net Broking Revenue	3,191	3,560	3,508	4,140	3,933	4,316	4,465	4,517	14,399	17,232	4,354	-9.7
Net Interest Income	1,012	999	1,117	1,172	1,265	1,187	1,223	1,210	4,300	4,885	1,174	7.8
Revenue from Operations Mix (%)												
As % of Gross Broking Revenue												
F&O	81.0	82.0	82.0	87.0	84.0	84.2	83.8	83.2	83.2	83.8	86.6	-3.0
Cash	14.0	13.0	12.0	8.0	10.0	10.3	10.4	10.5	11.6	10.3	8.6	15.8
Commodity	4.0	4.0	5.0	4.0	5.0	4.6	4.8	5.1	4.2	4.9	3.8	31.4
Currency	1.0	1.0	1.0	1.0	1.0	0.9	0.9	1.2	1.0	1.0	1.0	2.1
Net Broking (As % Total Revenue)	75.9	78.1	75.8	77.9	75.7	78.4	78.5	78.9	77.0	77.9	78.8	-3.9
Net Interest Income (As % Total Revenue)	24.1	21.9	24.2	22.1	24.3	21.6	21.5	21.1	23.0	22.1	21.2	14.6
Expense Mix (%)												
Employee Expenses	37.3	40.1	40.8	26.7	37.1	36.0	36.1	36.2	36.1	36.4	37.0	0.4
Admin Cost	59.1	57.2	56.2	69.6	59.7	61.4	61.3	61.2	60.6	61.0	61.5	-3.0
Depreciation	2.4	2.5	2.9	3.2	2.7	2.6	2.6	2.6	2.7	2.6	2.7	-1.5



Highlights from the management commentary

Broking

- MTF book focus – is more of a product offering and has limited acceptance in retail population vs HNI customers. If the same scales up with Retail, Angel One will have a meaningful presence.
- Despite the absence of a market-wide limit, the company has developed contingency plans to address potential scenarios that may arise.
- Angel One is strengthening its network of APs even further. With a network of over 21,000+ Aps, the company boasts the largest network in the country. It has upgraded its digital platform to provide Aps with enhanced tools and resources. This upgrade aims to improve the overall offerings, thereby fostering customer retention. The company is hiring senior resources to grow this segment.

New offerings

- AMC business launch – Angel One is in the process of creating the entire infrastructure and has incorporated the Trustee and AMC. It expects to file final papers for approval with SEBI in the next three weeks. Generally, SEBI takes about two quarters for final approval, post which immediate product launches can be expected.

MF strategy - The Associated Person channel primarily focuses on stock broking services. However, by venturing into the distribution business, the company can scale its operations and increase customer loyalty. Additionally, a considerable number of inactive customers have expressed interest in scaling up SIPs with Angel One.

Consumer credit - Angel One will soon be launching personal loan distribution, followed by credit cards. The company plans to focus only on distribution and not take any risk on own balance sheet. It plans to leverage AI/ML model to support lenders identify high quality customers. Currently, the management is in discussion with top banks. With respect to collection, Angel One's role will be restricted to nudging customers for reminders of payment dues. TSP is a highly competitive segment and currently, the company has no plans to venture into the segment.

BSE Derivatives – BSE has started weekly options; Angel has started working on the same and will be integrating it into the system by the start of 3QFY24.

Account aggregator – Angel One has successfully implemented an account aggregator as a FIU. With more and more FIUs and FIPs coming on board, it will create a mutually beneficial environment for all the participants. Angel One is actively evaluating additional use cases for leveraging this technology.

Customer-centric strategies

- Angel One has expanded its offerings by introducing new services (MF, IPOS, ETFs). In order to cater to the different segments within the broking segment, the company is implementing differentiated programs for each cohort (delivery vs trading – will have different approaches). Education tools play a crucial role in driving customer activation and engagement in these programs.

- **Usage of AI/ML** – Angel One leverages AI/ML technologies throughout the customer journey, encompassing customer support, acquisition (during KYC – such as signature verification), activation stages. Mr Deepak Chandani, who has previous experience at Apple in his six year stint, is now associated with Angel One. At Apple, he was instrumental in building iTunes big data platform and multiple core Business Intelligence products. It is possible that he may introduce some of the successful customer journey strategies implemented by Apple into Angel One's operations.

Finance

- Employee expense - variable expenses are spread over the year, 1/4th costs apportioned in the four quarters each.
- ESOP cost is likely to be INR500-550m for FY24.
- Angel One maintained its guidance on add-on interest costs due to upstreaming of client funds of about INR400m for FY24 (5-7% variance expected).
- Decline in borrowings – This is primarily attributed to in T+7 and reduction in MTF. As these decreased, the company has experienced an increase in generated cashflow. The increased cashflow has been utilized to reduce borrowings further.

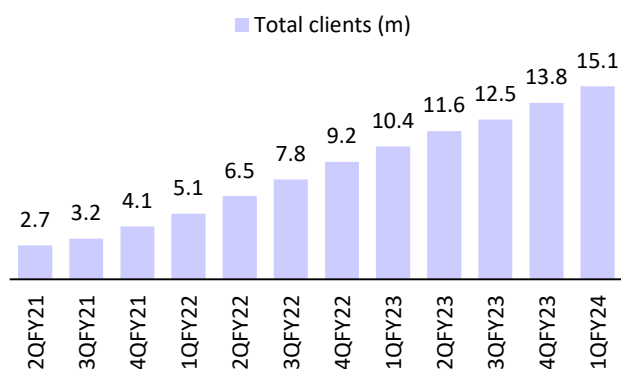
Exhibit 5: Cut in estimates

	Old Est.		New Est.		Change (%)	
	FY24	FY25	FY24	FY25	FY24	FY25
Net Brokerage Income	18.4	20.9	17.2	19.8	-6.3	-5.6
Net Interest Income	4.9	5.6	4.9	5.6	0.0	0.0
Other Income	4.9	5.7	4.9	5.7	0.0	0.0
Total Income	28.2	32.2	27.0	31.0	-4.1	-3.7
Operating Expenses	13.5	15.0	13.2	14.4	-2.7	-3.7
EBITDA	14.6	17.2	13.9	16.6	-5.4	-3.7
PBT	14.3	16.8	13.5	16.2	-5.5	-3.8
Tax	3.6	4.2	3.4	4.0	-5.5	-3.8
PAT	10.7	12.6	10.1	12.1	-5.5	-3.8
C/I ratio	48.0	46.5	48.7	46.5	-0.7	0.0
RoE	43.0	39.3	40.9	38.5	2.1	0.9

Source: MOFSL, Company

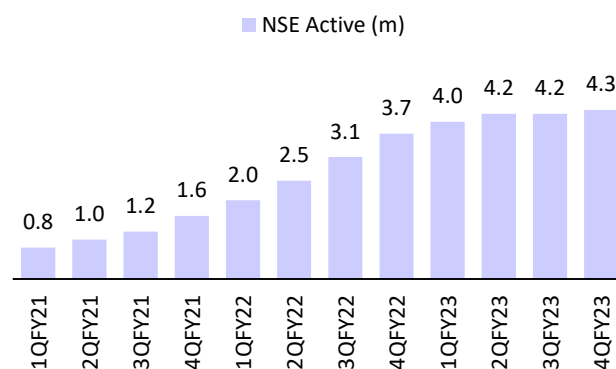
Key exhibits

Exhibit 6: Total number of clients continued to rise



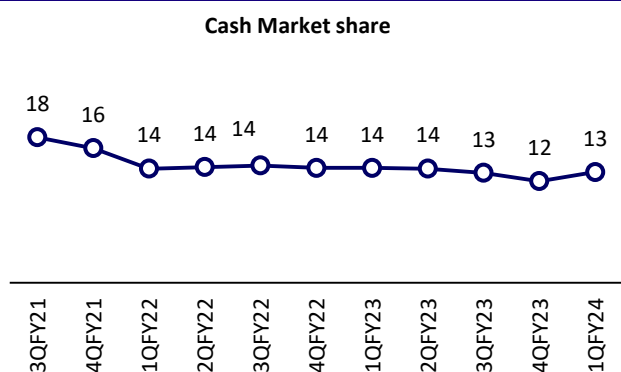
Source: MOFSL, Company

Exhibit 7: NSE active clients increased QoQ



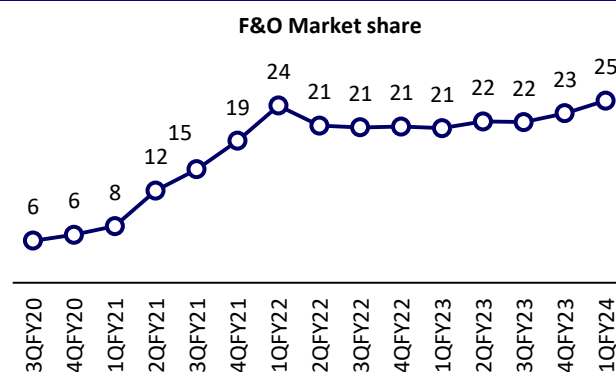
Source: MOFSL, Company

Exhibit 8: Cash segment market share recovered (%)



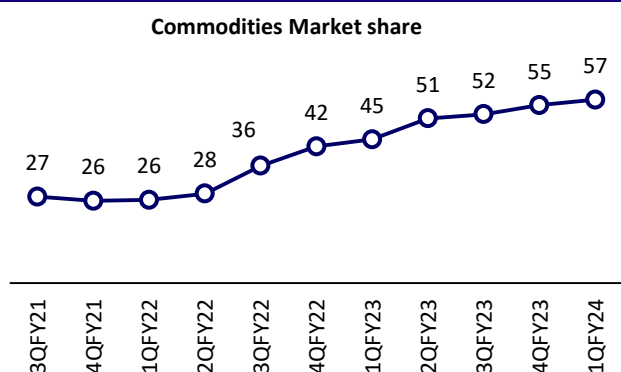
Source: MOFSL, Company

Exhibit 9: F&O Market share improves (%)



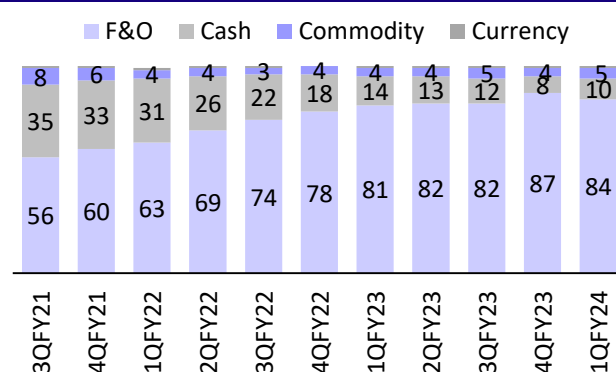
Source: MOFSL, Company

Exhibit 10: Commodities market share improved further (%)

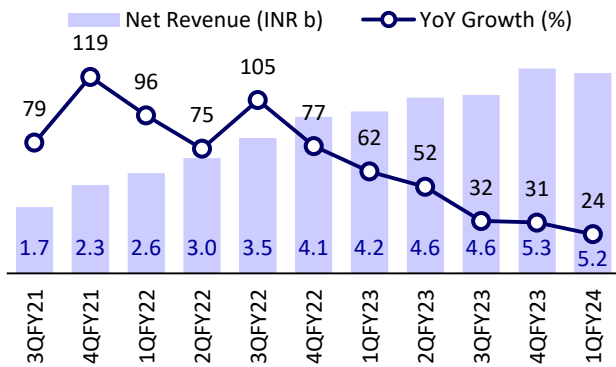


Source: MOFSL, Company

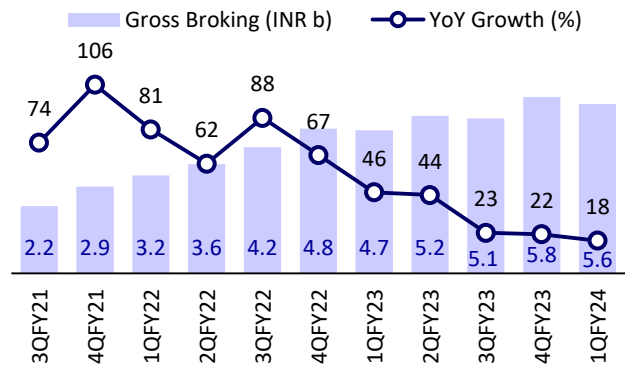
Exhibit 11: Share of F&O in gross broking revenue moderates



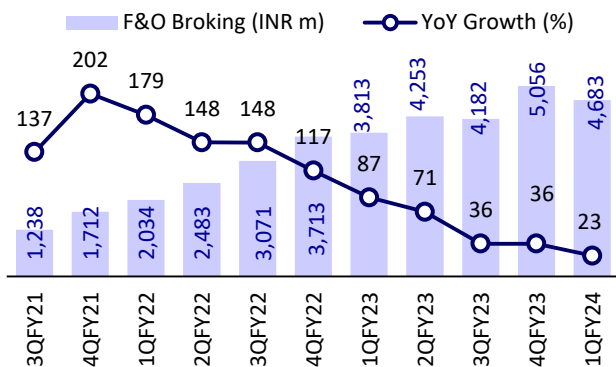
Source: MOFSL, Company

Exhibit 12: Net revenue moderates QoQ...

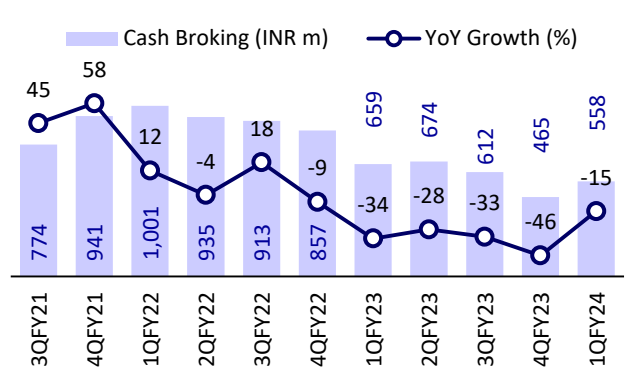
Source: MOFSL, Company

Exhibit 13: ...as Gross broking revenue declines

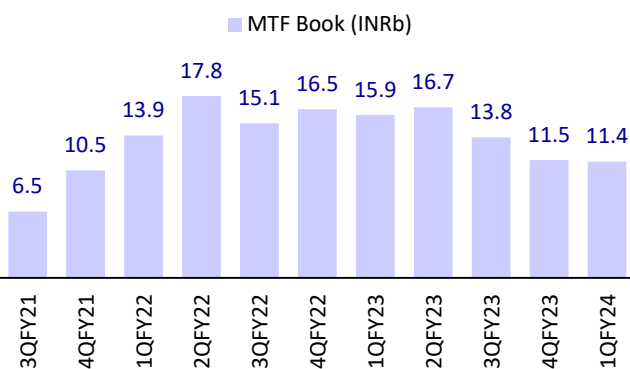
Source: MOFSL, Company

Exhibit 14: F&O growth momentum was strong

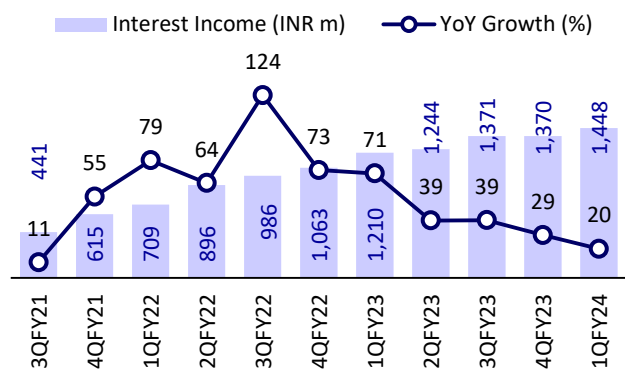
Source: MOFSL, Company

Exhibit 15: Cash broking revenue improved

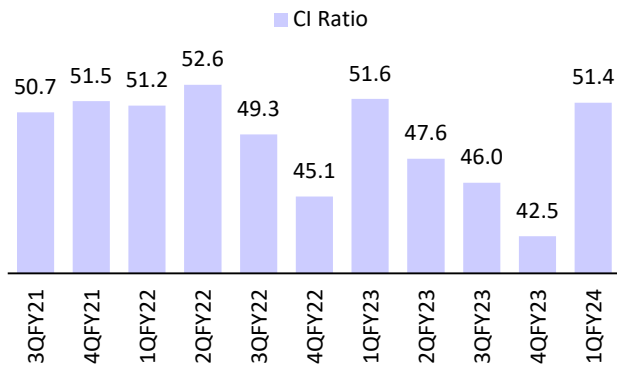
Source: MOFSL, Company

Exhibit 16: MTF book declined to INR11.4b

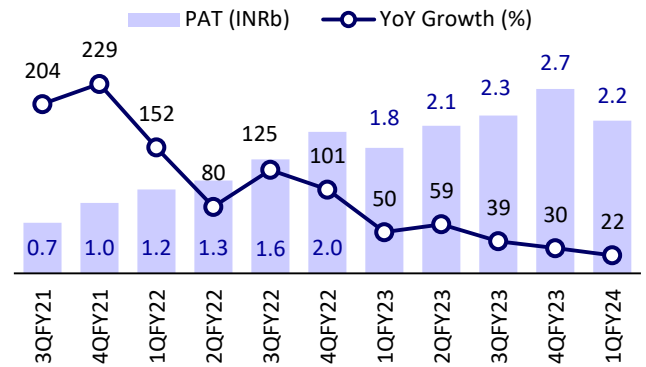
Source: MOFSL, Company

Exhibit 17: Interest income increases

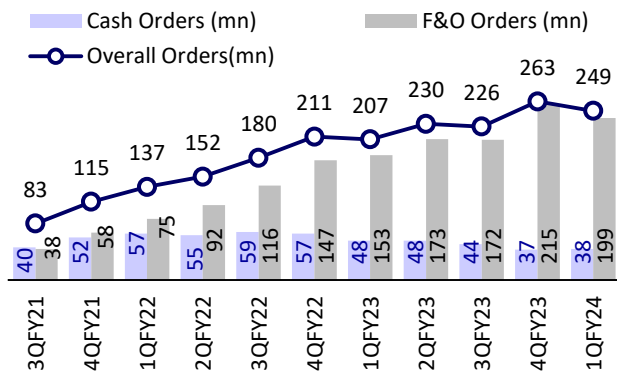
Source: MOFSL, Company

Exhibit 18: C-I ratio increases sequentially

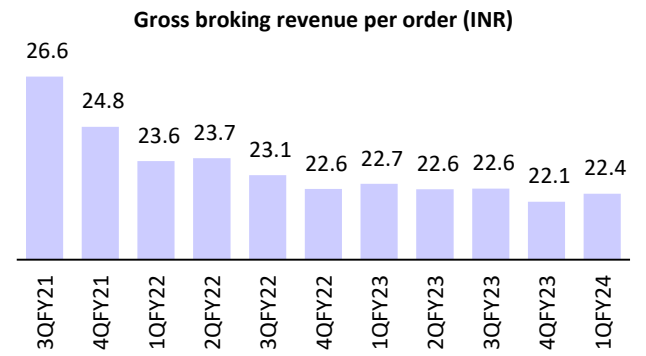
Source: MOFSL, Company

Exhibit 19: Trend in PAT growth

Source: MOFSL, Company

Exhibit 20: No. of orders declined...

Source: MOFSL, Company

Exhibit 21: ...whereas gross broking revenue per order improves marginally

Source: MOFSL, Company

Financials and valuation

Income Statement							(INR m)	
Y/E March	2018	2019	2020	2021	2022	2023	2024E	2025E
Total Income	4,433	4,723	4,721	8,971	16,827	22,931	27,014	30,988
Change (%)	37.9	6.5	0.0	90.0	87.6	36.3	17.8	14.7
Gross Brokerage Income	4,785	5,014	5,039	9,065	15,737	20,806	24,442	27,750
Less - Brokerage / direct expenses	2,464	2,420	2,304	3,630	5,502	6,407	7,210	7,992
Net Brokerage Income	2,321	2,595	2,735	5,436	10,235	14,399	17,232	19,758
Interest income	2,038	1,696	1,254	1,998	3,653	5,195	6,064	6,605
Less - Finance costs	947	666	489	389	721	895	1,179	1,041
Net Interest income	1,091	1,031	765	1,609	2,932	4,300	4,885	5,563
Other Income	1,021	1,098	1,221	1,927	3,661	4,232	4,897	5,666
Operating Expenses	2,701	3,245	3,142	4,675	8,273	10,705	13,156	14,409
Change (%)	3.9	20.2	-3.2	48.8	76.9	29.4	22.9	9.5
Employee expenses	1,245	1,593	1,598	1,718	2,809	3,979	4,916	5,423
Admin expense	1,456	1,652	1,544	2,957	5,464	6,726	8,239	8,987
Operating Margin	1,732	1,478	1,578	4,296	8,554	12,226	13,858	16,579
Depreciation	145	188	209	184	187	303	355	409
Exception	0	0	166	0	0	0	0	0
Profit Before Tax	1,587	1,290	1,204	4,112	8,367	11,923	13,503	16,170
Change (%)	231.3	-18.7	-6.7	241.6	103.5	42.5	13.2	19.8
Tax	508	448	320	1,131	2,117	3,016	3,376	4,042
Tax Rate (%)	32.0	34.7	26.6	27.5	25.3	25.3	25.0	25.0
PAT	1,079	842	884	2,981	6,251	8,907	10,127	12,127
Change (%)	248.0	-22.0	5.0	237.3	109.7	42.5	13.7	19.8
Dividend	235	234	227	1,056	2,245	3,324	3,848	4,851

Balance Sheet							(INR m)	
Y/E March	2018	2019	2020	2021	2022	2023	2024E	2025E
Equity Share Capital	720	720	720	818	829	834	834	834
Reserves & Surplus	4,029	4,765	5,427	10,492	15,015	20,781	27,060	34,336
Net Worth	4,749	5,485	6,147	11,310	15,844	21,616	27,894	35,171
Borrowings	11,223	8,666	4,880	11,715	12,577	7,872	13,872	14,872
Other Liabilities	7,702	8,018	11,043	25,114	43,777	45,175	53,676	64,496
Total Liabilities	23,674	22,168	22,070	48,138	72,198	74,663	95,442	1,14,538
Cash and Investments	9,330	10,134	14,607	18,830	48,936	56,006	71,024	87,471
Change (%)	39.9	8.6	44.1	28.9	159.9	14.4	26.8	23.2
Loans	11,309	7,617	2,806	11,285	13,575	11,533	13,340	14,530
Change (%)	748.3	-32.6	-63.2	302.2	20.3	-15.0	15.7	8.9
Net Fixed Assets	1,158	1,181	1,104	1,150	1,638	2,482	2,787	3,092
Current Assets	1,877	3,236	3,553	16,873	8,050	4,642	8,291	9,445
Total Assets	23,674	22,168	22,070	48,138	72,199	74,663	95,442	1,14,538

E: MOSL Estimates

Financials and valuation

Ratios	(%)							
Y/E March	2018	2019	2020	2021	2022	2023	2024E	2025E
As a percentage of Revenues								
Net Brokerage Income	52.3	54.9	57.9	60.6	60.8	62.8	63.8	63.8
Net Interest Income	24.6	21.8	16.2	17.9	17.4	18.8	18.1	18.0
Other Income	23.0	23.2	25.9	21.5	21.8	18.5	18.1	18.3
Total cost	60.9	68.7	66.6	52.1	49.2	46.7	48.7	46.5
Employee Cost	28.1	33.7	33.9	19.2	16.7	17.4	18.2	17.5
Opex (ex emp) Cost	32.8	35.0	32.7	33.0	32.5	29.3	30.5	29.0
PBT	35.8	27.3	25.5	45.8	49.7	52.0	50.0	52.2
PAT	24.3	17.8	18.7	33.2	37.1	38.8	37.5	39.1
Profitability Ratios (%)								
RoE	25.0	16.5	15.2	34.2	46.0	47.6	40.9	38.5
Dividend Payout Ratio	21.8	27.8	25.7	35.4	35.9	37.3	38.0	40.0

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NOTES

Explanation of Investment Rating	
Investment Rating	Expected return (over 12-month)
BUY	>=15%
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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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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