

# United Breweries

Estimate change	↔
TP change	↔
Rating change	↔

Bloomberg	UBBL IN
Equity Shares (m)	264
M.Cap.(INRb)/(USD\$)	407.7 / 5
52-Week Range (INR)	1805 / 1342
1, 6, 12 Rel. Per (%)	-1/-15/-20
12M Avg Val (INR M)	393

## Financials & Valuations (INR b)

Y/E March	FY23	FY24E	FY25E
Net Sales	75.0	83.8	93.2
Sales Gr. (%)	28.5	11.7	11.3
EBITDA	6.2	9.2	12.9
Margin (%)	8.2	10.9	13.8
Adj. PAT	3.3	5.4	7.9
Adj. EPS (INR)	12.5	20.4	30.0
EPS Gr. (%)	-3.0	63.9	47.1
BV/Sh. (INR)	150.0	160.9	177.0

## Ratios

RoE (%)	8.3	13.1	17.8
RoCE (%)	8.2	13.3	18.0

## Valuations

P/E (x)	123.6	75.4	51.3
P/BV (x)	10.3	9.6	8.7
EV/EBITDA (x)	65.4	43.8	31.0

## Shareholding pattern (%)

As On	Jun-23	Mar-23	Jun-22
Promoter	72.7	72.7	72.7
DII	15.8	15.6	14.2
FII	6.3	6.4	7.7
Others	5.2	5.3	5.4

FII Includes depository receipts

**CMP: INR1,542 TP: INR1,200 (-22%) Sell**

## Volume disappoints; expensive valuation limits upside

- UBBL delivered a mixed performance in 1QFY24, with a 10.6% miss in sales and a 25.5% beat in adj. PAT. Sales missed our estimate due to a 12% decline in volume; however, adjusting the RTM effect, volume declined 4%. Volume was impacted by supply challenges and lower inter-state sales.
- GP margin came in at 40.6% (est. 41.7%), affected by a volume decline and RM inflation. Fixed cost development offset the negative GP impact, leading to a 25.5% beat in adj. PAT.
- The management mentioned a softening in RM costs in the near term, but volatility will remain. We maintain our **Sell** rating on the stock as we believe the valuation is rich at 31x FY25E EV/EBITDA.

## Sales miss; operating leverage drives PAT beat

- Standalone net sales declined 6.7% YoY to INR22.7b (est. INR25.4b). EBITDA/PBT before exceptional items/adjusted PAT declined 15.9%/17%/15.8% YoY to INR2.2b/INR1.8b/INR1.4b (est. INR2.0b/INR1.5b/INR1.1b).
- Volume declined 12.4% YoY. Excluding RTM, volume fell 4% YoY.
- Gross margin was down 370bp YoY/up 200bp QoQ at 40.6% (est. 41.7%). It was impacted by a volume decline and RM cost inflation.
- As a percentage of sales, lower other expenses (-300bp YoY) and higher employee costs (+40bp YoY) led to standalone EBITDA margin contraction of 110bp YoY to 9.8% (est. 7.7%).

## Highlights of the management commentary

- Volume declined ~12% in 1QFY24. Volume mainly declined in Apr-May'23 but saw a strong recovery in Jun'23.
- Supply constraints in Telangana and Haryana were due to an administrative issue related to getting license for production.
- The hike in excise duty in Karnataka led to a 3-5% price increase.
- Other expenses per case declined from pre-covid level, followed by 1) improving efficiency, 2) interstate transportation benefits, and 3) volume improvement.
- Kingfisher Ultra Max reported mid-teens volume growth.

## Valuation and view

- We cut our FY25E EPS by 7%, driven by volatility in RM prices.
- Over FY18-23, EPS declined by 3.5%, making the stock expensive at 75.4x/51.3x of FY24E/FY25E EPS and 43.8x/31x FY24E/FY25E EV/EBITDA, with RoCE of only 13.3%/18.0% for FY24E/25E.
- Unlike other discretionary categories, the demand trend for alcobev companies has not worsened much, but the 4/5-year sales CAGRs stand at 3.7%/5.9% and adj. PAT decline by 12.5%/3.5% annualized over four years/five years ending FY23. We reiterate our **Sell** rating on the stock with a TP of INR1,200 (based on 24x FY25E EV/EBITDA).

**Pratik Bipinchandra Prajapati – Research Analyst** (Pratik.Prajapati@MotilalOswal.com)

**Tanu Jindal – Research Analyst** (Tanu.Jindal@MotilalOswal.com)

**Investors are advised to refer through important disclosures made at the last page of the Research Report.**

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## Standalone Quarterly Performance

(INR m)

Y/E March	FY23				FY24E				FY23	FY24E	FY24	Variance
	1Q	2Q	3Q	4Q	1Q	2QE	3QE	4QE			1QE	
<b>Net Sales</b>	<b>24,367</b>	<b>16,796</b>	<b>16,110</b>	<b>17,645</b>	<b>22,732</b>	<b>18,979</b>	<b>19,735</b>	<b>22,328</b>	<b>74,999</b>	<b>83,774</b>	<b>25,439</b>	-10.6%
YoY Change (%)	117.9	17.8	1.9	3.4	-6.7	13.0	22.5	26.5	28.5	11.7	4.4	
<b>Gross Profit</b>	<b>10,784</b>	<b>7,837</b>	<b>6,741</b>	<b>6,812</b>	<b>9,221</b>	<b>8,237</b>	<b>9,157</b>	<b>10,603</b>	<b>32,346</b>	<b>37,218</b>	10,608	-13.1%
Margin (%)	44.3	46.7	41.8	38.6	40.6	43.4	46.4	47.5	43.1	44.4	41.7	
Total Expenditure	21,716	14,604	15,344	17,110	20,504	16,993	17,494	19,615	68,837	74,606	<b>23,468</b>	
<b>EBITDA</b>	<b>2,651</b>	<b>2,191</b>	<b>766</b>	<b>535</b>	<b>2,228</b>	<b>1,986</b>	<b>2,241</b>	<b>2,713</b>	<b>6,162</b>	<b>9,168</b>	1,971	13.0%
YoY Change (%)	177.8	32.3	-63.4	-79.5	-15.9	-9.4	192.4	407.6	-11.5	48.8	-30.2	
Margins (%)	10.9	13.0	4.8	3.0	9.8	10.5	11.4	12.2	8.2	10.9	7.7	
Depreciation	575	520	502	507	513	556	537	688	2,106	2,294	616	
Interest	8	10	16	12	17	17	21	20	46	74	14	
Other Income	104	143	130	116	103	150	136	129	494	519	109	
<b>PBT</b>	<b>2,171</b>	<b>1,805</b>	<b>131</b>	<b>132</b>	<b>1,801</b>	<b>1,563</b>	<b>1,820</b>	<b>2,135</b>	<b>4,257</b>	<b>7,319</b>	1,450	24.2%
Tax	554	463	152	35	440	400	473	604	1,210	1,917	365	
Rate (%)	25.5	25.6	40.2	26.3	24.5	25.6	26.0	28.3	28.4	26.2	25.2	
<b>Adj PAT</b>	<b>1,617</b>	<b>1,342</b>	<b>226</b>	<b>97</b>	<b>1,361</b>	<b>1,163</b>	<b>1,346</b>	<b>1,531</b>	<b>3,295</b>	<b>5,401</b>	1,085	25.5%
YoY Change (%)	424.3	66.4	-80.6	-94.0	-15.8	-13.3	494.9	1,473.4	-10.0	63.9	-39.5	
Margins (%)	6.6	8.0	1.4	0.6	6.0	6.1	6.8	6.9	4.4	6.4	4.3	

E: MOFSL Estimates

## Key Performance Indicators

Y/E March	FY23				FY24
	1Q	2Q	3Q	4Q	1Q
<b>2Y average growth (%)</b>					
Sales	119.3	38.1	12.2	7.0	55.6
EBITDA	177.8	171.0	-28.4	-39.9	80.9
PAT	NM	NM	-33.3	-45.8	NM
<b>% of Sales</b>					
COGS	55.7	53.3	58.2	61.4	59.4
Employee Expenses	6.1	8.3	9.0	9.0	6.5
Other Expenses	27.3	25.3	28.1	26.6	24.3
Depreciation	2.4	3.1	3.1	2.9	2.3
<b>YoY change (%)</b>					
COGS	135.1	30.2	18.5	23.7	-0.5
Employee Expenses	31.1	3.6	-1.4	27.2	-1.1
Other Expenses	100.5	-2.9	4.4	5.2	-16.9
Other Income	70.1	214.5	114.7	-10.4	-0.4
EBIT	415.3	52.0	-83.1	-98.6	-17.4

E: MOFSL Estimates

## Takeaways from the investor presentation and press release

- Volume was impacted by RTM changes, supply challenges and lower inter-state sales.
- The premium segment's volume decreased 21% YoY. Excluding RTM changes, volume was flat.
- Capex stood at INR450m in 1QFY24.
- The management expects inflationary pressure to ease in the near term, but it would remain volatile.
- Telangana, Tamil Nadu, Delhi and Haryana saw a sharp volume decline. Telangana was affected by capacity constraints during the peak season.

Exhibit 1: Regional volume performance

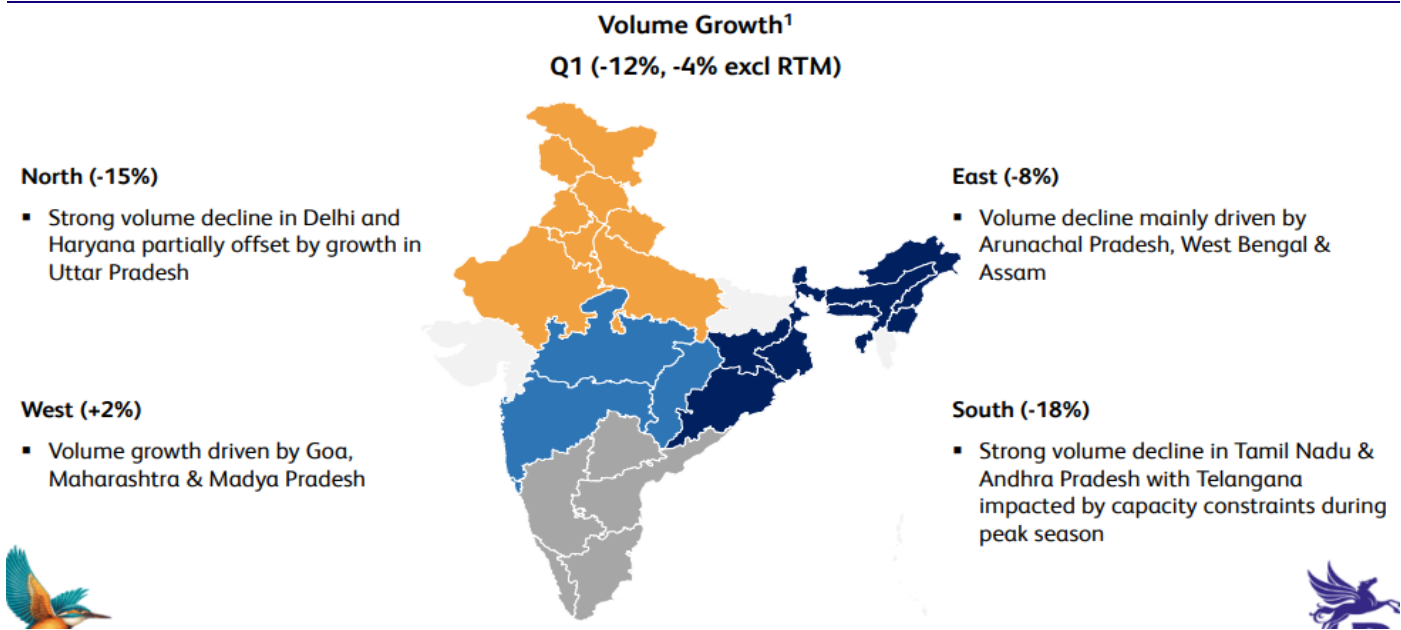
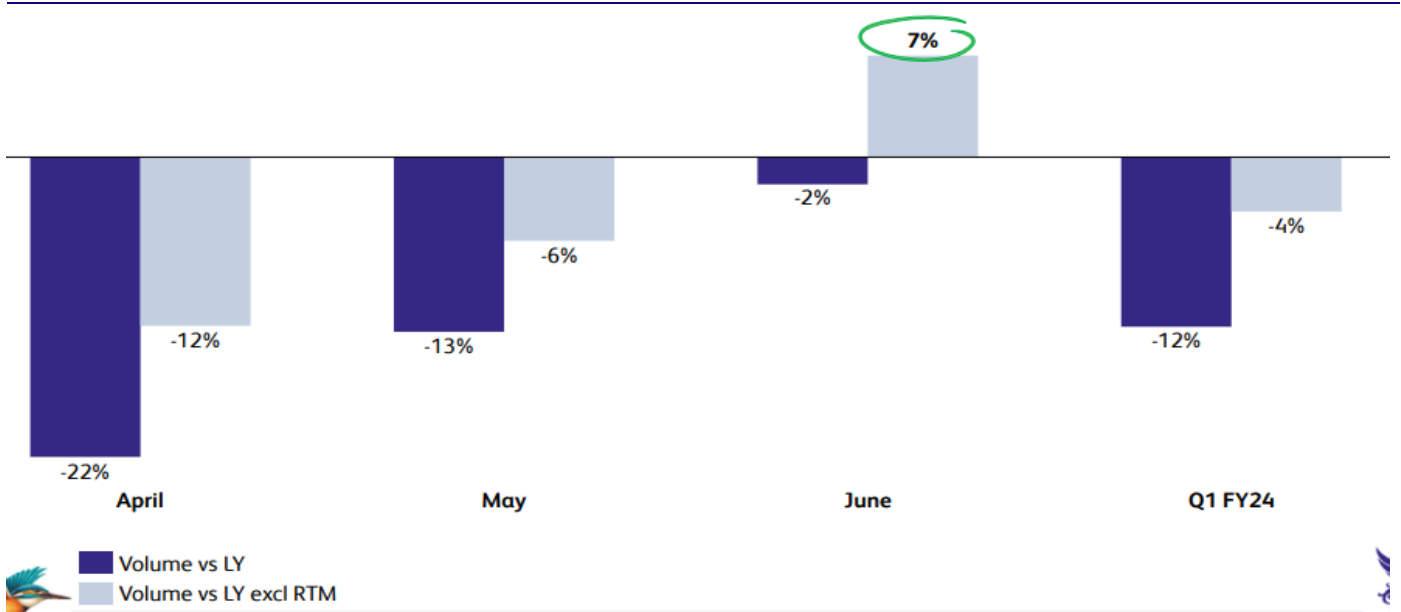
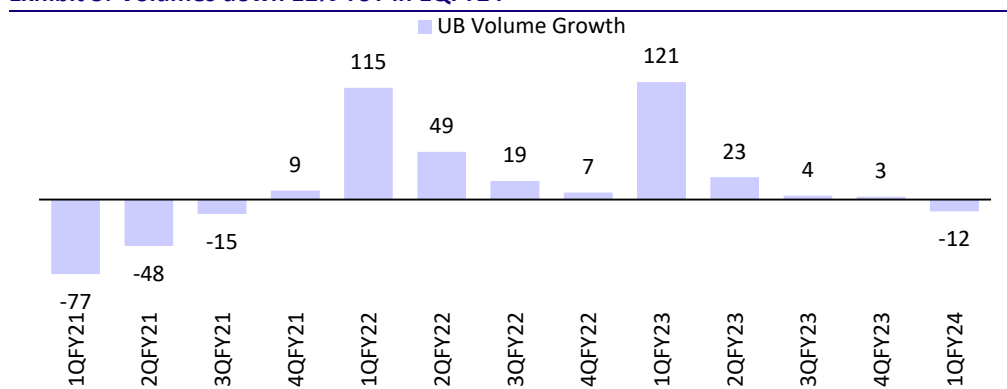


Exhibit 2: Strong volume recovery in Jun'23



**Exhibit 3: Volumes down 12% YoY in 1QFY24**

Sources: MOFSL, Company reports



## Conference call highlights

### Environment and outlook

- Volume declined ~12% in 1QFY24. Volume mainly declined in Apr-May'23, but saw a strong recovery in Jun'23.
- The management also sees good volume improvement in Jul'23.
- Supply constraints in Telangana and Haryana were due to an administrative issue related to getting license for production.
- UBBL has resolved the license issue in Karnataka, while some approvals are needed in Haryana.
- The volume base will be normalize in Q3. Volume is affected by RTM change last year in Sep'22.
- The hike in excise duty in Karnataka led to a 3-5% price increase.
- The company may see disruptions due to elections, but it is not much concerned about it.
- UBBL has an 80% overall market share, excluding RTM states (Delhi, AP, Chhattisgarh and Tamilnadu).
- RTM states have 10% salience in total volume.
- Currently, non-alcoholic beverages have a low contribution to total sales, but it will improve further.
- Prices were hiked in several states. In Karnataka, prices were increased by a mid-single digit in May'23.
- Maharashtra saw improvement owing to premiumization.
- Kingfisher Ultra Max reported mid-teens volume growth.
- Heineken Silver contributes 30% of total Heineken franchise volume.

### Costs and margins

- The Barley cost softens as new crops are coming. It will improve in Q2 and Q3.
- The demand- supply issue still affects the glass cost.
- Other expense per case declined followed by 1) improving efficiency, 2) interstate transportation benefits, and 3) volume improvement.
- A&P spending was lower in 1QFY24 than in 1QFY23.

### Other points

- The capex guidance for FY24 remains unchanged at ~INR2.5-3b.
- The company will disclose information about a new CEO in Sep'23.
- Regional Volumes - North (-15%), East (-8%), South (-18%), West (+2%).

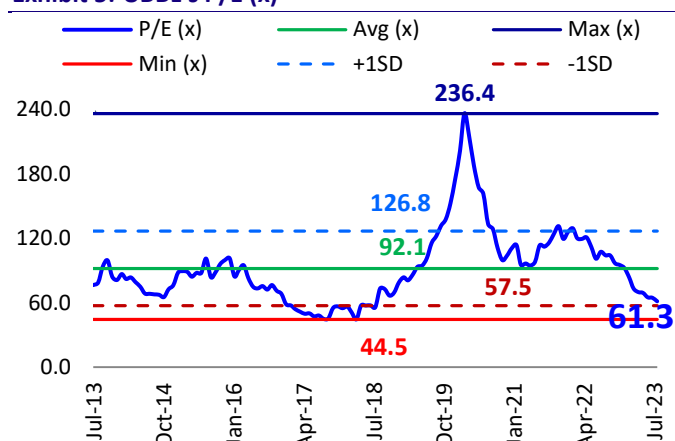
### Valuation and view

- We cut our FY25E EPS by 7%, driven by volatility in RM prices.
- Over FY18-23, EPS declined by 3.5%, making the stock expensive at 75.4x/51.3x of FY24E/FY25E EPS and 43.8x/31x FY24E/FY25E EV/EBITDA, with RoCE of only 13.3%/18.0% for FY24E/25E.
- Unlike other discretionary categories, the demand trend for alcobev companies has not worsened much, but the sales 4/5 year CAGRs stood at 3.7%/5.9% and the adj. PAT declined by 12.5%/3.5% annualized over four years/five years ending FY23. We reiterate our Sell rating on the stock with a TP of INR1,200 (targeting 24x FY25 EV/EBITDA).

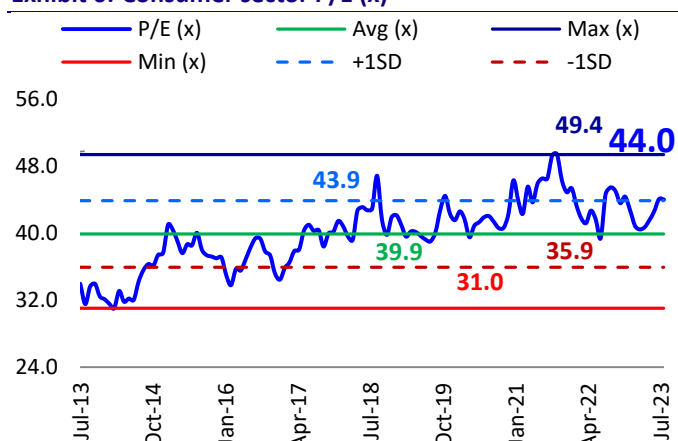
**Exhibit 4: We cut our FY25E PAT by 7.3%**

INR m	New		Old		Change (%)	
	FY24E	FY25E	FY24E	FY25E	FY24E	FY25E
Total Income	83,774	93,241	84,149	95,173	(0.4)	(2.0)
EBITDA	9,168	12,882	9,052	13,534	1.3	(4.8)
Adjusted PAT	5,401	7,944	5,388	8,567	0.2	(7.3)

**Exhibit 5: UBBL's P/E (x)**



**Exhibit 6: Consumer sector P/E (x)**



## Financials and valuations

Consolidated - Income Statement							(INR m)	
Y/E March	FY18	FY19	FY20	FY21	FY22	FY23	FY24E	FY25E
<b>Total Income from Operations</b>	<b>56,196</b>	<b>64,754</b>	<b>65,092</b>	<b>42,431</b>	<b>58,384</b>	<b>74,999</b>	<b>83,774</b>	<b>93,241</b>
Change (%)	18.1	15.2	0.5	-34.8	37.6	28.5	11.7	11.3
Raw Materials	26,315	30,077	31,511	20,294	29,261	42,654	46,556	49,583
% of Sales	46.8	46.4	48.4	47.8	50.1	56.9	55.6	53.2
<b>Gross Profit</b>	<b>29,881</b>	<b>34,678</b>	<b>33,581</b>	<b>22,137</b>	<b>29,123</b>	<b>32,346</b>	<b>37,218</b>	<b>43,658</b>
Margin (%)	53.2	53.6	51.6	52.2	49.9	43.1	44.4	46.8
<b>Total Expenditure</b>	<b>47,170</b>	<b>53,371</b>	<b>56,334</b>	<b>38,620</b>	<b>51,418</b>	<b>68,837</b>	<b>74,606</b>	<b>80,359</b>
% of Sales	83.9	82.4	86.5	91.0	88.1	91.8	89.1	86.2
<b>EBITDA</b>	<b>9,025</b>	<b>11,384</b>	<b>8,758</b>	<b>3,811</b>	<b>6,966</b>	<b>6,162</b>	<b>9,168</b>	<b>12,882</b>
Margin (%)	16.1	17.6	13.5	9.0	11.9	8.2	10.9	13.8
Depreciation	2,597	2,599	2,851	2,320	2,172	2,106	2,294	2,541
<b>EBIT</b>	<b>6,429</b>	<b>8,785</b>	<b>5,907</b>	<b>1,491</b>	<b>4,794</b>	<b>4,056</b>	<b>6,874</b>	<b>10,340</b>
Int. and Finance Charges	456	239	287	181	148	46	74	113
Other Income	105	247	69	456	298	494	519	581
<b>PBT bef. EO Exp.</b>	<b>6,078</b>	<b>8,793</b>	<b>5,689</b>	<b>1,766</b>	<b>4,944</b>	<b>4,504</b>	<b>7,319</b>	<b>10,809</b>
Total Tax	2,132	3,160	1,406	556	1,284	1,210	1,917	2,864
Tax Rate (%)	35.1	35.9	24.7	32.8	27.4	28.4	26.2	26.5
<b>Reported PAT</b>	<b>3,942</b>	<b>5,629</b>	<b>4,277</b>	<b>1,132</b>	<b>3,398</b>	<b>3,047</b>	<b>5,401</b>	<b>7,944</b>
<b>Adjusted PAT</b>	<b>3,942</b>	<b>5,629</b>	<b>4,277</b>	<b>1,132</b>	<b>3,398</b>	<b>3,295</b>	<b>5,401</b>	<b>7,944</b>
Change (%)	71.7	42.8	-24.0	-73.5	200.1	-3.0	63.9	47.1
Margin (%)	7.0	8.7	6.6	2.7	5.8	4.4	6.4	8.5

Consolidated - Balance Sheet							(INR m)	
Y/E March	FY18	FY19	FY20	FY21	FY22	FY23	FY24E	FY25E
Equity Share Capital	264	265	264	264	264	264	264	264
Total Reserves	26,638	31,572	34,938	35,558	39,087	39,385	42,279	46,538
<b>Net Worth</b>	<b>26,903</b>	<b>31,838</b>	<b>35,203</b>	<b>35,823</b>	<b>39,351</b>	<b>39,649</b>	<b>42,544</b>	<b>46,802</b>
Minority Interest	29	30	33	38	41	46	46	46
Deferred Tax Liabilities	182	114	0	0	0	0	0	0
Total Loans	3,121	2,115	1,691	1,154	0	0	0	0
<b>Capital Employed</b>	<b>30,235</b>	<b>34,097</b>	<b>36,927</b>	<b>37,014</b>	<b>39,393</b>	<b>39,695</b>	<b>42,590</b>	<b>46,848</b>
Gross Block	37,208	39,954	45,077	47,808	49,615	51,102	55,602	62,602
Less: Accum. Deprn.	20,152	22,425	26,058	28,378	30,550	32,656	34,950	37,492
<b>Net Fixed Assets</b>	<b>17,056</b>	<b>17,529</b>	<b>19,019</b>	<b>19,430</b>	<b>19,065</b>	<b>18,446</b>	<b>20,652</b>	<b>25,110</b>
Goodwill on Consolidation	242	242	242	65	65	65	65	65
Capital WIP	723	1,899	1,991	1,288	1,099	771	1,504	2,401
<b>Total Investments</b>	<b>2</b>	<b>3</b>	<b>3</b>	<b>61</b>	<b>84</b>	<b>81</b>	<b>81</b>	<b>81</b>
<b>Curr. Assets, Loans&amp;Adv.</b>	<b>29,212</b>	<b>34,171</b>	<b>34,254</b>	<b>37,679</b>	<b>39,182</b>	<b>43,442</b>	<b>46,433</b>	<b>56,553</b>
Inventory	8,080	10,325	10,939	11,367	9,358	14,278	13,264	17,390
Account Receivables	14,986	15,110	13,504	13,950	12,549	14,073	15,764	19,999
Cash and Bank Balance	242	462	786	4,693	9,097	3,953	5,933	7,347
Loans and Advances	5,904	8,275	9,025	7,669	8,178	11,138	11,472	11,816
<b>Curr. Liability &amp; Prov.</b>	<b>16,999</b>	<b>19,747</b>	<b>18,582</b>	<b>21,507</b>	<b>20,101</b>	<b>23,109</b>	<b>26,144</b>	<b>37,361</b>
Account Payables	5,217	5,902	5,450	6,181	6,380	7,170	8,162	8,187
Provisions	11,782	13,845	13,131	15,326	13,721	15,939	17,982	29,174
<b>Net Current Assets</b>	<b>12,212</b>	<b>14,424</b>	<b>15,672</b>	<b>16,171</b>	<b>19,081</b>	<b>20,333</b>	<b>20,289</b>	<b>19,192</b>
<b>Appl. of Funds</b>	<b>30,235</b>	<b>34,097</b>	<b>36,927</b>	<b>37,014</b>	<b>39,393</b>	<b>39,695</b>	<b>42,590</b>	<b>46,848</b>

E: MOSL Estimates

## Financials and valuations

### Ratios

Y/E March	FY18	FY19	FY20	FY21	FY22	FY23	FY24E	FY25E
<b>Basic (INR)</b>								
<b>EPS</b>	<b>14.9</b>	<b>21.3</b>	<b>16.2</b>	<b>4.3</b>	<b>12.9</b>	<b>12.5</b>	<b>20.4</b>	<b>30.0</b>
BV/Share	101.7	120.4	133.1	135.5	148.8	150.0	160.9	177.0
DPS	2.0	2.5	2.5	0.5	10.5	0.0	8.2	12.0
Payout (%)	13.4	11.7	15.5	11.7	81.7	0.0	40.0	40.0
<b>Valuation (x)</b>								
P/E	103.3	72.3	95.2	359.6	119.8	123.6	75.4	51.3
Cash P/E	62.3	49.5	57.1	117.9	73.1	75.4	52.9	38.8
P/BV	15.1	12.8	11.6	11.4	10.3	10.3	9.6	8.7
EV/Sales	7.3	6.3	6.3	9.5	6.8	5.4	4.8	4.3
EV/EBITDA	45.4	35.9	46.6	105.9	57.1	65.4	43.8	31.0
Dividend Yield (%)	0.1	0.2	0.2	0.0	0.7	0.0	0.5	0.8
<b>Return Ratios (%)</b>								
RoE	15.7	19.2	12.8	3.2	9.0	8.3	13.1	17.8
RoCE	14.3	18.1	12.7	3.5	9.7	8.2	13.3	18.0
RoIC	14.5	18.5	13.5	3.1	11.6	9.1	14.5	21.1
<b>Working Capital Ratios</b>								
Asset Turnover (x)	1.9	1.9	1.8	1.1	1.5	1.9	2.0	2.0
Inventory (Days)	51	52	60	96	65	58	60	60
Debtor (Days)	91	85	80	118	83	65	65	70
Creditor (Days)	32	31	32	50	39	33	33	32
<b>Leverage Ratio (x)</b>								
Debt/Equity	0.1	0.1	0.0	0.0	0.0	0.0	0.0	0.0

### Consolidated - Cash Flow Statement

(INR m)

Y/E March	FY18	FY19	FY20	FY21	FY22	FY23	FY24E	FY25E
OP/(Loss) before Tax	6,078	8,793	5,689	1,694	4,944	4,173	7,319	10,809
Depreciation	2,597	2,599	2,851	2,320	2,172	2,106	2,294	2,541
Interest & Finance Charges	471	306	305	224	146	44	74	113
Direct Taxes Paid	-2,534	-3,898	-1,903	-823	-1,301	-1,397	-1,438	-2,148
(Inc)/Dec in WC	-1,265	-1,101	-2,196	2,976	2,994	-6,160	-2,003	-8,731
<b>CF from Operations</b>	<b>5,346</b>	<b>6,699</b>	<b>4,746</b>	<b>6,392</b>	<b>8,956</b>	<b>-1,234</b>	<b>6,245</b>	<b>2,584</b>
Others	287	-269	332	-189	40	39	0	0
<b>CF from Operating incl EO</b>	<b>5,633</b>	<b>6,430</b>	<b>5,078</b>	<b>6,203</b>	<b>8,996</b>	<b>-1,196</b>	<b>6,245</b>	<b>2,584</b>
(Inc)/Dec in FA	-2,014	-4,366	-4,033	-1,498	-1,728	-1,543	-4,480	-6,980
<b>Free Cash Flow</b>	<b>3,619</b>	<b>2,064</b>	<b>1,045</b>	<b>4,705</b>	<b>7,268</b>	<b>-2,739</b>	<b>1,765</b>	<b>-4,396</b>
Others	16	114	231	86	-10	515	2,449	9,100
<b>CF from Investments</b>	<b>-1,998</b>	<b>-4,252</b>	<b>-3,802</b>	<b>-1,412</b>	<b>-1,726</b>	<b>-1,025</b>	<b>-2,031</b>	<b>2,120</b>
Issue of Shares	0	0	0	0	0	0	0	0
Inc/(Dec) in Debt	-2,820	-1,006	115	61	-2,551	-100	0	0
Interest Paid	-507	-313	-268	-281	-181	-45	-74	-113
Dividend Paid	-308	-640	-800	-663	-134	-2,779	-2,160	-3,178
Others	0	0	0	0	0	0	0	0
<b>CF from Fin. Activity</b>	<b>-3,635</b>	<b>-1,959</b>	<b>-952</b>	<b>-884</b>	<b>-2,867</b>	<b>-2,923</b>	<b>-2,235</b>	<b>-3,291</b>
<b>Inc/Dec of Cash</b>	<b>0</b>	<b>219</b>	<b>324</b>	<b>3,907</b>	<b>4,404</b>	<b>-5,144</b>	<b>1,980</b>	<b>1,414</b>
Opening Balance	243	242	462	786	4,693	9,097	3,953	5,933
<b>Closing Balance</b>	<b>242</b>	<b>462</b>	<b>786</b>	<b>4,693</b>	<b>9,097</b>	<b>3,953</b>	<b>5,933</b>	<b>7,347</b>

E: MOFSL Estimates

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NOTES



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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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Correspondence Address: Palm Spring Centre, 2nd Floor, Palm Court Complex, New Link Road, Malad (West), Mumbai- 400 064. Tel No: 022 71881000. 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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