

Estimate change	↔
TP change	↔
Rating change	↔

CMP: INR4,001 TP: INR4,600 (+15%) Buy

Good 4Q driven by TCV and margin performance

Near-term demand commentary remains muted; reiterate BUY

Bloomberg	TCS IN
Equity Shares (m)	3752
M.Cap.(INRb)/(USDb)	14477.4 / 173.5
52-Week Range (INR)	4255 / 3056
1, 6, 12 Rel. Per (%)	-5/-1/-3
12M Avg Val (INR M)	8340
Free float (%)	27.6

Financials & Valuations (INR b)

Y/E Mar	2024	2025E	2026E
Sales	2,409	2,627	2,941
EBIT Margin (%)	24.7	25.6	26.4
PAT	469	535	615
EPS (INR)	126.3	147.5	169.6
EPS Gr. (%)	9.5	16.8	15.0
BV/Sh. (INR)	248	242	233
Ratios			
RoE (%)	50.9	59.9	71.3
RoCE (%)	44.0	49.9	58.0
Payout (%)	100.9	90.0	90.0
Valuations			
P/E (x)	32.2	27.6	24.0
P/BV (x)	16.4	16.8	17.4
EV/EBITDA (x)	22.5	19.8	17.2
Div Yield (%)	3.1	3.3	3.8

Shareholding pattern (%)

As On	Dec-23	Sep-23	Dec-22
Promoter	72.4	72.4	72.3
DII	10.1	10.1	9.6
FII	12.5	12.5	12.7
Others	5.0	5.0	5.4

FII Includes depository receipts

- TCS reported revenue of USD7.36b in 4QFY24, up 1.1% QoQ in constant currency (CC) terms, 110bp below our estimates but in line with Bloomberg consensus, despite ongoing demand weakness. The growth was driven by India (up 11% QoQ/37% YoY, aided by BSNL scale up) and the UK (up 3.6% QoQ), while North America and Continental Europe were weak. TCS reported its best quarterly deal TCV of USD13.2b (up 63% QoQ/32%YoY, book-to-bill ratio at 1.8x), including one mega deal. FY24 YoY CC USD growth was 3.4%.
- The company maintained its strong operating margin performance, with EBIT margin up 100bp QoQ to 26.0%, the lower end of its medium-term guidance band for the first time in the last 12 quarters. This was 100bp ahead of our estimates, and was aided by lower subcontracting costs and continued cuts in headcount (-1.8k QoQ). Attrition (LTM) declined by 80bp QoQ to 12.5%. 4Q PAT was in line at INR124b (20.3% PAT margin). FY24 PAT stood at INR462b (up 9.3% YoY). TCS generated FCF of INR443b (up 6.9% YoY) during the year.
- The management outlook on the spending environment in IT services remains unchanged, despite some initial signs of pent-up demand, with a continued pause expected in discretionary deals in the near term. While the company expects FY25 revenue growth to be better than the low FY24 base, near-term quarterly growth commentary is still modest due to a focus on projects with high ROI and cost optimization.
- We continue to expect TCS to benefit in FY25 from the large BSNL deal execution. But continued uncertainty on growth pickup in North America and Europe is likely to weigh on overall growth, which we estimate at 8.8% YoY. Despite growing in single digits, TCS should be among the fastest-growing large cap companies in our coverage universe. We factor in a USD revenue CAGR of 10.0% over FY24-26E.
- With 4Q EBIT margin surprising on the upside, TCS should deliver full-year EBIT margin of 25.6% in FY25, up 90bp YoY, despite limited incremental cost levers at its disposal. The growth recovery in 2HFY25 is likely to be driven by continued workforce optimization toward freshers and platforms. We expect FY25E/FY26E EBIT margins at 25.6%/26.4%, up from 24.7% in FY24.
- Excluding the one-off item, TCS has delivered INR PAT growth of 11% in FY24 and has INR470b in cash and investments. It announced a dividend of INR28 per share in 4Q, bringing the full-year payout at ~100% to USD5.6b.
- We have broadly maintained our FY25-FY26 EPS estimates. Over FY24-26E, we expect a USD revenue CAGR of ~10% and an INR EPS CAGR of ~15%. Our TP of INR4,600 implies 27x FY26E EPS, with a 15% upside potential. We reiterate our **BUY** rating on the stock.

Q4 revenues soft but margins above estimates, all-time high TCV

- USD revenue at USD7.36b, +1.1% QoQ CC and +2.2% YoY CC.

- Growth was driven by the UK and India, while NA continued to be a drag. Vertical growth was strong in Mfg and regional markets, while BFSI, Communications and Tech remained under stress.
- TCS reported its highest-ever deal TCV at USD13.2b (up 63% QoQ/32% YoY) vs. the peak of USD11.2b earlier (in 2Q). The book-to-bill ratio stood at 1.8x.
- EBIT margin came in at 26% (up 100bp QoQ), above our estimate of 25% and its highest in the last 12 quarters, driven by a third straight quarter of headcount decline (-1.8k QoQ, -13.2k in FY24) and lower SG&A costs. Subcon costs as % of revenue also declined by 150bp QoQ.
- PAT at INR124b (20.3% PAT margin) was in line with our estimate.
- TCS declared a dividend of INR28 per share in 4Q.
- FY24 YoY CC USD growth stood at 3.4%. PAT stood at INR462b (up 9.3% YoY). The company generated FCF of INR443b (up 6.9% YoY).

Key highlights from management commentary

- Deal momentum remained solid during the year. There was no change in tenure of deals. 55-60% of the deals were cost optimization deals, while the rest were transformation deals.
- Discretionary spending remains under pressure. Transformation projects will be funded through savings from cost optimization initiatives.
- Consumer vertical is seeing green shoots. Manufacturing remains robust. The pent-up demand in BFSI should drive growth over the near and medium term.
- Though early days, clients are inclined toward leveraging AI in application development, maintenance and deployment.
- Salary hikes announced for FY25 are similar to last year, with high performers getting double-digit wage hikes.
- Sub-con was a significant margin lever during FY24 and has bottomed out. Pricing and utilization remain key levers for margins going forward. Once growth returns, operating leverage should aid margins incrementally.

Valuation and view

- Given its size, order book and exposure to long-duration orders and portfolio, TCS is well positioned to withstand the weakening macro environment and ride on the anticipated industry growth.
- Owing to its steadfast market leadership position and best-in-class execution, the company has been able to maintain its industry-leading margin and demonstrate superior return ratios.
- We maintain our positive stance on TCS. Our TP of INR4,600 implies 27x FY26E EPS, with a 15% upside potential. We reiterate our **BUY** rating.

Quarterly performance (IFRS)

(INR b)

Y/E March	FY23				FY24				FY23	FY24	FY24	Variance
	1Q	2Q	3Q	4Q	1Q	2Q	3Q	4Q				
Revenue from IT Services (USD m)	6,780	6,877	7,075	7,195	7,226	7,210	7,281	7,363	27,927	29,080	7,477	-1.5
QoQ (%)	1.3	1.4	2.9	1.7	0.4	-0.2	1.0	1.1	8.6	4.1	2.7	-157bp
Overall revenue (INR b)	528	553	582	592	594	597	606	612	2,255	2,409	621	-1.3
QoQ (%)	4.3	4.8	5.3	1.6	0.4	0.5	1.5	1.1			2.4	-136bp
YoY (%)	16.2	18.0	19.1	16.9	12.6	7.9	4.0	3.5	17.6	6.8	4.9	-139bp
GPM (%)	38.4	39.5	40.1	40.1	39.5	40.1	40.8	41.1	39.6	40.4	40.6	50bp
SGA (%)	15.3	15.5	15.5	15.7	16.4	15.8	15.8	15.1	15.5	15.7	15.6	-46bp
EBITDA	134	145	156	157	150	157	164	172	592	643	168	2.2
EBITDA Margin (%)	25.3	26.2	26.8	26.6	25.2	26.3	27.1	28.1	26.2	26.7	27.1	98bp
EBIT	122	133	143	145	138	145	152	159	542	594	155	2.4
EBIT Margin (%)	23.1	24.0	24.5	24.5	23.2	24.3	25.0	26.0	24.1	24.7	25.0	96bp
Other Income	6	8	4	9	12	8	7	9	27	37	11	-11.8
PBT	128	141	146	154	150	153	159	168	569	632	166	1.5
ETR (%)	25.5	25.8	25.7	25.7	25.8	25.8	25.8	25.8	25.7	25.7	25.5	30bp
Adj. PAT	95	105	109	114	111	114	118	125	423	469	124	1.1
Exceptional Items	0	0	0	0	0	0	-7	0	0	-7	0	
Reported PAT	95	105	109	114	111	114	111	125	423	462	124	1.1
QoQ (%)	-4.4	9.9	4.0	5.1	-2.8	2.3	-2.5	12.7			11.4	125bp
YoY (%)	5.4	8.4	11.0	14.8	16.8	8.7	2.0	9.3	10.0	9.3	8.1	122bp
EPS (INR)	26.0	28.5	29.6	31.1	30.3	31.0	30.3	34.4	115.3	126.3	33.7	1.8

Key performance indicators

Y/E March	FY23				FY24E				FY23	FY24
	1Q	2Q	3Q	4Q	1Q	2Q	3Q	4Q		
Revenue (QoQ CC %)	3.5	4.0	2.2	0.6	0.0	0.1	1.0	1.1		
Costs (as a percentage of revenue)										
COGS	61.6	60.5	59.9	59.9	60.5	59.9	59.2	58.9	60.4	59.6
SGA	15.3	15.5	15.5	15.7	16.4	15.8	15.8	15.1	15.5	15.7
Margins										
Gross Margin	38.4	39.5	40.1	40.1	39.5	40.1	40.8	41.1	39.6	40.4
EBIT Margin	23.1	24.0	24.5	24.5	23.2	24.3	25.0	26.0	24.1	24.7
Net Margin	18.0	18.9	18.7	19.3	18.7	19.1	19.4	20.4	18.8	19.5
Operating Metrics										
Headcount (k)	606	616	614	615	615	609	603	602	615	602
Attrition (%)	19.7	21.5	21.3	20.1	17.8	14.9	13.3	12.5	20.1	12.5
Deal win TCV (USD b)	8.2	8.1	7.8	10	10.2	11.2	8.1	13.2	34.1	42.7
Key verticals (YoY CC %)										
BFSI	13.9	13.1	11.1	9.1	3.0	-0.5	-3.0	-3.2	11.8	-1.0
Retail	25.1	22.9	18.7	13.0	5.3	1.0	-0.3	-0.3	19.7	1.8
Key geographies (YoY CC %)										
North America	19.1	17.6	15.4	9.6	4.6	0.1	-3.0	-2.3	15.3	-0.2
UK	12.6	14.8	15.4	17.0	16.1	10.7	8.1	6.2	15.0	10.1
Continental Europe	12.1	14.1	9.7	8.4	3.4	1.3	0.5	-2.0	11.0	0.7



Highlights from management commentary

4QFY24 performance and demand outlook

- TCS reported all-time high TCV of USD13.2b in 4QFY24, including a mega deal announced during the quarter. Deal momentum remained solid during the year. There was no change in tenure of deals.
- 55-60% of the deals were cost optimization deals, while the rest were transformation deals.
- Product and platform saw strong traction during the quarter. TCS is actively working on POC for GenAI projects.
- During 4QFY24, companies continued to re-prioritize spending to high ROI projects. Operating model transformation, vendor consolidation, cloud migration, business process optimization and GenAI remained in focus.

- Discretionary spending remained under pressure. Transformation projects will be funded through savings from cost optimization initiatives.
- Consumer vertical is seeing green shoots. Manufacturing remains robust. The pent-up demand in BFSI should drive growth over the near and medium term.
- Though early days, clients are inclined toward leveraging AI in application development, maintenance and deployment.
- The management believes that revenue growth in FY25 should be better than that in FY24 given the number of deals signed during the year.

Margin performance and outlook

- Operating margin (+100bp QoQ) - Tailwind of 190bp on reduced subcon, productivity and execution, partly offset by headwind of 90bp from travel and third-party expenses.
- Salary hikes announced for FY25 are similar to last year, with high performers getting double-digit wage hikes.
- Sub-con was a significant margin lever during FY24 and has bottomed out. Pricing and utilization remain key levers for margins going forward. Once growth returns, operating leverage should aid margins incrementally.
- LTM attrition was 12.5% (down 80bp QoQ) and in the comfort range of the management.
- TCS is back with campus hiring and continues to calibrate lateral hiring.

Exhibit 1: Weak growth in key regions

Geographies	Contribution to revenue (%)	QoQ growth (%)
North America	50.0	-0.1
Latin America	2.0	-3.7
UK	16.8	3.6
Continental Europe	14.6	-1.6
India	6.7	11.1
Asia Pacific	7.8	1.1
MEA	2.1	6.2

Source: Company, MOFSL

Exhibit 2: Weakness continues in selective verticals

Verticals	Contribution to revenue (%)	QoQ CC growth (%)
BFSI	31.3	-0.1
Retail and CPG	15.7	1.1
Communications and Media	6.6	-0.4
Manufacturing	8.8	3.5
Life Sciences and Healthcare	10.9	1.1
Technology and Services	8.2	-1.3
Regional Markets and Others	5.6	-0.6

Source: Company, MOFSL

Valuation and view

- Given its size, order book and exposure to long-duration orders and portfolio, TCS is well positioned to withstand the weakening macro environment and ride on the anticipated industry growth.
- Owing to its steadfast market leadership position and best-in-class execution, the company has been able to maintain its industry-leading margin and demonstrate superior return ratios.
- We maintain our positive stance on TCS. Our TP of INR4,600 implies 27x FY26E EPS, with a 15% upside potential. We reiterate our **BUY** rating.

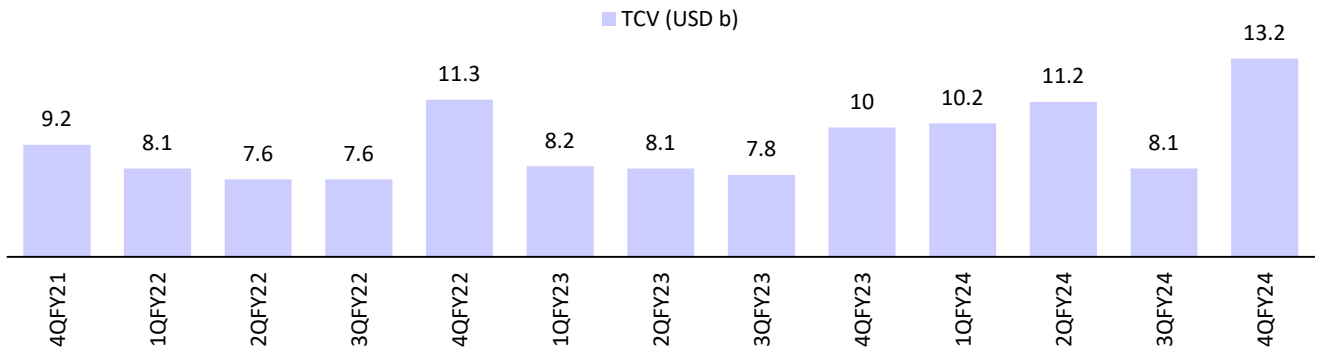
Exhibit 3: Revisions to our estimates

	Revised			Earlier			Change		
	FY24	FY25E	FY26E	FY24	FY25E	FY26E	FY24	FY25E	FY26E
USD:INR	82.8	83.5	83.5	82.8	83.0	83.0	0.0%	0.6%	0.6%
USD revenue (m)	29,080	31,457	35,227	29,194	32,333	36,124	-0.4%	-2.7%	-2.5%
Growth (%)	4.1	8.2	12.0	4.5	10.8	11.7	-40bp	-260bp	30bp
EBIT margin (%)	24.7	25.6	26.4	24.4	25.1	26.2	20bp	50bp	20bp
PAT (INR b)	461	534	614	459	536.0	621.0	0.3%	-0.5%	-1.2%
EPS	126.3	147.5	169.6	125.7	146.8	170.1	0.5%	0.5%	-0.3%

Source: MOFSL

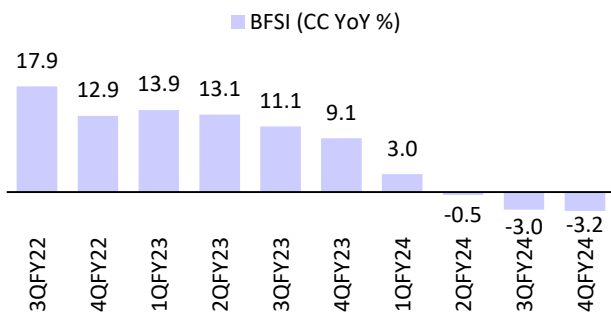
Story in charts

Exhibit 4: Deal wins at all-time high in 4QFY24



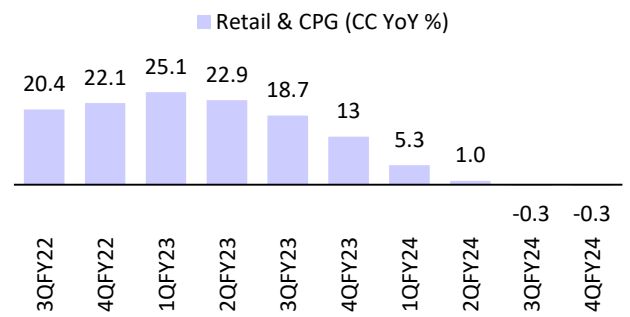
Source: Company, MOFSL

Exhibit 5: BFSI continued to decline in 4Q



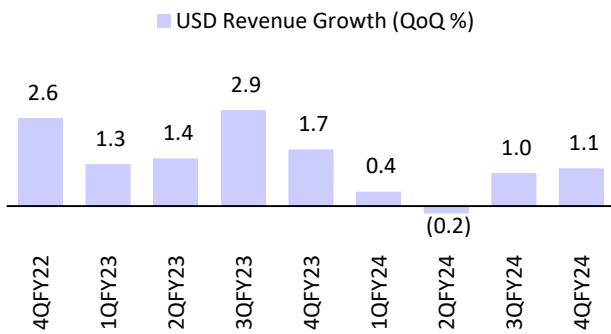
Source: Company, MOFSL

Exhibit 6: Retail remained soft



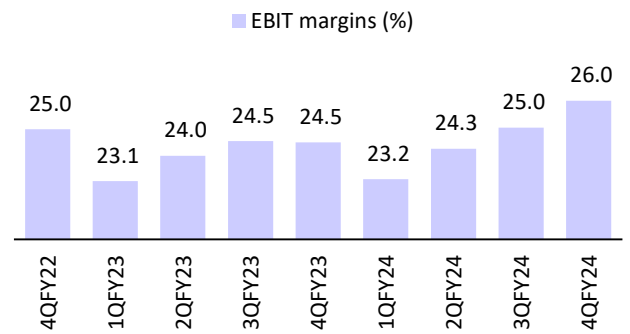
Source: Company, MOFSL

Exhibit 7: TCS maintained good growth despite weak macro



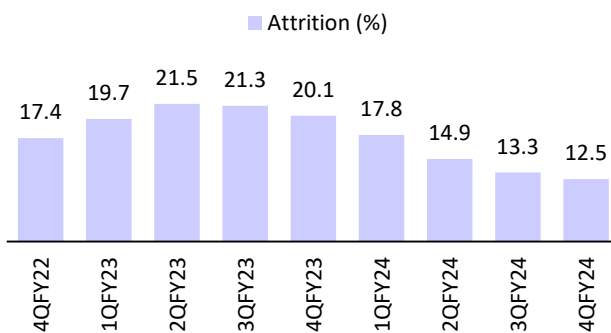
Source: Company, MOFSL

Exhibit 8: Margins saw strong recovery



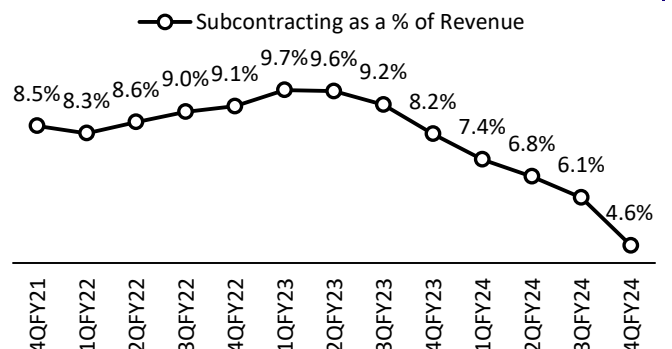
Source: Company, MOFSL

Exhibit 9: LTM Attrition continued to moderate



Source: Company, MOFSL

Exhibit 10: Sub-contracting moderated meaningfully



Source: Company, MOFSL

Operating metrics

Exhibit 11: Operating metrics

	4QFY22	1QFY23	2QFY23	3QFY23	4QFY23	1QFY24	2QFY24	3QFY24	4QFY24
Verticals (%)									
BFSI	31.9	32.1	33.6	33.1	32.9	32.5	32.6	31.7	31.3
Retail & CPG	15.4	15.9	16.1	16.0	16.0	16.1	15.9	15.7	15.7
Communication & Media	6.7	6.8	7.3	7.2	7.1	7.0	6.9	6.7	6.6
Manufacturing	10.0	9.9	8.2	8.2	8.2	8.3	8.5	8.6	8.8
Life Sciences & Healthcare	10.0	10.1	10.7	10.8	10.9	11.0	10.9	10.9	10.9
Technology & Services	8.7	8.8	9.1	9.0	8.9	8.7	8.6	8.4	8.2
Energy & Utilities			5.0	5.2	5.4	5.5	5.6	5.7	5.7
Regional markets & Others	17.3	16.4	10.0	10.5	10.6	10.9	11.0	12.3	12.9
Geographies (%)									
North America	51.6	53.2	54.3	53.7	52.4	52.0	51.7	50.6	50.0
Latin America	1.7	1.8	1.7	1.8	1.8	2.0	2.0	2.1	2.0
UK	15.6	14.9	14.5	14.9	15.7	16.4	16.5	16.4	16.8
Continental Europe	15.5	15.2	14.5	14.8	15.1	14.9	14.9	15.0	14.6
India	5.1	4.8	5.1	5.1	5.0	4.9	4.9	6.1	6.7
Asia Pacific	8.5	8.3	8.0	7.9	8.0	7.8	7.8	7.8	7.8
MEA	2.0	1.8	1.9	1.8	2.0	2.0	2.2	2.0	2.1
QoQ growth (%)									
BFSI	2.0	1.9	6.2	1.3	1.1	-0.8	0.1	-1.8	-0.1
Retail & CPG	9.0	4.5	2.7	2.2	1.7	1.1	-1.5	-0.3	1.1
Communication & Media	4.2	2.8	8.9	1.5	0.3	-1.0	-1.6	-1.9	-0.4
Manufacturing	6.9	0.2	-16.0	2.9	1.7	1.7	2.2	2.2	3.5
Life Sciences & Healthcare	4.7	2.3	7.5	3.8	2.6	1.4	-1.1	1.0	1.1
Technology & Services	3.8	2.4	4.9	1.7	0.6	-1.8	-1.4	-1.4	-1.3
Energy and Utilities				7.0	5.6	2.3	1.6	2.8	-0.6
Regional markets & Others	-5.6	-4.0	-38.2	8.0	2.7	3.3	0.7	12.9	6.1
North America	4.5	4.4	3.5	1.7	-0.8	-0.3	-0.8	-1.2	-0.1
Latin America	2.6	7.2	-4.2	8.9	1.7	11.6	-0.2	6.0	-3.7
UK	2.6	-3.3	-1.3	5.7	7.2	4.9	0.4	0.4	3.6
Continental Europe	-0.6	-0.7	-3.2	5.0	3.8	-0.9	-0.2	1.7	-1.6
India	-4.8	-4.7	7.8	2.9	-0.3	-1.6	-0.2	25.7	11.1
Asia Pacific	1.4	-1.1	-2.2	1.6	3.0	-2.1	-0.2	1.0	1.1
MEA	8.0	-8.9	7.1	-2.5	13.0	0.4	9.8	-8.2	6.2
Total Employees (k)	592.2	606.3	616.2	614.0	614.8	615.3	609.0	603.3	601.5
Net Additions (k)	35.2	14.1	9.8	-2.2	0.8	0.5	-6.3	-5.7	-1.8
Attrition (LTM %)	17.4	19.7	21.5	21.3	20.1	17.8	14.9	13.3	12.5

Source: Company, MOFSL

Financials and valuations

Income Statement								(INR b)
Y/E March	FY19	FY20	FY21	FY22	FY23	FY24	FY25E	FY26E
Sales	1,465	1,569	1,642	1,918	2,255	2,409	2,627	2,941
Change (%)	19.0	7.2	4.6	16.8	17.6	6.8	9.0	12.0
Cost of Services	852	923	971	1,146	1,363	1,436	1,547	1,704
SG&A Expenses	239	260	246	287	350	379	407	462
EBITDA	395	421	465	532	599	655	738	849
As a percentage of Net Sales	27.0	26.8	28.4	27.8	26.6	27.2	28.1	28.9
Depreciation	21	35	41	48	56	60	66	74
EBIT	375	386	425	485	542	594	672	776
As a percentage of Net Sales	25.6	24.6	25.9	25.3	24.1	24.7	25.6	26.4
Other Income	41	37	25	32	27	37	46	50
PBT	416	422	450	517	569	632	718	826
Tax	100	98	115	132	146	163	183	211
Rate (%)	24.1	23.2	25.5	25.6	25.7	25.7	25.5	25.5
PAT	316	324	335	384	423	469	535	615
Extraordinary Gains/Losses	0	0	-10	0	0	-7	0	0
Adjusted PAT	316	324	326	384	423	462	535	615
Minority Interest	1	1	1	1	2	2	2	2
Reported PAT	315	323	324	383	421	461	534	614
Change (%)	21.9	2.8	0.3	18.2	10.0	9.3	15.9	15.0

Balance Sheet								(INR b)
Y/E March	FY19	FY20	FY21	FY22	FY23	FY24E	FY25E	FY26E
Share capital	4	4	4	4	4	4	4	4
Reserves	891	838	861	888	901	901	873	840
Net Worth	894	841	864	891	904	905	877	844
Minority Interest and Others	34	97	102	100	97	99	130	144
Loans	0	0	0	0	0	0	0	0
Capital Employed	929	938	966	992	1,001	1,003	1,006	988
Gross Block	287	408	449	502	550	605	669	740
Depreciation	171	207	247	295	351	412	477	551
Net Block	116	201	201	207	199	193	191	189
Intangibles	44	45	57	55	52	52	50	54
Other LT assets	69	60	56	70	83	89	96	107
Current Assets	921	902	993	1,083	1,103	1,130	1,129	1,152
Debtors	325	363	367	418	500	536	569	637
Cash and Bank Balance	72	97	69	125	71	90	111	94
Investments	347	261	316	360	401	358	313	268
Other Current Assets	177	182	241	180	131	146	137	153
Current Liab. and Prov.	221	271	342	424	436	461	460	513
Net Current Assets	700	632	651	660	667	669	669	638
Application of Funds	929	938	966	992	1,001	1,003	1,006	988

Financials and valuations

Ratios

Y/E March	FY19	FY20	FY21	FY22	FY23	FY24E	FY25E	FY26E
Basic (INR)								
EPS	82.3	86.2	86.7	104.0	115.3	126.3	147.5	169.6
Cash EPS	87.6	95.6	97.6	117.0	130.7	142.8	165.6	189.9
Book Value	233.8	224.2	231.1	241.8	247.3	248.1	242.3	233.3
DPS	76.9	71.4	97.2	100.9	115.1	127.4	132.7	152.6
Payout (%)	93.5	82.8	112.1	97.1	99.8	100.9	90.0	90.0
Valuation (x)								
P/E	45.3	43.2	43.0	35.8	32.3	32.2	27.6	24.0
Cash P/E	42.5	39.0	38.2	31.9	28.5	28.5	24.6	21.4
EV/EBITDA	35.9	33.0	29.8	25.6	22.6	22.5	19.8	17.2
EV/Sales	9.7	8.8	8.4	7.1	6.0	6.1	5.6	5.0
Price/Book Value	15.9	16.6	16.1	15.4	15.1	16.4	16.8	17.4
Dividend Yield (%)	2.1	1.9	2.6	2.7	3.1	3.1	3.3	3.8
Profitability Ratios (%)								
RoE	36.1	37.3	38.0	43.7	46.9	50.9	59.9	71.3
RoCE	31.4	31.7	33.2	36.8	40.5	44.0	49.9	58.0
Turnover Ratios								
Debtors (Days)	81	84	82	80	81	81	79	79
Fixed Asset Turnover (x)	12.7	7.8	8.1	9.3	11.3	12.5	13.7	15.6

Cash Flow Statement

Y/E March	FY19	FY20	FY21	FY22	FY23	FY24E	FY25E	FY26E
(INR b)								
CF from Operations	308	370	379	427	462	512	588	674
Cash for Working Capital	-22	-47	9	-28	-42	-69	0	-34
Net Operating CF	286	324	388	399	420	443	588	641
Net Purchase of FA	-21	-32	-32	-30	-31	-27	-51	-57
Free Cash Flow	265	291	356	370	389	417	538	584
Net Purchase of Invest.	36	118	-50	21	31	87	45	45
Net Cash from Invest.	16	86	-81	-9	0	60	-6	-12
Proceeds from Equity Issues	0	0	0	0	0	0	0	0
Proceeds from LTB/STB	-2	-13	-211	-195	-57	-16	0	0
Others	-2	-9	-6	-7	-8	-7	0	0
Dividend Payments	-275	-377	-109	-134	-414	-462	-562	-646
Cash Flow from Fin.	-279	-399	-326	-336	-479	-485	-562	-646
Net Cash Flow	23	14	-18	56	-54	19	21	-17
Opening Cash Balance	54	77	91	73	130	76	95	116
Add: Net Cash	23	14	-18	56	-54	19	21	-17
Closing Cash Balance	77	91	73	130	76	95	116	98

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NOTES

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Nainesh

Email: nainesh.rajani@motilaloswal.com

Contact: (+65) 8328 0276

Rajani

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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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