

Hero MotoCorp

Estimate change	↔
TP change	↔
Rating change	↔

CMP: INR4,661 **TP: INR5,355 (+15%)** **Buy**

Margins stable despite weak volumes

Volume guidance intact, led by positive rural sentiments

- Hero MotoCorp (HMCL)'s 1QFY26 PAT at INR11.2b came in above our est. of INR10.5b, led largely by higher other income. HMCL was able to retain its margins despite weak volumes due to price hikes and an improved mix.
- We expect HMCL to deliver a volume CAGR of ~4% over FY25-27, driven by new launches and a ramp-up in exports. HMCL will also benefit from a gradual rural recovery, given strong brand equity in the economy and executive segments. We expect a CAGR of ~7%/8%/9% in revenue/EBITDA/PAT over FY25-27. At ~18.8x/17.3x FY26E/27E EPS, the stock appears attractively valued. **We reiterate our BUY rating with a TP of INR5,355 (based on 18x Jun'27E EPS + INR129/235 for Hero FinCorp/Ather post-20% Holdco discount).**

Margins intact despite weak demand

- Net revenue dipped 5.6% YoY to INR95.8b (est. INR96.6b).
- Net realizations improved 6% YoY/dipped 2.7% QoQ to INR70k (in line). Volumes were down 11% YoY and 1% QoQ.
- ASP increase on a YoY basis was largely due to price hikes taken over the last four quarters. Further, the sequential ASP decline was due to the reduction in the spare parts business, which is seasonal in nature.
- Gross margin expanded 100bp YoY (-120bp QoQ) to 33.3% (est. 33%), owing to price hikes and favorable mix.
- This resulted in a better-than-estimated EBITDA margin at 14.4% (flat YoY/+20bp QoQ, est. 13.8%).
- EBITDA declined ~6% YoY to INR13.8b (est. INR13.3b).
- Further, higher other income boosted PAT to INR11.2b, largely flat YoY (+4.1% QoQ, ahead of our est. of INR10.5b).

Highlights from the management commentary

- Management retains its 6-7% volume growth guidance for the industry and expects to outperform industry growth, aided by its new launch pipeline.
- Management has indicated that the slight increase seen in input costs is likely to be offset by price hikes and cost savings in Q2. Margin guidance maintained at 14-16% over the long term, however, the same is likely to be at the lower end of the band in the near term.
- New launches for HMCL include two 125cc motorcycles planned for 2Q, Xoom 160, cosmetic refreshes in Xtreme 125R to reignite interest, and new launches from the Harley partnership.
- Despite industry-wide concerns for rare earth supply, management has stated that it has secured supply requirements for 2Q for both ICE and EV models and is continuing to work on long-term alternatives.
- HMCL plans to grow exports by 40% in FY26, with a target of 10% of total revenues and volumes from their global business in the medium term.

Bloomberg	HMCL IN
Equity Shares (m)	200
M.Cap.(INRb)/(USDb)	932.2 / 10.6
52-Week Range (INR)	6246 / 3323
1, 6, 12 Rel. Per (%)	12/5/-12
12M Avg Val (INR m)	3143

Financials & Valuations (INR b)

Y/E March	2025	2026E	2027E
Sales	406.7	431.2	466.4
EBITDA	57.8	61.8	67.6
Adj. PAT	45.3	49.6	53.9
Adj. EPS (INR)	226.0	247.6	269.1
EPS Gr. (%)	10.5	9.5	8.7
BV/Sh. (INR)	989	1,062	1,141

Ratios

RoE (%)	23.9	24.1	24.4
RoCE (%)	23.4	23.6	23.9
Payout (%)	73.0	70.7	70.6

Valuations

P/E (x)	20.6	18.8	17.3
P/BV (x)	4.7	4.4	4.1
Div. Yield (%)	3.5	3.8	4.1
FCF Yield (%)	3.6	5.7	5.7

Shareholding Pattern (%)

As On	Jun-25	Mar-25	Jun-24
Promoter	34.7	34.7	34.8
DII	27.8	27.9	26.9
FII	27.0	27.4	29.9
Others	10.4	9.9	8.5

FII includes depository receipts

Valuation and view

- We expect HMCL to deliver a volume CAGR of ~4% over FY25-27, driven by new launches and a ramp-up in exports. HMCL will also benefit from a gradual rural recovery, given strong brand equity in the economy and executive segments.
- We project a CAGR of ~7%/8%/9% in revenue/EBITDA/PAT over FY25-27. At ~18.8x/17.3x FY26E/27E EPS, the stock appears attractively valued. **We reiterate our BUY rating with a TP of INR5,355 (based on 18x Jun'27E EPS + INR129/235 for Hero FinCorp/Ather post-20% Holdco discount).**

Qty Performance (S/A)

Y/E March	FY25				FY26E				FY25	FY26	1QE	(INR b) Var. (%)
	1Q	2Q	3Q	4Q	1Q	2QE	3QE	4QE				
Total Volumes ('000 nos)	1,535	1,520	1,464	1,381	1,367	1,730	1,457	1,441	5,899	5,995	1,367	
Growth YoY (%)	13.5	7.3	0.3	-0.9	-10.9	13.8	-0.5	4.4	4.9	6.6	-10.9	
Net Realization	66,076	68,851	69,755	71,991	70,069	71,605	71,848	74,155	68,945	71,927	70,702	
Growth YoY (%)	1.9	3.3	4.7	5.3	6.0	4.0	3.0	3.0	3.5	7.9	7.0	
Net Op Revenues	1,01,437	1,04,632	1,02,108	99,387	95,789	1,23,877	1,04,673	1,06,836	4,06,719	4,31,175	96,654	-0.9
Growth YoY (%)	15.7	10.8	5.0	4.4	-5.6	18.4	2.5	7.5	8.6	15.1	-4.7	
RM Cost (% sales)	67.7	66.7	65.8	65.5	66.7	67.6	66.6	66.5	66.6	66.9	67.0	
Staff Cost (% sales)	6.0	6.2	6.5	6.8	6.5	5.5	6.2	6.2	6.4	6.1	6.8	
Other Exp (% sales)	11.9	12.6	13.3	13.5	12.3	12.4	13.0	13.0	12.8	12.7	12.4	
EBITDA	14,598	15,159	14,765	14,156	13,817	17,913	14,864	15,252	57,832	61,846	13,341	3.6
EBITDA Margins (%)	14.4	14.5	14.5	14.2	14.4	14.5	14.2	14.3	14.2	14.3	13.8	
Other Income	2,317	2,830	3,175	2,237	3,037	3,100	2,750	2,970	10,559	11,857	2,500	
Interest	48	49	55	47	56	55	40	50	199	201	52	
Depreciation	1,932	1,937	1,969	1,921	1,928	1,950	2,000	1,960	7,759	7,838	1,940	
PBT before EO Exp/(Inc)	14,935	16,003	15,916	14,425	14,870	19,008	15,574	16,212	60,434	65,664	13,849	
Effective Tax Rate (%)	24.8	24.8	24.4	25.1	24.3	24.5	24.5	24.7	25.1	24.5	24.5	
Adj. PAT	11,226	12,035	12,028	10,809	11,257	14,344	11,752	12,215	45,255	49,567	10,450	7.7
Growth (%)	18.7	14.2	12.1	6.4	0.3	19.2	-2.3	13.0	10.7	21.2	-6.9	



Key takeaways from the management commentary

Domestic 2Ws – industry update

- The company had taken a planned shutdown in four plants (Daruhera, Neemrana, Gurgaon, and Haridwar) in April for around five days to resolve supply chain issues. HMCL also timed this with the maintenance activity. The impact of this shutdown was felt this quarter with lower volumes reported (down 11% YoY); however, the numbers have since normalized.
- The domestic 2W industry saw a mixed performance in the first four months of FY26. April and May saw strong growth driven by the marriage season and improved rural demand outpacing urban. However, momentum slowed in the months of June and July, primarily due to the early onset of the monsoon.
- HMCL's retail 2W market share in 1Q improved 100bp QoQ to 30.9%, driven by strong performance in entry and 125cc segments.
- Despite the recent slowdown, HMCL expects a rebound in demand during the upcoming festive season, supported by positive macro conditions such as lower inflation, the RBI rate cuts, and a favourable monsoon. Management maintains its 6-7% volume growth guidance for the industry and expects to outperform industry growth on the back of its new launch pipeline.
- Management has indicated that there should not be any material net cost increase QoQ in 2Q as the slight increase seen in input costs is likely to be offset by price hikes and cost savings. Margin guidance maintained at 14-16% over the long term, however, the same is likely to be at the lower end of the band in the near term.
- New launches for HMCL include two 125cc motorcycles planned for 2Q, Xoom 160, cosmetic refreshes in Xtreme 125R to reignite interest, and one new launch from the Harley partnership.
- In the 100cc segment, they launched an upgraded HF Deluxe Pro, which has led to an 800bp improvement in market share in the entry-level segment. With multiple segment-first features, HMCL plans to blend affordability and aspiration in the entry segment with the launch of this model.
- While the sporty 125cc segment faced headwinds at an industry level, Xtreme 125 continues to gain share in this segment.
- ICE scooter market share improved sequentially to 6%, led by the successful launches of Destini 125 and Xoom 125. It hopes to further improve the share with the upcoming launch of the Xoom 160.
- HMCL is scaling up its Premia channel, which currently stands at ~125 stores covering 45% of its premium industry footprint.

Update on EVs

- EV business witnessed a robust scale-up, achieving its highest ever EV market share of 7% (doubling YoY). It has further improved to ~10% in July, led by strong customer traction for the VIDA product range.
- The launch of VIDA VX2 in July marked a move towards the Battery as a Service (Baas) model, which is an industry first. This is expected to reduce the upfront TCO for EVs with customers paying a fixed per-kilometer rate for batteries, and thereby attracting new customers and driving EV adoption. Their subscription plans would be based on customer usage patterns. The Vida VX2 Go is planned

to launch with a 2/3 year battery subscription plan, while the VX2 Plus will incorporate a 2/3/5 year subscription plan.

- HMCL's EVs are now available in 600+ touchpoints across 400+ cities.
- The company received PLI certification for the VIDA V2 Pro in July and is working to secure the same for other models.
- Despite industry-wide concerns for rare earth supply, management has stated that it has secured supply requirements for 2Q for both ICE and EV models, and is continuing to work on long-term alternatives.

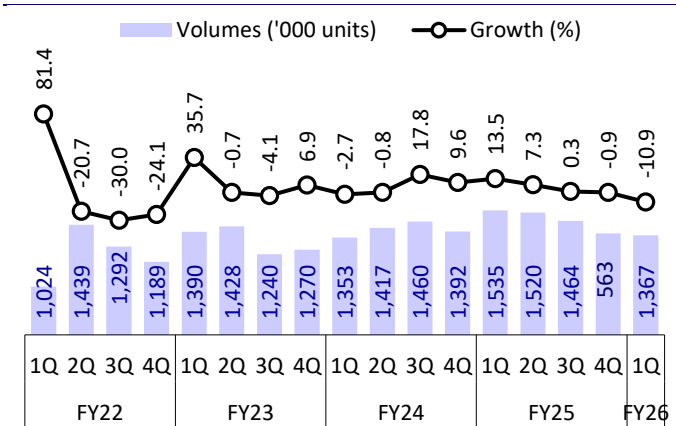
Update on Exports

- Global business continued its robust performance with a 27% increase in YoY dispatch in Q1, with an even stronger retail growth. Currently, it is focused on 10-12 key global markets with tailored products aligned to the specific needs and preferences of the customers.
- They plan to grow exports by 40% in FY26, with a target of 10% of total revenues and volumes from their global business in the medium term.

Other Highlights

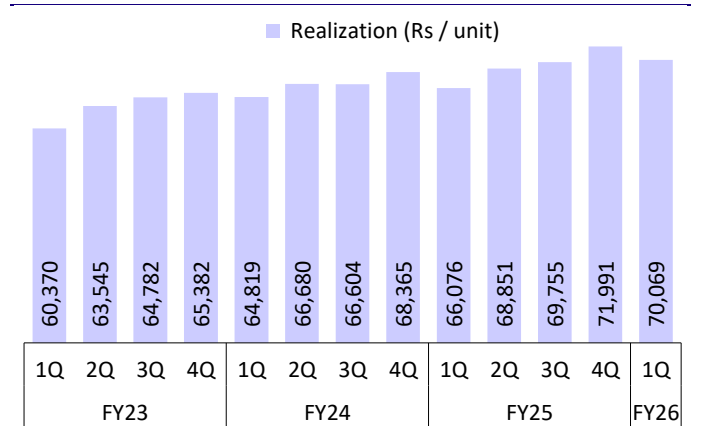
- HeroFincorp's financing penetration had dipped in 1Q primarily due to seasonality, as 1Q demand is largely driven by the marriage season with cash purchases. However, its finance penetration has normalised back to ~65% in July. However, elevated NPAs and rising credit costs have led to a loss at HFCL in 1Q. However, this is likely to reverse with the reduction in interest rates, as per management. HeroFincorp loan book currently sits at INR54.73b.
- Inventory is currently sitting at ~7 weeks and is expected to build further ahead of the festive season.
- First-time buyer share increased to ~74% in 1Q, from 71% earlier.
- The Government has floated a draft proposal making ABS mandatory for all scooters above 50cc, EVs above 4kWh, and motorcycles above 100cc from June 2026. This is likely to dampen demand given the likely cost increase. However, OEMs are working with regulators to propose alternative safety solutions with realistic implementation timelines.

Exhibit 1: Trend in volumes



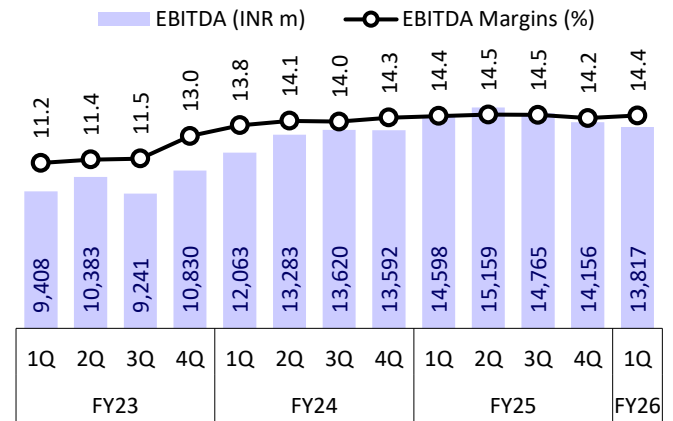
Source: SIAM

Exhibit 2: Trend in blended realizations



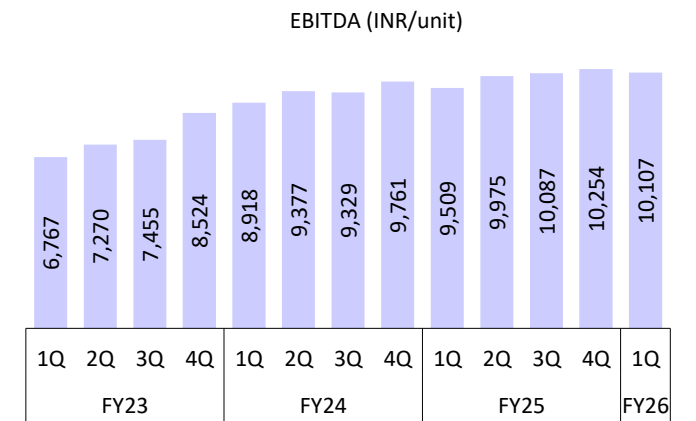
Source: Company, MOFSL

Exhibit 3: Trends in EBITDA and EBITDA margin



Source: Company, MOFSL

Exhibit 4: Trend in EBITDA per unit



Source: Company, MOFSL

Valuation and view

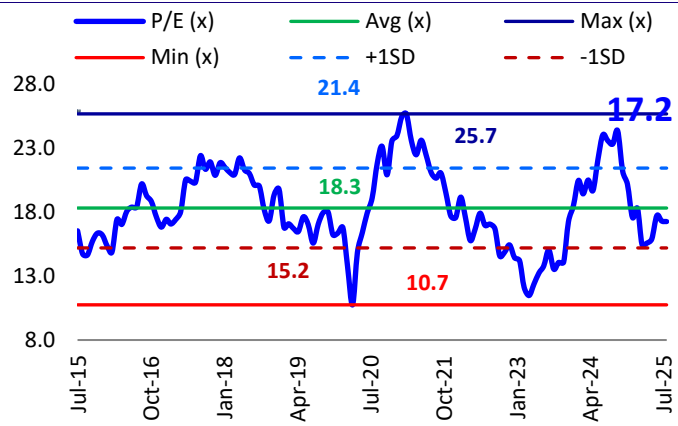
- **We expect HMCL to deliver a volume CAGR of ~4% over FY25-27**, driven by 1) new model launches in scooters and motorcycles showcased at the Bharat Mobility Show, 2) a couple of product interventions to be done in the 125cc motorcycle segment soon, and 3) a ramp-up in exports.
- **Gradual rural revival bodes well for HMCL:** Rural sentiments are positive given positive terms of trade for farmers and a healthy monsoon so far. Further, management has indicated that it is seeing a gradual recovery in rural markets currently. Given that HMCL has a dominant 100-110cc portfolio, any recovery in the rural region bodes well for the company. Further, the recent tax cut in the Union Budget is likely to help support entry-level demand, in our opinion.
- **Exports offer a huge headroom for growth:** Exports to emerging markets present a huge opportunity (~2x that of the Indian market) for HMCL, given that it has a relatively smaller presence in exports so far. HMCL has doubled its target export markets to 40 countries over the past few years. Over the years, HMCL has been working on launching new products customized to key markets, revamping its distribution network, and investing in brand building in key markets. In FY25, HMCL posted 43% YoY growth in exports, at 2x the industry growth, and targets 40%+ growth in FY26E as well. We expect exports to continue to be a steady growth driver for HMCL in the coming years.
- **Reiterate BUY:** We expect HMCL to deliver a volume CAGR of ~4% over FY25-27, driven by new launches and a ramp-up in exports. HMCL will also benefit from a gradual rural recovery, given strong brand equity in the economy and executive segments. We project a CAGR of ~7%/8%/9% in revenue/EBITDA/PAT over FY25-27. At ~18.8x/17.3x FY26E/27E EPS, the stock appears attractively valued. **We reiterate our BUY rating with a TP of INR5,355 (based on 18x Jun'27E EPS + INR129/235 for Hero FinCorp/Ather post-20% Holdco discount).**

Exhibit 5: Revisions to our estimates

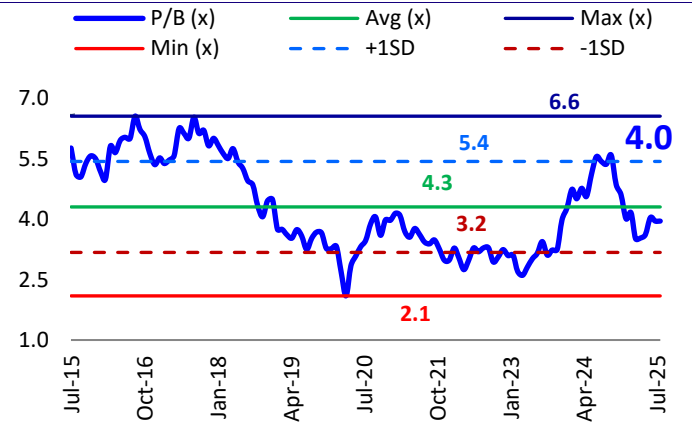
(INR b)	FY26E			FY27E		
	Rev	Old	Chg (%)	Rev	Old	Chg (%)
Volumes ('000 units)	5,995	6,076	-1.3	6,369	6,455	-1.3
Net Sales	431.2	436.2	-1.2	466.4	471.9	-1.2
EBITDA	61.8	60.4	2.4	67.6	66.2	2.1
EBITDA Margins (%)	14.3	13.8	50	14.5	14.0	50
Net Profit	49.6	47.9	3.5	53.9	52.7	2.3
EPS (INR)	247.6	239.1	3.5	269.1	263.2	2.3

Source: MOFSL

Exhibit 6: P/E and P/B bands



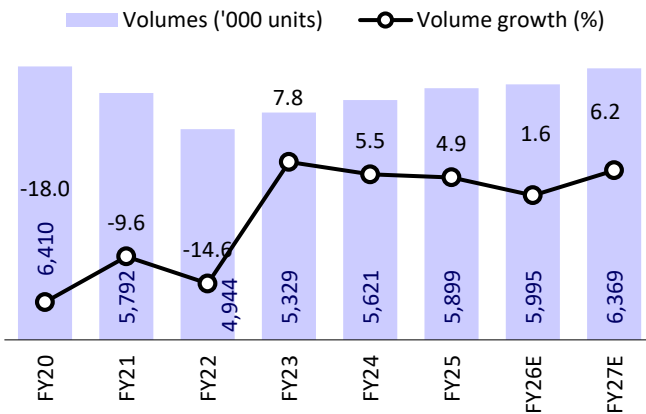
Source: MOFSL



Source: MOFSL

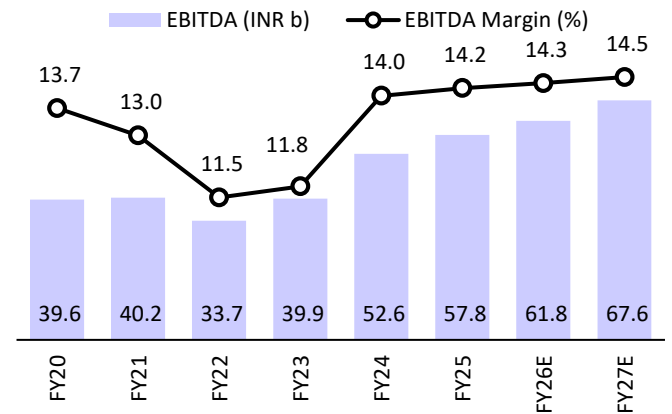
Story in charts

Exhibit 7: Steady growth expected, led by rural recovery



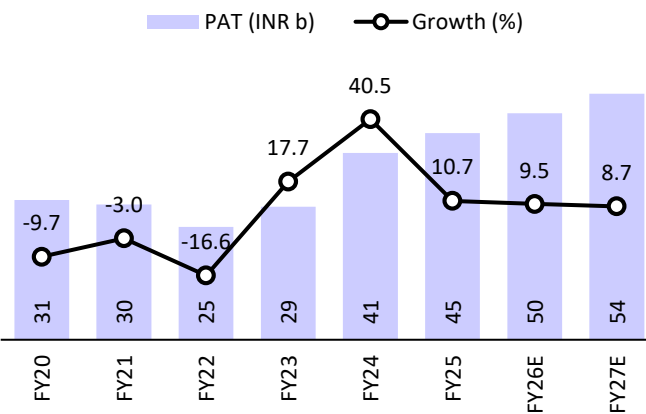
Source: Company, MOFSL

Exhibit 8: EBITDA margin trend



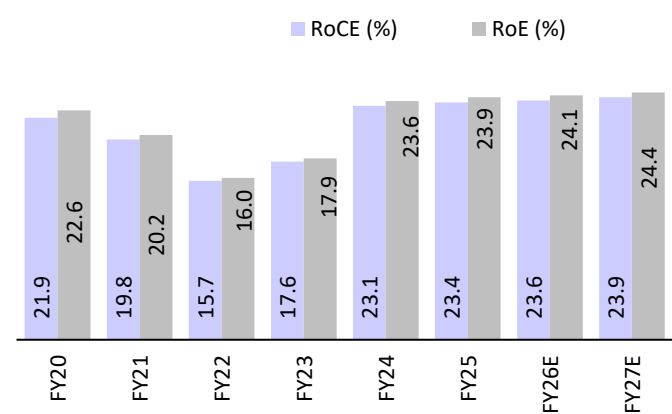
Source: Company, MOFSL

Exhibit 9: PAT growth to be steady



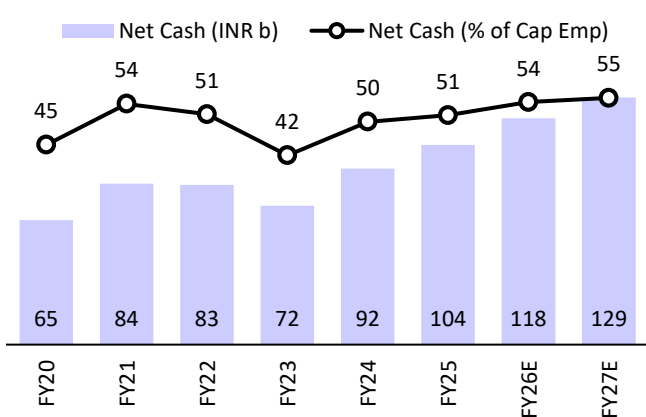
Source: Company, MOFSL

Exhibit 10: Trend in return ratios



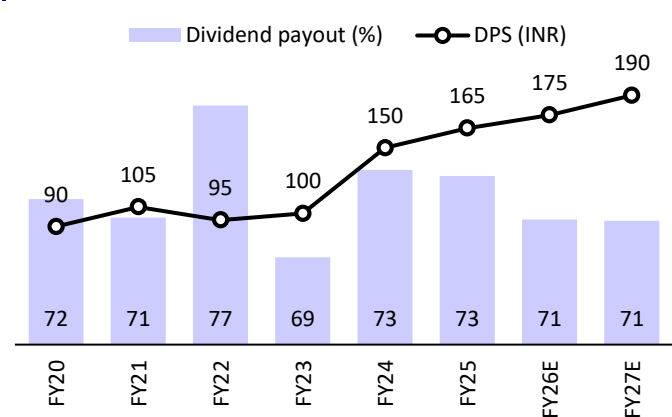
Source: Company, MOFSL

Exhibit 11: Trend in cash levels



Source: Company, MOFSL

Exhibit 12: Dividend payout trends



Source: Company, MOFSL

Exhibit 13: Snapshot of the revenue model

000 units	FY20	FY21	FY22	FY23	FY24	FY25	FY26E	FY27E
Total M/Cycles	5,990	5,333	4,628	4,959	5,191	5,476	5,554	5,906
Growth (%)	-15.4	-11.0	-13.2	7.2	4.7	5.5	1.4	6.3
% of total volumes	93.5	92.1	93.6	93.1	92.3	92.8	92.7	92.7
Total Scooters	419	458	316	369	431	423	440	462
Growth (%)	-43.3	9.2	-30.9	16.8	16.6	-1.9	4.2	5.0
% of total volumes	6.5	7.9	6.4	6.9	7.7	7.2	7.3	7.3
Total volumes	6,410	5,792	4,944	5,329	5,621	5,899	5,995	6,369
Growth (%)	-18.0	-9.6	-14.6	7.8	5.5	4.9	1.6	6.2
- of which Exports	162	172	290	162	171	258	310	347
% of total volumes	2.8	3.3	6.5	3.3	3.3	4.8	5.7	6.0
Net Realizations (INR/unit)	44,988	53,182	59,152	63,443	66,632	69,088	71,927	73,239
Growth (%)	4.3	18.8	10.7	8.4	6.0	3.6	4.1	1.8
Net Revenues (INR b)	288	308	292	338	375	407	431	466
Growth (%)	-14.3	6.8	-5.0	15.6	10.8	8.6	6.0	8.2

SIAM, Company, MOFSL

Financials and valuations

Income Statement							(INR m)	
Y/E March	2020	2021	2022	2023	2024	2025	2026E	2027E
Volumes ('000)	6,410	5,792	4,944	5,329	5,621	5,899	5,995	6,369
Volume Growth (%)	-18.0	-9.6	-14.6	7.8	5.5	4.9	1.6	6.2
Net Revenues	288,360	308,006	292,455	338,057	374,557	406,719	431,175	466,423
Change (%)	-14.3	6.8	-5.0	15.6	10.8	8.6	6.0	8.2
EBITDA	39,579	40,192	33,688	39,862	52,557	57,832	61,846	67,604
EBITDA Margin (%)	13.7	13.0	11.5	11.8	14.0	14.2	14.3	14.5
Depreciation	8,180	6,769	6,498	6,570	7,114	7,759	7,838	8,321
EBIT	31,400	33,424	27,190	33,293	45,443	50,074	54,009	59,284
Interest cost	220	218	258	199	185	199	201	203
Other Income	7,283	5,799	5,569	5,652	8,926	10,559	11,857	12,336
Non-recurring Expense	-7,274	0	0	0	1,600	0	0	0
PBT	45,736	39,004	32,501	38,746	52,584	60,434	65,664	71,416
Tax	9,404	9,362	7,771	9,640	12,904	15,179	16,097	17,538
Effective Tax Rate (%)	20.6	24.0	23.9	24.9	24.5	25.1	24.5	24.6
Adj. PAT	30,554	29,642	24,730	29,106	40,887	45,255	49,567	53,878
Change (%)	-9.7	-3.0	-16.6	17.7	40.5	10.7	9.5	8.7

Balance Sheet							(INR m)	
Y/E March	2020	2021	2022	2023	2024	2025	2026E	2027E
Sources of Funds								
Share Capital	400	400	400	400	400	400	400	400
Reserves	140,965	151,585	157,430	166,651	179,462	197,669	212,201	228,041
Net Worth	141,364	151,984	157,829	167,051	179,862	198,069	212,601	228,441
Deferred Tax	3,928	4,041	3,833	4,054	4,348	5,096	5,096	5,096
Capital Employed	145,292	156,025	161,662	171,105	184,210	203,165	217,697	233,537
Application of Funds								
Gross Fixed Assets	138,161	142,362	146,657	151,942	157,862	165,383	175,383	186,383
Less: Depreciation	76,991	82,478	88,592	94,328	99,522	106,369	114,206	122,527
Net Fixed Assets	61,171	59,884	58,065	57,614	58,340	59,014	61,176	63,856
Capital WIP	3,413	4,366	4,582	4,638	4,805	4,925	4,925	4,925
Investments	83,166	105,876	107,288	111,875	131,551	150,445	162,445	177,445
Curr.Assets, L & Adv.	39,744	51,485	47,206	58,504	61,019	64,817	69,877	74,658
Inventory	10,920	14,696	11,227	14,341	14,438	14,576	17,416	18,840
Sundry Debtors	16,031	24,268	23,043	27,982	27,034	36,744	32,511	35,168
Cash & Bank Balances	1,479	1,692	987	1,684	5,399	2,891	8,730	8,512
Loans & Advances	896	892	402	436	457	271	286	310
Others	10,417	9,938	11,547	14,062	13,691	10,335	10,934	11,828
Current Liab. & Prov.	42,201	65,585	55,478	61,527	71,506	76,037	80,727	87,347
Sundry Creditors	30,305	52,046	42,603	47,045	55,282	55,661	63,860	69,081
Other Liabilities	9,207	10,211	9,490	10,744	11,516	13,317	11,611	12,560
Provisions	2,689	3,328	3,385	3,738	4,708	7,058	5,255	5,706
Net Current Assets	-2,457	-14,101	-8,272	-3,022	-10,487	-11,220	-10,849	-12,688
Application of Funds	145,292	156,025	161,662	171,105	184,210	203,165	217,697	233,537

E: MOFSL Estimates

Financials and valuations

Ratios

Y/E March	2020	2021	2022	2023	2024	2025	2026E	2027E
Basic (INR)								
EPS	153.0	148.4	123.8	145.6	204.6	226.0	247.6	269.1
EPS Growth (%)	-9.7	-3.0	-16.6	17.7	40.5	10.5	9.5	8.7
Cash EPS	222.8	182.2	156.3	178.5	234.1	264.8	286.7	310.7
Book Value per Share	707.7	760.7	789.9	835.9	900.0	989.4	1,061.9	1,141.1
DPS	90.0	105.0	95.0	100.0	150.0	165.0	175.0	190.0
Payout (Incl. Div. Tax) %	71.8	70.8	76.8	68.7	73.3	73.0	70.7	70.6
Valuation (x)								
P/E	30.5	31.4	37.6	32.0	22.8	20.6	18.8	17.3
EV/EBITDA	21.4	20.5	24.4	20.5	15.1	13.5	12.3	11.0
EV/Sales	2.9	2.7	2.8	2.4	2.1	1.9	1.8	1.6
Price to Book Value	6.6	6.1	5.9	5.6	5.2	4.7	4.4	4.1
Dividend Yield (%)	1.9	2.3	2.0	2.1	3.2	3.5	3.8	4.1
Profitability Ratios (%)								
RoE	22.6	20.2	16.0	17.9	23.6	23.9	24.1	24.4
RoCE	21.9	19.8	15.7	17.6	23.1	23.4	23.6	23.9
RoIC	39.7	50.1	44.5	49.2	71.9	85.8	94.3	106.2
Turnover Ratios								
Debtors (Days)	21	30	30	32	28	35	29	29
Inventory (Days)	15	18	15	16	15	14	16	16
Creditors (Days)	38	62	53	51	54	50	54	54
Working Capital (Days)	-3	-17	-10	-3	-10	-10	-9	-10
Asset Turnover (x)	2.0	2.0	1.8	2.0	2.0	2.0	2.0	2.0
Fixed Asset Turnover	2.3	2.2	2.0	2.3	2.4	2.5	2.5	2.6

Cash Flow Statement

Y/E March	2020	2021	2022	2023	2024	2025	2026E	2027E
(INR m)								
Profit before Tax	45,736	39,004	32,501	38,746	52,584	60,434	65,664	71,416
Depreciation & Amort.	8,180	6,769	6,498	6,570	7,114	7,759	7,838	8,321
Direct Taxes Paid	-5,443	-9,759	-7,688	-8,496	-13,142	-15,341	-16,097	-17,538
(Inc)/Dec in Working Capital	12,027	10,700	-6,825	-5,832	10,747	-3,036	5,469	1,621
Other Items	-6,399	-4,987	-4,283	-5,197	-6,637	-7,997	201	203
CF from Oper. Activity	54,101	41,727	20,203	25,791	50,665	41,819	63,075	64,023
Extraordinary Items	0	0	0	0	-1,600	0	0	0
CF after EO Items	54,101	41,727	20,203	25,791	49,065	41,819	63,075	64,023
(Inc)/Dec in FA+CWIP	-13,586	-5,101	-5,240	-5,675	-7,102	-8,103	-10,000	-11,000
Free Cash Flow	40,515	36,626	14,963	20,115	43,563	33,716	53,075	53,023
(Pur)/Sale of Invest.	-15,245	-16,998	3,721	987	-10,917	-7,755	-12,000	-15,000
CF from Inv. Activity	-28,831	-22,099	-1,519	-4,688	-18,019	-15,858	-22,000	-26,000
Interest Paid	-874	-515	-458	-455	-449	-540	-201	-203
Dividends Paid	-23,323	-18,900	-18,931	-19,951	-26,883	-27,929	-35,035	-38,038
CF from Fin. Activity	-24,198	-19,415	-19,389	-20,406	-27,331	-28,469	-35,236	-38,241
Inc/(Dec) in Cash	1,072	213	-705	697	3,715	-2,508	5,839	-218
Add: Beginning Balance	407	1,479	1,692	987	1,684	5,399	2,891	8,730
Closing Balance	1,479	1,692	987	1,684	5,399	2,891	8,730	8,512

E: MOFSL Estimates

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Nainesh Rajani

Email: nainesh.rajani@motilaloswal.com

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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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