

# Equitas Small Finance Bank

BSE SENSEX 75,201 S&P CNX 23,618

**CMP: INR68**

**TP: INR80 (+19%)**

**Buy**



## Stock Info

Bloomberg	EQUITASB IN
Equity Shares (m)	1141
M.Cap.(INRb)/(USD\$b)	77.6 / 0.8
52-Week Range (INR)	75 / 50
1, 6, 12 Rel. Per (%)	7/16/10
12M Avg Val (INR M)	254
Free float (%)	100.0

## Financials Snapshot (INR b)

Y/E March	FY26	FY27E	FY28E
NII	33.9	41.1	48.0
OP	12.6	16.5	20.8
NP	1.0	6.9	9.8
NIM (%)	6.8	7.1	7.0
EPS (INR)	0.9	6.0	8.6
BV/Sh. (INR)	54	57	64
ABV/Sh. (INR)	52	55	62
<b>Ratios</b>			
RoA (%)	0.2	1.1	1.3
RoE (%)	1.7	10.9	14.1

## Valuations

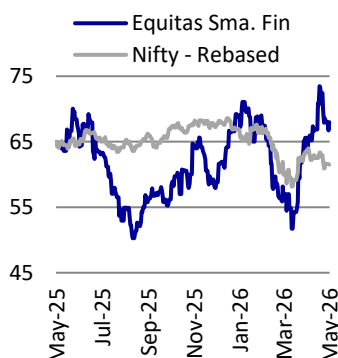
P/E(X)	74.7	11.2	7.9
P/BV (X)	1.3	1.2	1.1
P/ABV (X)	1.3	1.2	1.1

## Shareholding pattern (%)

As on	Mar-26	Dec-25	Mar-25
Promoter	0.0	0.0	0.0
DII	50.9	50.0	42.7
FII	14.7	14.6	16.5
Others	34.4	35.4	40.8

FII includes depository receipts

## Stock's performance (one-year)



## Healthy business momentum; asset quality holding up

### Guides 1.5% exit RoA over FY27

We met with the management team of Equitas Small Finance Bank (EQUITASB) to understand the business momentum and growth outlook, alongside the progress on key profitability indicators.

- EQUITASB is expected to grow its loan book at a CAGR of 18.5% over FY26-FY28E on the back of steady growth in core vehicle finance, small business loans, and recovery in the MFI segment. Deposit growth is likely to marginally outpace loan growth as management aims to keep the CD ratio under control after it jumped ~800bp to ~92% over FY26.
- EQUITASB reported a sharp uptick in margins during 4QFY26; however, expect some near-term pressure (~15bp) mainly due to some uptick in funding costs. The bank has recently increased SA rates and is now offering a peak savings rate of 7% for accounts with an SA balance of >INR250m.
- The cost-to-income and opex-to-asset ratios are expected to moderate from the current levels, with better margin outcomes and operating leverage playing out gradually as most of the businesses are now RoA accretive.
- Asset quality continues to improve, with GNPA/NNPA declining to 2.6%/0.7% and a healthy PCR of 73.0% as on Mar-26. Slippages and credit costs are expected to trend lower with stability in the MFI segment, and management currently does not see any signs of additional stress owing to the West Asia crisis.
- At current valuations of 1.1x FY28E ABV, EQUITASB trades attractively. Rerating catalysts include a pick-up in business growth, steady NIM, and further normalization in credit quality. We reiterate our BUY rating with a TP of INR80 (premised on ~1.4x Sep-27E ABV).

## Business remains resilient with no meaningful impact of the West Asia crisis

Management indicated that currently, there is no visible adverse impact of the West Asia crisis on business momentum, and asset quality trends on the ground have been steady in April and May. The bounce rates, early bucket delinquencies, and collection efficiencies continue to be in line with management estimates. EQUITASB also expects that a 10-15% hike in fuel prices shall not really impact the asset quality performance in the vehicle finance portfolio. Management has guided a steady-state RoA of 1.5% for the medium term and 1.2% for FY26.

## Growth rebounds – MFI book stabilizes

Management has indicated that loan growth will be driven primarily by secured assets, like the VF, SBL, and HL segments. The growth in the VF segment shall continue to be driven by the used CV segment, with the segment now contributing over 90% of the total VF disbursements. Management believes that the SBL book, which is currently growing at 13% YoY, has the potential to grow at 20% YoY and shall remain insulated from inflationary pressures. The MFI book is likely to remain at 10-12% of the loan book with improvement in asset quality and disbursement rate. We model a loan CAGR of 18.5% over FY26-FY28 vs. management guidance of 20%.

**Nitin Aggarwal - Research Analyst** (Nitin.Aggarwal@MotilalOswal.com)

**Research Analyst: Dixit Sankharva** (Dixit.Sankharva@MotilalOswal.com) | **Akshay Badlani** (Akshay.Badlani@MotilalOswal.com)

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

Motilal Oswal research is available on [www.motilaloswal.com/Institutional-Equities](http://www.motilaloswal.com/Institutional-Equities), Bloomberg, Thomson Reuters, Factset and S&P Capital.

### **Deposit growth to outpace loan growth; CD ratio remains in focus**

Deposits are expected to grow faster (at a CAGR of ~19% for FY26-FY28) than credit, led by improvement in CASA balances and a focus on granular retail deposits. We expect the CASA ratio to pick up to ~27.4% in Mar-28 from ~26.0% currently. This pickup would be fueled by higher deposit pricing and strengthening of the CASA proposition through newly launched programs such as Artha (HNIs), Elite Lite (mass affluent), and EPIC (non-resident HNIs). The bank continues to focus on building a granular deposit franchise and remains well-positioned to grow the liability base.

### **Improved deposit mix to stabilize NIM around 7.0-7.1%**

The NIM has started to rebound after bottoming out at 6.3% in 2QFY26, with stress in the MFI segment receding and disbursements picking up. The management has already taken SA rate hikes in FY26 and expects to take only a marginal increase in SA rates going forward. The NIMs are expected to inch marginally upwards to 7.1%/7.0% in FY27E/FY28E from 6.9% in FY26E on the back of an increase in retail deposits and continued growth momentum in higher-yielding secured assets. However, management indicated that margins would compress by 10-15bp on a sequential basis, primarily driven by an increase in funding costs, reflecting the recent increase in SA and wholesale TD rates.

### **Operating leverage to improve; estimate C/I ratio at 66.7% by FY28**

EQUITASB has rationalized its employee costs by reducing support roles and merging functions across two business segments. Most of the businesses are now RoA accretive, and scale benefits from the same are expected to play out in FY27-FY28. The cost/income ratio, which had picked up recently from 63.4% in FY23 to 71.7% in FY26, is expected to normalize downwards to 66.7% by FY28E with stable margins and improved staff productivity. The bank opened 66 branches during FY26 and aims to follow a controlled expansion (~20 branches) in FY27 to keep a tight leash on opex growth. We factor in a total opex CAGR of 14% over FY26-FY28E as against a total assets CAGR of 17%, modeling operating efficiency to kick in during FY27 and FY28E.

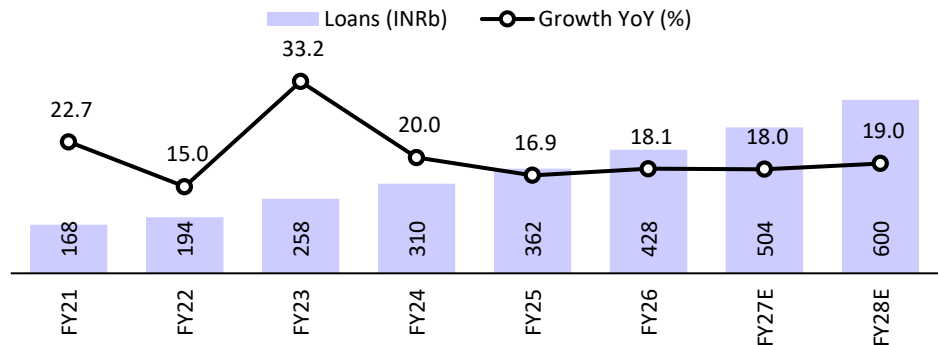
### **Asset quality normalizing to pre-MFI stress cycle levels**

EQUITASB continues to witness notable improvement in asset quality, with GNPA/NNPA improving to 2.6%/0.7% in 4QFY26 from 2.9%/1.5% a year ago. Management has shored up the PCR (excluding TWO) to 73.0% as of Mar'26 from 55% as of Mar'25, with guidance to maintain PCR at ~70%. Slippages and credit costs declined to 3.2% and 1.1%, respectively, in 4QFY26 vs. the peak of 8.0% and 6.5% in 1QFY26, with improving delinquencies in the MFI portfolio, even as stress in the Karnataka state remains elevated for MFIs. Incrementally, the entire MFI disbursements are covered under CGFMU; this provides comfort over the medium-term asset quality. The bank is currently not witnessing any immediate impact due to the West Asia crisis on the ground, with asset quality trends holding up across portfolios. Management has guided credit costs to stabilize at 3.0-3.5% for the MFI book and ~1.0% for the secured book. We expect credit costs to ease to 1.5%/1.3% over FY27/28E, with continued stability in the MFI segment.

### Valuation and view

- EQUITASB is gradually returning to a growth trajectory, led by growth in core secured retail asset segments alongside normalcy returning in the MFI portfolio.
- With a hike in SA and TD rates already taken in 4QFY26, we envisage the CASA mix to improve from the current ~26.0%, aiding the bank to sustain NIMs at >7.0% over the medium term (though with a marginal decline over 4QFY26).
- Operating leverage is expected to play out in FY27-FY28 on the back of scale benefits, controlled branch expansion, and the merger of functions across business segments to aid internal synergies.
- With stability in asset quality across portfolios, we believe the credit costs and slippages shall continue to trend lower, being the key driver for earnings reflation.
- At current valuations of 1.1x FY28E, EQUITASB trades attractively. **We reiterate our BUY rating with a TP of INR80 (premised on ~1.4x Sep-27E ABV).** Rerating catalysts include a pickup in business growth, stabilizing NIM, and continued improvement in asset quality trends.

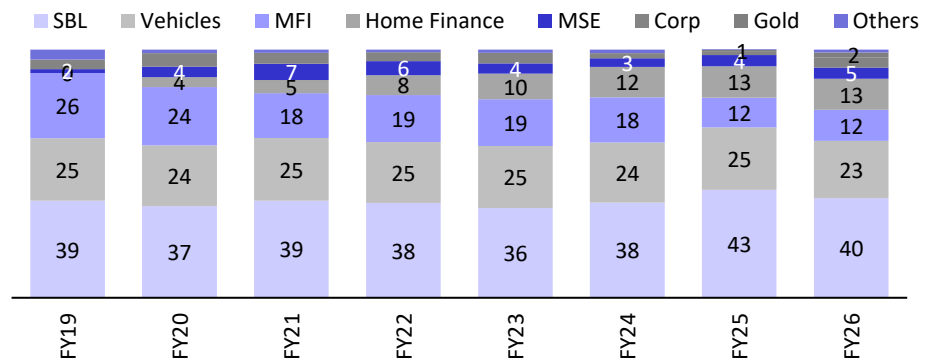
# STORY IN CHARTS: EQUITASB

**Exhibit 1: Estimate a healthy 18.5% loan CAGR over FY26-28**


Source: MOFSL, Company

**Exhibit 2: Share of loan mix over the years**

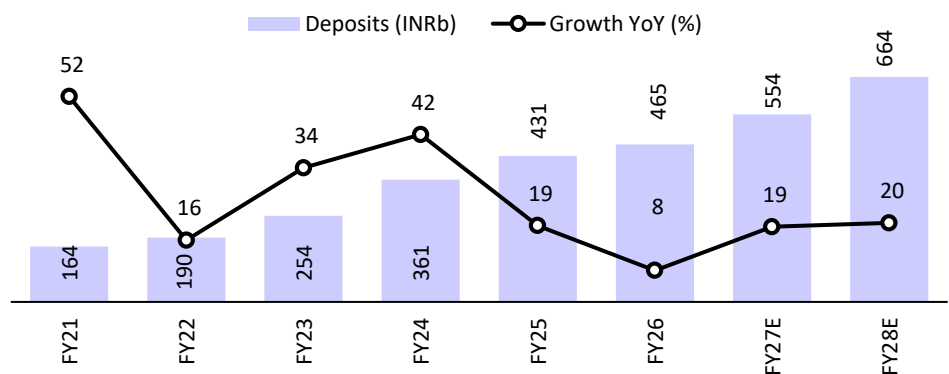
The share of MFI has declined to 12% from 26% in FY19, while the share of Vehicle + SBL has remained above 60% over the years



Source: MOFSL, Company

**Exhibit 3: Deposit CAGR to pick up to ~19.5% over FY26-FY28**

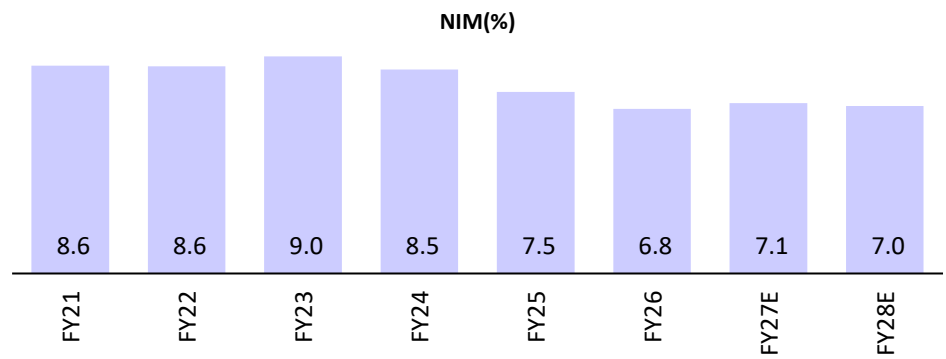
Estimate deposit growth to marginally outpace loan growth in the medium term



Source: MOFSL, Company

**Exhibit 4: NIM expected to stabilize at 7.1-7.0% by FY27/FY28**

NIM is expected to settle lower at 7.0% by FY28 with a higher CASA mix owing to rate hikes in FY26.

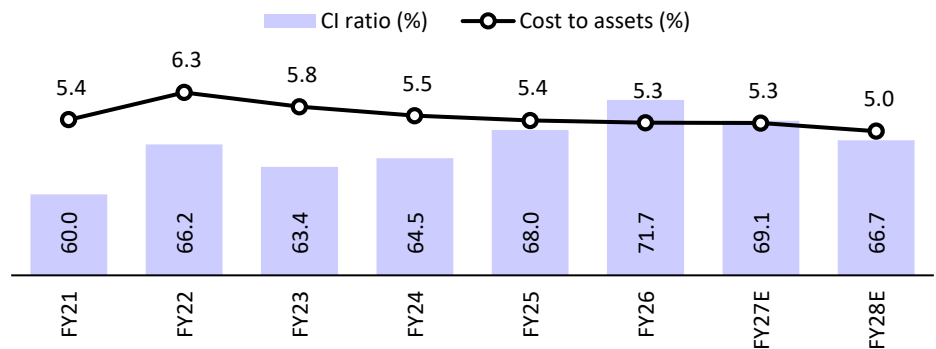


FY27, 28 are on a calculated basis

Source: MOFSL, Company

**Exhibit 5: Estimate opex ratios to moderate at a calibrated pace**

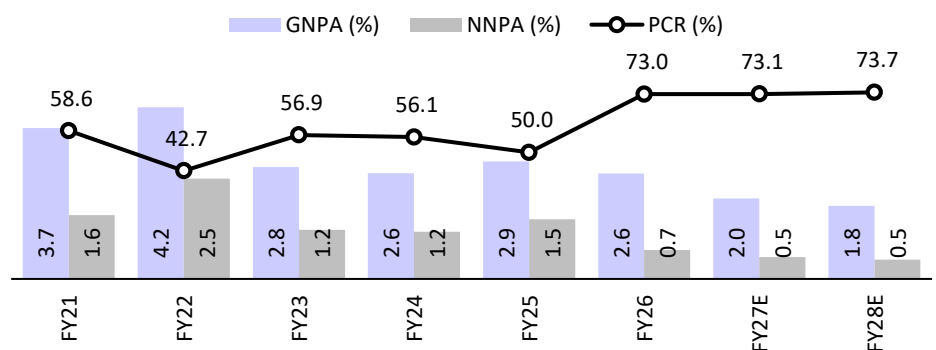
With some uptick in NIM and operating leverage playing out, we expect the C/I ratio and opex-to-assets ratio to improve gradually to 69.0% and 5.0%, respectively.



Source: MOFSL, Company

**Exhibit 6: Estimate GNPA/NNPA ratios at 1.8%/0.5% by FY28**

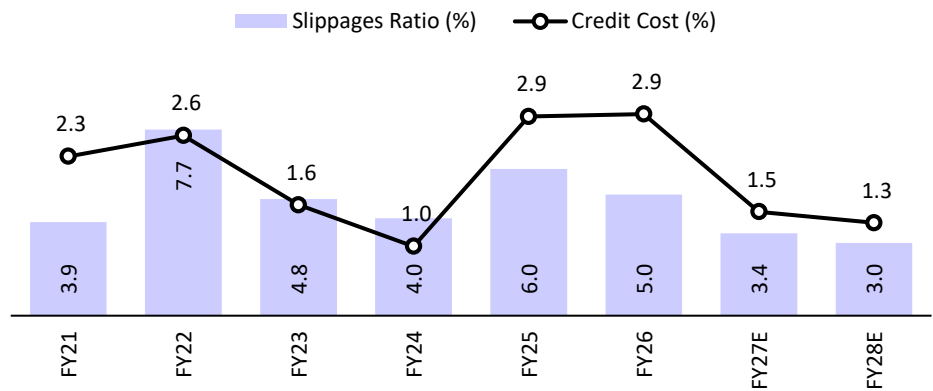
Expect asset quality ratios to improve with continued stability in the MFI segment



Source: MOFSL, Company

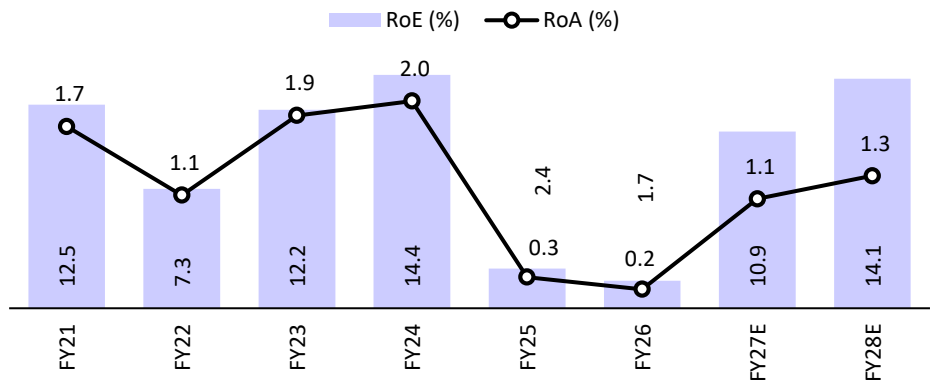
**Exhibit 7: Estimate credit costs and slippages to reduce significantly in FY27-FY28**

We estimate credit costs and slippages to reduce to ~1.3% and ~3.0% by FY28E, respectively, from ~2.9% and ~5.0% in FY26

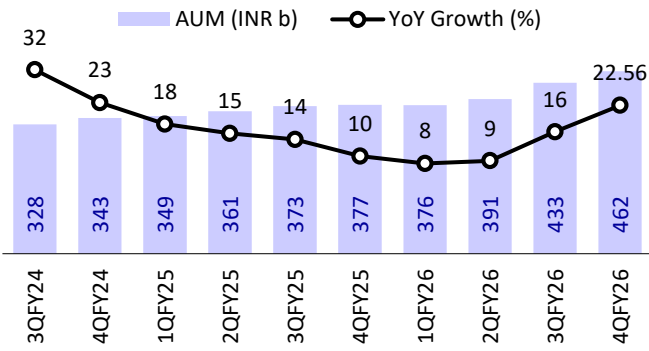
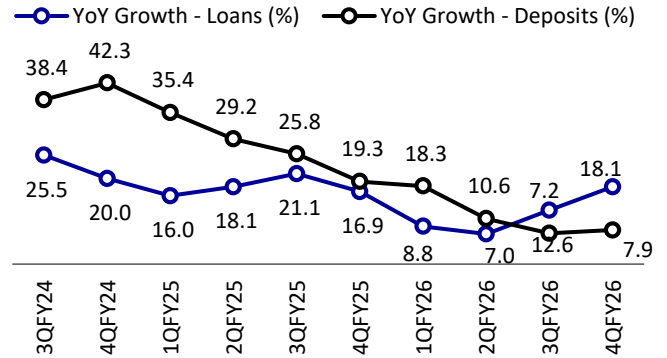
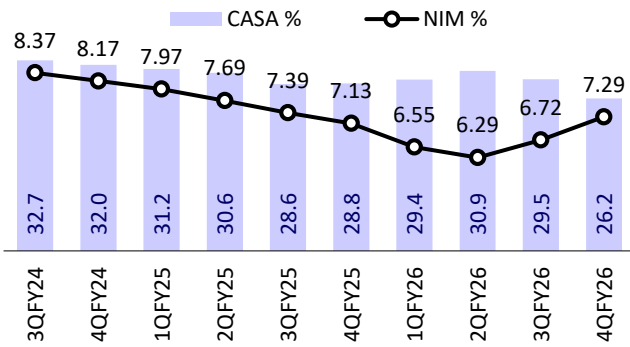
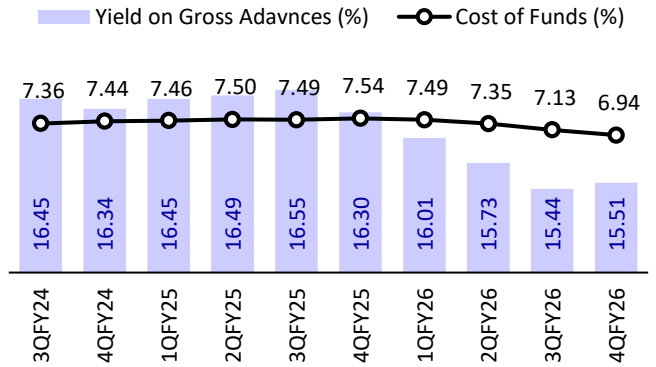
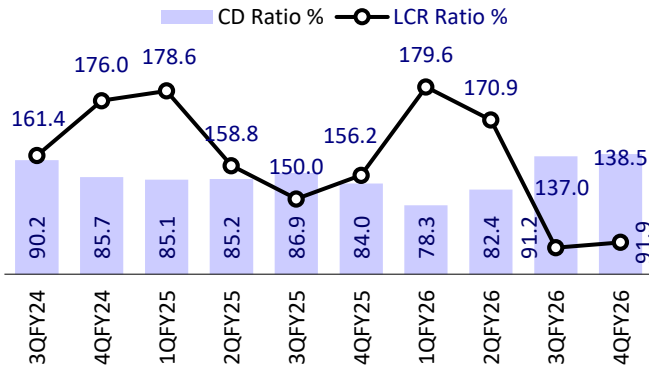
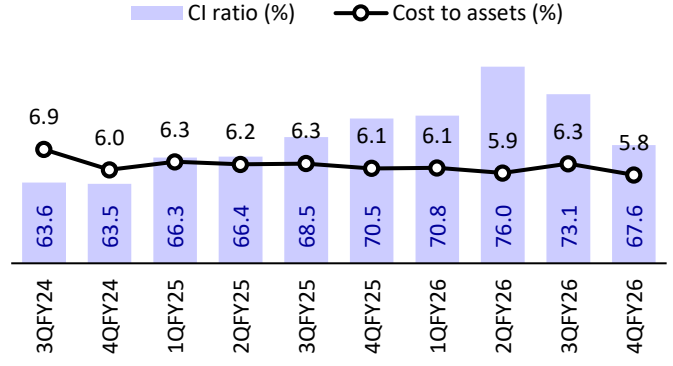
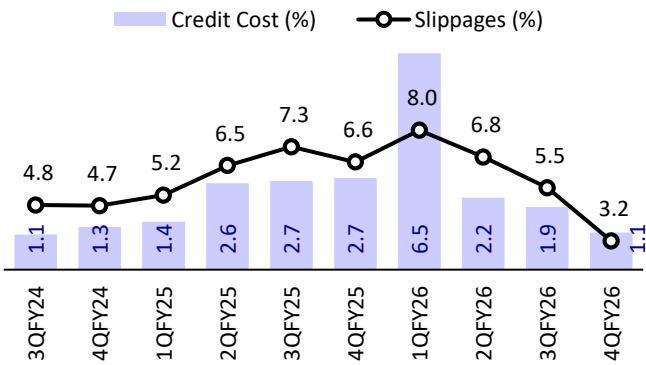
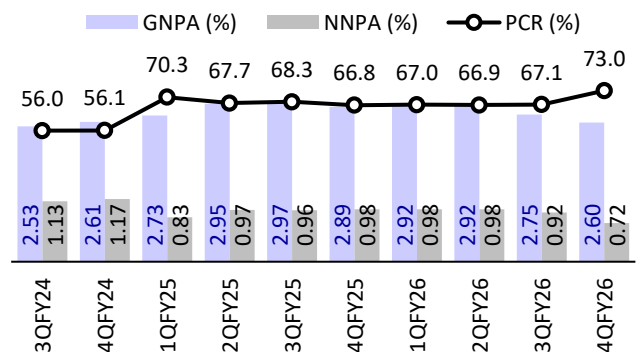


Source: MOFSL, Company

**Exhibit 8: Estimate RoA/RoE to pick up to 1.3%/14.1% by FY28**



Source: MOFSL, Company

**Exhibit 9: AUM grew 22.6% YoY (up 6.7% QoQ) to IN462b**

**Exhibit 10: Loans/deposits grew 18.1%/7.9% YoY in 4QFY26**

**Exhibit 11: NIM expanded 57bp QoQ to 7.29%**

**Exhibit 12: YoA increased to 15.51%; COF declined to 6.94%**

**Exhibit 13: CD ratio at 91.9%; Avg. LCR ratio at 138.5%**

**Exhibit 14: C/I ratio moderated to 67.6% in 4QFY26**

**Exhibit 15: Credit costs dipped to 1.11% vs. 1.88% in 3QFY26**

**Exhibit 16: GNPA/NNPA ratios improved 15bp/20bp QoQ**


Source: MOFSL, Company

Source: MOFSL, Company

### Valuations and view

- EQUITASB is gradually returning to a growth trajectory, led by growth in core secured retail asset segments alongside normalcy returning in the MFI portfolio.
- With a hike in SA and TD rates already taken in 4QFY26, we envisage the CASA mix to improve from the current ~26.0%, aiding the bank to sustain NIMs at >7.0% over the medium term (though with a marginal decline over 4QFY26).
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#### Exhibit 17: DuPont Analysis: Estimate return ratios to remain steady, with RoA at 1.27% by FY28

	FY23	FY24	FY25	FY26	FY27E	FY28E
Interest Income	13.4	13.7	12.9	12.0	12.4	12.2
Interest Expense	5.2	6.0	6.2	6.0	6.1	5.9
<b>Net Interest Income</b>	<b>8.22</b>	<b>7.67</b>	<b>6.63</b>	<b>5.98</b>	<b>6.29</b>	<b>6.25</b>
Fee income	2.09	1.73	1.56	1.79	1.79	1.81
Trading and others	0.07	0.26	0.29	0.10	0.09	0.07
<b>Other Income</b>	<b>2.16</b>	<b>1.99</b>	<b>1.86</b>	<b>1.89</b>	<b>1.87</b>	<b>1.88</b>
<b>Total Income</b>	<b>10.38</b>	<b>9.66</b>	<b>8.48</b>	<b>7.87</b>	<b>8.17</b>	<b>8.13</b>
<b>Operating Expenses</b>	<b>6.58</b>	<b>6.23</b>	<b>5.76</b>	<b>5.64</b>	<b>5.64</b>	<b>5.42</b>
Employees	3.54	3.41	3.30	3.32	3.28	3.15
Others	3.04	2.82	2.46	2.33	2.36	2.27
<b>Operating Profits</b>	<b>3.80</b>	<b>3.43</b>	<b>2.72</b>	<b>2.23</b>	<b>2.52</b>	<b>2.71</b>
<b>Core operating Profits</b>	<b>3.73</b>	<b>3.17</b>	<b>2.42</b>	<b>2.13</b>	<b>2.44</b>	<b>2.64</b>
<b>Provisions</b>	<b>1.32</b>	<b>0.75</b>	<b>2.31</b>	<b>2.00</b>	<b>1.12</b>	<b>1.01</b>
<b>PBT</b>	<b>2.48</b>	<b>2.68</b>	<b>0.41</b>	<b>0.23</b>	<b>1.41</b>	<b>1.70</b>
Tax	0.63	0.69	0.11	0.04	0.35	0.43
<b>RoA</b>	<b>1.85</b>	<b>1.99</b>	<b>0.30</b>	<b>0.18</b>	<b>1.05</b>	<b>1.27</b>
Leverage (x)	6.6	7.2	8.2	9.3	10.3	11.1
<b>RoE</b>	<b>12.2</b>	<b>14.4</b>	<b>2.4</b>	<b>1.7</b>	<b>10.9</b>	<b>14.1</b>

Source: Company, MOFSL

## Financials and valuations

### Income Statement

	(INRb)					
Y/E March	FY23	FY24	FY25	FY26	FY27E	FY28E
Interest Income	41.6	54.9	63.1	67.9	81.2	93.7
Interest Expense	16.2	24.1	30.6	34.0	40.1	45.7
<b>Net Interest Income</b>	<b>25.4</b>	<b>30.8</b>	<b>32.5</b>	<b>33.9</b>	<b>41.1</b>	<b>48.0</b>
-growth (%)	24.8	21.0	5.6	4.3	21.2	16.8
Non-Interest Income	6.7	8.0	9.1	10.7	12.2	14.4
<b>Total Income</b>	<b>32.1</b>	<b>38.8</b>	<b>41.6</b>	<b>44.6</b>	<b>53.3</b>	<b>62.4</b>
-growth (%)	24.8	20.7	7.3	7.2	19.4	17.1
Operating Expenses	20.4	25.0	28.3	32.0	36.9	41.6
<b>Pre-Provision Profits</b>	<b>11.8</b>	<b>13.8</b>	<b>13.3</b>	<b>12.6</b>	<b>16.5</b>	<b>20.8</b>
-growth (%)	34.9	17.1	-3.1	-5.2	30.2	26.2
<b>Core PPop</b>	<b>11.5</b>	<b>12.7</b>	<b>11.9</b>	<b>12.1</b>	<b>15.9</b>	<b>20.2</b>
-growth (%)	39.2	10.3	-6.6	1.6	31.7	27.2
Provisions	4.1	3.0	11.4	11.4	7.3	7.7
<b>PBT</b>	<b>7.7</b>	<b>10.8</b>	<b>2.0</b>	<b>1.3</b>	<b>9.2</b>	<b>13.1</b>
Tax	2.0	2.8	0.5	0.3	2.3	3.3
Tax Rate (%)	25.4	25.7	26.0	19.6	25.2	25.2
<b>PAT</b>	<b>5.7</b>	<b>8.0</b>	<b>1.5</b>	<b>1.0</b>	<b>6.9</b>	<b>9.8</b>
-growth (%)	104.3	39.3	-81.6	-29.9	566.3	42.3

### Balance Sheet

Y/E March	FY23	FY24	FY25	FY26	FY27E	FY28E
Equity Share Capital	11.1	11.3	11.4	11.4	11.4	11.4
Reserves & Surplus	40.5	48.3	49.3	49.8	53.8	61.9
<b>Net Worth</b>	<b>51.6</b>	<b>59.7</b>	<b>60.7</b>	<b>61.2</b>	<b>65.2</b>	<b>73.3</b>
<b>Deposits</b>	<b>253.8</b>	<b>361.3</b>	<b>431.1</b>	<b>465.3</b>	<b>553.7</b>	<b>664.5</b>
-growth (%)	33.9	42.3	19.3	7.9	19.0	20.0
<b>-CASA Dep</b>	<b>107.3</b>	<b>115.5</b>	<b>124.1</b>	<b>121.0</b>	<b>147.8</b>	<b>182.1</b>
-growth (%)	8.9	7.6	7.4	-2.5	22.2	23.1
Borrowings	29.7	17.9	21.4	57.7	55.6	67.9
Other Liabilities & Prov.	14.5	14.2	15.2	21.8	25.5	29.8
<b>Total Liabilities</b>	<b>349.6</b>	<b>453.0</b>	<b>528.4</b>	<b>606.1</b>	<b>700.1</b>	<b>835.5</b>
Current Assets	12.4	35.8	55.4	56.7	45.1	47.6
<b>Investments</b>	<b>66.6</b>	<b>90.7</b>	<b>92.9</b>	<b>101.5</b>	<b>118.1</b>	<b>137.0</b>
-growth (%)	49.8	36.0	2.5	9.3	16.4	16.0
<b>Loans</b>	<b>258.0</b>	<b>309.6</b>	<b>362.1</b>	<b>427.5</b>	<b>504.5</b>	<b>600.3</b>
-growth (%)	33.2	20.0	16.9	18.1	18.0	19.0
Fixed Assets	3.8	6.0	7.0	7.2	8.3	9.3
Other Assets	8.7	10.9	11.1	13.3	24.1	41.2
<b>Total Assets</b>	<b>349.6</b>	<b>453.0</b>	<b>528.4</b>	<b>606.1</b>	<b>700.1</b>	<b>835.5</b>
<b>Total AUM</b>	<b>278.6</b>	<b>343.4</b>	<b>376.7</b>	<b>440.3</b>	<b>519.6</b>	<b>618.3</b>
-growth (%)	<b>35.3</b>	<b>23.2</b>	<b>9.7</b>	<b>16.9</b>	<b>18.0</b>	<b>19.0</b>

Asset Quality	FY23	FY24	FY25	FY26	FY27E	FY28E
GNPA (INR m)	7.2	8.2	10.7	11.3	10.2	11.0
NNPA (INR m)	3.1	3.6	5.3	3.1	2.7	2.9
Slippage (INR m)	10.9	11.4	20.3	21.3	15.8	16.6
GNPA Ratio	2.76	2.61	2.91	2.60	1.99	1.80
NNPA Ratio	1.21	1.17	1.48	0.72	0.54	0.48
Slippage Ratio	4.81	4.01	6.05	5.00	3.40	3.00
Credit Cost	1.43	0.90	2.88	2.91	1.50	1.34
PCR (Excl Tech. write off)	56.9	56.1	50.0	73.0	73.1	73.7

## Financials and valuations

**Ratios**

Y/E March	FY23	FY24	FY25	FY26	FY27E	FY28E
<b>Yield and Cost Ratio (%)</b>						
<b>Avg. Yield- on Earning Assets</b>	<b>14.8</b>	<b>15.1</b>	<b>14.6</b>	<b>13.7</b>	<b>14.0</b>	<b>13.6</b>
Avg. Yield on loans	16.7	17.3	16.6	15.1	15.3	15.0
Avg. Yield on Investments	5.7	6.9	7.1	6.8	6.7	6.7
<b>Avg. Cost of Int. Bear. Liab.</b>	<b>6.5</b>	<b>7.3</b>	<b>7.4</b>	<b>7.0</b>	<b>7.1</b>	<b>6.8</b>
Avg. Cost of Deposits	6.1	7.0	7.3	6.9	6.8	6.5
<b>Interest Spread</b>	<b>8.3</b>	<b>7.8</b>	<b>7.3</b>	<b>6.7</b>	<b>6.9</b>	<b>6.8</b>
<b>NIM (on IEA)</b>	<b>9.0</b>	<b>8.5</b>	<b>7.5</b>	<b>6.8</b>	<b>7.1</b>	<b>7.0</b>

**Capitalisation Ratios (%)**

CAR	23.8	21.7	20.6	20.3	19.0	18.4
<i>Tier I</i>	23.1	20.7	17.8	16.7	15.8	15.5
<i>CET 1</i>	23.1	20.7	17.8	16.0	15.6	15.6
<i>Tier II</i>	0.7	1.0	2.8	3.6	3.2	2.9

**Business Ratios (%)**

Loans/Deposit Ratio	101.6	85.7	84.0	91.9	91.1	90.3
CASA Ratio	42.3	32.0	28.8	26.0	26.7	27.4
Cost/Assets	5.8	5.5	5.4	5.3	5.3	5.0
Cost/Total Income	63.4	64.5	68.0	71.7	69.1	66.7
Cost/Core income	-11.2	-2.5	-2.0	-6.1	-7.2	-8.3
Int. Expense/Int.Income	38.9	43.9	48.5	50.1	49.4	48.8
Fee Income/Total Income	20.2	17.9	18.4	22.8	21.9	22.2
Other Inc./Total Income	20.8	20.6	21.9	24.0	22.9	23.1
Empl. Cost/Total Expense	53.8	54.7	57.3	58.8	58.2	58.2

**Efficiency Ratios (INRm)**

Employee per branch (in nos)	22.3	23.7	25.6	27.5	29.6	31.9
Staff cost per employee	0.5	0.6	0.6	0.7	0.7	0.7
CASA per branch	116.4	119.8	124.9	115.9	134.9	158.2
Deposits per branch	275.3	374.8	433.7	445.8	505.3	577.5
Business per Employee (INR m)	24.9	29.4	31.2	31.1	32.6	34.5
Profit per Employee (INR m)	0.3	0.3	0.1	0.0	0.2	0.3

**Profitability Ratios and Valuation**

RoA	1.9	2.0	0.3	0.2	1.1	1.3
RoE	12.2	14.4	2.4	1.7	10.9	14.1
Book Value (INR)	46	53	53	54	57	64
-growth (%)	36.9	13.2	1.3	0.8	6.5	12.4
<b>Price-BV (x)</b>	<b>1.5</b>	<b>1.3</b>	<b>1.3</b>	<b>1.3</b>	<b>1.2</b>	<b>1.1</b>
Adjusted BV (INR)	44	50	50	52	55	62
<b>Price-ABV (x)</b>	<b>1.5</b>	<b>1.3</b>	<b>1.4</b>	<b>1.3</b>	<b>1.2</b>	<b>1.1</b>
EPS (INR)	4.9	7.1	1.3	0.9	6.0	8.6
-growth (%)	106.8	46.6	-81.8	-30.1	565.9	42.3
<b>Price-Earnings (x)</b>	<b>13.9</b>	<b>9.5</b>	<b>52.2</b>	<b>74.7</b>	<b>11.2</b>	<b>7.9</b>

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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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Nainesh Rajani

Email: [nainesh.rajani@motilaloswal.com](mailto:nainesh.rajani@motilaloswal.com)

Contact: (+65) 8328 0276

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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
Mr. Neeraj Agarwal	022 40548085	na@motilaloswal.com
Mr. Siddhartha Khemka	022 50362452	po.research@motilaloswal.com

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