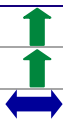


Happy Forgings

Estimate changes

TP change

Rating change



Bloomberg	HAPPYFOR IN
Equity Shares (m)	94
M.Cap.(INRb)/(USD)	129.6 / 1.4
52-Week Range (INR)	1490 / 805
1, 6, 12 Rel. Per (%)	6/44/70
12M Avg Val (INR M)	62

Consol. Financials & Valuations (INR b)

Y/E March	FY26	FY27E	FY28E
Sales	15.5	19.2	24.1
EBITDA	4.7	5.8	7.5
Adj. PAT	3.0	3.9	5.2
EPS (INR)	32.0	41.1	55.1
EPS growth %	12.6	28.5	34.0
BV/Sh. (INR)	226	262	310

Ratios

RoE (%)	15.2	16.9	19.3
RoCE (%)	13.6	14.8	16.9
Payout (%)	12.5	12.2	12.7

Valuations

P/E (x)	43.1	33.5	25.0
P/BV (x)	6.1	5.3	4.4
EV/EBITDA (x)	27.3	22.5	17.5
Div. Yield (%)	0.3	0.4	0.5

Shareholding Pattern (%)

As On	Mar-26	Dec-25	Mar-25
Promoter	78.5	78.5	78.6
DII	16.5	16.7	17.1
FII	1.7	1.8	2.2
Others	3.3	2.9	2.2

CMP: INR1,374 TP: INR1,652 (+20%)

Buy

Earnings beat led by better-than-expected margins

Healthy demand momentum likely to sustain

- Happy Forgings' (HFL) 4QFY26 earnings at INR836m beat estimates by 5%, led by better-than-expected margin, even as revenue was in line with our estimates. EBITDA margin expanded 240bp YoY to 31.5% (vs an estimate of 30.4%), recording a new high.
- Led by a better-than-expected performance in 4Q and a strong outlook, we have raised our FY27/FY28E EPS by 7%/6%. Given its healthy new order wins, we expect HFL to post a 25% standalone revenue CAGR over FY26-28. Further, while there could be some margin pressure due to rising input costs in the near term, we expect HFL to post a 60bp margin expansion to 31% over FY26-28, led by an improved mix, operating leverage benefits, and the advantage of solar power generation in the coming years. We, thus, expect HFL to post a 31% earnings CAGR over FY26-28. **We reiterate our BUY rating on the stock with a TP of INR1,652 (based on 30x FY28E EPS).**

Earnings beat led by better-than-expected margins

- Standalone revenue grew 20.4% YoY in 4Q to INR4.2b (in line), driven entirely by volume growth, which stood at 17,298 MT. Realization/kg remained flat at INR245.
- Revenue mix in FY26 (vs. FY25): CV- 37% (38%), Farm Equipment - 32% (32%), Off-highway - 11% (12%), Industrials - 14% (14%), PV - 6% (4%). Domestic – 74% (71%), Deemed Exports – 11% (11%), Direct Exports – 15% (18%).
- EBITDA margins expanded 240bp YoY to 31.5% (100bp above est.) on the back of an improving product mix and operating leverage. As a result, EBITDA grew 30% YoY to INR1.3b (5% above est).
- PAT grew 23% YoY to INR836m vs. est. of INR797m due to strong margin performance.
- FY26 performance:** Revenue/EBITDA/PAT grew 10%/16%/13% to INR15b/INR5b/INR3b. OCF/FCF stood at +INR4.4b/-INR163m in FY26 vs. +INR2.9b/+INR119m in FY25. RoE/RoCE stood at 15.2%/13.6%, respectively.

Key highlights from the management commentary

- The company has a new order book of INR9.5b, which is expected to be executed over the next 2-3 years. The order book momentum has remained strong, with almost INR1.5b worth of new orders added in 4QFY26 alone.
- Of the total order book, INR2.5b is from heavy forgings, including data center-related products ranging from around 700kg to 1.8T, which are likely to commence from 3QFY28.

Research analyst - Aniket Mhatre (Aniket.Mhatre@MotilalOswal.com)

Research analyst - Jeemit Shah (Jeemit.Shah@MotilalOswal.com) | Uday Nair (Uday.Nair@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, Bloomberg, Thomson Reuters, Factset and S&P Capital.

- The average realization for the new order book is around INR 345–350/kg, including heavy forging orders (vs the current ASP of INR 245 per kg). Management expects higher realization in the order book to help expand gross margins from here onward.
- On the back of this strong order book, management has guided for late-teens volume growth in FY27. This is expected to be led by strong outperformance in the CVs, PVs, and Industrial segments.
- The company expects its mix to shift over time, with CV reducing to around 27% from 37%, industrials increasing to 30–31% from 14%, and PV increasing to around 10% from 6%.
- While recent geopolitical developments have increased raw material and manufacturing costs, management expects the margin impact to remain manageable due to raw material pass-through arrangements and customer discussions for the recovery of other cost inflation.
- Management indicated that it expects a 3.5-4% price hike effective Apr 1st across 70-80% of its OEMs, with the balance likely to be implemented over subsequent quarters. An increase in scrap prices is also expected to support margins.

Valuation and view

HFL's cost-competitive advantage is expected to help the company drive sustainable outperformance to the core. Supported by a better-than-expected performance in 4Q and a strong outlook, we have raised our FY27/FY28E EPS by 7%/6%. Given its healthy new order wins, we expect HFL to post a 25% standalone revenue CAGR over FY26-28. Further, while there could be some margin pressure due to rising input costs in the near term, we expect HFL to post a 60bp margin expansion to 31% over FY26-28, led by an improved mix, operating leverage benefits, and the advantage of solar power generation in the coming years. We, thus, expect HFL to post a 31% earnings CAGR over FY26-28. **We reiterate our BUY rating on the stock with a TP of INR1,652 (based on 30x FY28E EPS).**

Quarterly (Standalone)

									(INR M)			
	FY25				FY26				FY25	FY26	4QE	Var (%)
	1Q	2Q	3Q	4Q	1Q	2Q	3Q	4Q				
Net operating income	3,415	3,611	3,543	3,520	3,538	3,774	3,913	4,238	14,089	15,463	4,170	1.6
Change (%)	3.5	5.3	3.6	2.5	3.6	4.5	10.4	20.4	3.7	9.8	18.5	
RM/Sales (%)	43.5	41.2	42.0	41.3	42.1	39.7	41.1	40.6	42.0	40.9	41.6	
Staff Cost (%)	8.5	8.5	9.3	9.2	9.1	8.9	8.8	8.6	8.9	8.8	8.7	
Other Exp. (%)	19.4	21.2	20.1	20.4	20.3	20.7	19.3	19.3	20.3	19.9	19.2	
EBITDA	976	1,054	1,015	1,023	1,012	1,158	1,204	1,333	4,067	4,707	1,268	5.1
EBITDA Margins (%)	28.6	29.2	28.6	29.1	28.6	30.7	30.8	31.5	28.9	30.4	30.4	100bp
Change (%)	-2.6	12.4	6.6	5.3	3.6	9.9	18.7	30.4	4.9	15.7	24.0	
Non-Operating Income	77	83	66	101	104	63	82	60	376	308	67	
Interest	14	16	21	24	23	19	25	38	75	105	27	
Depreciation	180	197	191	203	206	216	224	245	771	890	238	
PBT after EO items	859	973	868	897	886	986	1,037	1,111	3,597	4,020	1,071	
Tax	220	259	223	219	230	252	247	275	921	1004	275	
Eff. Tax Rate (%)	25.6	26.6	25.7	24.4	25.9	25.5	23.9	24.8	25.6	25.0	25.6	
Adj. PAT	639	666	645	678	657	734	789	836	2,676	3,016	797	4.9
Change (%)	-0.3	20.6	11.4	3.0	2.9	10.2	22.4	23.3	10.1	12.7	17.6	



Key highlights from the management commentary

4QFY26/FY26 performance

- HFL reported 4QFY26 volume growth of 20.6% YoY to 17,298MT, while FY26 volumes grew 11% YoY to 63,105MT. Realization remained stable at INR 245/kg in both 4QFY26 and FY26, despite a 6% softening in raw material prices.
- **Segmental performance:** Domestic CV grew 27% YoY in 4QFY26, PV grew 35%, CV exports declined 25%, domestic OHT declined 6%, and domestic industrials grew 32%.
- Crankshafts contributed around 50% of FY26 revenue (flat YoY), and management expects this to increase to 58–59% by FY28–29.
- 4QFY26 margins expanded due to operating leverage and a better product mix.
- The company incurred capex of INR 4.6b in FY26. It reported liquidity of INR4.3b by the end of FY26. FCF was supported by better margins and improved working capital management.

Outlook

- The company has a new order book of INR9.5b, which is expected to be executed over the next 2–3 years. The order book momentum has been strong recently as the company has added almost INR1.5b worth of new orders in 4QFY26 itself.
- Of the total order book, INR2.5b is from heavy forgings, including data center-related products ranging from around 700kg to 1.8T, which are likely to commence from 3QFY28.
- The average realization for the new order book is around INR 345–350/kg, including heavy forging orders (Vs the current ASP of INR 245 per kg). Management expects higher realization in the order book to help expand gross margins from here on.
- On the back of this strong order book, management has guided for late-teen volume growth in FY27. This is expected to be led by strong outperformance in CVs, PVs, and industrial segments.
- The company expects its mix to shift over time, with CV reducing to around 27% from 37%, industrials increasing to 30–31% from 14%, and PV increasing to around 10% from 6%.
- While recent geopolitical developments have increased raw material and manufacturing costs, management expects the margin impact to remain manageable due to raw material pass-through arrangements and customer discussions for recovery of other cost inflation.
- Steel price pass-through happens with a one-quarter lag in exports and a one-month lag in the domestic business. Power and fuel account for around 7% of costs, while fuel accounts for around 1%. A 30–40% fuel price increase is expected to have a 0.3–0.4% impact, with no increase in power costs. Other manufacturing costs (carbides and packaging) have also risen 2–2.5%
- Management has indicated that it expects 3.5–4% price hike effective Apr 1st across 70–80% of its OEMs, with the balance expected to be implemented over subsequent quarters. An increase in scrap prices is also expected to support margins.

Update on CV segment

- CV contributed 37% to FY26 revenue.
- Management expects significant market share gains in domestic CV in FY27 as new order wins move into production. CV market share is currently around 32% and is expected to increase to 42%, supporting 35–40% growth in CVs for HFL for FY27.
- North America and Europe CV demand remained weak, resulting in a single-digit decline for Happy Forgings as the broader industry declined 9–10% in FY26.
- Existing EU CV OEMs of HFL are expected to deliver single-digit growth in CY26. New projects from Europe are expected to support export growth, with currency tailwinds also aiding the business.

Update on Farm segment

- FES segment has posted only 10% YoY growth in FY26 despite a robust industry growth largely due to weak exports (indirect exposure).
- Domestic farm demand was supported by favorable monsoons, reservoir levels, rural cash flow, and agriculture output.
- Low channel inventory is also expected to support growth in this segment.
- Farm market share is currently around 41%, and management expects a 4% improvement in FY27.

Update on industrials segment

- Industrial demand is being supported by power generation, renewable energy, wind energy, railways, oil and gas, digital infrastructure, grid infrastructure, rail modernization, and India's expanding data center ecosystem.
- Domestic industrial revenue grew 59% YoY in FY26, while industrial exports declined 11% YoY.
- Construction equipment volumes declined 7% YoY in FY26, while demand in Europe and the US also remained challenging, with a marginal YoY decline.
- The company has received a large industrial order from Europe, which is expected to start contributing from FY29.
- The company is seeing opportunities in data center-related heavy forgings, with product weight moving from around 200kg currently to up to 2T. Management indicated that product value could increase from around INR60,000 currently supplied to INR25,00,000 for larger products.

Update on PV segment

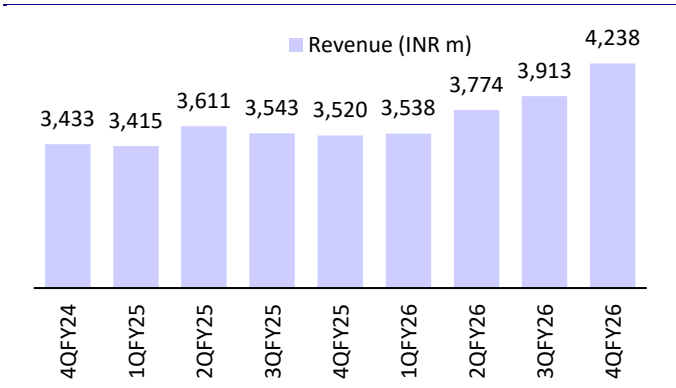
- Management indicated that PV segment is likely to remain a key growth driver going forward on the back of its new order wins.
- The company's share with one PV customer improved from 32% to 47% in FY27.
- The company has started projects for North America in PV, ramp-up of the same is expected from Q2FY27. An additional program from the same client is expected to commence from FY28.

Update on capex

- The company incurred capex of INR 4.6b in FY26.
- The company expects FY27 capex of INR4.5–5b. Total capex over the next two years is expected at around INR 8b, including solar capex.

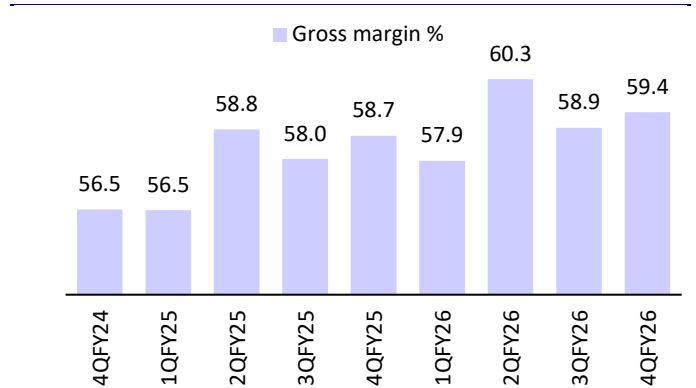
- The Board approved enhancement of the existing solar power project from 25MW AC to 35MW AC for additional capex of INR 500Mn. The solar project is expected to start generating power from Q4FY27, with partial benefits visible in FY28 and full benefits from FY29.
- Forgings capacity has increased to 148k MT by FY26 end. This is expected to increase to 161k MT pa by FY27 and further to 187k MT by FY28
- They have added a 10k MT line in FY26 for executing new orders for CV, farm, and industrial products
- Further, a new 4K T press is expected to commission in H1FY27 to cater to PV opportunities, with orders already in hand.
- Capex for pinion shafts on the wind side is expected to come onstream in 2QFY27, also supported by orders in hand.
- Data center-related capex is expected to be completed by the end of FY27. Trials are expected to start in FY28, with SOP from 3QFY28. Management indicated realizations of ~INR 800–1,000/kg for these products.
- Machining capacity increased to 68k with 9.8k MT added in FY26. This is expected to increase to 82k MT in FY27 and further to 87k by FY28

Exhibit 1: SA revenue trend



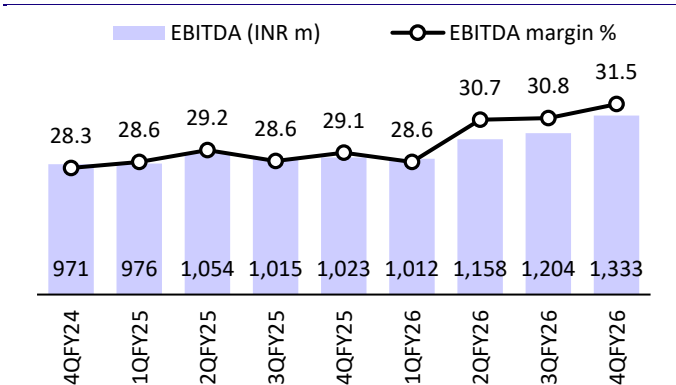
Source: Company, MOFSL

Exhibit 2: SA gross margin trend



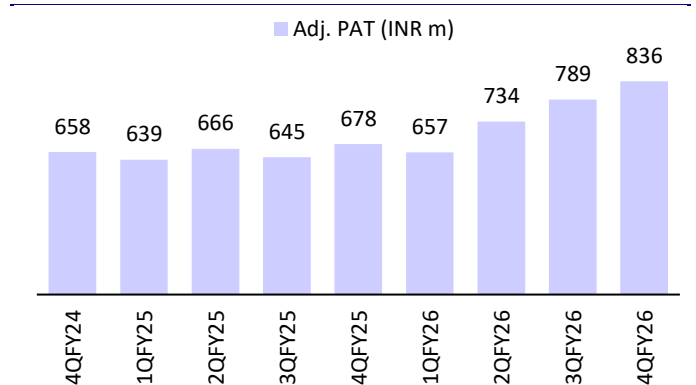
Source: Company, MOFSL

Exhibit 3: EBITDA and margin trends



Source: Company, MOFSL

Exhibit 4: Adj. PAT trend over the quarters



Source: Company, MOFSL

Valuation and view

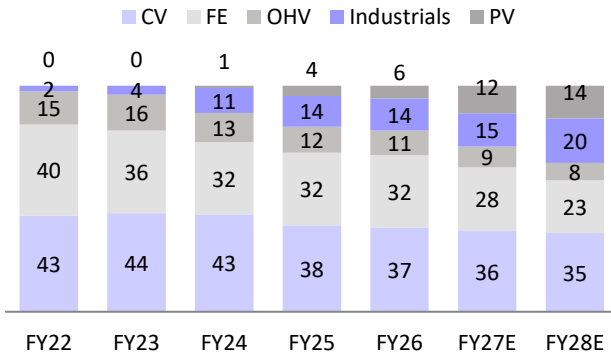
- **Industrial business to remain the long-term growth driver:** The Industrials segment remains a key growth driver for the company. HFL is now investing INR6.5b to set up a heavyweight precision components facility, which will be among the largest in Asia, capable of producing 250-3,000kg forged and fully-machined parts. The company has already secured orders worth INR3.5b from this new facility and expects a further boost once the new plant is on stream and customers gain confidence in its execution capabilities. Given the company’s healthy new order wins, we expect the Industrials segment to post a robust 47% revenue CAGR over FY26-28. HFL appears well on track to achieve its guidance of 30% contribution from the Industrials sector by FY30E.
- **PV mix on track to reach 10% of mix in a couple of years:** The PV segment, which is a focus area for the management, remains a major growth driver, contributing 6% of revenue in FY26, up from just 1% in FY24. Leveraging its competitive advantage, the company has won multiple orders over the last few years, both for domestic and export businesses. To execute these orders, HFL has invested INR800m in the PV business in FY26. The company has also set a target for PV contribution to rise to 8-10% of revenue over the next two years.
- **Outlook has improved in core segments:** The outlook for HFL’s core segment, domestic tractors, has improved following the GST rate cuts announced in Sept and is expected to remain strong in the near term. Despite the slowdown in CV volumes due to West Asia conflict, commencement of new orders for a domestic CV OEM is expected to drive growth for the segment over FY26-28E. Further, demand in key developed markets such as the US and Europe is now stabilizing at lower levels. The outlook for CV exports has improved for FY27E, as one of the company’s key export clients anticipates a recovery. Tractor exports are also expected to drive a revenue pick-up for HFL in FY27, supported by new order wins. Overall, we expect the CV/tractor segments to deliver a 21%/6% revenue CAGR over FY26-28E respectively.
- **Valuation and view:** HFL’s cost-competitive advantage would help the company drive sustainable outperformance to the core. Led by a better-than-expected performance in 4Q and a strong outlook, we have raised our FY27/FY28E EPS by 7%/6%. Given its healthy new order wins, we expect HFL to post a 25% standalone revenue CAGR over FY26-28. Further, while there could be some margin pressure due to rising input costs in the near term, we expect HFL to post a 60bp margin expansion to 31% over FY26-28, led by an improved mix, operating leverage benefits, and the advantage of solar power generation in the coming years. We, thus, expect HFL to post a 31% earnings CAGR over FY26-28. **We reiterate our BUY rating on the stock with a TP of INR1,652 (based on 30x FY28E EPS).**

Exhibit 5: Our revised forecasts

(INR b)	FY26E			FY27E		
	Rev	Old	Chg (%)	Rev	Old	Chg (%)
Net Sales	19.2	18.1	5.6	24.1	22.6	6.8
EBITDA Margin (%)	30.3	30.5	-20bp	31.0	31.5	-50bp
PAT	3.9	3.6	7.0	5.2	4.9	6.0
EPS (INR)	41.1	38.5	6.8	55.1	52.0	5.9

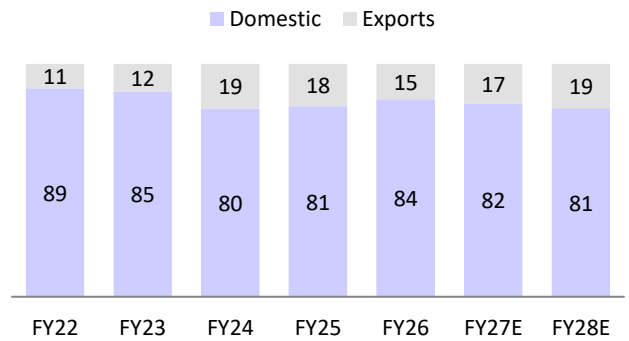
Key operating indicators

Exhibit 6: Revenue mix % – Share of industrials & PVs to rise



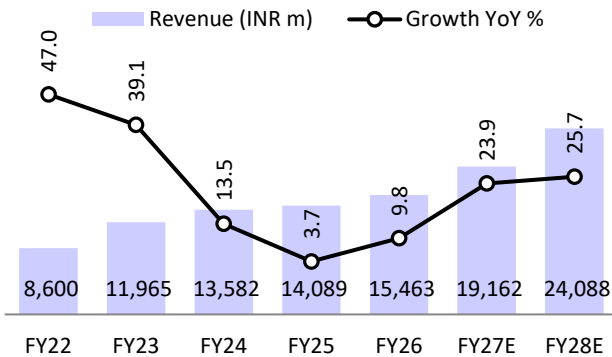
Source: Company, MOFSL

Exhibit 7: Revenue share % of exports to continue improving



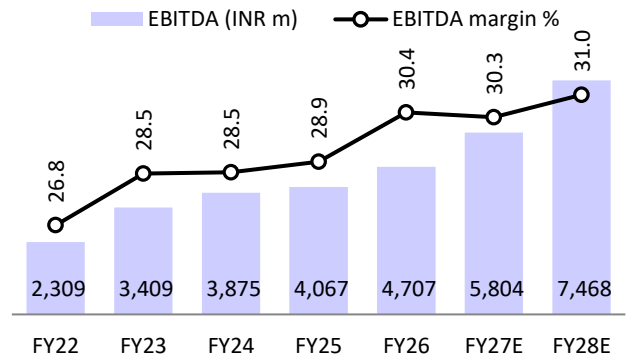
Source: Company, MOFSL

Exhibit 8: Revenue to register ~25% CAGR over FY26-28



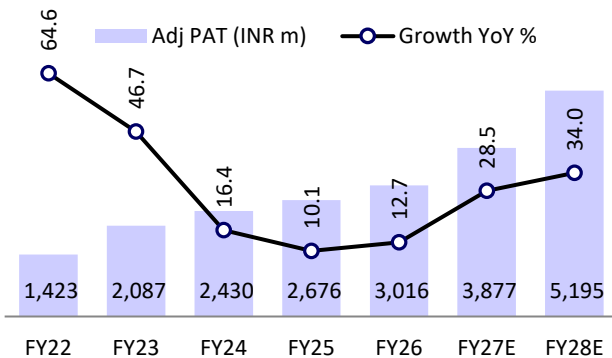
Source: Company, MOFSL

Exhibit 9: EBITDA margin to expand ~60bp over FY26-28



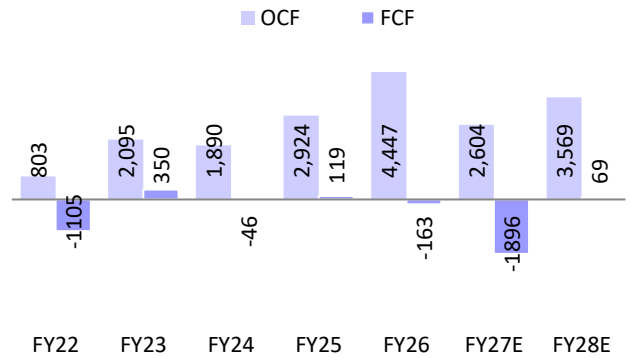
Source: Company, MOFSL

Exhibit 10: PAT to register ~31% CAGR over FY26-28



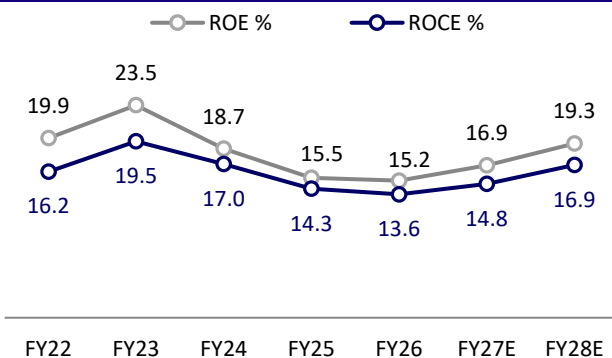
Source: Company, MOFSL

Exhibit 11: Bulk of capex will be met from internal accruals



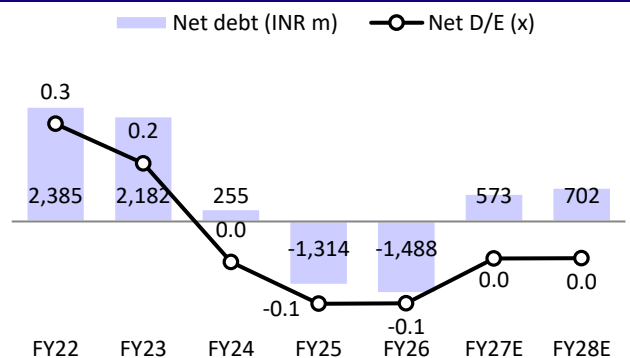
Source: Company, MOFSL

Exhibit 12: Returns set to gradually improve in coming years



Source: Company, MOFSL

Exhibit 13: Overall debt continues to decline



Source: Company, MOFSL

Financials and valuations

Income Statement							(INR m)	
Y/E March	FY22	FY23	FY24	FY25	FY26	FY27E	FY28E	
Net Sales	8,600	11,965	13,582	14,089	15,463	19,162	24,088	
Change (%)	47.0	39.1	13.5	3.7	9.8	23.9	25.7	
EBITDA	2,309	3,409	3,875	4,067	4,707	5,804	7,468	
Margin (%)	26.8	28.5	28.5	28.9	30.4	30.3	31.0	
Depreciation	377	542	647	771	890	941	1,050	
EBIT	1,931	2,868	3,228	3,296	3,817	4,863	6,419	
Int. and Finance Charges	72	125	118	75	105	114	107	
Other Income	61	58	134	376	308	420	570	
PBT after EO Exp.	1,920	2,800	3,244	3,597	4,020	5,169	6,881	
Current Tax	471	685	748	848	899	1,292	1,686	
Deferred Tax	27	29	65.67	72.81	104.69	-	-	
Tax Rate (%)	25.9	25.5	25.1	25.6	25.0	25.0	24.5	
Reported PAT	1,423	2,087	2,430	2,676	3,016	3,877	5,195	
Adj PAT	1,423	2,087	2,430	2,676	3,016	3,877	5,195	
Change (%)	65	47	16	10	13	29	34	

Balance Sheet							(INR m)	
Y/E March	FY22	FY23	FY24	FY25	FY26	FY27E	FY28E	
Equity Share Capital	179	179	188	188	189	189	189	
Total Reserves	7,697	9,704	15,937	18,308	21,094	24,499	29,034	
Net Worth	7,876	9,883	16,125	18,497	21,283	24,688	29,223	
Deferred Liabilities	229	230	316	393	490	490	490	
Total Loans	2,404	2,185	1,430	2,273	3,296	4,296	4,296	
Capital Employed	10,509	12,299	17,871	21,163	25,069	29,474	34,009	
Gross Block	5,858	8,591	9,880	12,277	15,175	19,675	23,175	
Less: Accum. Deprn.	1,296	1,807	2,444	3,205	4,096	5,037	6,087	
Net Fixed Assets	4,562	6,784	7,437	9,072	11,079	14,638	17,088	
Capital WIP	2,123	748	1,267	1,227	2,374	2,374	2,374	
Total Investments	4	3	1,169	3,457	4,528	3,628	3,528	
Curr. Assets, Loans&Adv.	4,610	5,726	8,987	8,390	8,348	10,209	12,738	
Inventory	1,840	1,696	2,242	2,324	2,328	2,882	3,623	
Account Receivables	2,220	3,081	3,569	4,265	3,948	5,089	6,397	
Cash and Bank Balance	15	0	5	129	256	95	66	
Loans and Advances	535	950	3,170	1,671	1,817	2,143	2,651	
Curr. Liability & Prov.	790	963	988	983	1,261	1,375	1,719	
Creditors	442	477	555	454	594	649	816	
Other Current Liabilities	321	448	388	481	632	690	867	
Provisions	27	38	45	49	34	36	36	
Net Current Assets	3,821	4,763	7,998	7,407	7,088	8,834	11,019	
Appl. of Funds	10,509	12,299	17,871	21,163	25,069	29,474	34,009	

Financials and valuations

Ratios

Y/E March	FY22	FY23	FY24	FY25	FY26	FY27E	FY28E
Basic (INR)							
EPS	15.9	23.3	25.8	28.4	32.0	41.1	55.1
Cash EPS	20.1	29.4	32.7	36.6	41.4	51.1	66.2
BV/Share	88.0	110.4	171.2	196.3	225.6	261.7	309.7
DPS	-	-	4.0	3.0	4.0	5.0	7.0
Payout (%)	-	-	15.5	10.6	12.5	12.2	12.7
Dividend Yield (%)	-	-	0.3	0.2	0.3	0.4	0.5
FCF per share	-12.4	3.9	-0.5	1.3	-1.7	-20.1	0.7
Valuation (x)							
P/E	87.3	59.5	53.8	48.9	43.1	33.5	25.0
Cash P/E	69.0	47.2	42.5	37.9	33.3	27.0	20.8
P/BV	15.8	12.6	8.1	7.1	6.1	5.3	4.4
EV/Sales	14.7	10.6	9.6	9.2	8.3	6.8	5.4
EV/EBITDA	54.8	37.1	33.8	31.8	27.3	22.5	17.5
Return Ratios (%)							
RoE	19.9	23.5	18.7	15.5	15.2	16.9	19.3
RoCE (Post-tax)	16.2	19.5	17.0	14.3	13.6	14.8	16.9
RoIC	18.0	21.5	17.9	15.4	16.7	17.7	18.8
Working Capital Ratios							
Fixed Asset Turnover (x)	1.5	1.4	1.4	1.1	1.0	1.0	1.0
Inventory (Days)	65	54	53	59	55	50	49
Debtor (Days)	82	81	89	101	97	86	87
Creditor (Days)	17	14	14	13	12	12	11
Working Capital (Days)	152	131	171	198	167	148	149
Leverage Ratio (x)							
Net Debt/Equity	0.3	0.2	0.0	-0.1	-0.1	0.0	0.0

Cash Flow Statement

(INR m)

Y/E March	FY22	FY23	FY24	FY25	FY26	FY27E	FY28E
Operating PBT	1,921	2,800	3,244	3,597	4,020	5,169	6,881
Depreciation	377	542	647	771	890	941	1,050
Interest/Div paid	-72	-125	118	75	105	114	107
Direct Taxes Paid	-431	-638	-839	-832	-932	-1,292	-1,686
(Inc)/Dec in WC	-1,088	-779	-1,230	486	589	-1,908	-2,213
Other items	96	295	-50	-1,172	-225	-420	-570
CF from Operations	803	2,095	1,890	2,924	4,447	2,604	3,569
(inc)/dec in FA	-1,908	-1,745	-1,936	-2,804	-4,610	-4,500	-3,500
Free Cash Flow	-1,105	350	-46	119	-163	-1,896	69
(Pur)/Sale of Investments	230	15	-2,770	-587	-578	900	100
Others	21	5	12	196	212	420	570
CF from Investments	-1,657	-1,725	-4,694	-3,194	-4,976	-3,180	-2,830
Issue of Shares	-	-	3,810	7	21	-	-
Inc/(Dec) in Debt	895	-251	-755	839	1,023	1,000	-
Interest Paid	-68	-119	-130	-74	-105	-114	-107
Dividend Paid	-	-	-116	-377	-283	-472	-660
CF from Fin. Activity	825	-370	2,809	395	656	414	-768
Inc/Dec of Cash	-29	0	5	124	127	-161	-29
Add: Beginning Balance	29	0	0	5	129	256	95
Closing Balance	0	0	5	129	256	95	66

E: MOFSL Estimates

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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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Nainesh Rajani

Email: 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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