

Macrotech Developers

BSE SENSEX
76,993

S&P CNX
23,466

LODHA

Bloomberg	LODHA IN
Equity Shares (m)	994
M.Cap.(INRb)/(USD\$b)	1548.8 / 18.5
52-Week Range (INR)	1589 / 618
1, 6, 12 Rel. Per (%)	28/55/115
12M Avg Val (INR M)	1393

Financials & Valuations (INR b)

Y/E MARCH	FY24	FY25E	FY26E
Sales	103.2	138.3	181.1
EBITDA	26.8	36.7	51.6
EBITDA Margin (%)	25.9	26.5	28.5
Adj PAT	16.3	23.4	34.1
Cons. EPS (Rs)	16.9	24.3	35.4
EPS Growth (%)	6.0	43.5	46.0
BV/Share (Rs)	183.5	205.4	238.6

Ratios

Net D:E	0.3	0.2	0.1
RoE (%)	10.7	12.5	16.0
RoCE (%)	8.6	10.1	13.2
Payout (%)	14.4	9.6	6.6

Valuations

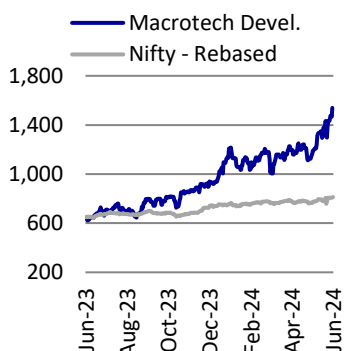
P/E (x)	92.0	64.1	43.9
P/BV (x)	8.5	7.6	6.5
EV/EBITDA (x)	57.9	42.4	29.8
Div Yield (%)	0.1	0.1	0.1

Shareholding pattern (%)

As On	Mar-24	Dec-23	Mar-23
Promoter	72.2	74.9	75.0
DII	3.3	3.2	4.4
FII	23.8	21.1	19.0
Others	0.7	0.8	1.6

FII Includes depository receipts

Stock Performance (1-year)



CMP: INR1,557

TP: INR1,770 (+14%)

Buy

Palava likely to be big beneficiary of infra boom in MMR

Township segment can be a USD6-8b opportunity

Successfully penetrating in new markets

- In FY24, LODHA reported pre-sales of INR145b, up 20% YoY and in line with its medium-term growth strategy. While bookings in its core markets of South & Central Mumbai, Thane and extended eastern suburbs grew by 6% YoY, a large part of the growth was led by new markets.
- As part of its strategy to deepen its presence in MMR and Pune, LODHA has so far acquired ~30msf of projects with GDV of INR550b spread across the new markets of eastern (INR163b) and western (INR52b) suburbs and Pune (INR60b).
- As a result, LODHA has strengthened its presence in new markets, especially in eastern suburbs (MMR) and Pune, which now contribute 14%/13% to total sales compared to 2%/7% in FY22.
- The company successfully forayed into Bengaluru in FY24 and also added a couple of projects. Both projects have received a strong response as 63% of the total launched inventory has been absorbed, resulting in bookings of INR12b (8% of overall sales).

Growth in townships impacted by lower affordable housing demand

- The headwinds of inflation and higher interest rates have significantly impacted the affordable segment as the segment's share in total sales in top 7 cities decreased to 18% in CY23 from 40% in CY19.
- Similarly, LODHA's township segment has witnessed subdued growth due to its dependency on affordable housing demand.
- While pre-sales in its township segment recovered to INR22b in FY24 from lows of INR11b in FY21, they remained flat compared to FY18. As a result, the contribution of LODHA's township segment to overall bookings declined to 15% in FY24 from 30% in FY18.

Changing product mix to drive sales

- As highlighted above, bookings at Palava were traditionally driven by the affordable segment with a ticket size of INR5-7m. However, given the significant upgrade in social ecosystem (schools, retail mall, hospitals, etc.), the township has attracted upper mid-income households.
- The share of 3BHK and large homes has steadily increased to 22% in overall bookings over FY20-1HFY24 compared to 18% before FY14. Its recently launched villa project has also received an encouraging response, with bookings of over INR4b or ~18% of total township sales.
- The management, hence, foresees townships evolving into hubs for premium housing and plans to launch multiple premium products in FY25 at 40-50% higher realization compared to the current pricing. The management is confident of growing its bookings by 30% in FY25 and double its bookings from township projects over the next three years.

Pritesh Sheth - Research Analyst (Pritesh.Sheth@MotilalOswal.com)

Sourabh Gilda - Research Analyst (Sourabh.Gilda@motilalosal.com)

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

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Improving infrastructure a key catalyst for scale-up in townships

- MMR is currently witnessing the execution of few large infrastructure projects, which will enhance Palava's connectivity to key commercial hubs of Mumbai and make it a center of key economic corridors of the city.
- With the absence of any like-for-like competition around Palava, LODHA will be the biggest beneficiary of this improved connectivity and is expected to see a surge in demand for housing as well as industrial land. However, a large part of this scale-up is contingent on timely completion of these projects.
- Palava is already being accepted as a key industrial hub, with the entry of several marquee logistics/warehousing players. As a result, land prices have jumped to INR100m/acre vs. a historical rate of INR30-35m/acre in FY21, catching up with the nearby market, Taloja.
- We expect a similar trend to unfold in the residential segment too as prices in Palava continue to trade at a 45-50% discount to nearby markets of Airoli and Thane. The management's focus on the premium segment can further intensify this re-rating. The company aims to monetize 250msf over the next three decades, and during this period, we assume the realization at Palava could converge with neighboring markets – implying an 8% CAGR in realization.

Valuation and view

- LODHA has been delivering a steady performance across key parameters of pre-sales, cash flows, profitability and return ratios for the last two years. It has successfully expanded beyond its core markets and as it further strengthens its position in geographies, we expect this consistency in operational performance to continue
- While ex-Palava business will continue to grow at a steady pace, a bigger delta in value is likely to emerge from Palava, which is expected to witness a surge in volumes as well as pricing due to the factors discussed above.
- As per the company, Palava's ~4300-acre land provides over 600msf of residential development potential. However, we assume a portion of that to be monetized as industrial land sales. We value 250msf of residential land to be monetized over the next three decades at INR528b and during this period, pricing would reach at par with nearby markets - implying an 8% CAGR in realization.
- The infrastructure upgrades, along with strong focus on increasing the share of its premium segment, can lead to higher price growth. Thus, a sensitivity analysis with a CAGR of 8-12% in realization yields a value of INR528-670b or USD6-8b.
- We use our usual DCF-based method for ex-Palava residential segment and arrive at a value of ~INR1,115b, assuming WACC of 11% and a terminal growth rate of 5%.
- Accordingly, we raise the fair value to INR1,762b or INR1,770 per share (vs. INR1,415 earlier), indicating 14% upside potential. Reiterate BUY.

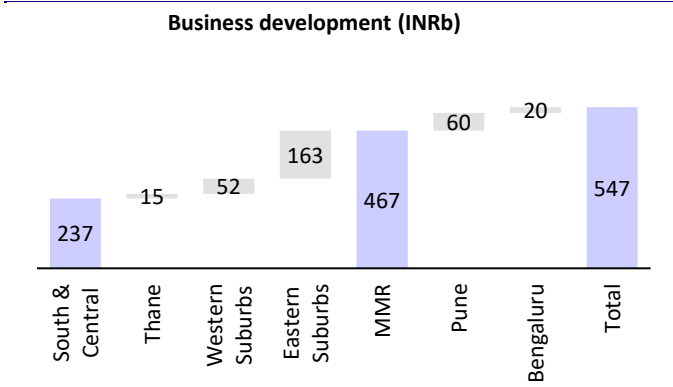
Made strong in-roads in new markets

Aided by business development

Share of new markets on the rise

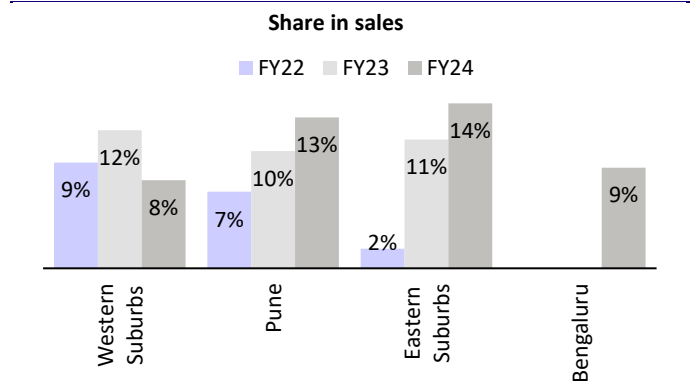
- Since FY22, LODHA has done business development of INR550b, which enabled it to make strong in-roads in new markets like eastern suburbs (MMR) and Pune, which now contribute 14%/13% to total sales compared to 2%/7% in FY22.
- In FY24, the company witnessed 60% YoY growth in bookings from Pune and the management aims to double the pre-sales in about two to three years and eventually have 12% to 15% market share by the end of the decade.
- During the year, LODHA achieved another milestone of successfully foraying into the Bengaluru market as both of its projects received an encouraging response and generated 8% of overall sales.

Exhibit 1: Strong BD of INR547b since FY22...



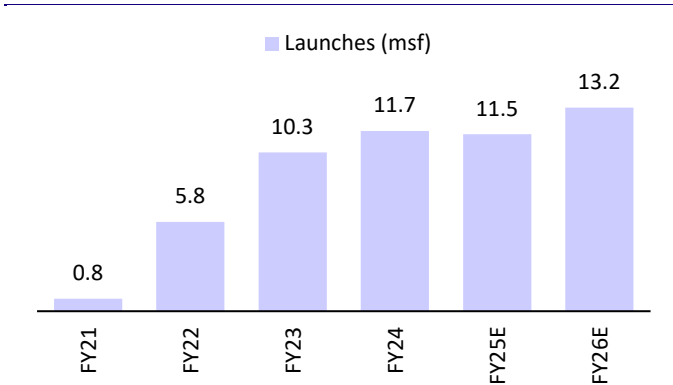
Source: Company, MOFSL

Exhibit 2: ...has enabled the company to successfully penetrate new markets



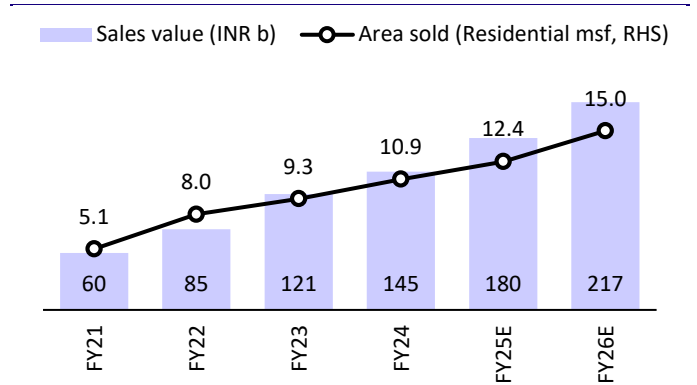
Source: Company, MOFSL

Exhibit 3: Expect launches to sustain at 10msf



Source: Company, MOFSL

Exhibit 4: To report 23% CAGR in pre-sales over FY24-26 to INR217b



Source: Company, MOFSL

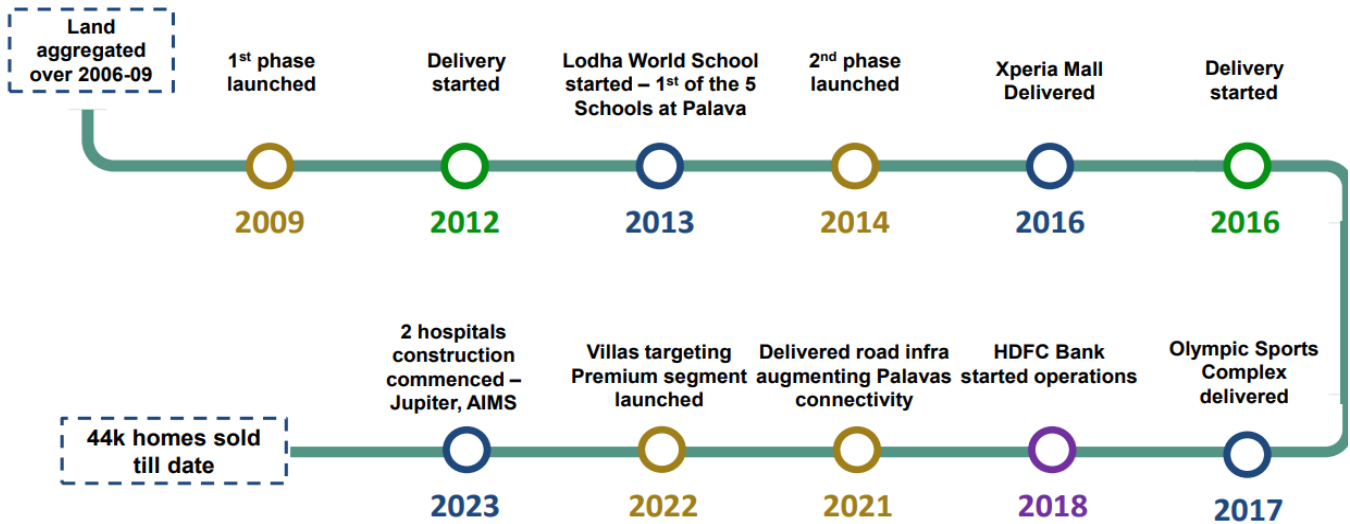
Vast land bank offers huge scalability

Leading to annuity like cash flows

Steady sales despite headwinds

- LODHA owns ~4,300 acres of land bank in Palava and Upper Thane, which offers humongous development potential of over 600msf. The company started developing Palava in FY09 and has so far sold ~44k homes.

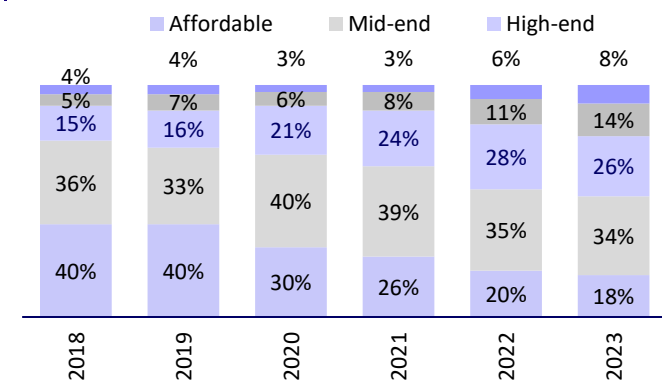
Exhibit 5: Company started Palava’s monetization in FY09 and has so far sold ~44k homes



Source: MOFSL, Company

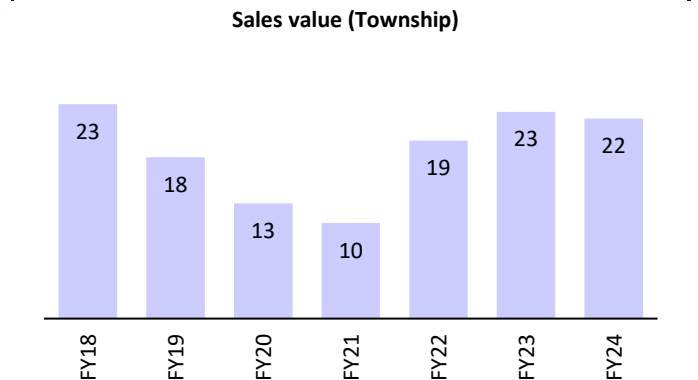
- The headwinds of inflation and higher interest rates have significantly impacted the affordable segment as the segment’s share in total sales in top seven cities decreased to 18% in CY23 from 40% in CY19.
- A similar trend was witnessed in LODHA’s township projects as their share in overall bookings declined to 15% in FY24 vs. 30% in FY18.

Exhibit 6: Affordable housing now below 20% of total mix



Source: Company, MOFSL

Exhibit 7: However, LODHA has sustained its sales at INR22b



Source: Company, MOFSL

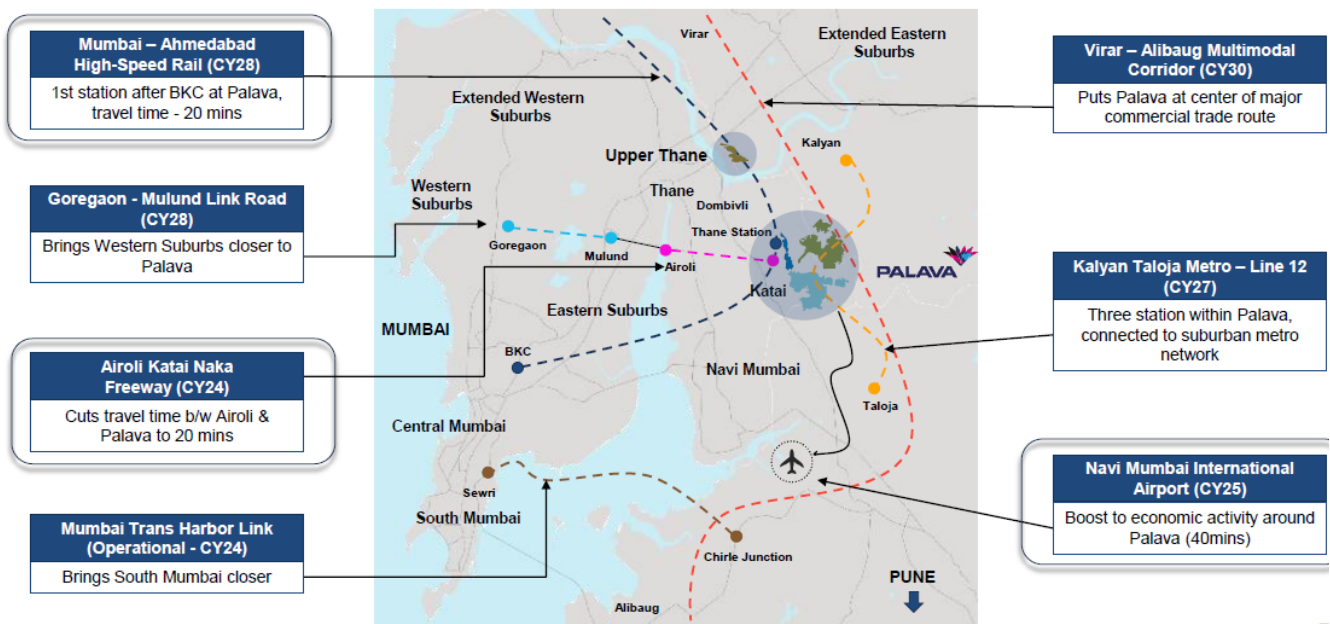
MMR witnessing large infra developments

But execution key for acceleration in township monetization

Infra projects will sharply improve connectivity

- MMR is currently witnessing the execution of few large infrastructure projects, and the targeted scale-up in monetization of LODHA’s vast land bank is contingent on timely operationalization of these projects.

Exhibit 8: Projects like Airoli freeway and Navi Mumbai airport are immediate triggers for the township



Source: MOFSL, Company

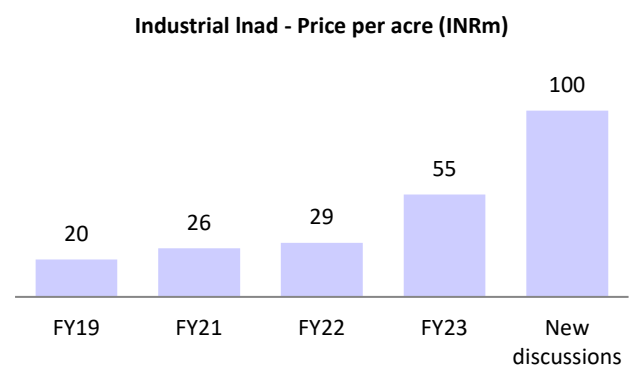
- These infra developments will significantly boost the township’s connectivity with key office catchments in MMR, thereby sharply reducing the commute time. Among all, the Airoli Freeway and the Navi Mumbai airport can be immediate triggers, which can help the company achieve its near-term target of doubling its bookings over the next three years.

Exhibit 9: Head counts in key office hubs in MMR

Location	Old Distance (mins)	New Distance (mins)	No. of Seats (as of CY23)
Airoli	40	20	1,08,000
BKC	45	20	1,08,000
Thane	50	30	1,04,000
Powai	60	40	69,000
Eastern Suburbs	60	40	1,21,000
Malad-Goregaon	75	50	1,50,000
Total			6,60,000

Source: Company, MOFSL

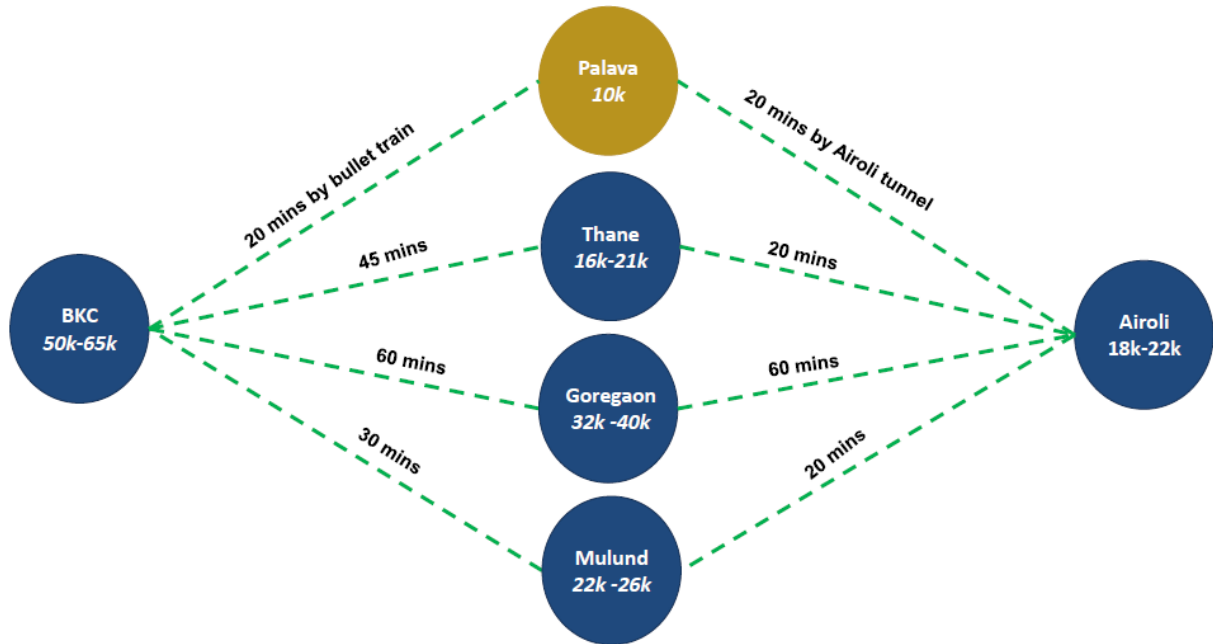
Exhibit 10: Land prices have witnessed ~5x growth since FY19



Source: Company, MOFSL

- There is also an opportunity for price re-rating at the townships as the realization in other key markets is at 40-50% premium to Palava.
- The management plans to bridge this gap by launching premium offerings at Palava at INR15k psf (vs. current pricing of INR10k psf). The recent launch of independent bungalows has received an encouraging response, resulting in the premium segment making up 18% of total sales.

Exhibit 11: Projects like Airoli freeway and Navi Mumbai airport are immediate triggers for the township



Pricing gap for Palava to further narrow given proximity to Navi Mumbai Airport and Metro connectivity

Source: MOFSL, Company

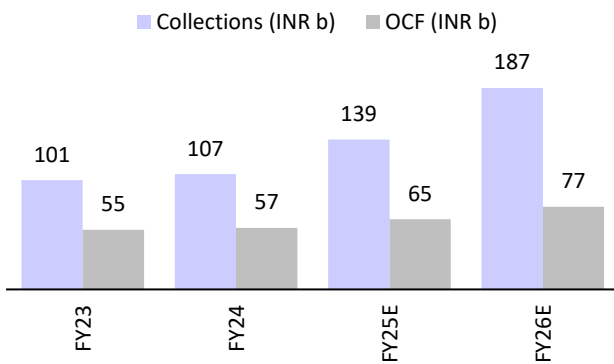
Healthy cash flows to drive business development spending

Management aims to spend INR35-40b on new project acquisitions

Collections to improve as execution gathers pace

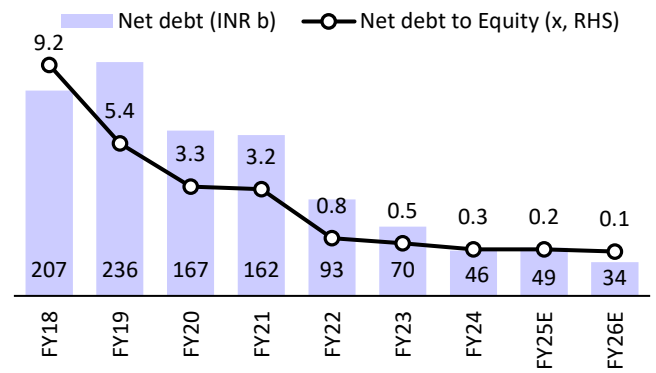
- In FY24, collections and OCF were flat at INR107b and INR57b, respectively. Aided by the recent capital raise of INR33b, net debt further declined by INR41b (INR11b from operations and INR30b from capital raise) to INR30b, which is <0.2x of equity.
- Collection in FY25 is poised for healthy growth since the management expects project execution to gather pace as it anticipates increased outflow of INR50b (vs. INR36b in FY24) toward construction. It has guided for OCF of INR65b with net debt of ~INR50b.
- Thus, the company will have a war chest of INR70b (INR50b post-tax OCF and INR20b debt), including headroom for debt, and it targets to spend 50% on new BD.

Exhibit 12: Expect LODHA to generate ~INR65b OCF by FY25



Source: Company, MOFSL

Exhibit 13: Aims to maintain the net D/E below 0.5x



Source: Company, MOFSL

Annuity income poised for strong growth

- The progress on the digital infra platform with Bain Capital and Ivanhoe Cambridge is slower than anticipated, but the management remains confident of closing few transactions in 1QFY25. The platform currently has two assets – one each at Palava and Kurla.
- LODHA also operates ~1msf of boutique office and high-street retail assets adjunct to its existing residential development and ~0.8msf is under-construction. At a stabilized stage, the portfolio can generate ~INR3b of rental income.
- Moreover, the company has a growing FMS business, with a rising number of households (60,000 currently) staying in Lodha developments.
- Aided by a scale-up in these avenues, the management targets to generate rental income of INR5b by FY26.

Valuation and View

Acceleration in land bank monetization can act as positive trigger

We value Palava land bank at INR528b

- The ongoing infrastructure upgrades in MMR present a substantial opportunity to accelerate the monetization of its extensive land bank at the townships (Palava and Upper Thane), with a development potential of over 600msf. However, we assume a portion of that to be monetized as industrial land sales.
- Of all the major infrastructure projects, the Airoli freeway and Navi Mumbai airport – anticipated to become operational within the next 12-18 months – can act as immediate triggers, which can expedite the pace of monetization.
- Therefore, from being an affordable/mid-income location, townships can evolve into hubs for premium housing, resulting in price re-rating. We value 250msf of residential land to be monetized over next three decades at INR528b and during this period, pricing would reach at par with nearby markets - implying an 8% CAGR in realization.
- The infrastructure upgrades, along with strong focus on increasing the share of its premium segment, can also lead to higher price growth. Hence, a sensitivity analysis with 8-12% CAGR in realization yields a value of INR528-670b or \$6-8b.
- While our base case assumption of an 8% price CAGR would result in price convergence with neighboring markets over three decades, a bull case scenario with a 10-12% CAGR will lead to the discount narrowing down in less than two decades.

Exhibit 14: At 8% CAGR, it would take three decades for realization at Palava to converge with other markets (%)

	Pricing discount by end of 1st decade	Pricing discount by end of 2nd decade	Pricing discount by end of 3rd decade	Implied price CAGR over FY25-55	Palava value (INRb)
Price convergence at 8 CAGR	39	19	0	8	528
Price convergence at 10 CAGR	26	0	0	9	646
Price convergence at 12 CAGR	9	0	0	11	672

Source: MOFSL, Company

SOTP-based valuation indicates 14% upside

- We value LODHA on the SoTP basis: 1) the residential segment is valued using the DCF of four-year cash flows at WACC of 11.1% and a terminal growth rate of 5%; 2) PV of 250msf of land bank assuming 30-year monetization period; 3) PV of future cash flow from monetization of balance land bank through industrial segment discounted at WACC of 11.1%; and 4) the commercial business is valued at a cap rate of 8% for operational assets and DCF for ongoing assets.
- We arrive at NAV of INR1,762b, assuming net debt of INR49b in FY25. Applying zero discount to its NAV, we arrive at a TP of INR1,770, indicating a 14% upside potential

Exhibit 15: Based on SoTP, we arrive at NAV of INR1,762b (or INR1,770 per share), implying a 14% upside potential

Particulars		Value (INR b)	Per share	% contribution
Residential	❖ DCF of 4 years cash flow at WACC of 12% and terminal value assuming 5% long term growth	1,115	1,121	63%
Palava	❖ Cash flow potential from 250msf land bank discounted at WACC of 11.1% over 30 years	528	531	30%
Commercial	❖ Cap rate of 8.5% for operational assets and DCF for ongoing assets	30	30	2%
Industrial	❖ PV of future cash flows discounted at WACC of 11.1%	139	140	8%
Gross asset value		1,811	1,821	103%
Net debt	❖ FY25E	(49)	(49)	-3%
Net asset value		1,762	1,772	100%
No. of share (m)		994.5		
Price Objective		1,770		
CMP		1,556		
Upside		14%		

Source: MOFSL, Company

Financials and valuations

Consolidated Income Statement

Y/E March	FY20	FY21	FY22	FY23	FY24	FY25E	FY26E
Total Income from Operations	1,24,426	54,486	92,332	94,704	1,03,161	1,38,327	1,81,097
Change (%)	4.5	-56.2	69.5	2.6	8.9	34.1	30.9
Total Expenditure	1,05,353	40,766	71,085	74,042	76,404	1,01,670	1,29,484
% of Sales	84.7	74.8	77.0	78.2	74.1	73.5	71.5
EBITDA	19,073	13,720	21,247	20,661	26,757	36,657	51,613
Margin (%)	15.3	25.2	23.0	21.8	25.9	26.5	28.5
Depreciation	2,924	734	748	928	2,039	888	933
EBIT	16,149	12,985	20,499	19,733	24,718	35,769	50,680
Int. and Finance Charges	6,544	11,257	6,803	4,791	4,798	3,599	3,099
Other Income	435	3,231	3,460	1,408	1,534	1,487	1,434
PBT bef. EO Exp.	10,039	4,959	17,156	16,350	21,454	33,658	49,015
EO Items	2	-4,628	0	-11,774	-1,049	0	0
PBT after EO Exp.	10,041	332	17,156	4,576	20,405	33,658	49,015
Total Tax	2,615	-147	5,080	-370	4,734	10,097	14,704
Tax Rate (%)	26.0	-44.4	29.6	-8.1	23.2	30.0	30.0
Minority Interest	139	77	61	80	180	180	180
Reported PAT	7,286	402	12,014	4,866	15,491	23,380	34,130
Adjusted PAT	7,285	7,084	12,014	15,370	16,297	23,380	34,130
Change (%)	-55.5	-2.8	69.6	27.9	6.0	43.5	46.0
Margin (%)	5.9	13.0	13.0	16.2	15.8	16.9	18.8

Consolidated Balance Sheet

Y/E March	FY20	FY21	FY22	FY23	FY24	FY25E	FY26E
Equity Share Capital	3,959	3,959	4,815	4,815	9,945	9,945	9,945
Total Reserves	41,564	42,031	1,16,235	1,21,809	1,66,748	1,87,891	2,19,784
Net Worth	45,523	45,990	1,21,050	1,26,624	1,76,693	1,97,836	2,29,729
Minority Interest	5,192	5,269	568	596	647	647	647
Total Loans	1,84,232	1,81,669	1,15,367	90,602	76,976	66,976	56,976
Deferred Tax Liabilities	-935	-2,098	1,911	332	1,637	10,057	22,113
Capital Employed	2,34,011	2,30,829	2,38,896	2,18,153	2,55,953	2,75,515	3,09,465
Gross Block	17,499	17,608	18,318	19,487	15,845	16,732	17,665
Less: Accum. Deprn.	5,649	6,383	7,130	8,059	10,098	10,985	11,918
Net Fixed Assets	11,851	11,226	11,187	11,429	5,747	5,747	5,747
Investment Property	2,882	2,767	2,650	1,539	1,463	1,463	1,463
Goodwill on Consolidation	5,477	5,471	5,388	5,303	4,520	4,520	4,520
Capital WIP	63	63	0	0	0	0	0
Total Investments	15,529	15,794	5,740	2,460	4,929	4,749	4,569
Curr. Assets, Loans&Adv.	3,70,188	3,55,663	3,59,824	3,70,816	4,55,593	4,85,054	5,41,785
Inventory	2,90,314	2,83,007	2,73,583	3,01,167	3,39,930	3,69,504	3,96,925
Account Receivables	7,943	6,545	6,461	7,393	7,999	5,685	7,442
Cash and Bank Balance	1,870	3,668	12,457	18,242	26,348	13,550	18,102
Loans and Advances	70,061	62,442	67,322	44,013	81,316	96,316	1,19,316
Curr. Liability & Prov.	1,71,979	1,60,153	1,45,892	1,73,393	2,16,299	2,26,018	2,48,619
Account Payables	22,728	16,978	15,087	20,962	25,790	26,528	34,731
Other Current Liabilities	1,49,012	1,42,963	1,30,581	1,52,129	1,90,173	1,99,154	2,13,552
Provisions	239	212	224	302	336	336	336
Net Current Assets	1,98,210	1,95,509	2,13,932	1,97,422	2,39,294	2,59,036	2,93,166
Appl. of Funds	2,34,011	2,30,829	2,38,896	2,18,153	2,55,953	2,75,515	3,09,465

Financials and valuations

Ratios

Y/E March	FY19	FY20	FY21	FY22	FY23	FY24	FY25E	FY26E
Basic (INR)								
EPS	20.7	9.2	8.9	12.5	16.0	16.9	24.3	35.4
Cash EPS	23.1	12.9	9.9	13.3	16.9	19.0	25.2	36.4
BV/Share	48.5	57.5	58.1	125.7	131.5	183.5	205.4	238.6
DPS	0.0	0.0	0.0	0.0	0.0	2.3	2.3	2.3
Payout (%)	0.0	0.0	0.0	0.0	0.0	14.0	9.6	6.6
Valuation (x)								
P/E	36.6	82.2	84.5	60.6	47.4	71.6	64.1	43.9
Cash P/E	32.7	58.6	76.6	57.0	44.7	63.7	61.8	42.8
P/BV	15.6	13.1	13.0	6.0	5.7	6.6	7.6	6.5
EV/Sales	7.1	6.3	14.3	9.0	8.5	11.8	11.2	8.5
EV/EBITDA	26.8	40.9	56.6	39.1	38.7	45.5	42.4	29.8
Dividend Yield (%)	0.0	0.0	0.0	0.0	0.0	0.2	0.1	0.1
FCF per share	-7.1	47.3	32.0	27.4	28.7	0.0	5.3	22.4
Return Ratios (%)								
RoE	54.0	17.4	15.5	14.4	12.4	10.7	12.5	16.0
RoCE	7.4	4.2	10.2	7.3	10.1	8.6	10.1	13.2
RoIC	7.9	4.8	8.8	6.7	10.2	9.0	10.4	13.0
Working Capital Ratios								
Fixed Asset Turnover (x)	6.7	7.1	3.1	5.0	4.9	6.5	8.3	10.3
Asset Turnover (x)	0.4	0.5	0.2	0.4	0.4	0.4	0.5	0.6
Inventory (Days)	1,273	852	1,896	1,082	1,161	1,203	975	800
Debtor (Days)	15	23	44	26	28	28	15	15
Creditor (Days)	69	67	114	60	81	91	70	70
Leverage Ratio (x)								
Current Ratio	2.3	2.2	2.2	2.5	2.1	2.1	2.1	2.2
Interest Cover Ratio	5.4	2.5	1.2	3.0	4.1	5.2	9.9	16.4
Net Debt/Equity	6.5	4.0	3.9	0.9	0.6	0.3	0.3	0.2

Consolidated - Cash Flow Statement

(INR m)

Y/E March	FY19	FY20	FY21	FY22	FY23	FY24	FY25E	FY26E
OP/(Loss) before Tax	24,889	10,007	4,959	17,156	4,576	20,405	33,658	49,015
Depreciation	1,944	3,064	734	748	928	2,039	888	933
Interest & Finance Charges	30,032	31,119	25,246	19,923	13,890	8,798	7,198	6,198
Direct Taxes Paid	-3,116	-821	857	-1,778	-2,110	-400	-1,678	-2,648
(Inc)/Dec in WC	-59,476	-4,112	-1,218	-7,271	-1,091	-33,766	-32,540	-29,577
CF from Operations	-5,726	39,257	30,579	28,778	16,194	-2,924	7,525	23,920
Others	1,095	-1,525	-5,339	-2,500	11,306	-1,534	-1,487	-1,434
CF from Operating incl EO	-4,632	37,732	25,239	26,278	27,499	-4,458	6,037	22,486
(Inc)/Dec in FA	-991	-292	65	78	149	4,426	-888	-933
Free Cash Flow	-5,622	37,439	25,304	26,356	27,648	-32	5,150	21,553
(Pur)/Sale of Investments	-300	-2,822	-176	1,491	6,817	-2,573	0	0
Others	-552	5,231	4,310	9,820	10,812	1,534	1,487	1,434
CF from Investments	-1,843	2,117	4,199	11,389	17,778	3,387	600	501
Issue of Shares	0	0	0	63,466	100	5,130	0	0
Inc/(Dec) in Debt	37,050	-11,362	-10,325	-72,916	-25,393	-13,626	-10,000	-10,000
Interest Paid	-29,691	-30,534	-18,027	-19,427	-11,756	-8,798	-7,198	-6,198
Dividend Paid	0	0	0	0	0	-1,926	-2,238	-2,238
Others	0	0	0	0	-6	0	0	0
CF from Fin. Activity	7,359	-41,896	-28,351	-28,878	-37,054	-19,220	-19,435	-18,435
Inc/Dec of Cash	885	-2,047	1,087	8,789	8,223	-20,291	-12,798	4,552
Opening Balance	2,552	6,575	1,870	3,668	12,457	20,680	326	-12,472
Closing Balance	3,437	4,529	2,956	12,457	20,680	389	-12,472	-7,920

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NOTES

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UNDER REVIEW	Rating may undergo a change
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Nainesh Rajani

Email: nainesh.rajani@motilaloswal.com

Contact: (+65) 8328 0276

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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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