

AAVAS Financiers

Estimate change

TP change

Rating change



Bloomberg	AAVAS IN
Equity Shares (m)	79
M.Cap.(INRb)/(USD\$)	136.7 / 1.6
52-Week Range (INR)	2238 / 1614
1, 6, 12 Rel. Per (%)	-11/-5/0
12M Avg Val (INR M)	465

Financials & Valuations (INR b)

Y/E March	FY25	FY26E	FY27E
NII	10.1	11.6	13.9
PPP	7.6	8.7	10.5
PAT	5.7	6.5	8.0
EPS (INR)	73	83	100
EPS Gr. (%)	17	14	22
BV/Sh. (INR)	551	633	734

Ratios (%)

NIM	5.4	5.2	5.3
C/I ratio	43.8	44.1	42.4
Credit cost	0.18	0.19	0.19
RoA	3.3	3.2	3.4
RoE	14.1	13.9	14.7

Valuation

P/E (x)	23.8	20.9	17.2
P/BV (x)	3.1	2.7	2.4

Shareholding Pattern (%)

As On	Jun-25	Mar-25	Jun-24
Promoter	49.0	26.5	26.5
DII	11.5	10.8	24.4
FII	29.8	29.7	35.9
Others	9.8	33.1	13.3

FII includes depository receipts

CMP: INR1,728

TP: INR1,900 (+10%)

Neutral

Operationally weak; seasonal deterioration in asset quality

One-time impact on disbursements due to a change in the recognition model

- AAVAS Financiers (AAVAS)'s 1QFY26 PAT grew 10% YOY to ~INR1.4b (in line). NII in 1QFY26 grew 14% YoY to ~INR2.8b (in line). Other income grew 26% YoY, aided by higher assignment income of ~INR475m (PY: INR305m).
- AAVAS's 1QFY26 core NIM (calc.) was stable QoQ at ~6.85%. Reported spreads rose ~20bp QoQ to 5.1% (v/s ~4.9% in 4QFY25).
- Opex rose ~21% YoY to INR1.7b (in line). Opex to avg. assets stood at ~3.5% (PY: 3.3% and PQ: ~3.8%). Opex was higher YoY because of an increase in ESOP costs. We estimate an opex-to-assets ratio of 3.4%/3.3% in FY26/ FY27 (vs. ~3.4% in FY25).
- Management highlighted that recent demand trends have been encouraging, with disbursements growing ~16% YoY in Jul'25. The company expects AUM to grow ~18-20% in FY26 and ~20-25% from FY27 onwards.
- Asset quality exhibited seasonal deterioration, with GS3/NS3 rising ~15bp/ 10bp QoQ to 1.2%/0.85%. AAVAS's 1+dpd rose ~75bp QoQ to 4.15%. Management shared that the rise in 1+dpd was due to seasonal factors, and the company has already seen normalization trends in Jul'25 (1+dpd < 4%), reinforcing its confidence in the stability of the portfolio.
- The company shared that a seasonal spike in asset quality was seen in a few pockets of Maharashtra, MP, and Karnataka, prompting tighter credit underwriting in those regions. This was also primarily in loans with a ticket size of less than INR500K. Outside of these affected pockets, AAVAS did not observe any broad-based credit quality concerns and expects AUM growth to pick up in the coming quarters.
- We estimate an AUM and PAT CAGR of ~18% each over FY25-27, with an RoA/ RoE of 3.4%/15% by FY27. AAVAS trades at 2.4x FY27E P/BV. We believe the company will need to deliver on its guided loan growth and operational targets to sustain current valuations. **Reiterate Neutral with a TP of INR1,900 (based on 2.6x Mar'27E BVPS).**

AUM rises ~16% YoY; the share of HL in disbursements at ~57%

- AUM grew 16% YoY and ~1.6% QoQ to ~INR207b. Disbursements declined ~5% YoY to ~INR11.5b. Share of HL in 1QFY26 disbursements stood at ~57%. Disbursements in 1QFY26 were muted because of the one-time impact of transitioning to a realization-based disbursement recognition model. Management shared that, adjusting for the impact of this change, disbursements in 1QFY26 would have grown by double digits YoY.
- Annualized run-off in the loan book stood at ~16.2% (PY: 15.8% and PQ: ~17.5%). Securitization during the quarter amounted to ~INR3.8b (PY: ~INR2.3b), and securitization margin dipped ~175bp QoQ to 12.6%.

Highlights from the management commentary

- The company is starting to see positive results from its partnerships with CSC, E-Mitra, and India Post Bank. It is receiving over 1,000 monthly logins through the CSC tie-up. It has also added staff to manage digital channels and handle leads generated from these partnerships.
- Management shared that the company is well-positioned for a credit rating upgrade. The company is engaging with its existing credit rating agencies, and it is hopeful that they will take up AAVAS's case positively.

Valuation and view

- AAVAS reported an operationally weak quarter, with weak AUM growth and disbursements impacted by the one-time shift to a realization-based recognition model. Asset quality saw seasonal deterioration, with a sequential rise in GS3 and 1+dpd levels.
- The company posted RoA/RoE of ~2.9%/~12.6% in 1QFY26. Its continued investments in technology and unwavering focus on asset quality have helped it stand out among peers. Notably, 1+ dpd levels remain well below guidance, supported by prudent underwriting and efficient collections.
- Now that the company has completed all major tech transformations, we expect no disruptions to business activities in the future. Moreover, the improvement in TAT (down to 6 days from its peak of 13 days earlier) should translate into a stronger disbursement growth trajectory in the subsequent quarters.
- The stock trades at 2.4x FY27E P/BV, and the sustenance of these valuation multiples will depend on stronger AUM growth and delivery of operating efficiencies to further improve the RoA profile. **Reiterate Neutral with a TP of INR1,900 (based on 2.6x Mar'27E BVPS).**

Quarterly performance

INR m

Y/E March	FY25				FY26E				FY25	FY26E	1Q FY26E	v/s Est.
	1Q	2Q	3Q	4Q	1Q	2QE	3QE	4QE				
Interest Income	4,797	4,906	5,121	5,353	5,489	5,591	5,797	6,072	20,177	22,949	5,529	-1
Interest Expenses	2,352	2,489	2,587	2,647	2,713	2,781	2,862	2,944	10,075	11,301	2,700	0
Net Income	2,446	2,418	2,533	2,705	2,776	2,810	2,935	3,128	10,102	11,648	2,829	-2
YoY Growth (%)	8	9	15	14	14	16	16	16	11	15	16	
Other income	628	898	859	1,022	790	962	963	1,144	3,407	3,859	830	-5
Total Income	3,074	3,316	3,392	3,728	3,566	3,772	3,898	4,271	13,509	15,507	3,659	-3
YoY Growth (%)	10	13	16	15	16	14	15	15	13	15	19	
Operating Expenses	1,379	1,368	1,447	1,719	1,662	1,607	1,703	1,869	5,912	6,841	1,678	-1
YoY Growth (%)	3	5	7	20	21	18	18	9	9	16	22	
Operating Profits	1,695	1,948	1,945	2,009	1,904	2,164	2,195	2,402	7,597	8,666	1,981	-4
YoY Growth (%)	16	19	23	10	12	11	13	20	17.1	14.1	16.9	
Provisions	86	48	61	76	113	68	76	75	271	331	90	25
Profit before Tax	1,609	1,900	1,884	1,932	1,791	2,097	2,119	2,327	7,326	8,335	1,891	-5
Tax Provisions	348	421	420	395	399	461	466	477	1,585	1,803	431	-7
Profit after tax	1,261	1,479	1,464	1,537	1,392	1,636	1,653	1,851	5,741	6,532	1,460	-5
YoY Growth (%)	15	22	26	8	10	11	13	20	17.0	13.8	15.8	

Key Parameters (%)

Yield on loans	13.1	13.04	13.18	13.13	13.1				13.5	13.2	
Cost of funds	8.1	8.15	8.24	8.24	8.0				7.7	7.5	
Spread	5.00	4.89	4.94	4.89	5.11				5.8	5.7	
NIM - YTD	7.31	7.6	7.54	7.64	7.48				5.4	5.2	
Credit cost	0.20	0.1	0.1	0.2	0.22				0.2	0.2	
Cost to Income Ratio (%)	44.8	41.2	42.7	46.1	46.6				43.8	44.1	
Tax Rate (%)	21.7	22.2	22.3	20.5	22.3				21.6	21.6	

Balance Sheet Parameters

AUM (INR B)	178.4	184.0	192.4	204.2	207.4	216.2	227.0	240.5	204.2	240.5	
Change YoY (%)	21.8	20.1	19.6	17.9	16.2	17.5	18.0	17.8	18	18	
AUM mix (%)											
Home loans	69.0	69.0	69.0	68.0	67.0				68.0	66.8	
Mortgage loans	14.0	13.0	13.0	13.0	13.0				32.0	33.2	
Loans (INR B)	144.4	147.1	153.2	162.3	162.3	169.7	178.2	188.8	162.3	188.8	
% of AUM	81.0	80.0	79.6	79.5	78.2	78.5	78.5	78.5	15.9	16.3	
Disbursements (INR B)	12.1	12.9	15.9	20.2	11.5	17.5	19.6	23.4	61.2	71.9	
Change YoY (%)	13.4	2.8	17.0	6.9	-5.4	35.0	23.0	15.5	10	17	
Borrowings (INR B)	126.0	124.8	133.8	139.2	143.9	149.4	155.0	162.2	139.2	162.2	
Change YoY (%)		12.0	16.6	12.3	14.2	19.7	15.9	16.5	13	17	
Borrowings/Loans (%)	87.2	84.8	87.4	85.8	88.7	88.0	87.0	85.9	85.8	85.9	
Debt/Equity (x)	3.2	3.1	3.2	3.2	3.2	3.2	3.2	3.2	3.2	3.2	

Asset Quality (%)

GS 3 (INR M)	1,466.1	1,601.0	1,757.0	1,763.0	1,987.0				1,295		
G3 %	1.0	1.1	1.14	1.08	1.2				1.04		
NS 3 (INR M)	1,043.4	1,142.0	1,233.0	1,191.0	1,360.0				939		
NS3 %	0.72	0.78	0.80	0.73	0.84				0.76		
PCR (%)	28.8	28.7	29.8	32.4	31.6				27.5		
ECL (%)	0.6	0.6	0.7	0.7	0.7				0.64		

Return Ratios - YTD (%)

ROA (Rep)	3.0	3.3	3.3	3.3	2.9				3.3		
ROE (Rep)	13.1	14.0	14.1	14.1	12.6				14.1		

E: MOFSL Estimates

Seasonal deterioration in asset quality; 1+dpd rises ~75bp QoQ to ~4.15%

- Asset quality exhibited seasonal deterioration, with GS3/NS3 rising ~15bp/10bp QoQ to 1.2%/0.85%. 1+ dpd rose ~75bp QoQ to 4.15%.
- Management shared that the increase in 1+ dpd during the quarter was due to seasonal factors, and the company has already seen normalization trends in Jul'25 (with 1+ dpd < 4%), reinforcing its confidence in the stability of the portfolio.
- Credit costs stood at INR113m (v/s est. of ~INR90m) and translated into an annualized credit cost of ~22bp (PY: ~20bp and PQ: ~15bp). We model credit costs of ~20bp each in FY26-27.

Spreads rise ~20bp QoQ; CoB dips ~20bp sequentially

- The reported spreads rose ~20bp QoQ to 5.1% (v/s ~4.9% in 4QFY25), while CoB declined ~22bp QoQ at ~8.02%. Management shared that CoB will continue to trend downwards in the coming quarters.
- 1QFY26 Core NIM (calc.) was stable QoQ at ~6.85%. We model NIMs (as a % of AUM) of 5.2%/5.3% in FY26/FY27E.
- Within AAVAS's bank borrowings, ~38% is linked to EBLR, 40% is linked to MCLR (within which ~24-25% is linked to up to 3M MCLR), and ~22% is fixed-rate.



Highlights from the management commentary

Guidance

- Management guided an 18-20% AUM growth in FY26 and 20-25% AUM growth from FY27 onwards.
- Impact on disbursements can be covered up in 2Q and 3Q
- Guided a continued downward trend in its cost of borrowings

Disbursements and the one-time impact from the change in the realization model

- The primary reason for the impact on disbursements is because of the change in the realization model. Now the disbursements are booked only when the funds are credited to the account of the customer.
- LAP and MSME segments were not impacted because they are primarily RTGS disbursements
- Categories like Builder purchase and Home re-purchase were impacted because of the cheque disbursements.
- Adjusted for this change in the disbursement realization, disbursements in 1QFY26 would have grown double-digit YoY.
- Recent demand trends have been encouraging, with disbursements growing ~16% YoY in Jul'25. Disbursement run-rate (cheque realized) stood at INR5.5-6.0b in Jul'25 (which was up 16% YoY)

Asset Quality

- AAVAS observed some seasonal uptick in delinquencies. 1+dpd has already shown normalization trends in July, reinforcing its confidence in the stability of the portfolio
- Ticket-size of more INR500k has 1+ dpd <4% and GNPA <1% of AUM

- Rajasthan and its Northern States have 1+dpd <4%
- GS3/GNPA rose by ~15bp QoQ to 1.22% and this is largely seasonal in nature. 1+dpd rose by ~75bp QoQ and ~50bp YoY to 4.15%
- 1+dpd stood at 4.15% in Jun'25 but fell below ~4% in Jul'25
- Aavas highlighted a few markets where there was a seasonal spike, and it has tightened the credit underwriting in those markets. Barring a few isolated pockets, it is not seeing any broad-based credit quality concerns, and it expects AUM growth to start picking up in the coming quarters.
- Pockets in states of Maharashtra, MP, and Karnataka have exhibited some stress. This was particularly pronounced in ticket sizes below INR500K.

Liabilities

- Within its Bank borrowings, ~38% is linked to EBLR, 40% is linked to MCLR (within which ~24-25% is linked to up to 3M MCLR), and ~22% is fixed-rate
- Received a fresh sanction from NHB in the quarter and completed a drawdown of INR2b in the quarter
- Borrowing Mix: Term Loans: 49% | Assignment: 25% | NHB: 14% and Debt Capital Markets: 11%
- ~58% of its total borrowings will exhibit faster re-pricing in line with the decline in the policy repo rates

Credit rating discussions

- Management shared that the company is well-positioned for a credit rating upgrade. The company is engaging with its existing credit rating agencies, and it is hopeful that they will take up AAVAS's case positively.

Opex

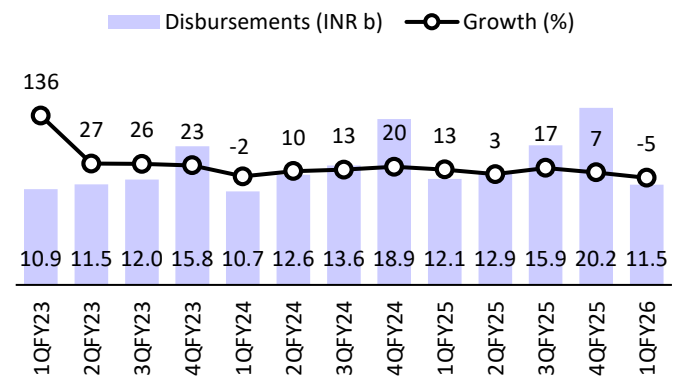
- Aavas has a direct distribution model and its employee on rolls will be higher under this model compared to an intermediary-led or channel-led distribution model.
- Beginning to see positive results in its partnerships with CSC, E-mitra, and India Post Bank. The company is receiving 1000+ monthly logins through the CSC partnership. There have been staff additions to handle the digital channels and fulfill leads originated through these channels.

Others

- AUM grew 16% YoY and ~2% QoQ to INR207.4b
- Aavas has not made any PLR changes in FY26-YTD. It will decide on making any changes to the PLR by the end of 2Q or early 3Q.
- Remains well-capitalized with a networth of INR45b and CRAR of 43.2%
- Aavas remains focused on self-employed segments where it sees a better risk-reward
- Over 450 Aavas customers have benefited from PMAY 2.0 and have received a total subsidy of INR15m
- Branch openings will be front-ended in 1H of this fiscal year(unlike in the prior years). The company will be entering a new state, Tamil Nadu, and all 10 new branches will be located there.
- Aavas (relative to its peers) has the lowest BT-OUT rate of ~4.9%

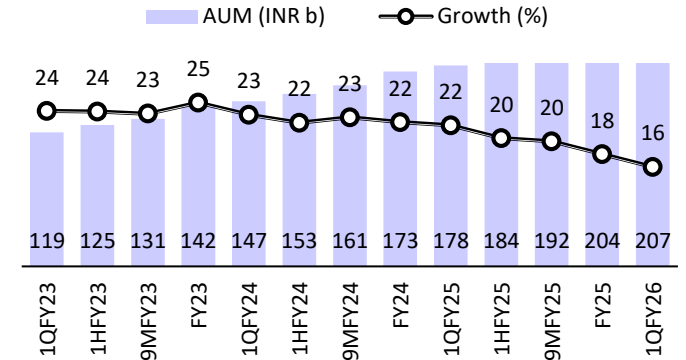
Key exhibits

Exhibit 1: Disbursements declined ~5% YoY



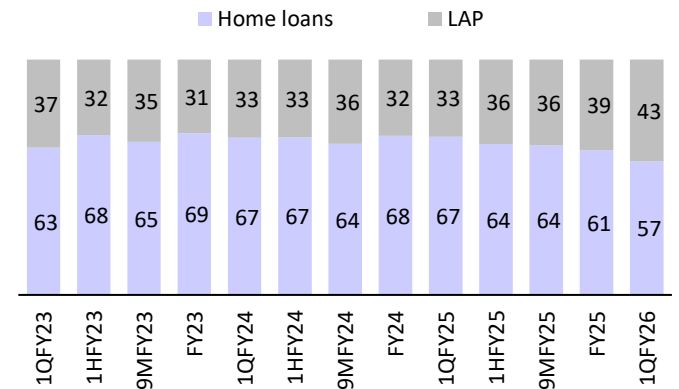
Source: MOFSL, Company

Exhibit 2: AUM grew 16% YoY



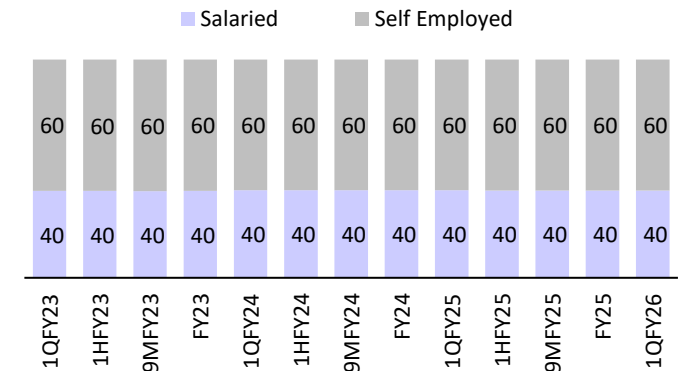
Source: MOFSL, Company

Exhibit 3: Share of home loans in disbursements declined QoQ (%)



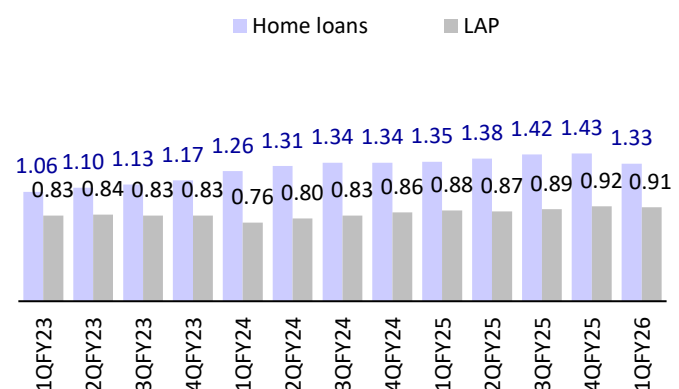
Source: MOFSL, Company

Exhibit 4: Stable customer mix (%)



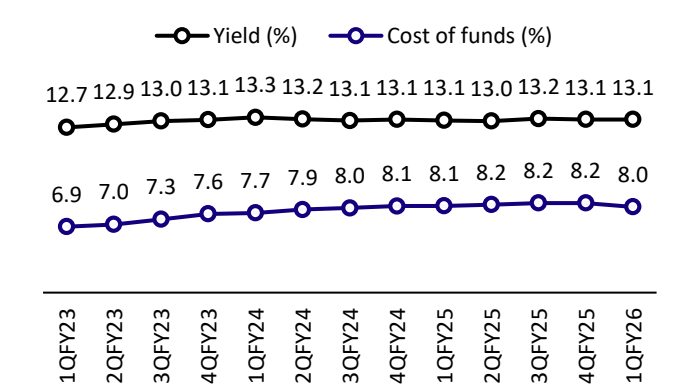
Source: MOFSL, Company

Exhibit 5: ATS in home loans declined QoQ (INR m)



Source: MOFSL, Company

Exhibit 6: Reported spreads rose ~20bp QoQ



Source: MOFSL, Company

Exhibit 7: Opex/AUM declined to ~3.2% (%)

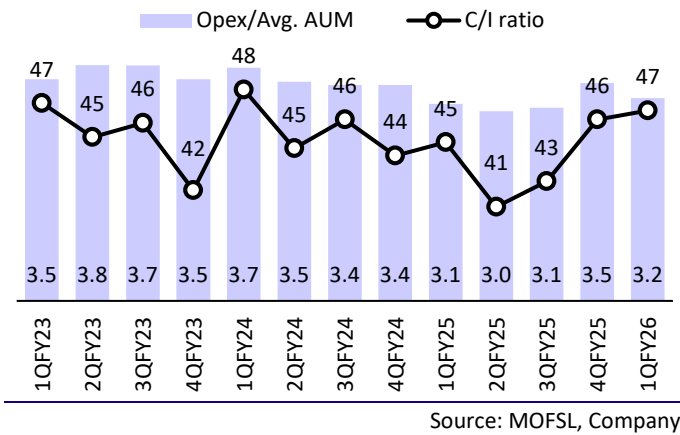


Exhibit 8: GS3 rose ~15bp QoQ (%)

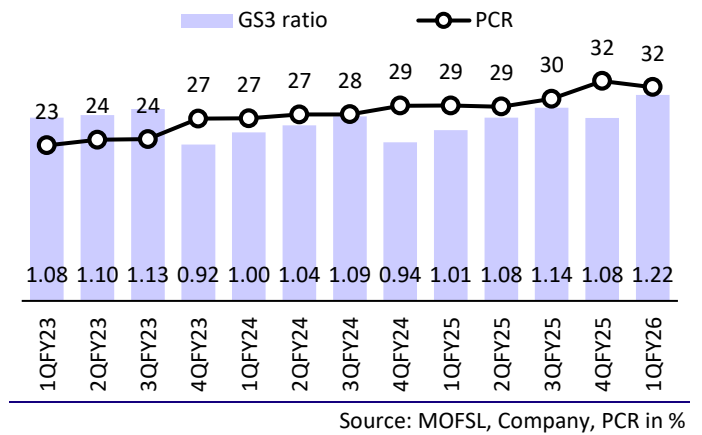


Exhibit 9: 1+dpd rose ~75bp QoQ to ~4.15%

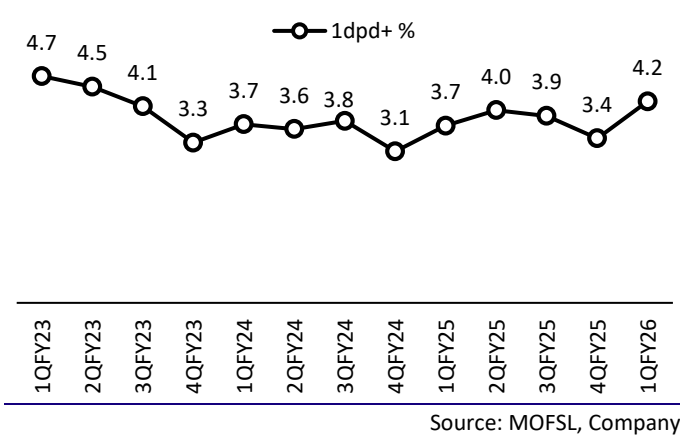


Exhibit 10: 1QFY26 PAT grew 10% YoY

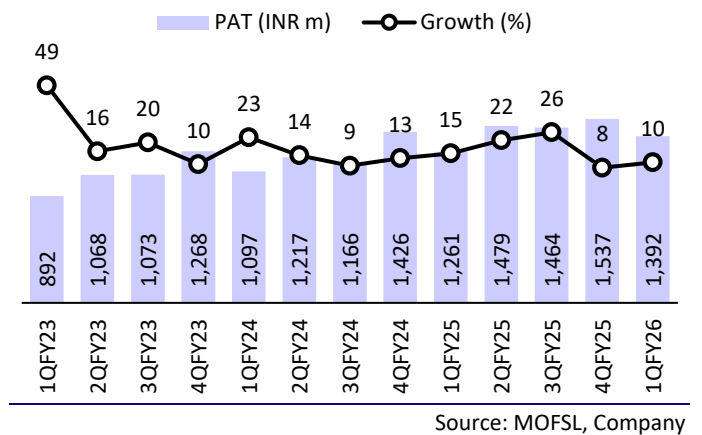
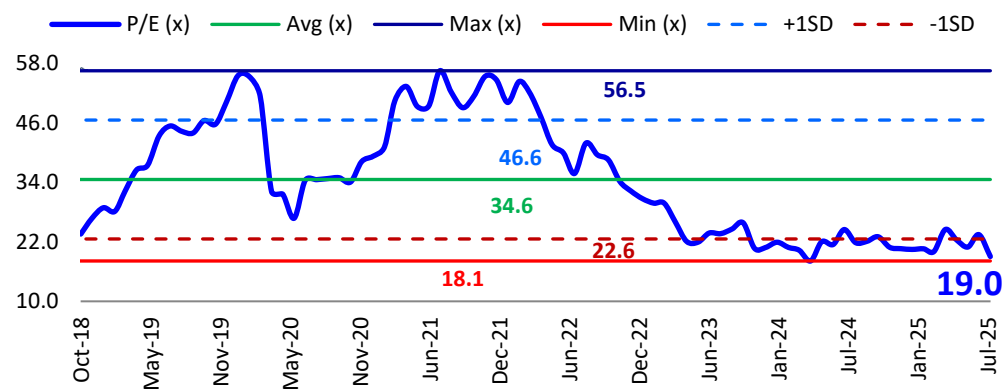


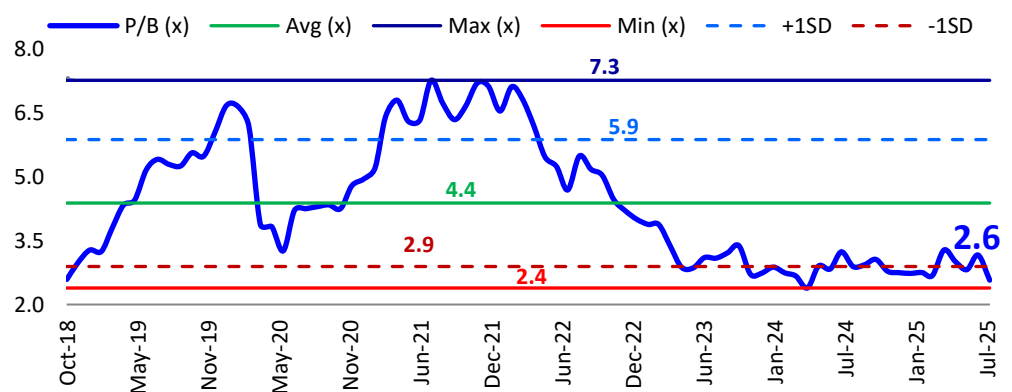
Exhibit 11: We cut our FY26 EPS estimates by ~3% to factor in slightly lower loan growth and non-interest income

INR b	Old Est.		New Est.		Change (%)	
	FY26E	FY27E	FY26E	FY27E	FY26E	FY27E
NII	11.9	13.8	11.6	13.9	-2.0	0.3
Other Income	3.9	4.5	3.9	4.4	-0.6	-1.3
Total Income	15.8	18.3	15.5	18.3	-1.7	-0.1
Operating Expenses	6.8	7.7	6.8	7.7	0.2	0.5
Operating Profits	8.9	10.6	8.7	10.5	-3.1	-0.5
Provisions	0.3	0.4	0.3	0.4	-1.4	0.9
PBT	8.6	10.2	8.3	10.1	-3.2	-0.5
Tax	1.9	2.2	1.8	2.2	-3.2	-0.5
PAT	6.7	8.0	6.5	8.0	-3.2	-0.5
AUM	241	284	240	283	-0.2	-0.2
Borrowings	164	194	162	195	-1.1	0.4
NIM (%)	5.3	5.3	5.2	5.3		
ROA (%)	3.3	3.4	3.2	3.4		
RoE (%)	14.4	14.7	13.9	14.7		

Source: MOFSL, Company

Exhibit 12: One-year forward P/E


Source: MOFSL, Company

Exhibit 13: One-year forward P/B


Source: MOFSL, Company

Financials and valuations

Income statement

	INR m									
Y/E March	FY18	FY19	FY20	FY21	FY22	FY23	FY24	FY25	FY26E	FY27E
Interest Income	3,926	5,935	7,864	9,764	11,288	13,882	17,347	20,177	22,949	26,896
Interest Expended	1,931	2,554	3,561	4,582	4,775	5,910	8,284	10,075	11,301	13,025
Net Interest Income	1,995	3,382	4,304	5,182	6,513	7,971	9,063	10,102	11,648	13,871
Change (%)	56.0	69.5	27.3	20.4	25.7	22.4	13.7	11.5	15.3	19.1
Gain on Securitisation	602	783	766	864	1,240	1,518	1,795	2,074	2,323	2,625
Other Operating Income	417	391	401	426	539	701	1,061	1,333	1,536	1,793
Total Income	3,014	4,556	5,470	6,471	8,293	10,191	11,919	13,509	15,507	18,289
Change (%)	85.3	51.2	20.1	18.3	28.2	22.9	17.0	13.3	14.8	17.9
Operating Expenses	1,645	1,890	2,296	2,566	3,506	4,577	5,430	5,912	6,841	7,747
Operating Income	1,369	2,666	3,174	3,905	4,787	5,614	6,489	7,597	8,666	10,542
Change (%)	43.6	94.7	19.1	23.0	22.6	17.3	15.6	17.1	14.1	21.7
Provisions	26	89	153	371	226	124	245	271	331	393
PBT	1,343	2,577	3,020	3,533	4,561	5,490	6,244	7,326	8,335	10,149
Tax	412	818	529	638	981	1,189	1,338	1,585	1,803	2,195
Tax Rate (%)	30.7	31.7	17.5	18.1	21.5	21.7	21.4	21.6	21.6	21.6
PAT	931	1,759	2,491	2,895	3,580	4,301	4,907	5,741	6,532	7,953
Change (%)	60.9	89.0	41.6	16.2	23.7	20.1	14.1	17.0	13.8	21.8

Balance sheet

Y/E March	FY18	FY19	FY20	FY21	FY22	FY23	FY24	FY25	FY26E	FY27E
Capital	692	781	783	785	789	791	791	792	792	792
Reserves & Surplus	11,207	17,589	20,196	23,229	27,297	31,906	36,942	42,817	49,349	57,302
Net Worth	11,899	18,370	20,979	24,014	28,086	32,697	37,733	43,608	50,140	58,093
Borrowings	27,376	36,533	53,520	63,454	79,725	98,407	1,23,365	1,39,185	1,62,171	1,94,671
Change (%)	52.6	33.4	46.5	18.6	25.6	23.4	25.4	12.8	16.5	20.0
Other liabilities	1,126	1,366	2,081	2,132	2,392	3,002	4,096	3,392	4,070	4,884
Total Liabilities	40,401	56,268	76,580	89,600	1,10,204	1,34,105	1,65,195	1,86,185	2,16,381	2,57,648
Loans	33,334	47,245	61,808	75,233	90,534	1,14,763	1,40,044	1,62,297	1,88,790	2,25,314
Change (%)	54.1	41.7	30.8	21.7	20.3	26.8	22.0	15.9	16.3	19.3
Investments	45	45	45	45	675	1,231	1,822	2,300	2,990	3,887
Change (%)	NM	0.0	0.0	0.0	1,400.4	82.3	48.0	26.3	30.0	30.0
Other assets	7,022	8,978	14,727	14,323	18,994	18,112	23,329	21,587	24,601	28,448
Total Assets	40,401	56,268	76,580	89,600	1,10,204	1,34,105	1,65,195	1,86,185	2,16,381	2,57,648

E: MOFSL Estimates

Financials and valuations

Ratios	(%)									
Y/E March	FY18	FY19	FY20	FY21	FY22	FY23	FY24	FY25	FY26E	FY27E
Spreads Analysis (%)										
Avg Yield on Loan portfolio	14.2	13.9	13.5	14.1	13.8	13.7	13.6	13.5	13.2	13.1
Avg. Cost of borrowings	8.5	8.0	7.9	7.8	6.7	6.6	7.5	7.7	7.5	7.3
Interest Spread	5.7	5.9	5.6	6.3	7.1	7.1	6.1	5.8	5.7	5.8
Net Interest Margin (AUM)	5.9	6.8	6.3	6.0	6.3	6.2	5.8	5.4	5.2	5.3
Profitability Ratios (%)										
RoE	10.6	11.6	12.7	12.9	13.7	14.2	13.9	14.1	13.9	14.7
RoA	2.9	3.6	3.8	3.5	3.6	3.5	3.3	3.3	3.2	3.4
Loans/Equity (x)	2.8	2.6	2.9	3.1	3.2	3.5	3.7	3.7	3.8	3.9
Cost/Income	54.6	41.5	42.0	39.7	42.3	44.9	45.6	43.8	44.1	42.4
Asset Quality (%)										
Gross NPAs	107	158	210	739	904	1,067	1,319	1,763	2,145	2,565
Gross NPAs to Adv.	0.3	0.3	0.3	1.0	1.0	0.9	0.9	1.1	1.1	1.1
Net NPAs	83	112	171	538	695	780	939	1,191	1,449	1,733
Net NPAs to Adv.	0.2	0.2	0.3	0.7	0.8	0.7	0.7	0.7	0.8	0.8
VALUATION										
Book Value (INR)	172	235	268	306	356	414	477	551	633	734
Price-BV (x)	10.0	7.3	6.4	5.6	4.8	4.2	3.6	3.1	2.7	2.4
EPS (INR)	13.5	22.5	31.8	36.9	45.4	54.4	62.0	72.5	82.5	100.5
EPS Growth YoY	35	67	41	16	23	20	14	17	13.8	21.8
Price-Earnings (x)	128.2	76.6	54.2	46.8	38.0	31.7	27.8	23.8	20.9	17.2
Dividend per share (INR)	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Dividend yield (%)	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0

E: MOFSL Estimates

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SELL	< - 10%
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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

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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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