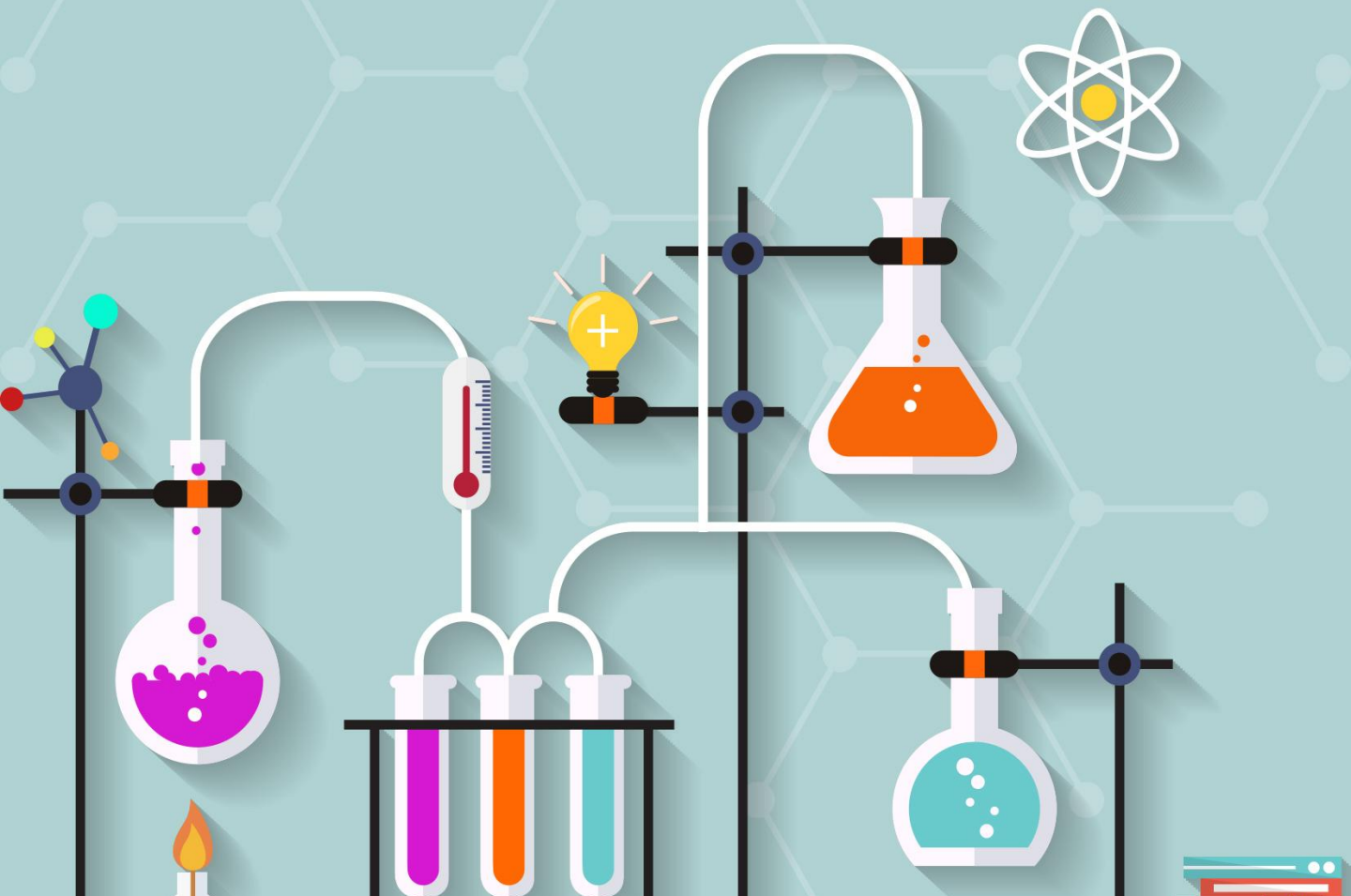


UPL Ltd.



UPL Ltd

Getting bigger and better

| | | | | | |
|-------------------------|----------------------------|----------------------------------|---------------------------------------|-------------------------------------|--------------------------------|
| CMP INR 1,011 | Target INR 1,142 | Potential Upside 12.4% | Market Cap (INR Mn) 517,518 | Recommendation ACCUMULATE | Sector Agrochemicals |
|-------------------------|----------------------------|----------------------------------|---------------------------------------|-------------------------------------|--------------------------------|

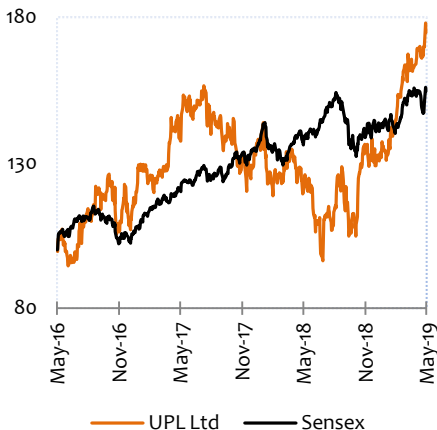
Result highlights

UPL reported a revenue growth of 49.8% YoY and 73.2% QoQ to INR 85.2 bn driven by strong performance across the LatAm and European regions. OPM declined by 486 bps YoY and 411 bps QoQ to 16.5% which led EBITDA at INR 14.1 bn. Net profit declined by 64.3% YoY and 43.8% QoQ to INR 2.06 bn due to lower other income, exceptional costs as well as foreign exchange loss for the quarter. Forex loss as reported at INR 1.2 bn (v/s forex gains of INR 2.0 bn in Q4FY18) while exceptional costs were significant at INR 3 bn related to acquisition of Arysta (acquisition, litigation costs). Other income was down 59.3% YoY (+29.7% QoQ) to INR 480 mn. On a proforma basis (excl. Arysta), UPL's revenue were up by 15.2% YoY to INR 6.6 while OPM increased to 21.8% (+40 bps YoY). Proforma PAT was reported at INR 8.6 bn (+17.5% YoY). The board has declared a dividend of INR 8/share on a FV of INR 2. It has also announced a bonus of 1 equity share of INR 2 for every 2 fully paid-up share.

MARKET DATA

| | |
|---------------------|----------|
| Shares outs (Mn) | 509 |
| Equity Cap (INR Mn) | 1019 |
| Mkt Cap (INR Mn) | 517,518 |
| 52 Wk H/L (INR) | 1043/538 |
| Volume Avg (3m K) | 2045 |
| Face Value (INR) | 2 |
| Bloomberg Code | UPLL IN |

SHARE PRICE PERFORMANCE



MARKET INFO

| | |
|--------|--------|
| SENSEX | 39,110 |
| NIFTY | 11,738 |

SHARE HOLDING PATTERN (%)

| Particulars | Mar 19 | Dec 18 | Sep 18 |
|-------------|--------|--------|--------|
| Promoters | 27.88 | 27.91 | 27.9 |
| FIIIs | 42.77 | 41.91 | 42.35 |
| DIIIs | 9.1 | 9.54 | 8.61 |
| Others | 20.26 | 20.64 | 21.14 |
| Total | 100 | 100 | 100 |

KEY FINANCIALS

| Particulars (INR Mn) | FY17 | FY18 | FY19 | FY20E | FY21E |
|----------------------|----------|----------|----------|----------|----------|
| Net Revenues | 1,63,118 | 1,73,780 | 2,18,370 | 3,66,524 | 3,84,850 |
| EBITDA | 32,228 | 35,160 | 41,120 | 76,237 | 82,743 |
| Adj. PAT | 18,081 | 20,850 | 18,980 | 29,126 | 32,839 |
| Adj. EPS (INR) | 35.45 | 40.88 | 37.22 | 57.11 | 64.39 |
| OPM | 19.8% | 20.2% | 18.8% | 20.8% | 21.5% |
| NPM | 11.1% | 12.0% | 8.7% | 7.9% | 8.5% |
| P/E (x) | 28.5 | 24.7 | 27.2 | 17.7 | 15.7 |

Source: Company, KRChoksey Research

Arysta acquisition to set new avenues

Post the acquisition, UPL becomes the 5th largest agrochem player with a strong global presence of over 130 countries with more than 13k product registrations.

Arysta has a strong presence in Eastern Europe, Africa and Middle East which can provide opportunities to UPL to diversify its revenue stream in the coming years. The acquisition will also mark UPL's entry into bio-solutions and seed treatment, an area where UPL lacks presence. Guidance for revenue/cost synergies stand at \$100 mn/\$120 respectively. The management indicated that the agrochemicals market has been consolidating in the last 3-4 years which is expected to further continue. We have a strong positive outlook on UPL achieving new synergies from the acquisition and Arysta's asset-light operations well complementing the former's business model.

Exceptional costs related to acquisition weigh down performance

One-off costs were reported at INR 2.99 bn pertaining to the acquisition costs of Arysta, litigation costs in US and restructuring expenses related in the LatAm region. Consol. EBITDA came in at INR 14.1 bn (+15.8% YoY, +38.8% QoQ) with a decline in OPM to 16.5%. Finance costs doubled to INR 4 bn due to debt raised for acquisition while depreciation more than doubled to INR 4.3 bn. Net Debt/EBITDA increased from 1.0x in FY18 to 6.3x in FY19.

Excluding Arysta, Q4 witnessed a 7%/5% volume/price growth with a positive 3% forex growth resulting into an EBITDA of 14.1 bn (+15.7% YoY) with proforma OPM of 21.8% (+39 bps YoY, +115 bps QoQ). Working capital days increased from 84 to 95 days due to supply disruption to China. The management has guided WC days of 110-120 due to Arysta's WC cycle being longer than that of UPL.

32.8%

 Revenues CAGR between
FY19 and FY21E

31.5%

PAT between FY19 and FY21E

ANALYST

 Neha Raichura, neha.raichura@krchoksey.com, +91-22-6696 5590

KRChoksey Research

 is also available on Bloomberg KRCS<GO>
Thomson Reuters, Factset and CapitalIQ

 Phone: +91-22-6696 5555 / Fax: +91-22-6691 9576
www.krchoksey.com

UPL Ltd

Steady performance across Europe and LatAm regions; India disappoints

LatAm: Highest growth came from the primary LatAm region (36% of total revenues) with revenue growth of 25% driven by Unizeb products portfolio. Demand growth was also driven by insecticide Sperto, launched 2 years ago.

Europe: Revenue growth from Europe (14% of total revenues) was 16% on the back of good sugar-beet season resulting in valuable demand for herbicides in which UPL is a dominant player. UPL faced some challenges for other insecticides (such as Perito) as largely they were sourced from China which was affected because of supply disruption.

North America: North America reported a growth of 13% (18% of total revenues) however the growth especially for the US seems uncertain on the back of the on-going US-China trade war. Glufosinate is the primary high-growth Active Ingredient (AI) for herbicides supplied to the region which major grown crops are soybean and maize (covering >60% of the total acreage in the US), the targets crops for Glufosinate AI.

India: India revenue growth remained subdued at 4% (17% of total revenues) due to erratic monsoons in FY19 although there was some demand growth in insecticides and herbicides.

Rest of World (RoW): RoW growth came at 6% (17% of total revenues) with Africa and S.E. Asia driving demand growth, while Australia underperformed due to drought periods. With the Arysta acquisition, we expect incremental growth coming from regions like Middle East and other parts of Africa.

Valuation & Outlook:

The acquisition of Arysta opens new pathways for UPL on the back of a strong geographical presence and demand for its existing and new product portfolios. UPL's growth prospects as a global agrochem player have strengthened placing it at a higher notch in a consolidating industry. The alliance gives UPL access to a more complete product portfolio along with not only a strong geographic reach in new markets (Middle East) but an enhanced presence in the existing regions (Eastern Europe). Management has provided a strong guidance for FY20E - 8-10% revenues growth and 16-20% EBITDA growth. We believe the growth appears reasonable, given the strong global footing in a consolidating market leading to potentially higher market share and improving margins. We expect revenues to grow at a CAGR of 32.8% over FY19-21E and PAT to grow at a CAGR of 31.5% over FY19-21E. At a CMP of INR 1,016, UPL is trading at a valuation of 17.8x FY20E EPS and 15.8x FY21E EPS. We valued the company by assigning a P/E multiple of 20x on the FY20E EPS of INR 57.1 and arrived at a target price of INR 1,142.0 (potential upside – 12.4%). **We have an ACCUMULATE rating on the stock.**

UPL Capital Markets Day 2019 Highlights

- Consumers are willing to pay for sustainable agriculture. For example, consumers are willing to pay higher prices for organic farming/products and UPL is well positioned in that space to cap the amount of resources used for developing sustainable agriculture.
- Food value chains could be driven by partnership between food companies, technology companies like UPL and the farmers which would change the way UPL will do business. Costs could be amortized over the life cycle of the crop – from when the farmers decide to put the crop to seed treatment and disease management and pre-harvesting technologies.
- The biggest challenge going forward is how to make farmers more resilient to changing climate. Integrating with Arysta helps to protect value and bring in technology which increases the value for farmers. Focus is also on how to improve their income.
- Has become a tier 1 player having the necessary scale to sustain in this consolidating industry. It is diversified across various geographies and many crops with complete solutions ranging from seeds to post harvest. UPL is a leader in bio solutions.
- Best positioned in emerging markets. In the coming 30 years, 80% of all the agricultural production is going to come from emerging markets.
- New focus is on Pronutiva – complete solutions package to farmers from seeds to enhancing crop yield. In the past, there was a focus on controlling pests and diseases, but now the focus is on how to improve the physiology of the plant – boosting its metabolism. Bio-stimulants help in regulating the gene activity in the plant affecting the metabolism at different stages. UPL has the largest offerings of bio-stimulants in the market through the Pronutiva network.
- UPL's open access network is also growing with an aim to reach every grower across key crops, key geographies and UPL is very close to achieving that goal. UPL interacts with distributors and value chain partners as well as key growers on a day-to-day basis to understand their needs.
- UPL has a pipeline of USD 3 bn of peak sales value potential and it is ready execute on those projects.
- Example of product innovation is Banzai – used in West Africa (which produces >70% of world's cocoa) in the production of cocoa. Banzai has helped to increase yields by 40%.

UPL Ltd

QUARTERLY PERFORMANCE

| Particulars (INR mn) | Q4FY19 | Q3FY19 | Q4FY18 | QoQ (%) | YoY (%) |
|--|---------------|---------------|---------------|------------------|-----------------|
| Revenue from operations | 85,250 | 49,210 | 56,910 | 73.2% | 49.8% |
| Cost of goods sold | 49,660 | 22,230 | 29,020 | 123.4% | 71.1% |
| Gross Profit | 35,590 | 26,980 | 27,890 | 31.9% | 27.6% |
| Gross Margin (%) | 41.7% | 54.8% | 49.0% | -1308 bps | -726 bps |
| Employee benefit expenses | 6,700 | 5,040 | 4,300 | 32.9% | 55.8% |
| Other expenses | 14,790 | 11,780 | 11,410 | 25.6% | 29.6% |
| Total Operating Expenses | 21,490 | 16,820 | 15,710 | 27.8% | 36.8% |
| EBITDA | 14,100 | 10,160 | 12,180 | 38.8% | 15.8% |
| EBITDA Margin (%) | 16.5% | 20.6% | 21.4% | -411 bps | -486 bps |
| Depreciation | 4,310 | 1,820 | 1,840 | 136.8% | 134.2% |
| EBIT | 9,790 | 8,340 | 10,340 | 17.4% | -5.3% |
| Finance Cost | 4,050 | 2,020 | 4,100 | 100.5% | -1.2% |
| Other Income | 480 | 370 | 1,180 | 29.7% | -59.3% |
| Exchange dif (net) on trade rec & pay | -1,190 | -780 | 2,030 | NM | NM |
| Share of profit/(loss) from ass & JVs | 280 | -40 | -360 | NM | NM |
| Profit before tax (PBT) | 5,310 | 5,870 | 9,090 | -9.5% | -41.6% |
| Tax Expenses | -310 | 280 | 1,660 | NM | NM |
| Adjusted Profit after Tax (PAT) | 5,620 | 5,590 | 7,430 | 0.5% | -24.4% |
| PAT Margin (%) | 6.6% | 11.4% | 13.1% | -477 bps | -646 bps |
| Adj. EPS (INR) | 5.16 | 9.18 | 14.45 | -43.8% | -64.3% |
| Exceptional Items | -2990 | -910 | -60 | | |
| Profit after Tax (PAT) | 2,630 | 4,680 | 7,370 | | |

Source: Company, KRChoksey Research

PROFORMA UPL INCOME STATEMENT

| | Reported Financials | | Arysta Acquisition | | | Proforma Legacy UPL | | | | Change |
|--|---------------------|-------------|--------------------|---------------------|---------------|---------------------|-------------|---------------|-------------|------------|
| | Q4FY19 | | Arysta* | Acquisition Related | PPA* | Proforma Q4FY2019 | | Q4FY18 | | |
| | INR mn | (%) | INR mn | INR mn | INR mn | INR mn | (%) | INR mn | (%) | (%) |
| Total Revenue from Operations | 85,240 | 100% | 19,680 | | | 65,560 | 100% | 56,910 | 100% | 15% |
| Variable Cost | 56,760 | | 11,430 | | 4,420 | 40,910 | | 35,190 | | 16% |
| Contribution | 28,480 | 33% | 8,250 | | -4,420 | 24,650 | 38% | 21,720 | 38% | 13% |
| Fixed Overheads | 14,390 | | 4,080 | | | 10,310 | | 9,540 | | 8% |
| EBITDA | 14,090 | 17% | 4,170 | | -4,420 | 14,340 | 22% | 12,180 | 21% | 18% |
| Other Income | -720 | | -130 | | | -590 | | 3,200 | | -118% |
| (-) Depreciation | 4,310 | | 1,200 | | 1,020 | 2,090 | | 1,840 | | 14% |
| (-) Finance Cost | 4,040 | | 140 | 1,310 | | 2,590 | | 4,100 | | -37% |
| Profit before tax | 5,020 | 6% | 2,700 | -1,310 | -5,440 | 9,070 | 14% | 9,440 | 17% | -4% |
| (-) Tax | -310 | | 1,080 | | -1,630 | 240 | | 1,660 | | -86% |
| Profit after tax | 5,330 | 6% | 1,620 | -1,310 | -3,810 | 8,830 | 13% | 7,780 | 14% | 13% |
| Income from Associate Co. & JV | 290 | | 10 | | | 280 | | -360 | | -178% |
| PAT & Associate Income | 5,620 | 7% | 1,630 | -1,310 | -3,810 | 9,110 | 14% | 7,420 | 13% | 23% |
| (-) Exceptional Costs | 2,990 | | 370 | 2,160 | | 460 | | 60 | | 667% |
| (-) Minority Interest | 570 | | -50 | 610 | | 10 | | 10 | | 0% |
| PAT, Associate Inc & Exceptionals | 2,060 | 2% | 1,310 | -4,080 | -3,810 | 8,640 | 13% | 7,350 | 13% | 18% |

Source: Company, KRChoksey Research

ANALYST

 Neha Raichura, neha.raichura@krchoksey.com, +91-22-6696 5590

KRChoksey Research

 is also available on Bloomberg KRCS<GO>
Thomson Reuters, Factset and CapitalIQ

 Phone: +91-22-6696 5555 / Fax: +91-22-6691 9576
www.krchoksey.com

UPL Ltd

INCOME STATEMENT

| Particulars (INR mn) | FY17 | FY18 | FY19 | FY20E | FY21E |
|---|-----------------|-----------------|-----------------|-----------------|-----------------|
| Revenues | 1,63,118 | 1,73,780 | 2,18,370 | 3,66,524 | 3,84,850 |
| Raw Material Cost | 78,162 | 81,120 | 1,09,040 | 1,77,764 | 1,84,728 |
| Gross Profit | 84,956 | 92,660 | 1,09,330 | 1,88,760 | 2,00,122 |
| Gross Margin (%) | 52.1% | 53.3% | 50.1% | 51.5% | 52.0% |
| Employee Costs | 16,269 | 17,130 | 20,950 | 33,720 | 34,637 |
| Other Direct Expenses | 36,459 | 40,370 | 47,260 | 78,803 | 82,743 |
| Total Operating Expenses | 52,728 | 57,500 | 68,210 | 1,12,523 | 1,17,379 |
| EBITDA | 32,228 | 35,160 | 41,120 | 76,237 | 82,743 |
| EBITDA Margin (%) | 19.8% | 20.2% | 18.8% | 20.8% | 21.5% |
| Depreciation | 6,716 | 6,750 | 9,690 | 31,334 | 35,448 |
| EBIT | 25,512 | 28,410 | 31,430 | 44,903 | 47,295 |
| Finance Cost | 7,351 | 7,830 | 9,630 | 11,727 | 10,087 |
| Other Income | 4,436 | 4,140 | 2,400 | 5,981 | 6,959 |
| Exchange difference on trade receivable/payable | -2,376 | -110 | -2,990 | 0 | 0 |
| Profit before Tax (PBT) | 20,222 | 24,610 | 21,210 | 39,157 | 44,167 |
| Share of P/L of associates | -190 | -930 | 140 | 235 | 247 |
| Minority Interest | 62 | 80 | 720 | 5,126 | 5,780 |
| Profit before Tax (PBT) | 19,969 | 23,600 | 20,630 | 34,266 | 38,634 |
| Tax Expense | 1,888 | 2,750 | 1,650 | 5,140 | 5,795 |
| Profit after Tax (PAT) | 18,081 | 20,850 | 18,980 | 29,126 | 32,839 |
| PAT Margin (%) | 11.1% | 12.0% | 8.7% | 7.9% | 8.5% |
| Exceptional Items Income/(Expense) | -808 | -630 | -4,510 | 0 | 0 |
| Adj. Profit after Tax (PAT) | 17,273 | 20,220 | 14,470 | 29,126 | 32,839 |
| Adj. EPS | 35.45 | 40.88 | 37.22 | 57.11 | 64.39 |

Source: Company, KRChokseyResearch

BALANCE SHEET

| Particulars (INR mn) | FY17 | FY18 | FY19 | FY20E | FY21E |
|-----------------------------------|-----------------|-----------------|-----------------|-----------------|-----------------|
| Shareholder's Equity | 1,014 | 1,020 | 1,020 | 1,020 | 1,020 |
| Reserves & Surplus | 72,963 | 90,670 | 1,45,430 | 1,62,295 | 1,84,865 |
| Minority Interest | 330 | 190 | 33,580 | 33,636 | 33,710 |
| Total Shareholder's funds | 74,308 | 91,880 | 1,80,030 | 1,96,951 | 2,19,595 |
| LT Debt | 53,501 | 58,730 | 2,63,830 | 2,33,830 | 1,98,830 |
| ST Debt | 7,078 | 6,340 | 24,780 | 19,780 | 17,780 |
| Total Debt | 60,579 | 65,070 | 2,88,610 | 2,53,610 | 2,16,610 |
| Other non-current liabilities | 6,149 | 3,400 | 30,980 | 30,980 | 30,980 |
| TOTAL SOURCES OF FUNDS | 1,41,036 | 1,60,350 | 4,99,620 | 4,81,541 | 4,67,185 |
| Net Block | 49,022 | 57,560 | 3,36,840 | 3,50,506 | 3,49,152 |
| Other non-current assets | 18,206 | 22,830 | 23,720 | 23,720 | 23,720 |
| Total Non-Current Assets | 67,228 | 80,390 | 3,60,560 | 3,74,226 | 3,72,872 |
| Cash & cash equivalents | 28,940 | 28,940 | 28,510 | 37,333 | 12,887 |
| Other current assets | 1,07,634 | 1,21,100 | 2,41,410 | 2,00,478 | 2,33,270 |
| Total Current Assets | 1,36,574 | 1,50,040 | 2,69,920 | 2,37,812 | 2,46,157 |
| Total Current Liabilities | 62,767 | 70,080 | 1,30,860 | 1,30,497 | 1,51,844 |
| Net Current Assets | 73,808 | 79,960 | 1,39,060 | 1,07,315 | 94,313 |
| TOTAL APPLICATION OF FUNDS | 1,41,036 | 1,60,350 | 4,99,620 | 4,81,541 | 4,67,185 |

Source: Company, KRChokseyResearch

ANALYST

 Neha Raichura, neha.raichura@krchoksey.com, +91-22-6696 5590

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 is also available on Bloomberg KRCS<GO>
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 Phone: +91-22-6696 5555 / Fax: +91-22-6691 9576
www.krchoksey.com

UPL Ltd

CASH FLOW STATEMENT

| Particulars (INR mn) | FY17 | FY18 | FY19 | FY20E | FY21E |
|---|---------------|---------------|---------------|---------------|----------------|
| Profit before Tax (PBT) | 20,220 | 24,610 | 16,700 | 26,396 | 34,581 |
| Operating profit before working capital changes | 28,750 | 31,590 | 31,780 | 52,248 | 58,235 |
| Net Cash generated from/(used in) operating activities | 25,850 | 28,390 | -68,179 | 92,816 | 46,790 |
| Net Cash Used In Investing Activities | -9,990 | -20,930 | -1,41,250 | -32,000 | -18,000 |
| Net Cash Used in Financing Activities | 1,400 | -8,010 | 2,08,999 | -51,642 | -53,237 |
| Net Increase/(Decrease) in Cash and Cash Equivalents | 17,260 | -550 | -430 | 9,173 | -24,447 |
| Cash and Cash Equivalents at the beginning of the year | 11,770 | 28,800 | 28,590 | 28,160 | 37,333 |
| Cash and Cash Equivalents at the end of the year | 28,800 | 28,590 | 28,160 | 37,333 | 12,887 |

Source: Company, KRChokseyResearch

RATIOS

| Particulars | FY17 | FY18 | FY19 | FY20E | FY21E |
|-------------------------|-------|-------|-------|-------|-------|
| Profitability | | | | | |
| Return on Assets (%) | 8.9% | 9.0% | 3.0% | 4.8% | 5.3% |
| Return on Capital (%) | 19.0% | 18.1% | 7.2% | 10.8% | 11.8% |
| Return on Equity (%) | 24.4% | 22.7% | 13.0% | 17.8% | 17.7% |
| Margin Trend | | | | | |
| Gross Margin (%) | 52.1% | 53.3% | 50.1% | 51.5% | 52.0% |
| EBITDA Margin (%) | 19.8% | 20.2% | 18.8% | 20.8% | 21.5% |
| Net Margin (%) | 11.1% | 12.0% | 8.7% | 7.9% | 8.5% |
| Liquidity | | | | | |
| Current Ratio | 2.0 | 2.0 | 1.7 | 1.6 | 1.5 |
| Quick Ratio | 1.2 | 1.2 | 0.9 | 0.9 | 0.8 |
| Debtor Days | 127 | 127 | 197 | 155 | 155 |
| Inventory Days | 93 | 95 | 155 | 115 | 115 |
| Creditor Days | 109 | 119 | 158 | 135 | 135 |
| Working Capital Days | 110 | 103 | 195 | 135 | 135 |
| Solvency | | | | | |
| Total Debt / Equity | 0.8 | 0.7 | 2.0 | 1.6 | 1.2 |
| Interest Coverage | 3.5 | 3.6 | 3.3 | 3.8 | 4.7 |
| Valuation Ratios | | | | | |
| EV/EBITDA | 17.1 | 15.8 | 18.9 | 9.6 | 8.7 |
| P/E | 28.7 | 24.9 | 27.3 | 17.8 | 15.8 |
| P/B | 7.0 | 5.7 | 3.5 | 3.2 | 2.8 |

Source: Company, KRChokseyResearch

UPL Ltd

| UPL Ltd | | | | Rating Legend | |
|-----------|-----------|----------|----------------|---------------|----------------|
| Date | CMP (INR) | TP (INR) | Recommendation | Our Rating | Upside |
| 23-May-19 | 1011 | 1142 | ACCUMULATE | Buy | More than 15% |
| 02-Aug-18 | 636 | 763 | BUY | | |
| 02-May-18 | 732 | 998 | BUY | Accumulate | 5% – 15% |
| 29-Jan-18 | 789 | 1030 | BUY | | |
| 31-Oct-17 | 824 | 1030 | BUY | Hold | 0 – 5% |
| 01-Aug-17 | 876 | 1015 | BUY | | |
| 02-May-17 | 806 | 1015 | BUY | Reduce | -5% – 0 |
| | | | | | |
| | | | | Sell | Less than – 5% |
| | | | | | |

ANALYST CERTIFICATION:

I, Neha Raichura (CFA Level III Cleared, M.Com), research analyst, author and the name subscribed to this report, hereby certify that all of the views expressed in this research report accurately reflect my views about the subject issuer(s) or securities. I also certify that no part of our compensation was, is, or will be directly or indirectly related to the specific recommendation(s) or view(s) in this report.

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Kisan Ratilal Choksey Shares and Securities Pvt. Ltd

Registered Office:

1102, Stock Exchange Tower, Dalal Street, Fort, Mumbai – 400 001.

Phone: +91-22-6633 5000; Fax: +91-22-6633 8060.

Corporate Office:

ABHISHEK, 5th Floor, Link Road, Andheri (W), Mumbai – 400 053.

Phone: +91-22-6696 5555; Fax: +91-22-6691 9576.

ANALYST

Neha Raichura, neha.raichura@krchoksey.com, +91-22-6696 5590

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Phone: +91-22-6696 5555 / Fax: +91-22-6691 9576
www.krchoksey.com