

**Results slight beat; TCV disappoints but commentary remain hopeful**

- Revenue inline with 6.3% QoQ decline led by persistent challenges in Telecom vertical (down 8.2% in CC terms). Tight cost measures and Fx tailwinds drove OPM beat with QoQ gains of 10bps at 10.1% (DE 9.2%). PAT beat was led by one-time gains of US\$60mn.
- TCV signings were soft at US\$290mn but still the management commentary remains hopeful of recovery hereon given record funnel across vertical and better deal-closure expectancy in Q2.
- Believes worst-is-behind and expect improved performance in Telecom (Pipeline at multi-year high) as well as Enterprise segment (US pipeline quite healthy across HiTech, BFSI and Healthcare).
- Modest growth in Q1, Weak TCV signing, sustained delays in 5G roll-outs suggest no material uptick expected in Q2 and thus we broadly maintain our estimates and retain our Accumulate rating on the stock with TP of Rs720 (valued at 15x FY22E earnings – inline with 3ry Median PER).

**Delays in 5G rollouts and supply-side challenges impacts sustains**

Management believes that 5G roll-outs plans are now delayed by at least two quarters due to COVID impact as well as ongoing Geo-political battle around ban on Huawei in certain key markets. TechM still remains hopeful on the opportunity and is not bogged down by delay as still expects huge opportunities from 5G across three dimensions: 1) Communication, 2) Enterprise and 3) Ecosystem. The company's key client Rakuten went live on 5G and company has seen significant wins in the ecosystem side (designing devices for 5G) as well as key-virtual-infra side (potentially with BSNL). On supply side the challenges remain (combined level about 175bps) on the Network side as well as BPO side (92% remote working achieved). Added TCV of about US\$105mn in the vertical in Q1FY21.

**Enterprise business to see quicker fix; tighter cost mgmt. to prevail**

TechM expects the revenues to improve in this vertical both on supply-side factor as well as improved funnel in US market especially in BFSI, Hitech and Healthcare vertical. Also expect better deal closures. Company also expect to maintain tight leash on all costs and that should help it improve profitability hereon (biggest lever WFH, facility cost savings, travel etc).

**Q1FY21 Result (Rs Mn)**

Particulars	Q1FY21	Q1FY20	YoY (%)	Q4FY20	QoQ (%)
Revenue	91,063	86,530	5.2	94,902	(4.0)
Total Expense	78,058	73,389	6.4	81,424	(4.1)
EBITDA	13,005	13,141	(1.0)	13,478	(3.5)
Depreciation	3,832	3,213	19.3	3,982	(3.8)
EBIT	9,173	9,928	(7.6)	9,496	(3.4)
Other Income	4,161	3,335	24.8	692	501.3
Interest	503	454	10.8	532	(5.5)
EBT	12,831	12,809	0.2	9,656	32.9
Tax	3,276	3,318	(1.3)	2,392	37.0
RPAT	9,722	9,593	1.3	8,039	20.9
APAT	9,722	9,593	1.3	8,039	20.9
			(bps)		(bps)
Gross Margin (%)	28.5	28.8	(26)	29.5	(100)
EBITDA Margin (%)	14.3	15.2	(91)	14.2	8
NPM (%)	10.7	11.1	(41)	8.5	221
Tax Rate (%)	25.5	25.9	(37)	24.8	76
EBIT Margin (%)	10.1	11.5	(140)	10.0	7

CMP	Rs 665
Target / Upside	Rs 720 / 8%
BSE Sensex	37,920
NSE Nifty	11,132

**Scrip Details**

Equity / FV	Rs 4,359mn / Rs 1
Market Cap	Rs 584bn
	US\$ 8bn
52-week High/Low	Rs 846/Rs 471
Avg. Volume (no)	5,212,800
NSE Symbol	TECHM
Bloomberg Code	TECHM IN

**Shareholding Pattern Jun'20(%)**

Promoters	35.9
MF/Banks/FIs	10.1
FII's	37.3
Public / Others	16.7

**Valuation (x)**

	FY20A	FY21E	FY22E
P/E	14.5	15.7	13.8
EV/EBITDA	9.5	9.2	7.5
ROE (%)	19.2	16.1	16.5
RoACE (%)	17.0	14.1	14.7

**Estimates (Rs mn)**

	FY20A	FY21E	FY22E
Revenue	368,677	379,631	418,374
EBITDA	57,261	57,289	67,061
PAT	40,330	37,160	42,247
EPS (Rs.)	45.9	42.3	48.1

**VP Research: Rahul Jain**

Tel: +9122 40969771

E-mail: rahulj@dolatcapital.com

**Associate: Divyesh Mehta**

Tel: +91 22 40969768

E-mail: divyesh.mehta@dolatcapital.com

**Exhibit 1: Quarterly performance versus estimates**

(in Rs mn)	Actual	Estimates		% Variation		Comment
		Dolat	Consensus	Dolat	Consensus	
Revenues (in US\$ mn)	1,208	1,203	1,208	0.4	0.0	Revenue inline with estimates.
Sales	91,063	90,671	90,187	0.4	1.0	
EBIT	9,173	8,342	8,174	10.0	12.2	EBIT ahead of estimates on strict cost measures and Fx tailwinds.
EBIT Margin (%)	10.1	9.2	9.1	90 bps	100 bps	
PAT	9,722	7,361	7,746	32.1	25.5	PAT beat led by one-time gain of 60mn\$ from tax-reversal & earnouts.

Source: Company, DART

**Change in estimates**

Factoring in inline results, soft TCV and modest outlook we have broadly kept our growth/OPM estimate largely intact. Small OPM gains of 10bps have been baked into our estimates given high-focus and strong cost-actions taken in Q1 (expect structural margin improvement from automation, increased WFH delivery and two of its large deal that it won in Q3FY20 to enter in return-generating phase). Current year PAT estimates have seen 4%+ increase due to receipt of one-time income from tax-reversal and earn-outs on subsidiary-sale to the tune of US\$60mn. Adjusted for that PAT estimate would have slightly lower in FY21E. FY22 EPS is broadly unchanged.

**Exhibit 2: Change in estimates**

(Rs mn)	FY21E			FY22E		
	Old	New	% change	Old	New	% Change
Revenues (US\$ mn)	4,982	5,030	0.9	5,486	5,505	0.3
YoY growth (%)	(3.9)	(2.9)		10.1	9.5	
Revenues	375,666	379,631	1.1	414,156	418,374	1.0
EBIT	40,765	41,634	2.1	49,717	50,744	2.1
EBIT Margin (%)	10.9	11.0		12.0	12.1	
Net profits	35,622	37,160	4.3	42,356	42,247	(0.3)
EPS (Rs)	40.5	42.3	4.5	48.2	48.1	(0.1)

Source: Company, DART

**Exhibit 3: Key assumptions in our estimates**

Metrics	FY21E	FY22E
USD Revenue growth (%)	(2.9)	9.5
USD/INR	75.5	76.0
INR Revenue growth (%)	3.0	10.2
EBIT Margins (%)	11.0	12.1
EPS growth (%)	(7.7)	13.7

Source: Company, DART

**Exhibit 4: Key Revenue growth matrix (% YoY)**

YoY Growth	FY19	Q1FY20	Q2FY20	Q3FY20	Q4FY20	FY20	Q1FY21
CC Growth	5.8	3.7	7.5	7.5	3.9	5.6	-1.8
USD Growth	4.2	1.9	5.7	7.3	2.1	4.3	-3.2
INR Growth	12.9	4.6	5.1	7.9	6.7	6.1	5.2

Source: Company, DART

**Exhibit 5: Quarterly and Full Year Performance Trends**

Rs mn	Q1FY20	Q2FY20	Q3FY20	Q4FY20	Q1FY21	YoY (%)	QoQ (%)	YTD FY20	YTD FY21	YoY (%)
<b>Revenues (in US\$ mn)</b>	<b>1,247</b>	<b>1,287</b>	<b>1,353</b>	<b>1,295</b>	<b>1,208</b>	<b>(3.2)</b>	<b>(6.7)</b>	<b>1,247</b>	<b>1,208</b>	<b>(3.2)</b>
Revenue	86,530	90,699	96,546	94,902	91,063	5.2	(4.0)	86,530	91,063	5.2
Operating Expenditure	73,389	75,690	80,913	81,424	78,058	6.4	(4.1)	73,389	78,058	6.4
Cost of revenues	61,642	63,893	67,312	66,896	65,105	5.6	(2.7)	61,642	65,105	5.6
as % of sales	71.2	70.4	69.7	70.5	71.5			71.2	71.5	
SG&A expenses	11,747	11,797	13,601	14,528	12,953	10.3	(10.8)	11,747	12,953	10.3
as % of sales	13.6	13.0	14.1	15.3	14.2			13.6	14.2	
<b>EBITDA</b>	<b>13,141</b>	<b>15,009</b>	<b>15,633</b>	<b>13,478</b>	<b>13,005</b>	<b>(1.0)</b>	<b>(3.5)</b>	<b>13,141</b>	<b>13,005</b>	<b>(1.0)</b>
Depreciation	3,213	3,415	3,848	3,982	3,832	19.3	(3.8)	3,213	3,832	
<b>EBIT</b>	<b>9,928</b>	<b>11,594</b>	<b>11,785</b>	<b>9,496</b>	<b>9,173</b>	<b>(7.6)</b>	<b>(3.4)</b>	<b>9,928</b>	<b>9,173</b>	<b>(7.6)</b>
Other Income	2,959	1,780	2,946	145	3,658	23.6	2,422.8	2,959	3,658	
<b>PBT</b>	<b>12,887</b>	<b>13,374</b>	<b>14,731</b>	<b>9,641</b>	<b>12,831</b>	<b>(0.4)</b>	<b>33.1</b>	<b>12,887</b>	<b>12,831</b>	<b>(0.4)</b>
Total Tax	3,318	2,265	3,629	2,392	3,276	(1.3)	37.0	3,318	3,276	
<b>Adjusted PAT</b>	<b>9,569</b>	<b>11,109</b>	<b>11,102</b>	<b>7,249</b>	<b>9,555</b>	<b>(0.1)</b>	<b>31.8</b>	<b>9,569</b>	<b>9,555</b>	<b>(0.1)</b>
(Profit)/loss from JV's/Ass/MI	102	127	352	775	167	63.7	(78.5)	102	167	
<b>APAT after MI</b>	<b>9,671</b>	<b>11,236</b>	<b>11,454</b>	<b>8,024</b>	<b>9,722</b>	<b>0.5</b>	<b>21.2</b>	<b>9,671</b>	<b>9,722</b>	<b>0.5</b>
<b>Reported EPS</b>	<b>10.9</b>	<b>12.8</b>	<b>13.0</b>	<b>9.1</b>	<b>11.1</b>	<b>1.7</b>	<b>21.1</b>	<b>10.9</b>	<b>11.1</b>	<b>1.7</b>
<b>Margins (%)</b>						<b>(bps)</b>	<b>(bps)</b>			<b>(bps)</b>
EBIDTA	15.2	16.5	16.2	14.2	14.3	(91)	8	15.2	14.3	(91)
EBIT	11.5	12.8	12.2	10.0	10.1	(140)	7	11.5	10.1	(140)
EBT	14.9	14.7	15.3	10.2	14.1	(80)	393	14.9	14.1	(80)
PAT	11.2	12.4	11.9	8.5	10.7	(50)	222	11.2	10.7	(50)
Effective Tax rate	25.7	16.9	24.6	24.8	25.5	(21)	72	25.7	25.5	(21)

Source: DART, Company

**What to expect next Quarter**

We expect TechM to report sequential growth of 1% in Q2FY21 as the pains from supply-side resolves both in BPO/Network segment (impacted about 210bps in Q1), however expects limited benefits on demand side given weak TCV signings in Q1 and no near term respite in Telecom vertical. However, proactive cost initiatives that would prevail in Q2 as well and some tailwinds from operating leverage would help it sustain OPM (expect small dip of 10bps QoQ). PAT decline would be steep as Q1 had a strong uptick from one-time gains of about US\$60mn.

**Exhibit 6: What to expect next Quarter**

(Rs Mn)	Q2FY21E	Q1FY21	Q2FY20	QoQ (%)	YoY (%)
Sales (US\$ mn)	1,220	1,208	1,287	1.0	(5.3)
Sales	92,078	91,063	90,699	1.1	1.5
EBIT	9,162	9,173	11,594	(0.1)	(21.0)
PAT	7,902	9,722	11,239	(18.7)	(29.7)
EPS (Rs)	9.0	11.1	12.8	(18.7)	(29.6)
EBIT Margin (%)	10.0	10.1	12.8	(12bps)	(283bps)

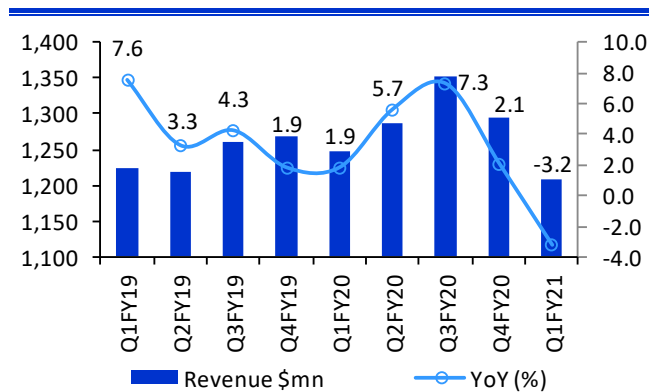
Source: DART, Company

## Key Highlights from the earnings call

- **COVID impact:** TECHM Revenue de-grew 6.3% on CC terms QoQ basis to \$1208mn. TechM attributed total impact from COVID of about 7% of which supply-side accounted for one-fourth of the impact (175bps) and rest is on demand kind of factors.
- **Profitability to improve:** In the current quarter the company managed to improve profitability by 10bps QoQ at 10.1% as against expectations of decline of about 80bps. The savings were largely led by granular cost optimization (200bps+) and savings on travel, SG&A and absence of CSR provisioning (of about 100bps in Q4) collectively offsetted impact of lower volumes and higher provisioning.
- **Other Income jumped:** Other Income jumped to Rs4.12bn for the quarter as it had gains of about US\$60mn from tax reversals (20mn\$ booked in Other Income) and earnouts from Comviva's subsidiary sale.
- **Cashflow best-ever:** Company reported cash generation of US\$317mn helped by advances-received from customers, one-time gains of US\$60mn which also helped it reduce debt by 50mn\$.
- **Outlook:** Management expect the growth to ideally revive Q2 onwards given robust pipeline, improved deal conversions and sustain potential gains in profitability for rest of the year.
- **Telecomm** de-grew 8.2% QoQ in CC terms in Q1 on further delays on 5G spending plans (atleast by 2 quarters – firstly towards roll-outs and later on ecosystem spends – on devices, apps, games – that would boom after Networks are rolled out), weaker new TCV signings and so on. TechM is working with three handset manufacturers on functional design, styling and so on. Also during the quarter, it saw Rakuten going live. However, management still believes that 5G spends would come more likely in H2 (region wise, vertical wise and so on) and would see slow-staggered rollout strategy by vendors compared to big-bang approach. Supply-side impact to normalize in the Networking segment hereon.
- **Enterprise business (60% of revenues):** Company expect improved performance as it has seen significant traction in its pipeline in the US markets. Also it expects sustained demand interest in several key verticals especially BFSI, HLS and Hitech.
- **TCV signings were modest:** TechM signed mere US\$290mn in Net New TCV for the quarter. The lower TCV was due to weaker closures in Q1 (especially first two months) and thus expect far better performance here on as it is witnessing huge pipeline.
- **BPO is demonstrating recovery:** Company expect improved traction in BPO business as it has achieved 92% levels on the work-approvals. Company is systemically trying to create its differentiation through two defined principles – 1) Cannabilisation of own business through automation and 2) deliver business outcomes (ahead of competitor – both on non-front office – 25% right now and would increase this component led by its platformisation and vertical led approach.
- **Acquired Portfolio companies:** Expect sustained challenges in the troubled units such as Pininfarina and Brazilian subsidiary. However, see this as significant margin lever on structural basis.

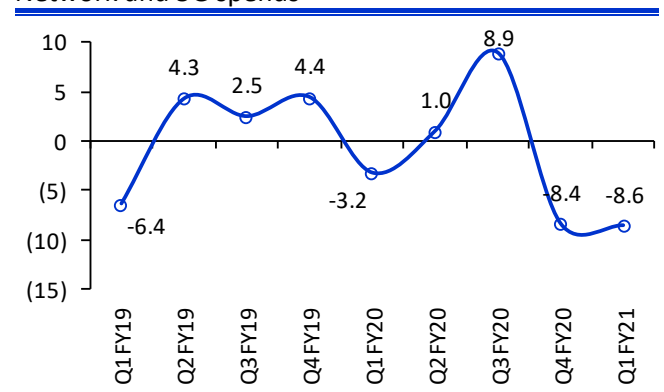
## Charting the story

**Exhibit 7: Revenue declined 3.2% YoY in CC Terms**



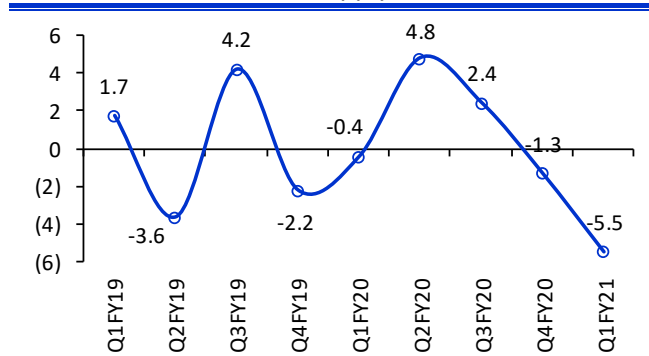
Source: Company, DART

**Exhibit 8: Telecomm remains weak on delay in Network and 5G spends**



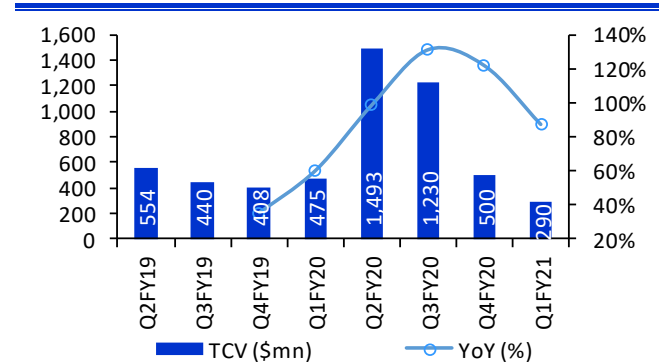
Source: Company, DART

**Exhibit 9: Enterprise segment witnessed steep decline on both demand/supply side factors**



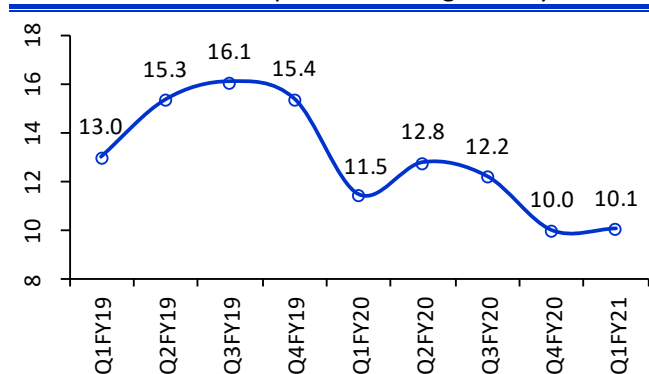
Source: Company, DART

**Exhibit 10: Weak TCV in Q1 but TTM basis still up 87% YoY basis**



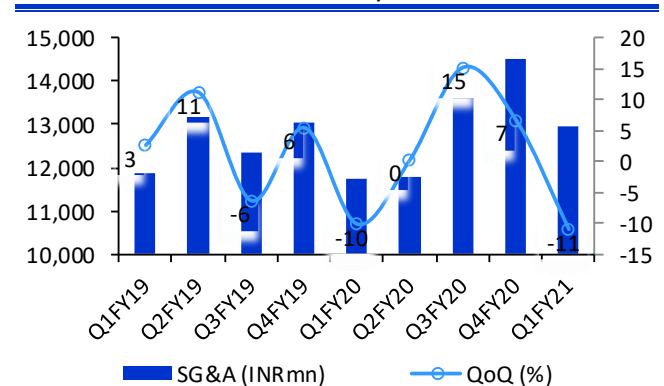
Source: Company, DART

**Exhibit 11: OPM to improve hereon gradually**



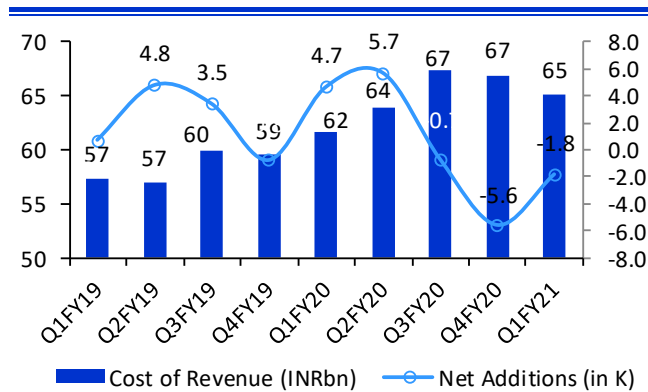
Source: Company, DART

**Exhibit 12: SG&A cost saved by 11% QoQ**



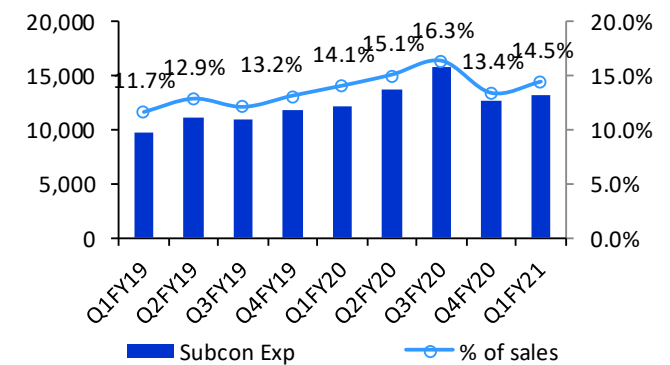
Source: Company, DART

**Exhibit 13:** Headcount optimization helping in cost-cut



Source: Company, DART

**Exhibit 14:** But Sub-Contracting expenses still has significant potential to go down



Source: Company, DART



### Profit and Loss Account

(Rs Mn)	FY19A	FY20A	FY21E	FY22E
<b>Revenue</b>	<b>347,421</b>	<b>368,677</b>	<b>379,631</b>	<b>418,374</b>
<b>Total Expense</b>	<b>284,053</b>	<b>311,416</b>	<b>322,343</b>	<b>351,313</b>
COGS	233,590	259,743	268,710	292,534
Employees Cost	0	0	0	0
Other expenses	50,463	51,673	53,633	58,779
<b>EBIDTA</b>	<b>63,368</b>	<b>57,261</b>	<b>57,289</b>	<b>67,061</b>
Depreciation	11,292	14,458	15,655	16,317
<b>EBIT</b>	<b>52,076</b>	<b>42,803</b>	<b>41,634</b>	<b>50,744</b>
Interest	1,332	1,919	2,078	2,225
Other Income	4,687	9,694	9,676	7,693
Exc. / E.O. items	0	0	0	0
<b>EBT</b>	<b>55,431</b>	<b>50,578</b>	<b>49,232</b>	<b>56,212</b>
Tax	12,544	11,604	12,449	14,166
RPAT	42,975	40,330	37,160	42,247
Minority Interest	(88)	(1,356)	(377)	(200)
<b>Profit/Loss share of associates</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>
<b>APAT</b>	<b>42,975</b>	<b>40,330</b>	<b>37,160</b>	<b>42,247</b>

### Balance Sheet

(Rs Mn)	FY19A	FY20A	FY21E	FY22E
<b>Sources of Funds</b>				
Equity Capital	4,437	4,359	4,359	4,359
Minority Interest	4,777	3,933	3,556	3,356
Reserves & Surplus	198,407	213,772	237,830	264,268
<b>Net Worth</b>	<b>202,844</b>	<b>218,131</b>	<b>242,189</b>	<b>268,627</b>
Total Debt	17,381	48,603	49,369	50,944
Net Deferred Tax Liability	(6,080)	(8,087)	(8,087)	(8,087)
<b>Total Capital Employed</b>	<b>218,922</b>	<b>262,580</b>	<b>287,026</b>	<b>314,840</b>

### Applications of Funds

Net Block	70,973	87,276	87,121	87,304
CWIP	2,763	501	501	501
Investments	12,050	3,804	3,804	3,804
<b>Current Assets, Loans &amp; Advances</b>	<b>242,592</b>	<b>273,511</b>	<b>299,286</b>	<b>330,566</b>
Inventories	752	358	370	403
Receivables	69,586	75,772	81,127	85,967
Cash and Bank Balances	20,427	30,167	45,463	65,644
Loans and Advances	26,934	24,152	24,152	24,152
Other Current Assets	58,994	86,939	87,552	88,177
<b>Less: Current Liabilities &amp; Provisions</b>	<b>109,456</b>	<b>102,512</b>	<b>103,686</b>	<b>107,336</b>
Payables	24,893	32,566	32,676	34,650
Other Current Liabilities	84,563	69,946	71,010	72,686
<i>sub total</i>				
Net Current Assets	133,136	170,999	195,600	223,231
<b>Total Assets</b>	<b>218,922</b>	<b>262,580</b>	<b>287,026</b>	<b>314,840</b>

E – Estimates

### Important Ratios

Particulars	FY19A	FY20A	FY21E	FY22E
<b>(A) Margins (%)</b>				
Gross Profit Margin	32.8	29.5	29.2	30.1
EBIDTA Margin	18.2	15.5	15.1	16.0
EBIT Margin	15.0	11.6	11.0	12.1
Tax rate	22.6	22.9	25.3	25.2
Net Profit Margin	12.4	10.9	9.8	10.1
<b>(B) As Percentage of Net Sales (%)</b>				
COGS	67.2	70.5	70.8	69.9
Employee	0.0	0.0	0.0	0.0
Other	14.5	14.0	14.1	14.0
<b>(C) Measure of Financial Status</b>				
Gross Debt / Equity	0.1	0.2	0.2	0.2
Interest Coverage	39.1	22.3	20.0	22.8
Inventory days	1	0	0	0
Debtors days	73	75	78	75
Average Cost of Debt	6.5	5.8	4.2	4.4
Payable days	26	32	31	30
Working Capital days	140	169	188	195
FA T/O	4.9	4.2	4.4	4.8
<b>(D) Measures of Investment</b>				
AEPS (Rs)	47.7	45.9	42.3	48.1
CEPS (Rs)	60.3	62.3	60.1	66.7
DPS (Rs)	13.8	14.6	14.9	18.0
Dividend Payout (%)	28.9	31.9	35.3	37.4
BVPS (Rs)	225.3	248.0	275.8	305.9
RoANW (%)	22.0	19.2	16.1	16.5
RoACE (%)	20.6	17.0	14.1	14.7
RoAIC (%)	26.7	19.9	17.6	20.7
<b>(E) Valuation Ratios</b>				
CMP (Rs)	665	665	665	665
P/E	13.9	14.5	15.7	13.8
Mcap (Rs Mn)	584,427	584,427	584,427	584,427
MCap/ Sales	1.7	1.6	1.5	1.4
EV	515,482	546,740	527,710	503,503
EV/Sales	1.5	1.5	1.4	1.2
EV/EBITDA	8.1	9.5	9.2	7.5
P/BV	2.9	2.7	2.4	2.2
Dividend Yield (%)	2.1	2.2	2.2	2.7
<b>(F) Growth Rate (%)</b>				
Revenue	12.9	6.1	3.0	10.2
EBITDA	34.3	(9.6)	0.0	17.1
EBIT	43.4	(17.8)	(2.7)	21.9
PBT	13.6	(8.8)	(2.7)	14.2
APAT	13.1	(6.2)	(7.9)	13.7
EPS	11.9	(3.9)	(7.7)	13.7

### Cash Flow

(Rs Mn)	FY19A	FY20A	FY21E	FY22E
CFO	44,320	43,581	41,298	51,341
CFI	(21,042)	10,286	(11,341)	(14,450)
CFF	(22,512)	(44,127)	(14,661)	(16,709)
FCFF	36,527	30,610	25,798	34,841
Opening Cash	19,661	20,427	30,167	45,463
Closing Cash	20,427	30,167	45,463	65,644

E – Estimates

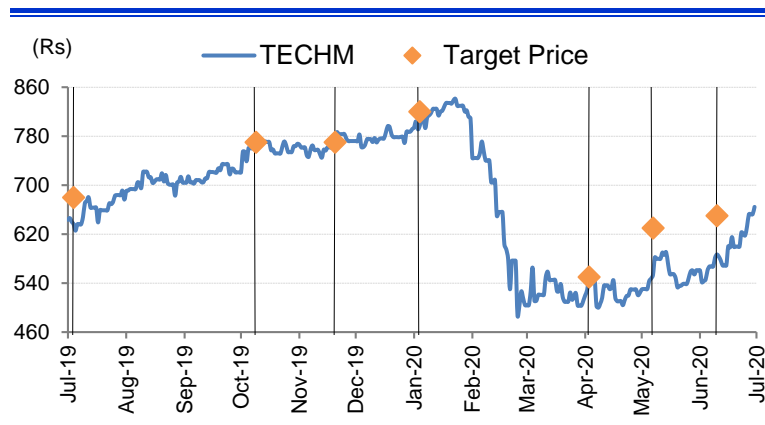


### DART RATING MATRIX

Total Return Expectation (12 Months)

Buy	> 20%
Accumulate	10 to 20%
Reduce	0 to 10%
Sell	< 0%

### Rating and Target Price History



Month	Rating	TP (Rs.)	Price (Rs.)
Jul-19	Reduce	680	636
Nov-19	Reduce	770	773
Dec-19	Reduce	770	777
Jan-20	Reduce	820	797
Apr-20	Reduce	550	546
Jun-20	Accumulate	630	553
Jul-20	Accumulate	650	587

\*Price as on recommendation date

### DART Team

Purvag Shah	Managing Director	purvag@dolatcapital.com	+9122 4096 9747
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Amit Khurana, CFA	Head of Equities	amit@dolatcapital.com	+9122 4096 9745
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### CONTACT DETAILS

Equity Sales	Designation	E-mail	Direct Lines
Dinesh Bajaj	VP - Equity Sales	dineshb@dolatcapital.com	+9122 4096 9709
Kapil Yadav	VP - Equity Sales	kapil@dolatcapital.com	+9122 4096 9735
Yomika Agarwal	VP - Equity Sales	yomika@dolatcapital.com	+9122 4096 9772
Jubbin Shah	VP - Derivatives Sales	jubbins@dolatcapital.com	+9122 4096 9779
Ashwani Kandoi	AVP - Equity Sales	ashwanik@dolatcapital.com	+9122 4096 9725
Lekha Nahar	AVP - Equity Sales	lekhan@dolatcapital.com	+9122 4096 9740
Equity Trading	Designation	E-mail	
P. Sridhar	SVP and Head of Sales Trading	sridhar@dolatcapital.com	+9122 4096 9728
Chandrakant Ware	VP - Sales Trading	chandrakant@dolatcapital.com	+9122 4096 9707
Shirish Thakkar	VP - Head Domestic Derivatives Sales Trading	shirisht@dolatcapital.com	+9122 4096 9702
Kartik Mehta	Asia Head Derivatives	kartikm@dolatcapital.com	+9122 4096 9715
Dinesh Mehta	Co- Head Asia Derivatives	dinesh.mehta@dolatcapital.com	+9122 4096 9765
Bhavin Mehta	VP - Derivatives Strategist	bhavinm@dolatcapital.com	+9122 4096 9705

**Dolat Capital Market Private Limited.**

Sunshine Tower, 28th Floor, Senapati Bapat Marg, Dadar (West), Mumbai 400013

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**I. Analyst(s) and Associate (S) holding in the Stock(s): (Nil)**

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Registered office: Office No. 141, Centre Point, Somnath, Daman – 396 210, Daman & Diu

Board: +9122 40969700 | Fax: +9122 22651278 | Email: [research@dolatcapital.com](mailto:research@dolatcapital.com) | [www.dolatresearch.com](http://www.dolatresearch.com)

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