

# Jubilant Foodworks

## Reduce



DOLAT ANALYSIS & RESEARCH THEMES  
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In its Annual report FY20, Jubilant Foods (JFL) continues to emphasize its 5-pillar growth strategy 1) fortress Domino's in India, 2) elevate customer experience 3) sustained technology investments 4) build portfolio of brands 5) focus on international. With a robust business model, efficient supply chain, large network, strong reputation for quality, hygiene and value, we expect JFL to recover faster than peers in the near term.

### Continued Store additions

During FY20, JFL added 108 net new outlets (opened 123 outlets-highest in last three years, and closed 15) taking the total Domino's Pizza outlets to 1,335. Domino's continued to widen its geographical footprint and expanded to 10 new cities taking total count to 282 cities as on March 31, 2020. Fortressing markets and splitting stores helped enhance customer experience. JFL will go slow on store additions this year. It will prioritize the roll out of 33 stores which were under construction and scheduled to open in Q4FY20. Given the current demand scenario, new stores would be more efficient and oriented towards delivery and carryout.

### Sharp increase in online sales

Delivery/ Takeaway constitutes ~70% of Domino's revenue currently. Online sales grew strongly and constituted 86% of delivery sales in FY20 as against 70% in FY19. The company continued to gain traction for Domino's Pizza app which recorded 33.1mn downloads in FY20 against 17.8mn during FY19. With social distancing being the new normal, delivery and take-away is expected to grow faster compared to dine-in. JFL, with its continued investment in technology and online delivery expertise is likely to perform better compared to peers.

### Hong's Kitchen receives positive response

In FY19, JFL entered into Chinese cuisine business with its first homegrown brand 'Hong's Kitchen'. It opened 3 new restaurants in FY20, in Delhi NCR, and witnessed a high rate of repeat customers. The company plans to refine the model further and expand Hong's Kitchen's presence in the medium term. Various products/ combos were added to the menu which were well received by the customers.

### Increased focus on cost control

During FY20, gross margins contracted 20bps to 75% due to high inflation in dairy prices. The company expects milk and cheese prices to soften mainly due to increased supply. JFL is focusing on converting manpower from fixed full/part timers to flexi timers. It is making good progress in rent negotiations and invoked the force majeure clause in several locations. Moreover, it is also rationalizing SG&A expenses, logistics and warehousing costs. We believe that these measures should help JFL maintain EBITDA margin +20%.

### Short term hiccups post Covid

During the Covid-19 outbreak, the company took several initiatives to ensure business continuity. Domino's Pizza introduced 'Zero Contact Delivery' to ensure the safety of both customers and the delivery staff. It plans to launch Zero Contact Dine-in soon. The Company has partnered with FMCG majors to launch 'Domino's Essentials' for delivering grocery essentials. Company is witnessing encouraging signs in delivery business, especially in smaller towns. The management is hopeful that delivery and takeaway sales will help recover losses in Dine-in business. With many unorganized restaurants expected to shut-down post Covid, trusted brands like Domino, with healthy FCF and strong balance sheet, are expected to grow faster and gain market share.

CMP	Rs 2,168
Target / Downside	Rs 1,495 / 31%
BSE Sensex	39,154
NSE Nifty	11,559

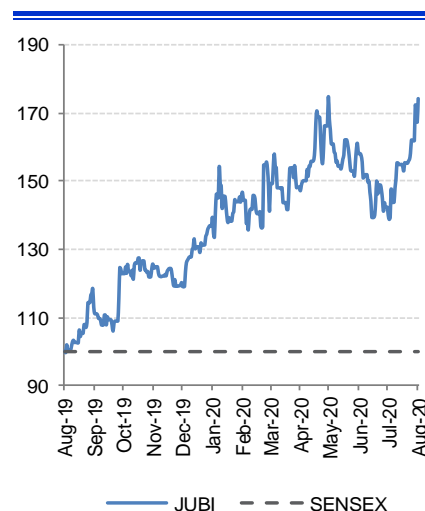
### Scrip Details

Equity / FV	Rs 1,320mn / Rs 10
Market Cap	Rs 286bn
	US\$ 4bn
52-week High/Low	Rs 2,215/Rs 1,138
Avg. Volume (no)	1,170,930
NSE Symbol	JUBLFOOD
Bloomberg Code	JUBI IN

### Shareholding Pattern Mar'20(%)

Promoters	41.9
MF/Banks/FIs	20.0
FIIIs	30.9
Public / Others	7.1

### JUBI Relative to Sensex



**VP Research: Sachin Bobade**

Tel: +91 22 40969731

E-mail: sachinb@dolatcapital.com

**Associate: Nikhat Koor**

Tel: +91 22 40969764

E-mail: nikhatk@dolatcapital.com



## Annual Report Macro View

<b>Key Management</b>	No changes.		
<b>Board of Directors</b>	<p>Ms. Deepa Misra Harris was appointed as an Additional Director in the category of Non-Executive Independent Director for a period of five years w.e.f. June 2019.</p> <p>The BOD approved appointment of Non-Executive Independent Director Mr. Vikram Singh Mehta for a term of five years w.e.f. February 1, 2019.</p> <p>Mr. Shamit Bhartia and Ms. Aashti Bhartia, Directors of the Company, are liable to retire by rotation at the ensuing AGM and being eligible, offer themselves for re-appointment.</p>		
<b>Auditors</b>	Deloitte Haskins & Sells LLP continues to be the auditors of the company.		
<b>Credit Ratings</b>		<b>FY2020</b>	<b>FY2019</b>
	Commercial Paper Programme	Re-affirmed	CRISIL A1+
<b>Pledged Shares</b>	1.52% of promoter shares were pledged as of March 31, 2020 (5.29% in previous year)		
<b>Macro-economic Factors</b>	<p>As per the IMF, the global economy is expected to contract 4.9% in 2020, much worse than the drift during the FY08-09 financial crisis, as a result of the pandemic. The global economy is projected to grow by 5.4% in 2021, on the back of favorable policies as economic activity normalizes. Indian economy is projected to contract sharply by 4.5% in 2020 following a longer period of lockdown. The pandemic is having a severe impact on economic activity through supply disruption, drop in domestic and international demand, and erosion of consumer and investor confidence. Repeated lockdowns and consequent production shutdowns are highly impacting several sectors and resulting in job losses. The governments and central banks across the world have announced a host of fiscal and monetary policy measures to revive the economy.</p>		
<b>Remuneration</b>	<p>No. of Permanent Employees on the rolls of the Company as on March 31, 2020 stood at 31,514. (previous year: 28,286). There was 11.8% increase in the median remuneration of the employees during FY20 (excl Remuneration of whole time directors). In FY20, Director remuneration was 0.2% of sales, 2.0% of PBT and 2.7% of PAT in FY20.</p>		
<b>Key Holders</b>	<b>Shareholding Pattern</b>	<b>FY2020</b>	<b>FY2019</b>
	<b>A. Promoters</b>	<b>41.94</b>	<b>41.94</b>
	<b>B. Public Shareholding</b>		
	<b>1. Institutions:</b>		
	a. Mutual Funds	15.22	9.74
	b. Banks/FI	4.81	0.13
	c. Central/State Government	0.41	0.30
	d. FII	30.94	38.82
	e. Others-Alternate Investment funds	0.61	0.12
	<b>2. Non-Institutions:</b>		
	a. Bodies corporate	1.32	3.51
	b. Individuals/ NRI	4.75	5.44
	<b>Total</b>	<b>100</b>	<b>100</b>

Source: Company, DART

## Industry Analysis

- As per NRAI India Food Services Report 2019, overall Food service industry in India (FSI) grew at a CAGR of 11% during FY16-19 to reach Rs 4,239bn in FY19. It is expected to reach Rs 5,998 bn by FY23 at a CAGR of 9% fueled by favourable demographics, urbanisation, increasing number of nuclear families and working women, rising internet penetration and growing brand consciousness.
- Digital-led online ordering, home delivery, third-party aggregator options, cashback facilities, reward points and heavy discounts also helped the industry gain momentum.
- Organised players constitute ~35% of overall industry and is projected to increase to 43% by 2023.
- QSRs (Rs 328bn) have the maximum market share (~55%) in the chain market followed by casual dining restaurants. The chain market is dominated by the international QSR brands operating in India such as Domino's, McDonald's, KFC, Subway, Burger King etc. Domino Pizza is the leader and enjoys 70% market share in Pizza space in India.

**Covid-19 impact-** The COVID-19 pandemic and the resultant nationwide lockdown have adversely impacted the overall food service business. Competitive intensity is likely to be reduced as unorganized sector would continue to face headwinds in the current scenario. The trends in the food service industry are likely to be skewed towards online food ordering, increased share of delivery and takeaway mix, higher emphasis on hygiene and safety measures, exponential rise in digitization and contactless transactions. Smaller formats with lesser expenses (real estate, staff, utilities), value-added dining and home delivery only kitchens will be the new format of dining out. Cloud kitchens are expected to gain momentum going ahead. Dine-in segment would continue to witness challenges as restaurants may be allowed to function with significantly reduced seating capacity for a reasonably long period. Moreover, consumer reluctance to dining out could further pressurize cash flow.

## Financial Analysis

### Profit and Loss Statement Analysis

During the year, the company witnessed headwinds of pronounced inflationary costs and challenging external demand environment, further exacerbated by the Covid-19 pandemic. Despite these challenges, JFL managed to deliver strong performance in FY 2020.

- **Revenue** increased 10.1% YoY from Rs 35.3 bn in FY19 to Rs 38.9 bn in FY20. Like-for-Like (LFL) sales growth stood at 4.5% and Same Store Growth (SSG) at 3.2%.
- **Gross margin** declined by 20bps YoY to 75% in FY20 mainly due to significant inflation in dairy which was mitigated partly by price increases.
- **Operating expenses**- Employee expenses rose by 16.7% YoY to Rs 7,846mn in FY20 (20.2% of sales). Advertising expenses grew 44.5% YoY to Rs 2,469mn in FY20 (6.4% of sales). In FY20, rent expenses stood at Rs 829mn from Rs 3,411 in FY19 due to IND AS 116 implementation.
- **EBITDA margin** (reported) expanded 530bps to 22.6% as 20/110/150bps increase in RM/ employee/advertisement expenses respectively, was offset by 820bps decline in other expenses. Adjusted EBITDA margin (excl IND AS 116) stood at 14.9%. **EBITDA** grew 44.3% YoY to Rs 8771mn with strong focus on extracting operational efficiencies amidst inflationary headwinds and Covid-19 pandemic.
- **Profit before tax** declined by 20.4% YoY to Rs 3,935mn in FY20.
- Exceptional items of Rs 448mn during FY20 were on account of i) Covid-19 pandemic ii) Provision against investments made by Jubilant FoodWorks Employee Provident Fund Trust, iii) provision for diminution in the value of investment in Jubilant FoodWorks Lanka (Private) Limited ('Srilanka subsidiary').
- **Reported Profit after tax** fell 14.7% YoY to Rs 2,755mn in FY20 from Rs 3,228 mn in FY19. **Adjusted PAT** de-grew 3.2% YoY to Rs 3,203mn.

### Balance Sheet and Cash Flow Analysis

- **Net block** (including Right-of-use asset) increased to Rs 21.8bn in FY20 from Rs 7.8bn in FY19. Excluding Right of use assets net block stood at Rs 8.7bn translating to stable fixed asset turnover of 4.4x.
- **Equity Capital** - There was no change in the authorised, subscribed and paid-up share capital of the company in FY20. As on March 31, 2020, the paid-up share capital of the company stood at Rs 1,319.7mn divided into 131,969,040 equity shares of Rs 10/- each.
- **Dividend**- The BOD has declared interim dividend of Rs 6 /- (~60%) each for every equity share of Rs 10/- fully paid-up on existing share capital for FY20. The dividend payment is expected to be Rs 791.8mn (excluding the dividend distribution tax thereon Rs162.8mn). The Board has not recommended any final dividend and the interim dividend, may be considered as the final dividend for FY20. As on reporting date, total dividend paid in FY20 amounted to Rs 1,749mn compared to Rs 398mn in FY19 translating to D/P of 54.6% in FY20 compared to 12% in FY19.
- With new accounting structure, Lease liabilities (included in debt) amounted to Rs 16.5bn in FY20.

- **Inventories** increased by 26.0% YoY to Rs 922mn in FY20 due to the sudden shutdown in the second half of March, and prior to that JFL was carrying inventory for normal operations. Inventory days remained stable at 9 days. Inventory Turnover Ratio stood at 42.1x for FY20 compared to 48.3x in FY19.
- **Receivables** declined 40.9% YoY to Rs 193mn in FY20. **Trade payables** increased 6.6% to Rs 4,438mn in FY20, as against Rs 4,165mn in FY19. **Payable** days remained stable at 42 days.
- **Cash flow from operations** grew 66.5% YoY to Rs 7.2bn. **Capital Expenditure** increased 78.1% YoY to Rs 2.8bn in FY20 mainly due to new store openings. Consequently, FCF grew 59.8% YoY to Rs 4.4bn.
- **Return Ratios:** In FY20, ROE declined 530bps to 22.0%. ROCE also fell 340bps to 23.4%. After removing the impact of Ind AS 116, ROE stood at 24.4% in FY20.

Particulars	Number of Restaurants as on March 31, 2020	New additions	Closures	Presence in Number of cities
<b>India</b>				
Domino's Pizza	1,335	123	15	282
Dunkin' Donuts	34	4	1	10
Hong's Kitchen	4	3	0	2
<b>Sri Lanka</b>				
Domino's Pizza	21	0	1	18
<b>Bangladesh</b>				
Domino's Pizza	3	2	0	1

## International Business

Apart from India, the Company and its subsidiary operate Domino's Pizza brand with the exclusive rights for Nepal, Bangladesh and Sri Lanka.

- **Bangladesh Operations** - In FY19, Domino's Pizza forayed into the Bangladesh market via a joint venture with the Golden Harvest QSR Limited, a part of the Golden Harvest Group. The joint venture under which the brand operates is named Jubilant Golden Harvest Limited. The restaurant got off to a strong start and broke the global Domino's record for the highest number of orders for its first week and the first month of operations. During FY20, two more restaurants were added, taking the total count to three. Delivery service was also launched with 30 minutes guarantee. Domino's Pizza Bangladesh gained traction in short span of time and delivered healthy performance in terms of orders served, restaurants added and customer satisfaction scores.

The total income of JGHL in FY20 is Rs 171.5 mn as compared to Rs 19.6mn in FY19.

- **Sri Lanka Operations** – During the year, various initiatives were taken to drive profitability. This included quality and menu upgradation, launch of new products, and focused marketing activities while driving the Everyday Value promotional proposition. Domino's Pizza Sri Lanka continues to focus on cost efficiency while enhancing its product proposition, delivery of service and digital experience. During FY20, total Domino's Pizza store count was 21 with presence in 18 cities.

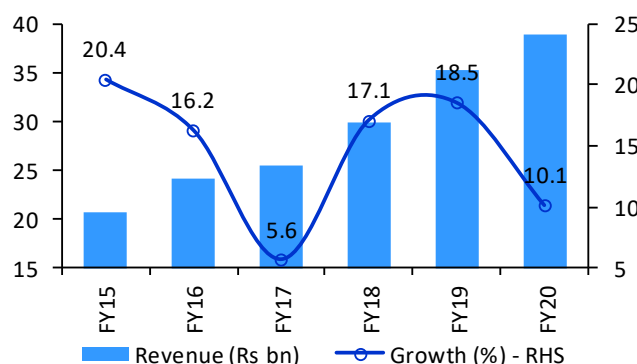
The total income of JFLPL in FY20 is Rs 314.8mn as compared to Rs 335.6mn in FY19.

## New Products and Other development

- Domino's piloted value added beverages under the brand name 'Thirsteez' in select restaurants, which were well accepted by consumers and would be launched nationally. The beverages are available in Cola Twist, Lime Twist and Jamun Twist flavours.
- New campaign 'Dil, Dosti, Domino's' was launched to strengthen emotional connect with the consumers.
- Launched a new range of pizzas in 10 international flavours with 'World Pizza League', across both vegetarian and non-vegetarian options. It also introduced 'All New Masala Pizzas' in six new flavors which helped drive same store revenue.
- For Dunkin' Donuts, company opened 4 restaurants with a smaller format (100-200 sq ft) to pilot and test the effectiveness of the format. Launched new beverages such as Filter Coffee, Iced Tea and Thandai to add more variety to its offerings
- Embarked upon ambitious goal of moving from 30-minute to 20-minute delivery: 'Tees Se Bees!'
- Added fountain machines in more than 500 restaurants to offer consumers products that are margin accretive.

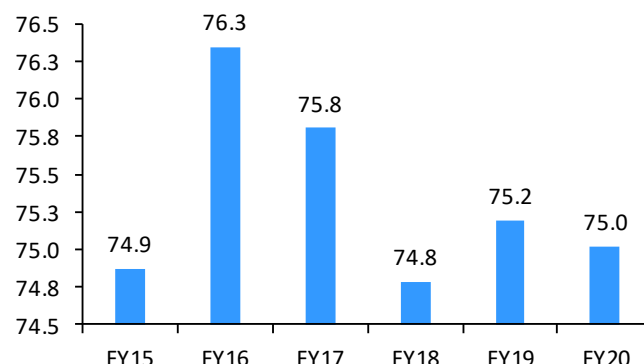
## Annual Charts

**Exhibit 1: Trend in Revenue Growth**



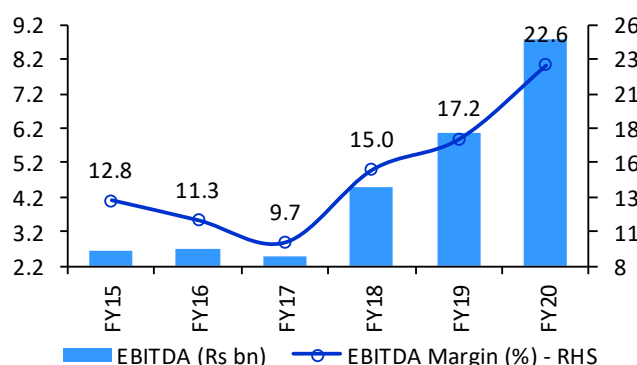
Source: Company, DART

**Exhibit 2: Gross margin trend (%)**



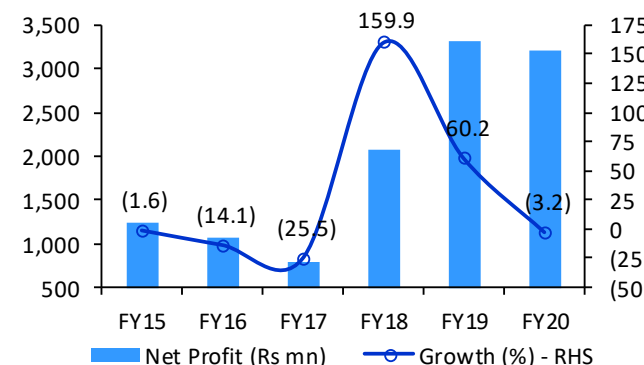
Source: Company, DART

**Exhibit 3: EBITDA and EBITDA margin**



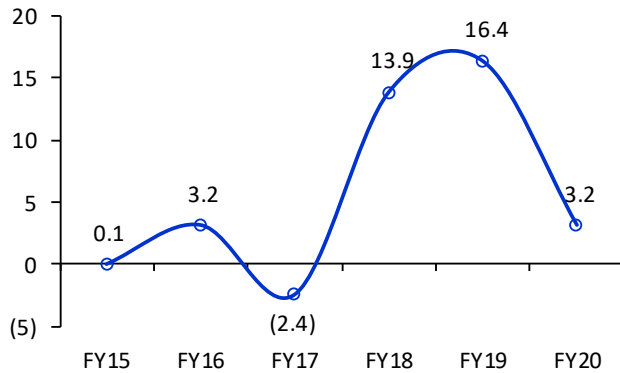
Source: Company, DART

**Exhibit 4: Net profit trend**

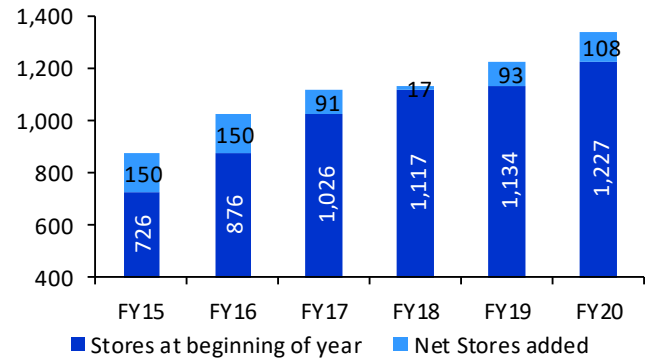


Source: Company, DART



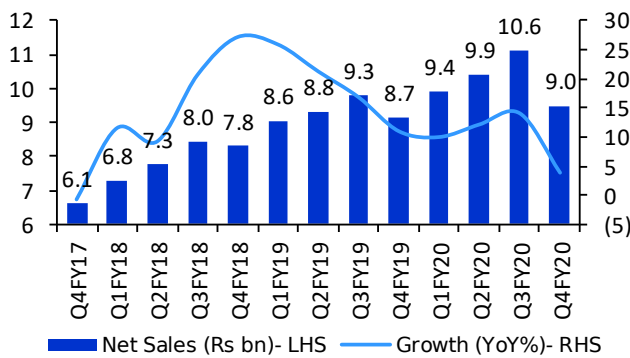
**Exhibit 5: Same Store Sales Growth (%)**


Source: Company, DART

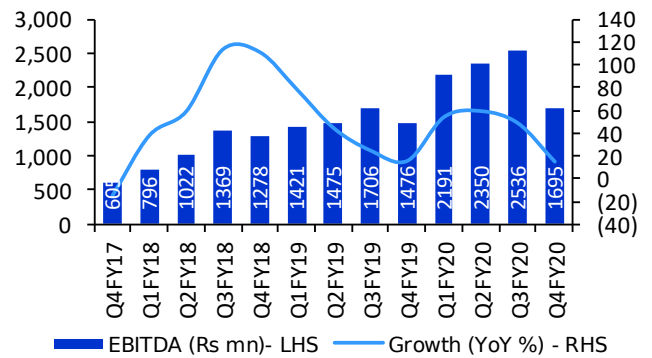
**Exhibit 6: Store expansion**


Source: Company, DART

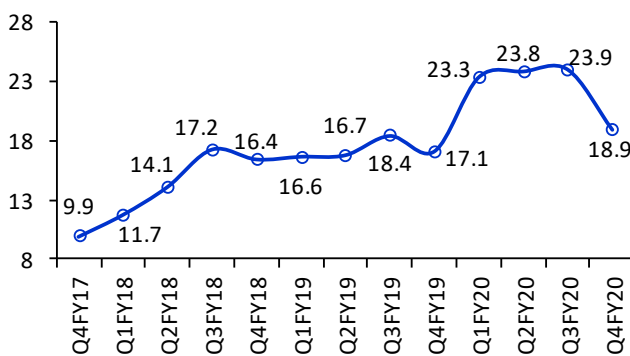
## Quarterly Charts

**Exhibit 7: Net Sales and Growth**


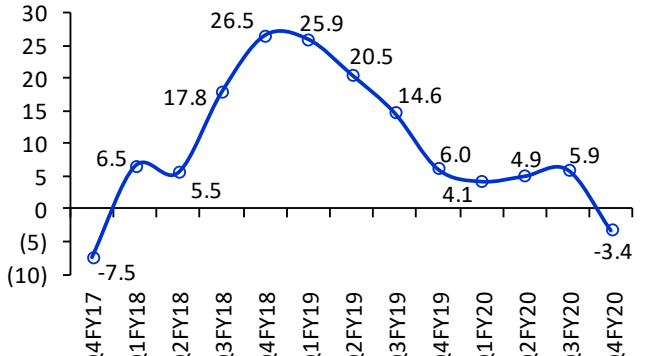
Source: DART, Company

**Exhibit 8: EBITDA and EBITDA Growth**


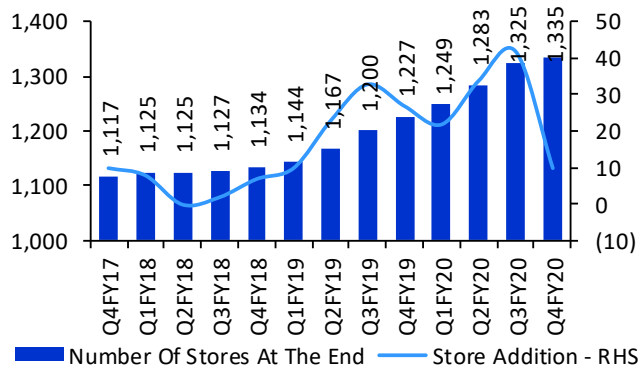
Source: DART, Company

**Exhibit 9: Trend in EBITDA Margin**


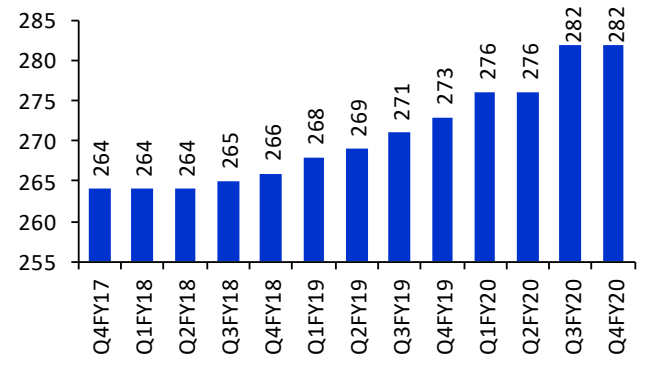
Source: DART, Company

**Exhibit 10: Trend in Some Store Sales Growth (%)**


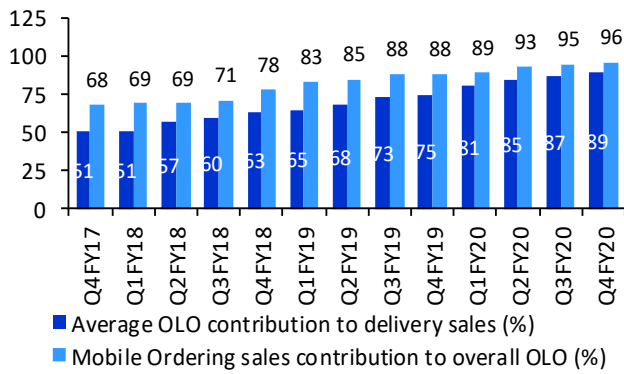
Source: DART, Company

**Exhibit 11: Store Addition Trend**


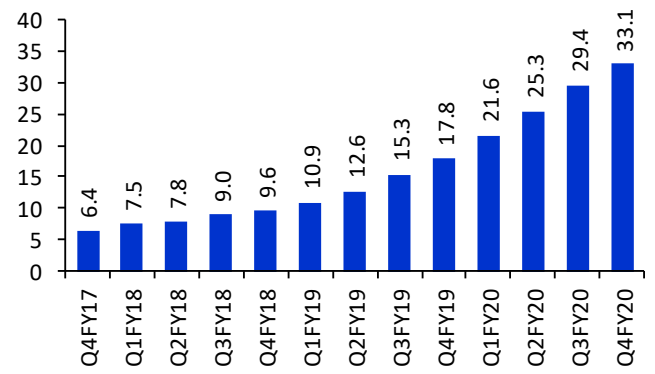
Source: DART, Company

**Exhibit 12: Number of Cities Covered**


Source: DART, Company

**Exhibit 13: OLO Contribution to Delivery Sales (%)**


Source: DART, Company

**Exhibit 14: Download of Mobile Apps (mn)**


Source: DART, Company



### Profit and Loss Account

(Rs Mn)	FY19A	FY20A	FY21E	FY22E
<b>Revenue</b>	<b>35,307</b>	<b>38,858</b>	<b>41,299</b>	<b>47,686</b>
<b>Total Expense</b>	<b>29,229</b>	<b>30,087</b>	<b>32,042</b>	<b>36,728</b>
COGS	8,759	9,707	10,573	11,978
Employees Cost	6,725	7,846	8,646	9,745
Other expenses	13,745	12,534	12,823	15,005
<b>EBIDTA</b>	<b>6,078</b>	<b>8,771</b>	<b>9,258</b>	<b>10,958</b>
Depreciation	1,523	3,441	3,594	4,046
<b>EBIT</b>	<b>4,555</b>	<b>5,329</b>	<b>5,663</b>	<b>6,912</b>
Interest	0	1,635	1,673	1,891
Other Income	469	688	422	455
Exc. / E.O. items	(79)	(448)	0	0
<b>EBT</b>	<b>4,945</b>	<b>3,935</b>	<b>4,412</b>	<b>5,476</b>
Tax	1,717	1,181	1,100	1,365
RPAT	3,228	2,755	3,312	4,111
Minority Interest	0	0	0	0
<b>Profit/Loss share of associates</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>
<b>APAT</b>	<b>3,307</b>	<b>3,203</b>	<b>3,312</b>	<b>4,111</b>

### Balance Sheet

(Rs Mn)	FY19A	FY20A	FY21E	FY22E
<b>Sources of Funds</b>				
Equity Capital	1,320	1,320	1,320	1,320
Minority Interest	0	0	0	0
Reserves & Surplus	11,918	10,510	12,858	16,006
<b>Net Worth</b>	<b>13,237</b>	<b>11,829</b>	<b>14,178</b>	<b>17,325</b>
Total Debt	0	16,510	16,510	16,510
Net Deferred Tax Liability	492	(809)	(809)	(809)
<b>Total Capital Employed</b>	<b>13,729</b>	<b>27,530</b>	<b>29,879</b>	<b>33,026</b>

### Applications of Funds

Net Block	7,854	21,883	21,726	21,461
CWIP	149	389	389	389
Investments	887	834	1,334	1,834
<b>Current Assets, Loans &amp; Advances</b>	<b>10,242</b>	<b>10,444</b>	<b>12,822</b>	<b>16,629</b>
Inventories	731	922	980	1,131
Receivables	327	193	205	237
Cash and Bank Balances	4,891	6,392	8,543	11,800
Loans and Advances	307	354	381	407
Other Current Assets	2,178	2,071	2,201	2,542
<b>Less: Current Liabilities &amp; Provisions</b>	<b>5,404</b>	<b>6,020</b>	<b>6,393</b>	<b>7,287</b>
Payables	4,165	4,438	4,717	5,446
Other Current Liabilities	1,239	1,582	1,676	1,841
sub total				
Net Current Assets	4,838	4,424	6,429	9,342
<b>Total Assets</b>	<b>13,729</b>	<b>27,530</b>	<b>29,879</b>	<b>33,026</b>

E – Estimates (Note that Net block includes Right-of-use assets. Debt includes Lease liabilities)

### Important Ratios

Particulars	FY19A	FY20A	FY21E	FY22E
<b>(A) Margins (%)</b>				
Gross Profit Margin	75.2	75.0	74.4	74.9
EBIDTA Margin	17.2	22.6	22.4	23.0
EBIT Margin	12.9	13.7	13.7	14.5
Tax rate	34.7	30.0	24.9	24.9
Net Profit Margin	9.1	7.1	8.0	8.6
<b>(B) As Percentage of Net Sales (%)</b>				
COGS	24.8	25.0	25.6	25.1
Employee	19.0	20.2	20.9	20.4
Other	38.9	32.3	31.0	31.5
<b>(C) Measure of Financial Status</b>				
Gross Debt / Equity	0.0	1.4	1.2	1.0
Interest Coverage	0.0	0.0	0.0	0.0
Inventory days	8	9	9	9
Debtors days	3	2	2	2
Average Cost of Debt	0.0	0.0	0.0	0.0
Payable days	43	42	42	42
Working Capital days	50	42	57	72
FA T/O	4.5	1.8	1.9	2.2
<b>(D) Measures of Investment</b>				
AEPS (Rs)	25.1	24.3	25.1	31.2
CEPS (Rs)	36.6	50.3	52.3	61.8
DPS (Rs)	3.0	13.3	7.3	7.3
Dividend Payout (%)	12.0	54.6	29.1	23.4
BVPS (Rs)	100.3	89.6	107.4	131.3
RoANW (%)	27.3	22.0	25.5	26.1
RoACE (%)	26.8	23.4	17.4	19.1
RoAIC (%)	49.1	35.6	26.7	32.5
<b>(E) Valuation Ratios</b>				
CMP (Rs)	2168	2168	2168	2168
P/E	86.5	89.3	86.4	69.6
Mcap (Rs Mn)	286,104	286,104	286,104	286,104
MCap/ Sales	8.1	7.4	6.9	6.0
EV	279,406	295,711	293,559	290,303
EV/Sales	7.9	7.6	7.1	6.1
EV/EBITDA	46.0	33.7	31.7	26.5
P/BV	21.6	24.2	20.2	16.5
Dividend Yield (%)	0.1	0.6	0.3	0.3
<b>(F) Growth Rate (%)</b>				
Revenue	18.5	10.1	6.3	15.5
EBITDA	36.2	44.3	5.6	18.4
EBIT	56.8	17.0	6.3	22.1
PBT	57.9	(20.4)	12.1	24.1
APAT	60.2	(3.2)	3.4	24.1
EPS	60.2	(3.2)	3.4	24.1

### Cash Flow

(Rs Mn)	FY19A	FY20A	FY21E	FY22E
CFO	4,339	7,223	8,726	10,392
CFI	(768)	(1,466)	(3,938)	(4,281)
CFF	35	(4,255)	(2,637)	(2,854)
FCFF	2,758	4,407	5,288	6,610
Opening Cash	1,285	4,891	6,392	8,543
Closing Cash	4,891	6,392	8,543	11,800

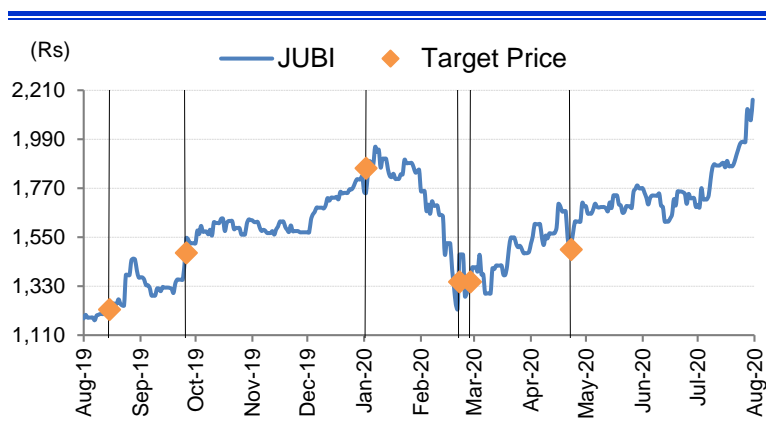
E – Estimates

### 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.)
Sep-19	Accumulate	1,225	1,257
Oct-19	Reduce	1,480	1,546
Jan-20	Reduce	1,860	1,749
Mar-20	Accumulate	1,350	1,471
Mar-20	Reduce	1,350	1,343
May-20	Reduce	1,495	1,522

\*Price as on recommendation date

### DART Team

<b>Purvag Shah</b>	<b>Managing Director</b>	<b>purvag@dolatcapital.com</b>	<b>+9122 4096 9747</b>
<b>Amit Khurana, CFA</b>	<b>Head of Equities</b>	<b>amit@dolatcapital.com</b>	<b>+9122 4096 9745</b>

### CONTACT DETAILS

Equity Sales	Designation	E-mail	Direct Lines
Dinesh Bajaj	VP - Equity Sales	dineshb@dolatcapital.com	+9122 4096 9709
Kartik Sadagopan	VP - Equity Sales	kartiks@dolatcapital.com	+9122 4096 9762
Kapil Yadav	VP - Equity Sales	kapil@dolatcapital.com	+9122 4096 9735
Yomika Agarwal	VP - Equity Sales	yomika@dolatcapital.com	+9122 4096 9772
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
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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Registered office: Office No. 141, Centre Point, Somnath, Daman – 396 210, Daman & Diu

Board: +9122 40969700 | Fax: +9122 22651278 | Email: research@dolatcapital.com | www.dolatresearch.com

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