

Sun Pharma

Estimate change 

TP change 

Rating change 

CMP: INR1,418

TP: INR1,635 (+15%)

Buy

In-line 3Q; India/US-Outperformers for the quarter

Sustained growth momentum in specialty global sales

Bloomberg	SUNP IN
Equity Shares (m)	2399
M.Cap.(INRb)/(USDb)	3403.3 / 41
52-Week Range (INR)	1439 / 922
1, 6, 12 Rel. Per (%)	13/14/14
12M Avg Val (INR M)	2504

Financials & valuations (INR b)

Y/E MARCH	FY24E	FY25E	FY26E
Sales	481.9	533.2	595.3
EBITDA	124.1	141.5	165.7
Adj. PAT	96.5	113.8	136.1
EBIT Margin (%)	20.5	21.7	23.4
Cons. Adj. EPS (INR)	40.1	47.3	56.6
EPS Gr. (%)	12.2	17.9	19.5
BV/Sh. (INR)	266.0	306.5	356.3

Ratios

Net D:E	-0.03	-0.13	-0.23
RoE (%)	16.1	16.5	17.1
RoCE (%)	12.5	13.5	13.5
Payout (%)	14.3	14.1	11.9

Valuations

P/E (x)	35.4	30.0	25.1
EV/EBITDA (x)	26.8	23.0	19.1
Div. Yield (%)	0.3	0.4	0.4
FCF Yield (%)	1.3	2.7	3.3
EV/Sales (x)	6.9	6.1	5.3

Shareholding pattern (%)

As On	Dec-23	Sep-23	Dec-22
Promoter	54.5	54.5	54.5
DII	19.5	19.7	19.1
FII	17.1	16.8	16.9
Others	8.9	9.3	9.5

FII Includes depository receipts

- Sun Pharma (SUNP) delivered in-line earnings for 3QFY24. SUNP delivered robust performance in domestic formulation (DF), specialty portfolio, US generics as well as the ROW market. This was partially offset by subdued show in emerging markets for the quarter. The R&D expenditure remained lower than earlier guidance, partly driving better profitability for the quarter.
- We raise our earnings estimates for FY25/FY26 by 4%/5%, factoring a) superior execution in global specialty sales, b) revival in growth prospects in Taro, and c) industry-beating growth in the branded generics DF market. We also raise our PE multiple to 28x (from 26x earlier), factoring a) increased contribution from specialty and branded generics portfolio, b) expanding specialty portfolio by adding new molecules as well as utilizing existing molecule for alternate indications, and c) robust ANDA pipeline, comprising niche products. Accordingly, we arrive at a price target of INR1,635.
- We remain positive on SUNP, given its position as a leading company establishing a robust specialty franchise in developed markets and driving better-than-industry growth in branded generics markets. We expect 19% earnings CAGR over FY24-26 on the back of 12% sales CAGR in DF/EM/ROW markets, 18% sales CAGR in global specialty sales, and 200bp margin expansion. We reiterate our BUY rating on the stock.

Superior product mix partly offset by higher opex

- SUNP sales grew 11% YoY to INR122b (in line). Domestic formulation (DF) sales grew 11% YoY to INR37.8b (31% of sales). US sales grew 14.6% YoY to INR39.7b (USD477m, up 13% in CC terms; 33% of sales). ROW sales grew 14.4% YoY to INR17.8b (15% of sales). EM sales declined 1% YoY to INR21b (17% of sales).
- Gross margin expanded 300bp YoY to 77.5% for the quarter.
- EBITDA margin expanded 60bp YoY to 25.7% (in line) as superior product mix was more than offset by higher opex (employee expenses/other expenses up 90bp/150bp YoY as percentage of sales).
- Accordingly, EBITDA grew at 13.2% YoY to INR31b for the quarter.
- PAT grew 19% YoY to INR24.8b (in line) for the quarter.
- For 9MFY24, sales/EBITDA/PAT grew 11%/11%/10% YoY to INR359b/INR93b/INR72b.

Highlights from the management commentary

- Ex-milestone income, SUNP's global specialty sales grew 24% YoY, led by better traction in Illumya, Cequa, and Levulan.
- While specialty sales led healthy growth in the US market, it was partly offset by regulatory issues at Halol/Mohali.
- SUNP witnessed healthy growth across major therapies in DF, driving better-than-industry growth for the company. It has exhibited superior performance in in-licensed products as well.

Tushar Manudhane - Research Analyst (Tushar.Manudhane@MotilalOswal.com)

Research Analyst: Sumit Gupta (Sumit.G@MotilalOswal.com) | **Akash Dobhada** (Akash.Dobhada@MotilalOswal.com)

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Motilal Oswal research is available on www.motilaloswal.com/Institutional-Equities, Bloomberg, Thomson Reuters, Factset and S&P Capital.

Quarterly Performance (Consolidated)

(INR b)

Y/E March	FY23				FY24E				FY23	FY24E	FY24E	Var
	1Q	2Q	3Q	4Q	1Q	2Q	3Q	4QE			3QE	%
Net Revenues	106.4	108.1	110.0	106.7	117.9	120.0	121.6	122.4	431.2	481.9	122.7	-0.9
YoY Change (%)	10.1	14.0	12.1	13.7	10.7	11.0	10.5	14.7	12.4	11.7	11.6	
Total Expenditure	80.2	77.5	82.3	81.0	86.1	89.8	90.3	91.6	321.1	357.8	91.2	
EBITDA	26.2	30.5	27.6	25.7	31.7	30.2	31.3	30.8	110.1	124.1	31.5	-0.8
YoY Change (%)	-2.6	19.2	7.6	21.2	21.1	-1.0	13.2	20.0	10.7	12.7	14.1	
Margins (%)	24.6	28.3	25.1	24.1	26.9	25.2	25.7	25.2	25.5	25.8	25.7	
Depreciation	5.9	6.1	6.6	6.7	6.5	6.3	6.2	6.3	25.3	25.3	6.5	
EBIT	20.3	24.5	21.0	19.0	25.2	23.9	25.1	24.6	84.8	98.8	25.1	
YoY Change (%)	-7.1	20.3	4.4	21.4	24.1	-2.2	19.2	29.5	8.7	16.5	19.2	
Interest	0.1	0.2	0.5	0.9	0.8	0.5	0.3	0.4	1.7	2.0	0.8	
Net Other Income	1.2	2.3	3.1	5.8	3.6	4.8	4.7	4.7	12.4	17.9	4.1	
PBT before EO Exp	21.4	26.5	23.7	23.8	28.0	28.2	29.5	28.9	95.5	114.7	28.3	4.1
Less: EO Exp/(Inc)	-1.5	2.4	-1.0	1.4	3.2	0.3	-0.5	0.0	1.4	3.0	0.0	
PBT	22.8	24.1	24.7	22.4	24.8	27.9	30.0	28.9	94.1	111.6	28.3	
Tax	1.9	1.5	2.8	2.2	4.7	3.9	4.3	4.3	8.5	17.2	3.1	
Rate (%)	8.8	5.7	11.9	9.4	16.7	13.8	14.7	14.8	8.9	15.0	11.0	
PAT (pre Minority Interest)	21.0	22.6	21.9	20.2	20.1	24.0	25.7	24.6	85.6	94.5	25.2	
Minority Interest	0.3	0.0	0.2	0.3	-0.1	0.3	0.4	-0.3	-0.9	0.4	0.2	
Reported PAT	20.6	22.6	21.7	19.8	20.2	23.8	25.2	24.9	84.7	94.1	25.0	0.8
Adj Net Profit*	19.3	24.9	20.8	21.1	22.8	24.0	24.8	24.9	86.1	96.5	25.0	-1.1
YoY Change (%)	-3.4	21.5	9.3	33.6	18.5	-3.4	19.2	17.8	14.4	12.2	20.5	
Margins (%)	18.1	23.0	18.9	19.8	19.4	20.0	20.4	20.3	19.7	19.5	20.4	

Key performance Indicators (Consolidated)

Y/E March	FY23E				FY23E				FY23	FY24E	FY24E
	1Q	2Q	3Q	4Q	1Q	2Q	3Q	4QE			3QE
Domestic formulations (INRb)	33.9	34.6	33.9	33.6	35.6	38.4	37.8	37.1	136.0	149.0	36.6
YoY Change (%)	2.4	8.5	7.1	8.7	5.1	11.1	11.4	10.4	6.6	9.5	8.0
US sales (INRb)	32.4	32.9	34.7	35.3	38.7	35.5	39.7	41.4	135.4	154.3	37.1
YoY Change (%)	15.8	22.9	16.6	20.8	19.3	7.9	14.6	17.3	19.0	14.0	7.1
ROW (INRb)	33.6	35.1	36.7	33.9	37.5	40.4	38.7	40.0	139.4	156.7	42.2
YoY Change (%)	13.0	10.1	16.8	17.5	11.6	15.1	5.5	17.9	14.3	12.4	14.8
APIs (INRb)	6.0	4.7	5.2	3.9	5.4	5.0	4.7	5.4	19.7	20.4	6.1
YoY Change (%)	16.3	8.5	9.4	-6.9	-9.9	5.1	-9.6	39.5	7.5	3.4	18.0
Cost Break-up											
RM Cost (% of Sales)	27.2	25.1	25.5	21.1	23.4	23.2	22.5	22.4	25.8	23.4	23.2
Staff Cost (% of Sales)	19.5	18.5	18.5	20.4	20.4	19.7	19.4	19.0	19.2	20.4	19.0
R&D Expenses(% of Sales)	4.3	5.3	6.1	6.2	5.8	6.4	6.8	7.3	5.5	5.8	7.0
Other Cost (% of Sales)	24.3	22.9	24.8	28.2	23.5	25.4	25.5	24.6	25.0	23.5	25.1
Gross Margins(%)	72.8	74.9	74.5	78.9	76.6	76.8	77.5	77.6	74.2	76.6	76.8
EBITDA Margins(%)	24.6	28.3	25.1	24.1	26.9	25.2	25.7	25.2	25.5	25.8	25.7
EBIT Margins(%)	19.1	22.6	19.1	17.8	21.4	19.9	20.6	20.1	19.7	20.5	20.4

Key takeaways from the management interaction

- The branded formulation segment in the EM market grew 5.2% YoY in local currency terms for the quarter.
- The specialty R&D expenditure stood at 39% of total R&D expenditure for the quarter.
- The PDUFA date for Deuroxolitinib is Jul'24. SUNP has completed phase I clinical trials for GL0034 and phase II is expected to start in 2HCY24.
- The topline data for psoriatic arthritis for Illumya is expected in 2HCY25.
- While the number of patients for melanoma and non-melanoma skin cancer is sub-10K, the opportunity would be interesting for Nidlegly.
- The milestone income in the global specialty segment is derived from the ROW market.

Exhibit 1: Taro – financial snapshot

USD M	3QFY24	3QFY23	% YoY	2QFY24	% QoQ
Sales	157.1	139.1	13.0	148.2	6.0
Growth (%)					
Cost of sales (incl Depn)	77.3	75.1	3.0	74.6	3.7
Gross profit	79.8	64.0	24.6	73.6	8.4
GP Margin (%)	50.8	46.0	474 bp	49.7	112 bp
Operating expenses:					
R&D	13.5	12.9	4.7	14.3	-5.7
R&D as a % of sales	8.6	9.3		9.7	
SG&A	50.4	49.9	1.1	54.5	-7.5
SG&A as a % of sales	32.1	35.8		36.8	
Operating Profit	15.9	1.3	1142.2	4.8	232.6
Operating Profit Margin (%)	10.1	0.9	920 bp	3.2	689 bp
EBITDA	15.9	1.3	1142.2	4.8	232.6
EBITDA margin (%)	10.1	0.9	920 bp	3.2	689 bp
Financial expenses	-15.5	-6.5		-14.0	
Extraordinary items incl forex	-0.1	-0.7		1.6	
Other income	1.8	0.6		0.6	
PBT	33.4	9.1	267.3	17.7	88.3
Taxes	13.3	1.9		9.1	
Effective tax rate (%)	39.9	20.9		51.4	
Net income before MI	20.1	7.2	179.3	8.6	132.8
Minority interest	0.0	0.0		0.0	
Net income (Reported)	20.1	7.2	179.3	8.6	132.8
Forex fluctuations	0.1	0.7		-1.6	
Net income (Adjusted)	20.3	7.2	179.3	8.6	132.8

Source: MOFSL, Company

Exhibit 2: Global Specialty pipeline

Candidate	Indication	Current Phase	Next Milestone
Deuruxolitinib	Alopecia Areata	Filed with USFDA	PDUFA date in Jul'24
Nidlegly TM (EU, ANZ rights with Sun)	Melanoma and Melanoma Skin Cancers	Phase-3 topline data in locally advanced fully resectable melanoma released	Submission of MA application in locally advanced fully resectable melanoma to EMA during 1HCY24
Ilumya	Psoriatic Arthritis	Phase-3	Topline data during 2HCY25
MM-II	Pain in Osteoarthritis	Phase-2 completed	Phase-3 to start in 2HCY24
SCD-004	Psoriasis, atopic dermatitis	Phase-2	Topline data by 2HCY24 (atopic dermatitis)
GL0034	Type-2 Diabetes	Phase 1 completed	Phase-2 to start by 2HCY24

Source: Company, MOFSL

Building multiple drivers to better outlook over medium term**Continued focus on specialty segment/increase reach to drive growth**

- In 9MFY24, sales of SUNP's global specialty segment grew 25% YoY to USD768m, led by strong traction in Cequa, Ilumya, and levulan. With recent formulary changes and enhanced efforts, there is further scope to increase prescriptions for Winlevi.
- SUNP is conducting phase-3 clinical trials of Nidlegly and Ilumya. The other molecules under various stages of clinical trials are MM-II, SCD-044, and GL0034. Additionally, it has filed its NDA Deuruxolitinib with the USFDA.
- Further, SUNP is planning to expand its specialty portfolio in other emerging markets.

- In 9MFY24, the US generic sales were flat, partly due to regulatory issues at Mohali/Halol.
- We expect the specialty and generics segments to drive overall US sales CAGR of 10% to USD2.2b over FY24-FY26.

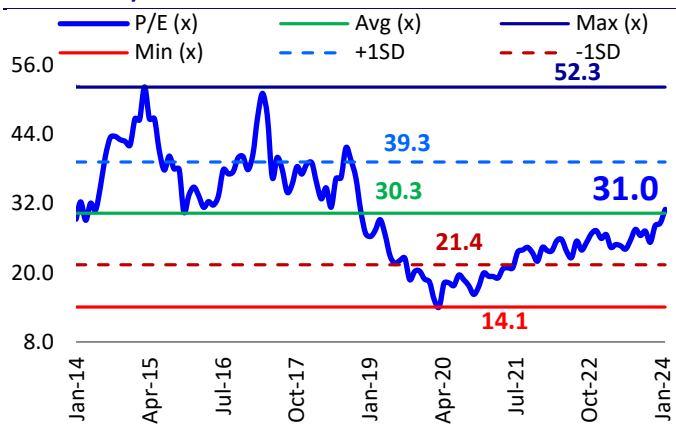
SUNP geared up to sustain outperformance in branded generics markets

- In 9MFY24, DF sales increased 9% YoY to INR111b. The growth was driven by the healthy performance of key therapies and market share gains in top brands. However, this was offset by underperformance by the Anti-infective portfolio. SUNP launched 28 new products in the DF segment.
- We expect the company to deliver 12% CAGR to INR186b over FY24-26.
- Additionally, the ROW and emerging markets would witness a CAGR of 13% (in CC terms) over FY24-26 to reach USD2.4b. It is expected that expanding reach, strong brand recall, and focus on specialized portfolio will fuel the growth in these markets.

Reiterate BUY

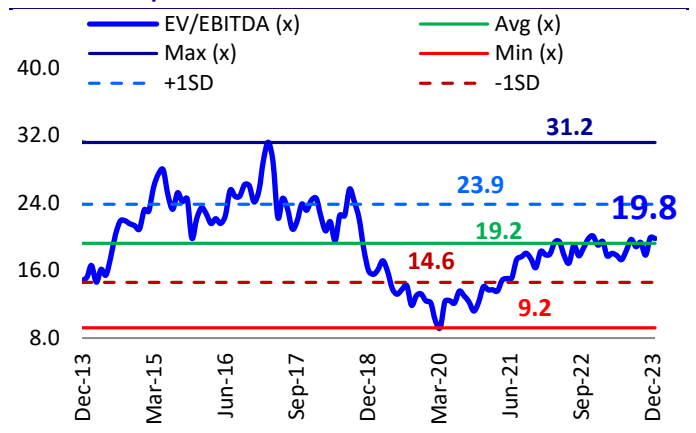
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Exhibit 3: P/E chart



Source: MOFSL, Company, Bloomberg

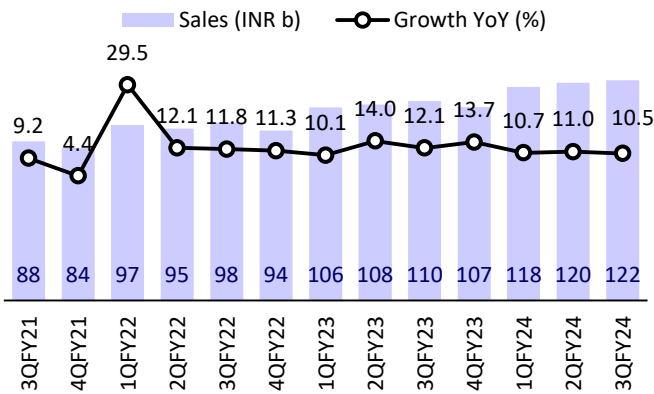
Exhibit 4: EV/EBITDA chart



Source: MOFSL, Company, Bloomberg

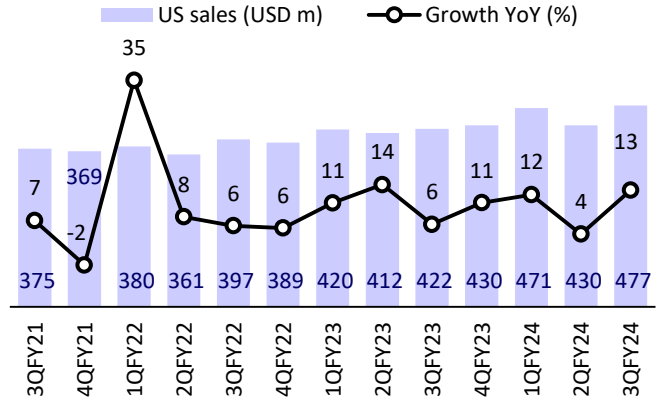
Story in charts

Exhibit 5: Revenue rose 11% YoY in 3QFY24



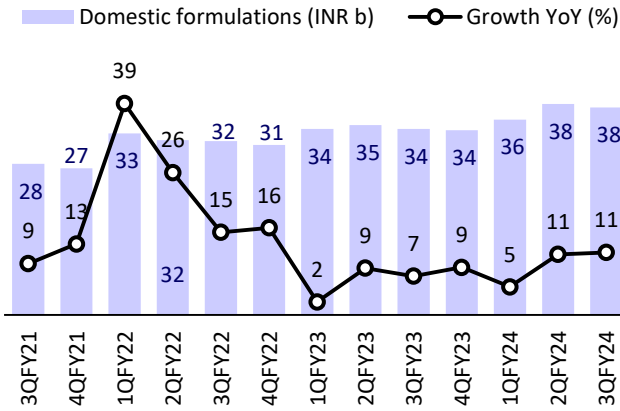
Source: Company, MOFSL

Exhibit 6: The US sales grew 13% YoY in CC terms



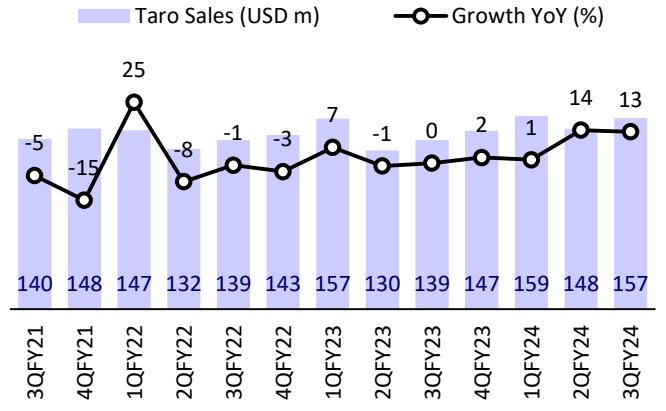
Source: Company, MOFSL

Exhibit 7: DF sales grew 11% YoY in 3QFY24



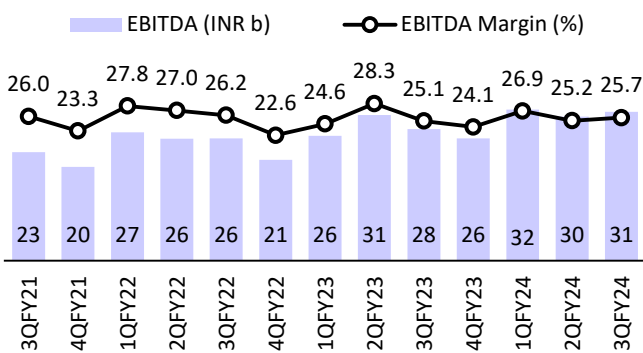
Source: Company, MOFSL

Exhibit 8: Taro sales grew 13% YoY in 3QFY24



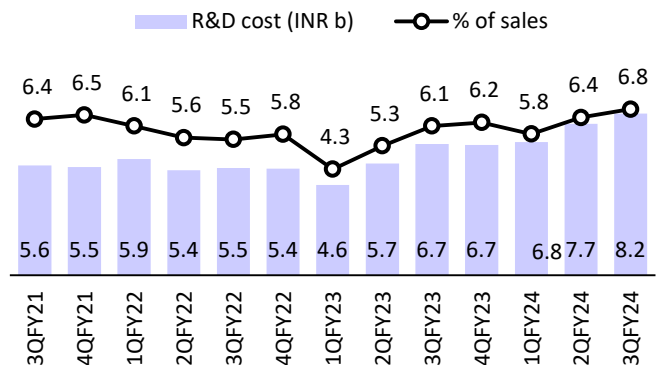
Source: Company, MOFSL

Exhibit 9: EBITDA margin expanded 60bp YoY in 3QFY24



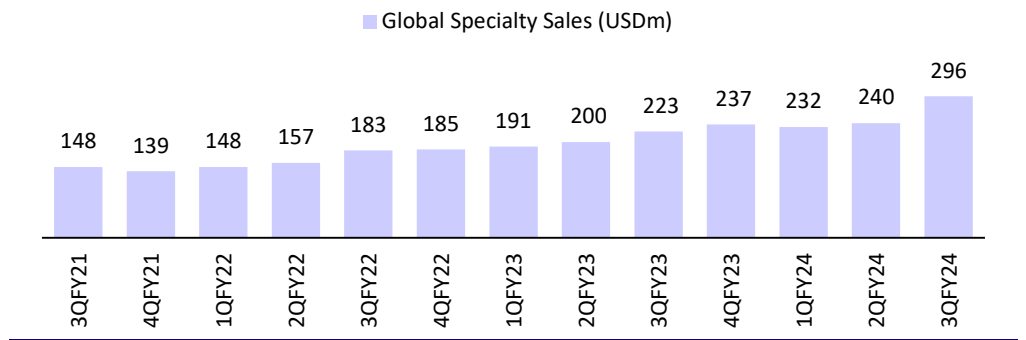
Source: Company, MOFSL

Exhibit 10: R&D cost stood at 6.8% of sales in 2QFY24



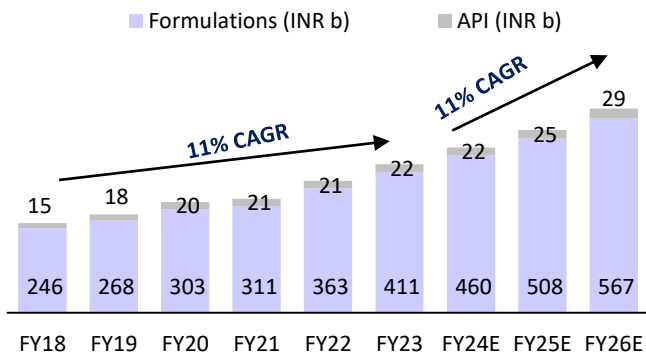
Source: Company, MOFSL

Exhibit 11: Specialty sales rose 33% YoY in 3QFY24



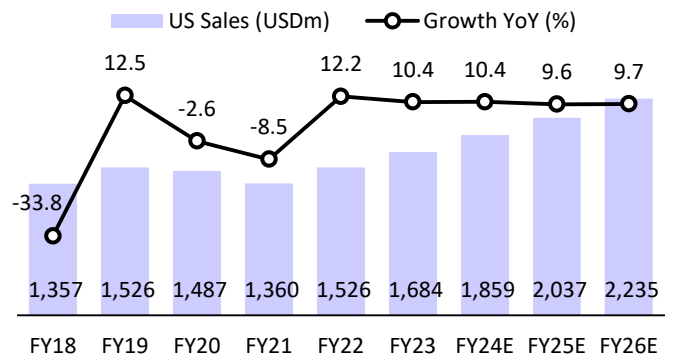
Source: Company, MOFSL

Exhibit 12: Expect 11% revenue CAGR over FY24-26



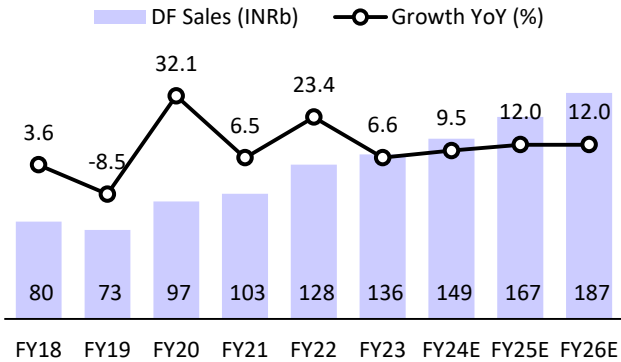
Source: Company, MOFSL

Exhibit 13: Expect 10% CAGR in the US sales over FY24-26



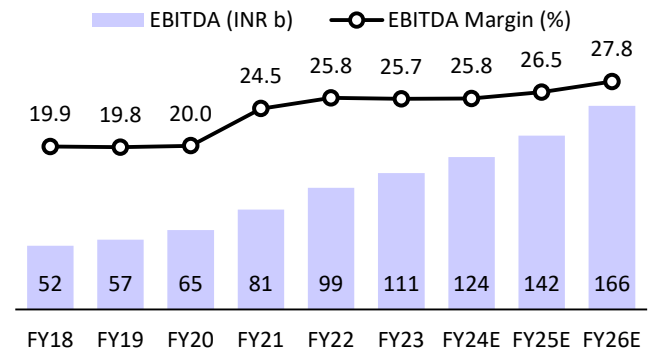
Source: Company, MOFSL

Exhibit 14: Expect DF sales CAGR of 12% over FY24-26



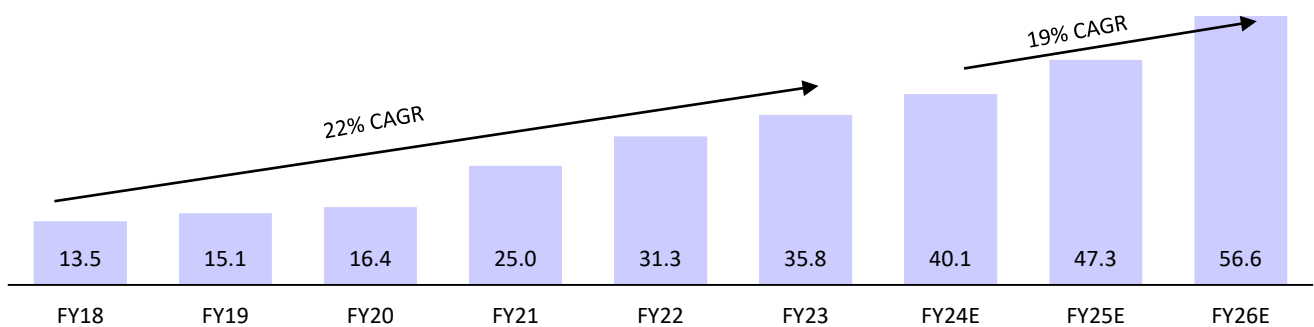
Source: Company, MOFSL

Exhibit 15: EBITDA margin to improve to ~27.8% by FY26E



Source: Company, MOFSL

Exhibit 16: Expect 19% EPS CAGR over FY24-26



Source: Company, MOFSL

Financials and valuations

Income Statement								(INR b)
Y/E March	FY19	FY20	FY21	FY22	FY23E	FY24E	FY25E	FY26E
Net Sales	286.9	323.3	331.6	383.1	432.3	481.9	533.2	595.3
Change (%)	10.1	12.7	2.6	15.5	12.8	11.5	10.7	11.6
Total Expenditure	230.1	258.6	250.3	284.1	321.1	357.8	391.7	429.6
% of Sales	80.2	80.0	75.5	74.2	74.3	74.2	73.5	72.2
EBITDA	56.8	64.6	81.3	99.0	111.1	124.1	141.5	165.7
Margin (%)	19.8	20.0	24.5	25.8	25.7	25.8	26.5	27.8
Depreciation	17.5	20.5	20.8	21.4	25.3	25.3	25.7	26.6
EBIT	39.3	44.1	60.5	77.6	85.8	98.8	115.8	139.0
Int. and Finance Charges	5.6	3.0	1.4	1.3	1.7	2.0	1.9	1.7
Other Income - Rec.	14.1	11.5	11.8	10.2	11.3	17.9	17.6	17.3
Extra-ordinary Exp	9.7	2.5	42.8	43.2	1.4	3.0	0.0	0.0
PBT	38.1	50.1	28.0	43.3	94.1	111.6	131.5	154.6
Tax	6.0	8.2	5.1	10.8	8.5	17.2	16.4	17.3
Tax Rate (%)	15.8	16.4	18.4	24.8	9.0	15.4	12.5	11.2
Profit after Tax	32.1	41.9	22.8	32.6	85.6	94.5	115.1	137.3
Change (%)	21.9	30.5	-45.4	42.5	162.9	10.3	21.9	19.3
Margin (%)	10.7	12.5	6.7	8.3	19.3	18.9	20.9	22.4
Less: Minority Interest	5.4	4.2	-6.2	1.3	-0.9	0.4	1.3	1.3
Reported PAT	26.7	37.6	29.0	31.2	84.7	94.1	113.8	136.1
Adjusted PAT (excl. Ex. Items)	36.3	39.5	60.2	75.3	86.1	96.5	113.8	136.1

Balance Sheet								(INR b)
Y/E March	FY19	FY20	FY21	FY22	FY23E	FY24E	FY25E	FY26E
Equity Share Capital	2.4	2.4	2.4	2.4	2.4	2.4	2.4	2.4
Total Reserves	411.7	450.2	462.2	477.7	557.6	637.5	735.1	854.8
Net Worth	414.1	452.6	464.6	480.1	560.0	639.9	737.5	857.2
Minority Interest	33.1	38.6	30.2	30.5	33.2	33.6	34.8	36.1
Deferred Liabilities	-24.5	-31.2	-35.1	-28.6	-31.3	-31.3	-31.3	-31.3
Total Loans	98.9	75.8	33.4	11.8	67.6	47.9	34.0	24.1
Capital Employed	521.7	535.9	493.1	493.8	629.4	690.0	774.9	886.1
Gross Block	181.8	207.8	225.2	248.1	273.5	314.6	344.6	374.6
Less: Accum. Deprn.	81.6	102.1	122.9	144.3	169.6	195.0	220.7	247.3
Net Fixed Assets	100.3	105.7	102.3	103.7	103.9	119.7	124.0	127.4
Capital WIP	9.1	6.6	9.4	8.0	9.6	12.5	13.7	15.1
Goodwill	123.1	128.4	119.5	125.8	180.4	180.4	180.4	180.4
Investments	39.5	52.5	64.8	52.1	54.6	54.6	54.6	54.6
Curr. Assets	349.4	357.6	345.1	379.4	427.3	475.9	575.3	703.9
Inventory	78.9	78.7	90.0	90.0	105.1	111.8	118.3	131.5
Account Receivables	88.8	94.2	90.6	105.9	114.4	134.2	152.7	170.3
Cash and Bank Balance	72.8	64.9	64.5	50.3	57.7	67.7	128.7	211.9
L & A and Others	108.9	119.8	100.0	133.2	150.1	162.2	175.5	190.2
Curr. Liability & Prov.	99.7	114.9	148.0	175.2	146.4	153.1	173.0	195.2
Account Payables	66.1	70.1	98.9	80.0	89.4	87.6	97.7	108.6
Provisions	33.6	44.8	49.1	95.2	57.0	65.5	75.3	86.6
Net Current Assets	249.7	242.7	197.1	204.2	280.9	322.9	402.2	508.7
Appl. of Funds	521.7	535.9	493.1	493.8	629.4	690.0	774.9	886.1

E: MOFSL Estimates

Financials and valuations

Ratios

Y/E March	FY19	FY20	FY21	FY22	FY23E	FY24E	FY25E	FY26E
Adjusted EPS	15.1	16.4	25.0	31.3	35.8	40.1	47.3	56.6
Cash EPS	18.4	24.2	20.7	21.9	45.7	49.6	58.0	67.6
BV/Share	172.1	188.1	193.1	199.6	232.7	266.0	306.5	356.3
DPS	2.0	3.5	3.5	3.8	3.8	4.8	5.8	5.8
Payout (%)	18.0	23.5	43.0	32.8	12.5	14.3	14.1	11.9
Valuation (x)								
P/E	94.0	86.5	56.7	45.4	39.7	35.4	30.0	25.1
P/BV	8.2	7.5	7.3	7.1	6.1	5.3	4.6	4.0
EV/Sales	11.8	10.4	10.0	8.7	7.8	6.9	6.1	5.3
EV/EBITDA	59.7	52.0	40.7	33.5	30.2	26.8	23.0	19.1
Dividend Yield (%)	0.1	0.2	0.2	0.3	0.3	0.3	0.4	0.4
Return Ratios (%)								
RoE	9.1	9.1	13.1	15.9	16.6	16.1	16.5	17.1
RoCE	9.1	8.9	9.9	11.5	11.5	12.5	13.5	13.5
RoIC	8.8	9.1	12.9	15.8	17.5	15.7	17.9	20.9
Working Capital Ratios								
Asset Turnover (x)	0.5	0.6	0.7	0.8	0.7	0.7	0.7	0.7
Fixed Asset Turnover (x)	3.0	3.1	3.2	3.7	4.2	4.3	4.4	4.7
Debtor (Days)	113	106	100	101	97	102	105	104
Creditor (Days)	56	54	46	39	34	34	39	28
Inventory (Days)	100	89	99	86	89	85	81	81
Leverage Ratio								
Debt/Equity (x)	0.3	0.0	-0.1	-0.1	0.0	0.0	-0.1	-0.2

Cash Flow Statement

Y/E March	FY19	FY20	FY21	FY22	FY23E	FY24E	FY25E	FY26E
OP/(Loss) bef. Tax	47.1	62.2	38.5	55.8	109.8	121.1	141.5	165.7
Int./Dividends Recd.	14.1	11.5	11.8	10.2	11.3	17.9	17.6	17.3
Direct Taxes Paid	-10.8	-14.9	-9.1	-4.3	-11.2	-17.2	-16.4	-17.3
(Inc)/Dec in WC	-22.3	-1.0	45.2	-21.3	-69.3	-32.0	-18.4	-23.2
CF from Operations	28.1	57.8	86.3	40.5	40.6	89.8	124.3	142.4
(inc)/dec in FA	-36.8	-28.7	-11.3	-27.7	-81.8	-43.9	-31.2	-31.4
Free Cash Flow	-8.7	29.1	75.0	12.8	-41.1	45.9	93.1	111.0
(Pur)/Sale of Invest.	-9.0	-12.9	-12.4	12.7	-2.4	0.0	0.0	0.0
CF from investments	-45.8	-41.7	-23.7	-15.0	-84.2	-43.9	-31.2	-31.4
Change in networkth	1.1	12.0	-9.5	-6.0	7.6	0.0	0.0	0.0
(Inc)/Dec in Debt	1.4	-23.2	-42.4	-21.6	55.8	-19.7	-13.9	-9.8
Interest Paid	-5.6	-3.0	-1.4	-1.3	-1.7	-2.0	-1.9	-1.7
Dividend Paid	-5.8	-9.8	-9.8	-10.7	-10.7	-13.5	-16.3	-16.3
CF from Fin. Activity	-8.9	-24.0	-63.1	-39.6	50.9	-35.2	-32.1	-27.8
Inc/Dec of Cash	-26.5	-7.9	-0.4	-14.1	7.4	10.7	61.0	83.2
Add: Beginning Balance	99.3	72.8	64.9	64.5	50.3	57.7	67.7	128.7
Closing Balance	72.8	64.9	64.5	50.3	57.7	67.7	128.7	211.9

(INR b)

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Details of Compliance Officer: Neeraj Agarwal, 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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