

Ambika Cotton Mills Ltd

Bloomberg Code: ACML IN

India Research - Stock Broking

BUY

Strong Player in Yarn Manufacturing

Rock solid ratios with higher dividend yield

Ambika Cotton has recorded outperforming return ratios of RoE, RoCE & RoA at 18.2%, 20.6% & 11.3% in the industry in FY15. The company has paid dividend per share of Rs.14 implying dividend yield of ~1.7% at CMP of Rs 835. The profit after tax is growing with a CAGR of 30% in FY12-FY15 and expecting a growth of 20% CAGR in FY15-FY17E.

Excellent execution of business in hard times as well

With the peers facing labor problems, high debt, diluting equity, currency crisis and higher cotton price, ACML executed unique distinction with them and has crossed those business challenges. ACML's debt has reduced from Rs 2662 mn in FY08 to Rs 468 mn in FY15, which is a reduction of net debt to equity from 2.5x to 0.2x in FY08-15. Looking at the healthy cash flows, the company is likely to become debt free shortly.

Long-standing Yarn Manufacturer in the market

The company also has a unique distinction of having zero complaints with clients, shippers and raw material suppliers. The yarn produced by Ambika Cotton Mills is the preferred one for many top quality shirting manufacturers around the world. ACML has a strong presence in export markets such as Europe, Asia and other countries which constitute a significant part of the company's total export revenues.

Going forward, in FY16E-FY17E, ACML will be able to sustain its margins, with balanced demand, stable yarn realization and healthy demand for specialized yarn, both internationally and domestically. We expect revenue will grow by 13% and 15% and the EBITDA margin will be in the range of 20-21% in FY16E & FY17E respectively.

Valuation and Outlook

At CMP of Rs. 835, Ambika Cotton is trading at a P/Ex of 7.9x and 6.6x on FY16E and FY17E earnings respectively, on the back of stable raw material prices, favorable product mix, improving cost efficiency and economies of scale; we initiate coverage on Ambika Cotton with a **"BUY"** rating with a target price of Rs. 1004, based on 8.0x P/E FY17E, representing an upside potential of 20.3% in a 9-12 months period.

Exhibit 1: Valuation Summary (Rs. Mn)

YE Mar (Rs. Mn)	FY13	FY14	FY15	FY16E	FY17E
Net Sales	3978	4769	4955	5596	6430
EBITDA	866	1031	991	1156	1359
EBITDA Margin (%)	21.8	21.6	20.0	20.7	21.1
Adj. Net Profit	310	481	512	618	737
EPS (Rs.)	52.7	81.9	87.1	105.3	125.5
RoE (%)	14.9	20.0	18.2	18.9	19.1
PE (x)	3.7	3.5	9.0	7.9	6.6

Source: Company, Karvy Research; *Represents multiples for FY13, FY14 & FY15 are based on historic market price

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Recommendation (Rs.)

CMP (as on Sep 22, 2015)	835
Target Price	1004
Upside (%)	20.3

Stock Information

Mkt Cap (Rs.mn/US\$ mn)	4903 / 74
52-wk High/Low (Rs.)	1149 / 437
3M Avg. daily volume (mn)	0.03
Beta (x)	0.8
Sensex/Nifty	25652 / 7812
O/S Shares(mn)	5.9
Face Value (Rs.)	10.0

Shareholding Pattern (%)

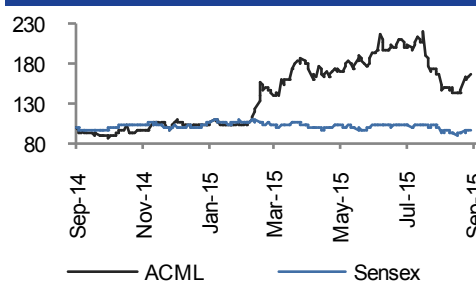
Promoters	48.6
FII	1.4
DII	3.3
Others	46.7

Stock Performance (%)

	1M	3M	6M	12M
Absolute	(2)	(14)	15	65
Relative to Sensex	5	(7)	27	75

Source: Bloomberg

Relative Performance*



Source: Bloomberg; *Index 100

Analyst Contact

Prasanth Victor

040 - 3321 6271

v.prasanth@karvy.com

Company Financial Snapshot (Y/E Mar)
Profit & Loss (Rs. Mn)

	FY15	FY16E	FY17E
Net sales	4955	5596	6430
Optg. Exp (Adj for OI)	3964	4440	5071
EBITDA	991	1156	1359
Depreciation	293	316	364
Interest	63	75	83
Other Income	3	6	6
PBT	638	770	918
Tax	126	151	180
Adj. PAT	512	618	737
Profit & Loss Ratios			
EBITDA margin (%)	20.0	20.7	21.1
Net profit margin (%)	10.3	11.1	11.5
P/E (x)	9.0	7.9	6.6
EV/EBITDA (x)	5.1	4.7	3.9
Dividend yield (%)	1.8	1.9	2.1

Source: Company, Karvy Research

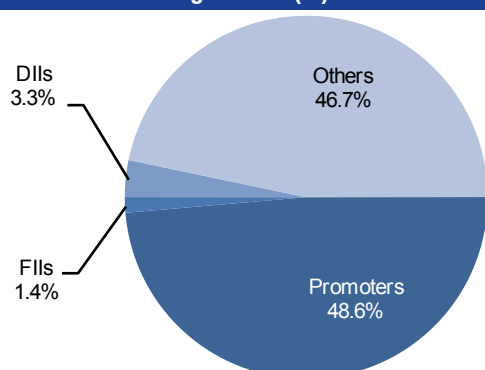
Balance sheet (Rs. Mn)

	FY15	FY16E	FY17E
Total Assets	4499	5172	5767
Net Fixed assets	2700	3126	3628
Current assets	1688	1918	1990
Other assets	111	128	148
Total Liabilities	4499	5172	5767
Networth	3012	3531	4170
Debt	496	582	456
Current Liabilities	582	650	733
Deferred Tax	408	408	408

Balance Sheet Ratios

RoE (%)	18.2	18.9	19.1
RoCE (%)	20.6	22.2	22.9
Net Debt/Equity	0.2	0.2	0.1
Equity/Total Assets	0.6	0.7	0.7
P/BV (x)	1.5	1.4	1.2

Source: Company, Karvy Research

Exhibit 2: Shareholding Pattern (%)


Source: BSE, Karvy Research

Company Background

Ambika Cotton Mills Limited (ACML) based out of Coimbatore in Southern India, is engaged in the manufacture of premium quality Compact and Elitwist cotton yarn for hosiery and weaving. It is an established player in the international and domestic yarn market with exports constituting roughly 60% of its revenues.

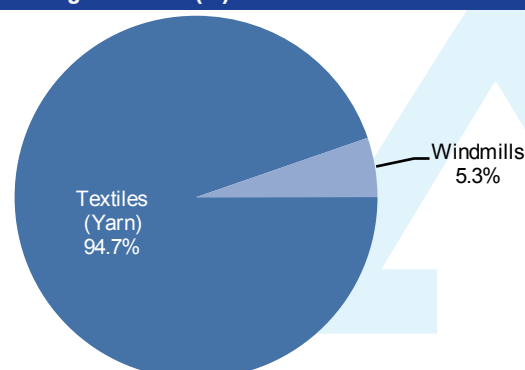
The company was incorporated in 1988 and its 4 manufacturing units are situated in Dindigul, Tamil Nadu with a total spindle capacity of 109872.

Ambika Cotton Mills has the unique distinction of being the number one in the shirting segment and is the preferred client of all top quality shirt manufacturers around the world. It also prides itself in its zero complaints with clients, shippers and raw material suppliers. The company has installed 27.4 MW capacity of windmills for 100% of its captive requirements and installed Extra High Tension (EHT) line (110 KVA Sub-Station) for smooth flow of quality power. These measures will continue to support the operations of the company.

Cash Flow (Rs. Mn)

	FY15	FY16E	FY17E
PBT	638	770	918
Depreciation	293	316	364
Interest (net)	63	75	83
Tax	(152)	(145)	(173)
Changes in WC	(393)	(303)	(168)
Others	(20)	0	0
CF from Operations	429	713	1023
Capex	(97)	(690)	(790)
Investment	(0)	0	0
Others	4	2	(1)
CF from Investing	(93)	(688)	(791)
Change in Debt	(199)	86	(126)
Dividends & interest paid	(136)	(99)	(99)
CF from Financing	(336)	(13)	(225)
Change in Cash	1	12	7

Source: Company, Karvy Research

Exhibit 3: Revenue Segmentation (%)


Source: Company, Karvy Research

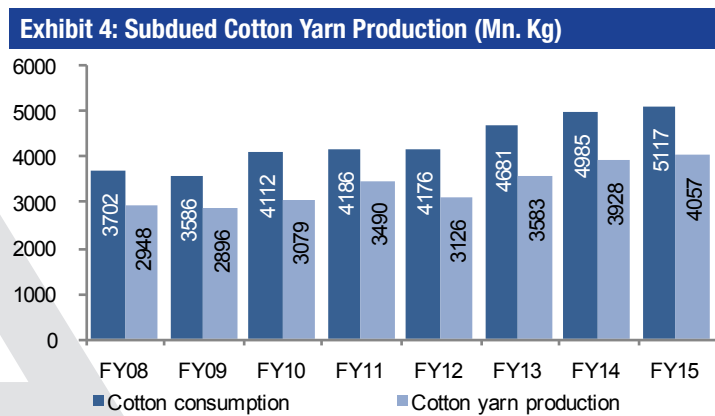
Domestic Yarn Scenario:

According to Ind-Ra, total cotton yarn production grew 3% during FY15 to 4,057 mn kg, blended yarn production grew 2% to 915 million kg and non-cotton yarn production grew 6% to 513 million kg, although a moderate recovery was seen in Q1FY15.

Average cotton yarn prices fell about 7%-10% in FY15 despite average cotton prices falling by 20%. The EBITDA margin of cotton yarn manufacturers should improve in FY16E (10%-13%) due to a low-cost inventory, but would still remain lower than the FY14 levels (14%-16%) which benefitted due to exceptionally high Chinese demand. Cotton yarn exports are estimated to have declined by 15% during FY15, and exports to China by a higher rate of 20% YoY.

The domestic demand of cotton yarn is primarily driven by the growth in consumption of readymade garments and home textiles. Consumption trend has been rising primarily because of better income levels, growing organized retail segment and rising consumer class.

The outlook on the Indian cotton spinning industry has improved after the pressure witnessed in FY15 and is expected to remain stable over the next 1-2 years. Trends for FY16 in the textile sector indicate cautious inventory management, risk aversion towards holding higher raw material stocks and focus on efficiencies in cash conversion cycle. Diversification and ability to switch between cotton and synthetic yarns are seen as positives for the earnings profile of spinners, while their exposure to single product/geography gives rise to a higher degree of risk.



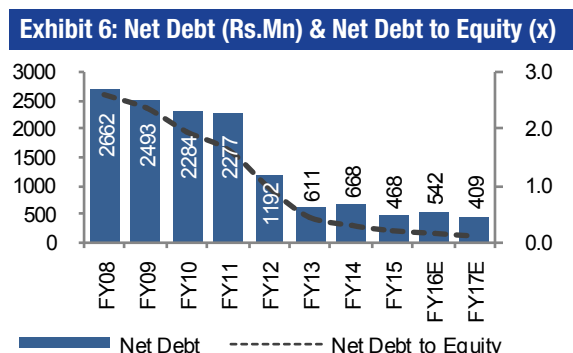
Source: Textile Ministry, Karvy Research

Exhibit 5: Outlook by Segment

Spinners (cotton yarn)	Stable	Negative
Spinners (synthetic yarn)	Negative to stable	Negative to stable
Fabric players (cotton)	Stable	Stable
Fabric players (synthetic)	Negative to stable	Negative
Apparel/made-ups manufacturers (cotton)	Stable with positive bias	Stable with positive bias
Appare l/ made-ups manufacturers (synthetic)	Stable	Stable

Source: Ind-Ra, Karvy Research

Strong Balance sheet with low debt



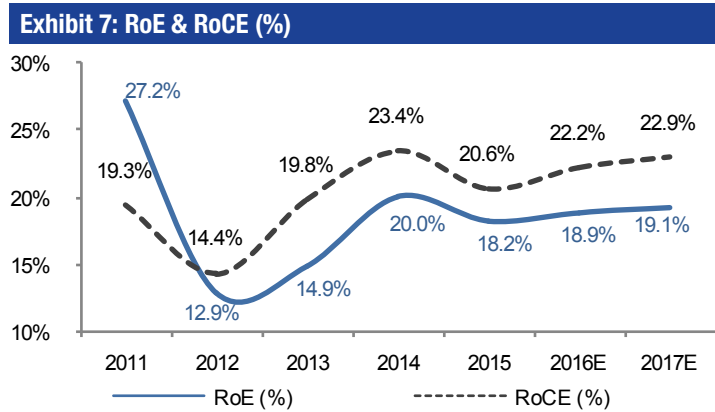
Source: Company, Karvy Research

ACML's debt has reduced from Rs 2662 mn in FY08 to Rs 468 mn as of FY15, which is a reduction of net debt to equity from 2.5x to 0.2x in FY08 to FY15 as the company growing at a fast pace, with good profitability margins & improving operating efficiency. ACML profits increased with a CAGR of 27% from FY08 to FY15. ACML has been realizing its profits by utilizing this cash productively in capacity expansion and paying off debt. Looking at the healthy cash flows, the company is likely to become debt free shortly.

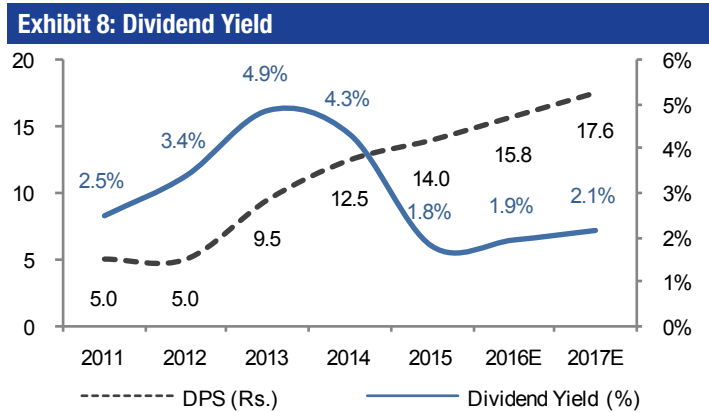
In addition, the management is planning to setup another spinning unit of 30,000 spindles with 100% compact facility consisting of imported and indigenous machinery, together with required value addition in knitting facility at an estimated cost of Rs. 1300mn. The capex will be managed by mostly through internal accruals with minimum possible borrowings.

Healthy return ratios and dividend yield:

ACML outperformed return ratios of RoE & RoCE at 18.2% and 20.6% in FY15. The company has paid dividend per share of Rs.14 during FY15 implying dividend yield of ~1.7% at CMP of Rs.835. RoE increased from 12.9% to 18.2% from FY12 to FY15. We expect RoE in FY17E will hit 19-20% with profits increased by 44% from FY15 to FY17E. Being high dividend rewarding company we also expect dividend per share could be around Rs.17-18 in FY17E with a dividend yield of ~2.2% at CMP of Rs.835.



Source: Company, Karvy Research



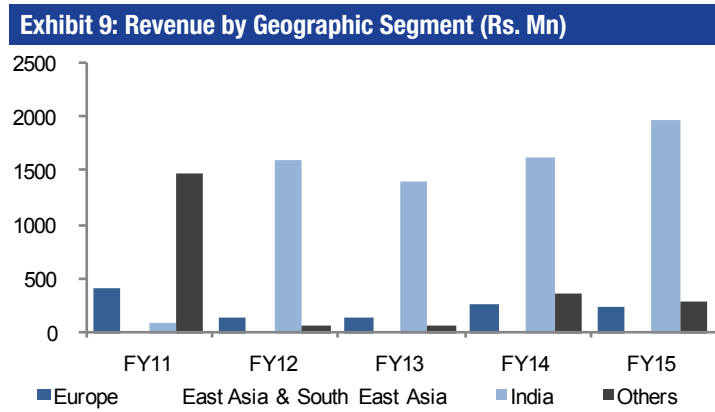
Source: Company, Karvy Research

Execution of Capacity expansion in pipeline:

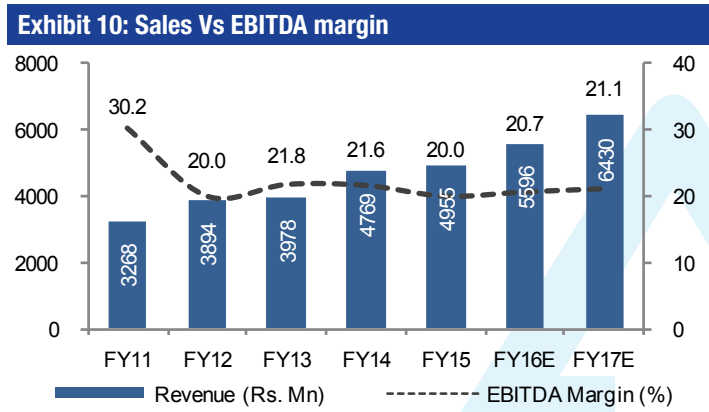
Ambika Cotton Mills Limited is engaged in manufacturing and selling specialty cotton yarn catering to the needs of manufacturers of premium branded shirts and t-shirts. Exports constitute significant portion of the operations. The company operates with total installed spindle capacity of 109872 Spindles, of which 100800 spindles constitute compact facility housed in four units representing 91.7% of the total spindle capacity. The company has installed 27.4 MW wind power capacity for captive consumption of spinning segment. The spinning plants are located at Kanniyapuram, Dindigul and windmills are located in Tirunelveli, Dharapuram and Theni in the state of Tamilnadu. The company is planning to setup another spinning unit of 30,000 spindles with 100% compact facility with imported and indigeneous machinery with a capex of Rs. 1300 mn. However, this will not impact majorly in debt and the majority of capex will be utilized from internal accruals. We expect the capacity expansion will be executed in H2 FY16E.

ACML's specialised yarn demanding more price realization compare with normal yarn:

Ambika Cotton Mills Limited is engaged in manufacturing specialized yarn with an average realization of Rs.400 - 450 per Kg as compared to other normal cotton yarn at an average realization of Rs. 250 per Kg. The core strength of making specialty yarn made up of superior cotton, offering products to the specific needs of the reputed customers, coupled with product innovation. This has largely contributed to the sustained financial performance of the company. It is relevant to note that the company's focus is to maximize its spindle EBITDA which is one of the best in the standalone spinning industry.



Source: Company, Karvy Research



Source: Company, Karvy Research

The company also has a unique distinction of having zero complaints with clients, shippers and raw material suppliers. The yarn produced by Ambika Cotton Mills is the preferred one for many top quality shirting manufacturers around the world. ACML has a strong presence in export markets such as Europe, Asia and other countries which constitute a significant part of the company's total export revenues. The company exports to Taiwan, Hong Kong, Turkey, China, Korea, Singapore, etc. ACML has exports about 59% of revenue in FY15. ACML's EBITDA margin has been in the range of healthy 20-25%, which is far superior to that of peers. Going forward, in FY16E-FY17E, ACML will be able to sustain its margins, with balanced demand, stable yarn realization and healthy demand for specialized yarn, both internationally and domestically. We expect revenue will grow by 13 and 15% and the EBITDA margin will be in the range of 20-21% in FY16E & FY17E.

Captive wind power segments an additional advantage:

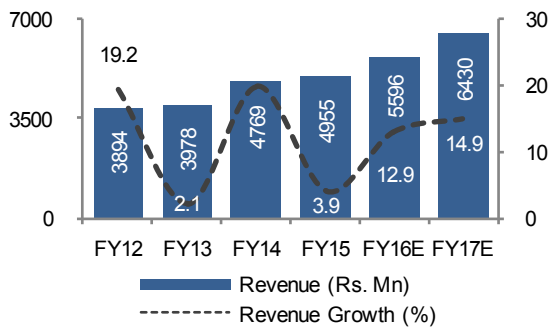
ACML has 27.5 MW of wind power generation capacity located in Tirunelveli, Dharapuram and Theni in the state of Tamilnadu which is sufficient to meet entire current power requirement of the company. Initially, ACML suffered with power crisis in Tamilnadu during 2009 when the companies were directed by Tamil Nadu state government to draw only about 60% of the allotted power. The power generated from windmills is meant for captive consumption for manufacturing of cotton yarn. This is also a sign of the timely steps taken by the management to deal with business hurdles. However, in segment reporting, the company has identified two reportable segments viz., Textiles and Windmills as business segments and inter-segment revenue is value of power adjusted by Tamil Nadu Generation and Distribution Corporation (TANGEDCO) in electricity bills of spinning segment.

Exhibit 11: Business Assumptions

Y/E Mar (Rs. Mn)	FY14	FY15E	FY16E	FY17E	Comments
Consolidated					
Revenue	4769	4955	5596	6430	With a normalized scenario of stable Cotton and Yarn prices, improvement in demand of Yarn and with capacity expansion, we expect revenue to improve at 12-15% in FY17E with a CAGR of 14% from FY15-FY17E.
Revenue Growth (%)	19.9	3.9	12.9	14.9	
EBITDA	1031	991	1156	1359	We expect 20 to 21% EBITDA margin on a sustainable basis in FY16E & FY17E.
EBITDA Margins (%)	21.6	20.0	20.7	21.1	
PAT (normalized)	481	512	618	737	Growth and profitability in FY16E & FY17E would be driven by improved utilization levels, stable raw material price and other operating expenses.
Fully Diluted EPS (Rs.)	81.9	87.1	105.3	125.5	
Capex	(316)	(97)	(690)	(790)	The company is planning to setup another spinning unit of 30,000 spindles with 100% compact facility with imported and indigeneous machinery with a capex of Rs. 1300 mn.
Net CFO	378	429	713	1023	
Net Debt	668	468	542	409	ACML's debt has reduced from Rs.2662 mn in FY08 to Rs 468 mn as of FY15, which is a reduction of net debt to equity from 2.5x to 0.2x in FY08-15. Looking at the healthy cash flows, the company is likely to become debt free shortly.
Free Cash Flow	62	332	23	233	Improvement in the business scenario is expected to improve the cash flow from operation.

Source: Company, Karvy Research

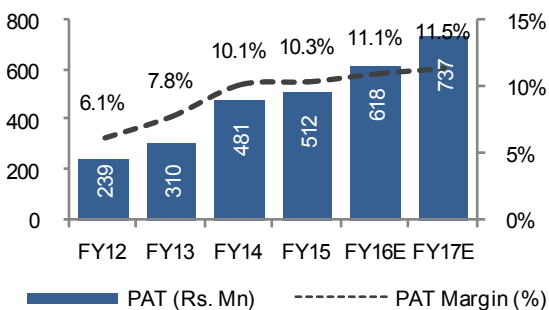
Exhibit 12: Revenue (Rs. Mn) & Revenue Growth (%)



Source: Company, Karvy Research

Revenue has grown at a CAGR of 11% between FY11-FY15, we anticipate the revenue will ramp up with a growth of 13-15% between FY16E-FY17E with a CAGR of 14% due to balanced demand supply scenario for cotton in India and healthy demand for specialised yarn both internationally and domestically.

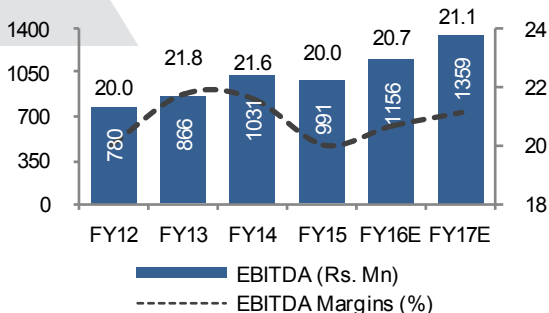
Exhibit 13: PAT (Rs. Mn) & PAT Margin (%)



Source: Company, Karvy Research

The consolidated profit after tax of the year is at Rs. 512Mn compared to Rs. 481 Mn in the previous year with an increase of 6% in FY15 with a PAT margin of 10.3% vs 10.1% in FY14. Profit after tax increased with a CAGR of 4.7% in FY11 to FY15. We expect profitability expected to improve significantly over FY15-17E with a CAGR of 20% driven by increasing revenue, low interest cost, depreciation and stable raw material price.

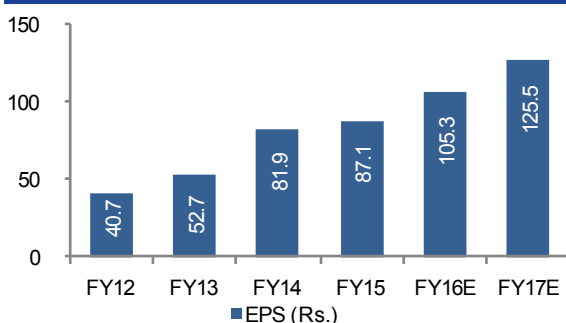
Exhibit 14: EBITDA (Rs. Mn) & EBITDA Margin (%)



Source: Company, Karvy Research

Ambika's EBITDA stood at Rs. 991mn and margins at 20.0% in FY15. This is due to improving its operational efficiency and revenue growth. Going forward, with stable cotton prices, we expect EBITDA to grow at 18% CAGR during FY15-17E and EBITDA margins to stabilize around 21.1% during the same period.

Exhibit 15: EPS (Rs.)



Source: Company, Karvy Research

Ambika Cotton recorded EPS of Rs.87.1 in FY15. It is expected to reach Rs.125.5 in FY17E driven by significant growth in PAT on the back of increasing revenue, low interest cost, depreciation and stable raw material price.

Exhibit 16: Company Snapshot (Ratings)

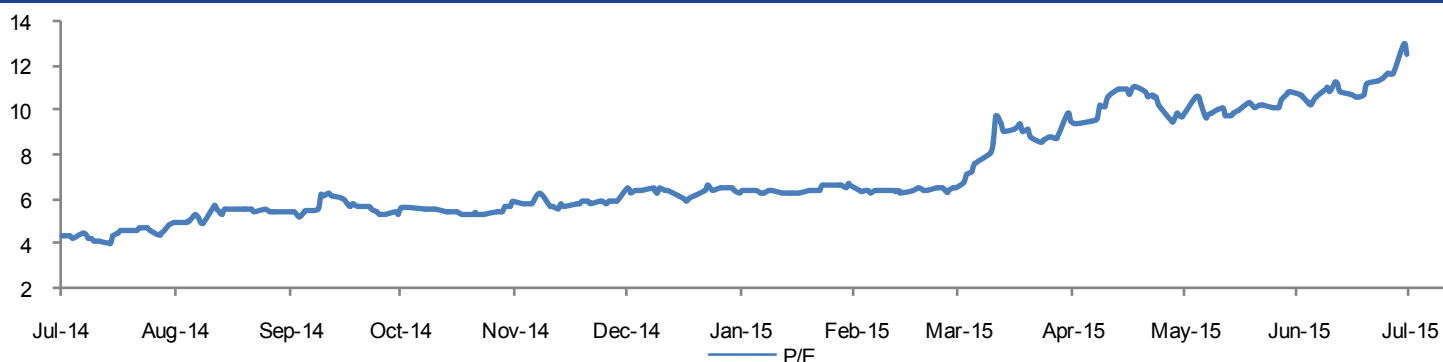
	Low			High	
	1	2	3	4	5
Quality of Earnings				✓	
Domestic Sales				✓	
Exports			✓		
Net Debt/Equity			✓		
Working Capital Requirement				✓	
Quality of Management				✓	
Depth of Management				✓	
Promoter				✓	
Corporate Governance				✓	

Source: Company, Karvy Research

Valuation & Outlook

Ambika Cotton's revenue, EBITDA and PAT are expected to grow at CAGR of 14%, 17% and 20% respectively by FY15-FY17E. The growth in CAGR is supported by volume growth, better product mix and higher realization. The company is planning to setup another spinning unit of 30,000 spindles with 100% compact facility with imported and indigenous machinery with a capex of Rs. 1300 mn. Looking at the attractive valuations and healthy demand growth prospects for specialised yarn in domestic and international market, stable raw material prices, and the company is worth looking at from medium to long term perspective.

At CMP of Rs. 835, Ambika Cotton is trading at a P/Ex of 7.9x and 6.6x on FY16E and FY17E earnings respectively, on the back of stable raw material prices, favorable product mix, improving cost efficiency and economies of scale; we initiate coverage on Ambika Cotton with a **"BUY"** rating with a target price of Rs. 1004, based on 8.0x P/E FY17E, representing an upside potential of 20.3% in a 9-12 months period.

Exhibit 17: PE Band


Source: Company, Karvy Research

Exhibit 18 (a): Comparative Valuation Summary

	CMP (Rs.)	Mcap (Rs. Mn)	EV/EBITDA (x)				P/E (x)				EPS (Rs.)			
			FY14	FY15	FY16E	FY17E	FY14	FY15	FY16E	FY17E	FY14	FY15	FY16E	FY17E
Ambika Cotton Mills	835	4903	2.3	5.1	4.7	3.9	3.5	9.0	7.9	6.6	81.9	87.1	105.3	125.5
Vardhman Textiles Ltd	919	58472	3.7	5.2	5.7	5.2	3.1	8.5	8.7	7.5	112.9	62.9	100.5	116.2
Indo Count Industries Ltd	923	36469	3.3	7.4	9.6	7.7	1.3	9.7	15.7	12.3	31.0	39.0	54.9	69.9

Source: Bloomberg, Karvy Research

Exhibit 18 (b): Comparative Operational Metrics Summary

	CAGR % (FY15-17E)			RoE (%)				Price Perf (%)			Net Sales (Rs. Mn)			
	Sales	EBITDA	EPS	FY14	FY15	FY16E	FY17E	3m	6m	12m	FY14	FY15	FY16E	FY17E
Ambika Cotton Mills	13.9	17.1	20.0	20.0	18.2	18.9	19.1	(14.0)	14.8	64.6	4769	4955	5596	6430
Vardhman Textiles Ltd	6.1	16.9	35.9	25.5	12.3	16.9	16.8	40.7	79.3	98.5	61664	67860	71374	76369
Indo Count Industries Ltd	21.1	39.6	34.0	45.6	41.0	43.5	37.6	57.3	157.2	558.9	14676	17169	21028	25196

Source: Bloomberg, Karvy Research

Key Risks

- Majority of the company's revenue is generated by exporting products to developed economies namely UK and European Union. Demand crunch in these economies can impact the company's order book in any given year.
- There has been a major volatility in the global currency market where many currencies are significantly depreciating against the US dollar. Although INR has been stable over the last few quarters but it has also witnessed depreciation in the recent past. The volatility in currency could have bearing impact on the company's profitability.
- Increase in cotton prices may have bearing impact on the company's profitability.
- The company faces a regular competition from China and Association of South East Asian Nations (ASEAN) countries in the cotton yarn segment while catering to multi-brand retail chain stores and overseas producers.

Financials

Exhibit 19: Income Statement

YE Mar (Rs. Mn)	FY13	FY14	FY15	FY16E	FY17E
Revenues	3978	4769	4955	5596	6430
Growth (%)	2.1	19.9	3.9	12.9	14.9
Operating Expenses	3112	3738	3964	4440	5071
EBITDA	866	1031	991	1156	1359
Growth (%)	11.1	19.0	(3.8)	16.6	17.6
Depreciation & Amortization	274	316	293	316	364
Other Income	3	2	3	6	6
EBIT	594	717	701	845	1001
Interest Expenses	188	120	63	75	83
PBT	407	597	638	770	918
Tax	97	115	126	151	180
Adjusted PAT	310	481	512	618	737
Growth (%)	29.7	55.4	6.3	20.8	19.2

Source: Company, Karvy Research

Exhibit 20: Balance Sheet

YE Mar (Rs. Mn)	FY13	FY14	FY15	FY16E	FY17E
Cash & Equivalents	15	27	28	40	47
Sundry Debtors	65	57	60	71	82
Inventory	922	1329	1445	1651	1684
Loans & Advances	305	235	264	283	325
Investments	1	1	1	1	1
Gross Block	4647	4842	4935	5663	6529
Net Block	2913	2889	2700	3126	3628
CWIP	4	10	0	0	0
Total Assets	4225	4548	4499	5172	5767
Current Liabilities & Provisions	947	841	582	650	733
Debt	626	695	496	582	456
Deferred tax liabilities	448	412	408	408	408
Total Liabilities	2021	1948	1487	1640	1597
Shareholders Equity	59	59	59	59	59
Reserves & Surplus	2145	2541	2953	3473	4111
Total Networkth	2204	2599	3012	3531	4170
Total Networkth & Liabilities	4225	4548	4499	5172	5767

Source: Company, Karvy Research

Exhibit 21: Cash Flow Statement

YE Mar (Rs. Mn)	FY13	FY14	FY15	FY16E	FY17E
PBT	407	597	638	770	918
Depreciation	274	316	293	316	364
Interest	188	120	63	75	83
Tax Paid	(132)	(157)	(152)	(145)	(173)
Inc/dec in Net WC	144	(456)	(393)	(303)	(168)
Others	(6)	(42)	(20)	0	0
Cash flow from operating activities	874	378	429	713	1023
Inc/dec in capital expenditure	(90)	(316)	(97)	(690)	(790)
Inc/dec in investments	0	(0)	(0)	0	0
Others	3	31	4	2	(1)
Cash flow from investing activities	(87)	(285)	(93)	(688)	(791)
Inc/dec in borrowings	(586)	69	(199)	86	(126)
Dividend paid	(18)	(56)	(73)	(82)	(82)
Interest paid	(188)	(120)	(63)	(17)	(17)
Others	(0)	26	0	0	0
Cash flow from financing activities	(792)	(81)	(336)	(13)	(225)
Net change in cash	(5)	12	1	12	7

Source: Company, Karvy Research

Exhibit 22: Key Ratios

YE Mar	FY13	FY14	FY15	FY16E	FY17E
EBITDA Margin (%)	21.8	21.6	20.0	20.7	21.1
EBIT Margin (%)	14.9	15.0	14.1	15.1	15.6
Net Profit Margin (%)	7.8	10.1	10.3	11.1	11.5
Dividend Payout ratio	18.0	15.3	16.1	15.0	14.0
Net Debt/Equity	0.4	0.3	0.2	0.2	0.1
RoE (%)	14.9	20.0	18.2	18.9	19.1
RoCE (%)	19.8	23.4	20.6	22.2	22.9

Source: Company, Karvy Research

Exhibit 23: Valuation Parameters

YE Mar	FY13	FY14	FY15	FY16E	FY17E
EPS (Rs.)	52.7	81.9	87.1	105.3	125.5
DPS (Rs.)	9.5	12.5	14.0	15.8	17.6
BV (Rs.)	375.1	442.4	512.7	601.1	709.8
PE (x)	3.7	3.5	9.0	7.9	6.6
P/BV (x)	0.5	0.7	1.5	1.4	1.2
EV/EBITDA (x)	2.0	2.3	5.1	4.7	3.9
EV/Sales (x)	0.4	0.5	1.0	1.0	0.8

Source: Company, Karvy Research; *Represents multiples for FY13, FY14 & FY15 are based on historic market price

Stock Ratings	Absolute Returns
Buy	: > 15%
Hold	: 5-15%
Sell	: <5%

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Plot No.31, 6th Floor, Karvy Millennium Towers, Financial District, Nanakramguda, Hyderabad, 500 032, India

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