

Dreamfolks Services Limited (DREAMFOLKS)

July 17, 2023

Time Horizon – 12 Months

CMP: ₹696

Target: ₹ 855

ANAND RATHI
INVESTMENT SERVICES

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Key Data	
Bloomberg Code	DREAMFOL
NSE Code	DREAMFOLKS
BSE Code	543591
Industry	Airport & Airport Services
Face Value (₹)	2.0
BV per share (₹)	30
52 Week L/H(₹)	326/ 717
Market Cap. (₹ Mn.)	36,510
No. of Shares (Mn.)	52.3

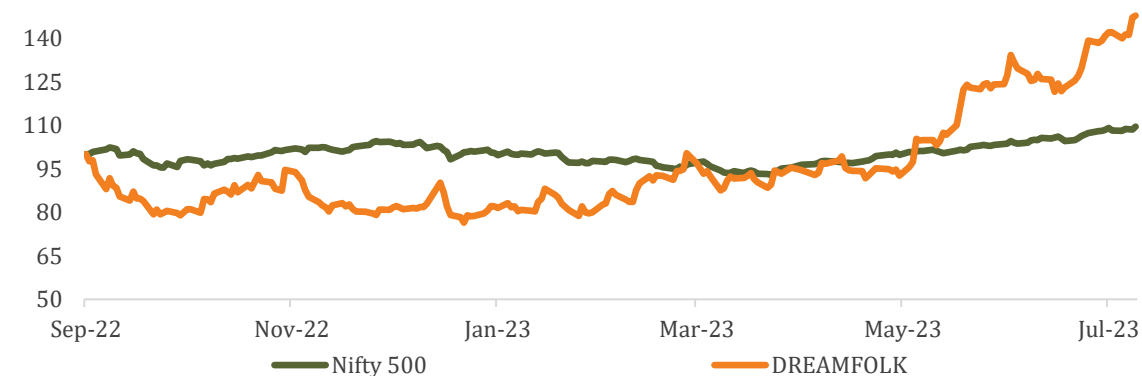
Shareholding Pattern (as on June'23)

Particulars	Jun-23	Mar-23	Dec-22	Sep-22
Promoter	67.0%	67.0%	67.0%	67.0%
Institutions	11.9%	11.1%	11.5%	11.8%
Others	21.1%	21.9%	21.5%	21.2%
Total	100%	100%	100%	100%

Source: Company, Anand Rathi Research, Bloomberg

(In ₹ mn)	FY-22	FY-23	FY-24E	FY-25E
Net Sales	2,825	7,732	10,259	13,465
EBITDA	225	988	1,581	2,365
EBITDA Margin	8.0%	12.8%	15.4%	17.6%
PAT	163	724	1,292	1,936
PAT Margin	5.8%	9.4%	12.6%	14.4%
EPS (₹)	3.1	13.9	24.7	37.1
P/E (x)	223.8	50.2	28.1	18.8

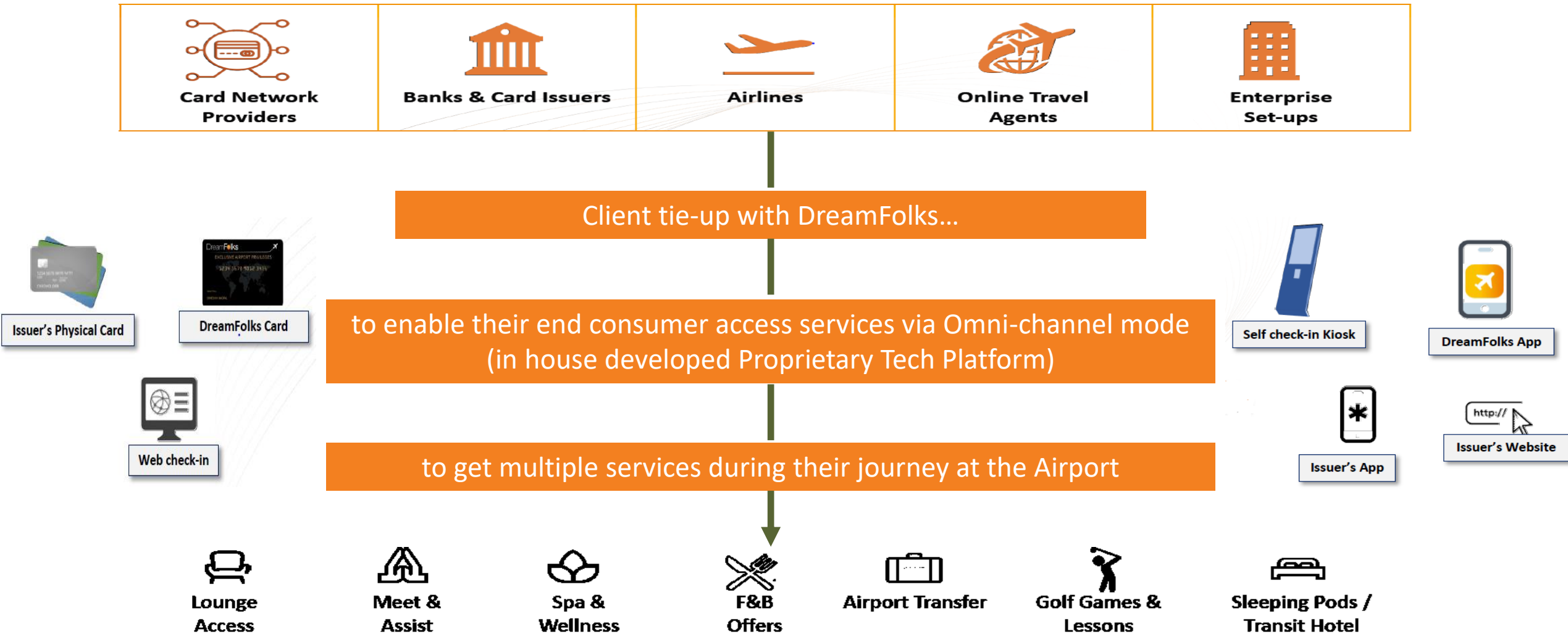
Relative stock performance (Sep 22=100)



Journey Towards Profitability

- ❑ Incorporated on April 24, 2008, Dream Folks Services Ltd (DFS) is India's largest airport service aggregator platform facilitating an enhanced airport experience to passengers leveraging a technology-driven platform. Company commanded 95%+ market share in Indian issued credit and debit card access to airport lounges in FY22 and accounted for ~68% of overall lounge access volume in India.
- ❑ Over the years, they have transformed from being an airport lounge access aggregator to an end-to-end technology solutions provider for designing and delivering services that enhance the airport experience. Company have crafted their service proposition to provide Clients the option of offering a wide-ranging bouquet of Services to the Consumers. Their asset-light business model integrates global card networks operating in India, credit card and debit card issuers and other corporate clients in India, including airline companies with various airport lounge operators and other airport related service providers on a unified technology platform.
- ❑ **Business Model:** The company ties up with the lounge partners and other Airport service providers on one side and aggregates that on companies in house developed technology platform to offer these services to the clients. Here, the clients are Visa, Mastercard, Diners and RuPay who are the card operators. The company charges the clients on a per passenger basis and on the other hand pays the lounge partners and Airport service providers on per passenger basis for the services they are providing. So, the company integrates the access in the card/app and provides tech platform to its clients by charging a certain amount per passenger, retains its margin which is about 15%-16% and rest is paid to service providers by Dream folks. The lounge services contribute 98% of the revenue, for example the company charges Rs. 700 for domestic lounge per passenger user to network providers keeps 15%-16% of margin and rest is paid to airport service providers.
- ❑ The company has tie ups with almost all card networks which includes Visa, Master Card, Diners/Discover and RuPay and card issuers like ICICI Bank Limited, Axis Bank Limited, Kotak Mahindra Bank Limited, HDFC Bank Limited and SBI Cards and Payment Services Limited. DFS provides technology support to the card issuers and card operators to validate the benefits available to Consumers, provide Card Based and digital access, and billing on one side and on the other side focus on the Operators who provide the Services and give them the option of a single point access to the Consumers along with consolidated footfall and revenue.
- ❑ DFS commands good margins and runs an asset light business, that is, well-poised to grow as the air travel industry is poised to show growth going forward. Its dominance is unparalleled as it facilitates access to 100% of lounges currently operational in India with 95% of market share in card-based airport lounge access. At the current price, the stock is trading at a P/E multiple of 28x and 19x FY24E and FY 25E earnings, respectively. We initiate a coverage with a **“BUY”** on this stock with a target price of **Rs. 855** per share.

Business Overview

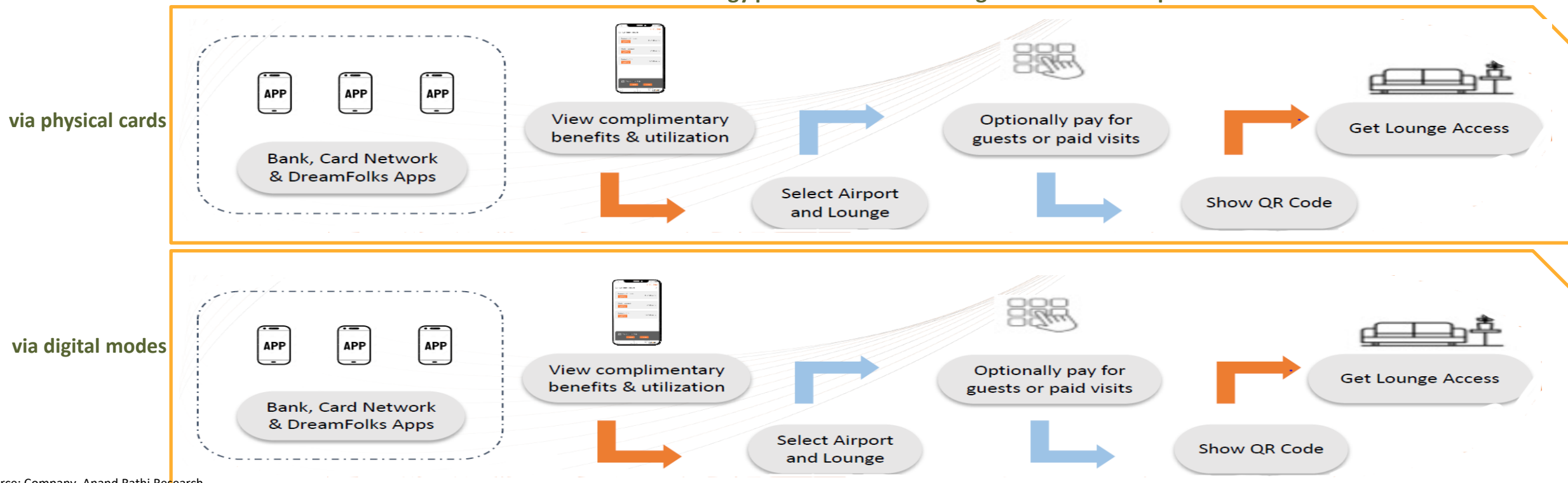


Source: Company, Anand Rathi Research

Proprietary tech platform enabling Omni-channel access

- Dream Folks has a strong technological focus and deployed significant resources in developing a scalable proprietary technology platform. The platform enables it to manage entitlements of each card variant and real time accounting of consumer benefits; it also facilitates integration with client systems through the entire life cycle. The technology platform includes connectors and application programming interfaces (API) which facilitate integration with client systems, or the use of any hybrid access modes depending on client preferences. The platform addresses aspects such as benefits calculation and accounting, provides real time visibility of transactions to clients and consumers, reduces potential fraud and abuse, while providing running usage and spend-based campaigns for users. Given the sensitiveness and confidentiality of data, it takes a lot of critical scanning and time (few years) for data integration into the systems, which they believe is not easy to replicate and further strengthens companies' dominance.

How Dream Folks' technology platform enables Lounge Access at an Airport?



Source: Company, Anand Rathi Research

Services Offered

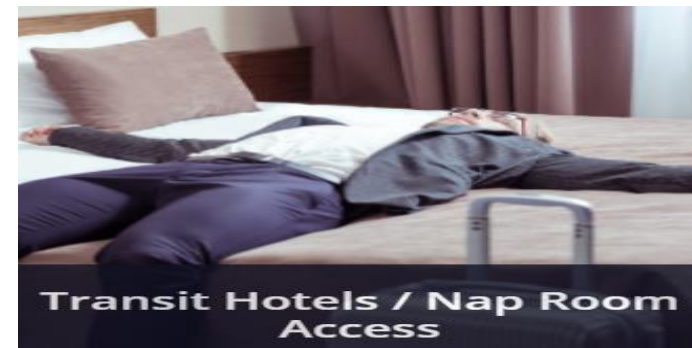
- ❑ **Airport Lounge Access:** The predominant service that they facilitate, and which Consumers avail, is the airport lounge access. It facilitate Consumers with access to all 54 operational lounges in India and various lounges across select airports outside India. It also facilitate access to the lounges pursuant to contracts with disparate Indian and international lounge operators. The access to a lounge is also dependent on the nature of their contract with the lounge operator.
- ❑ Through it, Consumers have access to airport lounges operated by, amongst others, Premium Port Lounge Management Company Private Limited, Travel Food Services Private Limited and Saptagiri Restaurant Private Limited. The company, currently, have a tie-up with all the entities that provide lounge services at domestic and international airports in India. Further, of these, as of March 31, 2022, it had an exclusivity agreement for Card Based transactions for 12 domestic lounges across 11 airports in India.
- ❑ **F&B Offerings:** In addition to the F&B offerings that Consumers are provided at the lounge, Consumer can procure certain 'combo' offerings from specified F&B outlets at select airports in India. As of March 31, 2022, it had tied up with service providers such as Saptagiri Restaurant Private Limited to provide access to around 57 restaurants / F&B outlets at 18 airports across India including at the Ahmedabad, Cochin, Jaipur and Mumbai airports. At these restaurants / F&B outlets, Consumers can select from a variety of specially curated vegetarian and non-vegetarian meal combos.
- ❑ **Spa Services:** As of March 31, 2022, the company facilitated access to 55 spa centers in India, with 13 spa centers at various airports in India and 42 spa centers outside the airports. It has tied up with O2 Spa Salon Private Limited, through which eligible Consumers may avail of certain specified therapies such as head, neck and shoulder massage, and foot reflexology. Currently, spa services can be availed across airports in India including Bengaluru, Mumbai and New Delhi.



Source: Company, Anand Rathi Research

Services Offered

- ❑ **Meet & Assist:** Dream Folks gives end-to-end assistance to airport passengers, with services available on arrival and departure terminals at India's select airports. Dream Folks has also entered into an agreement with an international airport concierge service provider, facilitating the 'meet & assist' services at Australia, Austria, Canada, Belgium, Brazil, France, Germany, UK, UAE, and USA. The following services form a part of the 'meet & assist' offering:
 - **On-departure:** Services include receiving consumers, assisting with baggage, assisting in check-in, immigration, security check, and (where permissible) accompanying passengers beyond the security check point, assisting in obtaining lounge access, and escorting them up to boarding gates.
 - **On-arrival:** Services include receiving consumers, assisting with baggage, assisting in check-in, immigration, security check, and (where permissible) accompanying passengers beyond the security check point, assisting in obtaining lounge access, and escorting them up to boarding gates.
- ❑ **Airport transfer services:** Dream Folks offers airport transfer, i.e., airport 'pick-up and drop' facilities in 47 cities across India and in 145 cities outside India (31 Mar'22).
- ❑ **Transit hotels/nap room access:** Company provides access to hotel rooms in Mumbai and New Delhi through its tie up with Niranta Airport Transit Hotel & Lounge (a unit of International Airport Hotels & Resorts) and Holiday Inn Express New Delhi International Airport T3 (a unit of Devaryaa Hospitalities). In Bengaluru, Cochin and Mumbai, company offers access to 'nap rooms' or 'sleeping pods'.



Extending Association with Vidsur Golf

- ❑ During the last quarter, they extended their association with Vidsur Golf (also known as GolfKlik) and acquired a 60% stake in the company to capitalize on a growing Golf market in the country and expand their portfolio of service offerings to now include Golf Sessions and Golf Lessons. The company completed the acquisition of 60% equity share of Vidsur Golf Private Limited at an aggregate consideration of INR 1.5 crores.
- ❑ The association layers the Dream Folks proprietary tech platform on the global inventory of the golf provider, thus seamlessly blending into the existing customer value propositions of their esteemed clients. This first-of-its-kind association will enable Dream folks to expand its already diverse service offerings by enabling end customers access to golf games and lessons across India and Asia Pacific. This association will give customer access to golf games and lessons at 40+ golf clubs throughout India and 250+ golf clubs and resorts in the Asia Pacific region.
- ❑ **Management say on Golf Business:** Company expects margin to be around 15% from golf business. The awareness regarding golf is picking up in the last 2-3 years. In the last 10 years golf clubs have increased from 20 to 50. A larger market comes to Southeast Asia, because that's quite a popular business and there are certain networks and card issuers who are already providing these services to their cardholders. So, company sees good potential for them in terms of new service offering to their clients.

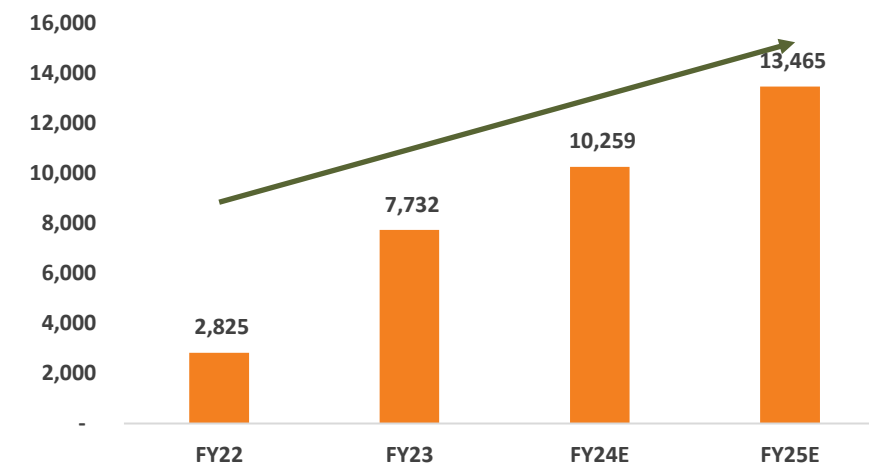


Source: Company, Anand Rathi Research

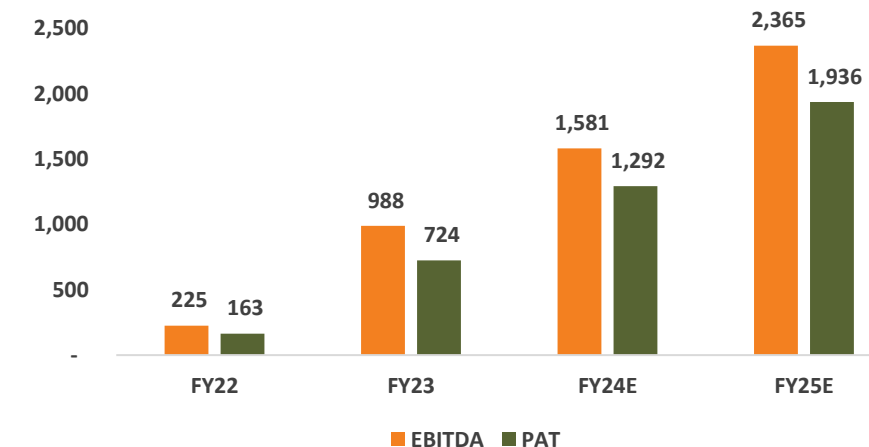
Strong operating performance with asset light model

- Revenue at all time-high:** Coming to quarterly and annual performance, Q4 FY23 was the strongest quarter for the company. Top-line increased 140% YoY to Rs 7,732mn. Company witnessed 37.5 million domestic passengers over the quarter as compared with 24.72 million passengers for the same quarter in the preceding year. This signals a growth of 52% year-on-year.
- Strong EBITDA and PAT margins :** EBITDA increased 181.8% YoY to Rs 351mn with a margin of 14.7% during the quarter. PAT stood at Rs 253mn with a margin of 10.6% during the quarter. There was an exceptional charge of Rs184mn pertaining to write down of real estate inventory at Bangalore given revision in project cost. Adjusting for this charge, PAT increased to Rs576mn. Being an extremely light company with a lean team, organizational structure, and size, they do not have any major capex needs or other outlays Major expenses, which are linked to employee compensation, were Rs. 174.4 mn for the year and constitute 2.26% of their operating revenue.
- Negligible working capital to ensure healthy cashflows:** Given the nature of contracts with clients and lounge operators, Dream Folks does not have any major working capital requirements. Dream Folks net working capital days has been very negligible at <10 days and company expect the trend to continue. Given the negligible working capital requirement, company expect company to generate healthy cashflows.
- Asset light model:** Company business model, by design, is asset-light and scaling up requires minimal incremental capital deployment; this leads to high operating leverage. A strong balance sheet coupled with negligible WC requirements ensure healthy profitability and strong return ratios. Given the asset-light business model and nature of contracts with clients and lounge operators, company requires minimal incremental capital for growth. Company has negligible gross debt (~Rs 10mn as of Mar'23). Thus, the company has been able to consistently generate superior return ratios

Steady growth in revenue (millions)



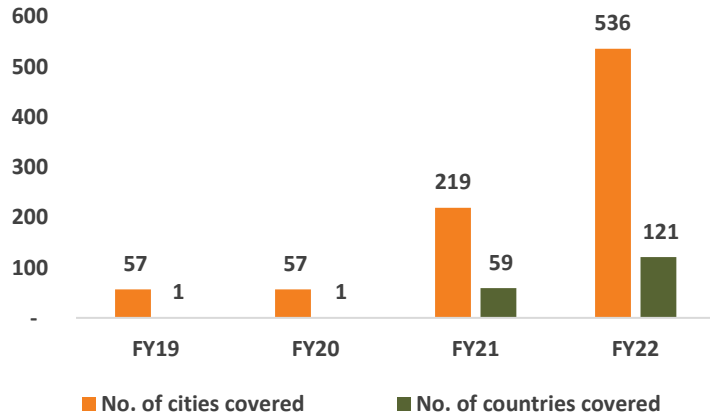
Profitability to improve (millions)



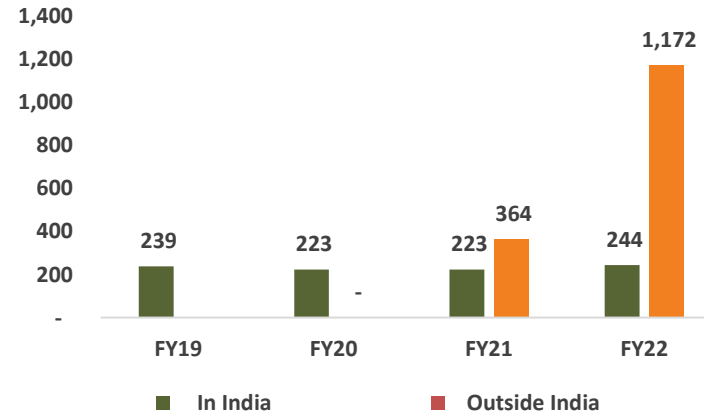
Source: Company, Anand Rathi Research

Story in charts

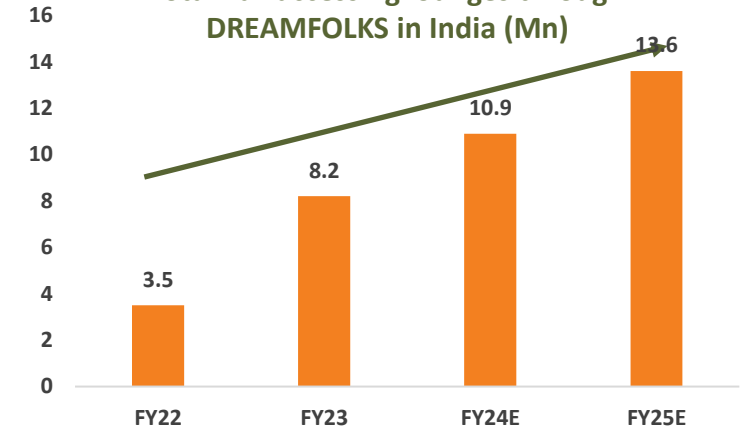
No. of cities and countries covered



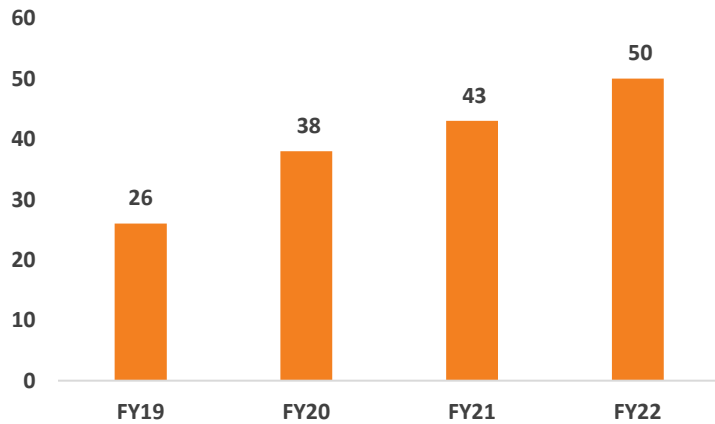
No. of touch points



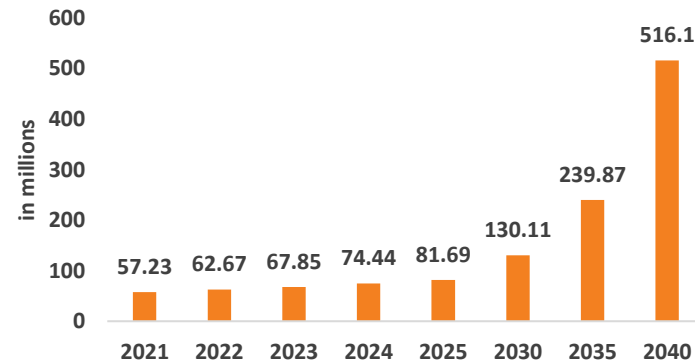
Total Pax accessing lounges through DREAMFOLKS in India (Mn)



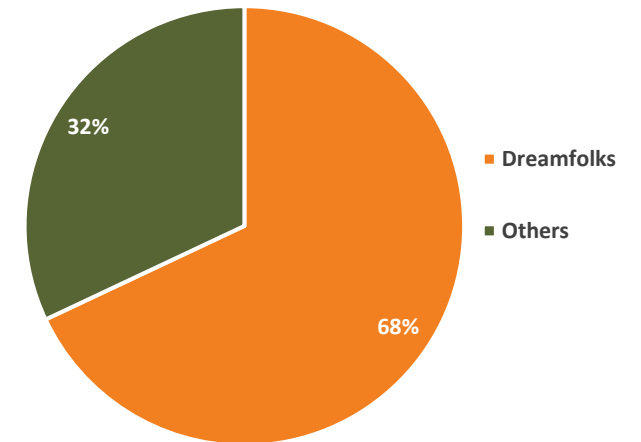
No. of clients



Credit and debit card with lounge access



DREAMFOLKS enjoy 68% of market share

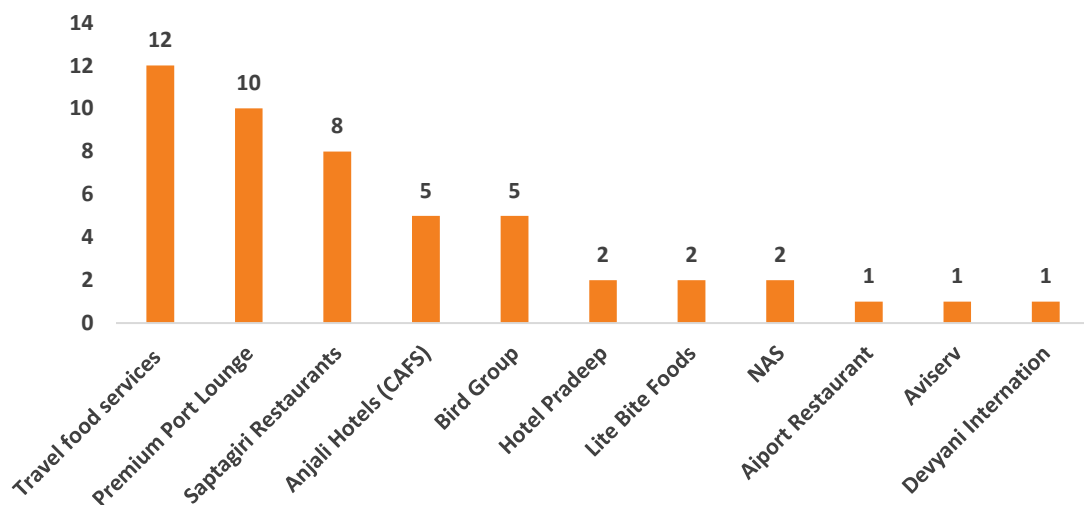


Source: Company, F&S, Anand Rathi Research

Indian Lounge Market

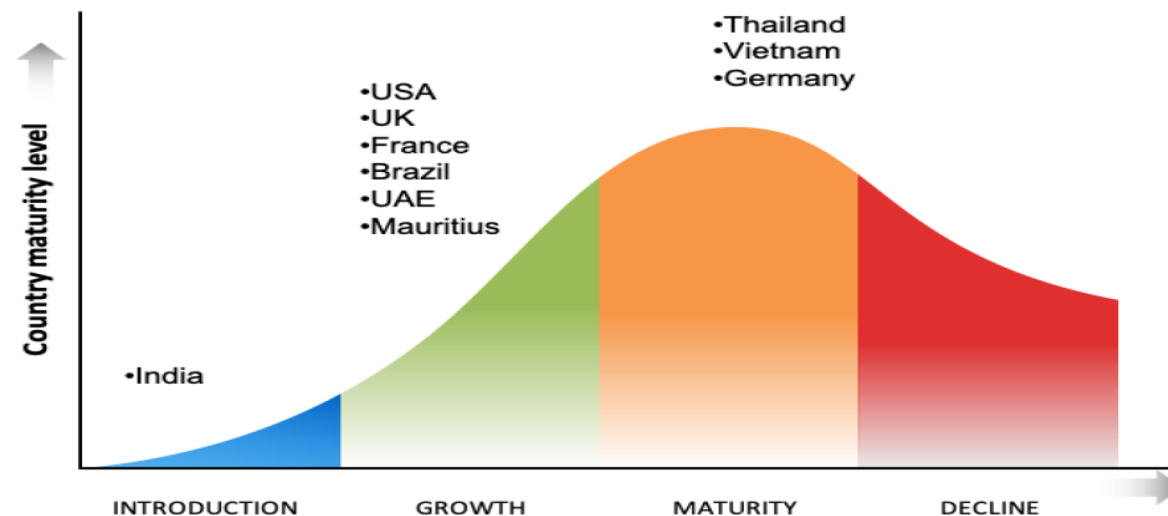
- As per F&S report, India is still at a nascent stage in terms of the Airport Lounge Product Lifecycle. Markets like the US, UK, France, Brazil, UAE, and Mauritius are in the growth stage owing to their economic status and high passenger traffic. Indira Gandhi International Airport (7 airport lounges) has the highest number of lounges followed by Chhatrapati Shivaji International in Mumbai (5 lounges). Chennai International Airport has also 5 lounges and holds the third place in terms of the greatest number of lounges amongst Indian airports. On an average, top 25 airports in India have only 2 lounges per airport.
- US and UK have the highest passenger volume amongst nations in the Growth stage of the product life cycle with a value of 926 million and 143 million, respectively. Markets including Thailand, Vietnam, and Germany are in the Mature stage of the product life cycle. The economic modelling has been based on selected countries across the region, the potential markets for Dream Folks in Asia are Thailand and Vietnam. Similarly, UAE is a potential market for Dream Folks in the Middle East region. Mauritius is a potential market for Dream Folks in the African continent.
- Dream Folks has access to all lounges in India. As of Sep,'22, Travel Food Services/Premium Port Lounge Management Company had around 12/10 lounges across India. Travel Food Services had the highest market share of 22%, followed by Premium Port Lounge at 19%. The third largest player is Saptagiri Restaurant with a 15% market share. In terms of cities, New Delhi, Chennai, and Mumbai account for around 32% of lounges in India.

Key lounge operators in India



Source: Company, F&S, Anand Rathi Research

Stages of Product Lifecycle

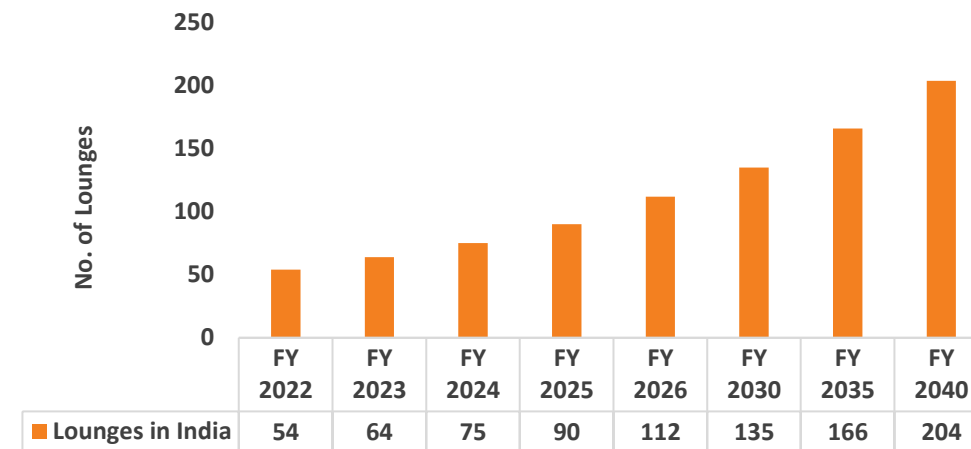


Projection of No. of Lounges in India

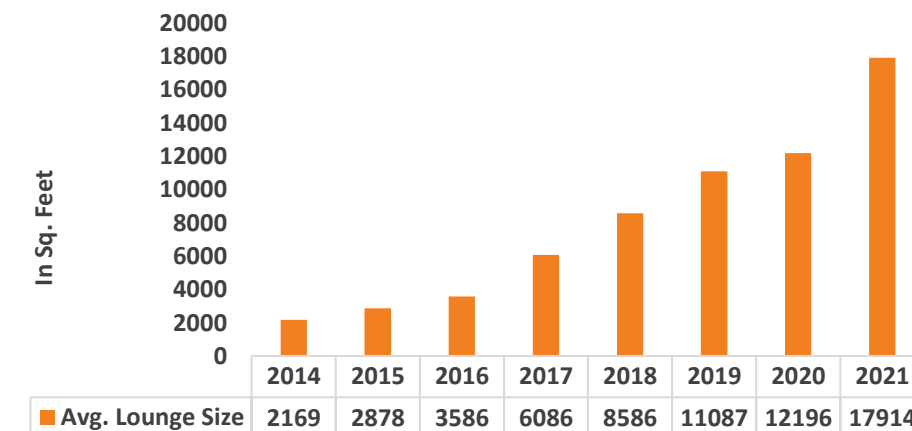
- The no of lounges is expected to grow at an 7% CAGR between the period 2022-2040. As of March 2022, the number of airport lounges in India was 54, and this is expected to grow to around 204 lounges by 2040. An increase in passenger traffic and growth in demand within the air travel industry is expected to boost the market growth.
- The introduction of projects like UDAN and the ongoing construction for 100 greenfield airports in India (construction to be completed in 10-15 years) is expected to increase the potential opportunity for airport lounge operators within this market. Increased privatization of airlines is also expected to increase the investment for airline-based lounges.
- The growth in the lounge operators' market is anticipated to increase opportunities for the lounge aggregators market as well. Tier II airports are expected to drive the growth of new lounges. This is due to the lower rates and increase in traffic from these airports.
- The average airport lounge size was around 2100 sq. feet in 2014, this increased more than 8X and reached around 17,900 sq. feet in 2021. The future lounges are expected to be more premium than accommodating more passengers.
- The penetration of lounges per airport in India is still very low compared to the global average and there is still headroom to grow the average airport lounge size per airport. In case of Greenfield airports, the availability of space for lounge operations is easier. The increase in lounge space proves that there is a large headroom for growth.

Source: Company, F&S, Anand Rathi Research

Total Airport Lounges in India, FY 2022-2040



Increase in average lounge size, FY 2014- FY 2021



Indian Lounge Access Aggregator Market Forecast

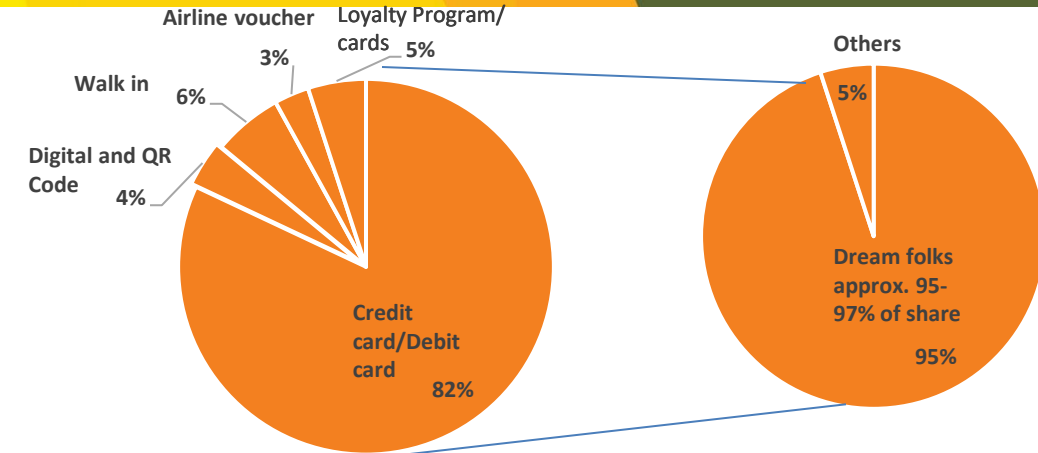
□ Dream Folks is India's largest airport service aggregator platform facilitating enhanced airport experience to passengers and accounts for around 68% of the overall lounge access volume in India (Domestic and International) FY 2022. The total number of lounge users are estimated at around 5.2 million passengers in FY 2022 for Domestic and International lounges. Out of this around 80% of domestic passengers prefer usage of Indian issued credit / debit cards to gain access to Indian domestic lounges. Dream Folks accounts to around 95%- 97% of the market to access lounges through India- issued credit / debit cards for Domestic Lounges in FY 2022. It is important for the lounges to continue giving access to debit and credit card users to ensure higher lounge utilization.

□ The lounge access aggregator market was studied by Frost & Sullivan, using both secondary and primary research methods. The methodology for estimating the market is as given below:

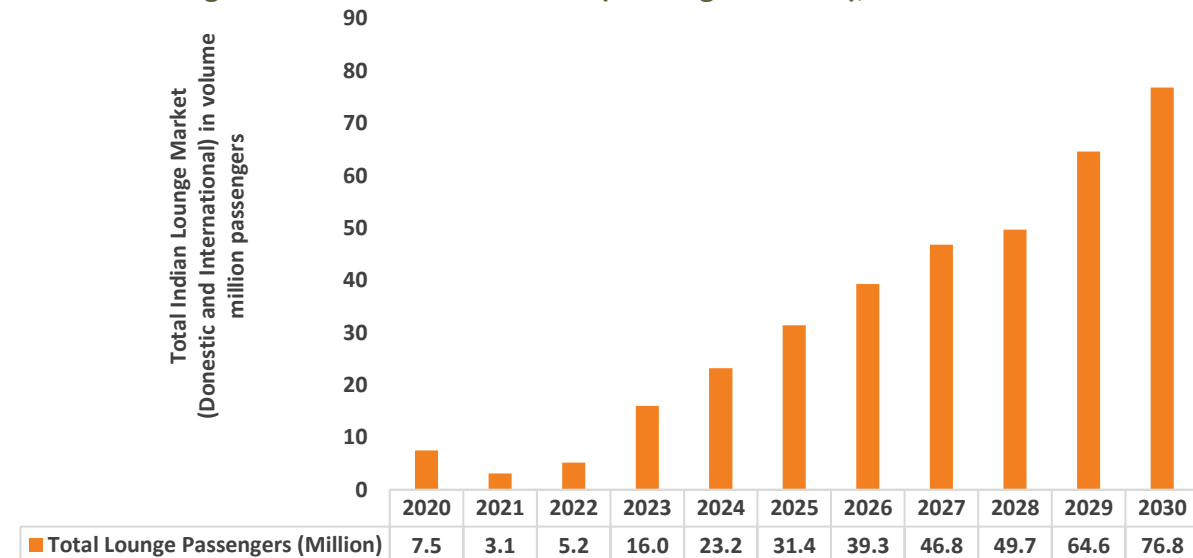
Step 1- The number of lounge users were estimated at 5.2 million passengers for the year FY 2022 this includes both international and domestic passengers.

Step 2- The number of India issued credit card-based lounge access is estimated at around 80% for Indian domestic lounges and around 40% for Indian International Departure lounges.

Step 3- Dream Folks accounts for almost 95%-97% of this India issued credit and debit card segment due to its tie-up with all of the card networks such that most transactions undertaken by customers in airport lounges happen on the Dream Folks platform.



Lounge Access Market Size in India(Passengers in Mn.), FY 2020-2030



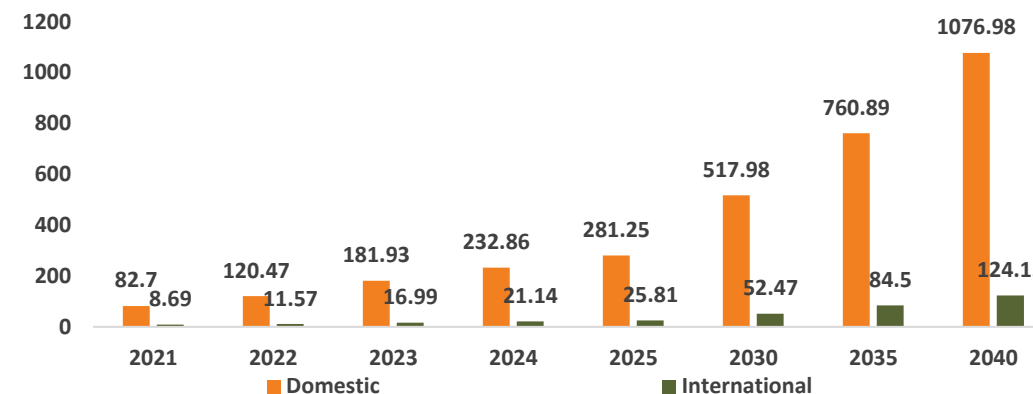
Source: Company, F&S, Anand Rathi Research

Indian Air Travel Outlook

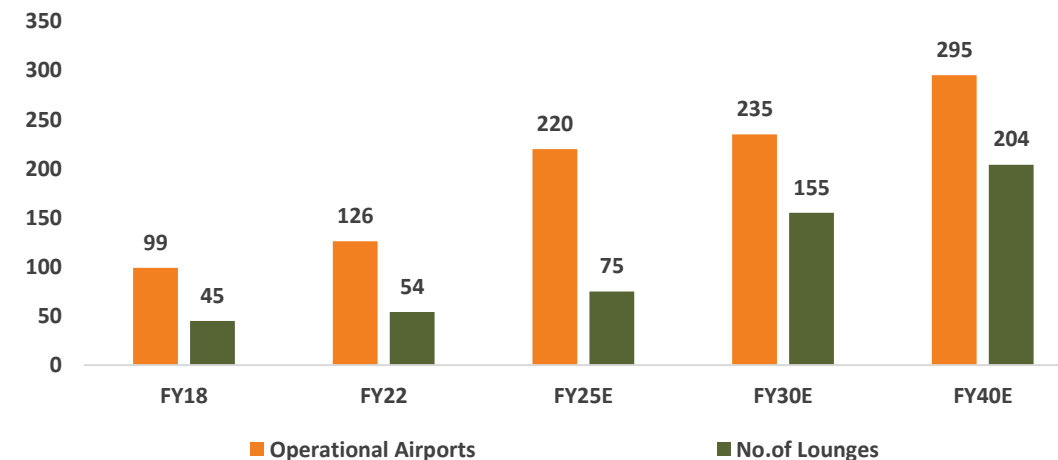
- ❑ The Indian market is expected to grow at almost 6X from around 175 million air travelers in 2019 to around 1 billion travelers in 2040 as compared to the expected global growth of 2X to a total of 10 billion passengers in 2040. The Indian aircraft fleet is also expected to grow 3X and reach around 2200 aircraft by 2040. The Indian growth scenario is supported by various factors such as government initiatives, infrastructure improvement, increase in demographic dividend, increase in per capita income and the GDP growth.
- ❑ The Indian domestic air travel passenger is expected to grow at a CAGR of around 36% and surpass 280 million between 2021-2025. The international Indian air travel market is expected to almost grow at 31% CAGR between 2021-2025.
- ❑ The rise in passenger growth will be supported by an increase in the number of airports, fleet and infrastructure as below:
 - The total number of operational airports is expected to reach 295 by 2040; these are a combination of second airport within the same city and new Greenfield projects.
 - The initial regulations that hindered the development of second airport within the same city has been removed. Navi Mumbai airports and similar projects are key growth drivers for Dream Folks
 - As of FY 2022, there were around 5 airports that handled more than 10 million passengers, compared to 3 airports in FY 2021. This is expected to nearly 7X and reach 47 by 2040. This is expected to be a key opportunity with the possibilities of multiple lounge options at these airports.

Source: Company, F&S, Anand Rathi Research

Forecasted Growth of the Domestic and International Air Travel Industry



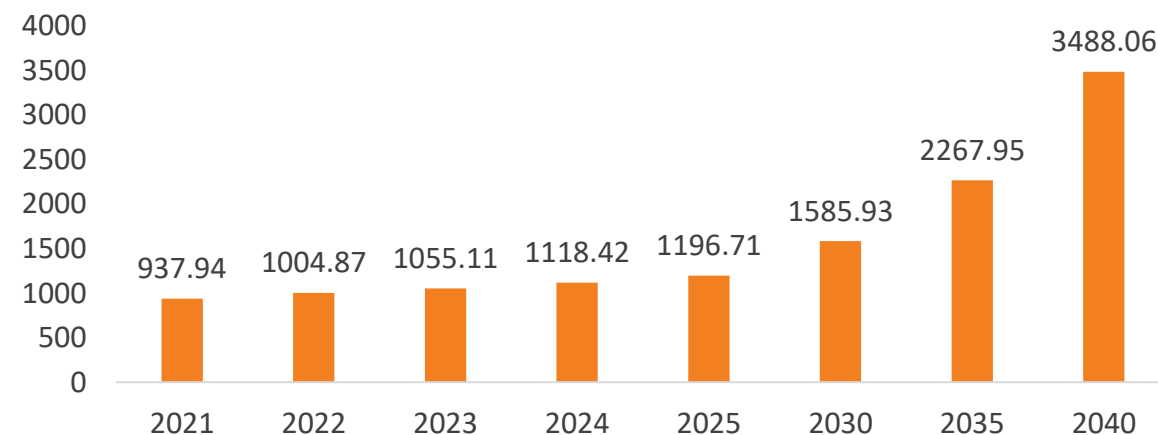
Airport and Lounge data



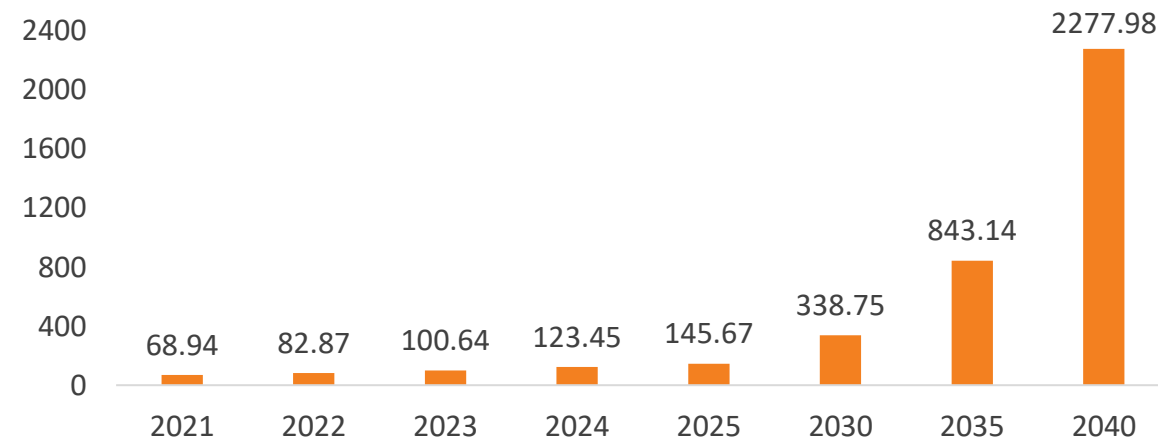
Increasing Card-penetration in India

- India's credit card penetration is very low at 3% vis-à-vis most other nations across the globe. That said, the credit card industry in India is experiencing high growth. The CAGR for growth in credit cards issued between the years 2021-2040 is expected to be at around 20%. The key inputs for the modelling includes Demographics, Employment, Historical Growth, Rate of Digital penetration and GDP. The number of credit cards issued is anticipated to reach 2.27 Billion by 2040. From card networks and card issuer's perspective, providing Customers access to the value-added services, including lounges, is increasingly becoming a key aspect of their credit / debit card service offering for customer engagement and customer loyalty.
- According to market projections, the CAGR for debit cards issued registered a value of 7% between CY 2021-2040. The key inputs for the Demographics, Employment, Historical Growth, Rate of Digital penetration and GDP and increased PPP. The number of debit cards issued is expected to reach 3 Billion by the year 2040.
- Penetration of the digital economy and cards is only set grow exponentially post COVID, a large customer base, rising incomes, and changing attitude of end customers. In turn, the financial system will have greater incentive to manage customer loyalty; thus, programs like lounge access will form a significant part of loyalty management initiatives and benefit aggregators such as Dream Folks.
- The digital economy in India spurred during the pandemic owing to an increase in the requirement for contactless payments. The market for plastic money also experienced a shift in dynamics due to the radical shift in the financial economy. The total number of debit card issued during 2020 was around 885 Million which is a slight decrease from 2019, which was around 805 Million. 2018 witnessed the highest debit card issued, it accounted to around 958 Million. In 2021, the number of debit cards issued was 937 Million.

O/s debit card to grow at a 7% CAGR (in million)



O/s credit card to grow at a 20% CAGR (in million)



Source: Company, F&S, Anand Rathi Research

Growth drivers going forward

- ❑ **Growing Air Traffic and Passenger Traffic:** Passenger traffic has been growing steadily since the new millennium, driven largely by income growth and low-cost aviation. The domestic air travel increased from 80.75 million in CY 2015 to 143.74 million in CY 2019. It is projected that India will overtake the UK to become the third-largest air passenger market in 2024. Furthermore, India is one of the world's fastest-growing domestic aviation markets. The international passengers have also grown from around 18.42 Million in CY 2015 to around 14.29 Million in CY 2019. Hence, with growing air and passenger traffic, lounge market would flourish.
- ❑ **Development of New Airports:** India will require 2,380 new commercial aircraft by 2040 because of an increase in air travel. A total of 200 new airports will open in India by 2024. It is estimated that India will have 295 airports by 2040, and the increase in airports will drive the lounge market. Additionally, Tier 2 and Tier 3 are likely to have a lower penetration of services. Which is likely to drive the lounge markets especially for providers who offer value for money.
- ❑ **Increasing Uptake of Digital Economy:** The current credit card penetration is extremely low in India; it is around 3% for credit cards. The penetration of digital economy and cards is expected to increase exponentially due the effect of pandemic, large customer base, rising income, and changing attitude of the end customer. In turn, the financial system will have a greater incentive to manage customer loyalty; programs like lounge access will form a significant part of the loyalty management initiative.
- ❑ **Business Travel, Tourism, and Customer Experience:** India has been seeing a steady increase in business index and tourism. Both factors will play a major part in driving the lounge market especially when the Indian airports rank much lower than the global airports in overall customer experience. Lounges will be key beneficiary as they offer an enhanced customer experience. will be one of the key features Involvement of banks.
- ❑ **Addition of Lounges:** On an average it can be stated that the top 25 airports in India account to 2 lounges per airport. This is much lesser than the Global average which is 7 airports per top 25 Global airports. The number of airport lounges in India is very small. Currently, there are approximately 54 lounges in India (31st March 2022), and the overall number of lounges will increase in line with increasing traffic and passengers. It is important to note that the overall growth in lounge also includes the growth in lounge area in the existing lounges which are not included in the 150 new lounges which are expected to be added in between the years 2023-2040. The total number of lounges are expected to be 204 by 2040; these include the additional lounges across existing airports and new lounges across Greenfield airports.

Source: Company, F&S, Anand Rathi Research

Key takeaways and way forward



- ❑ Aim to maintain leadership position in terms of proactively providing high-quality service offerings.
- ❑ Look to move towards more premium offerings while further increasing ease of use and improving customer experience



- ❑ With the significant rise in air travel, the number of airports, lounges and size of existing lounges is continuously rising.
- ❑ This augurs well for the industry and for the company going forward



- ❑ Company is looking to expand in the Middle-East and South Asia
- ❑ Recent tie-up with Aspire Lounges, Australia also strengthens their presence in APAC

Source: Company, Anand Rathi Research

Key Risks

- ❑ Company's revenue is linked to air passenger traffic growth. Lower than expected traffic may lead to reduced revenue.
- ❑ Company is heavily dependent on their relationship with lounge operators. Inability to maintain relationship with them going forward may hamper the business.
- ❑ Threat of airport lounge operators forward integrating and tying up directly with card networks and card issuers themselves can directly impact their business.
- ❑ Business is heavily dependent on the Cards that are in circulation and on issuance of new credit cards and debit cards.

Consolidated Financials

(In ₹ Mn)	FY-22	FY-23	FY-24E	FY-25E
Net Sales	2,825	7,732	10,259	13,465
Operating Expense	2,600	6,744	8,678	11,100
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PBT	205	974	1,576	2,355
Tax	42	249	284	419
PAT	163	724	1,292	1,936

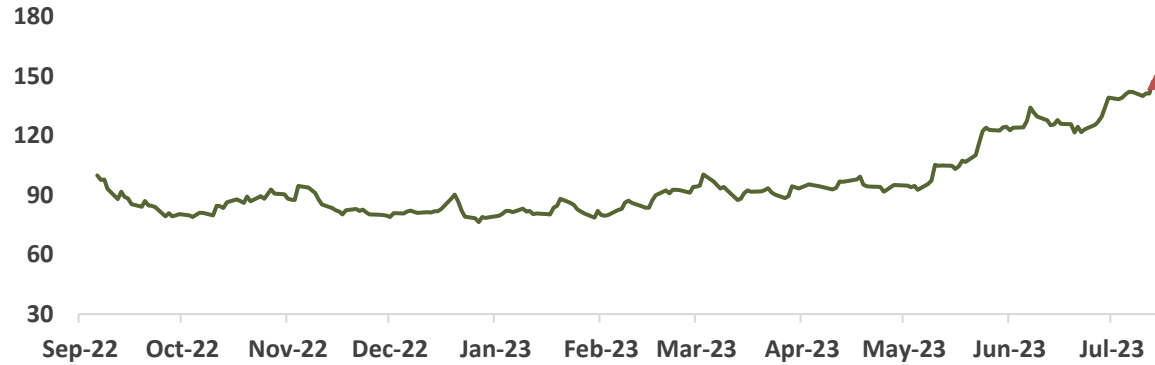
Margins	FY-22	FY-23	FY-24E	FY-25E
Sales Growth %	-	173.7%	32.7%	31.3%
PAT Growth %	-	345.8%	78.4%	49.8%
Operating Margin %	8.0%	12.8%	15.4%	17.6%
Net Margin %	5.8%	9.4%	12.6%	14.4%

Source: Company, Anand Rathi Research

(In ₹ Mn)	FY-22	FY-23	FY-24E	FY-25E
<u>Liabilities</u>				
Equity Share Capital	117	117	105	105
Reserves & Surplus	705	1,449	2,741	4,677
Total Shareholder's Funds	822	1,566	2,846	4,782
Minority Interest	-	4	-	-
Long-Term Liabilities	10	9	-	-
Other Long-term Liabilities	81	86	86	86
Deferred Tax Liability	(12)	(25)	-	-
Short-term Liabilities	823	1,563	1,599	1,687
Total	1,723	3,203	4,531	6,555
<u>Assets</u>				
Net Fixed Assets	139	124	145	160
Long-Term L&A	201	-	-	-
Investments	18	17	17	17
Other Non-Current Assets	37	45	45	45
Current Asset	1,329	3,018	4,324	6,333
Total	1,723	3,203	4,531	6,555

Rating & Target Price History

DREAMFOLK rating history & price chart



NOTE: Prices are as on 17 July 2023 close.

Source: Bloomberg, Anand Rathi Research

DREAMFOLK rating details

Date	Rating	Target Price (₹)	Share Price (₹)
17-July-23	BUY	855	696

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Ratings Guide (12 months)	Buy	Hold	Sell
Large Caps (>₹300Bn.)	15%	5%-10%	Below 5%
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