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Institutional Equities

27 October 2023

Shriram Finance

Margin expansion drive beat in operating performance

RESULT UPDATE

Sector: NBFCs Rating: BUY

CMP: Rs 1,797 Target Price: Rs 2,335

Stock Info

Sensex/Nifty	63,148/18,857
Bloomberg	SHFL IN
Equity shares	375mn
52-wk High/Low	1,974/1,190
Face value	Rs 10
M-Cap	Rs 674bn/ USD 8.1bn
3-m Avg volume	USD 27.5mn

Financial Snapshot (Rs mn)

Y/E March	FY23	FY24E	FY25E
NII	160,616	187,284	220,349
PPP	123,442	140,611	166,116
PAT	59,794	70,202	83,232
EPS (Rs)	159.7	187.5	222.3
EPS Gr. (%)	120.8	17.4	18.6
BV/Sh (Rs)	1,157	1,279	1,460

Ratios

NIM (%)	9.3	9.2	9.3
C/I ratio (%)	28.5	30.0	29.7
RoA (%)	3.5	3.2	3.3
RoE (%)	17.3	15.2	16.0
Payout (%)	21.9	22.0	22.0

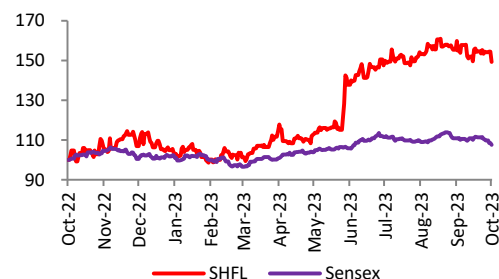
Valuations

P/E (x)	11.3	9.6	8.1
P/BV (x)	1.6	1.4	1.2
Div. Yield (%)	1.9	2.3	2.7

Shareholding pattern (%)

	Mar'23	Jun'23	Sep'23
Promoter	25.5	25.5	25.5
-Pledged			
FII	49.8	55.4	54.7
DII	11.7	14.7	15.2
Others	12.9	4.5	4.7

Stock Performance (1-year)



Shriram Finance (SHFL) Q2FY24 operating performance was better than expected with NII/ OP at Rs45.9bn/ 34.8bn vs our estimate of Rs43.2bn/ 32.5bn, aided by strong margin expansion of 60bps QoQ at 8.9% and 20%YOY growth in AUM. Reduced liquidity buffer to 3 months (vs 5-6 months earlier) and higher growth in high yielding segments of Passenger vehicle, Gold loan and MSME aided in sharp increase in NIMs. Asset quality saw marginal improvement with GS3/ NS3 at 5.8%/2.8% vs 6%/3% in Q1, partially aided by higher write offs at Rs. 8.4bn. As a result, credit costs was higher at 2.3% vs 1.9% in Q1, leading to inline PAT at Rs17.5bn. Outlook remain upbeat, with management increasing their AUM growth guidance to 18-20% (15% earlier), while maintaining their credit cost guidance at ~2% for FY24. Though some moderation is expected in NIMs in H2 from current levels, as new CV sales pick up in H2 which is a low yielding segment. We revised our earnings estimates upwards by 2.5%/ 4% for FY24/25, as we factor in higher AUM growth. We reiterate our BUY rating on SHFL, with a revised target price of Rs 2,335 (Rs 2,175 earlier), valuing it at 1.6x FY25BV.

Q2FY24 Result key highlights:

- SHFL reported strong performance with AUM growth of 19.7% YoY / 4.9% QoQ coupled with strong margin expansion of 60bps+ and improvement in asset quality. NII/OP was ahead of our estimates at Rs45.9bn/ 34.8bn, while PAT was in line at Rs 17.5bn. Higher interest income offset the impact of higher credit cost.
- NIMs expanded by 60bps QoQ driven by shift towards high yielding products and largely steady cost of funds at ~8.7% in 2Q. Reduced liquidity buffer to 3 months from 5-6 months earlier also helped to reduce negative carry.
- Operating expenses increased by 5% QoQ (22% YoY) led by 12% QoQ increase in other opex, even as employee cost remain stable. Despite adding ~5000 employees during the quarter, employee cost remains stable as Q1 had few one offs.
- AUM growth of 4.9% QoQ (19.7% YoY) was aided by segments like Passengers vehicles (9.4% QoQ), MSME (6.3% QoQ) and other high yielding products like personal loans (11.6% QoQ) / gold loans (8.4% QoQ). 2W segment grew by 3.9% QoQ, construction equipment 3% QoQ and Commercial vehicles 2.6% QoQ.
- Asset quality saw further improvement, with Gross/ Net stage 3 at 5.79%/ 2.8% (vs. 6.03%/ 2.96% in 1Q) with adequate provision coverage at 53.1% vs. 52.5% in 1Q. During the quarter provisions increased by 28.4% QoQ (25.7% YoY) resulting in credit cost of 2.3% vs. 1.9% in 1QFY23.

Valuation & Recommendation

SHFL's performance was strong on growth, NIMs and asset quality front. Company's outlook continue to remain positive with good visibility on 1) growth front and 2) asset quality. We expect the AUM/ earnings to grow at a CAGR of 17% / 18% over FY23-25, aided by higher growth in non-CV portfolio and stable credit cost. At CMP, the stock trades at an attractive valuation of 1.2x FY25E BV with RoA/RoE of 3.3%/ 16%. We reiterate BUY rating with a revised target price of Rs 2,335 (2,175 earlier). Any significant slowdown in the economy or sharp rise in fuel costs are key risks.

Pradeep Agrawal

pradeepagrawal@systematixgroup.in

+91 22 6704 8024

Pravin Mule

pravinmule@systematixgroup.in

Ronak Dhruv

ronakdhruv@systematixgroup.in

Investors are advised to refer disclosures made at the end of the research report.

Exhibit 1: Quarterly performance

(Rs mn)	2QFY23	3QFY23	4QFY23	1QFY24	2QFY24	YoY (%)	QoQ (%)
Net Interest Income	37,775	41,921	41,810	42,004	45,947	21.6	9.4
Other Income	4,162	3,022	3,460	3,167	3,479	-16.4	9.9
Net Income	41,937	44,944	45,270	45,171	49,426	17.9	9.4
Total Operating Expenses	11,999	11,928	14,459	13,908	14,618	21.8	5.1
<i>As % Of Net Income</i>	<i>28.6</i>	<i>26.5</i>	<i>31.9</i>	<i>30.8</i>	<i>29.6</i>	<i>96bps</i>	<i>(122bps)</i>
Employee Expenses	5,831	6,391	6,907	7,904	7,904	35.5	0.0
<i>As % Of Net Income</i>	<i>13.9</i>	<i>14.2</i>	<i>15.3</i>	<i>17.5</i>	<i>16.0</i>	<i>209bps</i>	<i>(151bps)</i>
Other Expenses	6,168	5,537	7,552	6,004	6,714	8.9	11.8
<i>As % Of Net Income</i>	<i>14.7</i>	<i>12.3</i>	<i>16.7</i>	<i>13.3</i>	<i>13.6</i>	<i>(112bps)</i>	<i>29bps</i>
Operating Profit	29,938	33,016	30,810	31,262	34,808	16.3	11.3
<i>As % Of Net Income</i>	<i>71.4</i>	<i>73.5</i>	<i>68.1</i>	<i>69.2</i>	<i>70.4</i>	<i>(96bps)</i>	<i>122bps</i>
Provisions	8,976	9,173	11,846	8,786	11,286	25.7	28.4
PBT	20,962	23,844	18,964	22,476	23,523	12.2	4.7
Total Tax	5,411	6,074	5,881	5,722	6,014	11.1	5.1
Reported PAT	15,551	17,770	13,083	16,754	17,508	12.6	4.5
Yield Analysis (%)	2QFY23	3QFY23	4QFY23	1QFY24	2QFY24	YoY (bps)	QoQ (bps)
Yield on AUM	16.9	16.9	16.4	16.2	16.6	(25bps)	37bps
Yield on Advances	18.1	18.1	17.6	17.5	18.0	(14bps)	43bps
Cost of funds	7.8	7.2	7.1	7.4	7.3	(44bps)	(4bps)
Cost of borrowing	8.3	8.0	8.3	8.7	8.9	55bps	13bps
NIMs on AUM	9.1	9.7	9.2	8.9	9.3	19bps	42bps
Asset quality (Rs bn)	2QFY23	3QFY23	4QFY23	1QFY24	2QFY24	YoY (%)	QoQ (%)
Gross Stage 3	105,831	110,586	113,822	115,089	115,563	9.2	0.4
Net Stage 3	53,908	54,506	56,749	54,613	54,202	0.5	-0.8
Gross Stage 3 (%)	6.3	6.3	6.2	6.0	5.8	(52bps)	(24bps)
Net Stage 3 (%)	3.3	3.2	3.2	3.0	2.8	(51bps)	(16bps)
Net NPAs/Net worth (%)	13.3	12.8	13.1	12.2	11.8	(150bps)	(38bps)
AUM (Rs bn)	2QFY23	3QFY23	4QFY23	1QFY24	2QFY24	YoY (%)	QoQ (%)
Commercial vehicles	876,760	906,152	932,949	959,047	984,363	12.3	2.6
Passenger vehicles	300,037	317,651	338,726	362,920	396,935	32.3	9.4
Construction equipment	133,866	138,672	143,627	146,262	150,582	12.5	3.0
Farm equipment	32,968	33,297	34,788	34,191	34,797	5.5	1.8
MSME	168,882	176,597	191,013	200,448	213,104	26.2	6.3
2-Wheelers	85,062	100,049	103,692	100,235	104,191	22.5	3.9
Gold	44,330	44,370	44,784	49,848	54,055	21.9	8.4
Personal loans	50,989	57,674	66,751	79,197	88,384	73.3	11.6
Others	697	519	497	0	0	-	-
Total	1,693,591	1,774,980	1,856,829	1,932,147	2,026,410	19.7	4.9
Other details	2QFY23	3QFY23	4QFY23	1QFY24	2QFY24	YoY (%)	QoQ (%)
Branches	2,875	2,901	2,922	2,930	2,975	3.5	1.5
Employees	57,382	60,918	64,052	66,343	71,373	24.4	7.6

Source: Company, Systematix Institutional Research

Earnings call highlights

Business:

- Overall economy is in good shape led by healthy rural demand, government thrust on infra spending and near to normal monsoon. Management expects the rural economy to do well in upcoming quarters.
- Overall auto sales numbers were strong led by MHCV / utility segment which grew at a faster pace (17% / 24% YoY). Sales of electric 2W have been robust. Commercial equipment segment grew at 29% YoY while tractor segment grew at 9.4% YoY.
- Disbursements grew 31% YoY / 14% QoQ at Rs 346 bn despite seasonally steady quarter. Disbursements in housing segment grew 61% YoY at Rs 17 bn and AUM grew 65% YoY at Rs 108 bn.
- Overall growth was driven by PV, MSME, gold and personal loan segment. PV segment has registered a highest growth during Q2 led by robust demand from tier 2 and tier 3 towns. Of total disbursements in CV segment – 10-12% were towards new vehicles and rest towards old vehicles.
- Personal loan segment – currently offered to only existing customers with ticket size ranging from Rs 45000 (for customers who have completed 1 cycle) to Rs ~70000 (for customers who have completed 2-3 cycles). Yields are in the range of 20-26%. 85% customers are self employed / small businessmen.
- Started onboarding existing customers via Shriram Super APP (used for utility functions) and will be introduced to new customers gradually.
- Tech integration with PayTM is in process and may take couple of weeks to complete.

Asset Quality:

- Write-offs during the quarter were Rs 8.39 bn.
- Personal loan segment – If the dues are more than 365 days, the amount is completely written off.

Margins:

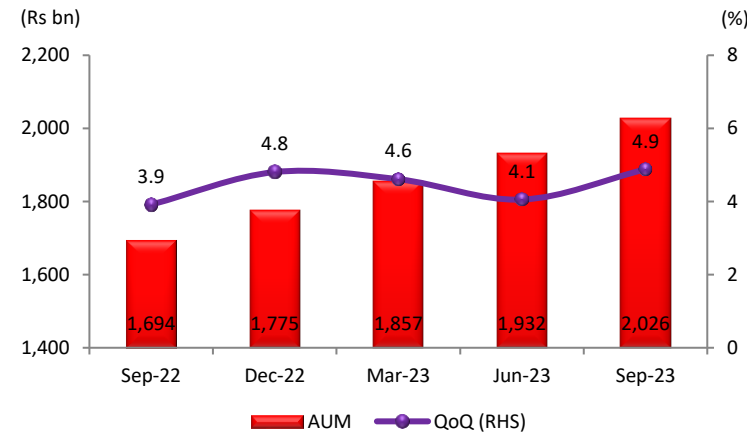
- NIM expansion was driven by product mix shift to high yielding products and reducing liquidity carry (from 5 months liquidity buffer to 3 months liquidity buffer)
- Yields – New CV: 11-13%, Old CV: 13-16%, MSME: 14-20%.
- LCR stood at 219% with liquidity buffer of Rs ~156 bn.

Opex:

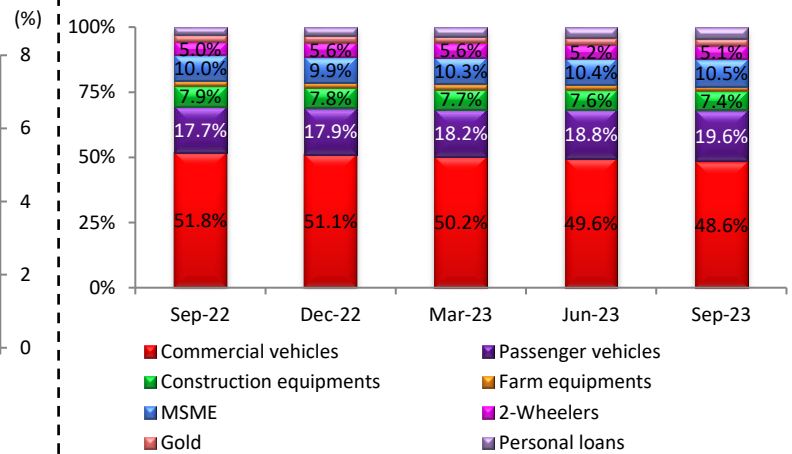
- SHFL to add another 1500-2000 employees in next 6 months.
- Currently, the company has 800 collection centers which will be soon converted into branches

FY24 Guidance:

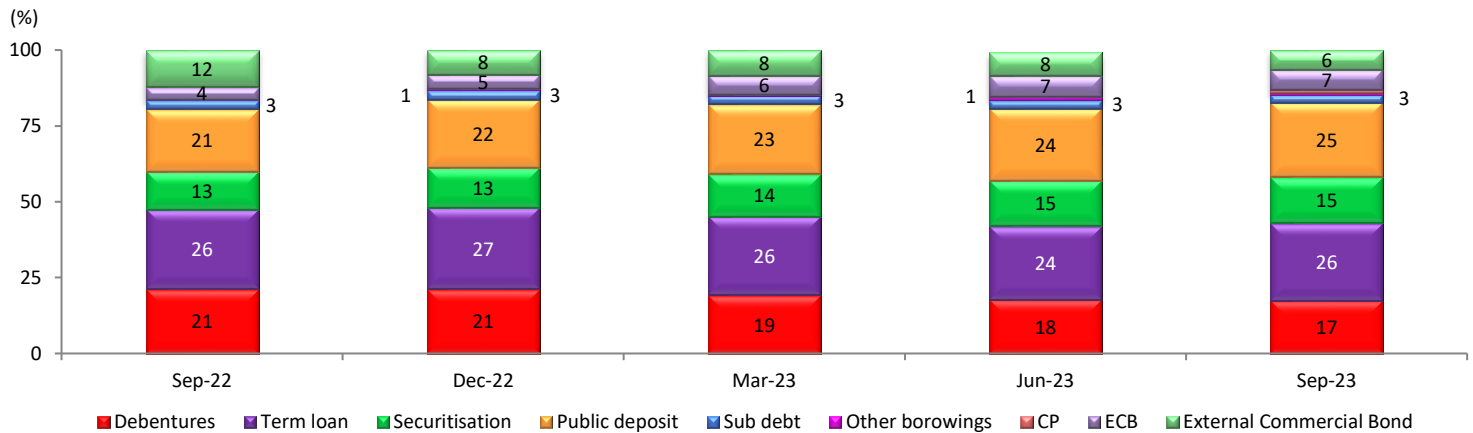
- CV segment will continue to grow at 12-15% YoY, while other products will continue to grow at faster pace. Disbursements growth 17-19% YoY and AUM growth to be 18-20% YoY
- NIMs – 8.5-9%, CoF – 8.8-8.9%, Credit cost – 1.5-2%, C/I ratio – 26-27%.
- RoE target – 16-18%.

Exhibit 2: AUM growth continues to remain strong

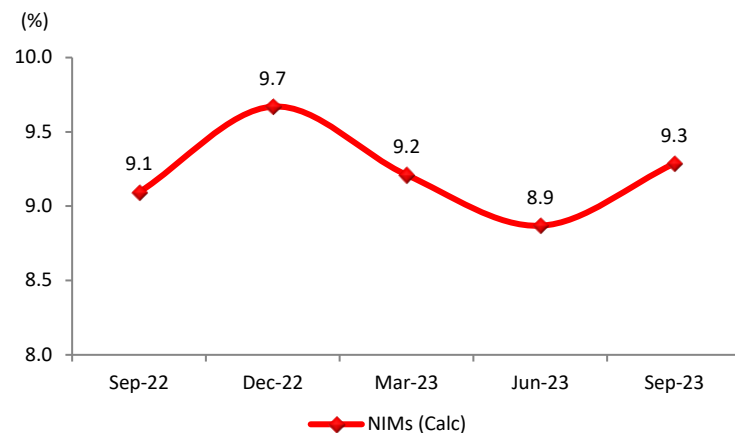
Source: Company, Systematix Institutional Research

Exhibit 3: Gradual shift towards high yielding products

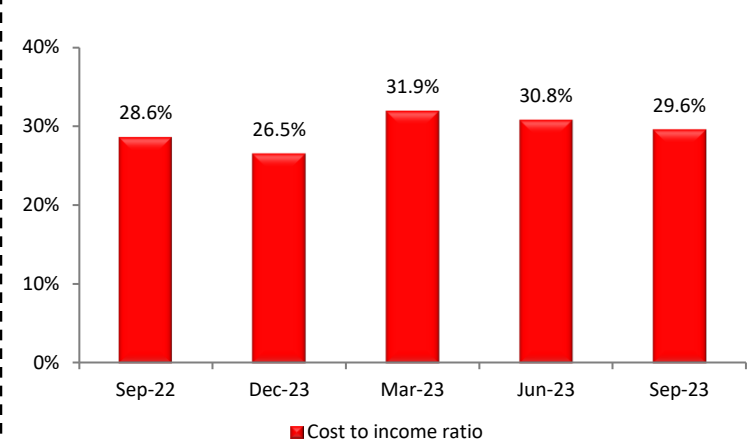
Source: Company, Systematix Institutional Research

Exhibit 4: Diversified borrowing mix

Source: Company, Systematix Institutional Research

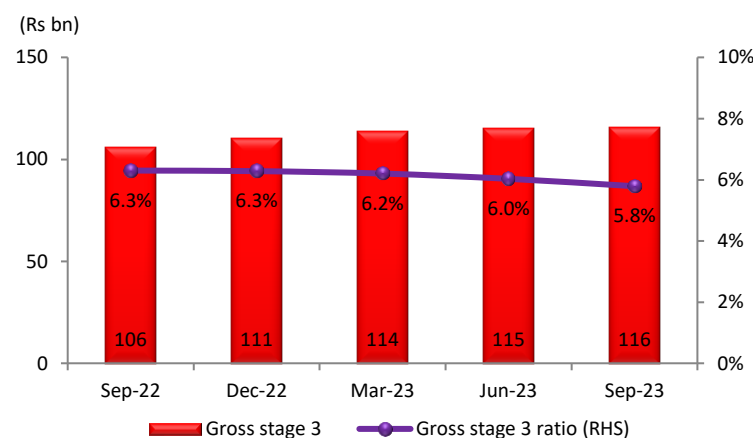
Exhibit 5: Change in product mix aided NIM expansion

Source: Company, Systematix Institutional Research

Exhibit 6: C/I ratio continue to improve gradually

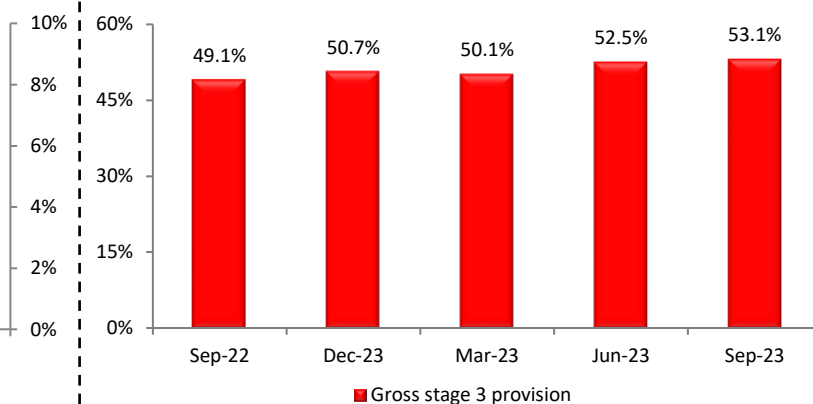
Source: Company, Systematix Institutional Research

Exhibit 7: Gross stage-3 stood largely steady



Source: Company, Systematix Institutional Research

Exhibit 8: Adequately coverage on Stage 3 assets



Source: Company, Systematix Institutional Research

Exhibit 9: Change in estimates

(Rs bn)	Old Estimates		New Estimates		% Change	
	FY24	FY25	FY24	FY25	FY24	FY25
NII	186.8	214.1	187.3	220.3	0.3	2.9
Operating Profit	137.7	160.0	140.6	166.1	2.1	3.8
PAT	68.5	79.9	70.2	83.2	2.4	4.1
BV	1,275	1,450	1,279	1,460	0.3	0.7
EPS	183	213	187	222	2.4	4.1

Source: Company, Systematix Institutional Research

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Profit & Loss Statement

YE: Mar (Rs mn)	FY21	FY22	FY23	FY24E	FY25E
Net interest income	80,739	89,120	160,616	187,284	220,349
Other income	3,083	6,280	11,956	13,615	15,935
Net Income	83,821	95,399	172,572	200,899	236,284
Operating expenses	19,857	21,298	49,131	60,288	70,168
Preprovision profit	63,964	74,101	123,442	140,611	166,116
Provisions	31,184	38,609	41,592	45,615	53,489
Profit before tax	32,780	35,493	81,850	94,996	112,627
Tax	7,908	8,413	22,056	24,794	29,395
Tax rate	24.1	23.7	26.9	26.1	26.1
Reported Profit after tax	24,873	27,080	59,794	70,202	83,232

Source: Company, Systematix Institutional Research

Dupont (as % of Average Assets)

YE: Mar	FY21	FY22	FY23	FY24E	FY25E
Interest Income	14.0	13.7	16.5	15.3	15.5
Interest Expense	7.4	7.2	7.3	6.7	6.7
Net Interest Income	6.6	6.6	9.3	8.6	8.7
Other income total	0.3	0.5	0.7	0.6	0.6
Net Income total	6.9	7.0	10.0	9.2	9.4
Operating expenses total	1.6	1.6	2.8	2.8	2.8
Preprovision profit	5.2	5.5	7.1	6.4	6.6
Provisions	2.6	2.8	2.4	2.1	2.1
Profit before tax and exce. items	2.7	2.6	4.7	4.3	4.5
Profit before tax	2.7	2.6	4.7	4.3	4.5
Tax total	0.6	0.6	1.3	1.1	1.2
Profit after tax	2.0	2.0	3.5	3.2	3.3

Source: Company, Systematix Institutional Research

Growth

YE: Mar (%)	FY21	FY22	FY23	FY24E	FY25E
Net interest income	1.0	10.4	80.2	16.6	17.7
Net Income total	0.9	13.8	80.9	16.4	17.6
Preprovision profit	2.6	15.8	66.6	13.9	18.1
Profit before tax	-4.7	8.3	130.6	16.1	18.6
Profit after tax	-0.6	8.9	120.8	17.4	18.6
Loan	5.9	7.7	47.4	18.6	16.3
Disbursement	-26.6	76.5	81.0	20.0	15.0
AUM	6.8	36.7	15.9	18.4	16.3

Source: Company, Systematix Institutional Research

Balance Sheet

YE: Mar (Rs mn)	FY21	FY22	FY23	FY24E	FY25E
Equity	2,531	2,705	3,744	3,744	3,744
Reserves	213,153	256,617	429,322	484,079	549,001
Net worth	215,684	259,322	433,066	487,824	552,745
Borrowings	1,061,964	1,144,967	1,579,063	1,768,550	2,051,519
Others	19,966	16,772	24,509	79,799	112,953
Total liabilities	1,297,613	1,421,061	2,036,639	2,336,173	2,717,217
Cash	164,418	163,552	158,174	116,485	135,506
Investments	31,979	68,092	85,651	98,903	115,052
Loans	1,083,030	1,166,652	1,719,846	2,039,466	2,372,061
Others	13,813	18,585	39,040	46,155	53,691
Total assets	1,297,613	1,421,061	2,036,638	2,336,173	2,717,217

Source: Company, Systematix Institutional Research

Key Ratios

YE: Mar	FY21	FY22	FY23	FY24E	FY25E
Yield on portfolio	16.3	16.6	19.8	17.8	17.7
cost of borrowings	9.0	8.8	9.2	8.8	8.9
Interest Spread	7.2	7.8	10.6	9.0	8.8
NIM (on AUM)	7.1	6.4	9.3	9.2	9.3
Cost/ Income (%)	23.7	22.3	28.5	30.0	29.7
Credit cost (%)	2.6	2.8	2.4	2.1	2.1
RoA(%)	2.0	2.0	3.5	3.2	3.3
RoE(%)	12.6	11.4	17.3	15.2	16.0
Leverage (x)	6.2	5.7	5.0	4.7	4.9
Tier I (%)	19.9	20.7	21.2	21.4	21.3
CAR (%)	22.5	23.0	22.6	22.6	22.4
Gross NPA (%)	7.1	7.1	6.2	5.8	6.0
Net NPA (%)	4.2	3.7	3.2	2.8	2.9
Provision coverage (%)	42.1	50.0	50.1	53.0	53.0

Source: Company, Systematix Institutional Research

Valuation ratios

YE: Mar	FY21	FY22	FY23	FY24E	FY25E
FDEPS (Rs)	66.4	72.3	159.7	187.5	222.3
PER (x)	27.1	24.8	11.3	9.6	8.1
Book value (Rs)	576.0	692.6	1156.6	1278.5	1459.9
P/BV (Rs)	3.1	2.6	1.6	1.4	1.2
Adjusted book value (Rs)	447.7	573.8	1005.0	1144.6	1285.6
P/ABV (Rs)	4.0	3.1	1.8	1.6	1.4
P/PPP (x)	10.5	9.1	5.5	4.8	4.1
Dividend yield (%)	1.0	1.4	1.9	2.3	2.7

Source: Company, Systematix Institutional Research

Institutional Equities Team

Nikhil Khandelwal	Managing Director	+91-22-6704 8001	nikhil@systematixgroup.in
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Equity Research

Analysts	Industry Sectors	Desk-Phone	E-mail
Dhananjay Sinha	Co Head of Equities & Head of Research - Strategy & Economics	+91-22-6704 8095	dhananjaysinha@systematixgroup.in
Ashish Poddar	Consumer Durables, EMS, Building Materials, Small-Mid Caps	+91-22-6704 8039	ashishpoddar@systematixgroup.in
Himanshu Nayyar	Consumer Staples & Discretionary	+91-22-6704 8079	himanshunayyar@systematixgroup.in
Manjith Nair	Banking, Insurance	+91-22-6704 8065	manjithnair@systematixgroup.in
Pradeep Agrawal	NBFCs & Diversified Financials	+91-22-6704 8024	pradeepagrawal@systematixgroup.in
Pratik Tholiya	Specialty & Agro Chem, Fertilisers, Sugar, Textiles and Select Midcaps	+91-22-6704 8028	pratiktholiya@systematixgroup.in
Sameer Pardikar	IT & ITES	+91-22-6704 8041	sameerpardikar@systematixgroup.in
Sudeep Anand	Oil & Gas, Logistics, Cement, Wagons	+91-22-6704 8085	sudeepanand@systematixgroup.in
Vishal Manchanda	Pharmaceuticals and Healthcare	+91-22-6704 8064	vishalmanchanda@systematixgroup.in
Chetan Mahadik	Consumer Staples & Discretionary	+91-22-6704 8091	chetanmahadik@systematixgroup.in
Devanshi Kamdar	IT & ITES	+91-22-6704 8098	devanshikamdar@systematixgroup.in
Jennisa Popat	Oil & Gas, Logistics, Cement, Wagons	+91-22-6704 8066	jennisapopat@systematixgroup.in
Kalash Jain	Consumer Durables, EMS, Building Materials, Small-Mid Caps	+91-22-6704 8038	kalashjain@systematixgroup.in
Nirali Chheda	Banking, Insurance	+91-22-6704 8019	niralichheda@systematixgroup.in
Pashmi Chheda	Banking, Insurance	+91-22-6704 8063	pashmichheda@systematixgroup.in
Pranay Shah	Consumer Durables, EMS, Building Materials, Small-Mid Caps	+91-22-6704 8017	pranayshah@systematixgroup.in
Pratik Oza	Midcaps	+91-22-6704 8036	pratikoza@systematixgroup.in
Pravin Mule	NBFCs & Diversified Financials	+91-22-6704 8034	pravinmule@systematixgroup.in
Prathmesh Kamath	Oil & Gas, Logistics, Cement, Wagons	+91-22-6704 8022	prathmeshkamath@systematixgroup.in
Purvi Mundhra	Macro-Strategy	+91-22-6704 8078	purvimundhra@systematixgroup.in
Rajesh Mudaliar	Consumer Staples & Discretionary	+91-22-6704 8084	rajeshmudaliar@systematixgroup.in
Ronak Dhruv	NBFCs & Diversified Financials	+91-22-6704 8045	ronakdhruv@systematixgroup.in
Shweta Dikshit	Metals & Mining	+91-22-6704 8042	shwetadikshit@systematixgroup.in
Vivek Mane	Pharmaceuticals and Healthcare	+91-22-6704 8046	vivekmane@systematixgroup.in
Yogeeta Rathod	Midcaps	+91-22-6704 8081	yogeetarathod@systematixgroup.in

Equity Sales & Trading

Name		Desk-Phone	E-mail
Vipul Sanghvi	Co Head of Equities & Head of Sales	+91-22-6704 8062	vipulsanghvi@systematixgroup.in
Jignesh Desai	Sales	+91-22-6704 8068	jigneshdesai@systematixgroup.in
Sidharth Agrawal	Sales	+91-22-6704 8090	sidharthagrawal@systematixgroup.in
Rahul Khandelwal	Sales	+91-22-6704 8003	rahul@systematixgroup.in
Chintan Shah	Sales	+91-22-6704 8061	chintanshah@systematixgroup.in
Pawan Sharma	Director and Head - Sales Trading	+91-22-6704 8067	pawansharma@systematixgroup.in
Mukesh Chaturvedi	Vice President and Co Head - Sales Trading	+91-22-6704 8074	mukeshchaturvedi@systematixgroup.in
Vinod Bhuwad	Sales Trading	+91-22-6704 8051	vinodbhuwad@systematixgroup.in
Rashmi Solanki	Sales Trading	+91-22-6704 8097	rashmisolanki@systematixgroup.in
Karan Damani	Sales Trading	+91-22-6704 8053	karandamani@systematixgroup.in
Vipul Chheda	Dealer	+91-22-6704 8087	vipulchheda@systematixgroup.in
Paras Shah	Dealer	+91-22-6704 8047	parasshah@systematixgroup.in
Rahul Singh	Dealer	+91-22-6704 8054	rahulsingh@systematixgroup.in

Corporate Access

Mrunal Pawar	Vice President & Head Corporate Access	+91-22-6704 8088	mrunalpawar@systematixgroup.in
Darsha Hiwrale	Associate Corporate Access	+91-22-6704 8083	darshahiwrale@systematixgroup.in

Production

Madhu Narayanan	Editor	+91-22-6704 8071	madhunarayanan@systematixgroup.in
Mrunali Pagdhare	Production	+91-22-6704 8057	mrunalip@systematixgroup.in
Vijayendra Achrekar	Production	+91-22-6704 8089	vijayendraachrekar@systematixgroup.in

Operations

Sachin Malusare	Vice President	+91-22-6704 8055	sachinmalusare@systematixgroup.in
Jignesh Mistry	Manager	+91-22-6704 8049	jigneshmistry@systematixgroup.in
Sushant Chavan	Manager	+91-22-6704 8056	sushantchavan@systematixgroup.in

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Systematix Shares and Stocks (India) Limited:

Registered and Corporate address: The Capital, A-wing, No. 603 – 606, 6th Floor, Plot No. C-70, G Block, Bandra Kurla Complex, Bandra (East), Mumbai – 400 051

Tel no. 022-66198000/40358000 Fax no. 022-66198029/40358029 Email id contactus@systematixgroup.in. Visit us at: www.systematixgroup.in

Details of Compliance officer: Ms Nipa Savla, Compliance officer Tel no. 022-66198092/4035808092 Email id compliance@systematixgroup.in

Details of Email id grievance redressal cell : grievance@systematixgroup.in

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