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SYSTEMATIX INSTITUTIONAL EQUITIES

Systematix

Institutional Equities

19 October 2023

## IndusInd Bank

## Deposit mobilization remains key focal point

## RESULT UPDATE

Sector: Banks Rating: BUY

CMP: Rs 1,421 Target Price: Rs 1,640

## Stock Info

Sensex/Nifty	66,428/19,817
Bloomberg	IIB IN
Equity shares	776mn
52-wk High/Low	Rs 1,475/ 90
Face value	Rs 10
M-Cap	Rs 1,110bn/ USD 13.4bn
3-m Avg value	USD 45mn

## Financial Snapshot (Rs bn)

Y/E March	FY24E	FY25E	FY26E
NII	205	235	269
PPP	161	185	215
PAT	91	104	121
EPS (Rs)	117	135	156
EPS Gr. (%)	23	15	16
BV/Sh (Rs)	802	922	1,064
Adj. BV/Sh (Rs)	784	900	1,038

## Ratios

NIM (%)	4.4	4.4	4.4
C/I ratio (%)	46.1	46.0	45.1
RoA (%)	1.8	1.8	1.8
RoE (%)	15.6	15.6	15.7
Payout (%)	14.69	14.69	14.69

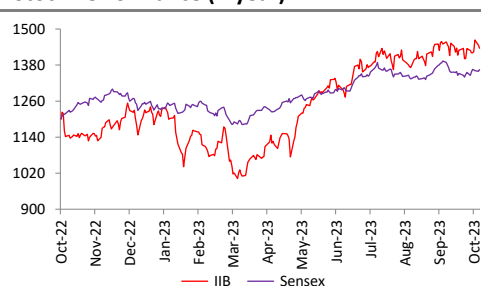
## Valuations

P/E (x)	12.13	10.56	9.09
P/BV (x)	1.77	1.54	1.34
P/Adj. BV (x)	1.81	1.58	1.37
Div. Yield (%)	1	1	2

## Shareholding pattern (%)

	Dec'22	Mar'23	Jun'23
Promoter	17	17	16
-Pledged	-	-	-
FII	45	42	42
DII	25	27	26
Others	14	15	15

## Stock Performance (1-year)



IndusInd Bank (IIB IN) reported 2QFY24 earnings of 22bn (+23% yoy/4% qoq) in-line with estimates of Rs.22.2bn with strong underlying growth in the consumer finance and small business loan segments. Key highlights for the quarter were: 1) advances growth of 21% yoy/4% qoq was driven by consumer finance segment at 25% yoy/6.4%qoq and small business loans at 50%yoy/8% qoq. 2) deposit growth of +14% yoy, +4%qoq with CASA ratio declining a modest 55bps qoq 3) NIM remained flattish qoq as 9bp qoq increase in cost of funds was largely offset by yield increase. NIM is guided to remain near the current levels of 4.2-4.3% over FY24. 4) Cost to income ratio (CIR) increased +100bps qoq to 46.9% on account of higher employee additions, investment in distribution and technology spends for new platform launches and growth in granular segments like MFI segment. As per management, opex is expected to remain elevated in near term with FY24 exit CIR at 45% and 41-43% thereafter. 5) on a qoq basis, overall GNPA/NNPA at 1.9%/0.6% was stable, with improvements in the vehicle finance portfolio being offset by increases in other consumer segments like MFI (+13bp), Cards (+21bp) along with a large corporate exposure of Rs 1.68bn moving from SMA2 to NPA bucket.

We introduce the FY26 estimates, rollover the forecasts to Dec-25 and maintain our BUY rating with Dec-24 TP of Rs1,640 (from Rs1,580). We value the bank at 1.6x Dec-25 adj BVPS for average RoE of 15.6% over FY24/25/26E. We factor continued growth in higher yielding businesses of vehicle finance/microfinance (post recent investments in digital and capacity additions) with relatively stable margins over the forecast period. We also factor in elevated CIR at c.45% and credit costs of c.115bps over the forecast period.

**Deposit mobilization key to achieving growth targets:** The bank registered net advances growth of 4.5% qoq, 21% yoy with retail loan mix increasing 100bp qoq to 55%. This is in line with the bank's Planning Cycle 6 (PC-6) for FY23-26, of 18-23% loan growth and retail loan mix of 55-60%. On the liabilities side, deposit growth of +3.7%qoq, +14%yoy continued to lag net advances growth, leading to a +70bp qoq increase in CD ratio to 87.5%. While it is still within the bank's comfort zone of 86%-89%, the increasing CD and lowering borrowing mix (-200bp qoq) will necessitate higher deposit mobilization in the coming quarters. CASA declined 50bps qoq to 39.4% and was the lowest since 1QFY18. That said, retail deposits increased by 4.3% qoq, 21% yoy with retail deposit share increasing by 30bps qoq to 43.7% (vs PC-6 target of 45-50% retail deposit mix). The bank has also utilized some of the excess liquidity on the balance sheet (currently at c.Rs370bn) due to which the increase in the overall cost of funds, up 9bps qoq, was much below the 23bps increase in cost of deposits. With the focus back on mobilizing deposits, we expect cost of funds to closely track the cost of deposit trend. Management guided for 10-20bps increase in cost of deposits over the next 2 quarters, whilst still maintaining the NIM guidance of 4.2-4.3% for FY24. With 2H being seasonally strong for vehicle finance and microfinance segments, the growth and margin outlook remains strong for 2HFY24.

Manjith Nair

manjithnair@systematixgroup.in

+91 22 6704 8065

Pashmi Chheda

pashmichheda@systematixgroup.in

+91 22 6704 8063

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

**CIR increases on account of variable payouts and higher employee count:** Business incentive related payouts increased in line with strong underlying growth in microfinance and new business segments. The bank also added c.3,500 employees in 2QFY24 taking total employee additions YTD to c.7000. Consequently, CIR increased c.100 bps qoq to 46.9% and is expected to remain elevated in near term.

**One-off corporate account slippage exacerbate NPA concerns on unsecured book:** Gross slippage increased to 1.96% vs 1.91% qoq primarily due to slippage of Rs1.68bn (11% of gross slippages) from a key corporate account which moved from SMA2 to NPA bucket. Retail slippage ratio at 3.2% improved 30bps qoq and is expected to improve further in 2H due to seasonally strong period for vehicle finance and microfinance. That said, the GNPA increased by 13-21bps qoq in each of the granular businesses of MFI/Cards/small CV. However, the management remains confident of the asset quality remaining intact in the consumer businesses and hence retained its full year guidance of slippages in the range of Rs.48-52bn. Including further buildup of contingent provisions of c.Rs3bn, expected over 2HFY24, the credit cost guidance remains unchanged in the range of 110-130bps.

**Valuation and recommendations:** We introduce the FY26 estimates, rollover the forecasts to Dec-25 and maintain our BUY rating with Dec-24 TP of Rs1,640 (from Rs1,580). We value the bank at 1.6x Dec-25 adj BVPS for average RoE of 15.6% over FY24/25/26E. We factor continued growth in higher yielding businesses of vehicle finance/microfinance (post recent investments in digital and capacity additions) with relatively stable margins over the forecast period. We also factor in elevated CIR at c.45% and credit costs of c.115bps over the forecast period. Considering the high CD ratio at the bank, our credit growth estimates are constrained by the ability of the bank to raise deposits at a reasonable price. This remains key risk to our view.

**IIB's 2QFY24 results earnings concall key takeaways:****Guidance**

- FY24 NIM guidance of 4.2-4.3%
- Cost of deposits to increase by 10-20bps in next 2 quarters
- FY24 exit cost to income of 45%
- FY24 credit cost guidance of 110-130bps and gross slippages of Rs.48-51bn

**MFI**

- Disbursements grew by 24% yoy, 43% qoq
- Loan outstanding per borrower grew by 1% qoq/ 3% yoy
- Standard asset collection efficiency was at 99.1%.
- The bank is consciously trying to reduce its exposure to lower ticket loans of less than Rs.15,000 given the higher opex intensity in there

**Vehicle Finance**

- The vehicle finance maintained a healthy disbursement growth of 20%yoy/7%qoq ahead of loan growth of 22%yoy/4.7%qoq.
- While there was strong growth of 5-10% qoq in each of CV, UV and cars, demand slowed down in 2W, tractors and construction equipment segments with 1-2% qoq growth in each.
- The bank's current LCV market share stands at 10% vs 5%, 2-3 years ago
- GNPA is likely to improve in the Vehicle finance portfolio with 2H likely to be seasonally better than 1H

**Corporate Book**

- Withing the corporate loan book, 1/3<sup>rd</sup> is MCLR linked and 2/3<sup>rd</sup> is EBLR linked
- The bank is likely to see increase in blended corporate yields with increasing share of small businesses in the wholesale book. Majority of the MSME sourcing is done in less than Rs.20m segment
- Corporate book SMA-1 was 0.6%, SMA-2 was 0.2% with total SMA of 0.26%

**Other**

- LCR was 117%, within target range of 115-125%
- Net security receipts declined to 39bps vs 44bps qoq
- The bank has a surplus liquidity in excess of Rs. 300bn with the bank targeting to maintain about Rs. 200bn as minimum at any given point in time
- While the diamond segment demand remained muted, the bank does not have any exposure to lab grown diamonds, SMA-1, SMA-2 or restructured accounts

## Exhibit 1: Quarterly performance

(INR, mn)	2QFY24	2QFY23	YoY (%)	1QFY24	QoQ (%)
Interest income	1,12,478	87,080	29%	1,07,297	4.8%
Interest expenses	61,711	44,060	40%	58,625	5.3%
<b>NII</b>	<b>50,767</b>	<b>43,021</b>	<b>18%</b>	<b>48,671</b>	<b>4.3%</b>
Other income	22,819	20,108	13%	22,098	3.3%
<b>Operating income</b>	<b>73,586</b>	<b>63,129</b>	<b>17%</b>	<b>70,769</b>	<b>4.0%</b>
Operating expenses	34,499	27,932	24%	32,468	6.3%
- Staff expenses	13,378	7,347	82%	8,629	55.0%
<b>PPOP</b>	<b>39,087</b>	<b>35,197</b>	<b>11%</b>	<b>38,301</b>	<b>2.1%</b>
Provisions	9,738	11,411	-15%	9,916	-1.8%
<b>Profit before tax</b>	<b>29,349</b>	<b>23,786</b>	<b>23%</b>	<b>28,385</b>	<b>3.4%</b>
Taxes	7,329	5,919	24%	7,149	2.5%
<b>Profit after tax</b>	<b>22,021</b>	<b>17,867</b>	<b>23%</b>	<b>21,236</b>	<b>3.7%</b>
EPS	28.3	23.0	23%	27.4	3.6%
Key Ratios (%)	2QFY24	2QFY23	YoY (bps)	1QFY24	QoQ (bps)
Net Advances growth (YoY, %)	21.1%	17.8%	326 bp	21.5%	-45 bp
Net Advances growth (QoQ, %)	4.5%	4.9%	-39 bp	3.9%	59 bp
Deposit growth (YoY, %)	13.9%	14.7%	-79 bp	14.6%	-75 bp
Deposit growth (QoQ, %)	3.7%	4.4%	-68 bp	3.2%	53 bp
CASA Ratio	39.3%	42.3%	-293 bp	39.9%	-55 bp
CD Ratio	87.5%	82.3%	518 bp	86.8%	70 bp
NIM (reported)	4.3%	4.2%	5 bp	4.3%	0 bp
Cost to Income	46.9%	44.2%	264 bp	45.9%	100 bp
Credit costs	1.3%	2.0%	-71 bp	1.4%	-9 bp
GNPA (%)	1.9%	2.1%	-18 bp	1.9%	-1 bp
NNPA (%)	0.6%	0.6%	-4 bp	0.6%	-1 bp
PCR (%)	70.6%	71.5%	-97 bp	70.6%	-2 bp
CAR	18.2%	18.0%	20 bp	18.4%	-19 bp
Tier-I	16.3%	16.0%	36 bp	16.4%	-11 bp

Source: Company, Systematix Institutional Research

## Exhibit 2: DuPont analysis

Du Pont (% of average assets)	2QFY23	3QFY23	4QFY23	1QFY24	2QFY24
<b>Net interest income</b>	<b>4.1%</b>	<b>4.1%</b>	<b>4.1%</b>	<b>4.2%</b>	<b>4.3%</b>
Other income	1.9%	1.9%	1.9%	1.9%	1.9%
<b>Total income</b>	<b>6.0%</b>	<b>6.0%</b>	<b>6.0%</b>	<b>6.1%</b>	<b>6.2%</b>
Operating expenses	2.7%	2.7%	2.7%	2.8%	2.9%
Employee expenses	0.7%	0.7%	0.7%	0.7%	1.1%
<b>PPOP</b>	<b>3.4%</b>	<b>3.4%</b>	<b>3.3%</b>	<b>3.3%</b>	<b>3.3%</b>
Provisions	1.1%	1.0%	0.9%	0.9%	0.8%
<b>PBT</b>	<b>2.3%</b>	<b>2.4%</b>	<b>2.4%</b>	<b>2.5%</b>	<b>2.5%</b>
<b>PAT (RoAA)</b>	<b>1.7%</b>	<b>1.8%</b>	<b>1.8%</b>	<b>1.8%</b>	<b>1.9%</b>
Leverage	8.35	8.43	8.40	8.28	8.18
<b>ROE</b>	<b>14.3%</b>	<b>15.2%</b>	<b>15.2%</b>	<b>15.2%</b>	<b>15.3%</b>

Source: Company, Systematix Institutional Research

## Exhibit 3: Earnings Revision

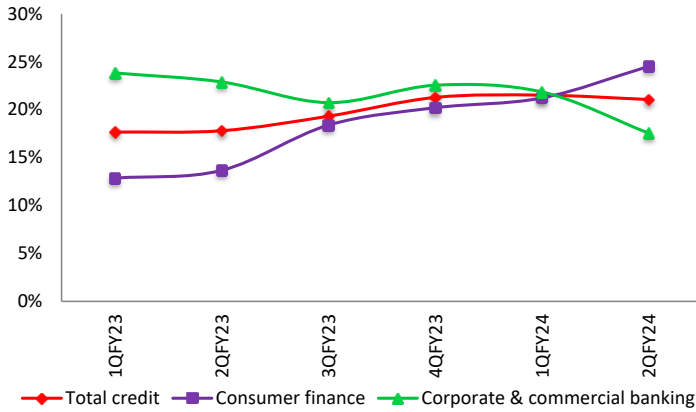
(INR, Mn)	FY24E			FY25E			FY26E		
	New	Old	% chg	New	Old	% chg	New	Old	% chg
Advances	34,26,150	34,15,917	0.3%	40,07,686	39,96,417	0.3%	46,81,256	-	NA
Deposits	39,03,698	39,11,504	-0.2%	45,64,540	45,47,836	0.4%	52,96,759	-	NA
NII	2,05,013	1,98,659	3.2%	2,34,762	2,25,927	3.9%	2,68,813	-	NA
Opex	1,37,926	1,32,894	3.8%	1,57,333	1,49,063	5.5%	1,76,678	-	NA
PPOP	1,61,146	1,57,999	2.0%	1,84,773	1,81,778	1.6%	2,14,720	-	NA
Provisions	70,286	72,500	-3.1%	80,318	82,944	-3.2%	93,430	-	NA
PAT	90,859	85,499	6.3%	1,04,455	98,833	5.7%	1,21,290	-	NA
EPS	117	110	6.3%	135	127	5.7%	156	-	NA
Adj. BVPS	784	774	1.3%	900	881	2.2%	1,038	-	NA

Source: Company, Systematix Institutional Research

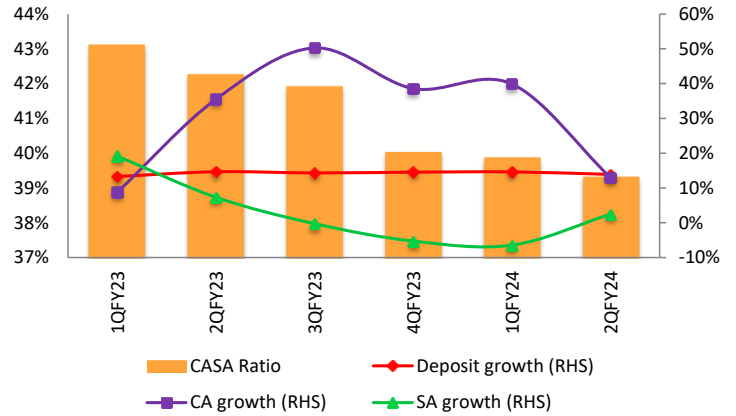
## Exhibit 4: Q2FY24 Outcome Against PC-6 Ambitions

Planning Cycle 6 (FY 2023-26)			Q2FY24 Outcome
Resulting in	Loan Growth	18%-23%	21%
	Retail Loan Mix	55%-60%	55%
	Retail Deposits as per LCR	45%-50%	44%
	PPOP / Loans	5.25% - 5.75%	5.2%
	Branch Network	3,250 - 3,750	2,631
	Customer Base	> 50mn	37mn

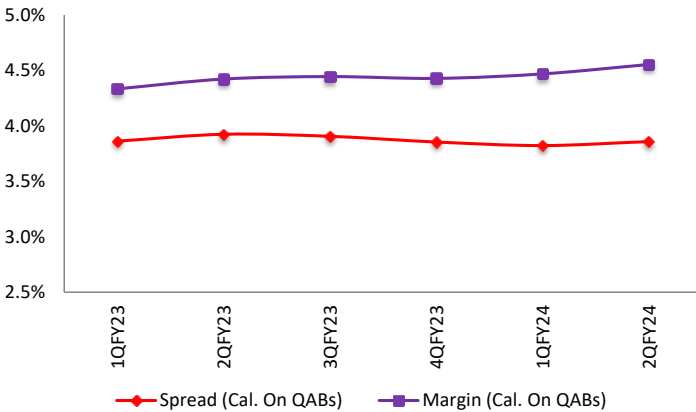
Source: Company

**Exhibit 5: Credit growth led by growth in consumer finance and small business loans**

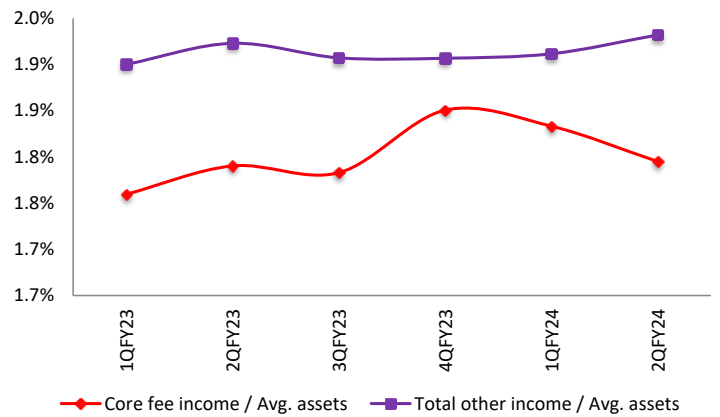
Source: Company, Systematix Institutional Research

**Exhibit 6: Deposits growth moderating with modest 55bps qoq decline in CASA to 39.4%**

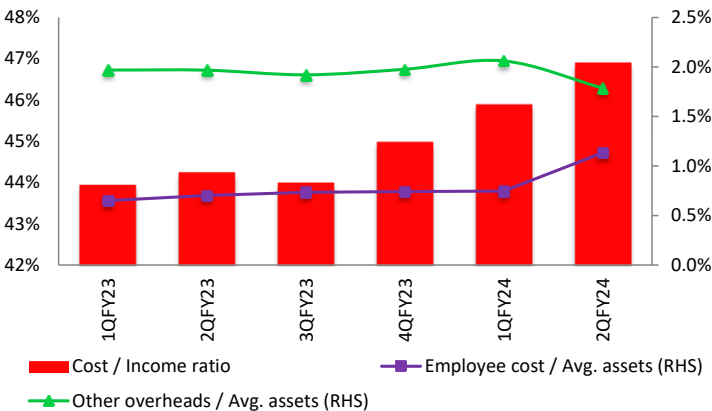
Source: Company, Systematix Institutional Research

**Exhibit 7: Spreads maintained as funding cost increase was offset by yield increase**

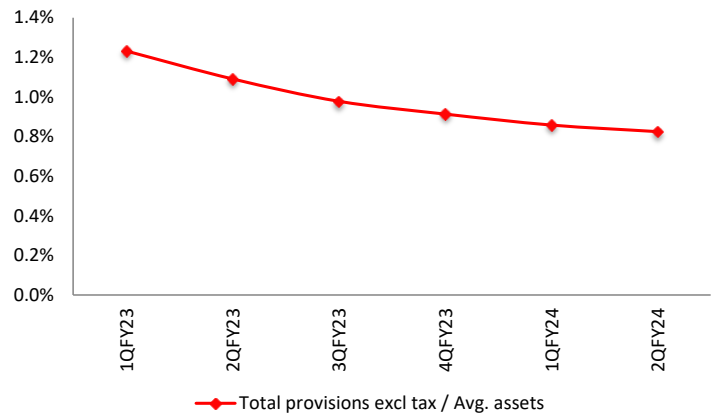
Source: Company, Systematix Institutional Research

**Exhibit 8: Core fee income stable**

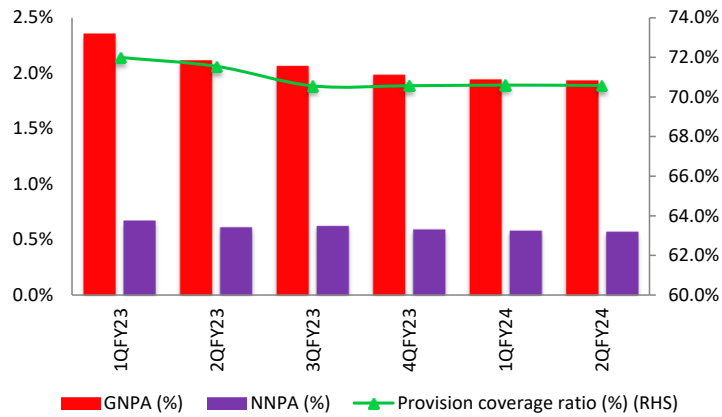
Source: Company, Systematix Institutional Research

**Exhibit 9: Cost-Income ratio likely to remain elevated**

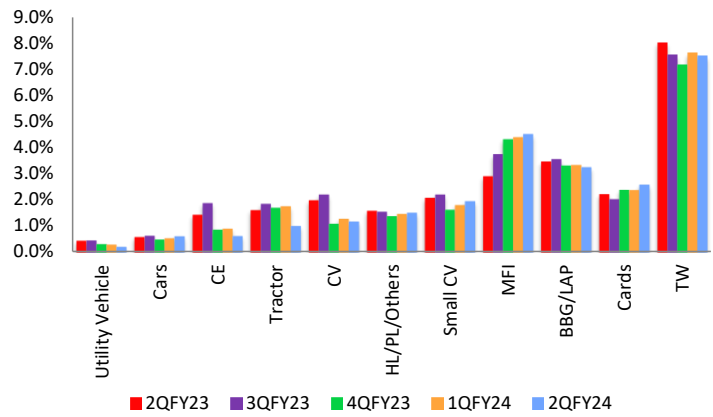
Source: Company, Systematix Institutional Research

**Exhibit 10: Credit costs largely stable qoq**

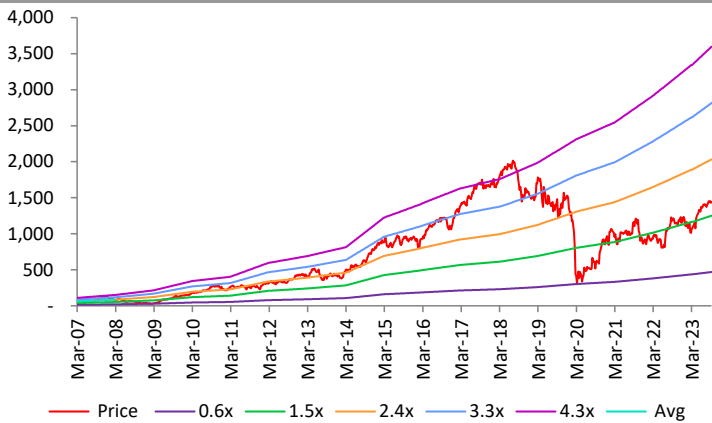
Source: Company, Systematix Institutional Research

**Exhibit 11: GNPA also stable qoq**

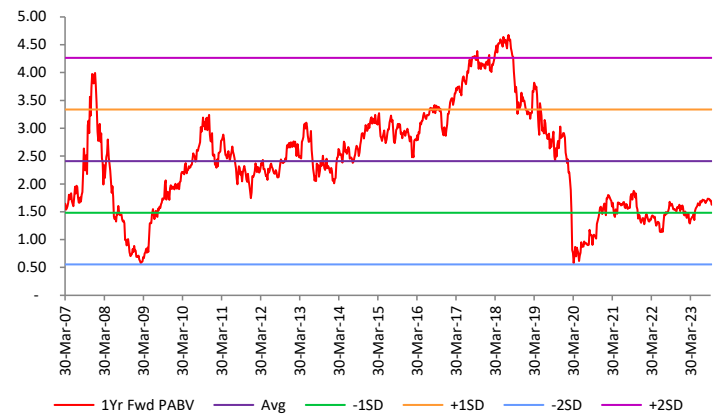
Source: Company, Systematix Institutional Research

**Exhibit 12: AQ in vehicle finance improved qoq**

Source: Company, Systematix Institutional Research

**Exhibit 13: 1-year forward P/ABV (x) multiple trajectory**

Source: Company, Systematix Institutional Research

**Exhibit 14: 1-year forward P/ABV (x) multiple trades near -1SD**

Source: Company, Systematix Institutional Research

## FINANCIALS

## Profit &amp; Loss Statement

YE: Mar (Rs bn)	FY22	FY23	FY24E	FY25E	FY26E
Interest Income	308	364	448	517	588
Interest Expenses	158	188	243	282	319
<b>Net Interest Income</b>	<b>150</b>	<b>176</b>	<b>205</b>	<b>235</b>	<b>269</b>
Change (%)	10.9	17.3	16.5	14.5	14.5
Commission, Exc. & Br. Inc.	45	56	65	76	88
Add: Other income	28	25	29	31	34
<b>Net Income</b>	<b>223</b>	<b>258</b>	<b>299</b>	<b>342</b>	<b>391</b>
Change (%)	11.2	15.3	16.1	14.4	14.4
Operating Expenses	96	114	138	157	177
<b>Operating Profit</b>	<b>128</b>	<b>143</b>	<b>161</b>	<b>185</b>	<b>215</b>
Change (%)	8.9	12.3	12.3	14.7	16.2
Provisions	66	45	40	45	53
<b>PBT</b>	<b>62</b>	<b>99</b>	<b>121</b>	<b>139</b>	<b>162</b>
Tax	16	25	30	35	40
Tax Rate (%)	25.3	25.1	25.0	25.0	25.0
<b>PAT</b>	<b>46</b>	<b>74</b>	<b>91</b>	<b>104</b>	<b>121</b>
Change (%)	62.6	60.3	23.0	15.0	16.1
Proposed Dividend	7	11	13	15	18

Source: Company, Systematix Institutional Research

## Dupont

YE: Mar (%)	FY22	FY23	FY24E	FY25E	FY26E
Interest Income	8.1	8.5	9.1	9.1	8.9
Interest Expended	4.1	4.4	4.9	5.0	4.9
<b>Net Interest Income</b>	<b>3.9</b>	<b>4.1</b>	<b>4.2</b>	<b>4.1</b>	<b>4.1</b>
Commission, Exc. & Br. Inc.	1.2	1.3	1.3	1.3	1.3
Other Fee Income	0.6	0.6	0.6	0.5	0.5
<b>Net Operating Income</b>	<b>5.7</b>	<b>6.0</b>	<b>6.0</b>	<b>6.0</b>	<b>5.9</b>
Profit on sale of investment	0.2	0.0	0.0	0.0	0.0
Net Income	5.8	6.0	6.1	6.0	6.0
Operating Expenses	2.5	2.7	2.8	2.8	2.7
<b>Operating Income</b>	<b>3.3</b>	<b>3.3</b>	<b>3.3</b>	<b>3.2</b>	<b>3.3</b>
Provisions	1.7	1.0	0.8	0.8	0.8
<b>PBT</b>	<b>1.6</b>	<b>2.3</b>	<b>2.5</b>	<b>2.4</b>	<b>2.5</b>
Tax	0.4	0.6	0.6	0.6	0.6
<b>PAT</b>	<b>1.2</b>	<b>1.7</b>	<b>1.8</b>	<b>1.8</b>	<b>1.8</b>
Leverage	8.5	8.5	8.5	8.5	8.5
<b>RoE</b>	<b>10.2</b>	<b>14.5</b>	<b>15.6</b>	<b>15.6</b>	<b>15.7</b>

Source: Company, Systematix Institutional Research

## Balance Sheet

YE: Mar (Rs bn)	FY22	FY23	FY24E	FY25E	FY26E
Capital	8	8	8	8	8
Reserves & Surplus	469	538	617	711	820
<b>Net Worth</b>	<b>477</b>	<b>546</b>	<b>625</b>	<b>718</b>	<b>828</b>
Change (%)	10.0	14.5	14.5	14.9	15.3
<b>Deposits</b>	<b>2,937</b>	<b>3,364</b>	<b>3,904</b>	<b>4,565</b>	<b>5,297</b>
Change (%)	14.6	14.6	16.0	16.9	16.0
CASA Ratio (%)	42.8	40.1	39.1	38.1	37.1
<b>Borrowings</b>	<b>473</b>	<b>490</b>	<b>557</b>	<b>573</b>	<b>620</b>
Other Liabilities	133	177	210	248	292
<b>Total Liabilities</b>	<b>4,020</b>	<b>4,578</b>	<b>5,296</b>	<b>6,104</b>	<b>7,037</b>
Change (%)	10.7	13.9	15.7	15.2	15.3
Investments	710	831	952	1,090	1,248
Cash & Bank balance	683	565	581	607	636
<b>Loans</b>	<b>2,391</b>	<b>2,899</b>	<b>3,426</b>	<b>4,008</b>	<b>4,681</b>
Change (%)	12.4	21.3	18.2	17.0	16.8
Fixed Assets	18	20	21	22	23
Other Assets	218	263	317	377	448
<b>Total Assets</b>	<b>4,020</b>	<b>4,578</b>	<b>5,296</b>	<b>6,104</b>	<b>7,037</b>

Source: Company, Systematix Institutional Research

## Ratios

YE: Mar	FY22	FY23	FY24E	FY25E	FY26E
<b>Spreads Analysis (%)</b>					
Yield on Advances	11.1	11.3	11.7	11.7	11.5
Yield on Earning Assets	8.6	9.0	9.7	9.7	9.6
Cost of Deposits	4.5	5.0	5.6	5.7	5.6
Cost of Funds	4.9	5.2	5.9	5.9	5.8
NIM	4.2	4.4	4.4	4.4	4.4
<b>Profitability Ratios (%)</b>					
Cost/Income	42.8	44.3	46.1	46.0	45.1
PPOP / Avg. assets	3.3	3.3	3.3	3.2	3.3
RoE	10.2	14.5	15.6	15.6	15.7
RoA	1.2	1.7	1.8	1.8	1.8
<b>Asset Quality (%)</b>					
GNPA (Rs bn)	55	58	69	81	95
NNPA (Rs bn)	15	17	19	23	27
GNPA	2.3	2.0	2.0	2.0	2.0
NNPA	0.6	0.6	0.6	0.6	0.6
PCR	72.3	70.6	72.2	71.9	72.1
<b>Capitalisation (%)</b>					
CAR	18.4	17.9	16.6	16.2	15.8
Tier I	16.8	16.4	15.9	15.5	15.2
Tier II	1.6	1.5	0.7	0.7	0.7
Average Leverage on Assets (x)	8.5	8.5	8.5	8.5	8.5
<b>Valuations</b>					
Book Value (Rs)	612	700	802	922	1,064
Adj. Book Value (Rs)	597	684	784	900	1,038
Price-BV (x)	2.32	2.03	1.77	1.54	1.34
Price-Adj. BV (x)	2.38	2.20	1.81	1.58	1.37
EPS (Rs)	60	95	117	135	156
EPS Growth (%)	55	60	23	15	16
Price-Earnings (x)	23.85	14.91	12.13	10.56	9.09
Dividend (Rs)	9	14	17	20	23
Dividend Yield (%)	1	1	1	1	2

Source: Company, Systematix Institutional Research



## Institutional Equities Team

<b>Nikhil Khandelwal</b>	<b>Managing Director</b>	<b>+91-22-6704 8001</b>	<b>nikhil@systematixgroup.in</b>
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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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Tel no. 022-66198000/40358000 Fax no. 022-66198029/40358029 Email id [contactus@systematixgroup.in](mailto:contactus@systematixgroup.in). Visit us at: [www.systematixgroup.in](http://www.systematixgroup.in)

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

Details of Email id grievance redressal cell : [grievance@systematixgroup.in](mailto:grievance@systematixgroup.in)

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