SYSTEMATIX INSTITUTIONAL EQUITIES™

Systematix

Institutional Equities

IndusInd Bank

19 January 2024

Slippage guidance miss dulls an otherwise good performance

RESULT UPDATE

Sector: Banks	Rating: BUY
CMP: Rs 1,615	Target Price: Rs 1,900

Stock Info

Sensex/Nifty	71,186/21,462
Bloomberg	IIB IN
Equity shares	777mn
52-wk High/Low	Rs 1,694/ 990
Face value	Rs 10
M-Cap	Rs 1,313bn / USD 16bn
3-m Avg value	USD 65mn

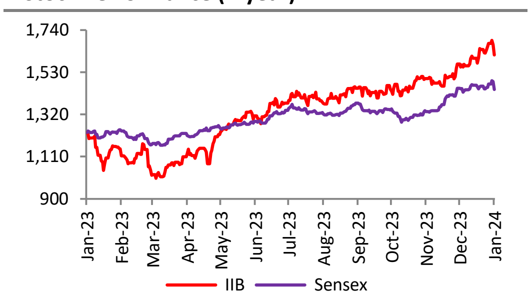
Financial Snapshot (Rs bn)

Y/E March	FY24E	FY25E	FY26E
NII	207	236	267
PPP	158	187	216
PAT	89	105	122
EPS (Rs)	114	136	158
EPS Gr. (%)	20	19	16
BV/Sh (Rs)	799	921	1,064
Adj. BV/Sh (Rs)	780	898	1,038
Ratios			
NIM (%)	4.5	4.5	4.4
C/I ratio (%)	47.4	45.7	44.9
RoA (%)	1.8	1.9	1.9
RoE (%)	15.3	15.8	15.9
Payout (%)	14.69	14.69	14.69
Valuations			
P/E (x)	14.11	11.89	10.24
P/BV (x)	2.02	1.75	1.52
P/Adj. BV	2.07	1.80	1.56
Div. Yield (%)	1	1	1

Shareholding pattern (%)

	Mar'23	Jun'23	Sep'23
Promoter	17	16	16
–Pledged	-	-	-
FII	42	42	41
DII	27	26	29
Others	15	15	14

Stock Performance (1-year)



Manjith Nair
manjithnair@systematixgroup.in
+91 22 6704 8065

Pashmi Chheda
pashmichheda@systematixgroup.in
+91 22 6704 8063

Nirali Chheda
niralichheda@systematixgroup.in
+91 22 6704 8019

IndusInd bank (IIB IN) reported 3QFY24 earnings of Rs23bn (+5% qoq, 17% yoy) which were in-line with estimates as higher total income and lower provisions (on utilization of contingency buffer as against stated guidance of accretion to the said buffer) were largely offset by higher operating expenses. The bank's focus on granularization was reflected in 1) Advances growth (+3.7% qoq) being led by retail loan growth (4.7% qoq) which in turn was led by 6-11% qoq growth in granular segments of PL, HL, credit cards, 2W and UVs 2) Deposit growth of 2.6% qoq was also led by retail deposit growth of 5% qoq. Hence, retail mix in advances increased by 50bp qoq (55.2% in 3Q) and that in deposits increased by 100bp qoq (45% in 3Q). NIM remained stable qoq with yields in the consumer banking segment increasing by 23bp qoq. The bank also maintained its FY24 NIM guidance of 4.2-4.3% (vs 4.3% in 9MFY24). CIR increased to 48% (71bp) due to business investments and branch additions and will remain elevated for the next 1-2 quarters. Asset Quality was a key disappointment as gross slippage ratio remained elevated at 2.25% in 3Q (1.96% in 2Q) due to slippages in the corporate book and vehicle finance. The company also continued to utilize contingent provision buffer of Rs2.2bn with the buffer now declining to 40bps (of net advances) as of Dec'23 vs 66bps at Mar'23. For FY24, the bank retained its credit cost guidance of 110-130bps.

We maintain our BUY rating and raise our TP to Rs1,900 (from Rs1,640) as (i) we rollover forecasts to Mar'26 (ii) raise our target multiple to 1.8x Mar'26 adj BVPS (vs 1.6x earlier) for an average FY25-26E RoA / RoE of 1.9%/15.8%, on factoring prevalent lower risk-free rates and on incorporation of a rate cut in 2HFY24. We factor continued growth in higher yielding businesses of vehicle finance/microfinance (post recent investments in digital and capacity additions) with relatively stable margins in near term. On a PE basis, the stock is currently trading at a FY25E PE of 12x for FY24-26E EPS CAGR of 17%.

Advances growth led by growth in granular retail businesses Net advances growth of 3.7% qoq and 20% yoy was driven by strong growth in retail (4.7% qoq, 24% yoy) with retail mix improving to 55.2% vs 54.6%. 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%. Retail growth was led by 6-11% qoq growth in PL, HL, credit cards, 2W and UVs, in-line with the company's strategy of granularization. On the other hand, CV, Business banking and MFI which constitute 46% of the retail book increased by 3-4% qoq. Growth in vehicle finance portfolio (5% qoq, 20% yoy) was broad based across all key sub-segments except MCHV which will continue to see sequential softness going ahead as well due to the upcoming elections. While wholesale growth remained weak at 2.4% qoq, 15% yoy, loans to small businesses increased by 5% qoq due to seasonal uplift in agri businesses. Large corporate growth was muted at 2% qoq.

Deposit mobilization key to maintaining current growth and margin trends: Deposit growth of 2.6%qoq, 13.4% yoy (2QFY24: 3.7% qoq, 13.9% yoy) was weak and was led by term deposit growth of 4% qoq. CASA growth was flattish resulting in CASA ratio declining to 38.5% (-84bps qoq). However, retail deposits increased by 5% qoq, 20% yoy resulting in retail deposit share increasing to 45% (+100bps qoq) (vs PC-6 target of 45-50% retail deposit mix) implying that retail and small business TD accumulation has been strong during the quarter. **Management indicated that there has been no**

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

communication from RBI pertaining to its CD ratio (currently at 88.6%, up 107bps qoq). According to management, its CD ratio remains within the banks historical comfort zone of 86-90% and they would be expecting to remain within this band in the foreseeable future. 3QFY24 NIM of 4.3% remained stable qoq as 6bp qoq higher cost of funds was offset by 6bps higher yield on funds. However, yield on advances increased by 15bp qoq mainly due to 23bp qoq increase in yields in Consumer banking. While deposits costs are likely to increase by another 5-10bps in 4Q, management continued to maintain FY24 NIM guidance of 4.2-4.3% on the back of improved mix, higher product yields and seasonally strong 4Q. Other income increased by 5% qoq due higher treasury income of Rs2.3bn (vs 1.6bn in 2QFY24) on the back of lowering bond yields.

CIR elevated due to business investments: Cost to income increased to 48% (+71bp qoq) due to higher other expenses (27% yoy, 5.6% qoq). Other expenses as % of average assets increased to 2.2% vs 2.1%/1.9% in qoq / yoy led by festive led marketing spends and capacity additions (the bank added 97 branches in 3Q vs 25 in 1H. CIR is expected to remain elevated in the near term and is expected to reduce to 45% by 1HFY25 and between 41-43% in FY26.

FY24 credit cost guidance intact despite elevated slippages: While GNPA and NNPA remained stable qoq at 1.92% and 0.57%, gross slippages increased to 2.25% vs 1.96% in 2Q. This was mainly led by slippage of Rs1.4bn in a key corporate account and Rs.0.25-0.4bn each in Agri, LAP and merchant advances business. Slippages in the vehicle finance portfolio increased (0.73% in 3Q vs 0.64% in 2Q) due to adverse weather conditions like unseasonal floods in South India and heavy fog in North India which impacted collections. That said, the company has seen 10% of these vehicle finance slippages getting upgraded in Jan'24 and expects the trend to continue in 4Q. However, net slippage ratio of 0.31% was stable qoq due to higher recoveries and upgrades which also involves ARC sale of Rs3.1bn. Management remains confident about elevated corporate slippage cycle peaking in 3Q and guided for slippages of Rs1.1-1.2bn per quarter going ahead.

The bank further utilized the contingent provision buffer of Rs2.2bn (Rs1.8bn/2bn utilized in 2Q/1Q) resulting in buffer declining to 40bps (of net advances) as of Dec'23 vs 66bps at Mar'23. However, the management expects recovery from a key corporate account by Feb'24 end and will utilize the proceeds to plough back the buffer. As a result, it maintained its FY24 credit cost guidance of 110-130bps

Valuation and recommendations: We maintain our BUY rating and raise our TP to Rs1,900 (from Rs1,640) as (i) we rollover forecasts to Mar'26 (ii) raise our target multiple to 1.8x Mar'26 adj BVPS (vs 1.6x earlier) to factor in the lower risk-free rates along with a probability of a rate cut in 2HFY24. We factor continued growth in higher yielding businesses of vehicle finance/microfinance (post recent investments in digital and capacity additions) with relatively stable margins in the near term.

IIB's 3QFY24 results earnings concall key takeaways:

Guidance

- The company guided for Rs. 140bn disbursements in vehicle finance in 4Q and 20% growth in FY25
- FY24 NIM guidance of 4.2-4.3%
- CIR to reduce to 45% in 1HFY25 and normalize between 41-435 in FY26
- FY24 credit cost guidance of 110-130bps
- In the next 1-2 qtrs the company expects corporate slippages to reduce to Rs.500-770mn, other retail around Rs3-3.5bn, MFI around Rs2.7-3bn

MFI

- Loan outstanding per borrower declined by -1% qoq
- Standard asset collection efficiency was at 98.6%.
- MFI early bucket delinquencies are better than industry
- MFI 30-90dpd is 1.7% and sustainable credit cost will be in the range of 2.5-3%

Vehicle Finance

- Vehicle finance disbursements growth was 7% qoq/8% yoy with Cars, UV, CE witnessing 15%+ qoq growth in disbursements. The company maintained market share in all key subsegments
- 2W segment witnessed strong growth in disbursements due to festive season

Corporate Book

- Within the corporate book, share of 'A and above' rated portfolio increased to 77% vs 74% yoy
- The company has witnessed a slight increase in pricing to NBFCs on the back of increase in risk weights.

Other

- LCR was 122%, within target range of 115-125%
- Net security receipts declined to 37bps vs 39bps qoq
- CRAR / CET – 1 ratio declined to 17.86%/16.07% vs 18.21% / 16.33% in 2QFY24

Exhibit 1: Quarterly performance

(INR, mn)	3QFY24	3QFY23	YoY (%)	2QFY24	QoQ (%)
Interest income	1,15,723	94,574	22%	1,12,478	2.9%
Interest expenses	62,766	49,621	26%	61,711	1.7%
NII	**52,956**	**44,954**	**18%**	**50,767**	**4.3%**
Other income	23,959	20,763	15%	22,818	5.0%
Operating income	**76,915**	**65,717**	**17%**	**73,585**	**4.5%**
Operating expenses	36,893	28,913	28%	34,776	6.1%
- Staff expenses	10,267	7,992	28%	9,566	7.3%
PPOP	**40,022**	**36,804**	**9%**	**38,809**	**3.1%**
Provisions	9,342	10,647	-12%	9,738	-4.1%
Profit before tax	**30,680**	**26,157**	**17%**	**29,071**	**5.5%**
Taxes	7,701	6,565	17%	7,256	6.1%
Profit after tax	**22,979**	**19,592**	**17%**	**21,815**	**5.3%**
EPS	29.5	25.3	17%	28.1	5.2%
Key Ratios (%)	**3QFY24**	**3QFY23**	**YoY (bps)**	**2QFY24**	**QoQ (bps)**
Net Advances growth (YoY, %)	19.8%	19.3%	47 bp	21.1%	-127 bp
Net Advances growth (QoQ, %)	3.8%	4.9%	-110 bp	4.5%	-77 bp
Deposit growth (YoY, %)	13.4%	14.3%	-96 bp	13.9%	-52 bp
Deposit growth (QoQ, %)	2.5%	3.0%	-47 bp	3.7%	-119 bp
CASA Ratio	38.5%	41.9%	-343 bp	39.3%	-84 bp
CD Ratio	88.6%	83.9%	474 bp	87.5%	107 bp
NIM (reported)	4.3%	4.3%	2 bp	4.3%	0 bp
Cost to Income	48.0%	44.0%	397 bp	47.3%	71 bp
Credit costs	1.2%	2.0%	-76 bp	1.3%	-11 bp
GNPA (%)	1.9%	2.1%	-14 bp	1.9%	-1 bp
NNPA (%)	0.6%	0.6%	-5 bp	0.6%	0 bp
PCR (%)	70.6%	70.6%	4 bp	70.6%	2 bp
CAR	17.9%	18.0%	-15 bp	18.2%	-35 bp
Tier-I	16.1%	16.0%	6 bp	16.3%	-26 bp

Source: Company, Systematix Institutional Research

Exhibit 2: DuPont analysis

Du Pont (% of average assets)	3QFY23	4QFY23	1QFY24	2QFY24	3QFY24
Net interest income	**4.1%**	**4.1%**	**4.2%**	**4.3%**	**4.4%**
Other income	1.9%	1.9%	1.9%	1.9%	2.0%
Total income	**6.0%**	**6.0%**	**6.1%**	**6.2%**	**6.4%**
Operating expenses	2.7%	2.7%	2.8%	2.9%	3.1%
Employee expenses	0.7%	0.7%	0.7%	0.8%	0.8%
PPOP	**3.4%**	**3.3%**	**3.3%**	**3.3%**	**3.3%**
Provisions	1.0%	0.9%	0.9%	0.8%	0.8%
PBT	2.4%	2.4%	2.5%	2.5%	2.5%
PAT (RoAA)	**1.8%**	**1.8%**	**1.8%**	**1.8%**	**1.9%**
Leverage	8.43	8.40	8.28	8.18	8.12
ROE	**15.2%**	**15.2%**	**15.2%**	**15.1%**	**15.4%**

Source: Company, Systematix Institutional Research

Exhibit 3: Earnings Revision

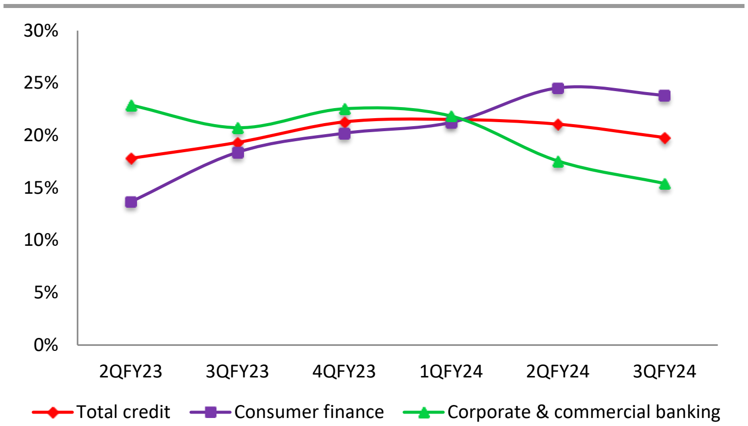
(INR, Mn)	FY24E			FY25E			FY26E		
	New	Old	% chg	New	Old	% chg	New	Old	% chg
Advances	34,43,984	34,26,150	0.5%	40,32,456	40,07,686	0.6%	46,96,151	46,81,256	0.3%
Deposits	38,15,933	39,03,698	-2.2%	44,71,486	45,64,540	-2.0%	52,21,859	52,96,759	-1.4%
NII	2,06,666	2,05,013	0.8%	2,36,276	2,34,762	0.6%	2,66,740	2,68,813	-0.8%
Opex	1,42,703	1,37,926	3.5%	1,57,479	1,57,333	0.1%	1,76,286	1,76,678	-0.2%
PPOP	1,58,440	1,61,146	-1.7%	1,87,326	1,84,773	1.4%	2,16,011	2,14,720	0.6%
Provisions	69,607	70,286	-1.0%	81,929	80,318	2.0%	93,562	93,430	0.1%
PAT	88,833	90,859	-2.2%	1,05,397	1,04,455	0.9%	1,22,448	1,21,290	1.0%
EPS	114	117	-2.2%	136	135	0.9%	158	156	1.0%
Adj. BVPS	780	784	-0.4%	898	900	-0.2%	1,038	1,038	-0.1%

Source: Company, Systematix Institutional Research

Exhibit 4: Q3FY24 Outcome Against PC-6 Ambitions

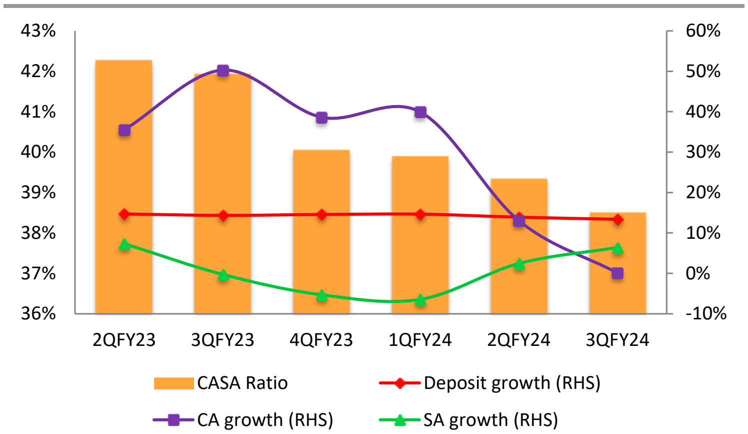
Source: Company

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



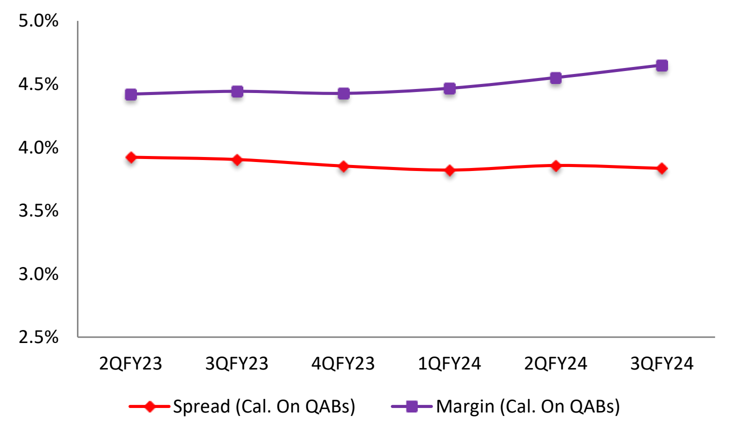
Source: Company, Systematix Institutional Research

Exhibit 6: Deposits growth moderating with modest 84bps qoq decline in CASA to 38.5%



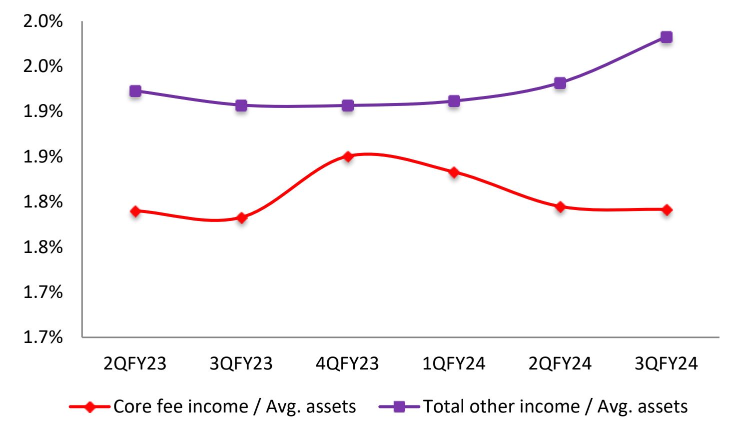
Source: Company, Systematix Institutional Research

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



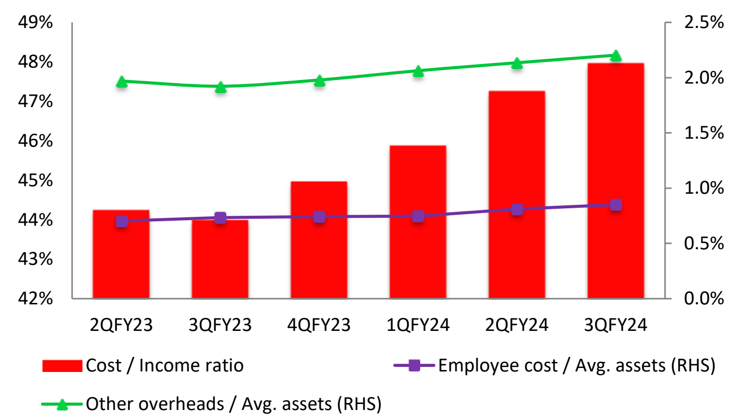
Source: Company, Systematix Institutional Research

Exhibit 8: Core fee income stable



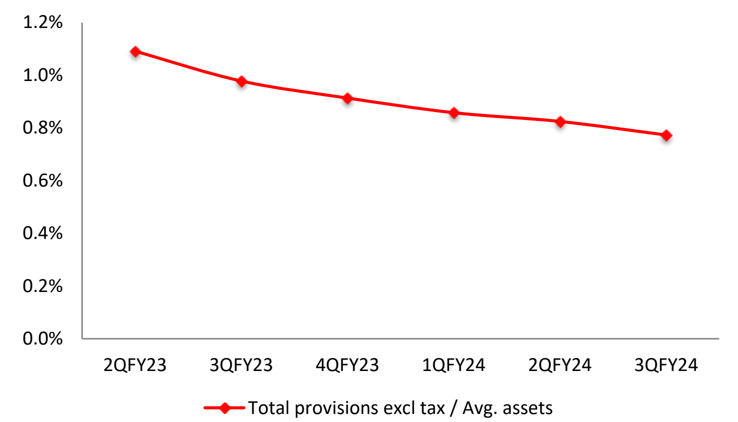
Source: Company, Systematix Institutional Research

Exhibit 9: Cost-Income ratio likely to remain elevated



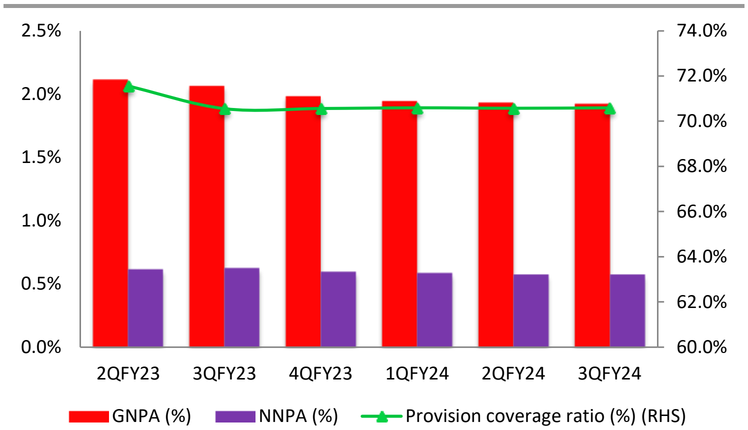
Source: Company, Systematix Institutional Research

Exhibit 10: Credit costs largely stable qoq due to utilization of contingent provision buffer



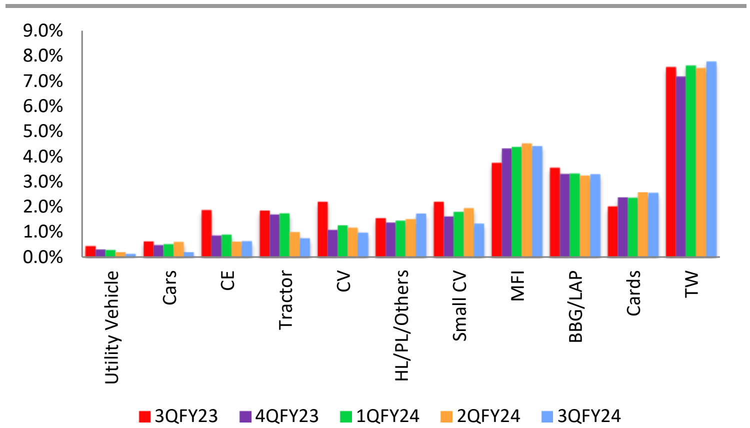
Source: Company, Systematix Institutional Research

Exhibit 11: GNPA also stable QoQ



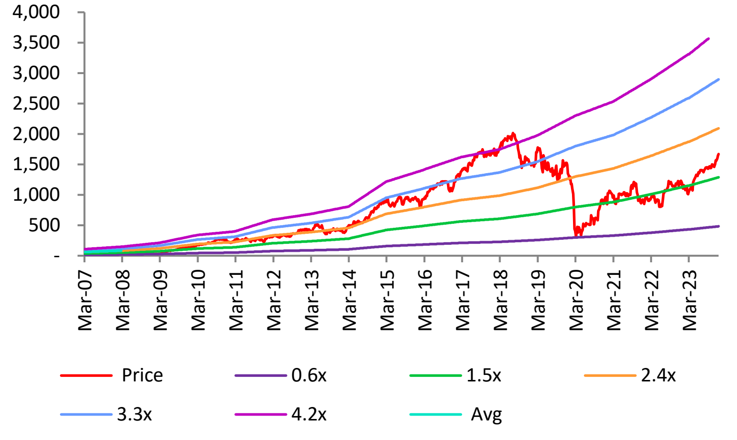
Source: Company, Systematix Institutional Research

Exhibit 12: Asset quality in vehicle finance deteriorated qoq due to adverse weather conditions



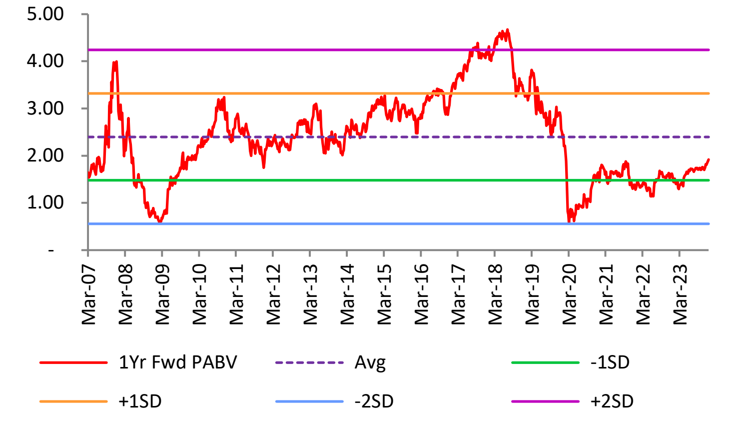
Source: Company, Systematix Institutional Research

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 & Loss Statement

YE: Mar (Rs bn)	FY22	FY23	FY24E	FY25E	FY26E
Interest Income	308	364	455	526	598
Interest Expenses	158	188	248	290	331
Net Interest Income	**150**	**176**	**207**	**236**	**267**
Change (%)	10.9	17.3	17.5	14.3	12.9
Commission, Exc. & Br. Inc.	45	56	67	80	95
Add: Other income	28	25	27	29	30
Net Income	**223**	**258**	**301**	**345**	**392**
Change (%)	11.2	15.3	16.9	14.5	13.8
Operating Expenses	96	114	143	157	176
Operating Profit	**128**	**143**	**158**	**187**	**216**
Change (%)	8.9	12.3	10.4	18.2	15.3
Provisions	66	45	40	47	53
PBT	**62**	**99**	**118**	**141**	**163**
Tax	16	25	30	35	41
Tax Rate (%)	25.3	25.1	25.0	25.0	25.0
PAT	**46**	**74**	**89**	**105**	**122**
Change (%)	62.6	60.3	20.2	18.6	16.2
Proposed Dividend	7	11	13	15	18

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	615	709	821
Net Worth	**477**	**546**	**623**	**717**	**828**
Change (%)	10.0	14.5	14.1	15.1	15.5
Deposits	**2,937**	**3,364**	**3,816**	**4,471**	**5,222**
Change (%)	14.6	14.6	13.4	17.2	16.8
CASA Ratio (%)	42.8	40.1	39.1	38.1	37.1
Borrowings	**473**	**490**	**468**	**480**	**494**
Other Liabilities	133	177	191	208	228
Total Liabilities	**4,020**	**4,578**	**5,098**	**5,878**	**6,771**
Change (%)	10.7	13.9	11.4	15.3	15.2
Investments	710	831	997	1,142	1,308
Cash & Bank balance	683	565	374	412	453
Loans	**2,391**	**2,899**	**3,444**	**4,032**	**4,696**
Change (%)	12.4	21.3	18.8	17.1	16.5
Fixed Assets	18	20	22	23	25
Other Assets	218	263	261	267	290
Total Assets	**4,020**	**4,578**	**5,098**	**5,878**	**6,771**

Source: Company, Systematix Institutional Research

Dupont

YE: Mar (%)	FY22	FY23	FY24E	FY25E	FY26E
Interest Income	8.1	8.5	9.4	9.6	9.5
Interest Expended	4.1	4.4	5.1	5.3	5.2
Net Interest Income	**3.9**	**4.1**	**4.3**	**4.3**	**4.2**
Commission, Exc. & Br. Inc.	1.2	1.3	1.4	1.5	1.5
Other Fee Income	0.6	0.6	0.5	0.5	0.5
Net Operating Income	**5.7**	**6.0**	**6.2**	**6.3**	**6.2**
Profit on sale of investment	0.2	0.0	0.0	0.0	0.0
Net Income	5.8	6.0	6.2	6.3	6.2
Operating Expenses	2.5	2.7	2.9	2.9	2.8
Operating Income	**3.3**	**3.3**	**3.3**	**3.4**	**3.4**
Provisions	1.7	1.0	0.8	0.9	0.8
PBT	**1.6**	**2.3**	**2.4**	**2.6**	**2.6**
Tax	0.4	0.6	0.6	0.6	0.6
PAT	**1.2**	**1.7**	**1.8**	**1.9**	**1.9**
Leverage	8.5	8.5	8.3	8.2	8.2
RoE	**10.2**	**14.5**	**15.3**	**15.8**	**15.9**

Source: Company, Systematix Institutional Research

Ratios

YE: Mar	FY22	FY23	FY24E	FY25E	FY26E
Spreads Analysis (%)					
Yield on Advances	11.1	11.3	11.9	11.9	11.6
Yield on Earning Assets	8.6	9.0	10.0	10.1	9.9
Cost of Deposits	4.5	5.0	5.9	6.1	6.1
Cost of Funds	4.9	5.2	6.1	6.3	6.2
NIM	4.2	4.4	4.5	4.5	4.4
Profitability Ratios (%)					
Cost/Income	42.8	44.3	47.4	45.7	44.9
PPOP / Avg. assets	3.3	3.3	3.3	3.4	3.4
RoE	10.2	14.5	15.3	15.8	15.9
RoA	1.2	1.7	1.8	1.9	1.9
Asset Quality (%)					
GNPA (Rs bn)	55	58	67	80	93
NNPA (Rs bn)	15	17	20	23	27
GNPA	2.3	2.0	1.9	1.9	1.9
NNPA	0.6	0.6	0.6	0.6	0.6
PCR	72.3	70.6	70.6	70.6	70.6
Capitalisation (%)					
CAR	18.4	17.9	16.7	16.4	16.2
Tier I	16.8	16.4	15.9	15.7	15.5
Tier II	1.6	1.5	0.7	0.7	0.7
Average Leverage on Assets (x)	8.5	8.5	8.3	8.2	8.2
Valuations					
Book Value (Rs)	612	700	799	921	1,064
Adj. Book Value (Rs)	597	684	780	898	1,038
Price-BV (x)	2.64	2.31	2.02	1.75	1.52
Price-Adj. BV (x)	2.71	2.50	2.07	1.80	1.56
EPS (Rs)	60	95	114	136	158
EPS Growth (%)	55	60	20	19	16
Price-Earnings (x)	27.12	16.95	14.11	11.89	10.24
Dividend (Rs)	9	14	17	20	23
Dividend Yield (%)	1	1	1	1	1

Source: Company, Systematix Institutional Research

Institutional Equities Team

Nikhil Khandelwal	**Managing Director**	**+91-22-6704 8001**	**nikhil@systematixgroup.in**
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
Hinal Kothari	Metals & Mining	+91-22-6704 8076	hinalkothari@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
Swati Saboo	Midcaps	+91-22-6704 8043	swatisaboo@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
Details of Registration : CIN - U65993MH1995PLC268414 | BSE SEBI Reg. No.: INZ000171134 (Member Code: 182) | NSE SEBI Reg. No.: INZ000171134 (Member Code: 11327) | MCX SEBI Reg. No.: INZ000171134 (Member Code: 56625) | NCDEX SEBI Reg. No.: INZ000171134 (Member Code: 1281) | Depository Participant SEBI Reg. No.: IN-DP-480-2020 (DP Id: 12034600) | PMS SEBI Reg. No.: INP000002692 | Research Analyst SEBI Reg. No.: INH200000840 | AMFI : ARN - 64917