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SYSTEMATIX INSTITUTIONAL EQUITIES

Systematix

Institutional Equities

## Can Fin Homes

23 January 2024

## Steady quarter; outlook continue to remain healthy

## RESULT UPDATE

Sector: NBFCs

Rating: BUY

CMP: 774

Target Price: Rs 960

## Stock Info

Sensex/Nifty	70,370/21,238
Bloomberg	CANF IN
Equity shares	133 mn
52-wk High/Low	905/508
Face value	Rs 2
M-Cap	Rs 116bn/USD1.4bn
3-m Avg volume	USD 7.4mn

## Financial Snapshot (Rs mn)

Y/E March	FY23	FY24E	FY25E
NII	10,146	12,679	14,322
PPP	8,658	11,024	12,327
PAT	6,212	7,489	8,779
EPS (Rs)	46.6	56.2	65.9
EPS Gr. (%)	31.9	20.6	17.2
BV/Sh (Rs)	274	326	387

## Ratios

NIM (%)	3.5	3.8	3.8
C/I ratio (%)	16.9	15.1	16.4
RoA (%)	2.0	2.1	2.1
RoE (%)	18.5	18.8	18.5
Payout (%)	8.5	7.5	7.5

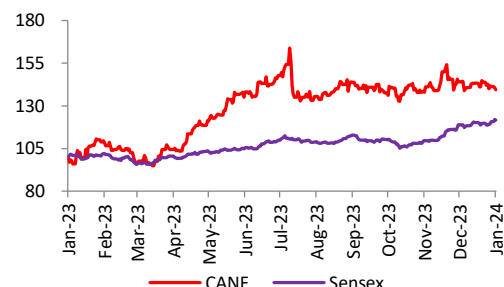
## Valuations

P/E (x)	16.6	13.8	11.7
P/BV (x)	2.8	2.4	2.0
Div. Yield (%)	0.5	0.5	0.6

## Shareholding pattern (%)

	Jun-23	Sep-23	Dec-23
Promoter	29.99	29.99	29.99
FII	10.72	11.36	11.06
DII	27.97	27.41	28.46
Others	31.32	31.23	30.48

## Stock Performance (1-year)



CANF's Q3FY24 operational performance was broadly in-line with our estimates. Higher provisions during the quarter were offset by lower opex. NII/OP came in at Rs 3.3bn/Rs 2.8bn vs. estimate of Rs 3.2bn / Rs 2.7bn. NII reported a healthy growth of 31% YoY / 4% QoQ led by marginal expansion in NIMs (5bps QoQ) though the AUM growth was moderate at 13.1% YoY (2.1% QoQ). The decline in new loan approvals (-3% QoQ / -21% YoY) and sluggish disbursement growth (-23% YoY / -7% QoQ) was primarily on account of centralization of process. However, despite higher-than-expected provisioning, PAT was in-line at Rs 2bn. GNPA / NNPA ratio deteriorated to 0.91%/0.49% from 0.76%/0.43% in Q2 due to slippages from restructured book. We estimate a 14% CAGR in CANF's AUM to deliver 19% CAGR in earnings over FY23-25E. We expect the RoA/ RoE to remain largely stable at 2.1%/18.5% over FY24/25. Key risks: Inflation pressure might impact the demand for home loans.

## Key result highlights

- CANF Q3FY24 operational performance broadly in-line with our estimates led by marginal expansion in NIMs even as AUM growth was moderate. NIMs improved by 5bps QoQ on the back of 11bps increase in yields (calc). AUM growth moderated to 13% YoY and 2% QoQ due to sluggish disbursement growth (-23% YoY / -7% QoQ).
- HL AUM (89% of total loan portfolio) increased by 12.9% YoY and 2.1% QoQ, while Non-housing AUM grew by 14.4% YoY and 2.1% QoQ mainly led by growth in top-up personal loans (16.9% YoY and 2.9% QoQ) and Mortgage loan (13.8% YoY and 1.5% QoQ). The share of NHL in the portfolio was steady at ~11%.
- NPA provisions jumped significantly by ~2x QoQ / YoY to Rs 294mn due to slippages from restructured book. The entire restructured pool came out of restructuring in Nov'23. Hence, going ahead no stress expected from the restructured book. Credit cost increased to 37bps from 11bps in Q3FY23. The impact of higher provisions during the quarter was offset by lower opex (-5.8% QoQ) resulting in in-line PAT at Rs 2bn.
- Asset quality witnessed slight deterioration, with GNPA / NNPA up by 15bps / 6bps at 0.91%/0.49% (vs. 0.76%/0.49% in Q2FY24) respectively. Of total Rs 3088mn GNPA, Rs 980mn was due to slippages from restructured book. The provision coverage (excluding management overlay provisions) stood at 45.8% (44% in Q2FY24). The total provisions held on restructured book stood at Rs 580mn (vs Rs 680 mn in Q2), with additional management overlay of Rs 340mn.

## Valuation &amp; recommendation

CANF reported a steady quarter in terms of operating performance aided by marginal NIM expansion. AUM / Disbursement growth was moderate in last couple of quarters mainly due to centralization of processes. However, management is confident of Rs 25bn disbursement in Q4FY24 and Rs 30bn per quarter in FY25. We maintain our positive stance on CANF's robust business model and underwriting practices, which has demonstrated healthy earnings growth with moderate stress across cycles. AUM growth guidance largely maintained at 15-18% YoY for FY25. We maintain our buy rating with an unchanged target price of Rs. 960 valuing CANF at 2.5x FY25E book value.

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.

## Management commentary

### Business:

- AUM / Disbursements growth momentum was impacted in Oct'23 mainly due to centralisation of disbursement processes. However, disbursements were back on track with Rs 7bn disbursements per month.
- Disbursements share in south has declined to 72% from 75%. Salaried segment share to be maintained at around 70%
- Strong traction in more than Rs 20 lakhs ticket size. Hence, management aims to focus more on higher ticket size between Rs 25 lakhs to Rs 30 lakhs vs Rs 22 lakhs earlier.
- CANF is trying to broaden its sourcing model. At the beginning of the year DSA share was ~85% in overall sourcing which has reduced to 79%. In next 2 years DSAs to form 60% of sourcing mix while 40% will be from direct or digital channels.
- In terms of branch expansion focus will be more on North (Punjab, Haryana) and West (Gujarat, Maharashtra).
- Got board approval for quarterly reset of interest rates (effective Jan'24) which will help in controlling BT outs.

### NIMs/Yields/COF:

- The marginal increase in NIM was mainly driven by repricing of assets with a lag effect. The entire portfolio has been reset and going forward there is no upside expected in NIMs.
- Yields on ticket size more than Rs 30 lakhs is 9.91%.
- During the quarter got rating upgrade from ICRA which will help in lower cost of borrowings.

### Asset quality:

- Expected to see recoveries from restructured book going forward and expect GNPA to come down by Rs 200-300mn in Q4FY24. GNPA to be in the range of 0.75% to 0.80% by Q4FY24.

### Opex:

- Opened 5 branches in Q3. CI ratio is expected to remain at 16% vs earlier guidance of 18%.
- Going ahead opex will be in the range of Rs 520-530mn per quarter. Additional Rs 150 mn will be towards IT transformation.
- New customer acquisition – 4000-4200 every month.
- Out of Rs 494mn total opex, Rs 60-65mn paid to DSAs as cost of acquisition.

### Guidance:

- Disbursements in Q4FY24 to be Rs 25bn and expected to maintain quarterly run rate of Rs 30bn in FY25.
- AUM growth guidance at 15-18% YoY in FY25. AUM CAGR in next 4 years to be ~20%.
- NIMs and Spreads expected to sustain at 3.6-3.7% and 2.6% respectively.
- RoA / RoE at 2.1% / 18% on sustainable basis.

## Exhibit 1: Quarterly performance

(Rs mn)	3QFY23	4QFY23	1QFY24	2QFY24	3QFY24	YoY (%)	QoQ (%)
<b>Net Interest Income</b>	<b>2,517</b>	<b>2,613</b>	<b>2,851</b>	<b>3,168</b>	<b>3,288</b>	<b>30.6</b>	<b>3.8</b>
Other Income	51	122	60	58	71	39.7	21.0
<b>Net Income</b>	<b>2,568</b>	<b>2,735</b>	<b>2,911</b>	<b>3,226</b>	<b>3,359</b>	<b>30.8</b>	<b>4.1</b>
Total Operating Expenses	438	517	435	524	494	12.6	-5.8
<i>As % Of Net Income</i>	<i>17.1</i>	<i>18.9</i>	<i>14.9</i>	<i>16.2</i>	<i>14.7</i>	<i>(237bps)</i>	<i>(154bps)</i>
Employee Expenses	214	224	207	250	246	14.9	-1.6
<i>As % Of Net Income</i>	<i>8.3</i>	<i>8.2</i>	<i>7.1</i>	<i>7.7</i>	<i>7.3</i>	<i>(102bps)</i>	<i>(42bps)</i>
Other Expenses	224	293	228	274	248	10.5	-9.6
<i>As % Of Net Income</i>	<i>8.7</i>	<i>10.7</i>	<i>7.8</i>	<i>8.5</i>	<i>7.4</i>	<i>(136bps)</i>	<i>(112bps)</i>
<b>Operating Profit</b>	<b>2,129</b>	<b>2,218</b>	<b>2,476</b>	<b>2,702</b>	<b>2,865</b>	<b>34.6</b>	<b>6.0</b>
<i>As % Of Net Income</i>	<i>82.9</i>	<i>81.1</i>	<i>85.1</i>	<i>83.8</i>	<i>85.3</i>	<i>237bps</i>	<i>154bps</i>
Provisions	84	238	137	722	308	265.8	-57.3
PBT	2,045	1,980	2,339	1,980	2,557	25.0	29.1
Total Tax	530	322	504	399	556	4.8	39.2
<b>Reported PAT</b>	<b>1,515</b>	<b>1,658</b>	<b>1,835</b>	<b>1,581</b>	<b>2,002</b>	<b>32.1</b>	<b>26.6</b>
Adjusted PAT	1,515	1,658	1,835	1,581	2,002	32.1	26.6
Adjusted EPS	11.4	12.5	13.8	11.9	15.0	32.1	26.6

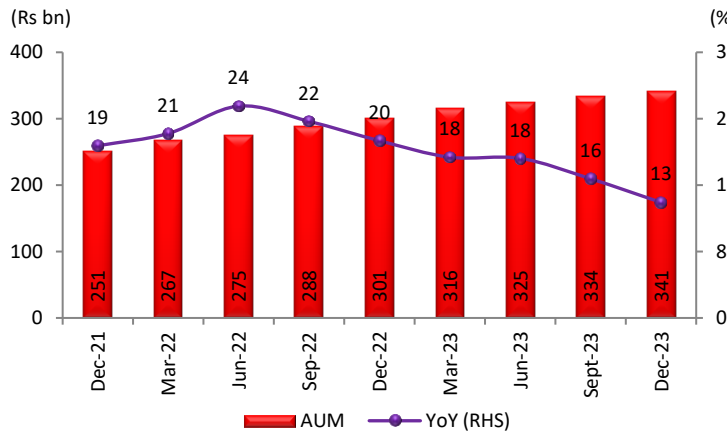
<b>Yield Analysis (%)</b>	<b>3QFY23</b>	<b>4QFY23</b>	<b>1QFY24</b>	<b>2QFY24</b>	<b>3QFY24</b>	<b>YoY (%)</b>	<b>QoQ (%)</b>
Yield on AUM (Calculated)	9.6	9.8	10.2	10.5	10.6	105bps	11bps
Yield on Advances (Calculated)	9.7	9.9	10.3	10.6	10.7	95bps	5bps
Cost of funds (Calculated)	6.1	6.4	6.7	6.7	6.7	57bps	6bps
Cost of borrowing (Calculated)	5.9	6.2	6.5	6.5	6.5	62bps	4bps
NIMs on AUM (Calculated)	3.4	3.4	3.6	3.8	3.9	49bps	5bps

<b>Asset quality (IndAs)</b>	<b>3QFY23</b>	<b>4QFY23</b>	<b>1QFY24</b>	<b>2QFY24</b>	<b>3QFY24</b>	<b>YoY (%)</b>	<b>QoQ (%)</b>
Gross Stage 3	1,811	1,738	2,052	2,545	3,088	70.5	21.4
Net Stage 3	893	829	1,096	1,424	1,674	87.5	17.5
Gross Stage 3 (%)	0.60	0.55	0.63	0.76	0.91	31bps	15bps
Net Stage 3 (%)	0.30	0.26	0.34	0.43	0.49	19bps	6bps
Net NPAs/Net worth (%)	2.5	2.3	2.9	3.6	4.0	149bps	43bps
Provision cover (%)	50.7	52.3	46.6	44.0	45.8	(491bps)	178bps

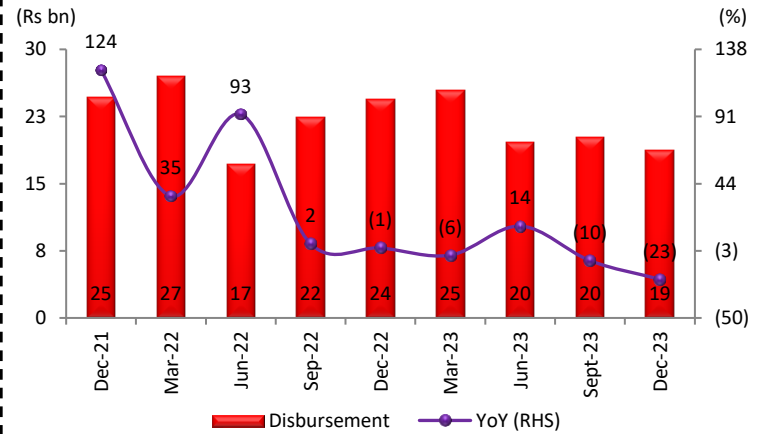
<b>AUM (Rs bn)</b>	<b>3QFY23</b>	<b>4QFY23</b>	<b>1QFY24</b>	<b>2QFY24</b>	<b>3QFY24</b>	<b>YoY (%)</b>	<b>QoQ (%)</b>	<b>% of total</b>
Housing loans	268,690	281,210	289,590	297,230	303,410	12.9	2.1	89.1
Top-up Personal loans	12,820	13,570	14,050	14,570	14,990	16.9	2.9	4.4
Mortgagae loans/Flexilap	15,990	17,040	17,580	17,930	18,190	13.8	1.5	5.3
Loans for sites	2,530	2,650	2,660	2,710	2,810	11.1	3.7	0.8
Others	910	960	960	930	910	0.0	-2.2	0.3
<b>Total</b>	<b>301,150</b>	<b>315,630</b>	<b>325,050</b>	<b>333,590</b>	<b>340,530</b>	<b>13.1</b>	<b>2.1</b>	<b>100</b>

<b>Borrowing (%)</b>	<b>3QFY23</b>	<b>4QFY23</b>	<b>1QFY24</b>	<b>2QFY24</b>	<b>3QFY24</b>
Banks	51.0	53.3	54.0	57.0	60.0
NHB	23.0	22.5	22.0	19.0	19.0
NCD	15.0	17.5	16.0	16.0	15.0
CP	9.0	4.6	7.0	7.0	5.0
Deposit	2.0	1.5	1.0	1.0	1.0

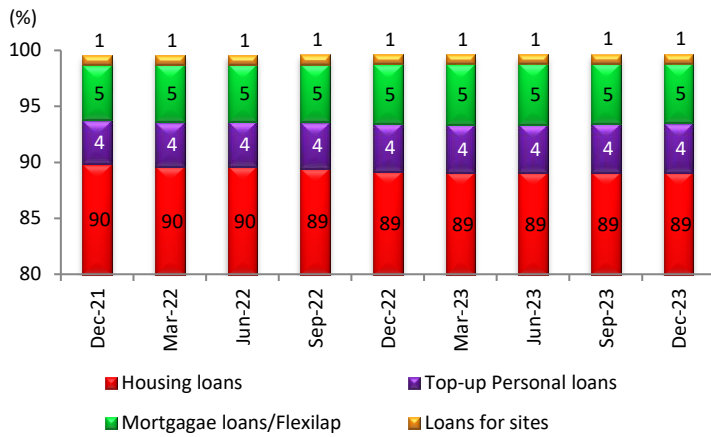
Source: Company, Systematix Institutional Research

**Exhibit 2: AUM growth continue to remain subdued**

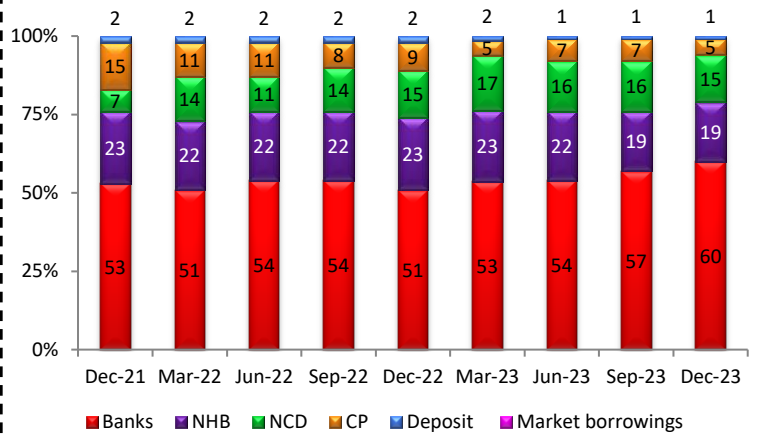
Source: Company, Systematix Institutional Research

**Exhibit 3: ...due to fall in disbursement**

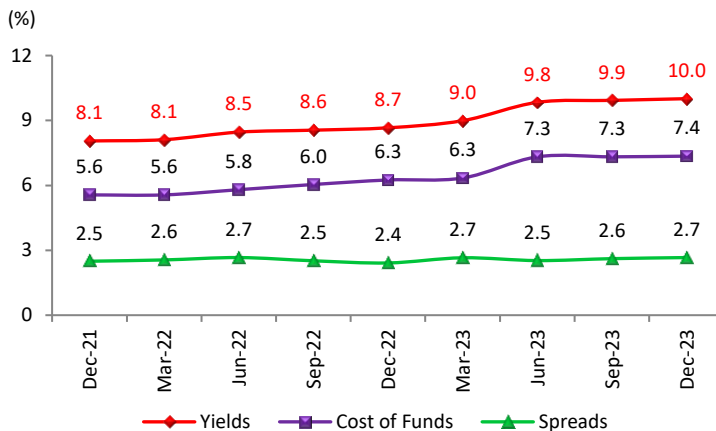
Source: Company, Systematix Institutional Research

**Exhibit 4: Share of housing loans steady at ~89%**

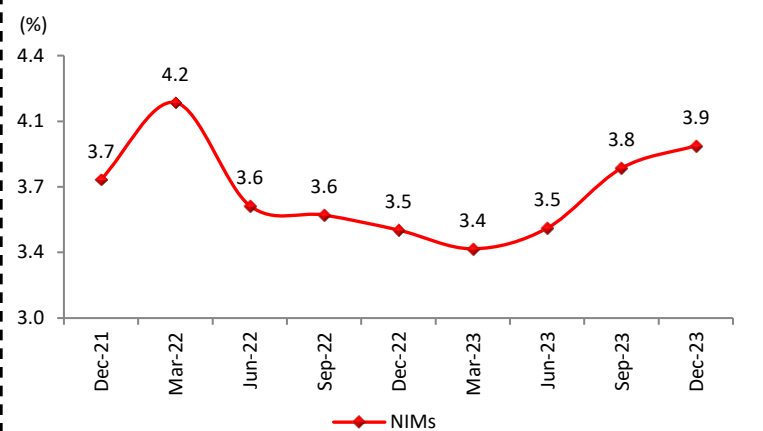
Source: Company, Systematix Institutional Research

**Exhibit 5: Borrowing from banks continue to remain a larger share**

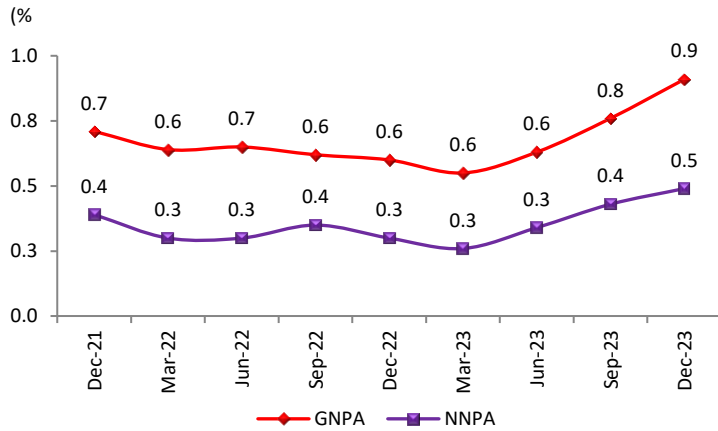
Source: Company, Systematix Institutional Research

**Exhibit 6: Spreads guidance maintained at 2.5%**

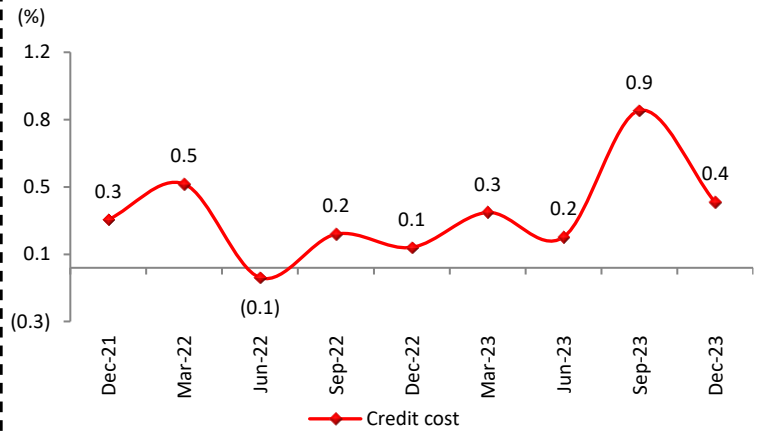
Source: Company, Systematix Institutional Research

**Exhibit 7: Rise in yields resulted in 5bps QoQ NIMs expansion**

Source: Company, Systematix Institutional Research

**Exhibit 8: Asset quality witnessed further deterioration**

Source: Company, Systematix Institutional Research

**Exhibit 9: Credit cost continue to remain higher vs historic levels**

Source: Company, Systematix Institutional Research

**Exhibit 10: Change in estimates**

(Rs bn)	Old Estimates		New Estimates		% Change	
	FY24	FY25	FY24	FY25	FY24	FY25
NII	12.4	14.3	12.7	14.3	2.4	0.5
Operating Profit	10.6	12.2	11.0	12.3	4.2	1.3
PAT	7.3	8.5	7.5	8.8	1.9	3.4
BV	325	384	326	387	0.3	0.8
EPS	55	64	56	66	1.9	3.4

Source: Company, Systematix Institutional Research

# FINANCIALS

## Profit & Loss Statement

YE: Mar (Rs mn)	FY21	FY22	FY23	FY24E	FY25E
Net interest income	7,980	8,162	10,146	12,679	14,322
Other income	121	188	277	303	421
Net Income	8,101	8,350	10,423	12,982	14,743
Operating expenses	1,240	1,530	1,765	1,958	2,416
Preprovision profit	6,861	6,820	8,658	11,024	12,327
Provisions	685	469	418	1,484	1,144
Profit before tax	6,176	6,351	8,240	9,540	11,183
Tax	1,615	1,640	2,028	2,051	2,404
Tax rate	26.2	25.8	24.6	21.5	21.5
Reported Profit after tax	4,561	4,711	6,212	7,489	8,779

Source: Company, Systematix Institutional Research

## Dupont (as % of Average Assets)

YE: Mar	FY21	FY22	FY23	FY24E	FY25E
Interest Income	9.3	7.9	8.9	9.8	9.6
Interest Expense	5.6	4.6	5.6	6.2	6.1
Net Interest Income	3.7	3.3	3.3	3.5	3.5
Other income total	0.1	0.1	0.1	0.1	0.1
Net Income total	3.8	3.3	3.4	3.6	3.6
Operating expenses total	0.6	0.6	0.6	0.5	0.6
Preprovision profit	3.2	2.7	2.8	3.1	3.0
Provisions	0.3	0.2	0.1	0.4	0.3
Profit before tax and exce. items	2.9	2.5	2.7	2.7	2.7
Profit before tax	2.9	2.5	2.7	2.7	2.7
Tax total	0.7	0.7	0.7	0.6	0.6
Profit after tax	2.1	1.9	2.0	2.1	2.1

Source: Company, Systematix Institutional Research

## Growth

YE: Mar (%)	FY21	FY22	FY23	FY24E	FY25E
Net interest income	18.3	2.3	24.3	25.0	13.0
Net Income total	18.0	3.1	24.8	24.6	13.6
Preprovision profit	18.6	-0.6	26.9	27.3	11.8
Profit before tax	19.2	2.8	29.8	15.8	17.2
Profit after tax	21.3	3.3	31.9	20.6	17.2
Loan	6.7	20.5	18.3	17.0	14.5
Disbursement	-21.0	91.1	8.1	-5.8	25.0
AUM	6.8	20.8	18.2	12.2	15.3

Source: Company, Systematix Institutional Research

## Balance Sheet

YE: Mar (Rs mn)	FY21	FY22	FY23	FY24E	FY25E
Equity	266	266	266	266	266
Reserves	25,832	30,400	36,206	43,133	51,252
Net worth	26,098	30,666	36,473	43,399	51,519
Borrowings	192,929	246,477	290,681	334,283	381,082
Others	1,710	2,300	3,551	8,016	9,063
Total liabilities	220,737	279,443	330,705	385,698	441,664
Cash	215	3,241	3,085	3,462	3,991
Investments	496	11,260	14,590	15,586	17,966
Loans	218,915	263,781	311,933	364,908	417,699
Others	733	816	643	1,232	1,420
Total assets	220,737	279,443	330,705	385,698	441,664

Source: Company, Systematix Institutional Research

## Key Ratios

YE: Mar	FY21	FY22	FY23	FY24E	FY25E
Yield on portfolio	9.5	8.2	9.4	10.3	10.2
cost of borrowings	6.4	5.3	6.3	7.1	7.1
Interest Spread	3.1	2.9	3.1	3.2	3.1
NIM (on AUM)	3.7	3.3	3.5	3.8	3.8
Cost/ Income (%)	15.3	18.3	16.9	15.1	16.4
Credit cost (%)	0.3	0.2	0.1	0.4	0.3
RoA(%)	2.1	1.9	2.0	2.1	2.1
RoE(%)	19.2	16.6	18.5	18.8	18.5
Leverage (x)	9.1	8.8	9.1	9.0	8.7
Tier I (%)	23.7	21.6	21.7	22.2	23.0
CAR (%)	26.0	23.2	23.1	23.4	24.1
Gross NPA (%)	0.9	0.6	0.5	0.7	0.7
Net NPA (%)	0.8	0.4	0.3	0.4	0.3
Provision coverage (%)	16.7	36.1	52.3	46.0	53.0

Source: Company, Systematix Institutional Research

## Valuation ratios

YE: Mar	FY21	FY22	FY23	FY24E	FY25E
FDEPS (Rs)	34.2	35.4	46.6	56.2	65.9
PER (x)	22.6	21.9	16.6	13.8	11.7
Book value (Rs)	196.0	230.3	273.9	325.9	386.9
P/BV (Rs)	3.9	3.4	2.8	2.4	2.0
Adjusted book value (Rs)	183.4	222.1	267.2	315.5	376.5
P/ABV (Rs)	4.2	3.5	2.9	2.5	2.1
P/PPP (x)	15.0	15.1	11.9	9.3	8.4
Dividend yield (%)	0.3	0.4	0.5	0.5	0.6

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
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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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](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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