

Shriram Finance

Estimate change	↔
TP change	↑
Rating change	↔

CMP: INR2,307 TP: INR2,700 (+17%) Buy

Operationally healthy quarter even as earnings are in line

NIM rises ~5bp QoQ; PCR increase on S1/S2 keeps credit costs elevated

Bloomberg	SHFL IN
Equity Shares (m)	375
M.Cap.(INRb)/(USDb)	866.7 / 10.4
52-Week Range (INR)	2353 / 1190
1, 6, 12 Rel. Per (%)	12/18/65
12M Avg Val (INR M)	2253

Financials & Valuations (INR b)

Y/E March	FY24E	FY25E	FY26E
Total Income	201	235	278
PPOP	141	168	204
PAT	72.4	83.3	99.4
EPS (INR)	193	222	265
EPS Gr. (%)	21	15	19
Standalone BV (INR)	1,312	1,491	1,709

Valuations

NIM on AUM (%)	9.2	9.0	9.3
C/I ratio (%)	29.7	28.5	26.8
RoA (%)	3.3	3.2	3.2
RoE (%)	15.7	15.9	16.6
Div. Payout (%)	21.6	21.2	21.2

Valuations

P/E (x)	11.9	10.4	8.7
P/BV (x)	1.8	1.5	1.3
Div. Yield (%)	1.8	2.0	2.4

Shareholding pattern (%)

As On	Dec-23	Sep-23	Dec-22
Promoter	25.4	25.5	25.3
DII	15.8	15.2	11.1
FII	54.0	54.7	45.6
Others	4.8	4.5	18.0

FII Includes depository receipts

- Shriram Finance (SHFL)'s 3Q PAT grew 2% YoY to ~INR18.2b (in line), while 9MFY24 PAT rose ~12% YoY. PPOP was up 12% YoY to ~INR36.9b (in line).
- NII grew ~17% YOY to INR49.1b (inline). The reported NIM expanded ~5bp QoQ to ~9%, aided by a higher-yielding product mix. Credit cost of INR12.5b (7% higher than MOSLe) translated into an annualized credit cost of ~2.4% (PQ: 2.3% and PY: 2.1%) led by an increase in PCR on S1/S2 loans.
- Management shared that it does not expect a further rise in its CoB and the higher-yielding products such as PL, 2W, and Gold will continue to grow faster than the CV segment. We model NIMs (on AUM) of 9.2%/9.0%/9.3% for FY24E/FY25E/FY26E.
- Higher cross-selling opportunities for non-vehicle products and improved distribution of investment and insurance offerings should translate into an AUM and PAT CAGR of ~18% each over FY23-26. This will translate into an RoA/RoE of ~3.2%/~17% in FY26.
- As a merged entity, SHFL has positioned itself to capitalize on: 1) the diversified AUM mix; 2) improved access to liabilities; and 3) the enhanced cross-selling opportunities. **Reiterate BUY with a TP of INR2,700 (premised on 1.6x FY26E BVPS).**

AUM rises 21% YoY; strong growth across non-CV product segments

- Disbursements grew ~29% YoY to ~INR346b, and AUM grew ~21% YoY to INR2.14t. Sequential AUM growth of ~6% was driven by strong growth across non-CV segments like 2W (+17% QoQ), PL (+8% QoQ), Gold (up 9% QoQ), MSME (+8% QoQ) and PV (+5% QoQ)
- As the non-CV products (like MSME and Gold) continue to get rolled across more branches, we expect the strong disbursement and AUM growth momentum to sustain. We model an AUM CAGR of ~18% over FY23-26E.

Asset quality continues to improve; increase in S1 and S2 PCR

- GS3/NS3 improved ~15bp QoQ to ~5.7%, while NS3 improved ~10bp QoQ to 2.7%. PCR on S3 improved ~30bp QoQ to ~53%. **SHFL has increased the PCR on S1 loans by ~5bp QoQ and on S2 loans by ~25bp QoQ.**
- Management continued to guide for credit costs of ~2.0%, while our credit cost estimates are marginally higher at ~2.2/2.3% for FY24/25E.

Highlights from the management commentary

- SHFL targets to keep personal loans (PL) less than 6% of the AUM mix. It has a ~3m eligible customer base for personal loans. Going forward, PL should grow at 20-25%.
- Shriram Housing needs an equity capital infusion, and SHFL is exploring all possible options for growth capital in the subsidiary.

Abhijit Tibrewal - Research Analyst (Abhijit.Tibrewal@MotilalOswal.com)

Research Analyst: Nitin Aggarwal (Nitin.Aggarwal@MotilalOswal.com) | Gautam Rawtani (gautam.rawtani@motilalosal.com)

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Valuation and View

- SHFL reported an operationally healthy quarter with a healthy AUM growth across all its products and delivered a further expansion in NIM. It is yet to fully exploit its distribution network for products like MSME and gold loans. As it does this over the next one year, AUM growth in MSME, PL and Gold loans will continue to remain stronger than other segments.
- With an expanded geographical presence and a larger workforce, SHFL can leverage cross-selling opportunities to reach new customers and introduce new products, leading to an improved operating metrics and a solid foundation for sustained growth. The current valuation of 1.3x FY26E BVPS is attractive for an 18% PAT CAGR over FY23-26E and an RoA/RoE of ~3.2%/17.0% in FY26E.
Reiterate BUY with a TP of INR2,700 (based on 1.6x FY26E BVPS).

Quarterly Performance

(INR m)

Y/E March	FY23				FY24E				FY23	FY24E	3QFY24E	v/s Est.
	1Q	2Q	3Q	4Q	1Q	2Q	3Q	4Q				
Interest Income	67,796	70,024	73,099	74,232	76,880	82,166	86,179	90,484	2,86,074	3,35,708	86,520	0
Interest Expenses	29,516	32,249	31,178	32,422	34,875	36,219	37,069	39,585	1,25,458	1,47,748	38,138	-3
Net Interest Income	38,280	37,775	41,921	41,810	42,004	45,947	49,110	50,899	1,60,616	1,87,960	48,382	2
YoY Growth (%)	33.8	24.2	30.8	19.9	20.0	21.6	17.1	21.7	27.5	17.0	15.4	
Other Income	2,237	4,162	3,022	3,460	3,167	3,479	3,094	3,306	11,955	13,045	3,550	
Total Income	40,517	41,937	44,944	45,270	45,171	49,426	52,204	54,205	1,72,571	2,01,005	51,932	1
YoY Growth (%)	31.8	29.6	28.9	21.1	22.0	17.9	16.2	19.7	27.5	16.5	15.5	
Operating Expenses	10,841	11,999	11,928	14,459	13,908	14,618	15,311	15,840	49,131	59,677	14,917	3
Operating Profit	29,676	29,938	33,016	30,810	31,262	34,808	36,893	38,364	1,23,441	1,41,328	37,015	0
YoY Growth (%)	32.3	30.4	31.4	13.9	17.3	16.3	11.7	24.5	26.5	14.5	12.1	
Provisions & Loan Losses	11,597	8,976	9,173	11,846	8,786	11,286	12,497	11,609	41,592	44,177	11,688	7
Profit before Tax	18,079	20,962	23,844	18,964	22,476	23,523	24,396	26,756	81,849	97,151	25,327	-4
Tax Provisions	4,690	5,411	6,074	5,881	5,722	6,014	6,213	6,824	22,056	24,773	6,458	-4
Net Profit	13,390	15,551	17,770	13,083	16,754	17,508	18,183	19,931	59,793	72,377	18,869	-4
YoY Growth (%)	254.3	47.6	82.6	-5.8	30.8	12.6	2.3	52.3	57.7	21.0	6.2	
Key Parameters (Calc., %)												
Yield on loans	16.9	16.9	16.9	16.4	16.2	16.6	16.5	16.5				
Cost of funds	7.9	8.3	8.0	8.3	8.7	8.9	8.7	8.7				
Spread	9.0	8.5	8.9	8.0	7.5	7.8	7.9	7.8				
NIM	9.5	9.1	9.7	9.2	8.9	9.3	9.4	9.3				
C/l ratio	26.8	28.6	26.5	31.9	30.8	29.6	29.3	29.2				
Credit cost	2.9	2.2	2.1	2.6	1.9	2.3	2.4	2.1				
Tax rate	25.9	25.8	25.5	31.0	25.5	25.6	25.5	25.5				
Balance Sheet Parameters												
Disbursements (INR b)	246	258	292	311	305	346	378	390				
Growth (%)	42.3	21.1	26.5	26.7	23.8	34.2	29.2	25.4				
AUM (INR b)	1,630	1,694	1,775	1,857	1,932	2,026	2,142	2,248				
Growth (%)	9.4	11.4	13.2	17.7	18.6	19.7	20.7	21.1				
Borrowings (INR b)	1,521	1,582	1,533	1,579	1,619	1,653	1,775	1,877				
Growth (%)	15.7	17.1	7.7	8.8	6.4	4.5	15.7	18.9				
Asset Quality Parameters												
GS 3 (INR B)	101.3	105.8	110.6	113.8	115.1	115.6	119.5	0.0				
GS 3 (%)	6.3	6.3	6.3	6.2	6.0	5.8	5.7	0.0				
NS 3 (INR B)	52.1	53.9	54.5	56.7	54.6	54.2	55.7	0.0				
NS 3 (%)	3.4	3.4	3.3	3.3	3.1	2.9	2.8	0.0				
PCR (%)	48.6	49.1	50.7	50.1	52.5	53.1	53.4	0.0				

E: MOFSL estimates



Highlights from the management commentary

Performance update

- Encouraging quarter; multi-products being offered across the branch network;
- AUM grew 21% YoY/6% QoQ to INR2.14t. 3QFY24 disbursements stood at ~INR378b and grew 29% YoY
- Reported NIM was at ~9% (PY: 8.52% and PQ: 9.93%). Cost-to-income ratio stood at ~25.7% during the quarter.

Guidance

- Management does not expect the CoB to rise any further. With a change in product mix and the ability to pass on the higher borrowing costs, it expects to be able to hold on to the NIM of 8.9%.
- Guided for a 12-15% growth in CV; does not expect elections to impact the CV growth which depends on infrastructure and economic activity
- Continued to guide for full-year credit costs of ~2%. Does not anticipate it to inch up as the proportion of 2W and personal loans increase in the AUM mix.
- Guided for ~20% AUM growth in FY24, and it provided a longer-term AUM growth guidance of ~15%
- SHFL will keep personal loans below 6% of the AUM mix. SHFL has a 3m eligible customer base (based on income sources and credit track record) for personal loans. Going forward, personal loans should grow at 20-25%

Asset quality

- The company's 3QFY24 write-offs stood at INR7.25b, and ECL provisions were at INR5.25b (mainly on Stage 1 assets)
- Stage 1 provisions have gone up in MSME, 2W and PL segments. Provision requirement depends on the LGD/PD assumptions.

Liabilities

- Total liabilities stood at INR1.77t. ECB stood at ~13% and Bank Loans stood at ~28% in the borrowing mix
- Portfolio wtd. average CoB stood at 8.96% (has gone up by 9bp QoQ)
- Incremental borrowings stood at INR240b (v/s INR210b in 2QFY24) and incremental CoB stood at 8.95% (PQ: 8.7%)
- Fully-hedged cost of the ECB will be 9.5% and after grossing up it will be ~10%.
- After the RBI RWA circular, though 2-3 banks have increased their lending rates, most of the other banks have said that only on incremental lending they will increase the rates. Management does not see any significant rise in the borrowing costs from banks or debt markets.

Personal loans

- About 99% of the incremental personal loans are disbursed to 2W customers or repeat customers who have completed 2W or personal loans.

Comments on the economy

- Rural economy and monsoons: The Rabi crop sown in the country was 4.4% higher than the previous Rabi season. Expects healthy rural economy going forward.
- Government spending on infrastructure continues to remain strong
- Strong rural and semi-urban demand for 2W
- Both rural activity and agri-income will continue to grow, which will result in better mechanized farming demand and robust demand for credit

Shriram Housing

- Co-lending with one PSU Bank and one Private Banks. Total DA and co-lending volume was 20-21% of the total AUM.
- Looking for capital infusion in Shriram Housing; Looking at all possible options for growth capital in Shriram Housing
- HFC is focused on only eight states and it will be looking to add one more state in this fiscal. All HFC branches are exclusive to the HFC subsidiary.
- Strategy of focusing and going deep into the respective territories has helped it demonstrate strong AUM growth. Going forward, the AUM growth might moderate to ~25-30%.
- Shriram Housing has 3,500 employees

Others

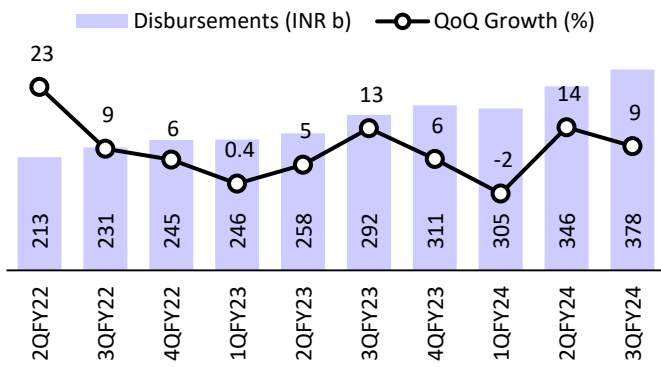
- In 2W, additional growth is coming from states of Odisha, WB, North East, and Parts of UP where SCUF did not have a distribution network. QoQ growth in 2W was stronger because of the festive season.
- Gold loans have been introduced in ~600 CV branches but they have not reached the full potential as yet. Expects to introduce gold loans in another ~600 CV branches next year
- Gold and MSME will continue to grow strongly; the strong growth in PL was because of the expanded network and distribution
- Tied up with PayTM for doing merchant loans but the company is still finding its way around; It has not fully scaled up as yet
- Demand from both personal mobility vehicles and commercial passenger vehicles have been strong and is helping it grow faster in passenger vehicles
- Added 156 branches in the last 12 months, which is a combination of conversion of rural centers and new branches
- It does have a large bus segment which it finances; it does not lend much to Tourist buses and normal transportation buses where the government has monopoly.
- Has a reasonably large portfolio of school buses but it came to a standstill post-Covid. Average ticket size will be INR250K-300K for used buses.
- MSME ticket size is still INR600-800K and there is no change in tenor

LGD stands at 41.45%

	EAD (%)	PCR (%)	PD (%)
Stage 1	87.3%	3.1%	7.89%
Stage 2	7.0%	7.1%	18.25%
Stage 3	5.7%	53.4%	

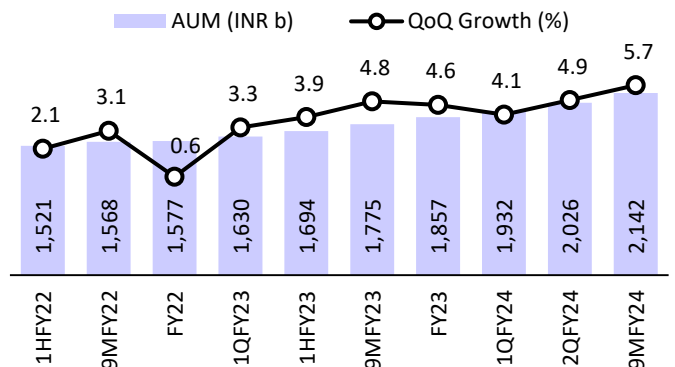
Key exhibits

Exhibit 1: Disbursements grew 29% YoY...



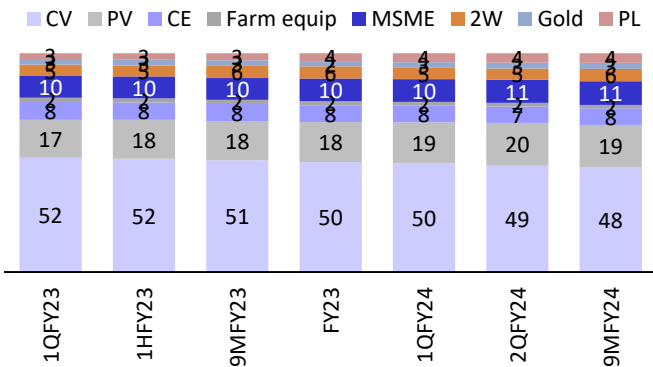
Source: MOFSL, Company

Exhibit 2: ...leading to an AUM growth of 21% YoY



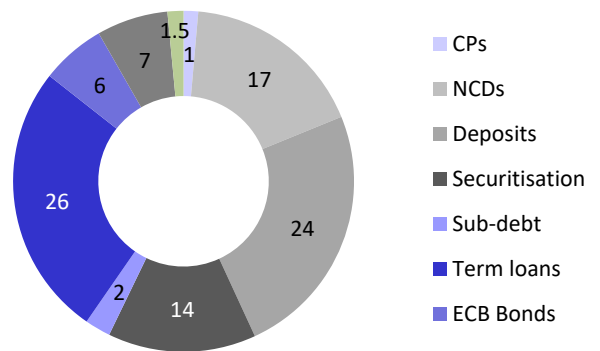
Source: MOFSL, Company

Exhibit 3: Non-Auto contributed ~18% to the AUM mix (%)



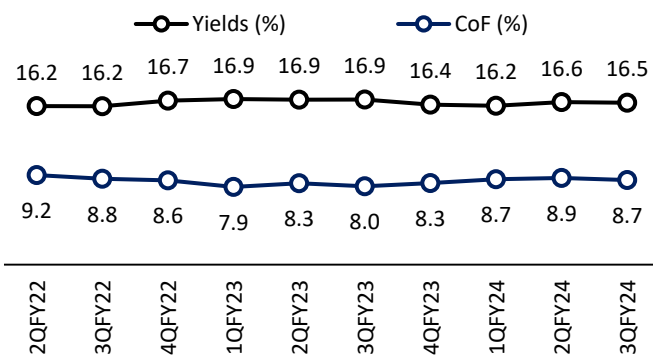
Source: MOFSL, Company

Exhibit 4: Borrowing mix (%)



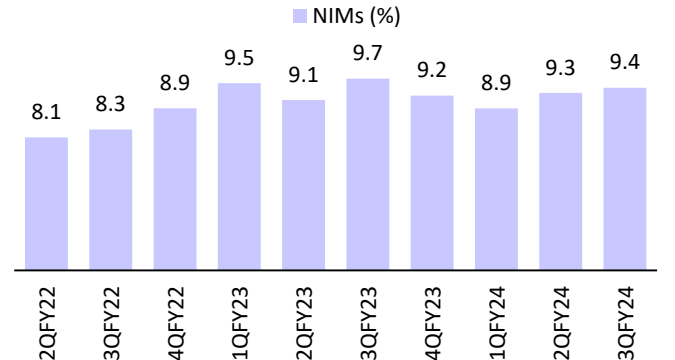
Source: MOFSL, Company

Exhibit 5: CoF (calc.) declined ~20bp QoQ (%)



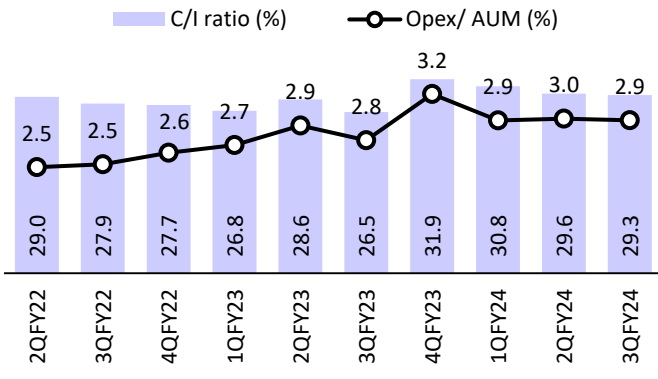
Source: MOFSL, Company

Exhibit 6: NIM (calc.) expanded ~10bp QoQ (%)



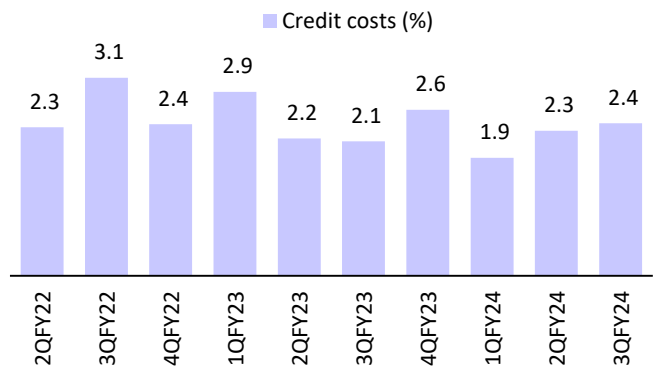
Source: MOFSL, Company

Exhibit 7: Cost-to-Income ratio improved ~20bp QoQ



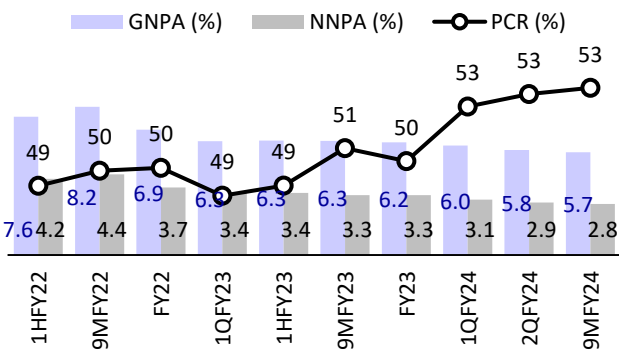
Source: MOFSL, Company

Exhibit 8: Credit costs rose ~10bp QoQ



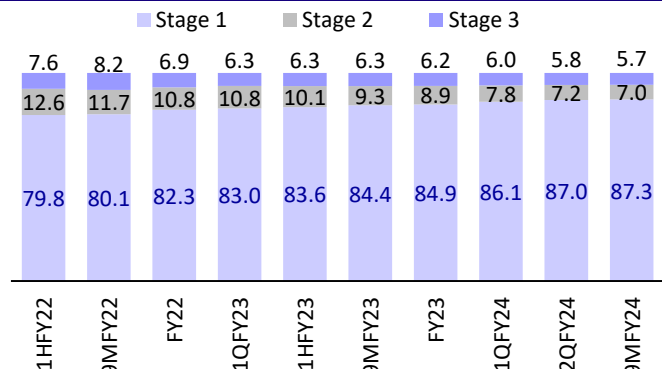
Source: MOFSL, Company

Exhibit 9: Asset quality continued to improve



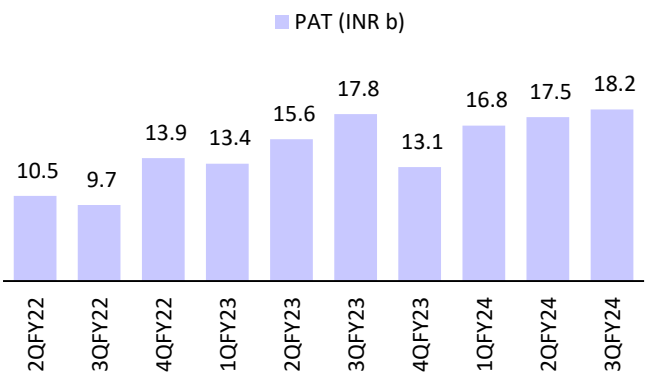
Source: MOFSL, Company

Exhibit 10: Gradual improvement in 30+ dpd (%)



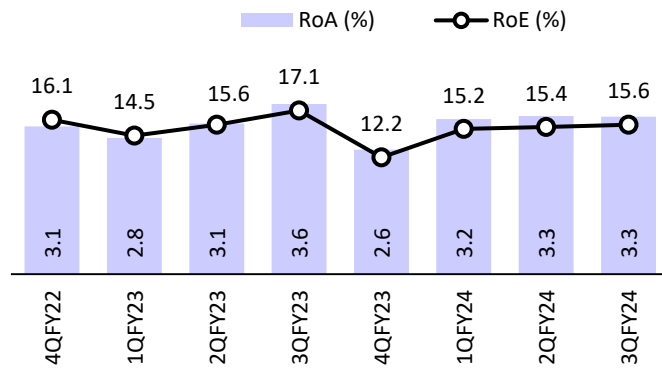
Source: MOFSL, Company

Exhibit 11: PAT grew 2% YoY



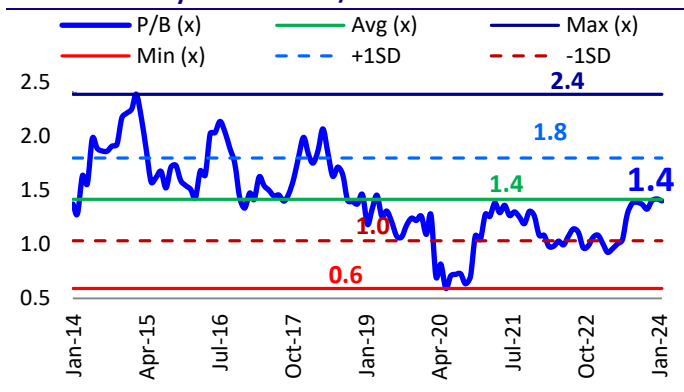
Source: MOFSL, Company

Exhibit 12: 3QFY24 RoA remained stable at ~3.3%



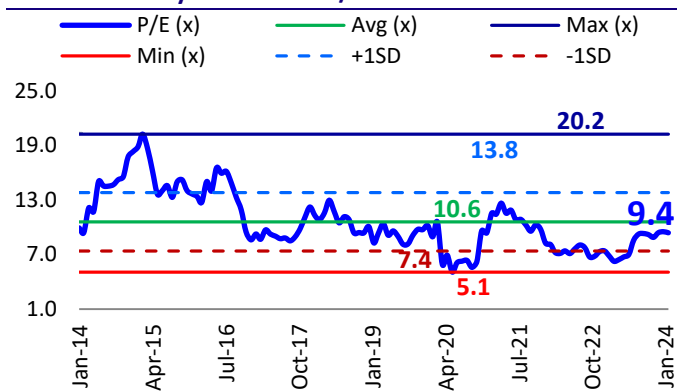
Source: MOFSL, Company, Reported

Exhibit 1: One-year forward P/B



Source: MOSL, Company

Exhibit 2: One-year forward P/E



Source: MOSL, Company

Exhibit 3: Our earnings estimates are largely unchanged

(INR b)	Old Est.			New Est.			Change (%)		
	FY24E	FY25E	FY26E	FY24E	FY25E	FY26E	FY24E	FY25E	FY26E
NII (incl. assignments)	186.4	220.0	260.7	188.0	220.7	263.2	0.9	0.3	1.0
Other Income	14.1	15.0	15.9	13.0	13.9	14.8	-7.2	-7.1	-7.0
Total Income	200.4	235.0	276.6	201.0	234.6	278.1	0.3	-0.2	0.5
Operating Expenses	59.3	66.5	74.1	59.7	66.9	74.5	0.7	0.6	0.6
Operating Profits	141.1	168.5	202.5	141.3	167.7	203.5	0.1	-0.5	0.5
Provisions	42.7	56.6	67.6	44.2	55.9	70.1	3.4	-1.3	3.8
PBT	98.4	112.0	135.0	97.2	111.8	133.4	-1.3	-0.1	-1.1
Tax	25.1	28.5	34.4	24.8	28.5	34.0	-1.3	-0.1	-1.1
PAT	73.3	83.4	100.5	72.4	83.3	99.4	-1.3	-0.1	-1.1
AUM	2,234	2,622	3,017	2,248	2,647	3,044	0.6	0.9	0.9
Loans	2,079	2,447	2,959	2,089	2,471	2,986	0.5	1.0	0.9
Borrowings	1,854	2,202	2,624	1,877	2,223	2,648	1.2	0.9	0.9
NIM	9.1	9.1	9.2	9.2	9.0	9.3			
Credit Cost (%)	2.3	2.5	2.5	2.3	2.5	2.6			
RoA	3.3	3.2	3.3	3.3	3.2	3.2			
RoE	15.8	15.9	16.7	15.7	15.9	16.6			

Sources: MOFSL, Company

Financials and valuation

Income Statement									(INR m)
Y/E March	FY19	FY20	FY21	FY22	FY23	FY24E	FY25E	FY26E	
Interest Income	2,10,407	2,19,646	2,26,997	2,48,605	2,86,074	3,35,708	4,03,518	4,82,926	
Interest Expenses	94,975	1,04,105	1,11,881	1,22,668	1,25,458	1,47,748	1,82,865	2,19,683	
Net Interest Income	1,15,432	1,15,541	1,15,116	1,25,936	1,60,616	1,87,960	2,20,654	2,63,243	
Change (%)	12.7	0.1	-0.4	9.4	27.5	17.0	17.4	19.3	
Other Operating Income	2,605	4,748	4,514	9,214	11,648	12,713	13,523	14,390	
Other Income	258	235	237	227	307	332	382	439	
Total Income	1,18,295	1,20,524	1,19,867	1,35,378	1,72,571	2,01,005	2,34,558	2,78,072	
Change (%)	11.3	1.9	-0.5	12.9	27.5	16.5	16.7	18.6	
Total Operating Expenses	33,666	35,803	33,500	37,805	49,131	59,677	66,889	74,531	
Change (%)	12.6	6.3	-6.4	12.8	30.0	21.5	12.1	11.4	
Employee Expenses	17,210	18,585	16,699	19,695	25,061	32,529	37,409	43,020	
Depreciation	742	2,232	2,172	2,137	5,242	5,684	5,870	6,012	
Other Operating Expenses	15,715	14,986	14,629	15,973	18,828	21,464	23,610	25,499	
Operating Profit	84,629	84,721	86,367	97,573	1,23,441	1,41,328	1,67,669	2,03,541	
Change (%)	10.8	0.1	1.9	13.0	26.5	14.5	18.6	21.4	
Total Provisions	31,643	36,786	39,693	47,485	41,592	44,177	55,854	70,120	
% Loan loss prov.to Avg loans ratio	2.5	2.7	2.8	3.1	2.4	2.3	2.5	2.6	
PBT	52,986	47,935	46,674	50,088	81,849	97,151	1,11,815	1,33,422	
Tax Provisions	17,457	12,913	11,692	12,164	22,056	24,773	28,513	34,023	
Tax Rate (%)	32.9	26.9	25.1	24.3	26.9	25.5	25.5	25.5	
PAT	35,529	35,022	34,982	37,925	59,793	72,377	83,302	99,399	
Change (%)	12.0	-1.4	-0.1	8.4	57.7	21.0	15.1	19.3	

Balance Sheet									(INR m)
Y/E March	FY19	FY20	FY21	FY22	FY23	FY24E	FY25E	FY26E	
Equity Share Capital	2,929	2,929	3,191	3,371	3,744	3,744	3,744	3,744	
Reserves & Surplus	2,17,432	2,47,288	2,91,764	3,43,760	4,29,322	4,87,471	5,54,427	6,36,208	
Net Worth	2,20,361	2,50,217	2,94,954	3,47,132	4,33,066	4,91,216	5,58,172	6,39,952	
Borrowings	11,04,851	11,75,376	13,17,617	14,51,285	15,79,063	18,77,030	22,23,080	26,47,950	
Change (%)	6.7	6.4	12.1	10.1	8.8	18.9	18.4	19.1	
Other liabilities	21,865	25,436	26,317	23,320	24,509	26,960	29,656	32,622	
Total Liabilities	13,47,077	14,51,029	16,38,888	18,21,754	20,36,639	23,95,205	28,10,908	33,20,524	
Cash and bank balances	52,657	1,03,773	2,16,562	2,29,679	1,58,174	1,36,328	1,63,480	1,50,872	
Investments	48,653	35,326	42,152	86,455	85,651	91,646	89,813	88,017	
Loans	12,37,406	12,88,442	13,57,232	14,76,890	17,19,846	20,88,527	24,71,004	29,85,792	
Change (%)	6.2	4.1	5.3	8.8	16.5	21.4	18.3	20.8	
Fixed Assets	2,283	7,181	6,599	6,467	19,834	20,826	21,867	22,961	
Deferred tax Assets	1,241	694	6,964	9,109	17,439	15,695	14,126	11,301	
Goodwill					14,067	14,067	14,067	14,067	
Other Assets	4,838	15,613	9,379	13,137	21,627	28,115	36,550	47,515	
Total Assets	13,47,077	14,51,029	16,38,888	18,21,737	20,36,639	23,95,205	28,10,908	33,20,524	

Financials and valuation

Ratios						(INR m)		
Y/E March	FY19	FY20	FY21	FY22	FY23	FY24E	FY25E	FY26E
Spreads Analysis (%)								
Avg. Yield on Loans	17.5	17.4	17.2	17.5	17.9	17.6	17.7	17.7
Avg Cost of Funds	8.9	9.1	9.0	8.9	8.3	8.6	8.9	9.0
Spread of loans	8.6	8.3	8.2	8.7	9.6	9.1	8.8	8.7
NIM (on loans)	9.6	9.1	8.7	8.9	10.0	9.9	9.7	9.6
NIM (on AUM)	9.0	8.5	8.1	8.3	9.4	9.2	9.0	9.3
C/I ratio	28.5	29.7	27.9	27.9	28.5	29.7	28.5	26.8
Profitability Ratios (%)								
RoE	17.3	14.9	12.8	11.8	15.3	15.7	15.9	16.6
RoA	2.7	2.5	2.3	2.2	3.1	3.3	3.2	3.2
Int. Expended / Int.Earned	45.1	47.4	49.3	49.3	43.9	44.0	45.3	45.5
Other Inc. / Net Income	2.4	4.1	4.0	7.0	6.9	6.5	5.9	5.3
Efficiency Ratios (%)								
Op. Exps. / Net Income	28.5	29.7	27.9	27.9	28.5	29.7	28.5	26.8
Empl. Cost/Op. Exps.	51.1	51.9	49.8	52.1	51.0	54.5	55.9	57.7
Asset-Liability Profile (%)								
Loans/Borrowings Ratio	1.1	1.1	1.0	1.0	1.1	1.1	1.1	1.1
Assets/Equity	6.1	5.8	5.6	5.2	4.7	4.9	5.0	5.2
Asset quality (%)								
GNPA	1,11,930	1,14,400	1,01,688	1,09,762	1,13,822	1,19,322	1,25,965	1,33,761
NNPA	65,678	66,256	51,523	49,731	56,749	59,661	62,982	66,881
GNPA ratio	8.5	8.3	6.9	6.9	6.2	5.4	4.8	4.5
NNPA ratio	5.0	4.8	3.5	3.1	3.1	2.7	2.4	2.2
PCR	41.3	42.1	49.3	54.7	50.1	50.0	50.0	50.0
Credit Costs (% of loans)	2.5	2.7	2.8	3.1	2.4	2.3	2.5	2.6
Valuations								
Book Value (INR)	752	854	924	1,030	1,157	1,312	1,491	1,709
BV Growth (%)	16	14	8	11	12	13	14	15
P/BV	3.1	2.7	2.5	2.2	2.0	1.8	1.5	1.3
EPS (INR)	121	120	110	112	160	193	222	265
EPS Growth (%)	12.0	-1.4	-8.3	2.6	42.0	21.0	15.1	19.3
P/E	19.0	19.3	21.0	20.5	14.4	11.9	10.4	8.7
DPS	14.3	5.2	21.1	23.4	35.0	41.7	47.1	56.1
Dividend Yield (%)	0.6	0.2	0.9	1.0	1.5	1.8	2.0	2.4

E: MOFSL Estimates

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NOTES

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Investment Rating	Expected return (over 12-month)
BUY	>=15%
SELL	< - 10%
NEUTRAL	< - 10 % to 15%
UNDER REVIEW	Rating may undergo a change
NOT RATED	We have forward looking estimates for the stock but we refrain from assigning recommendation

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Email Id: na@motilaloswal.com, Contact No.:022-40548085.

Grievance Redressal Cell:

Contact Person	Contact No.	Email ID
Ms. Hemangi Date	022 40548000 / 022 67490600	query@motilaloswal.com
Ms. Kumud Upadhyay	022 40548082	servicehead@motilaloswal.com
Mr. Ajay Menon	022 40548083	am@motilaloswal.com

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