

July 20, 2024

RESULT REPORT Q1 FY25 | Sector: Banks

HDFC Bank

LDR discussion refuses to abate

Our view – Management plans to reduce LDR faster

Loan to Deposit Ratio - Management stated that it is in the bank's interest to bring down the loan to deposit ratio "faster than anticipated": The bank would be growing advances slower than deposits. However, it was not clarified what the differential would be. Management stated that there is no prescription that the bank is adhering to as far as the LDR is concerned. They reiterated that the focus is on profitable growth.

Balance sheet growth - A differential in the advances and deposits growth is already playing out as we speak: Excluding the impact of the merger, the underlying gross advances growth was 14.9% YoY compared with deposits growth of 16.5% YoY. Management highlighted that there has been an organic rise of 50-60 bps per year in deposits market share for the bank over the past 4 years. Further, the bank's distribution share is 6%, the implication being that its market share is 1.8x of its distribution share.

Asset Quality - Slippages for the quarter amounted to Rs 79bn, indicating a moderate sequential rise in slippages: Slippages had amounted to Rs 73bn in 4Q. For 1QFY25, the annualised slippage ratio was 1.3%. Provisions were Rs 26.0bn, down by -80.7% QoQ and -9.0% YoY, translating to calculated annualised all-inclusive credit cost of 42bps. During 4QFY24, the bank had an AIF provision write-back of Rs 1.85bn but had made a floating provision of Rs 109bn.

Net Interest Margin - Margin remains within a relatively tight range since the merger: NIM was at 3.47%, up 3bps QoQ but down -63bps YoY. Management stated that rates are not going to be the predominant driver for customer engagement. Unsecured loans have grown at a slower pace than peers, which is a conscious call.

We maintain a recently-assigned cautious ADD rating with a revised price target of Rs 1925: We value the standalone bank at 2.3x FY26 P/BV for an FY25E/26E RoE profile of 14.5/15.9%. We assign a value of Rs 216 per share to the subsidiaries, on SOTP.

(See Comprehensive con call takeaways on page 2 for significant incremental colour.)

Result Highlights (See "Our View" above for elaboration and insight)

- **Opex control (QoQ Comparable):** Total opex fell/rose -7.5%/18.2% QoQ/YoY, employee exp. fell/rose -15.7%/22.3% QoQ/YoY and other exp. fell/rose -2.4%/16.1% QoQ/YoY
- **Fee income:** Fees and commissions were up -11.8% QoQ, where retail fee income constitutes 93% of the total fee income

Exhibit 1: Result table

Particulars (Rs mn)	Q1 FY25	Q4 FY24	% qoq	Q1 FY24	% yoy [^]
Total Interest Income	730,331	714,728	2.2	485,868	50.3
Interest Expense	(431,960)	(423,959)	1.9	(249,877)	72.9
Net Interest Income	298,371	290,768	2.6	235,991	26.4
Fee Income	84,500	91,300	(7.4)	75,990	11.2
Non-fee Income	22,181	90,363	(75.5)	16,309	36.0
Total Non-Interest Income	106,681	181,663	(41.3)	92,299	15.6
Total Income	405,052	472,431	(14.3)	328,289	23.4
Employee Expense	(58,489)	(69,362)	(15.7)	(47,821)	22.3
Non-employee Opex	(107,717)	(110,326)	(2.4)	(92,748)	16.1
Total Operating expenses	(166,206)	(179,688)	(7.5)	(140,569)	18.2
PPOP	238,846	292,742	(18.4)	187,720	27.2
Provisions	(26,021)	(135,116)	(80.7)	(28,600)	(9.0)
PBT	212,826	157,626	35.0	159,120	33.8
Tax	(51,078)	7,493	(781.7)	(39,602)	29.0
PAT	161,747	165,119	(2.0)	119,518	35.3

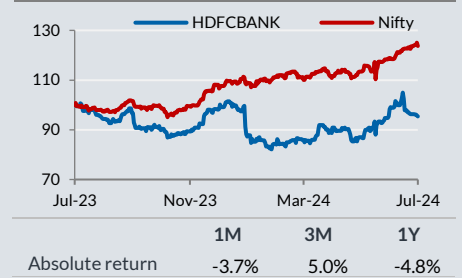
Source: Company, YES Sec-Research, [^]The YoY growth numbers are based on a non-comparable base

Recommendation	: ADD
Current Price	: Rs 1,607
Target Price	: Rs 1,925
Potential Return	: +19.8%

Stock data (as on July 19, 2024)

Nifty	24,531
52 Week h/l (Rs)	1794 / 1364
Market cap (Rs/USD mn)	12323240 / 147189
Outstanding Shares (mn)	7,608
6m Avg t/o (Rs mn)	32,057
Div yield (%)	1.2
Bloomberg code:	HDFCB IN
NSE code:	HDFCBANK

Stock performance



Shareholding pattern (As of Mar'24 end)

Promoter	0.0%
FII+DII	70.4%
Others	16.1%

Δ in stance

(1-Yr)	New	Old
Rating	ADD	ADD
Target Price	1925	2000

Financial Summary

(Rs mn)	FY24	FY25E	FY26E
NII	1,085,325	1,381,577	1,700,557
PPOP	943,875	1,102,822	1,379,643
Net Profit	608,123	677,093	839,273
Growth (%)	37.9	11.3	24.0
EPS (Rs)	80.0	89.1	110.5
BVPS (Rs)	579.5	651.3	740.4
P/E (x)	17.4	15.6	12.6
P/BV (x)	2.4	2.1	1.9
ROE (%)	15.6	14.5	15.9
ROA (%)	1.9	1.7	1.9
Tier-1 (%)	16.8	16.3	16.0

Δ in earnings estimates

Rs.	FY24E	FY25E	FY26E
EPS (New)	NA	89.1	110.5
EPS (Old)	NA	89.7	110.5
% change	NA	-0.7%	-0.1%

SHIVAJI THAPLIYAL

Head of Research (Overall)
& Lead Sector Research Analyst
shivaji.thapliyal@ysil.in



SIDDHARTH RAJPUROHIT, Analyst

SURAJ SINGHANIA, Associate

COMPREHENSIVE CON-CALL TAKEAWAYS

Openings comments from CEO

- **Comments on deposits**
 - The numbers have fallen short of expectations in the first quarter but this is not entirely new since in the first quarter, seasonality plays a role.
 - That being said, the management was surprised at the period-end numbers and this was driven by the unexpected and transitory flows in the current account business.
 - The velocity of inflows and outflows have increased in the current account business.
 - However, the average numbers look better than the period end numbers.
- **Loan to deposit ratio**
 - The bank would be growing advances slower than deposits.
 - The focus is going to be on profitable growth.
 - It is in the bank's interest to bring down the loan to deposit ratio faster than anticipated.
- **Numbers range-bound**
 - The fact that key numbers have been in a range since the merger shows that the inherent resilience of the merging entities remains intact.

More on the LDR

- There is no prescription that the bank is adhering to as far as the LDR is concerned.
- The bank would like to reduce LDR to a desirable range in 1 year but that is not practical.
- The advances growth registered in 1Q is not a reflection of what the bank wants to do.
- The bank has one of the best relationships in the corporate business.
- **Loan growth**
 - The advances for the bank stood at Rs 24,635 bn, down by -0.9% QoQ but up by 52.5% YoY (last year's base not comparable).

More on deposits growth

- **Traction**
 - The bank added 2.2mn customer relationships during the quarter.
 - The monthly inflows are up 20% YoY across liability products.
 - The deposits were at Rs. 23,791 bn, flat QoQ but up by 24.4% YoY (last year's base not comparable).
- **Deposits market share**
 - The deposits market share has risen about 300 bps from 8% in March 2020 to 11% in March 2024.
 - 50-60 bps of this rise is attributable to the merger.
 - Hence, there has been an organic rise of 50-60 bps per year for the bank.
 - The bank's distribution share is 6%, the implication being that its market share is 1.8x of its distribution share.
 - Furthermore, the business from lower-vintage branches is lower than average, which points to an opportunity to gain.
- **Home loan customers**
 - The bank would like to be the primary savings account bank of its home loan customers.

(Con call takeaways continue on the next page)

- Incrementally, the bank is the primary savings account bank of 85% of its home loan customers.
- As regards the stock of home loans which did not have an HDFC Bank account, the bank has had some success but it would publish numbers regarding this after some more traction.
- **Erstwhile HDFC Limited**
 - About Rs 1.5trn worth of deposits came from the erstwhile HDFC Limited.
 - Some of these which were corporate deposits have flown out.
 - The bank prefers retail branch-driven deposits.
 - Other participants may be willing to pay higher rates to such corporate depositors, but the bank will not be bidding to keep large deposits.

HDB Financial

- The Stage 3 assets ratio remains flat at 1.9%.
- However, the credit cost for HDB Financial has risen due to the heatwave, which impacted the company more due to its significant presence in the hinterland.

Net interest margin

- **NIM for the quarter**
 - NIM was at 3.47%, up 3bps QoQ but down -63bps YoY.
- **PSL compliance**
 - The small and medium farmer category achievement was 9% as of March compared to the target of 10%.
 - **RIDF book**
 - The RIDF book has gone up but this is due to past shortfall.
 - On a YoY basis, the bank has become more compliant.
- **Deposit rates**
 - Rates are not going to be the predominant driver for customer engagement.
 - The deposits of the bank are fairly priced compared with peers.
- **Unsecured loans**
 - Unsecured loans have grown at a slower pace than peers, which is a conscious call.
 - The bank's internal systems have picked up signals early and the bank is happy to slow down this growth, taking a contrarian call to the industry.

Investment portfolio

- Owing to reclassification on investment portfolio (new norms), there has been a post-tax accretion of Rs 4.8bn to the general reserve.

Operating expenses

- **Total opex**
 - Total Opex, at Rs. 166.2 bn, is down by -7.5% QoQ but up by 18.2% YoY.
 - Consequently, cost/income ratio came in at 41%, up by 300bps QoQ but down by -179bps YoY.
 - **Long-term guidance**
 - The previous long-term guidance (invoked but not mentioned on this call) was that in 8-10 years, the cost to income ratio would reach 30% (FY23 Analyst Day).

(Con call takeaways continue on the next page)

- **Strategy**
 - The bank will not compromise on strategic investments like distribution and technology.
 - It would focus on improving efficiency.
- **Staff opex**
 - The staff opex is down by -15.7% QoQ but up by 22.3% YoY.
- **Other opex**
 - Other opex in down by -2.4% QoQ but up by 16.1% YoY.

Subsidiaries

- The bank has stepped distribution for its life insurance, asset management and general insurance subsidiaries.
- At the same time, the bank continues to partitionise open architecture.

Borrowings

- The borrowings have declined Rs 600bn during 1Q.
- Of this, Rs 150bn is due to commercial paper maturing.
- There was a scheduled maturity of Rs 650bn for the year, of which Rs 250bn got paid during the quarter.
- Certain options were exercised to run down more borrowings than were maturing.

Initial claim of EPS accretive nature of merger

- The merger was said to be EPS accretive on Day 1.
- However, economic conditions in terms of liquidity and other factors have changed since then.
- Furthermore, some of the assumptions made such as forbearance on infra borrowings qualifying for funding affordable housing or non-withdrawable deposits turned out differently.
- Pre-merger, the EPS was Rs 21.4 and it now stands at Rs 21.3.

Asset quality

- **Provisions**
 - Provisions were Rs 26.0bn, down by -80.7% QoQ and -9.0% YoY, translating to calculated annualised credit cost of 42bps.
 - During 4QFY24, the bank had an AIF provision write-back of Rs 1.85bn and made a floating provision of Rs 109bn.
- **NPA ratios**
 - GNPA ratio stands at 1.3%, up 9bps QoQ and 16bps YoY while NNPA ratio stands at 0.4%, up 6bps QoQ and 9bps YoY.
- **Slippages**
 - Slippages for the quarter amounted to Rs 79bn, translating to an annualised slippage ratio of 1.3%.
 - Slippages had amounted to Rs 73bn in 4Q.

Exhibit 2: Key quarterly balance sheet / business data

Particulars (Rs mn)	Q1 FY25	Q4 FY24	% qoq	Q1 FY24	% yoy [^]
Gross Advances	24,869,000	25,078,000	(0.8)	22,446,500	10.8
Retail Excl. Agri	12,817,000	12,627,000	1.5	11,632,250	10.2
Commercial & Rural Incl. Agri	8,128,000	8,056,000	0.9	6,428,280	26.4
Corporates & Other Wholesale	4,805,000	5,075,000	(5.3)	5,139,080	(6.5)
IBPC/BRDS	(881,000)	(680,000)	29.6	(753,120)	17.0
Total Deposits	23,790,845	23,797,863	(0.0)	19,130,958	24.4
CA deposits	2,673,000	3,100,000	(13.8)	2,523,000	5.9
SA deposits	5,964,000	5,987,000	(0.4)	5,606,000	6.4
Term deposits	15,153,845	14,710,863	3.0	11,001,958	37.7

Source: Company, YES Sec - Research, [^]The YoY growth numbers are based on a non-comparable unmerged HDFC Bank entity in the case of Deposits

Exhibit 3: Key quarterly ratios

(%)	Q1 FY25	Q4 FY24	chg qoq	Q1 FY24	chg yoy [^]
Net Interest Margin	3.47	3.44	3bps	4.10	-63bps
Yield on Assets	8.40	8.40	0bps	8.10	30bps
Cost of Funds	4.90	4.90	0bps	4.00	90bps
Non-interest income/Total income	26.3	38.5	-1212bps	28.1	-178bps
Fee Income to Avg. Total Assets	0.9	1.0	-9bps	1.2	-28bps
Cost to Income ratio	41.0	38.0	300bps	42.8	-179bps
Opex to Avg. Total Assets	1.9	2.0	-17bps	2.3	-41bps
CASA ratio	36.3	38.2	-188bps	39.4	-308bps
Loan to Deposit ratio	103.5	104.4	-87bps	84.5	1910bps
Capital adequacy ratio	19.3	18.8	53bps	18.9	40bps
Tier I capital ratio	17.3	16.8	50bps	16.9	40bps
Common equity tier 1	16.8	16.3	50bps	16.2	60bps
Annualised Slippage Ratio	1.3	1.2	9bps	1.2	6bps
Provision Coverage Ratio	71.0	74.0	-300bps	75.0	-400bps
RoA [*]	1.9	2.0	-8bps	2.0	-16bps
Gross NPA	1.3	1.2	9bps	1.2	16bps
Net NPA	0.4	0.3	6bps	0.3	9bps

Source: Company, YES Sec - Research, ^{*}Annualised, [^]The YoY change numbers are based on a non-comparable unmerged HDFC Bank entity, except CASA ratio

Exhibit 4: Quarterly Actuals Vs Estimates

Q1FY25 (Rs. mn)	Actuals	Estimates	Diff, %
Net Interest Income	298,371	291,931	2.2
Pre-Prov. Operating Profit	238,846	232,635	2.7
Profit After Tax	161,747	163,999	(1.4)

Source: Company, YES Sec - Research

Exhibit 5: Gross Advances Mix - Quarterly

Particulars (Rs mn)	Q1 FY25	Q4 FY24	% qoq	Q1 FY24	% yoy [^]	Q1 FY25 (%) [*]	chg qoq [*]	chg yoy ^{*^}
Retail Mortgages	7,880,000	7,744,000	1.8	6,927,670	13.7	31.7	81bps	82bps
Personal Loans	1,922,550	1,846,000	4.1	1,767,340	8.8	7.7	37bps	-14bps
Auto & Two Wheeler Loans	1,409,870	1,429,000	(1.3)	1,320,990	6.7	5.7	-3bps	-22bps
Payment Products	1,025,360	1,002,000	2.3	904,360	13.4	4.1	13bps	9bps
Other Retail	579,220	607,000	(4.6)	711,890	(18.6)	2.3	-9bps	-84bps
Total Retail Assets	12,817,000	12,627,000	1.5	11,632,250	10.2	51.5	119bps	-28bps
Total Commercial & Rural	8,128,000	8,056,000	0.9	6,428,280	26.4	32.7	56bps	405bps
Corporates & Other Wholesale	4,805,000	5,075,000	(5.3)	5,139,080	(6.5)	19.3	-92bps	-357bps
IBPC/BRDS	(881,000)	(680,000)	29.6	(753,120)	17.0	(3.5)	-83bps	-19bps
Total Gross Advances	24,869,000	25,078,000	(0.8)	22,446,500	10.8	100.0	0bps	0bps

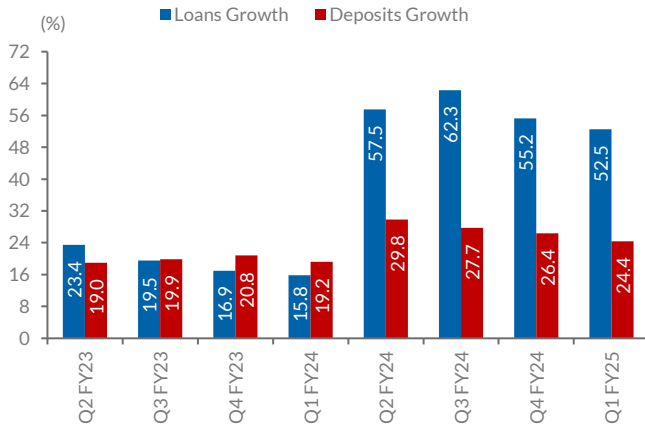
Source: Company, YES Sec – Research, ^{*}Share in total gross advances and change in share, [^]The YoY growth numbers are based on comparable numbers

Exhibit 6: Non-Interest Income Break-up

(Rs mn)	Q1 FY25	Q4 FY24	% qoq	Q1 FY24	% yoy [^]
Fees & commissions	70,500	79,900	(11.8)	62,900	12.1
Foreign exchange & derivatives	14,000	11,400	22.8	13,090	7.0
P/L on sale / revaluation of investments	2,200	75,900	(97.1)	5,520	(60.1)
Miscellaneous income	20,100	14,400	39.6	10,790	86.3
Total Non-Interest Income	106,800	181,600	(41.2)	92,300	15.7

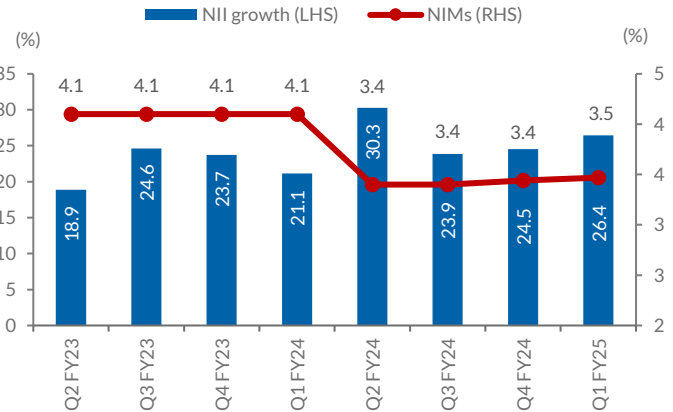
Source: Company, YES Sec – Research, [^]The YoY growth numbers are based on a non-comparable unmerged HDFC Bank entity

Exhibit 7: Loans and Deposits growth (YoY %)



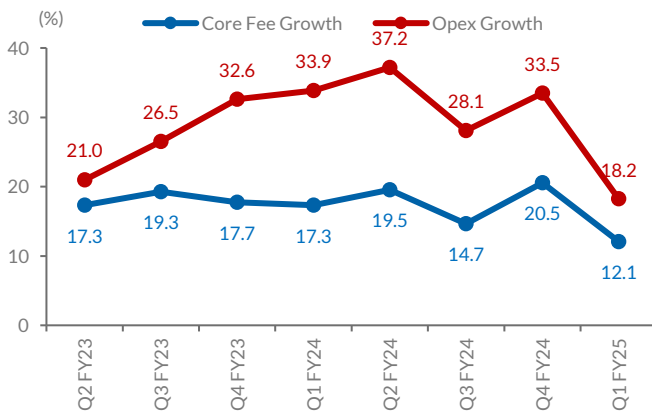
Source: Company, YES Sec – Research

Exhibit 8: NII growth (YoY %) and NIM



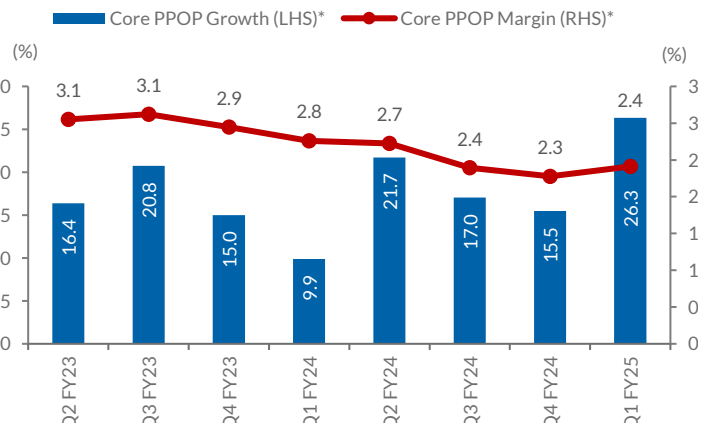
Source: Company, YES Sec – Research

Exhibit 9: Core Fee and Opex growth (YoY %)



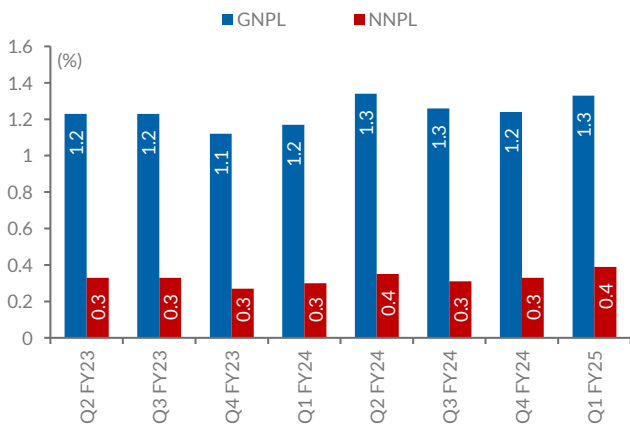
Source: Company, YES Sec – Research

Exhibit 10: Core PPOP growth (YoY %) and Core PPOP margin



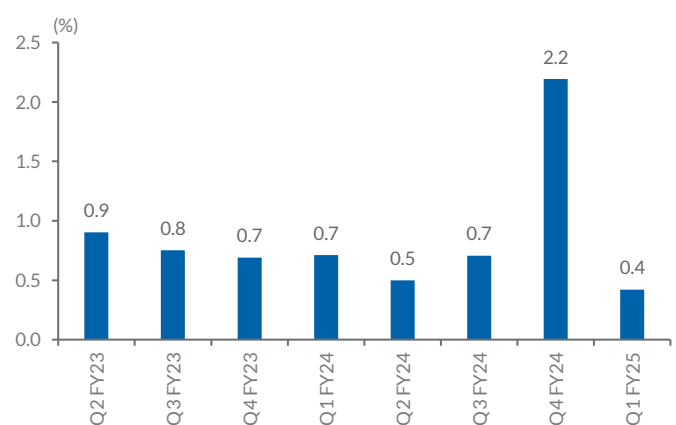
Source: Company, YES Sec – Research, * Core PPOP is derived by adjusting PPOP for gain/loss on sale of investments and misc. income

Exhibit 11: Gross NPA and Net NPA (%)



Source: Company, YES Sec – Research

Exhibit 12: Provisions/Average Advances (%)



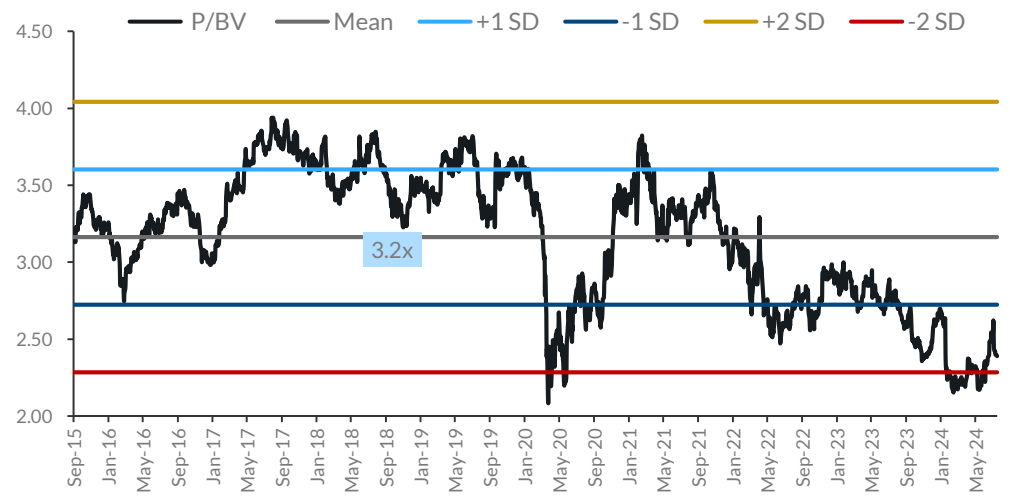
Source: Company, YES Sec – Research

Exhibit 13: 1-year rolling P/BV band



Source: Company, YES Sec - Research, N.B. Valuations in this chart are not adjusted / netted out for subsidiaries' value

Exhibit 14: 1-yr rolling P/BV vis-a-vis the mean and standard deviations



Source: Company, YES Sec - Research, N.B. Valuations in this chart are not adjusted / netted out for subsidiaries' value

ANNUAL FINANCIALS

Exhibit 15: Balance sheet

Y/e 31 Mar (Rs mn)	FY22	FY23	FY24	FY25E	FY26E
Total cash & equivalents	1,523,269	1,937,651	2,191,474	3,116,016	3,583,419
Investments	4,555,357	5,170,014	7,024,150	7,963,523	9,110,783
Advances	13,688,209	16,005,859	24,848,615	28,327,421	32,576,535
Fixed assets	60,837	80,165	113,990	125,389	137,928
Other assets	857,678	1,467,125	1,998,002	2,397,602	2,877,123
Total assets	20,685,351	24,660,815	36,176,231	41,929,952	48,285,787
Net worth	2,400,929	2,801,990	4,402,458	4,948,195	5,624,649
Deposits	15,592,174	18,833,946	23,797,863	27,798,490	32,897,426
Borrowings	1,848,172	2,067,656	6,621,531	5,751,829	4,689,551
Other liabilities	844,075	957,222	1,354,379	3,431,438	5,074,162
Total liabilities incl. Equity	20,685,351	24,660,815	36,176,231	41,929,952	48,285,787

Source: Company, YES Sec – Research

Exhibit 16: Income statement

Y/e 31 Mar (Rs mn)	FY22	FY23	FY24	FY25E	FY26E
Interest income	1,277,531	1,615,855	2,583,406	3,318,175	3,822,192
Interest expense	(557,435)	(747,433)	(1,498,081)	(1,936,599)	(2,121,636)
Net interest income	720,096	868,422	1,085,325	1,381,577	1,700,557
Non-interest income	295,099	312,148	492,410	514,930	590,396
Total income	1,015,195	1,180,570	1,577,735	1,896,507	2,290,953
Operating expenses	(374,422)	(476,521)	(633,860)	(793,685)	(911,310)
PPoP	640,773	704,050	943,875	1,102,822	1,379,643
Provisions	(150,618)	(119,197)	(234,922)	(200,031)	(260,612)
Profit before tax	490,155	584,853	708,953	902,791	1,119,030
Taxes	(120,541)	(143,766)	(100,830)	(225,698)	(279,758)
Net profit	369,614	441,087	608,123	677,093	839,273

Source: Company, YES Sec – Research

Exhibit 17: Du Pont Analysis (RoA tree)

Y/e 31 Mar (Rs mn)	FY22	FY23	FY24	FY25E	FY26E
Interest income	6.7	7.1	7.9	8.5	8.5
Interest expense	-2.9	-3.3	-4.6	-5.0	-4.7
Net interest income	3.8	3.8	3.3	3.5	3.8
Non-interest income	1.5	1.4	1.5	1.3	1.3
Total income	5.3	5.2	4.8	4.9	5.1
Operating expenses	-2.0	-2.1	-1.9	-2.0	-2.0
PPoP	3.4	3.1	2.9	2.8	3.1
Provisions	-0.8	-0.5	-0.7	-0.5	-0.6
Profit before tax	2.6	2.6	2.2	2.3	2.5
Taxes	-0.6	-0.6	-0.3	-0.6	-0.6
Net profit	1.9	1.9	1.9	1.7	1.9

Source: Company, YES Sec – Research

Exhibit 18: Sum of the Parts (SOTP) - Subsidiaries

Subsidiary	Market Cap / Assigned value (Rs mn)	Valuation metric	Metric value (Rs mn)	Trailing multiple (Implied / Assigned)	Stake (%)	Stake value (Rs mn)	Per share (Rs)
HDB Financial Services	456,721	BV	130492	3.5x	95.0%	433,703	57.1
HDFC Securities	59,749	BV	19,916	3.0x	96.3%	57,562	7.6
HDFC AMC	792,762	QAAUM	6,129,049	12.9%	52.6%	416,676	54.8
HDFC Life	1,289,060	EV	474,670	2.7x	50.3%	648,784	85.4
HDFC ERGO	163,165	PE	6,527	25.0x	50.5%	82,398	10.8
Value of Subsidiaries						491,265	215.8

Source: Company, YES Sec – Research

Exhibit 19: Change in Annual Estimates

Y/e 31 Mar (Rs. mn)	Revised Estimate			Earlier Estimate			% Revision		
	FY24E	FY25E	FY26E	FY24E	FY25E	FY26E	FY24E	FY25E	FY26E
Net Interest Income	NA	1,381,577	1,700,557	NA	1,381,558	1,700,550	NA	0.0	0.0
Pre-Prov. Operating Profit	NA	1,102,822	1,379,643	NA	1,109,028	1,380,234	NA	(0.6)	(0.0)
Profit after tax	NA	677,093	839,273	NA	681,747	839,717	NA	(0.7)	(0.1)

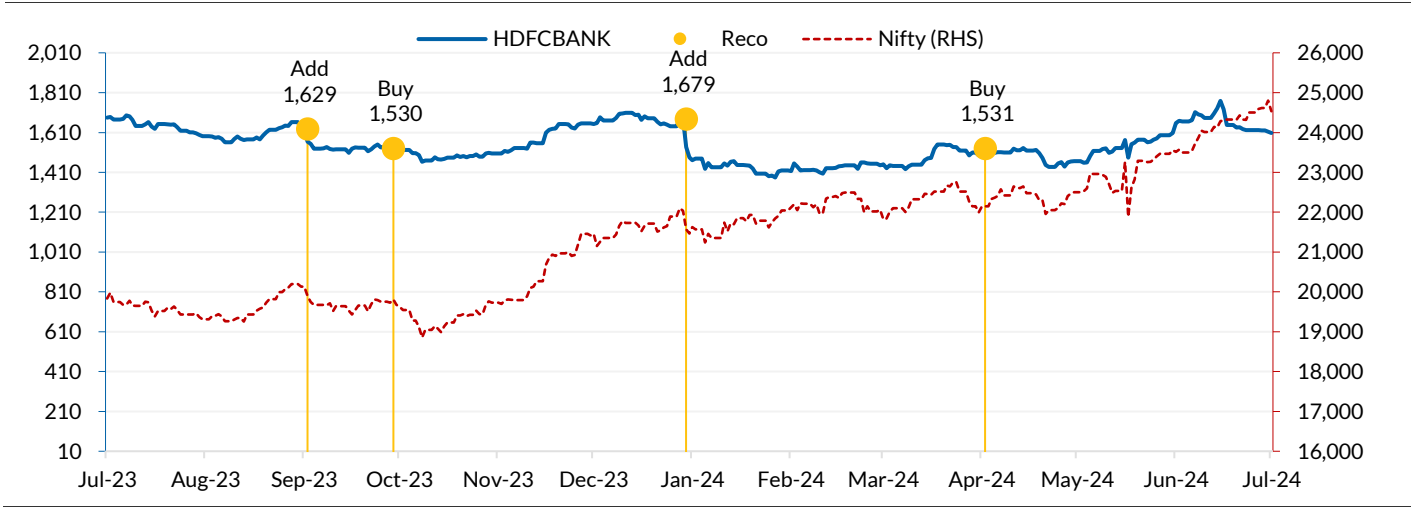
Source: Company, YES Sec – Research

Exhibit 20: Ratio analysis

Y/e 31 Mar	FY22	FY23	FY24	FY25E	FY26E
Growth matrix (%)					
Net interest income	11.0	20.6	25.0	27.3	23.1
PPoP	11.7	9.9	34.1	16.8	25.1
Net profit	18.8	19.3	37.9	11.3	24.0
Loans	20.8	16.9	55.2	14.0	15.0
Deposits	16.8	20.8	26.4	16.8	18.3
Profitability Ratios (%)					
Net interest margin	4.0	4.1	3.5	3.4	3.7
Return on Average Equity	16.7	17.0	15.6	14.5	15.9
Return on Average Assets	1.9	1.9	1.9	1.7	1.9
Per share figures (Rs)					
EPS	66.7	79.1	80.0	89.1	110.5
BVPS	433	502	580	651	740
ABVPS	425	494	569	631	714
Valuation multiples					
P/E	20.9	17.6	17.4	15.6	12.6
P/BV	3.2	2.8	2.4	2.1	1.9
P/ABV	3.3	2.8	2.4	2.2	1.9
NIM internals (%)					
Yield on loans	7.9	8.6	10.1	10.1	10.1
Cost of deposits	3.4	3.6	4.7	5.5	5.5
Loan-deposit ratio	87.8	85.0	104.4	101.9	99.0
CASA ratio	48.2	44.4	38.2	37.0	37.0
Opex control (%)					
Cost/Income ratio	36.9	40.4	40.2	41.8	39.8
Cost to average assets	2.0	2.1	1.9	2.0	2.0
Capital adequacy (%)					
Tier 1 capital ratio	17.9	17.1	16.8	16.3	16.0
Asset quality (%)					
Slippage ratio	2.1	1.7	2.0	1.2	1.2
Gross NPL ratio	1.2	1.1	1.2	1.6	1.6
Credit cost	0.8	0.8	0.5	0.7	0.8
Net NPL ratio	0.3	0.3	0.3	0.6	0.6

Source: Company, YES Sec – Research; Valuations are the implied valuation of standalone entity net of subsidiaries

Recommendation Tracker



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YES Securities (India) Limited

Registered Address: 2nd Floor, North Side, YES BANK House,
Off Western Express Highway, Santacruz East,
Mumbai - 400 055, Maharashtra, India.

Correspondence Address: 7th Floor, Urmi Estate Tower A, Ganpatrao
Kadam Marg, Opp. Peninsula Business Park, Lower Parel (West),
Mumbai - 400 013, Maharashtra, India.

✉ research@ysil.in | Website: www.yesinvest.in

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Details of Compliance Officer: Name: Aditya Goenka,
Email id: compliance@ysil.in, **Contact No:** 022- 65078127 (Extn: 718127)

Grievances Redressal Cell: customer.service@ysil.in/igc@ysil.in

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Name of the Research Analyst : Shivaji Thapliyal, Siddharth Rajpurohit, Suraj Singhania

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