

Despite lower NII/margins, Canara Bank (CBK) posted a 6% beat on earnings at Rs47.5bn/1.14% RoA, mainly aided by higher treasury gains and PSLC fees (Rs12bn), and partly offset by higher provisions as the bank continues to shore-up PCR. Credit growth outpaced expectations at 13.4% YoY/2% QoQ, while deposit growth was soft at 10% YoY/1% QoQ, leading to LDR expansion to 73%. However, the sharp cut in loan yields and sticky CoF caused an 18bps QoQ dip in NIM to 2.55%. CBK's headline asset quality continues to improve, with GNPA ratio down by 25bps QoQ to 2.7% on contained slippages, though SMA 2 inched up a bit due to continued stress in one government account – the mgmt is confident of the account's timely recovery and does not expect it to slip into NPA. We largely uphold our earnings estimate; we expect CBK to deliver healthy RoA of 0.9-1% over FY26-28E. We retain BUY and our TP of Rs130, valuing the SA bank at 0.9x Jun-27E ABV/subs at Rs6/sh. Notably, CBK plans to list its insurance and AMC JV, leading to better value discovery and capital efficiency.

Healthy credit growth, though margins contract due to sticky funding cost

CBK posted healthy credit growth of 13.4% YoY/2% QoQ (owing to strong retail growth and slight pick-up in MSME loans). Due to revised GL norms, the bank expects PSLC outflows to potentially reduce; however, PSLC fees may remain elevated as agri PSLC rates have surged to 3% (from 1.6-1.7%) amid tighter supply. Deposit growth was moderate at 10% YoY/1% QoQ, while CASA ratio declined by 152bps QoQ to 27%; hence the sticky CoF. This, coupled with lower loan yield, led to an 18bps QoQ dip in NIM to 2.55%. The mgmt expects NIM to dip further in Q2FY26 due to a lagged impact of the 50bps rate cut, partly offset by deposit repricing, with improvement likely from H2FY26

Headline asset quality as well as PCR continue to improve

Headline asset quality continues to improve, with GNPA ratio down by 25bps QoQ to 2.7% and NNPA at 0.6%, while slippage ratio was well contained at Rs21.7bn/0.9% of gross loans (lower than our expectation). Specific PCR improved further by 40bps QoQ to 77%, which we believe is positive and should help the bank limit any impact of the ECL norms. While overall SMA book improved to Rs87.5bn/0.8% of gross loans (vs Rs103bn/1% of gross loans in Q4), SMA 2 rose slightly due to stress in one government-backed account (~Rs30bn), which it is confident of recovering. The management endeavors to maintain its GNPA/NNPA ratio below 2.5%/0.6%, respectively, in FY26.

We retain BUY on the stock

We largely retain our earnings estimates and expect the bank to deliver healthy RoA of 0.9-1% over FY26-28E. We retain BUY on CBK with unchanged TP to Rs130, valuing the standalone bank at 0.9x Jun-27E ABV and subs at Rs6/sh. Notably, the bank plans to list its insurance and AMC JV which would lead to better value discovery and capital efficiency. Key risks: Lower than expected growth/margins and ECL implementation.

Target Price – 12M	Jun-26
Change in TP (%)	-
Current Reco.	BUY
Previous Reco.	BUY
Upside/(Downside) (%)	14.0

Stock Data	CBK IN
52-week High (Rs)	119
52-week Low (Rs)	79
Shares outstanding (mn)	9,070.7
Market-cap (Rs bn)	1,030
Market-cap (USD mn)	11,916
Net-debt, FY26E (Rs mn)	NA
ADTV-3M (mn shares)	29
ADTV-3M (Rs mn)	3,371.2
ADTV-3M (USD mn)	39.0
Free float (%)	37.1
Nifty-50	25,062.1
INR/USD	86.4

Shareholding, Jun-25

Promoters (%)	62.9
FPIs/MFs (%)	0.6/22.2

Price Performance

(%)	1M	3M	12M
Absolute	2.6	14.2	0.9
Rel. to Nifty	3.4	9.5	(1.7)

1-Year share price trend (Rs)



Canara Bank: Financial Snapshot (Standalone)

Y/E Mar (Rs mn)	FY24	FY25	FY26E	FY27E	FY28E
Net profit	145,543	170,267	183,514	192,224	198,023
Loan growth (%)	12.2	12.6	10.5	11.3	12.2
NII growth (%)	16.3	1.4	2.2	8.6	12.1
NIM (%)	2.7	2.4	2.2	2.2	2.2
PPOP growth (%)	6.1	6.7	3.7	4.5	4.7
Adj. EPS (Rs)	16.0	18.8	20.2	21.2	21.8
Adj. EPS growth (%)	37.3	17.0	7.8	4.7	3.0
Adj. BV (INR)	77.2	97.7	115.2	131.8	148.5
Adj. BVPS growth (%)	23.6	26.5	18.0	14.4	12.7
RoA (%)	1.0	1.1	1.0	1.0	0.9
RoE (%)	20.2	19.9	18.2	16.6	15.1
P/E (x)	6.7	5.7	5.3	5.1	4.9
P/ABV (x)	1.4	1.1	0.9	0.8	0.7

Source: Company, Emkay Research

Anand Dama

anand.dama@emkayglobal.com
+91-22-66242480

Nikhil Vaishnav

nikhil.vaishnav@emkayglobal.com
+91-22-66242485

Kunaal N

kunaal.n@emkayglobal.com
+91-22-66121275

Key Concall takeaways

Outlook on loans, deposits, and NIM

- The management retained its loan growth guidance of 10-11% for FY26, with the RAM segment expected to grow 15% and corporate by 10%. Further, the bank aims to accelerate MSME growth, targeting >20% YoY expansion, supported by new digital initiatives toward streamlining the disbursement process.
- The retail-to-corporate loan mix, which previously stood at 54:46, has now shifted to 58:42, as targeted by the bank earlier.
- The NBFC portfolio declined sequentially, as the bank prioritized profitable growth and chose not to pursue a specific account due to unfavorable pricing.
- Blended yield on the RAM segment now stands at ~8.7% vs 9.23-9.3% earlier. MCLR rate has come down to 8.75% from 9.15%.
- The bank aims to improve its domestic CASA ratio to 32% by Mar-26, up from the current level of <30%.
- The bank typically receives institutional deposits of ~Rs220-255mn every March, temporarily boosting CA balances in Q4. Consequently, a sequential decline in CASA ratio is observed in Q1 each year.
- Bulk TD maturity profile: 25% in 3M, 25% in 6M, and 50% in 1Y. The first 25% has already been repriced, with the next 25% due for repricing in Q2, and balance 50% shall be spread out in H2FY26.
- The management expects NIM to dip further in Q2FY26, due to a lagged impact of the 50bps rate cut, partly offset by deposit repricing, with improvement likely from H2FY26. The pace of NIM reduction in Q2 shall not be as steep as that seen in Q1.

Asset quality

- Q1 slippages break-up: Agri – Rs6.5bn, Retail – Rs4bn, and MSME – Rs10bn
- SMA-2 is elevated due to two accounts: i) a real estate account in Bengaluru (~Rs20bn), and ii) a state government-backed irrigation project (~Rs30bn), which transitioned from SMA-1 to SMA-2 during Q1. The bank has made provisions of Rs12bn against these two accounts. However, the bank remains confident that neither of these accounts will slip into NPA.
- On the recovery front, the bank has identified eight additional accounts aggregating to ~Rs4bn, for transfer to NARCL. The Board has also approved one-time settlements (OTS) for four accounts, totaling Rs12bn, with repayments expected in Q2. Overall, recoveries in Q2 are expected to be higher than in Q1.
- The bank stated it is adequately prepared for ECL implementation, and that its CRAR is expected to remain above 14% post-transition.

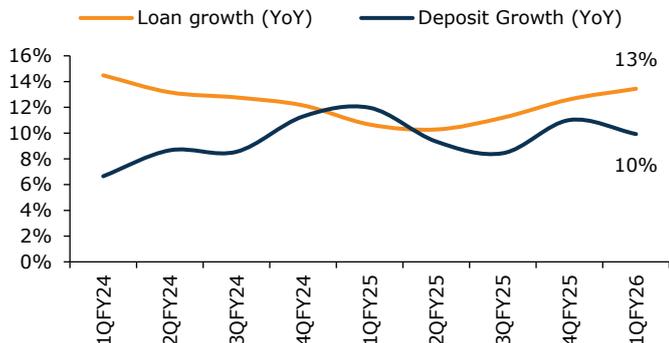
Others

- Two divestments are in the pipeline: Canara Robeco AMC and Canara HSBC Life Insurance, with one expected to be completed in Q2 and the other in Q3.
- The bank has budgeted technology spends of Rs10bn for FY26. Further, the bank has invested Rs1bn in the credit cards platform, as it targets expanding its cards portfolio aggressively.
- A comprehensive cyber security platform is under development, alongside an end-to-end digital lending platform for the RAM segment which is expected to go live by Mar-26.
- Only ~16% of the new business is sourced through DSAs, resulting in lower fee payouts versus peers.

This report is prepared for Team White Marquee Solutions (team.emkay@whitemarquesolutions)

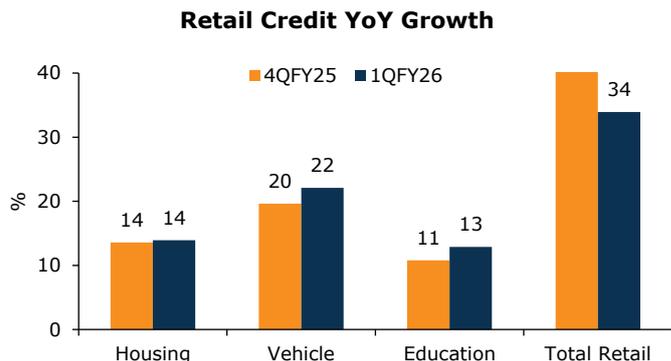
Story in Charts

Exhibit 1: Credit growth was healthy, though deposit growth moderated slightly



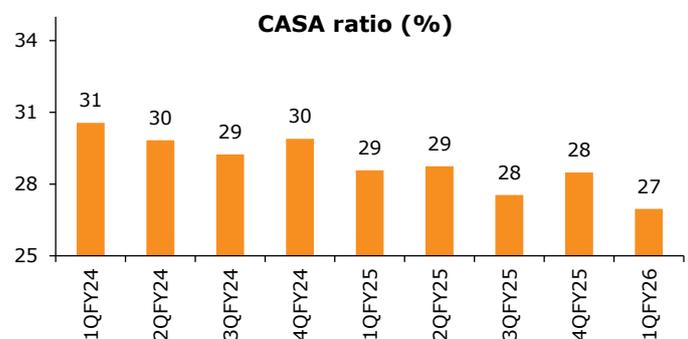
Source: Company, Emkay Research

Exhibit 2: Retail credit growth remains healthy



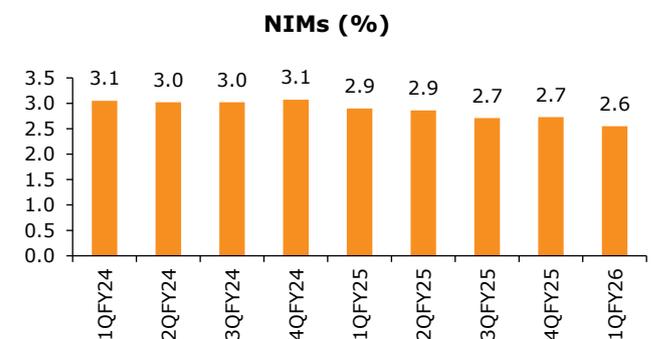
Source: Company, Emkay Research

Exhibit 3: CASA ratio declined marginally leading to sticky CoF...



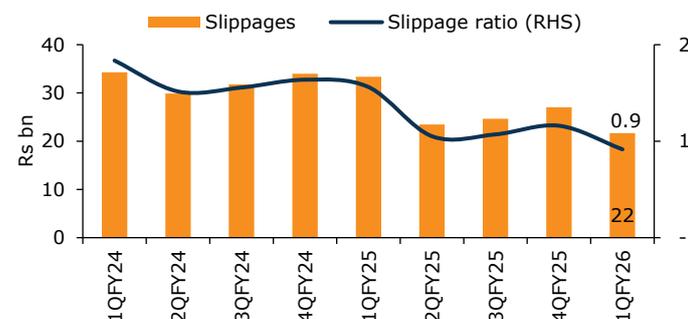
Source: Company, Emkay Research

Exhibit 4: ...which, coupled with lower loan yields, led to a 18bps QoQ fall in margins



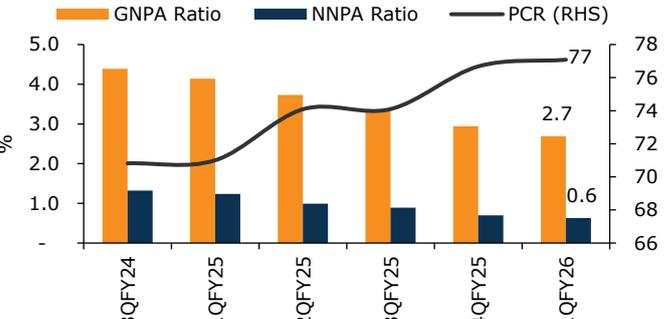
Source: Company, Emkay Research

Exhibit 5: Slippages were largely contained during the quarter...



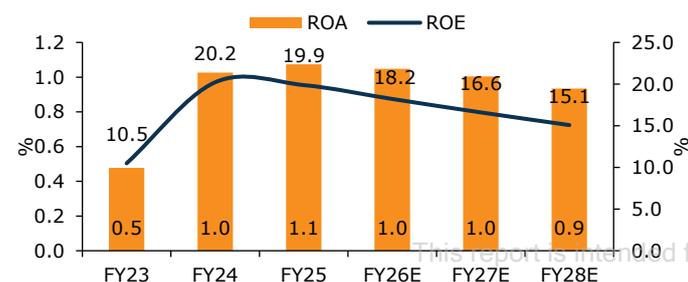
Source: Company, Emkay Research

Exhibit 6: ...leading to steady improvement in GNPA ratio



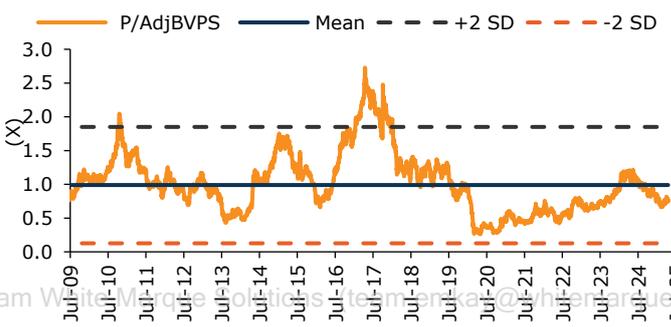
Source: Company, Emkay Research

Exhibit 7: We expect some margin contraction in FY26E, though the lower LLP and healthy treasury income/NPA recoveries are likely to support RoAs



Source: Company, Emkay Research

Exhibit 8: The stock currently trades at 0.8x 1YF ABV



Source: Bloomberg, Emkay Research

Exhibit 9: Actuals vs Estimates (Q1FY26)

(Rs mn)	Actuals	Estimates		Variation		Comments
		Emkay	Consensus	Emkay	Consensus	
Net income	160,692	149,597	140,661	7%	14%	Higher treasury income and PSLC fees led to higher net income
PPOP	85,536	77,842	78,457	10%	9%	Higher net income led to a PPOP beat
PAT	47,520	44,762	41,681	6%	14%	PPOP beat partly offset by higher LLP led to a PAT beat

Source: Emkay Research

Exhibit 10: Quarterly Summary

(Rs mn)	1QFY25	2QFY25	3QFY25	4QFY25	1QFY26	YoY (%)	QoQ (%)	FY25	FY26E	YoY (%)
Interest Earned	287,014	297,401	303,116	310,020	310,028	8	0	1,197,551	1,241,376	4
Interest Expenses	195,351	204,249	211,630	215,601	219,941	13	2	826,831	862,613	4
Net Interest Income	91,663	93,152	91,486	94,419	90,088	-2	-5	370,720	378,763	2
Global NIMs (Reported)	2.90	2.86	2.71	2.73	2.55	-35bps	-18bps	2.43	2.23	-19bps
Non-interest Income	53,189	49,810	58,022	63,508	70,605	33	11	224,528	251,068	12
Operating Expenses	68,690	66,424	71,141	75,090	75,157	9	0	281,345	304,164	8
Pre-Provisioning Profit	76,162	76,538	78,366	82,837	85,536	12	3	313,903	325,667	4
Provision & Contingencies	22,823	22,513	23,983	18,317	23,516	3	28	87,636	81,795	-7
PBT	53,338	54,025	54,384	64,520	62,020	16	-4	226,267	243,872	8
Income Tax Expense (Gain)	14,285	13,880	13,342	14,493	14,500	2	0	56,000	60,358	8
Net Profit/(Loss)	39,053	40,145	41,042	50,027	47,520	22	-5	170,267	183,514	8
Gross NPA (%)	4.14	3.73	3.34	2.94	2.69	-145bps	-25bps	2.94	2.31	-63bps
Net NPA (%)	1.24	0.99	0.89	0.70	0.63	-61bps	-7bps	0.70	0.47	-23bps
Deposits (Rs bn)	13,352	13,473	13,695	14,569	14,677	10	1	14,569	15,959	10
Net Advances (Rs bn)	9,464	9,840	10,237	10,492	10,736	13	2	10,492	11,588	10

Source: Company, Emkay Research

Exhibit 11: Revision in estimates

Y/E Mar (Rs mn)	FY26E			FY27E			FY28E		
	Earlier	Revised	Change	Earlier	Revised	Change	Earlier	Revised	Change
Net income	617,402	629,831	2.0%	660,217	671,216	1.7%	714,894	718,082	0.4%
PPOP	321,148	325,667	1.4%	342,297	340,302	-0.6%	372,500	356,263	-4.4%
PAT	183,619	183,514	-0.1%	191,039	192,224	0.6%	199,902	198,023	-0.9%
EPS (Rs)	20.2	20.2	-0.1%	21.1	21.2	0.6%	22.0	21.8	-0.9%
BV (Rs)	119.2	119.2	0.0%	136.0	136.1	0.1%	153.5	153.4	-0.1%

Source: Emkay Research

Exhibit 12: Key Assumptions

(%)	FY25	FY26E	FY27E	FY28E
Loan Growth	12.6	10.5	11.3	12.2
Deposit Growth	11.0	9.5	10.1	11.7
NIM	2.4	2.2	2.2	2.2
GNPA	2.9	2.3	2.0	1.8
Credit Cost	1.0	0.8	0.7	0.7

Source: Emkay Research

This report is intended for Team White Marque Solutions (team.emkay@whitemarqueresolutions)

Exhibit 13: Key Ratios and Trends

	1QFY24	2QFY24	3QFY24	4QFY24	1QFY25	2QFY25	3QFY25	4QFY25	1QFY26
Loans (Rs bn)	8,551	8,923	9,206	9,316	9,464	9,840	10,237	10,492	10,736
- Growth YoY (%)	14.5	13.2	12.8	12.2	10.7	10.3	11.2	12.6	13.4
- Growth QoQ (%)	2.9	4.3	3.2	1.2	1.6	4.0	4.0	2.5	2.3
Liability Profile & Capital (%)	30.6	29.8	29.2	29.9	28.6	28.7	27.5	28.5	27.0
CASA	3.7	3.6	3.6	4.9	3.7	3.5	3.5	5.3	3.7
- CA	26.9	26.2	25.7	25.0	24.9	25.3	24.1	23.1	23.3
- SA	8,865	8,757	8,964	8,984	8,997	9,032	9,190	9,224	9,233
Branches (no of)	16.2	16.2	15.8	16.3	16.4	16.6	16.4	16.3	16.5
CAR	13.6	13.6	13.4	14.0	14.4	14.6	14.6	14.4	14.6
Tier I	8,551	8,923	9,206	9,316	9,464	9,840	10,237	10,492	10,736
Asset Quality (%)									
GNPA	5.2	4.8	4.4	4.2	4.1	3.7	3.3	2.9	2.7
NNPA	1.6	1.4	1.3	1.3	1.2	1.0	0.9	0.7	0.6
PCR	70.6	71.4	70.8	70.9	71.0	74.1	74.1	76.7	77.1
Slippages (Rs mn)	34,280	29,870	31,760	34,000	33,370	23,450	24,640	27,020	21,660
Slippages - annualized	1.8	1.5	1.6	1.6	1.6	1.1	1.1	1.2	0.9
ROE Decomposition (%)									
NII	2.5	2.5	2.6	2.6	2.4	2.4	2.3	2.3	2.1
Other Income	1.4	1.3	1.2	1.4	1.4	1.3	1.5	1.6	1.7
Treasury	0.1	0.1	0.1	0.2	0.1	0.2	0.2	0.2	0.4
Opex	1.7	1.7	1.9	2.0	1.8	1.7	1.8	1.8	1.8
PPOP	2.2	2.2	1.9	2.0	2.0	2.0	2.0	2.0	2.0
Provisioning Cost	0.8	0.7	0.5	0.7	0.6	0.6	0.6	0.4	0.6
PBT	1.4	1.4	1.4	1.3	1.4	1.4	1.4	1.6	1.5
Tax	0.4	0.4	0.3	0.3	0.4	0.4	0.3	0.4	0.3
ROA	1.0	1.0	1.0	1.0	1.1	1.1	1.0	1.3	1.1
Leverage (x)	17.7	17.4	20.9	21.8	19.9	19.5	18.5	18.6	18.5
ROE	18.3	17.9	21.1	22.1	20.9	20.4	19.1	23.2	21.1

Source: Company, Emkay research

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Canara Bank: Standalone Financials and Valuations

Profit & Loss					
Y/E Mar (Rs mn)	FY24	FY25	FY26E	FY27E	FY28E
Interest Income	1,086,879	1,197,551	1,241,376	1,276,883	1,346,050
Interest Expense	721,220	826,831	862,613	865,626	885,097
Net interest income	365,659	370,720	378,763	411,258	460,952
NII growth (%)	16.3	1.4	2.2	8.6	12.1
Other income	189,664	224,528	251,068	259,958	257,129
Total Income	555,323	595,248	629,831	671,216	718,082
Operating expenses	261,198	281,345	304,164	330,914	361,819
PPOP	294,125	313,903	325,667	340,302	356,263
PPOP growth (%)	6.1	6.7	3.7	4.5	4.7
Core PPOP	277,897	287,245	291,695	304,631	322,376
Provisions & contingencies	97,076	87,636	81,795	83,660	91,527
PBT	197,050	226,267	243,872	256,641	264,736
Extraordinary items	0	0	0	0	0
Tax expense	51,507	56,000	60,358	64,417	66,713
Minority interest	0	0	0	0	0
Income from JV/Associates	-	-	-	-	-
Reported PAT	145,543	170,267	183,514	192,224	198,023
PAT growth (%)	37.3	17.0	7.8	4.7	3.0
Adjusted PAT	145,543	170,267	183,514	192,224	198,023
Diluted EPS (Rs)	16.0	18.8	20.2	21.2	21.8
Diluted EPS growth (%)	37.3	17.0	7.8	4.7	3.0
DPS (Rs)	3.2	4.0	4.1	4.2	4.6
Dividend payout (%)	20.1	21.3	20.3	19.8	21.1
Effective tax rate (%)	26.1	24.7	24.8	25.1	25.2
Net interest margins (%)	2.7	2.4	2.2	2.2	2.2
Cost-income ratio (%)	47.0	47.3	48.3	49.3	50.4
Shares outstanding (mn)	9,070.7	9,070.7	9,070.7	9,070.7	9,070.7

Source: Company, Emkay Research

Asset quality and other metrics					
Y/E Mar (Rs mn)	FY24	FY25	FY26E	FY27E	FY28E
Asset quality					
Gross NPLs	406,050	315,300	272,796	262,311	270,017
Net NPLs	118,617	73,787	54,559	60,332	67,504
GNPA ratio (%)	4.2	2.9	2.3	2.0	1.8
NNPA ratio (%)	1.3	0.7	0.5	0.5	0.5
Provision coverage (%)	70.8	76.6	80.0	77.0	75.0
Gross slippages	106,260	85,440	106,260	131,054	154,119
Gross slippage ratio (%)	1.1	0.8	0.9	1.0	1.1
LLP ratio (%)	1.0	1.0	0.8	0.7	0.7
NNPA to networth (%)	14.8	7.7	4.9	4.7	4.7
Capital adequacy					
Total CAR (%)	16.3	16.3	16.1	16.8	17.2
Tier-1 (%)	14.0	14.4	13.8	14.2	14.2
CET-1 (%)	11.3	12.3	12.1	12.6	12.8
RWA-to-Total Assets (%)	44.9	44.0	48.0	48.0	48.0
Miscellaneous					
Total income growth (%)	23.7	11.4	4.9	3.0	4.3
Opex growth (%)	16.2	7.7	8.1	8.8	9.3
Core PPOP growth (%)	7.6	3.4	1.5	4.4	5.8
PPOP margin (%)	23.0	22.1	21.8	22.1	22.2
PAT/PPOP (%)	49.5	54.2	56.4	56.5	55.6
LLP-to-Core PPOP (%)	34.9	30.5	28.0	27.5	28.4
Yield on advances (%)	9.0	9.0	8.3	7.8	7.5
Cost of funds (%)	5.5	5.7	5.4	4.9	4.5

Source: Company, Emkay Research

Balance Sheet					
Y/E Mar (Rs mn)	FY24	FY25	FY26E	FY27E	FY28E
Share capital	18,141	18,141	18,141	18,141	18,141
Reserves & surplus	851,405	980,860	1,127,184	1,281,312	1,437,609
Net worth	869,546	999,001	1,145,325	1,299,453	1,455,751
Deposits	13,123,666	14,568,832	15,958,524	17,571,746	19,631,046
Borrowings	575,923	896,651	743,684	818,053	899,858
Interest bearing liab.	13,699,589	15,465,483	16,702,208	18,389,798	20,530,904
Other liabilities & prov.	346,272	364,012	373,610	375,608	357,773
Total liabilities & equity	14,915,407	16,828,496	18,221,144	20,064,859	22,344,427
Net advances	9,316,128	10,491,550	11,588,413	12,903,401	14,475,513
Investments	3,574,544	3,803,434	4,088,438	4,468,923	4,889,470
Cash, other balances	1,507,597	2,053,402	2,006,156	2,116,718	2,362,945
Interest earning assets	14,398,272	16,348,386	17,683,007	19,489,042	21,727,928
Fixed assets	122,282	102,151	135,566	145,037	155,204
Other assets	394,856	377,959	402,571	430,780	461,295
Total assets	14,915,407	16,828,496	18,221,144	20,064,859	22,344,427
BVPS (Rs)	85.8	103.0	119.2	136.1	153.4
Adj. BVPS (INR)	77.2	97.7	115.2	131.8	148.5
Gross advances	9,603,561	10,733,063	11,806,649	13,105,381	14,678,026
Credit to deposit (%)	71.0	72.0	72.6	73.4	73.7
CASA ratio (%)	29.9	28.5	27.9	28.6	29.7
Cost of deposits (%)	5.3	5.5	5.2	4.8	4.4
Loans-to-Assets (%)	62.5	62.5	63.6	64.3	64.8
Net advances growth (%)	12.2	12.6	10.5	11.3	12.2
Deposit growth (%)	11.3	11.0	9.5	10.1	11.7
Book value growth (%)	17.7	20.0	15.7	14.3	12.7

Source: Company, Emkay Research

Valuations and key Ratios					
Y/E Mar	FY24	FY25	FY26E	FY27E	FY28E
P/E (x)	6.7	5.7	5.3	5.1	4.9
P/B (x)	1.3	1.0	0.9	0.8	0.7
P/ABV (x)	1.4	1.1	0.9	0.8	0.7
P/PPOP (x)	3.5	3.3	3.2	3.0	2.9
Dividend yield (%)	2.8	3.5	3.6	3.7	4.1
DuPont-RoE split (%)					
NII	2.6	2.3	2.2	2.1	2.2
Other income	1.3	1.4	1.4	1.4	1.2
Fee income	0.8	0.8	0.9	0.9	0.9
Opex	1.8	1.8	1.7	1.7	1.7
PPOP	2.1	2.0	1.9	1.8	1.7
Core PPOP	2.0	1.8	1.7	1.6	1.5
Provisions	0.7	0.6	0.5	0.4	0.4
Tax expense	0.4	0.4	0.3	0.3	0.3
RoA (%)	1.0	1.1	1.0	1.0	0.9
Leverage ratio (x)	19.7	18.5	17.4	16.5	16.1
RoE (%)	20.2	19.9	18.2	16.6	15.1

Quarterly data					
Rs mn	Q1FY25	Q2FY25	Q3FY25	Q4FY25	Q1FY26
NII	91,663	93,152	91,486	94,419	90,088
NIM (%)	2.9	2.9	2.7	2.7	2.6
PPOP	76,162	76,538	78,366	82,837	85,536
PAT	39,053	40,145	41,042	50,027	47,520
EPS (Rs)	17.2	17.7	18.1	22.1	21.0

Source: Company, Emkay Research

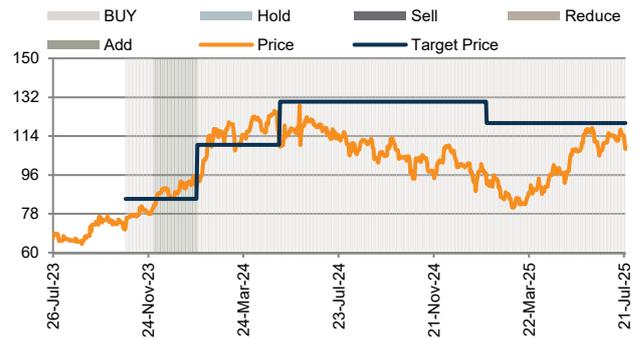
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RECOMMENDATION HISTORY - DETAILS

Date	Closing Price (INR)	TP (INR)	Rating	Analyst
23-Jul-25	108	130	Buy	Anand Dama
08-May-25	95	120	Buy	Anand Dama
09-Apr-25	88	120	Buy	Anand Dama
27-Jan-25	92	120	Buy	Anand Dama
30-Oct-24	103	130	Buy	Anand Dama
25-Jul-24	112	130	Buy	Anand Dama
09-May-24	109	130	Buy	Anand Dama
25-Jan-24	93	110	Buy	Anand Dama
30-Nov-23	81	85	Add	Anand Dama
26-Oct-23	72	85	Buy	Anand Dama

Source: Company, Emkay Research

RECOMMENDATION HISTORY - TREND



Source: Company, Bloomberg, Emkay Research

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ADD	5-15% upside
REDUCE	5% upside to 15% downside
SELL	>15% downside

Emkay Global Financial Services Ltd.

CIN - L67120MH1995PLC084899

7th Floor, The Ruby, Senapati Bapat Marg, Dadar - West, Mumbai - 400028. India

Tel: +91 22 66121212 Fax: +91 22 66121299 Web: www.emkayglobal.com

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