

## RETAIL EQUITY RESEARCH

# Ujjivan Small Finance Bank Ltd.

Small Finance Bank

Sensex: 41,021

Nifty: 12,101

**SUBSCRIBE**

**Price Range Rs. 36 - Rs. 37**

### A Leading player among Small Finance Banks

Ujjivan Small Finance Bank Limited (USFB), incorporated in 2017, is a mass market focused Small Finance Bank (SFB). USFB Bank is promoted by Ujjivan Financial Services Limited (UFSL) which commenced operations as an NBFC in 2005. Ujjivan Small Finance Bank serves over 49 lakh customers through 552 branches spread across 232 districts in 24 states & union territories of India. Its Gross Loan Book stands at Rs.12,864cr and the deposit base at Rs.10,130cr as of September 30, 2019.

- SFBs are a type of niche banks in India, mainly focused on providing financial inclusion, catering to the needs of unserved segments of the society.
- The ability of SFBs to take deposits gives them an edge of having a lower cost of funds compared to that of NBFCs and MFIs.
- The loan book of SFBs is expected to grow by 23-25% CAGR over FY19-21E and deposit base expected to increase by around 70% in the same period.
- Enhanced priority sector lending norms along with capping on ticket size will help SFBs to maintain a healthy asset quality in the long run.
- The Net Interest Margin (NIM) of USFB in FY18 & FY19 was 10.3% & 10.9%, respectively, and 10.6% in the six months ended September 30, 2019.
- USFB's GNPA was the lowest among the SFBs at 0.85% of gross advances & the provision coverage ratio (PCR) was high at 72% in FY19.
- The experience of UFSL as an erstwhile microfinance institution, coupled with the ability to address mass market customers will further aid USFB to be among the leading SFBs in India. At the upper price band of Rs 37, USFB is available at P/BV of 2.5x FY19, which is at a significant discount to its peers and we have a 'SUBSCRIBE' rating with a long-term perspective.

### Purpose of IPO

As per SFB listing guidelines, USFB is required to list its equity shares on the stock exchanges within three years from the date of commencement of business by the bank, i.e. on January 31, 2020. On this back ground, USFB came up with the IPO comprising of a fresh share sale of Rs.750cr. The bank proposes to utilize the net for augmenting its Tier-1 capital base to meet its future capital requirements and towards meeting the expenses in relation to the Issue.

### Key Risks

- Limited operating history as a Small Finance Bank.
- Competition from other SFBs, NBFCs, MFIs & cooperative banks.
- Lack of Collateral back up in case of some MSE loans.

### Peer Valuation

Company	MCap (Rs cr)	NII* (Rs cr)	PAT (Rs cr)	RoA (%)	RoE (%)	BV(Rs)	P/E	P/BV
Ujjivan Small Finance Bank Ltd	6,394	1,106	199	1.7	11.5	10.5	32.0	2.5
AU Small Finance Bank Ltd	24,288	1,342	394	1.5	14.0	108.2	63.2	7.6
Creditaccess Grameen Ltd	11,205	801	322	5.2	16.3	165.0	38.7	4.7
Bandhan Bank Limited	88,964	4,496	1,952	3.9	19.0	93.9	33.8	5.9

Source: Geojit Research, Bloomberg; Note: Valuations of USFB are based on upper end of the price band, Financials as per FY19. \* Net Interest Income

Issue Details			
Date of Opening	02 <sup>nd</sup> December, 2019		
Date of Closing	04 <sup>th</sup> December, 2019		
Total no. of Shares offered(cr)	20.3		
Post Issue No. of shares (cr)	173		
Price Band	Rs. 36- 37		
Face Value	Rs. 10		
Bid Lot	400 shares		
Minimum application for retail (upper price band for 1 lot)	Rs. 14,800		
Maximum application for retail (upper price band for 13 lot)	Rs. 1,92,400		
Listing	BSE & NSE		
Lead Manager	IIFL Holdings, Kotak Mahindra Capital Co. Ltd, JM Financial Consultants Pvt. Ltd.		
Registrars	Karvy Computershare Pvt Ltd		
Issue size (upper price)	Rs. Cr		
Fresh Issue	750		
OFS	-		
<b>Total Issue</b>	<b>750</b>		
Shareholding (%)	Pre Issue	Post Issue	
Promoters	94	83	
Others	6	17	
Total	100	100	
Issue structure	Allocation %	Size Rs.cr	
Retail	10	75	
Non -Institutional	15	113	
QIB	75	563	
<b>Total</b>	<b>100</b>	<b>750</b>	
Y.E March (Rs cr)	FY18	FY19	H1FY20
NII	861	1,106	740
Growth (%)	-	29	34*
NIM (%)	10.3	10.9	10.6
PAT Adj	7	199	187
Growth (%)	-	-	88*
EPS	-	1.2	1.1
P/E (x)	-	32	17*
P/BV (x)	3.9	2.5	2.3
RoE (%)	0.4	11.5	19.6
RoA (%)	0.1	1.7	2.5

\*Annualized

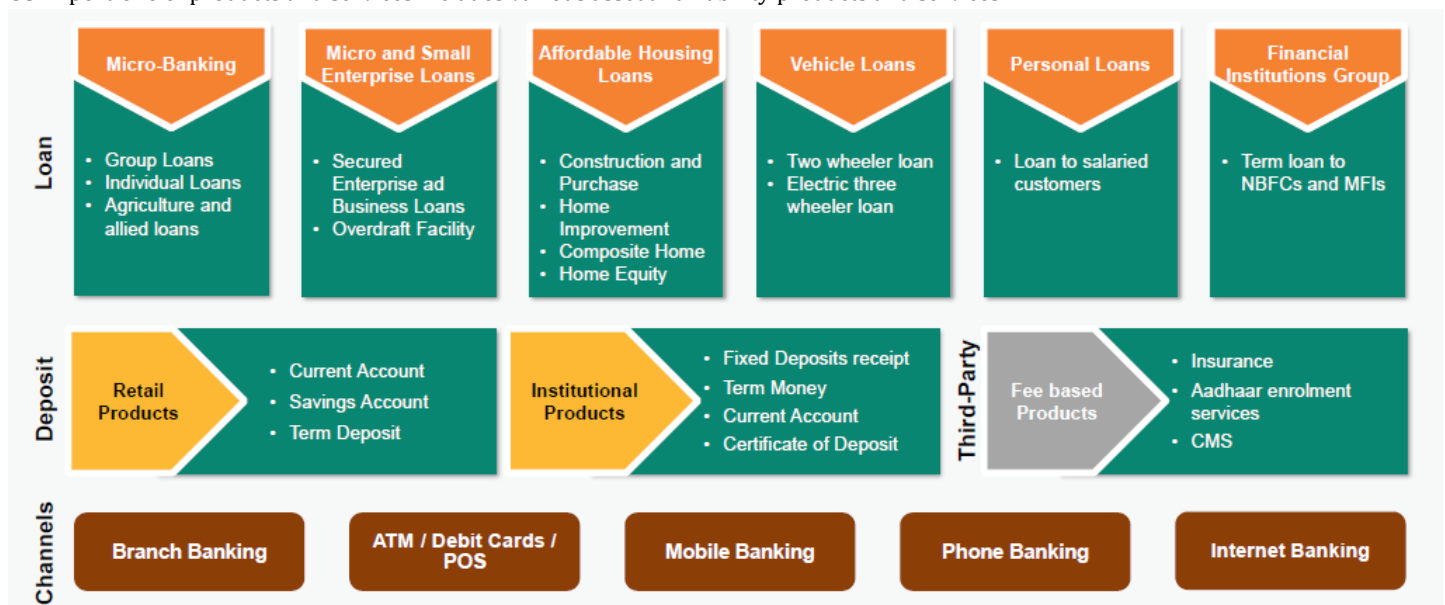


## Company Description

**Ujjivan Small Finance Bank Limited**, incorporated in 2017, is a mass market focused SFB, catering to unserved and underserved segments in India. USFB Bank is promoted by Ujjivan Financial Services Limited (UFSL) which commenced operations as an NBFC in 2005. UFSL's erstwhile business was primarily based on the joint liability group-lending model for providing collateral free, small ticket-size loans to economically active poor women. UFSL also offered individual loans to Micro and Small Enterprises ("MSEs"). On October 7, 2015, UFSL received RBI In-Principle Approval to establish an SFB, following which it incorporated Ujjivan Small Finance Bank Limited as a wholly-owned subsidiary. UFSL, subsequent to obtaining RBI Final Approval transferred its business undertaking comprising of its lending and financing business to the Bank, which commenced its operations from February 1, 2017. Among the leading SFBs in India, the Bank had the most diversified portfolio, spread across 24 states and union territories as of March 31, 2019. As of September 30, 2019, USFB served 4.94 million customers and operated from 552 Banking Outlets that included 141 Banking Outlets in Unbanked Rural Centres ("URCs") (of which seven were business correspondent centres) and additionally operated four Asset Centres. In Fiscal 2019 alone, the operationalized 287 Banking Outlets. As of September 30, 2019, USFB had a network of 441 ATMs (including 18 ACRs), two 24/7 phone banking units based in Bengaluru and Pune that service customers in 11 languages, and a mobile banking application that is accessible in five languages as well as internet banking facility for individual and corporate customers.

## Product Portfolio

USFB portfolio of products and services includes various asset and liability products and services.



Source: RHP

### ❖ Asset Products

**Micro Banking:** The focus is to serve the unserved and underserved segments. Under micro banking the bank offers the following types of products.

- I. **Group Loans:** These loans range between Rs.2,000 to Rs.60,000, with a tenure of up to two years, at a uniform declining interest rate of 22% per annum across customers.
- II. **Individual Loans:** The loan amount ranges between Rs.51,000 to Rs.200,000, with repayment tenure between 12 months to 7 years.
- III. **Agriculture and Allied Loan products:** These loans are designed to meet the financing requirements of small and marginal farmers including those engaged in allied activities such as dairying, sericulture and purchase renovations and up gradation of farm equipment.
- IV. **Family Banking:** To address the financial needs of the existing micro banking customer base and their family members.

**Micro and Small Enterprise ("MSE") Loans:** Loans and overdraft facility to enterprises engaged in manufacturing and service/ trade activities in the form of investment as well as working capital, with flexible security requirements.

**Affordable Housing Loans:** Targeted towards informal and semi-formal income segments.

**Loans against Property:** These loans are extended in the range of Rs.300,000 and Rs.1 million and are secured against the property offered as collateral.

**Personal Loans:** The Bank offers such loans to salaried customers in private or public sector organizations in existence for at least three years.

**Financial Institutions Group ("FIG") Loans:** Term loans to credit acceptable NBFCs and micro finance institutions.

**Vehicle Loans:** Two-wheeler loans and electric three-wheeler loans to new-to-bank customers, the existing customers and the families of such customers.

❖ **Liability Products**

**Retail Products**

- **Current Accounts:** The bank offers four types of current account options and do not pay interest on current accounts.
- **Savings Accounts**
- **Term Deposits**

**Institutional Products:** The bank receives deposits in the form of fixed deposit receipts and certificate of deposits from various mutual funds, banks and from cooperative banks, insurance companies, NBFCs/ MFIs and other financial institutions.

❖ **Other Products and Services**

**ATM-cum-Debit Cards:** The Bank offers customers Ujjivan Bank RuPay ATM-cum-debit cards that can be used at ATMs, POS terminals and online platforms.

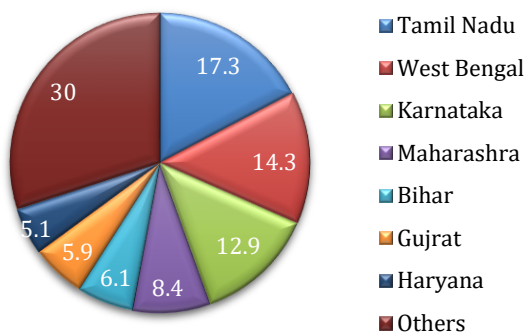
**Aadhaar Enrolment Services:** USFB is authorized to run AECs where customers and members of the general public can enroll for Aadhaar or get their Aadhaar data updated.

**Sale of third-party Insurance Products**

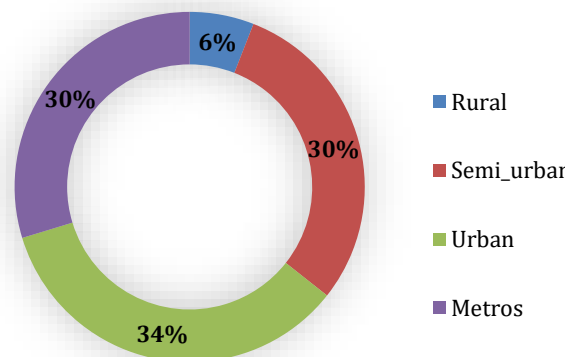
**Product mix**

SFBs have a high share of microfinance in their portfolio as eight out of ten players were MFIs previously. However, the share of microfinance portfolio has been decreasing as players are focusing on other segments including, MSE financing and affordable housing to expand their customer base and meet their diverse financial requirements. For USFB, 75% of the product mix is group loans while micro individual loans and affordable housing loans accounts for 8% each.

**Geographical Concentration(%)**



**Area wise concentration**



Source: RHP

**Geographical concentration of loan portfolio for FY19**

USFB has the most diversified portfolio among SFBs. USFB's portfolio is spread across 24 states with the top three Indian states accounted for 44.5% of the total portfolio in Fiscal 2019. Other players, such as, Equitas SFB and North East SFB are concentrated in southern and eastern regions of India, respectively. USFB's operations are well-diversified and in FY19, no single state constituted more than 18% of the overall loan portfolio. As a result of the geographic spread, the bank has been able to reduce the concentration risk and diversify the loan portfolio. As of March 31, 2019, the North, South, East and West regions contributed 20.09%, 34.20%, 29.80% and 15.91% of the Gross Advances (including securitization/ IBPC), respectively, and as of September 30, 2019 these regions contributed 19.58%, 34.70%, 29.52% and 16.20% of the Gross Advances (including securitization/ IBPC), respectively. Metropolitan, urban, semi-urban and rural areas accounted for 28.17%, 36.14%, 31.30% and 4.38% of the Gross Advances (including securitization/ IBPC), respectively, as of March 31, 2019 and as of September 30, 2019 such areas contributed 29.65%, 34.80%, 29.92% and 5.63% of the Gross Advances (including securitization/ IBPC), respectively.

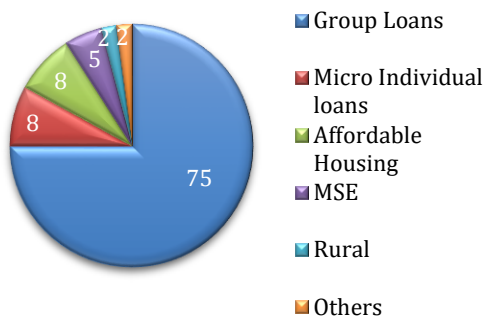
**USFB has the second highest provision coverage ratio amongst peers**

Provision coverage ratio has been highest for Utkarsh SFB (91%) among SFBs, followed by USFB (72%). Higher the provision coverage ratio, higher is the covering of prospective losses due to bad loans. Capital SFB has the lowest provision coverage ratio (27%) among SFBs. The PCR (including technical write-offs) was 81.87% and 71.90% in FY18 and FY19, respectively and was 61.12% in the six months ended September 30, 2019.

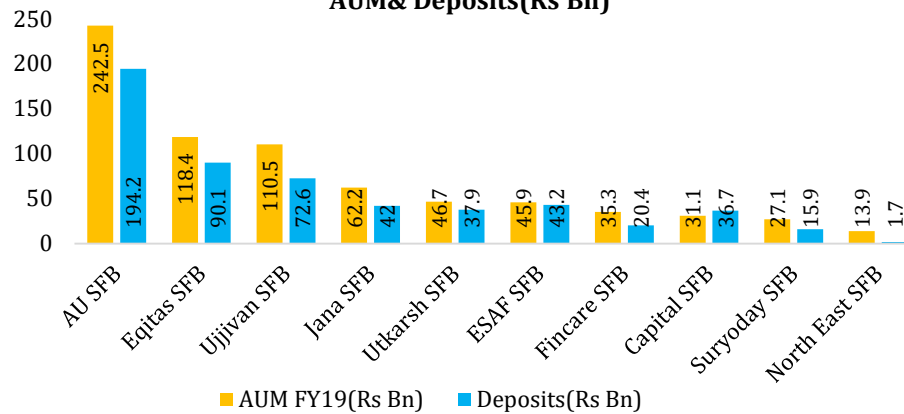
### Strong deposit base

The Promoter, UFSL, an erstwhile microfinance institution, coupled with USFB's ability to address mass market customer segments has allowed the Bank to become among the leading small finance banks in India in terms of deposits, branch count and geographical spread, as of March 31, 2019. The Bank continue to focus on lending to micro banking customers with deposits from the micro banking customers constituting 6.75% of the total deposits as of September 30, 2019. Total deposits have increased from Rs.206.4cr as of March 31, 2017 to Rs.7,379.4cr as of March 31, 2019 and were Rs10,129.9cr as of September 30, 2019. Of the total deposits, the share of retail deposits has increased from 3.15% as of March 31, 2017 to 37.07% as of March 31, 2019 and was 41.93% in the six months ended September 30, 2019.

**Product Mix(%)**



**AUM& Deposits(Rs Bn)**



Source: RHP

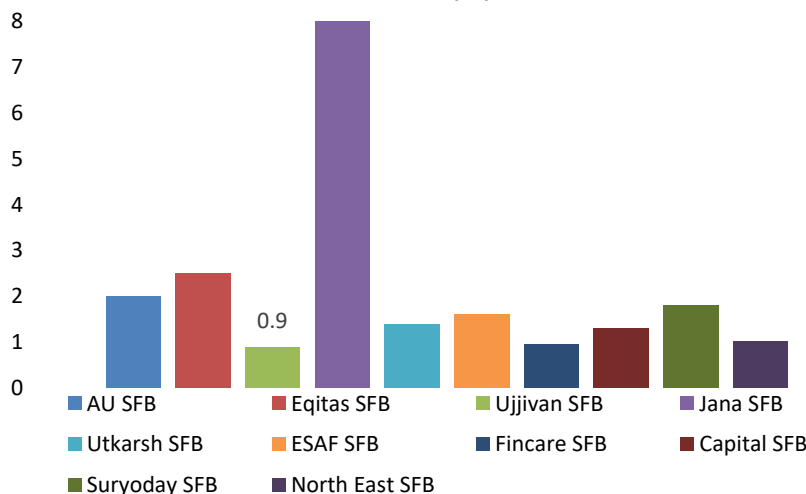
### Lowest gross non-performing assets levels among all SFBs

USFB's gross NPAs amounted to 0.90% in Fiscal 2019, which was the least among SFBs, followed by Fincare SFB at 0.95% as of March 31, 2019. Overall, CreditAccess Grameen had the lowest gross NPA levels among all the peer set as of March 31, 2019, while Jana SFB had the highest GNPA among the peer set as of March 31, 2019. Fincare had the highest return on assets as of March 31, 2019, followed by Suryoday SFB. Further, USFB had fourth highest return on assets among the SFBs.

### Proportion of deposits in total borrowing and CASA ratio

Capital SFB has a large existing customer deposit base as it functioned as a local area bank before receiving the SFB license, whereas other SFBs are gradually increasing their deposit base. Accordingly, Capital SFB has the highest proportion of deposits in its total borrowing and the highest CASA ratio among SFBs.

**GNPA (%)**

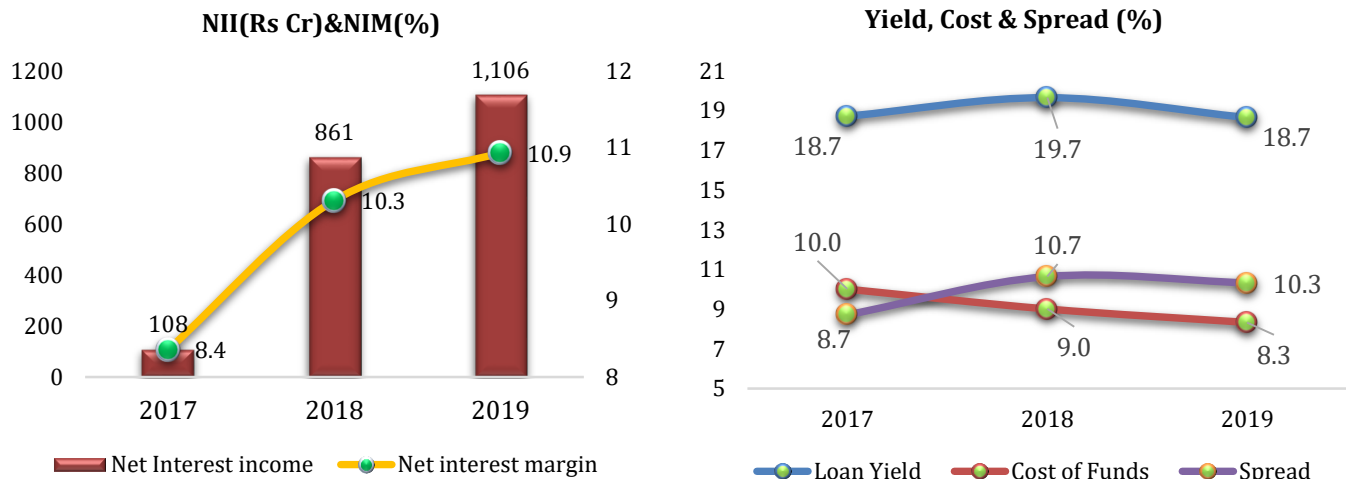


Players	Proportion of deposits in total borrowings (%)	CASA Ratio (%)
AU SFB	69	21
Eqitas SFB	67	25
Ujjivan SFB	64	11
Jana SFB	51	NA
Utkarsh SFB	73	10
ESAF SFB	72	10
Fincare SFB	61	11
Capital SFB	95	40
Suryoday SFB	59	NA
North East SFB	10	3

Source: RHP

### Strong track record of financial performance

USFB's Gross Advances (including securitization/ IBPC) have grown from Rs.6,383.9cr as of March 31, 2017 to Rs.11,048.5.9cr as of March 31, 2019 and were Rs.12,863.6.4cr as of September 30, 2019. Of the Gross Advances (including securitization/ IBPC), secured advances constituted 1.83% as of March 31, 2017 and increased to 13.59% as of March 31, 2019 and further increased to 19.39% as of September 30, 2019. The Net Interest Income in Fiscal 2018 and 2019 was Rs.861cr and Rs.1,106.4cr, respectively, and was Rs.740.4.2cr in the six months ended September 30, 2019. The Net Interest Margins in Fiscal 2018 and 2019 were 10.31% and 10.93%, respectively, and was 10.64% in the six months ended September 30, 2019. Total deposits have increased from Rs.206.4cr as of March 31, 2017 to Rs.7,379.4cr as of March 31, 2019 and were Rs.10,129.8cr as of September 30, 2019.



Source: RHP

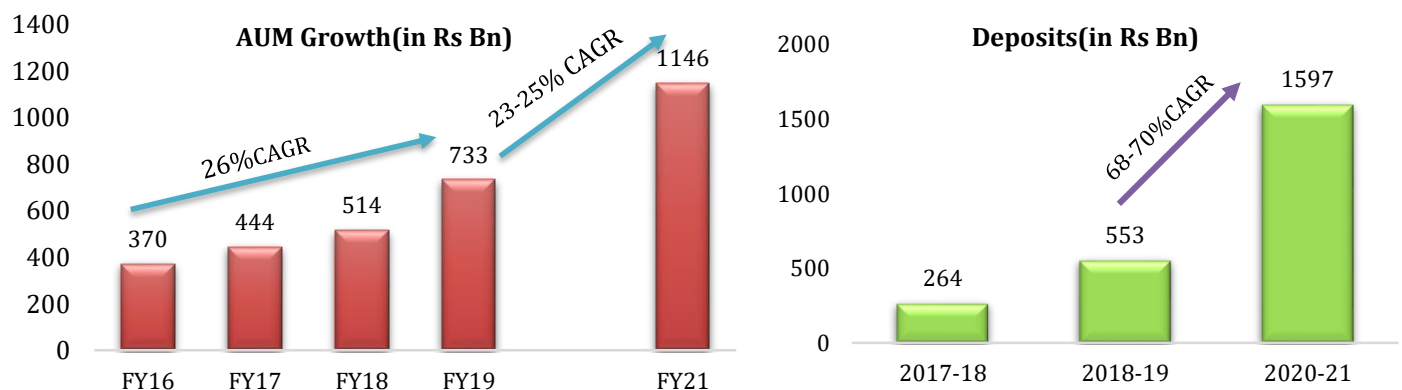
## Industry Outlook

### Small Finance Banking Industry

Despite various measures taken by the Government to increase financial penetration in India, a significant percentage of India's population does not have access to basic financial services. On September 16, 2015, the RBI awarded SFB licenses to 10 players on account of the Government's focus towards financial inclusion and inclusive banking. Out of the 10 SFBs, there were eight microfinance players, one local area bank and one NBFC. The objective of SFB's is to extend banking services to the underserved and unserved population through savings instruments, and providing credit to small business units, small and marginal farmers, micro and small industries, and other unorganized sector. SFBs are allowed to take deposits, which provide them an edge of having lower cost of funds in comparison with NBFCs. MFIs turned into SFBs are now diversifying their advances mix, and focusing on other retail and corporate lending business. The operations of SFBs is technologically driven in order to reduce the cost of operations and also ensure faster reach to the untapped market. According to World Bank's Global Findex Database 2017, India's financial inclusion level has improved significantly with the adult population's bank accounts rising from 53% in 2014 to 80% in 2017 on account of various Government initiatives, institution support and increase in usage of mobile phones as a medium for distributing financial services. The overall improvement of the financial inclusion score is primarily driven the 'JAM' trinity, i.e. Jan Dhan Yojana, Aadhaar and mobile. However, the primary challenge for SFBs is still the ability to generate low cost deposits. While there exists a significant opportunity, SFBs will need to innovative further in terms of introducing customized and flexible offerings to target the untapped market and move toward becoming universal banks.

### Availability of funds at cheaper rates

The ability to accept deposits through CASA and other retail deposits would provide SFBs cheap source of funding which would help them in competing with the NBFCs. Further, with the low cost of funds, SFBs would aim to expand their product portfolio and provide competitive rates in the market. In addition, with further expansion of SFBs in the underserved regions, the deposit base is expected to further increase and will help in expanding their asset side portfolio. Accordingly, SFBs will hold an advantage over NBFCs.



Source: RHP



### Sizeable market opportunity and credit at affordable rates

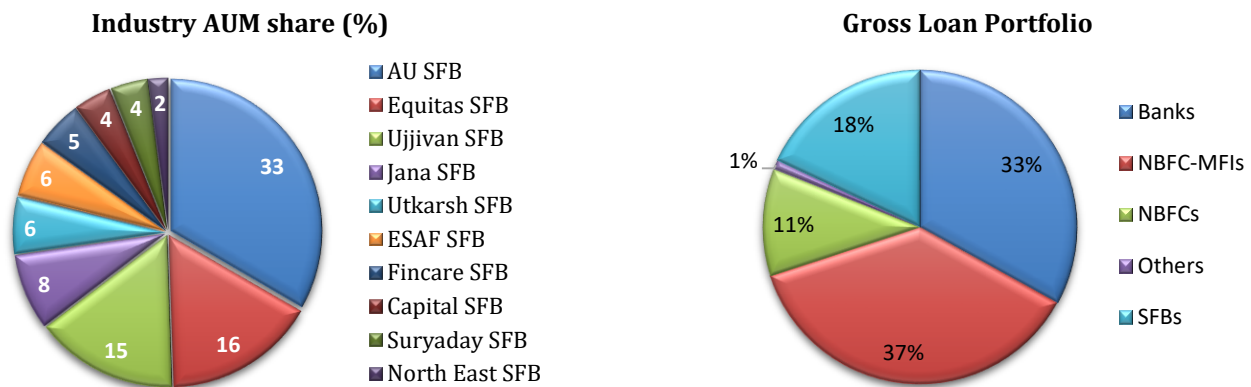
Due to the size of India's population and the lack of formal banking services for a significant section of India's population, driving financial inclusion has been a key priority for the Government. The banking system and PSL have been the most popular channels to bring the majority of India's population under formal credit institutions. Financial inclusion is a comprehensive exercise that constitutes several products and services, such as provision bank accounts, insurance facilities, payment and remittance mechanisms, financial counselling and affordable credit. Within the large range of products and services under financial inclusion, such players have a major role to play in the provision of credit. The key growth drivers for SFB include the size of the India market in terms of financially unserved and underserved households and a business model that offers sustainable credit to the poor at affordable rates.

### Banks and SFBs combined have more than half the share in gross loan portfolio

There are multiple players in the microfinance industry with varied organizational structures, including banks, SFBs, NBFCMFIs, other NBFCs, and non-profit organizations. Banks provide loans under the SHG model; however, they also provide microfinance loans directly or through BCs to meet their PSL targets. After commencement of operations, SFBs with microfinance lending businesses have begun offering and focusing on other asset classes, including, affordable housing, MSEs and vehicle finance, after receiving the SFB license.

### Overall deposit base for SFBs grew by 109% year-on-year in FY19

SFBs have sizeable assets growth opportunity as most of them have been functioning as NBFCs/MFIs previously. However, recently all SFBs have focused on increasing their deposit base immediately after commencement of their SFB operation. Accordingly, the overall deposit base has grown by 109% to approximately Rs.555 billion in Fiscal 2019. Further, SFBs are expected to face competition from public and private sector banks as they typically enjoy a relatively higher trust among customers in rural areas. Cost of accepting deposits will also be high in the initial years of SFB operation due to high interest rates offering in order to attract the customers. In addition, the average deposit per customer in the rural areas is low. In the long run, along with customer centric approach, usage of technology, stability of business model and improved reach, it is expected that the cost of acquisition and interest paid on deposits will reduce.



Source: RHP

### Promoter and promoter group

UFSL is the sole Promoter of the Bank. The Promoter holds an aggregate of 1,440,036,800 Equity Shares (which includes six Equity Shares held by nominees on behalf of UFSL), aggregating to 94.40% of the pre-Issue issued, subscribed and paid-up Equity Share capital of the Bank, and 200,000,000 Preference Shares aggregating to 100% of the issued and paid-up Preference Share capital of the Bank.

### Brief Biographies of Directors

The board of directors of UFSL comprises of the following:

- **Sunil Vinayak Patel**, Part-Time Chairman and Independent Director- Independent Director for a period of five years with effect from July 27, 2016, i.e. until July 26, 2021 and Part-Time Chairman for a period of three years with effect from February 1, 2017, i.e. until January 31, 2020.
- **Samit Kumar Ghosh**, Managing Director and Chief Executive Officer- For a period with effect from July 27, 2016 until November 30, 2019.
- **Jayanta Kumar Basu**, Non-Executive Director- With effect from November 14, 2018 and is liable to retire by rotation.
- **Mona Kachhwaha**, Non-Executive Director - With effect from September 22, 2019 and is liable to retire by rotation.
- **Chitra Kartik Alai**, Non-Executive Nominee Director- With effect from May 9, 2019 and up to the tenor of the term loan, at the discretion of SIDBI and is not liable to retire by rotation.

## Standalone Financials

### Profit & Loss Account

Y.E March (Rscr)	FY17	FY18	FY19	H1FY20
Interest Income	217	1,468	1,832	1,260
Interest Expense	109	607	725	519
<b>Net Interest Income</b>	<b>108</b>	<b>861</b>	<b>1,106</b>	<b>740</b>
% change		-	29	34*
Non-Interest Income	7	111	206	175
<b>Operating Income</b>	<b>115</b>	<b>972</b>	<b>1,312</b>	<b>916</b>
<b>Pre-Prov. Profit</b>	<b>5</b>	<b>320</b>	<b>309</b>	<b>303</b>
Provisions	4	311	41	44
<b>PBT</b>	<b>0.9</b>	<b>9</b>	<b>268</b>	<b>259</b>
Tax	<b>1</b>	<b>2</b>	<b>69</b>	<b>72</b>
Tax Rate%	-	23	26	28
<b>Reported PAT</b>	<b>-</b>	<b>7</b>	<b>199</b>	<b>187</b>
Adj.	-	-	-	-
<b>Adj. PAT</b>	<b>-</b>	<b>7</b>	<b>199</b>	<b>374</b>
% change	-	-	-	88*
No. of shares (cr)	<b>173</b>	<b>173</b>	<b>173</b>	<b>173</b>
<b>Adj EPS (Rs)</b>	<b>-</b>	<b>-</b>	<b>1.2</b>	<b>1.1</b>
% Change	-	-	-	-

\*Annualized

### Balance Sheet

Y.E March (Rscr)	FY17	FY18	FY19	H1FY20
<b>Liabilities</b>				
Capital	1,640	1,640	1,640	1,640
Reserves & Surplus	-	7	180	400
Deposits	206	3,773	7,379	10,130
Borrowings	6,291	3,853	4,166	3,470
Provision & Other liabilities	298	201	377	468
<b>Total Liabilities</b>	<b>8,436</b>	<b>9,473</b>	<b>13,742</b>	<b>16,108</b>
<b>Assets</b>				
Fixed Assets	140	198	284	296
Investments	1,447	1,232	1,527	2,018
Advances	5,861	7,336	10,552	12,780
Other Assets	226	211	284	304
Cash & Balances	763	495	1,094	709
Def. Tax Assets	-	-	-	-
<b>Total Assets</b>	<b>8,436</b>	<b>9,473</b>	<b>13,742</b>	<b>16,108</b>

### Ratios

Y.E March	FY17	FY18	FY19	H1FY20
<b>Per share data (Rs)</b>				
EPS	-	-	1.2	1.1
BV	9.3	9.5	14.9	16.2
ABV	9.5	9.2	14.7	15.9
<b>Spread (%)</b>				
NIM	8.3	10.3	10.9	10.6
Yield on funds	16.9	17.7	17	18.2
Cost of Borrowing	10	9	8.3	18.4
Interest Spread	6.9	8.7	8.7	9.7
<b>Capital (%)</b>				
CAR	21.1	23	18.9	18.8
Tier I	20.4	22.3	18.4	18.2
Tier II	0.67	0.72	0.55	0.68
<b>Asset Quality %</b>				
GNPA	0.3	3.65	0.92	0.85
NNPA	0.03	0.69	0.26	0.33
<b>Return Ratios (%)</b>				
RoE	0.02	0.42	11.5	19.6
RoA	0	0.08	1.7	2.51
<b>Valuations (x)</b>				
P/E (x)	-	-	32	17.1*
P/BV (x)	3.9	3.9	2.5	2.3
P/ABV (x)	3.9	4	2.5	2.3

\*Annualized

## Investment Rating Criteria

Large Cap Stocks;		Mid Cap and Small Cap;			
Buy	-	Upside is above 10%.	Buy	-	Upside is above 15%
Hold	-	Upside is between 0% - 10%.	Accumulate	-	Upside is between 10% - 15%.
Reduce	-	Downside is more than 0%.	Hold	-	Upside is between 0% - 10%.
Neutral	-	Not Applicable	Reduce/Sell	-	Downside is more than 0%.
			Neutral	-	Not Applicable

To satisfy regulatory requirements, we attribute 'Accumulate' as Buy and 'Reduce' as Sell. The recommendations are based on 12 - month horizon, unless otherwise specified. The investment ratings are on absolute positive/negative return basis. It is possible that due to volatile price fluctuation in the near to medium term, there could be a temporary mismatch to rating.

For reasons of valuations/return/lack of clarity/event we may revisit rating at appropriate time. Please note that the stock always carries the risk of being upgraded to BUY or downgraded to a HOLD, REDUCE or SELL.

Neutral- The analyst has no investment opinion on the stock under review.

## General Disclosures and Disclaimers

### CERTIFICATION

We, Mithun T Joseph and Laxmi Priya author(s) of this Report, hereby certify that all the views expressed in this research report reflect my personal views about any or all of the subject issuer or securities. This report has been prepared by the Research Team of Geojit Financial Services Limited, hereinafter referred to as Geojit.

### COMPANY OVERVIEW

Geojit Financial Services Limited (hereinafter Geojit), a publically listed company, is engaged in services of retail broking, depository services, portfolio management and marketing investment products including mutual funds, insurance and properties. Geojit is a SEBI registered Research Entity and as such prepares and shares research data and reports periodically with clients, investors, stake holders and general public in compliance with Securities and Exchange Board of India Act, 1992, Securities And Exchange Board Of India (Research Analysts) Regulations, 2014 and/or any other applicable directives, instructions or guidelines issued by the Regulators from time to time.

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Geojit Financial Services Ltd. (formerly known as Geojit BNP Paribas Financial Services Ltd.), Registered Office: 34/659-P, Civil Line Road, Padivattom, Kochi-682024, Kerala, India. Phone: +91 484-2901000, Website: [www.geojit.com](http://www.geojit.com). For investor queries: [customercare@geojit.com](mailto:customercare@geojit.com), For grievances: [grievances@geojit.com](mailto:grievances@geojit.com), For compliance officer: [compliance@geojit.com](mailto:compliance@geojit.com).

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