

ICICI Securities

Strong Quarter

Hightened market volatility and ADTVs in Mar-20 resulted in higher core \$QFY20 broking revenues (+25.6/27.9% YoY/QoQ) driving total adj. revenues to Rs 4.5bn (+22.0/15.8% YoY/QoQ, +14.6% vs. est.) and APAT to Rs 1.6bn (+76.8/13.6% YoY/QoQ, +18.8% vs. est.). We increase our FY21E/22E earnings estimates by 12.7/10.8% but continue to rate ISEC a SELL with an increased TP of Rs 316 (P/E of 18x FY22E).

- **Broking revs at Rs 2.9bn (+25.6%/28% YoY/QoQ)** were ahead of est. led by sharp improvement in cash market share (9.1%, +170/20bps YoY/QoQ), causing blended yields for the broking business to grow 20.6% QoQ to 0.53bps.
- **MTF+ESOP funding book contracted 49.7% QoQ to Rs 5.8bn due to steep correction in equity markets in Mar-20.** Total interest income on this book was Rs 335mn (+28.4% QoQ).
- **Active clients base (1.1mn, +28.0/12.5% YoY/QoQ)** continued to grow at a brisk pace with increasing share of clients (40.0%) opting for prime/prepaid brokerage plans. ISEC has now also converted itself into an open architecture platform and can now add customers who have bank accounts in banks other than ICICI Bank. Additionally, management stated that ISEC was now adding a commendable 1K clients/day through its online platform, partners, and RMs.
- **MF Distribution revenues at Rs 570mn (-3.7/-1.0% YoY/QoQ) were muted as AAUM at Rs 345bn (-2.0/-8.0% YoY/QoQ)** was hit by steep decline in equity markets (Nifty 50 down 23.2% in Mar-20). Yields were at 66bps (-1.2/+4.6% YoY/QoQ) as the newer AUM comes at higher yields post ban on upfront commissions. Price decline will become visible in AAUMs over FY21E.
- **Insurance distribution revenues** were strong at Rs 170mn (+6.9/+42.5% YoY/QoQ) despite Mar-20 being hit by the lockdown. Higher term in mix ensured higher yields (+121bps YoY). We expect a sharp decline in insurance sales over 1HFY21 before a recovery in 2HFY21E.
- **Total pre-EBITDA costs** were Rs 2.3bn (+1.6/+14.1% YoY/QoQ). Total head count declined 6.0/4.0% YoY/QoQ to 3,790. Management is focused on cost reduction, consequently we build in significantly lower absolute costs over FY21E/22E but with muted revenues we expect C/I ratio over FY21E/22E to be at 57.3/53.6%.
- **We expect FY21E to be a challenging year for broking as lower prices imply lower ADTVs. Distribution revenues will be impacted by lower MF AAUMs, a difficult environment for insurance, and alternative investment product sales. Earnings are expected to remain flat over FY20-22E. We rate ISEC a SELL with a TP of Rs 316 (18x Mar-22E EPS). Any strong rally in equity markets, higher market share, better environment for financial product sales, and any marked reduction in costs remain key risks.**

Financial Summary

(Rs mn)	4Q FY20	4Q FY19	YoY (%)	3Q FY20	QoQ (%)	FY18	FY19	FY20	FY21E	FY22E
Adj. revenues	4,490	3,679	22.0	3,877	15.8	17,824	16,456	16,116	15,378	16,246
EBITDA	2,292	2,256	54.4	1,869	17.6	8,427	7,358	7,873	7,563	8,298
EBITDA Margin (%)	49.0	38.7	1027bps	48.2	75bps	47.3	44.7	48.9	49.2	51.1
APAT	1,559	882	76.8	1,372	13.6	5,577	4,773	5,622	4,993	5,660
AEPS						17.3	14.8	17.5	15.5	17.6
EV/EBITDA (x)						15.4	17.1	17.6	18.0	16.4
P/E (x)						21.8	25.5	21.7	24.4	21.5
ROE (%)						83.4	50.4	49.8	39.7	40.3

Source: Company, HSIE Research estimates

SELL

CMP (as on 7 May 2020)	Rs 378
Target Price	Rs 316
NIFTY	9,199

KEY CHANGES	OLD	NEW
Rating	SELL	SELL
Price Target	Rs 285	Rs 316
EPS %	FY21E	FY22E
	12.7%	10.8%

KEY STOCK DATA

Bloomberg code	ISEC IN
No. of Shares (mn)	322
MCap (Rs bn) / (\$ mn)	122/1,606
6m avg traded value (Rs mn)	214
52 Week high / low	Rs 525/191

STOCK PERFORMANCE (%)

	3M	6M	12M
Absolute (%)	(19.9)	26.9	72.4
Relative (%)	3.6	49.5	90.2

SHAREHOLDING PATTERN (%)

	Dec-19	Mar-20
Promoters	79.2	79.2
FIs & Local MFs	11.9	11.5
FPIs	2.7	3.2
Public & Others	6.2	6.2
Pledged Shares	Nil	Nil

Source : BSE

Madhukar Ladha, CFA
madhukar.ladha@hdfcsec.com
+91-22-6171-7323

Adj. revenues grew 22.0% YoY on account of strong show in broking segment.

Employee expenses grew 5.2% YoY, despite head count reducing 6/4% YoY/QoQ.

Branch count has reduced from 178 as of Dec-19 to 172 as of Mar-20.

ADTV growth continues to remain robust (+45.7/0.6% YoY/QoQ) led by increase in industry volumes and improvement in ISEC's cash market share (+170/20bps YoY/QoQ).

Improvement in market share was led by increase in active clients, and traction building in prime and prepaid brokerage plans.

ESOP + MTF book size collapsed 49.7% QoQ to Rs 5.8bn.

MF yield improved 5bps QoQ most likely as proportion of newer higher yielding AUM increased in mix. Newer AUM comes with zero upfront and higher trail commission.

ISEC Results Summary: 4QFY20

(Rs mn)	4QFY20	4QFY19	YoY(%)	3QFY20	QoQ(%)
Revenues (see note below)	4,490	3,679	22.0	3,877	15.8
Employee expenses	1,397	1,328	5.2	1,328	5.2
Operating expenses	146	224	-35.1	157	-7.1
Other expenses	749	704	6.5	523	43.2
Total expenses	2,292	2,256	1.6	2,008	14.1
EBITDA	2,198	1,423	54.4	1,869	17.6
Depreciation	163	39	322.1	148	9.5
EBIT	2,035	1,385	47.0	1,720	18.3
Finance expenses	78	12	527.4	49	58.1
Other income	120	112	6.7	180	-33.5
PBT	2,077	1,485	39.9	1,851	12.2
Tax expenses	519	603	-14.0	479	8.3
APAT	1,559	882	76.8	1,372	13.6
Adjustment	-	131	NM	0	NM
RPAT	1,559	1,013	53.8	1,372	13.6
AEPS (Rs)	4.8	2.7	76.8	4.3	13.6

Margins (%)

EBITDA	49.0	38.7	1,027	48.2	75
EBIT	45.3	37.6	769	44.4	96
PBT	46.3	40.4	591	47.7	(148)
APAT	34.7	24.0	1,075	35.4	(68)

Tax rate (%)	25.0	40.6	(1,564)	25.9	(90)
C/I ratio (%)	47.7	55.3	(757)	47.6	14

Note: Revenues netted off for estimated interest cost on margin funding and ESOP funding book; treasury income re-classified as other income.

Source: Company, HSIE Research

Operating metrics

Particulars (Rs bn)	4QFY20	4QFY19	YoY(%)	3QFY20	QoQ(%)
Total broking revenues	2,873	2,288	25.6	2,246	27.9
I-sec ADTV	851	584	45.7	846	0.6
Total market ADTO (ex-prop)	10,603	6,871	54.3	9,660	9.8
Reported market share (Blended)	8.0	8.5	-50bps	8.7	-70bps
Reported market share (Cash)	9.1	7.4	170bps	8.9	20bps
Reported market share (Derivatives)	8.0	8.6	-60bps	8.7	-70bps
Yield (bps)	0.53	0.63	(16.2)	0.44	20.6
Active clients - NSE (mn)	1.08	0.84	28.0	0.96	12.5

Distribution

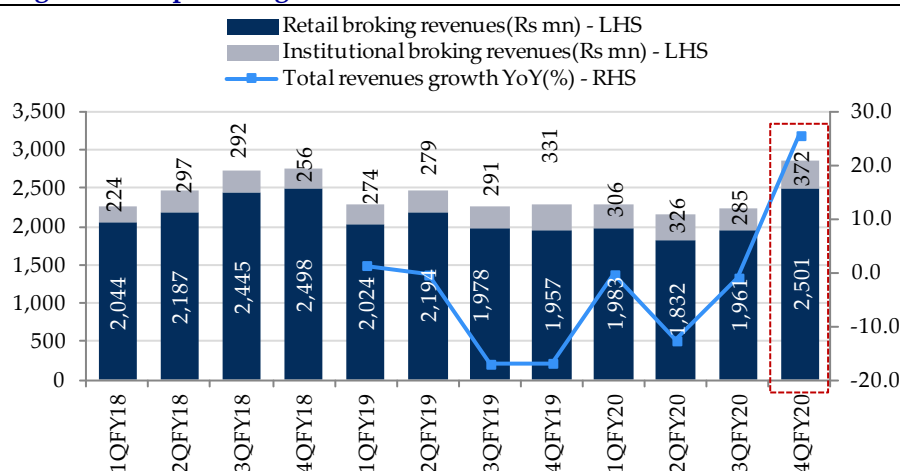
MF revenue (Rs mn)	570	592	(3.7)	576	(1.0)
MF AAUM (Rs bn) - RHS	345	352	(2.0)	375	(8.0)
MF Equity AAUM (Rs bn)	254	260	(2.3)	279	(9.0)
Blended Yield (%)	0.66	0.67	-1bps	0.61	5bps
Insurance dist. Revenue (Rs mn.)	171	160	6.9	120	42.5
Insurance Premium (Rs mn)	2,653	3,054	(13.1)	1,865	42.3
Yield (%)	6.4	5.2	121bps	6.4	1bps
Other dist. Revenue	383	373	2.7	383	0.0

Investment banking revenues	99	129	(23.3)	176	(43.8)
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Source: Company, HSIE Research

Broking revenue split and growth

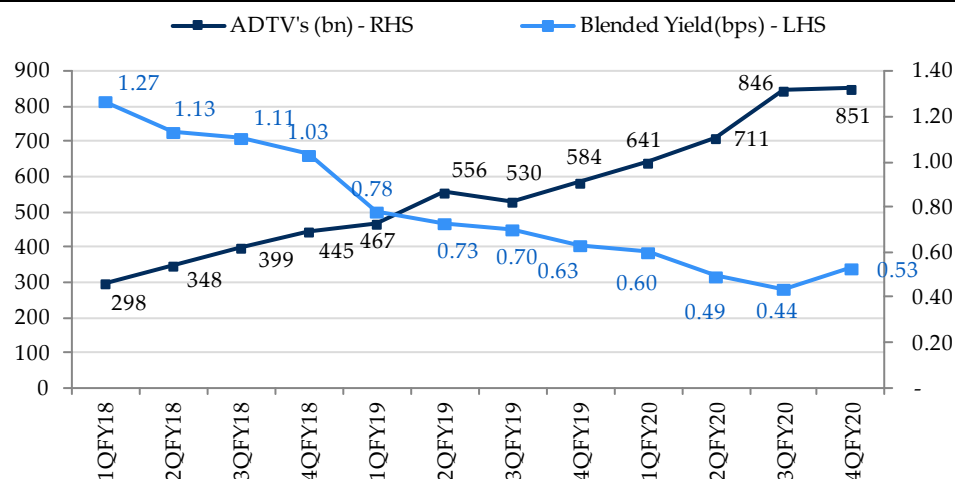
Broking revenues were higher than estimates even though market share saw drop (50/70bps YoY/QoQ).



Source: Company, HSIE Research

Broking: ADTV and yields

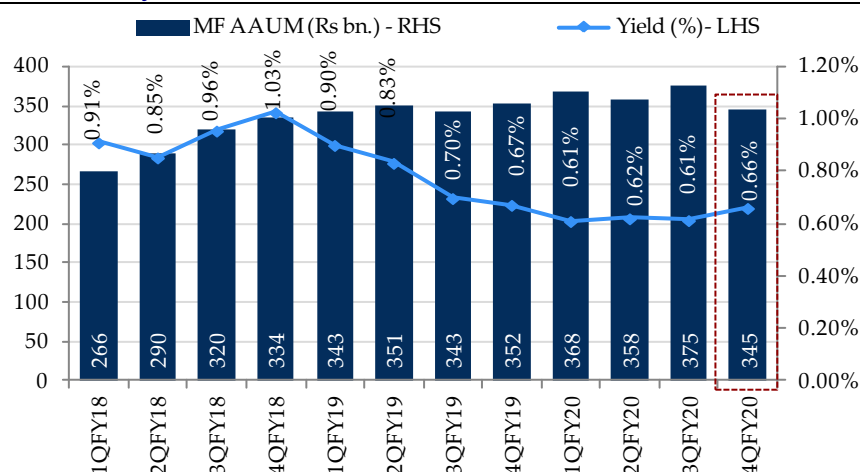
Broking ADTV blended yield saw sequential growth of 0.09bps in 4QFY20.



Source: Company, HSIE Research

MF AAUMs and yields

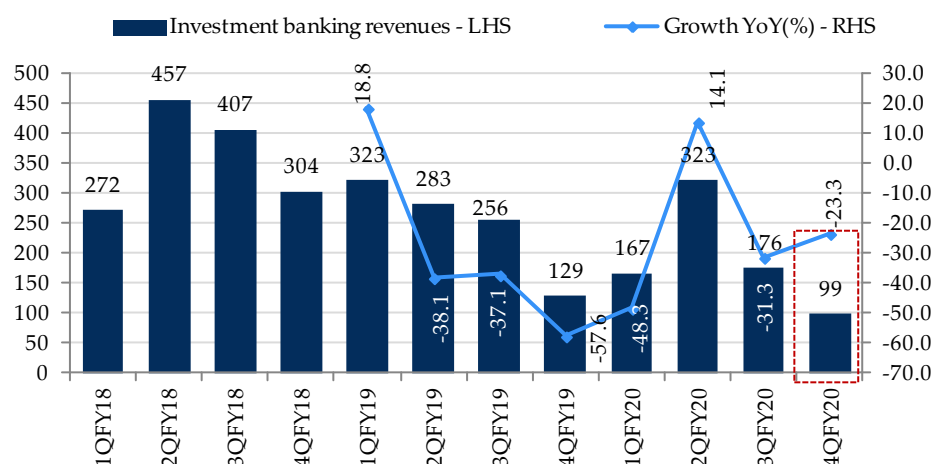
Distribution yield improved in 4QFY20.



Source: Company, HSIE Research

IB revenues were significantly below estimates.

Advisory revenues (Rs mn) and growth (%)



Source: Company, HSIE Research

Assumptions

Particulars	FY18	FY19	FY20	FY21E	FY22E
Broking income					
Total broking revenues	11,269	10,723	11,124	10,242	10,215
Growth (%)	33.4	(4.8)	3.7	(7.9)	(0.3)
Broking Revenues	10,243	9,328	9,476	8,686	8,679
Growth (%)	32.0	(8.9)	1.6	(8.3)	(0.1)
I-sec ADTO	372	533	764	787	855
Growth (%)	98.6	43.3	43.3	3.0	8.6
Total market ADTO (ex-prop)	4,184	6,271	9,670	9,960	10,956
Calculated market share	8.9%	8.5%	7.9%	7.9%	7.8%
Yield (bps)	1.11	0.71	0.50	0.45	0.41
Growth (%)	(33.5)	(36.2)	(29.1)	(11.0)	(8.0)
NII on margin funding book					
Avg. loan book (Rs mn.)	5,184	5,285	8,001	8,401	9,661
Growth (%)	56.0	2.0	51.4	5.0	15.0
Interest on lien FD	729	1,022	1,266	1,262	1,217
Assumed interest rate	7.5%	9.1%	8.6%	7.5%	8.0%
Lien with exchanges	11,759	10,604	18,694	14,955	15,479
Growth (%)	53.4	(9.8)	76.3	(20.0)	3.5
Distribution					
Total distribution revenues	4,675	4,635	4,031	4,087	4,843
Growth (%)	33.5	(0.9)	(13.0)	1.4	18.5
MF revenue (Rs mn.)	2,847	2,695	2,263	2,240	2,710
Growth (%)	71.8	(5.3)	(16.0)	(1.0)	21.0
MF AAUM (Rs bn.)	305	347	362	326	365
Growth (%)	43.9	13.8	4.3	-10.0	12.0
Yield (%)	0.93%	0.78%	0.63%	0.69%	0.74%
Insurance dist. Revenue (Rs mn.)	460	474	490	543	634
Growth (%)	(35.5)	3.0	3.4	10.8	16.9
Insurance Premium (Rs mn.)	9,038	8,869	7,983	6,786	7,464
Growth (%)	7.7	(1.9)	(10.0)	(15.0)	10.0
Yield (%)	5.1%	5.3%	6.1%	8.0%	8.5%
Other Dist. Revenue	1,368	1,466	1,278	1,304	1,499
Growth (%)	21.0	7.2	(12.8)	2.0	15.0
Investment Banking					
Investment banking revenues	1,430	991	764	840	966
Growth (%)	19.7	(30.7)	(22.9)	10.0	15.0
Other revenues	451	107	197	209	221
Growth (%)	56.4	(76.3)	84.5	6.0	6.0
Total Revenues	17,824	16,456	16,116	15,378	16,246
Growth (%)	32.7	(7.7)	(2.1)	(4.6)	5.6

Source: Company, HSIE Research

We expect ISEC to cede ADTV market share, as competitive intensity continues to remain elevated, however with adoption of plans such as prime, market share decline will be limited.

We suspect broking yields will continue to compress as more clients opt for prime/prepaid brokerage plans and option pricing is reduced.

We build an AAUM decline of ~10% in FY21E as full impact of steep market correction will be felt only in FY21E.

We have fine tuned our insurance distribution revenues factoring in higher distribution yields as evidenced in 2HFY20.

Change in estimates lead to increase in PAT by 12.7/10.8% for FY21E/FY22E.

Estimate Change

Rs bn	FY21E			FY22E		
	Old	New	Change	Old	New	Change
Revenues	13,892	15,378	10.7	14,555	16,246	11.6
EBITDA	6,405	7,563	18.1	7,021	8,298	18.2
EBITDA margin (%)	46.1	49.2	308bps	48.2	51.1	284bps
PAT	4,429	4,993	12.7	5,107	5,660	10.8
RoE (%)	13,892	15,378	10.7	14,555	16,246	11.6

Source: Company, HSIE Research

Financials

Profit and Loss Account

(Rs mn)	FY15	FY16	FY17	FY18	FY19	FY20	FY21E	FY22E
Net Revenues	11,467	10,672	13,429	17,824	16,456	16,116	15,378	16,246
<i>Growth (%)</i>	<i>45.5%</i>	<i>-6.9%</i>	<i>25.8%</i>	<i>32.7%</i>	<i>-7.7%</i>	<i>-2.1%</i>	<i>-4.6%</i>	<i>5.6%</i>
Employee benefits expenses	3,921	4,014	4,846	5,453	5,545	5,338	5,107	5,165
Operating expenses	1,045	1,015	1,290	1,683	1,226	1,024	1,015	1,056
Other expenses	2,158	2,058	2,244	2,260	2,327	1,881	1,693	1,726
EBITDA	4,343	3,586	5,049	8,427	7,358	7,873	7,563	8,298
<i>EBITDA Margin (%)</i>	<i>37.9</i>	<i>33.6</i>	<i>37.6</i>	<i>47.3</i>	<i>44.7</i>	<i>48.9</i>	<i>49.2</i>	<i>51.1</i>
<i>EBITDA Growth (%)</i>	<i>182.4%</i>	<i>-17.4%</i>	<i>40.8%</i>	<i>66.9%</i>	<i>-12.7%</i>	<i>7.0%</i>	<i>-3.9%</i>	<i>9.7%</i>
Depreciation	163	160	155	153	150	614	602	621
EBIT	4,180	3,426	4,895	8,274	7,208	7,259	6,961	7,678
Other Income (includes treasury)	386	372	277	289	183	546	114	22
Interest & Financial Charges	68	57	(49)	14	27	276	400	133
PBT	4,497	3,741	5,221	8,549	7,365	7,529	6,675	7,567
Tax	1,558	1,354	1,835	2,971	2,592	1,908	1,682	1,907
APAT	2,939	2,387	3,386	5,577	4,773	5,622	4,993	5,660
<i>APAT Growth (%)</i>	<i>229.5%</i>	<i>-18.8%</i>	<i>41.8%</i>	<i>64.7%</i>	<i>-14.4%</i>	<i>17.8%</i>	<i>-11.2%</i>	<i>13.4%</i>
RPAT	2,939	2,387	3,386	5,577	4,908	5,420	4,993	5,660
<i>RPAT Growth (%)</i>	<i>229.5%</i>	<i>-18.8%</i>	<i>41.8%</i>	<i>64.7%</i>	<i>-12.0%</i>	<i>10.4%</i>	<i>-7.9%</i>	<i>13.4%</i>
AEPS	9.1	7.4	10.5	17.3	14.8	17.5	15.5	17.6
<i>EPS Growth (%)</i>	<i>252.1%</i>	<i>-18.8%</i>	<i>41.8%</i>	<i>64.7%</i>	<i>-14.4%</i>	<i>17.8%</i>	<i>-11.2%</i>	<i>13.4%</i>

Source: Company, HSIE Research

Balance Sheet

(Rs mn)	FY15	FY16	FY17	FY18	FY19	FY20	FY21E	FY22E
SOURCES OF FUNDS								
Share Capital	1,611	1,611	1,611	1,611	1,611	1,611	1,611	1,611
Reserves	1,912	2,371	3,285	6,866	8,862	10,485	11,416	13,469
Total Shareholders' Funds	3,523	3,982	4,896	8,477	10,473	12,095	13,027	15,080
Long-term Debt	-	-	-	-	-	1,574	1,257	903
Short-term Debt	2,265	1,729	3,954	6,724	4,473	14,975	9,000	11,500
Total Debt	2,265	1,729	3,954	6,724	4,473	16,550	10,257	12,403
Other Financial Liabilities & Provisions	202	310	389	535	705	829	1,000	1,087
Other Non Current Liabilities	525	628	827	5,210	5,286	5,311	5,842	6,426
Net Deferred Tax Liability	(387)	(509)	(578)	(666)	(738)	(596)	(607)	(620)
TOTAL SOURCES OF FUNDS	6,128	6,139	9,488	20,279	20,199	34,189	29,518	34,377
APPLICATION OF FUNDS								
Net Block	348	354	346	382	436	1,980	2,206	2,336
CWIP	37	24	28	39	40	81	33	33
Loans & Deposits	1,147	1,293	1,362	1,828	1,246	1,183	1,194	1,206
Other Non Current Assets	-	-	-	-	-	-	-	-
Total Non-current Assets	1,532	1,671	1,737	2,249	1,722	3,244	3,433	3,575
Liened FDs (ST + LT)	7,883	6,412	8,450	13,689	12,645	18,694	17,060	18,084
Debtors	1,731	2,933	7,101	3,101	4,770	888	3,160	3,116
Cash & Equivalents	821	264	1,206	1,770	18,841	5,420	(862)	1,605
Loans & Advances	310	254	359	5,822	4,061	5,733	6,020	6,923
Other Current Assets	963	1,932	1,045	1,442	3,870	9,854	9,782	10,024
Total Current Assets	11,709	11,795	18,160	25,824	44,187	40,589	35,160	39,751
Creditors	5,569	5,925	8,699	6,117	23,362	6,926	6,734	6,717
Other Current Liabilities	1,545	1,402	1,710	1,677	2,347	2,717	2,340	2,233
Total Current Liabilities	7,114	7,328	10,409	7,794	25,709	9,643	9,074	8,950
Net Current Assets	4,596	4,468	7,751	18,031	18,478	30,946	26,085	30,802
TOTAL APPLICATION OF FUNDS	6,128	6,139	9,488	20,279	20,199	34,189	29,518	34,377

Source: Company, HSIE Research

Cash Flow

(Rs mn)	FY15	FY16	FY17	FY18	FY19	FY20	FY21E	FY22E
Reported PBT	4,497	3,741	5,220	8,524	7,572	7,529	6,675	7,567
Non-operating & EO Items	(77)	22	5	164	130	196	-	-
Interest Expenses	304	251	277	483	413	707	400	133
Depreciation	163	160	155	153	150	614	602	621
Working Capital Change	(1,034)	776	(3,120)	(5,324)	19,738	(19,991)	(1,366)	(2,244)
Tax Paid	(1,579)	(1,553)	(1,986)	(3,221)	(2,925)	(2,051)	(1,682)	(1,907)
OPERATING CASH FLOW (a)	2,274	3,397	551	780	25,077	(12,995)	4,629	4,170
Net Capex	(199)	(165)	(154)	(216)	(208)	(226)	(308)	(292)
(Purchase)/sale of net operating financial assets	-	-	(16)	6	-	-	-	-
Free Cash Flow (FCF)	2,074	3,232	382	569	24,869	(13,222)	4,321	3,878
Investments	1,027	(1,075)	1,102	(69)	(2,183)	(5,788)	(167)	(170)
Non-operating Income								
INVESTING CASH FLOW (b)	828	(1,240)	932	(279)	(2,391)	(6,014)	(475)	(463)
Debt Issuance/(Repaid)	(906)	(537)	2,226	2,754	(2,264)	10,079	(5,975)	2,500
Interest Expenses	(304)	(251)	(277)	(466)	(400)	(626)	(400)	(133)
FCFE	865	2,444	2,331	2,857	22,205	(3,769)	(2,054)	6,244
Proceeds From Issue of Share Capital								
Dividend	(2,105)	(1,927)	(2,490)	(2,224)	(2,951)	(3,865)	(4,061)	(3,607)
Others	-	-	-	-	-	-	-	-
FINANCING CASH FLOW (c)	(3,315)	(2,715)	(541)	64	(5,615)	5,588	(10,436)	(1,240)
NET CASH FLOW (a+b+c)	(214)	(557)	942	564	17,071	(13,421)	(6,282)	2,467
Opening Cash & Equivalents	1,035	821	264	1,206	1,770	18,841	5,420	(862)
Closing Cash & Equivalents	821	264	1,206	1,770	18,841	5,420	(862)	1,605

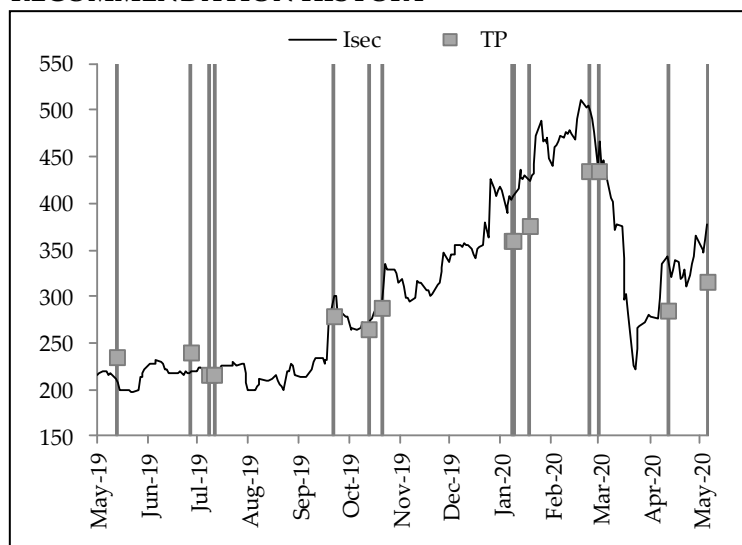
Source: Company, HSIE Research

Key Ratios

	FY15	FY16	FY17	FY18	FY19	FY20	FY21E	FY22E
PROFITABILITY (%)								
EBITDA Margin	37.9	33.6	37.6	47.3	44.7	48.9	49.2	51.1
EBIT Margin	36.5	32.1	36.4	46.4	43.8	45.0	45.3	47.3
APAT Margin	25.6	22.4	25.2	31.3	29.8	33.6	32.5	34.8
RoE	97.7	63.6	76.3	83.4	50.4	49.8	39.7	40.3
Core RoCE	33.3	25.4	35.9	42.0	30.0	24.7	18.3	20.1
RoCE	32.7	26.4	35.0	39.0	18.5	17.1	17.2	19.9
EFFICIENCY								
Tax Rate (%)	34.6	36.2	35.1	34.8	35.2	25.3	25.2	25.2
Asset Turnover (x)	32.9	30.4	38.3	48.9	40.2	13.3	7.3	7.2
Inventory (days)								
Debtors (days)	55	100	193	64	106	90	75	70
Other Current Assets (days)	281	246	259	421	400	539	578	592
Payables (days)	251	302	376	198	795	240	240	240
Other Current Liab & Prov (days)	50	49	48	34	54	55	55	55
Working Capital (days)	34	-5	29	252	-344	334	358	367
Debt/EBITDA (x)	0.52	0.48	0.78	0.80	0.61	2.10	1.36	1.49
Net D/E	0.4	0.4	0.6	0.6	(1.4)	0.9	0.9	0.7
Interest Coverage	61.1	60.6	(100.4)	574.1	271.7	26.3	17.4	57.5
PER SHARE DATA								
AEPS (Rs/sh)	9.1	7.4	10.5	17.3	14.8	17.5	15.5	17.6
CEPS (Rs/sh)	9.6	7.9	11.0	17.8	15.3	19.4	17.4	19.5
DPS (Rs/sh)	5.0	5.0	6.4	5.5	9.4	11.0	10.5	9.3
BV (Rs/sh)	10.9	12.4	15.2	26.3	32.5	37.5	40.4	46.8
VALUATION								
P/E	41.4	51.0	36.0	21.8	25.5	21.7	24.4	21.5
P/BV	34.6	30.6	24.9	14.4	11.6	10.1	9.3	8.1
EV/EBITDA	29.3	35.2	25.0	15.4	17.1	17.6	18.0	16.4
OCF/EV (%)	1.6	2.5	0.3	0.4	19.8	(9.6)	3.3	3.1
FCF/EV (%)	1.6	2.6	0.3	0.4	19.7	(9.5)	3.2	2.8
FCFE/MCAP (%)	0.7	2.0	1.9	2.3	18.2	(3.1)	(1.7)	5.1
Dividend Yield (%)	1.3	1.3	1.7	1.5	2.5	2.9	2.8	2.5

Source: Company, HSIE Research

RECOMMENDATION HISTORY



Date	CMP	Reco	Target
14-May-19	211	NEU	235
28-Jun-19	218	NEU	240
9-Jul-19	216	NEU	216
13-Jul-19	219	NEU	216
22-Sep-19	273	NEU	279
14-Oct-19	266	NEU	265
23-Oct-19	287	NEU	288
9-Jan-20	403	SELL	360
11-Jan-20	408	SELL	360
21-Jan-20	424	SELL	376
25-Feb-20	505	SELL	435
2-Mar-20	476	SELL	435
11-Apr-20	335	SELL	285
8-May-20	378	SELL	316

From 2nd March 2020, we have moved to new rating system

Rating Criteria

BUY: >+15% return potential

ADD: +5% to +15% return potential

REDUCE: -10% to +5% return potential

SELL: > 10% Downside return potential

Disclosure:

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HDFC securities Limited, I Think Techno Campus, Building - B, "Alpha", Office Floor 8, Near Kanjurmarg Station, Opp. Crompton Greaves, Kanjurmarg (East), Mumbai 400 042 Phone: (022) 3075 3400 Fax: (022) 2496 5066 Compliance Officer: Binkle R. Oza Email: complianceofficer@hdfcsec.com Phone: (022) 3045 3600

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HDFC securities

Institutional Equities

Unit No. 1602, 16th Floor, Tower A, Peninsula Business Park,

Senapati Bapat Marg, Lower Parel, Mumbai - 400 013

Board: +91-22-6171-7330 www.hdfcsec.com