

Endurance Technologies

Healthy order book

While Endurance reported a weak 1Q, the auto parts maker RFQs have risen to Rs 15.4bn in 1QFY21 (up from Rs 12.8bn QoQ). With the recent acquisition of its Italian technology partners Grimeca and Adler, the company is further expanding its presence with customers. It is winning new orders from new customers (TVS Motors), and the management expects to increase its wallet share by cross-selling products to OEMs. Endurance has raised FY21E Capex guidance to Rs 2bn (from 1.5bn earlier). **The stock is amongst our preferred pick in the autos/auto parts sector as the company is well-positioned to benefit from a demand recovery over FY22/23E. Maintain BUY.**

- **1QFY21 financials: Standalone:** Revenue/EBITDA declined by 74/99% YoY, owing to COVID-led lockdown and decline in production volumes from all major OEMs. EBITDA margin came in at 0.7% due to negative operating leverage. Standalone loss of Rs 319mn. **Consolidated:** Revenue/EBITDA declined by 68/88% YoY. EBITDA margin came in at 7.1% (17.9/14.9% YoY/QoQ). Loss of Rs 249mn. Performance of Europe operations was better than India business. The revenue decline was lower at 55% as Europe has started to open up. EBITDA margin came in at 16.3% (-123bps YoY).
- **Concall and other highlights: (1) Healthy order book, ramp-up from TVS:** The company has won new orders, particularly from TVS, an OEM in which it has a nominal presence. The orders include Rs 1,220mn for brakes and Rs 320mn for suspension components. Endurance's requests for quotes have risen to Rs 15.4bn in 1Q. **(2) New plant:** Endurance is setting up a capacity of 600k p.a of CBS brakes at its Pantnagar plant in Uttarakhand, which will commence operations by 2021. **(3) Demand is picking up in 2Q:** In 1Q, business from Bajaj Auto declined by 68%, Honda by 88% and RE and Hero by 78%. However, these OEMs are now witnessing demand pick-up and production is expected to return to pre-COVID levels. **(4) Europe business:** While sales were down 52.5% YoY, sales trends/forecasts suggest a rebound in Europe's passenger car sales. In the last two years, the company has received EUR 110mn worth of business for EV and hybrid cars from Audi, Porsche, VW, Daimler, BMW, etc.
- **Earnings outlook:** While we are lowering our FY20 estimates to factor in the weak 1QFY21 performance, we are positive on the order book ramp-up at Endurance, particularly with new OEMs. We set a revised target price of Rs 1,085, based on 26x Jun-22 EPS (25x earlier), to factor in the improving outlook **Key risks:** (1) a delayed recovery in 2W sales and (2) any pushback in timelines of new orders.

Financial Summary (Consolidated)

YE Mar (Rs mn)	1Q FY21	1Q FY20	YoY (%)	4Q FY20	QoQ (%)	FY19	FY20	FY21E	FY22E	FY23E
Net Sales	6,031	19,092	(68.4)	15,968	(62.2)	75,105	69,177	59,819	68,401	78,575
EBITDA	427	3,414	(87.5)	2,379	(82.0)	11,288	11,308	8,528	11,260	13,190
APAT	(249)	1,656	NA	1,068	NA	5,158	5,655	3,781	5,558	6,816
Adj. EPS (Rs)	(1.8)	11.8	NA	7.6	NA	36.7	40.2	26.9	39.5	48.5
APAT Growth (%)						23.5	9.6	(33.1)	47.0	22.6
P/E (x)						26.2	23.9	35.8	24.3	19.8
RoE (%)						21.8	20.3	12.0	15.8	16.9

Source: Company, HSIE Research

BUY

CMP (as on 14 Aug 2020)	Rs 960
Target Price	Rs 1,085
NIFTY	11,178

KEY CHANGES	OLD	NEW
Rating	BUY	BUY
Price Target	Rs 1,040	Rs 1,085
EPS %	FY21E -15%	FY22E 0%

KEY STOCK DATA

Bloomberg code	ENDU IN
No. of Shares (mn)	141
MCap (Rs bn) / (\$ mn)	135/1,803
6m avg traded value (Rs mn)	139
52 Week high / low	Rs 1,205/562

STOCK PERFORMANCE (%)

	3M	6M	12M
Absolute (%)	49.5	(9.7)	14.3
Relative (%)	27.8	(1.6)	12.8

SHAREHOLDING PATTERN (%)

	Mar-20	Jun-20
Promoters	75.0	75.0
FIs & Local MFs	7.4	11.6
FPIs	16.3	11.8
Public & Others	1.3	1.6
Pledged Shares	0.0	0.0

Source : BSE

Aditya Makharia

aditya.makharia@hdfcsec.com
+91-22-6171-7316

Mansi Lall

mansi.lall@hdfcsec.com
+91-22-6171-7357

Standalone revenue declined by 74/68% YoY/QoQ affected by COVID led lockdown

Aftermarket sales were at 4.7% of net sales. In 1QFY21, Aftermarket revenue came in at Rs 169mn vs Rs 592mn YoY

The company will start supply for aluminium casting for new Hyundai Venue and Kia Sonet. The share of machined castings is in excess of 50%.

Competitors in the brake segment include Nissin from Japan and Brembo

Performance from Bajaj Auto and Hero Motocorp in Jun-20 was encouraging

India business had nil debt as of Jun-20 with cash levels of Rs 275mn

Standalone Quarterly Financial Snapshot

Particulars (Rs mn)	1QFY21	1QFY20	YoY (%)	4QFY20	QoQ (%)
Net sales (incl OOI)	3,562	13,612	(73.8)	11,244	(68.3)
Material Expenses	2,163	8,237	(73.7)	6,970	(69.0)
Employee Expenses	670	756	(11.4)	738	(9.2)
Other Operating Expenses	703	2,162	(67.5)	2,173	(67.7)
Total Expenditure	3,536	11,156	(68.3)	9,881	(64.2)
EBITDA	26	2,455	(99.0)	1,363	(98.1)
Depreciation	465	486	(4.3)	522	(10.9)
EBIT	(439)	1,970	NA	841	NA
Other Income	42	33	26.2	146	(71.5)
Interest Cost	20	36	(43.1)	17	19.2
PBT	(418)	1,967	NA	970	NA
Tax	(99)	676	NA	251	NA
RPAT	(319)	1,291	NA	719	NA
EO Items (Adj For Tax)	-	-	-	-	-
APAT	(319)	1,291	NA	719	NA
Adj EPS	(2.3)	9.2	NA	5.1	NA

Source: Company, HSIE Research

Quarterly Performance Analysis

As % of sales	1QFY21	1QFY20	YoY (bps)	4QFY20	QoQ (bps)
Material Expenses	60.7	60.5	21	62.0	(127)
Employee Expenses	18.8	5.6	1,326	6.6	1,225
Other Operating Expenses	19.7	15.9	385	19.3	41
Total Expenditure	99.3	82.0	1,732	87.9	1,140
EBITDA	0.7	18.0	(1,732)	12.1	(1,140)
RPAT	(8.9)	9.5	NA	6.4	NA
APAT	(8.9)	9.5	NA	6.4	NA
Tax as % of PBT	23.8	34.4	NA	25.9	NA

Source: Company, HSIE Research

Consolidated Quarterly Financial Snapshot

Consolidated revenue declined 68% YoY

Performance of Europe operations was broadly better than India standalone business with EBITDA margin at 16.3%

Consolidated Net debt to Equity was at 0.3:1

59% of total income was from domestic markets

European operations were relatively lesser impacted as the western economies have started opening up

Particulars (Rs mn)	1QFY21	1QFY20	YoY (%)	4QFY20	QoQ (%)
Net sales (incl OOI)	6,031	19,092	(68.4)	15,968	(62.2)
Material Expenses	2,889	10,352	(72.1)	8,664	(66.7)
Employee Expenses	1,320	1,793	(26.4)	1,627	(18.9)
Other Operating Expenses	1,394	3,533	(60.5)	3,298	(57.7)
Total Expenditure	5,604	15,678	(64.3)	13,589	(58.8)
EBITDA	427	3,414	(87.5)	2,379	(82.0)
Depreciation	856	927	(7.7)	1,230	(30.4)
EBIT	(428)	2,486	NA	1,149	(137.3)
Other Income	109	68	60.0	174	(37.8)
Interest Cost	42	58	(28.5)	26	62.6
PBT	(361)	2,496	NA	1,298	NA
Tax	(112)	840	NA	229	NA
RPAT	(249)	1,656	NA	1,068	NA
EO Items (Adj For Tax)	-	-	-	-	-
Minority Interest	(0)	-	-	-	-
APAT	(249)	1,656	NA	1,068	NA
Adj EPS	(1.8)	11.8	NA	7.6	NA

Source: Company, HSIE Research

Quarterly Performance Analysis

As % of sales	1QFY21	1QFY20	YoY (bps)	4QFY20	QoQ (bps)
Material Expenses	47.9	54.2	(632)	54.3	(635)
Employee Expenses	21.9	9.4	1,250	10.2	1,169
Other Operating Expenses	23.1	18.5	461	20.7	247
Total Expenditure	92.9	82.1	1,080	85.1	781
EBITDA	7.1	17.9	(1,080)	14.9	(781)
RPAT	(4.1)	8.7	NA	6.7	NA
APAT	(4.1)	8.7	NA	6.7	NA
Tax as % of PBT	31.0	33.7	NA	17.7	NA

Source: Company, HSIE Research

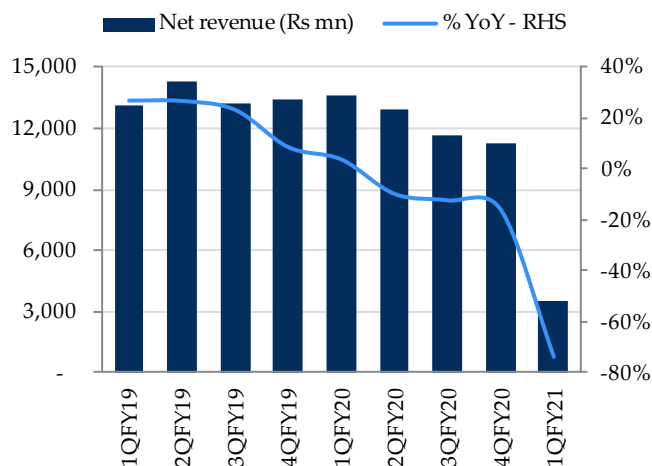
Europe operations

Particulars (Rs mn)	1QFY21	1QFY20	YoY (%)	4QFY20	QoQ (%)
Net Sales	2,469	5,480	(54.9)	4,724	(47.7)
EBITDA	402	958	(58.1)	1,016	(60.5)
EBITDA margin (%)	16.3	17.5	-123 bps	21.5	-525 bps
PAT	69	365	(81.0)	350	(80.1)

Source: Company, HSIE Research

STANDALONE

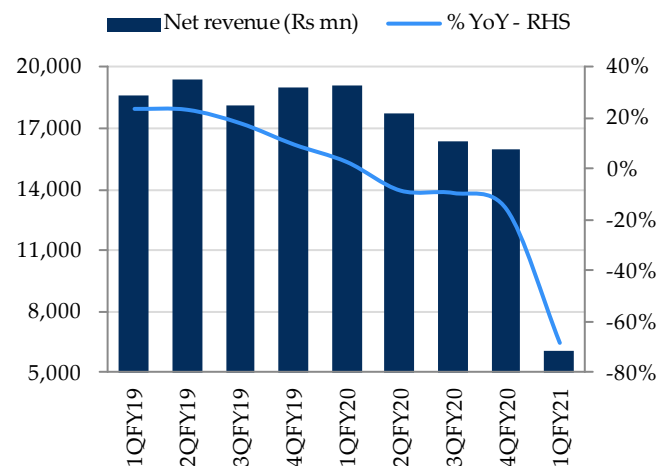
Net Revenue affected due to COVID



Source: Company, HSIE Research

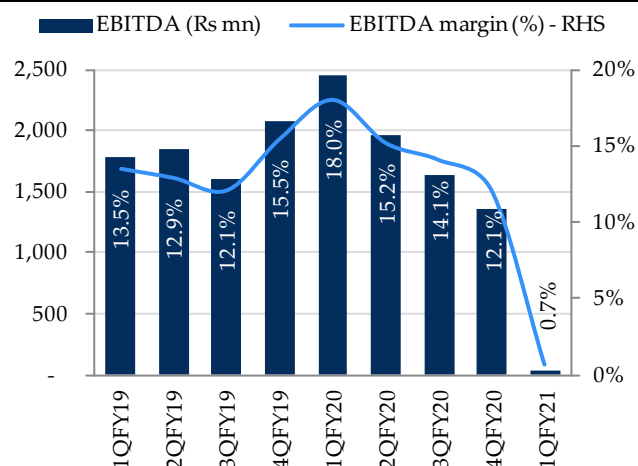
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Net Revenue



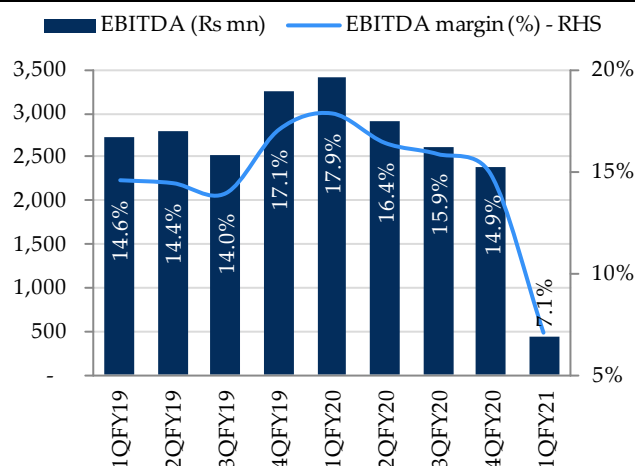
Source: Company, HSIE Research

EBITDA margins affected by negative op lev



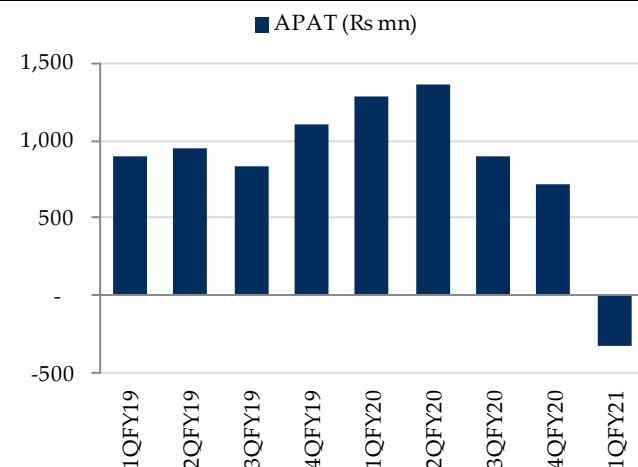
Source: Company, HSIE Research

Consolidated EBITDA margins



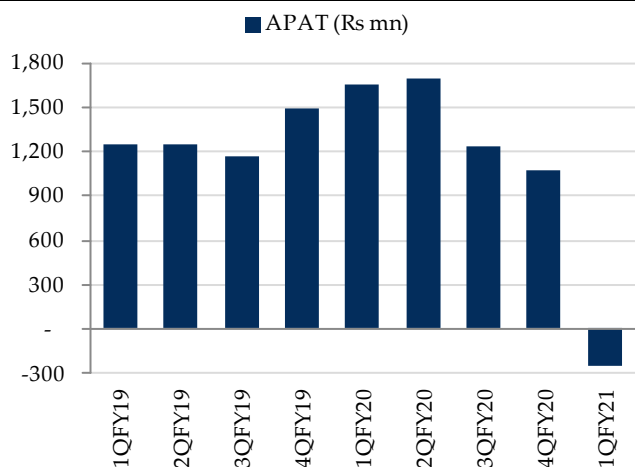
Source: Company, HSIE Research

Endurance's Standalone Profit



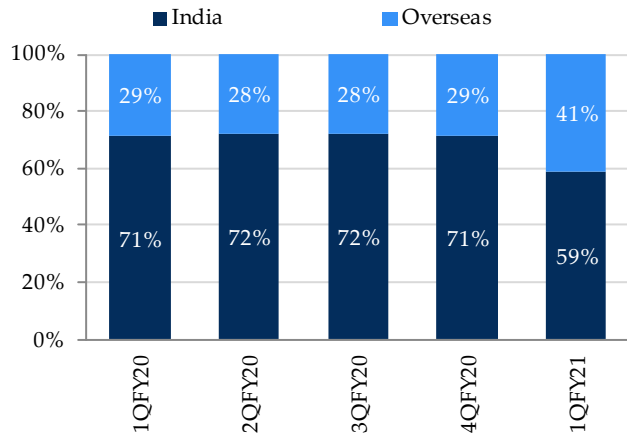
Source: Company, HSIE Research

Endurance's Consolidated Profit



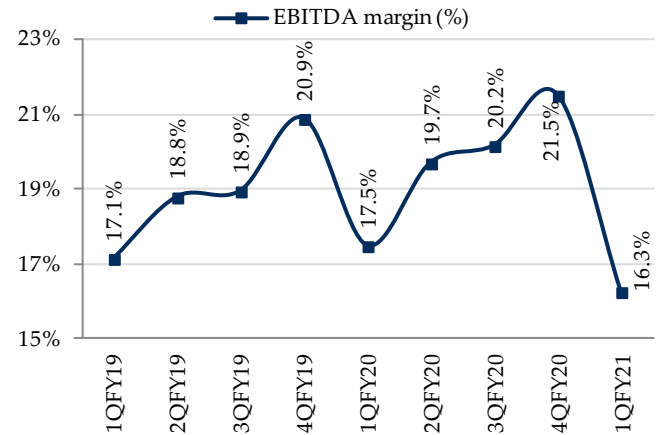
Source: Company, HSIE Research

Geographical mix (%)



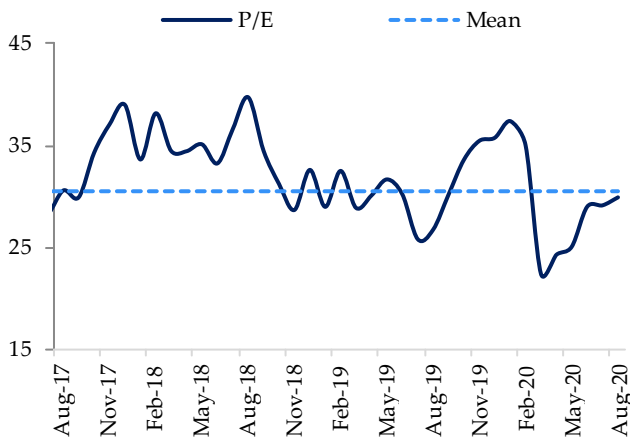
Source: Company, HSIE Research

Europe business EBITDA margins



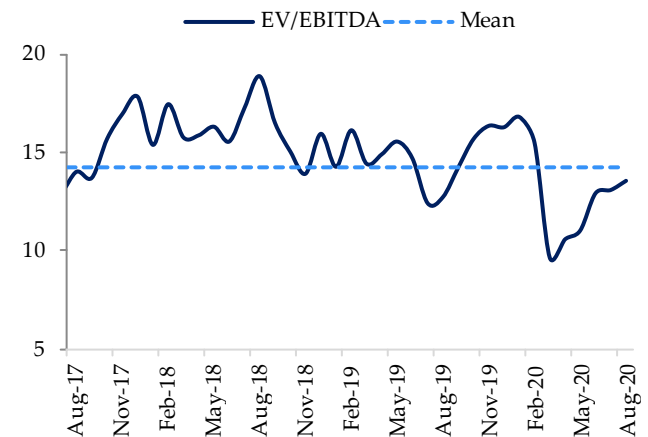
Source: Company, HSIE Research

1 forward P/E band chart



Source: Bloomberg, Company, HSIE Research

1 forward EV/EBITDA band chart (x)



Source: Bloomberg, Company, HSIE Research

Change in estimates

	New			Old			% change		
	FY21E	FY22E	FY23E	FY21E	FY22E	FY23E	FY21E	FY22E	FY23E
Revenue	59,819	68,401	78,575	64,412	72,358	81,710	(7)	(5)	(4)
EBITDA	8,528	11,260	13,190	10,214	11,910	13,595	(17)	(5)	(3)
EBITDA Margin (%)	14.3	16.5	16.8	15.9	16.5	16.6	-160 bps	0 bps	15 bps
PAT	3,781	5,558	6,816	4,464	5,576	6,598	(15)	(0)	3
EPS	26.9	39.5	48.5	31.7	39.6	46.9	(15)	(0)	3

Source: HSIE Research

Peer set comparison

	Mcap (Rs bn)	CMP (Rs/sh)	Reco	Adj EPS (Rs/sh)			P/E (x)			RoE (%)		
				FY21E	FY22E	FY23E	FY21E	FY22E	FY23E	FY21E	FY22E	FY23E
Ashok Leyland	181	62	REDUCE	0.6	3.5	4.7	101.3	17.6	13.1	2.4	13.4	16.4
Bajaj Auto	863	2,983	ADD	144.3	166.0	194.0	20.7	18.0	15.4	20.0	20.9	22.2
Escorts Ltd.	135	1,101	ADD	54.1	71.1	85.0	20.4	15.5	12.9	13.0	13.6	14.2
Hero Motocorp	560	2,805	BUY	124.9	156.4	182.5	22.5	17.9	15.4	17.0	19.5	20.5
Mahindra	733	615	ADD	27.5	35.3	41.9	22.4	17.4	14.7	9.2	10.9	11.8
Maruti Suzuki	1,989	6,587	BUY	145.9	261.6	330.9	45.1	25.2	19.9	8.5	14.1	16.1
Tata Motors	448	125	ADD	(29.7)	(0.5)	9.8	(4.2)	(227.8)	12.7	(25.0)	(0.5)	9.0
Endurance	135	960	BUY	26.9	39.5	48.5	35.8	24.3	19.8	12.0	15.8	16.9
Subros	14	217	ADD	2.8	10.6	14.4	77.4	20.4	15.0	2.4	8.7	10.8

Source: Company, HSIE Research

Key Assumptions:**Standalone business**

Revenue from: (Rs mn)	FY17	FY18	FY19	FY20	FY21E	FY22E	FY23E
Aluminum die casting	18,290	19,616	22,741	20,753	17,640	19,933	22,545
Shock absorbers (suspension)	14,378	16,738	19,065	17,294	15,046	17,152	19,897
Brake assembly	2,856	2,910	4,042	5,534	4,981	5,877	7,053
Clutch (transmission)	3,304	4,033	4,609	4,842	4,358	5,143	6,068
Components and others	3,974	2,883	3,718	962	972	1,117	1,341
Gross Revenue	42,802	46,180	54,174	49,386	42,997	49,223	56,903
Excise duty	4,003	1,279	-	-	-	-	-
Net Revenue	38,798	44,901	54,174	49,386	42,997	49,223	56,903
EBITDA	4,710	5,904	7,320	7,423	5,332	7,482	8,877
EBITDA margin (%)	12.1%	13.1%	13.5%	15.0%	12.4%	15.2%	15.6%
Adj. net profit	2,215	2,985	3,787	4,277	2,843	4,286	5,281

Source: Company, HSIE Research

Europe business

Rs mn	FY17	FY18	FY19	FY20	FY21E	FY22E	FY23E
Net Sales (in EUR)	233	245	259	251	208	237	268
Net Sales	17,110	18,613	20,930	19,791	16,823	19,178	21,671
% YoY	9%	9%	12%	-5%	-15%	14%	13%
EBITDA	2,873	3,373	3,968	3,885	3,196	3,778	4,313
EBITDA Margin (%)	16.8%	18.1%	19.0%	19.6%	19.0%	19.7%	19.9%
% YoY	20.2%	17.4%	17.6%	-2.1%	-17.7%	18.2%	14.1%

Source: Company, HSIE Research

Financials

Consolidated Income Statement

(Rs mn)	FY17	FY18	FY19	FY20P	FY21E	FY22E	FY23E
Net Revenues	55,909	63,514	75,105	69,177	59,819	68,401	78,575
<i>Growth (%)</i>	6.9	13.6	18.2	(7.9)	(13.5)	14.3	14.9
Material Expenses	32,265	36,583	43,495	37,352	32,503	37,132	42,638
Employee Expenses	5,455	5,809	6,527	6,773	6,073	6,450	7,488
Other Operating Expenses	10,605	11,844	13,795	13,744	12,715	13,559	15,259
Total Expenses	48,325	54,236	63,817	57,869	51,291	57,141	65,385
EBITDA	7,583	9,278	11,288	11,308	8,528	11,260	13,190
<i>EBITDA Margin (%)</i>	13.6	14.6	15.0	16.3	14.3	16.5	16.8
<i>EBITDA Growth (%)</i>	12.0	22.3	21.7	0.2	(24.6)	32.0	17.1
Depreciation	2,905	3,216	3,762	4,143	3,923	4,471	4,880
EBIT	4,678	6,062	7,526	7,165	4,605	6,790	8,310
Other Income (Including EO Items)	291	(33)	62	476	524	602	723
Interest	322	235	257	175	140	126	122
PBT	4,646	5,793	7,331	7,465	4,988	7,265	8,910
Tax (Incl Deferred)	1,343	1,886	2,381	1,810	1,207	1,707	2,094
Minority Interest	-	-	-	-	-	-	-
RPAT	3,303	3,908	4,950	5,655	3,781	5,558	6,816
EO (Loss)/Profit (Net Of Tax)	-	(269)	(208)	-	-	-	-
APAT	3,303	4,176	5,158	5,655	3,781	5,558	6,816
<i>APAT Growth (%)</i>	10.3	26.4	23.5	9.6	(33.1)	47.0	22.6
Adjusted EPS (Rs)	23.5	29.7	36.7	40.2	26.9	39.5	48.5
<i>EPS Growth (%)</i>	10.3	26.4	23.5	9.6	(33.1)	47.0	22.6

Source: Company, HSIE Research

Consolidated Balance Sheet

(Rs mn)	FY17	FY18	FY19	FY20P	FY21E	FY22E	FY23E
SOURCES OF FUNDS							
Share Capital - Equity	1,407	1,407	1,407	1,407	1,407	1,407	1,407
Reserves	15,887	20,322	24,240	28,654	31,506	36,085	41,888
Total Shareholders Funds	17,293	21,729	25,647	30,060	32,913	37,492	43,295
Minority Interest	-	-	-	-	-	-	-
Long Term Debt	3,422	3,803	3,464	4,021	3,981	3,941	3,901
Short Term Debt	1,736	1,783	2,120	1,461	1,490	1,520	1,550
Total Debt	5,158	5,586	5,584	5,482	5,471	5,461	5,452
Net Deferred Taxes	(182)	(103)	(150)	(242)	(247)	(252)	(257)
TOTAL SOURCES OF FUNDS	22,270	27,212	31,081	35,300	38,137	42,701	48,490
APPLICATION OF FUNDS							
Net Block	14,982	16,932	20,112	24,439	23,045	24,075	25,195
Goodwill	1,355	1,577	1,520	1,624	1,657	1,690	1,724
CWIP & Intangible assets under development	438	592	1,178	1,260	1,285	1,310	1,337
Investments	10	10	13	12	83	125	128
Other Non-current Assets	2,122	2,680	3,072	1,568	1,600	1,632	1,664
Total Non-current Assets	18,907	21,792	25,894	28,903	27,670	28,832	30,047
Cash & Equivalents	2,516	5,476	5,727	7,858	12,199	15,469	19,875
Inventories	4,438	4,939	5,400	5,501	4,757	5,439	6,248
Debtors	7,609	9,688	9,251	6,727	5,817	6,652	7,641
Other Current Assets	1,453	1,398	1,277	1,389	1,417	1,446	1,474
Total Current Assets	16,016	21,501	21,655	21,476	24,191	29,006	35,239
Creditors	8,642	11,284	11,735	10,662	9,220	10,543	12,111
Other Current Liabilities & Provns	4,011	4,797	4,734	4,416	4,504	4,594	4,686
Total Current Liabilities	12,653	16,081	16,468	15,078	13,724	15,137	16,797
Net Current Assets	3,363	5,420	5,187	6,397	10,467	13,869	18,443
TOTAL APPLICATION OF FUNDS	22,270	27,212	31,081	35,300	38,137	42,701	48,490

Source: Company, HSIE Research

Consolidated Cash Flow

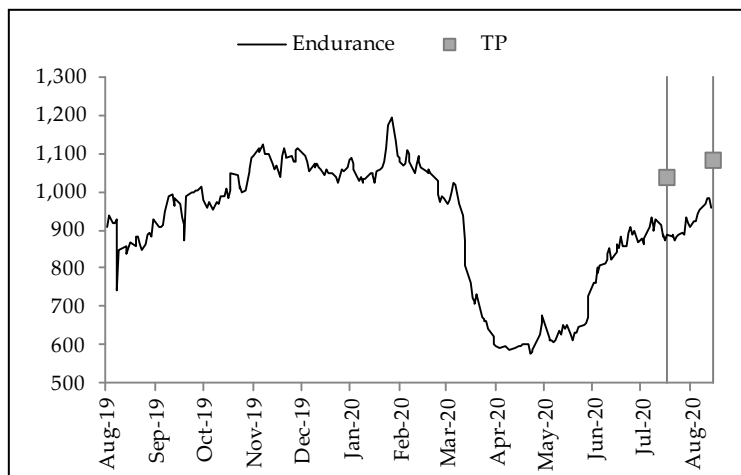
(Rs mn)	FY17	FY18	FY19	FY20P	FY21E	FY22E	FY23E
Reported PBT	4,646	5,793	7,331	7,465	4,988	7,265	8,910
Non-operating & EO Items	(291)	33	(62)	(476)	(524)	(602)	(723)
Interest Expenses	322	235	257	175	140	126	122
Depreciation	2,905	3,216	3,762	4,143	3,923	4,471	4,880
Working Capital Change	(1,849)	903	484	920	272	(133)	(167)
Tax Paid	(1,340)	(1,807)	(2,428)	(1,902)	(1,212)	(1,712)	(2,099)
OPERATING CASH FLOW (a)	4,395	8,375	9,344	10,326	7,588	9,415	10,923
Capex	(2,778)	(5,542)	(7,470)	(8,656)	(2,588)	(5,559)	(6,060)
Free Cash Flow (FCF)	1,617	2,832	1,874	1,669	5,001	3,856	4,863
Investments	166	(559)	(394)	1,505	(103)	(74)	(35)
Non-operating Income	291	(33)	62	476	524	602	723
INVESTING CASH FLOW (b)	(2,321)	(6,134)	(7,802)	(6,676)	(2,167)	(5,030)	(5,373)
Debt Issuance/(Repaid)	(874)	428	(2)	(102)	(11)	(10)	(9)
Interest Expenses	(322)	(235)	(257)	(175)	(140)	(126)	(122)
FCFE	421	3,025	1,614	1,392	4,849	3,720	4,732
Share Capital Issuance	(86)	1,203	(103)	(313)	(0)	0	-
Dividend	(422)	(675)	(928)	(928)	(928)	(979)	(1,013)
FINANCING CASH FLOW (c)	(1,704)	720	(1,291)	(1,519)	(1,080)	(1,115)	(1,144)
NET CASH FLOW (a+b+c)	370	2,961	251	2,131	4,342	3,269	4,406
Closing Cash & Equivalents	2,516	5,476	5,727	7,858	12,199	15,469	19,875

Key Ratios

	FY17	FY18	FY19	FY20P	FY21E	FY22E	FY23E
PROFITABILITY (%)							
GPM	42.3	42.4	42.1	46.0	45.7	45.7	45.7
EBITDA Margin	13.6	14.6	15.0	16.3	14.3	16.5	16.8
EBIT Margin	8.4	9.5	10.0	10.4	7.7	9.9	10.6
APAT Margin	5.9	6.6	6.9	8.2	6.3	8.1	8.7
RoE	20.8	21.4	21.8	20.3	12.0	15.8	16.9
RoIC (or Core RoCE)	17.5	19.7	21.6	20.6	13.1	19.5	22.8
RoCE	15.6	16.5	17.4	16.4	9.5	12.9	13.9
EFFICIENCY							
Tax Rate (%)	28.9	32.6	32.5	24.2	24.2	23.5	23.5
Fixed Asset Turnover (x)	3.7	3.8	3.7	2.8	2.6	2.8	3.1
Inventory (days)	29.0	28.4	26.2	29.0	29.0	29.0	29.0
Debtors (days)	49.7	55.7	45.0	35.5	35.5	35.5	35.5
Other Current Assets (days)	9.5	8.0	6.2	7.3	8.6	7.7	6.8
Payables (days)	56.4	64.8	57.0	56.3	56.3	56.3	56.3
Other Current Liab & Provsns (days)	26.2	27.6	23.0	23.3	27.5	24.5	21.8
Cash Conversion Cycle (days)	5.5	(0.3)	(2.6)	(7.7)	(10.6)	(8.5)	(6.7)
Debt/EBITDA (x)	0.3	0.0	(0.0)	(0.2)	(0.8)	(0.9)	(1.1)
Net D/E (x)	0.2	0.0	(0.0)	(0.1)	(0.2)	(0.3)	(0.3)
Interest Coverage (x)	14.5	25.8	29.2	40.9	32.8	53.8	67.8
PER SHARE DATA (Rs)							
EPS	23.5	29.7	36.7	40.2	26.9	39.5	48.5
CEPS	44.1	50.6	61.9	69.7	54.8	71.3	83.1
Dividend	2.5	4.0	5.5	5.5	5.5	5.8	6.0
Book Value	123	154	182	214	234	267	308
VALUATION							
P/E (x)	40.9	32.4	26.2	23.9	35.8	24.3	19.8
P/BV (x)	7.8	6.2	5.3	4.5	4.1	3.6	3.1
EV/EBITDA (x)	18.2	14.6	12.0	11.8	15.1	11.1	9.2
EV/Revenues (x)	2.5	2.1	1.8	1.9	2.1	1.8	1.5
OCF/EV (%)	3.2	6.2	6.9	7.8	5.9	7.5	9.0
FCF/EV (%)	1.2	2.1	1.4	1.3	3.9	3.1	4.0
FCFE/Mkt Cap (%)	0.3	2.2	1.2	1.0	3.6	2.8	3.5
Dividend Yield (%)	0.3	0.4	0.6	0.6	0.6	0.6	0.6

Source: Company, HSIE Research

RECOMMENDATION HISTORY



Date	CMP	Reco	Target
16-Jul-20	872	BUY	1,040
15-Aug-20	960	BUY	1,085

Rating Criteria

BUY: >+15% return potential
 ADD: +5% to +15% return potential
 REDUCE: -10% to +5% return potential
 SELL: >10% Downside return potential

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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