

# Ujjivan Small Finance Bank

Refer to important disclosures at the end of this report

## Strong earnings beat, but higher share of MFI remains a concern

- Ujjivan SFB reported a strong PAT beat at Rs2.94bn (vs Emkay est at Rs0.98bn), mainly due to higher other income and provision reversal. Bank expects the RoA trajectory to remain sturdy in FY23 led by better growth, margins and continued moderation in LLP given the current stock of NPAs being largely covered.
- Overall AUM/credit growth accelerated to 44%/29% YoY, largely on strong traction in MFI, SME and housing segments. Share of MFI loans inched up to 69%, which is worrying as other banks look to diversify away from MFI. Bank has guided for ~30% growth in FY23E, with back-book stress easing and given its strong capital buffer post the recent QIP.
- The bank has successfully completed QIP, thus paving the way for SEBI approval; it is in the process of gaining residual regulatory/NCLT approval, to complete the merger process over the next 12 months. Factoring-in the strong growth guidance, margin and asset quality improvement, we raise our earnings estimates for FY23-25. We expect the bank's RoA/RoE to shoot up to 3.2%/27%, and normalizing thereafter to 2.2%/19%.
- Building-in the earning upgrades and higher P/ABV at 1.2x (v/s 0.9x earlier) on Sep-24E ABV, we upgrade our TP to Rs30/share (from Rs18). However, we retain HOLD on the stock, as we believe that the bank will remain prone to asset quality shocks given its higher share of MFI portfolio and still sub-par liability profile. Management stability, too, remains a long-term issue for the bank. We retain HOLD on Ujjivan Financial Services (holdco), with a revised TP of Rs284/share (from Rs170), applying a 20% holdco discount.

- What we liked:** Accelerating pace of business growth and continued sharp improvement in asset quality, leading to provision reversal, **What we did not like:** Increase in share of MFI loans to 66% of loans, though Bank is otherwise prone to asset quality risks and moderation in CASA ratio.
- Strong growth, better yields support margins:** Ujjivan SFB reported strong AUM growth, at 44% YoY/8% QoQ, while net credit growth stood at 29% YoY/6% QoQ. This was mainly led by the MFI, SME and affordable-housing segments. However, increase in share of the MFI book to 69% of loans exposes the bank to asset quality risk and is, thus, concerning. Deposits growth, too, was robust at 45% YoY/11% QoQ, but CASA ratio declined by 100bps to 27% and remains sub-par vs peers. NIM improved by 20bps to 9.8% due to better growth/loan yields, but Mgmt expects medium-term NIM of 9.5%.
- Lower fresh NPA formation drives continued improvement in asset quality:** Fresh slippages moderated to Rs0.75bn/2.2% of loans, which, coupled with better recoveries/upgrades, led to a sharp 150bps reduction in GNPA ratio to 5.1% of loans. Overall restructured pool, too, reduced, to Rs4.7bn/2.7% of loans vs 4.0% in Q1. Overall improved collection efficiency reflects in the lower slippages as well as in the decline in the 'portfolio at risk' (PAR) to 6.1% vs 7.9% in Q1FY23 and 9.6% in Q4FY22.

Please see our sector model portfolio (Emkay Alpha Portfolio): [BFSI-Banks \(Page 8\)](#)

### Financial Snapshot (Standalone)

(Rs mn)	FY21	FY22	FY23E	FY24E	FY25E
Net income	20,309	20,869	32,076	37,504	46,106
Net profit	83	(4,146)	8,374	8,495	9,046
EPS (Rs)	0.0	(2.4)	4.5	4.3	4.6
ABV (Rs)	15.4	14.4	19.6	22.6	25.2
RoA (%)	0.0	(1.9)	3.1	2.5	2.1
RoE (%)	0.3	(15.0)	26.0	20.2	18.9
P/E (x)	585.3	(11.7)	6.2	6.5	6.1
P/ABV	1.8	1.9	1.4	1.2	1.1

Source: Company, Emkay Research

<b>CMP</b>	<b>Target Price</b>
<b>Rs 28</b> as of (November 8, 2022)	<b>Rs 30 (▲)</b> 12 months
<b>Rating</b>	<b>Upside</b>
<b>HOLD (■)</b>	<b>6.8 %</b>

### Change in Estimates

EPS Chg FY23E/FY24E (%)	-/
Target Price change (%)	66.7
Target Period (Months)	12
Previous Reco	HOLD

### Emkay vs Consensus

EPS Estimates		
	FY23E	FY24E
Emkay	4.5	4.3
Consensus	3.1	3.8
Mean Consensus TP (12M)	Rs 30	

### Stock Details

Bloomberg Code	UJJIVANS IN
Face Value (Rs)	10
Shares outstanding (mn)	1,955
52 Week H/L	30 / 14
M Cap (Rs bn/USD bn)	55 / 0.67
Daily Avg Volume (no. of)	6,314,068
Daily Avg Turnover (USD mn)	1.8

### Shareholding Pattern Sep '22

Promoters	73.7%
FIIIs	2.9%
DIIIs	9.6%
Public and Others	13.8%

### Price Performance

(%)	1M	3M	6M	12M
<b>Absolute</b>	9	34	64	29
<b>Rel. to Nifty</b>	4	29	48	27

### Relative price trend



Source: Bloomberg

This report is solely produced by Emkay Global. The following person(s) are responsible for the production of the recommendation:

### Anand Dama

anand.dama@emkayglobal.com  
+91 22 6624 2480

### Heet Khimawat

heet.khimawat@emkayglobal.com  
+91 22 6612 1275

### Dixit Sankharva

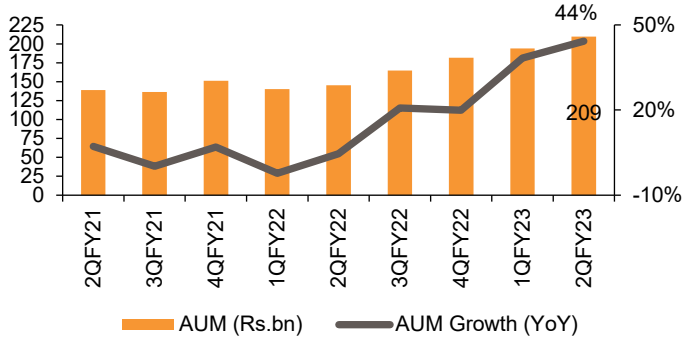
dixit.sankharva@emkayglobal.com  
+91 22 6612 1281

### Soumya Jain

soumya.jain@emkayglobal.com  
+91 22 6612 1262

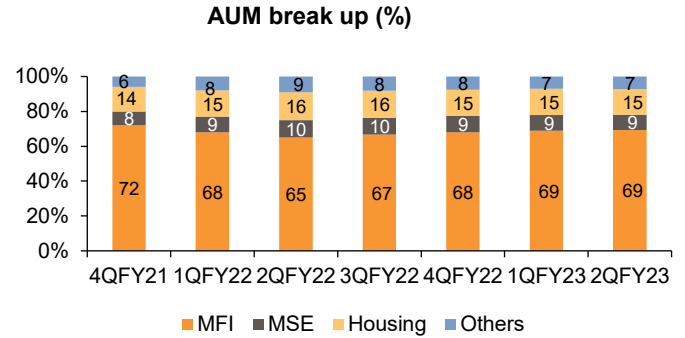
## Story in Charts

**Exhibit 1: AUM growth picks up, led by MFI and mortgages**



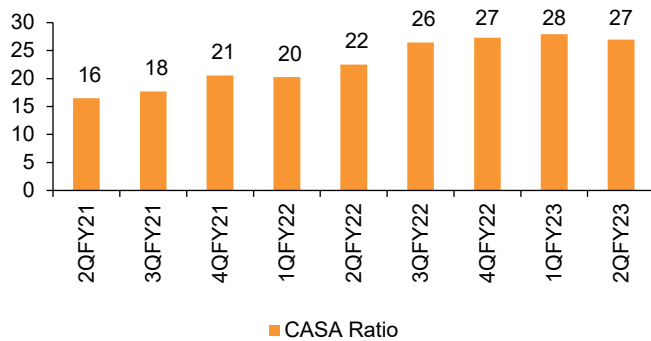
Source: Company, Emkay Research

**Exhibit 2: MFI share remains higher and, hence, a cause for concern**



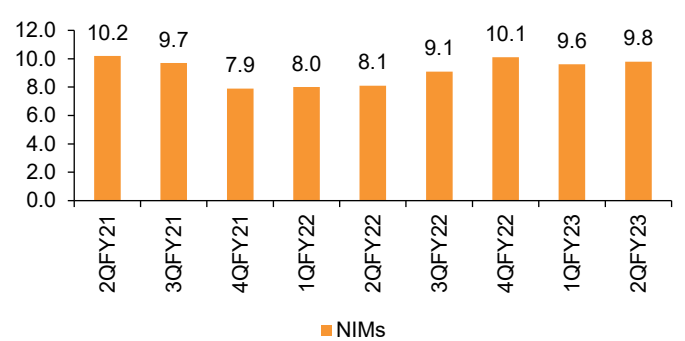
Source: Company, Emkay Research

**Exhibit 3: CASA ratio stands sub-par at 27%**



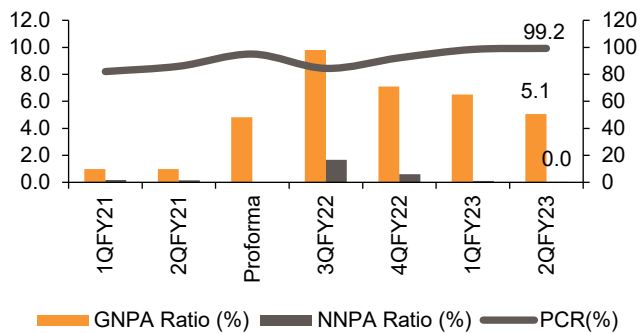
Source: Company, Emkay Research

**Exhibit 4: Margin uptick led by better growth/yields**



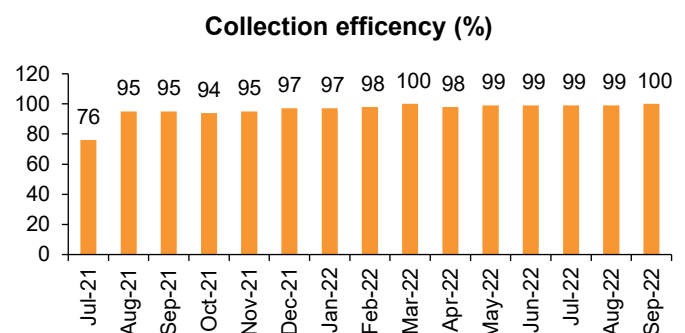
Source: Company, Emkay Research

**Exhibit 5: Lower slippages and higher recoveries/w-offs led to 1.5% reduction in GNPA ratio**



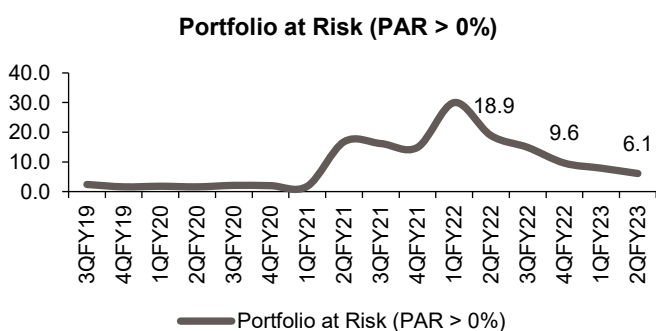
Source: Company, Emkay Research

**Exhibit 6: Overall collection efficiency improves for MFI, but remains relatively lower for MSE**



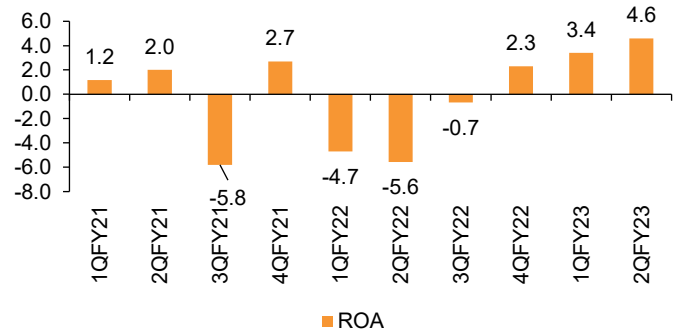
Source: Company, Emkay Research

**Exhibit 7: PAR shows a declining trend**

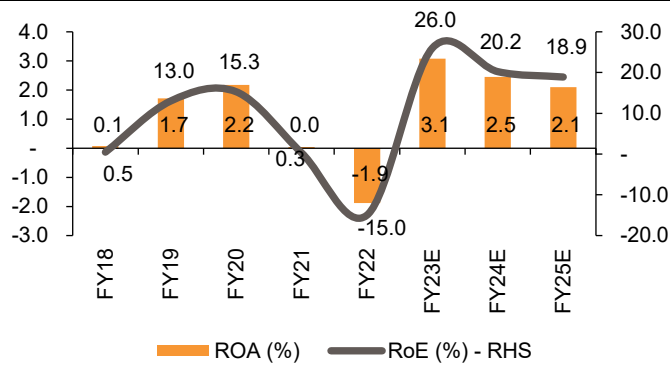


Source: Company, Emkay Research

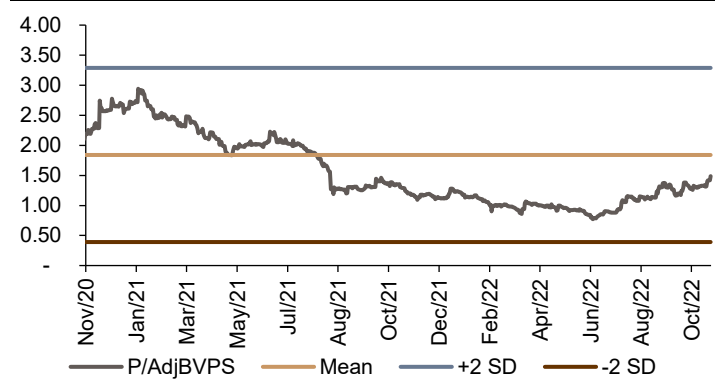
**Exhibit 8: Better NIMs/growth and provision reversal leads to RoA uptick**



Source: Company, Emkay Research

**Exhibit 9: We expect return ratios to improve, led by better growth and lower LLP**

Source: Company, Emkay Research

**Exhibit 10: The stock currently trades at 1.5x one-year forward ABV**

Source: Company, Emkay Research

**Exhibit 11: Actuals vs Estimates (Q2FY23)**

Rs mn	Actuals	Estimates		Variation		Comments
		Emkay	Consensus	Emkay	Consensus	
Net income	8,099	6,950	7,407	17%	9%	Better margins and high other income lead to a beat
PPOP	3,850	2,476	2,933	55%	31%	Higher net income and lower opex led to a beat
PAT	2,943	985	1,508	199%	95%	Provisions reversals led to a strong PAT beat

Source: Company, Emkay Research

**Exhibit 12: Quarterly Summary**

Rs mn	2QFY22	3QFY22	4QFY22	1QFY23	2QFY23	YoY (%)	QoQ (%)	FY22	FY23E	YoY (%)
Interest Earned	6,451	7,079	8,182	9,054	9,932	54	10	28,128	41,106	46
Interest Exp	2,537	2,540	2,743	3,057	3,299	30	8	10,392	14,317	38
Net Interest Income	3,914	4,539	5,440	5,997	6,632	69	11	17,736	26,789	51
Global NIMs (reported)	8.1	9.1	10.1	9.6	9.8	170bps	20bps	8.5	10.3	179bps
Non-interest Income	547	908	1,026	1,246	1,467	168	18	3,133	5,287	69
Operating Expenses	3,672	4,034	4,293	4,237	4,249	16	0	14,964	18,007	20
Pre Provisioning Profit	788	1,413	2,172	3,006	3,850	388	28	5,905	14,070	138
Provision & Contingencies	4,369	1,870	438	299	-99	-102	-133	11,408	2,875	-75
PBT	-3,580	-456	1,734	2,707	3,949	-210	46	-5,504	11,195	-303
Income Tax Expense (Gain)	-921	-118	469	677	1,006	-209	49	-1,358	2,821	-308
Net Profit/(Loss)	-2,660	-338	1,265	2,029	2,943	-211	45	-4,146	8,374	-302
Gross NPA (%)	11.8	9.8	7.1	6.5	5.1	-674bps	-145bps	7.3	4.1	-322bps
Net NPA (%)	3.3	1.7	0.6	0.1	0.0	-325bps	-7bps	0.6	0.2	-40bps
Deposits (Rs bn)	140.9	155.6	182.9	184.5	204.0	44.8	10.6	182.9	248.2	35.7
Net Advances (Rs bn)	134.9	153.5	163.0	164.9	174.3	29.3	5.8	163.0	208.4	27.8

Source: Company, Emkay Research

**Exhibit 13: Revision in estimates**

Y/E Mar (Rs mn)	FY23E			FY24E			FY25E		
	Earlier	Revised	Change	Earlier	Revised	Change	Earlier	Revised	Change
Net income	27,618	32,076	16.1%	32,833	37,504	14.2%	39,372	46,106	17.1%
PPOP	9,673	14,070	45.4%	11,626	14,966	28.7%	14,134	17,702	25.2%
PAT	4,886	8,374	71.4%	5,532	8,495	53.5%	6,714	9,046	34.7%
EPS (Rs)	2.7	4.5	71.4%	2.8	4.3	53.5%	3.4	4.6	34.7%
BV (Rs)	18.0	19.8	9.9%	20.7	23.2	12.1%	23.8	25.8	8.4%

Source: Company, Emkay Research

**Exhibit 14: Key assumptions**

(%)	FY22A	FY23E	FY24E	FY25E
Loan Growth	12.5	27.8	28.4	24.9
Deposit Growth	39.3	35.7	28.3	26.3
NIM	8.5	10.3	9.8	9.7
GNPA	7.3	4.1	2.6	1.9
Credit Cost	6.9	1.3	1.3	1.6

Source: Company, Emkay Research

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**Exhibit 15: Key ratios and trends**

	2QFY21	3QFY21	4QFY21	1QFY22	2QFY22	3QFY22	4QFY22	1QFY23	2QFY23
Loans (Rs mn)	138,900	136,380	151,390	140,370	145,140	164,630	181,600	194,090	209,380
growth YoY (%)	8.7	0.2	7.0	(2.3)	4.5	20.7	20.0	38.3	44.3
growth QoQ (%)	(3.3)	(1.8)	11.0	(7.3)	3.4	13.4	10.3	6.9	7.9
<b>Composition (%)</b>									
- MFI	74.4	71.8	70.3	67.1	66.3	65.5	67.0	68.8	69.2
- SME (MSE)	7.6	8.4	8.5	9.1	9.8	9.6	9.4	9.1	8.9
- Retail (Housing)	11.8	13.2	13.5	14.9	16.0	15.6	15.1	15.0	14.7
- Others	6.1	6.7	7.6	8.9	7.9	9.3	8.5	7.2	7.2
<b>Liability Profile (%)</b>									
Deposit (Rs mn)	107,428	116,170	131,358	136,730	140,895	155,630	182,922	184,490	203,962
growth YoY	6.1	9.0	21.8	23.7	31.2	34.0	39.3	34.9	44.8
growth QoQ	(2.8)	8.1	13.1	4.1	3.0	10.5	17.5	0.9	10.6
CASA (Rs mn)	17,690	20,550	26,990	27,730	31,660	41,170	49,920	51,550	54,920
CASA ratio	16	18	21	20	22	26	27	28	27
<b>Asset Quality</b>									
Gross NPA (Rs mn)	1,361	1,306	10,706	13,750	17,126	16,117	12,841	11,467	9,289
Net NPA (Rs mn)	191	64	4,246	3,487	4,350	2,516	996	178	73
GNPA (%)	1.0	1.0	7.1	9.8	11.8	9.8	7.1	6.5	5.1
NNPA (%)	0.1	0.1	2.9	2.7	3.3	1.7	0.6	0.1	0.0
RSA (%)		6.3	6.2	5.9	11.2	8.1	5.2	4.0	2.7
Specific PCR (%)	86.0	95.1	60.3	74.6	74.6	84.4	92.2	98.4	99.2
<b>Capital Adequacy (%)</b>									
CRAR	31.0	26.9	26.4	25.9	22.2	19.1	19.0	20.0	26.7
Tier-I	30.1	25.9	25.0	24.8	20.7	17.7	17.7	18.7	23.4
<b>ROE Decomposition on total assets (%)</b>									
NII	9.8	9.1	7.4	7.7	8.0	8.9	9.7	10.0	10.4
Other Income	1.3	2.1	2.3	1.5	1.1	1.8	1.8	2.1	2.3
Net Income	11.1	11.2	9.7	9.2	9.1	10.7	11.5	12.1	12.7
Opex	6.3	6.9	6.6	5.9	7.5	7.9	7.7	7.1	6.7
PPOP	4.8	4.3	3.1	3.2	1.6	2.8	3.9	5.0	6.0
Provisions	2.1	12.2	(0.6)	9.5	8.9	3.7	0.8	0.5	(0.2)
PBT	2.7	(7.9)	3.7	(6.3)	(7.3)	(0.9)	3.1	4.5	6.2
Tax	0.7	(2.1)	1.0	(1.6)	(1.9)	(0.2)	0.8	1.1	1.6
ROA	2.0	(5.8)	2.7	(4.7)	(5.4)	(0.7)	2.3	3.4	4.6
Leverage (x)	5.8	5.9	6.3	6.4	6.9	7.6	8.2	8.2	7.5
ROE	11.3	(34.7)	17.3	(30.3)	(37.4)	(5.0)	18.5	27.9	34.7

Source: Company, Emkay Research

**Key Financials (Standalone)****Income Statement**

Y/E Mar (Rs mn)	FY21	FY22	FY23E	FY24E	FY25E
<b>Net interest income</b>	<b>17,286</b>	<b>17,736</b>	<b>26,789</b>	<b>32,541</b>	<b>40,256</b>
<b>Other income</b>	<b>3,023</b>	<b>3,133</b>	<b>5,287</b>	<b>4,963</b>	<b>5,850</b>
Fee income	1,563	2,452	3,187	3,984	4,980
<b>Net income</b>	<b>20,309</b>	<b>20,869</b>	<b>32,076</b>	<b>37,504</b>	<b>46,106</b>
Operating expenses	12,301	14,964	18,007	22,538	28,405
<b>Pre provision profit</b>	<b>8,008</b>	<b>5,905</b>	<b>14,070</b>	<b>14,966</b>	<b>17,702</b>
<b>PPP excl treasury</b>	<b>7,448</b>	<b>5,728</b>	<b>14,270</b>	<b>15,156</b>	<b>17,882</b>
Provisions	7,906	11,408	2,875	3,609	5,608
<b>Profit before tax</b>	<b>102</b>	<b>(5,504)</b>	<b>11,195</b>	<b>11,357</b>	<b>12,094</b>
Tax	19	(1,358)	2,821	2,862	3,048
Tax rate	19	25	25	25	25
<b>Profit after tax</b>	<b>83</b>	<b>(4,146)</b>	<b>8,374</b>	<b>8,495</b>	<b>9,046</b>

**Balance Sheet**

Y/E Year End (Rs mn)	FY21	FY22	FY23E	FY24E	FY25E
Equity	17,283	17,283	19,545	19,545	19,545
Reserves	12,467	8,321	19,183	25,724	30,861
<b>Net worth</b>	<b>29,750</b>	<b>25,604</b>	<b>38,728</b>	<b>45,269</b>	<b>50,406</b>
Deposits	131,358	182,922	248,162	318,425	402,258
Borrowings	32,473	17,636	14,108	11,287	10,158
<b>Total liabilities</b>	<b>203,805</b>	<b>236,045</b>	<b>307,793</b>	<b>385,414</b>	<b>475,816</b>
Cash and bank	17,115	16,822	17,664	18,547	19,474
Investments	25,165	41,529	55,125	69,018	86,018
Loans	144,940	163,032	208,356	267,443	333,938
Others	5,118	7,309	9,057	10,985	11,628
<b>Total assets</b>	<b>203,805</b>	<b>236,045</b>	<b>307,793</b>	<b>385,414</b>	<b>475,816</b>

**Key Ratios (%)**

Y/E Year End	FY21	FY22	FY23E	FY24E	FY25E
NIM	9.4	8.5	10.3	9.8	9.7
Non-II/avg assets	1.6	1.4	1.9	1.4	1.4
Fee income/avg assets	0.8	1.1	1.2	1.1	1.2
Opex/avg assets	6.3	6.8	6.6	6.5	6.6
Provisions/avg assets	4.1	5.2	1.1	1.0	1.3
PBT/avg assets	0.1	(2.5)	4.1	3.3	2.8
Tax/avg assets	0.0	(0.6)	1.0	0.8	0.7
RoA	0.0	(1.9)	3.1	2.5	2.1
RoAE	0.3	(15.0)	26.0	20.2	18.9
GNPA (%)	7.1	7.3	4.1	2.6	1.9
NNPA (%)	2.9	0.6	0.2	0.5	0.5

Per Share Data (Rs)	FY21	FY22	FY23E	FY24E	FY25E
EPS	0.0	(2.4)	4.5	4.3	4.6
BVPS	17.2	14.8	19.8	23.2	25.8
ABVPS	15.4	14.4	19.6	22.6	25.2
DPS	0.0	0.0	0.0	1.0	2.0

Valuations (x)	FY21	FY22	FY23E	FY24E	FY25E
PER	585.3	(11.7)	6.2	6.5	6.1
P/BV	1.8	2.0	1.4	1.2	1.1
P/ABV	1.8	1.9	1.4	1.2	1.1
P/PPOP	6.0	8.2	3.9	3.6	3.1
Dividend Yield (%)	0.0	0.0	0.0	3.6	7.1

Source: Company, Emkay Research

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Growth (%)	FY21	FY22	FY23E	FY24E	FY25E
NII	5.8	2.6	51.0	21.5	23.7
PPOP	25.7	(26.3)	138.3	6.4	18.3
PAT	(97.6)	(5,096.8)	(302.0)	1.4	6.5
Loans	3.2	12.5	27.8	28.4	24.9

Quarterly (Rs mn)	Q2FY22	Q3FY22	Q4FY22	Q1FY23	Q2FY23
NII	3,914	4,539	5,440	5,997	6,632
NIM (%)	11.2	11.2	11.2	11.2	11.2
PPOP	788	1,413	2,172	3,006	3,850
PAT	(2,660)	(338)	1,265	2,029	2,943
EPS (Rs)	(1.38)	(0.18)	0.73	1.17	1.51

Source: Company, Emkay Research

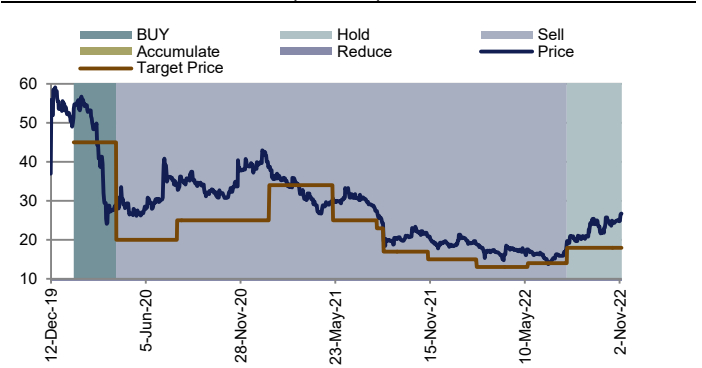
Shareholding Pattern (%)	Dec-21	Mar-22	Jun-22	Sep-22	Sep-22
Promoters	83.3	83.3	83.3	73.7	73.7
FIIIs	0.1	0.2	0.2	3.3	2.9
DIIIs	0.8	0.7	0.7	9.1	9.6
Public and Others	15.8	15.9	15.8	14.0	13.8

Source: Capitaline

**RECOMMENDATION HISTORY (Rs/share)**

Date	Closing Price	TP	Period	Rating	Analyst
27-Jul-22	20	18	12m	Hold	Anand Dama
15-May-22	18	14	12m	Sell	Anand Dama
9-Feb-22	19	13	12m	Sell	Anand Dama
11-Nov-21	21	15	12m	Sell	Anand Dama
20-Aug-21	20	17	12m	Sell	Anand Dama
8-Aug-21	27	23	12m	Sell	Anand Dama
18-May-21	31	25	12m	Sell	Anand Dama
4-Feb-21	36	34	12m	Sell	Anand Dama
20-Jan-21	39	34	12m	Sell	Anand Dama
8-Nov-20	32	25	12m	Sell	Anand Dama
2-Aug-20	34	25	12m	Sell	Anand Dama
20-May-20	28	20	12m	Sell	Anand Dama
11-Apr-20	29	20	12m	Sell	Anand Dama
23-Jan-20	54	45	12m	Buy	Anand Dama

Source: Company, Emkay Research

**RECOMMENDATION HISTORY (Rs/share)**

Source: Bloomberg, Company, Emkay Research

## Emkay Alpha Portfolio – BFSI-Banks



### Analyst: Anand Dama

#### Contact Details

anand.dama@emkayglobal.com  
+91 22 6624 2480

#### Sector

Banks

#### Analyst bio

Anand Dama is a CA, CPM (ICFAI) with total 13 years of research experience, in addition to 3 years in the finance/rating industry. His team currently covers 21 banks and 15 stocks in the NBFC/Insurance space.

### EAP sector portfolio

Company Name	BSE200 Weight	EAP Weight	OW/UW (%)	OW/UW (bps)	EAP Weight based on Current NAV	Change vs last published EAP (bps)
<b>BFSI-Banks</b>	<b>20.78</b>	<b>20.74</b>	<b>-0.2%</b>	<b>-4</b>	<b>100.00</b>	
Axis Bank	2.22	2.34	5%	12	11.27	0
AU Small Finance Bank	0.27	0.25	-7%	-2	1.20	0
Bandhan Bank	0.16	0.16	1%	0	0.78	0
Bank of Baroda	0.25	0.23	-6%	-2	1.13	0
Canara Bank	0.18	0.23	27%	5	1.13	0
City Union Bank	0.00	0.00	NA	0	0.00	0
DCB Bank	0.00	0.00	NA	0	0.00	0
Equitas Small Finance Bank	0.00	0.04	NA	4	0.20	0
Federal Bank	0.25	0.25	0%	0	1.22	0
HDFC Bank	6.10	6.14	1%	5	29.56	0
ICICI Bank	5.84	6.00	3%	15	28.85	0
Indian Bank	0.00	0.00	NA	0	0.00	0
Indusind Bank	0.70	0.82	18%	12	3.94	0
Karur Vysya Bank	0.00	0.10	NA	10	0.46	0
Kotak Mahindra Bank	2.52	2.00	-21%	-52	9.61	0
Punjab National Bank	0.12	0.00	-100%	-12	0.00	0
RBL Bank	0.00	0.00	NA	0	0.00	0
State Bank of India	2.06	2.07	0%	0	9.94	0
Ujjivan Small Finance Bank	0.00	0.00	NA	0	0.00	0
Union Bank of India	0.06	0.06	0%	0	0.29	0
Yes Bank	0.05	0.05	1%	0	0.22	0
<b>Cash</b>	<b>0.00</b>	<b>0.04</b>	<b>NA</b>	<b>4</b>	<b>0.21</b>	<b>0</b>

Source: Emkay Research

■ High Conviction/Strong Over Weight ■ High Conviction/Strong Under Weight

### Sector portfolio NAV

	Base 1-Apr-19	3-Nov-21	5-May-22	4-Aug-22	4-Oct-22	Latest 4-Nov-22
EAP - BFSI-Banks	100.0	134.8	120.4	129.2	133.4	141.1
BSE200 Neutral Weighted Portfolio (ETF)	100.0	132.1	118.2	126.7	130.7	138.1

\*Performance measurement base date 1<sup>st</sup> April 2019

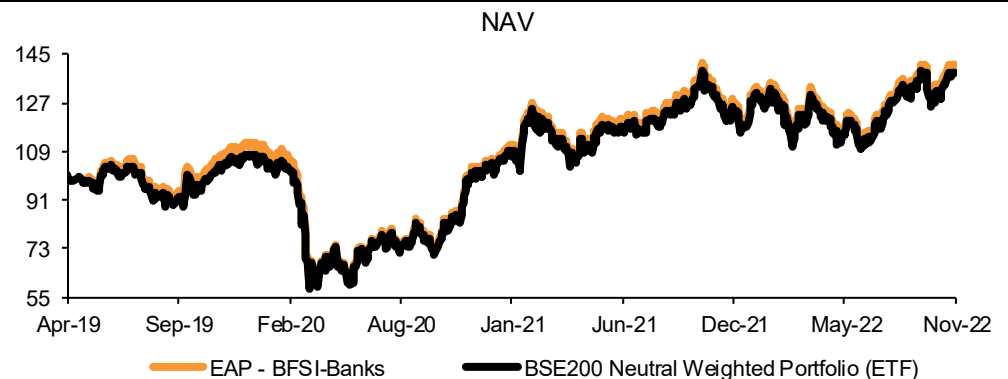
Source: Emkay Research

### Price Performance (%)

	1m	3m	6m	12m
EAP - BFSI-Banks	5.7%	9.2%	17.1%	4.6%
BSE200 Neutral Weighted Portfolio (ETF)	5.7%	8.9%	16.8%	4.5%

Source: Emkay Research

### NAV chart



Source: Emkay Research

Please see our model portfolio (Emkay Alpha Portfolio): [Nifty](#)

Please see our model portfolio (Emkay Alpha Portfolio): [SMID](#)

“Emkay Alpha Portfolio – SMID and Nifty are a supporting document to the Emkay Alpha Portfolios Report and is updated on regular intervals”

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Ratings	Expected Return within the next 12-18 months.
BUY	Over 15%
HOLD	Between -5% to 15%
SELL	Below -5%

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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](http://www.emkayglobal.com)