

# AU Small Finance Bank

Industry	Financial
Bloomberg	AUBANK IN
BSE CODE	540611

## NIM Under pressure and Muted Disbursement Growth

<b>RATING</b>	<b>NEUTRAL</b>
<b>CMP</b>	<b>621</b>
<b>Price Target</b>	<b>603</b>
<b>Potential Upside</b>	<b>-3%</b>

<b>Rating Change</b>	↔
<b>Estimate Change</b>	↓
<b>Target Change</b>	↓

### Stock Info

52wk Range H/L	746./502
Mkt Capital (Rs Cr)	18,152
Free float (%)	20%
Avg. Vol 1M (,000)	417
No. of Shares (Crore)	29
Promoters Pledged %	7%

### 3Q FY19 Result Update

- ❑ AU Bank reported good set of numbers with NII growth of 39% YoY backed by AUM growth of 62% YoY. Operating expenses grew by 35% YoY mainly on the account of high employee cost leading to C/I ratio of 61%. C/I ratio increased by 14 bps QoQ.
- ❑ Operating profit grew by 17% YoY. Other Income had a decline of 0.11% YoY. Provisions has remained stable YoY. PAT growth has been 21% YoY.
- ❑ NIM declined by 40 bps QoQ mainly on the account of lower yield due to high investment, excess liquidity and lag in passing on the cost to customers.
- ❑ The bank's AUM grew by 62%/8% YoY/QoQ with strong disbursement growth across wheels segment. Retail assets comprises of 81% of the total AUM while wholesale assets comprise of 17% of total AUM.
- ❑ Deposits have increased by 16% QoQ. The average cost of funds stood at 7.90% for 3QFY19 while incremental cost of funds was at 7.50% for 3QFY19. Cost of Deposit has raised to 7.2% due to competitive intensity.
- ❑ Asset quality remained stable as the GNPA% and NNPA% increased marginally to 2.09/1.31 from 2/1.3 QoQ.. The main reason for increase in GNPA has been increased GNPA in real state segment. Slippages increased by 8% QoQ to Rs 103 cr in 3QFY19.

### View and Valuation

AU BANK is one of the fast growing SFBs; it has grown at a CAGR of 42% YoY over the last 2 years. AUM growth is led by retail segment. Recent NBFC crisis, has affected disbursement growth in wholesale segment. We expect C/I ratio for FY20 to remain elevated due to management branch expansion plans. Rising Cost of Fund & lag effect in transferring the cost to the customer has resulted in NIM pressure. Management is optimistic that lower competition & growth in CASA deposits to provide cushioning against NIM going ahead. Under penetrated markets, recent capital infusion, diversification into a new geography/new products and the capability to build robust & granular deposit base will drive growth for AUBANK. AUBANK is trading at premium valuation and considering slow down in auto industry as well little stress in wholesale book, we remained cautious and maintain our NEUTRAL rating on the stock with reduced target price of Rs 603 at 4.5x BVPS FY20e..

### Key Risks to our rating and target

- ❑ Higher cost to income ratio will drag earning
- ❑ NIM pressure
- ❑ Deterioration in assets quality.

### Research Analyst

DEEPAK KUMAR

Deepak.kumar@narnolia.com

+91-22-62701205

Sweta Padhi

Shweta.padhi@narnolia.com

+91-22-62701227

Aayushi Goyal

aayushi.goyal@narnolia.com

+91-22-62701221

KEY FINANCIAL/VALUATIONS	FY16	FY17	FY18	FY19E	FY20E
NII	615	784	940	1318	1781
PPP	362	570	576	699	936
PAT	212	822	292	365	490
NIM %		7.1	5.5	5.2	5.1
EPS (Rs)	48	29	10	13	16
EPS growth (%)	51	-40	-65	23	30
ROE (%)	-	10.1	13.7	13.7	13.9
ROA (%)	-	10.2	2.0	1.5	1.4
BV	229	70	80	105	134
P/B (X)	0.0	0.0	7.7	6.0	4.6
P/E (x)	0.0	0.0	60.5	49.5	38.1

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### 3Q FY19 Results Below Expectations

### Strong Growth

Financials	3QFY18	4QFY18	1QFY19	2QFY19	3QFY19	YoY %	QoQ%	FY17	FY18	YoY %
Interest Inc.	464	532	600	683	788	69.8%	15.4%	1,280	1,767	38.1%
Interest Exp.	214	245	314	362	440	106.0%	21.5%	496	827	66.6%
NII	250	287	286	321	348	39.0%	8.4%	784	940	20.0%
Other Income	106	134	103	123	106	-0.1%	-13.5%	140	388	178.0%
Total Income	356	421	389	444	454	27.3%	2.3%	923	1,329	43.9%
Ope Exp.	204	267	237	268	275	35.2%	2.6%	353	753	113.3%
PPP	153	155	152	175	179	16.8%	2.0%	570	576	1.0%
Provisions	33	30	35	35	32	-1.3%	-7.2%	97	133	36.0%
PBT	120	125	117	140	146	21.8%	4.3%	1,143	443	-61.2%
Tax	41	42	40	49	51	24%	4.3%	321	151	-52.9%
Extra Items	-	-	-	-	-			670	-	
Net Profit	79	83	77	91	95	20.8%	4.3%	822	292	-64%

#### NIM Under Pressure

NII growth has been strong at 39% YoY due to strong AUM growth of 62% YoY. NIM remained under pressure and declined to 5.6% from 6% QoQ. Yield on advances decreased by 100 bps YoY to 14.3% while cost of funds has increased by 30 bps YoY which resulted in compression in margins. Cost of deposits is at 7.2% for 9MFY19. The incremental cost of funds increased by 30bps/20bps to 7.5% YoY/QoQ. Incremental yield is at 13.9%. Incremental yield for retail segment and wholesale segment increased to 15.1% and 12.9% for December month as against 14.5% and 12.9% in 3QFY19. While for wheels segment and REG segment it stood at 15.5% and 16.6% in December as against 14.6% in 3QFY19. The management expects NIM to be at 6% for next quarter of this financial year.

#### Growing Aggressively

AUM grew by 62%/8% YoY/QoQ. Retail segment growth had been 58%/0.08% YoY/QoQ. Wholesale segment grew by 61% YoY whereas it declined by 0.02% QoQ. Wheels have grown at 49%/0.09% YoY/QoQ. Major contributor to wheels segment have been Cars, MUVs and SCVs standing at 28%, 21% & 21% of the total portfolio respectively. Growth in NBFC was at -0.09% QoQ. As NBFC were in trouble due to liquidity issue, management has pulled out Rs 500 Cr working capital limit from NBFCs. The bank's outlook on NBFCs continues to be cautious. PSLC portfolio has declined to 7% in 3QFY19. The PSLC target for the current year has been done, if there is further requirement the bank will buy out the PSLC portfolio in 4QFY19. Disbursement growth has been at 56%/-0.01% YoY/QoQ with retail growth at 51%/16% and wholesale segment growth was at 2% YoY. Wholesale segment disbursements had a decline of 37% QoQ. Wheels disbursements have grown by 77%/22% YoY/QoQ while NBFC has declined by 11%/53%.

#### Assets quality

Asset quality deteriorated as GNPA for real estate group segment increased to 3.5% from 2.1% QoQ. Overall GNPA% increased to 2.1% from 2% QoQ while NNPA remained stable at 1.3%. GNPA for retail segment has been stable whereas it increased to 0.7% from 0.4% QoQ for wholesale segment. GNPA in SME segment has declined to 8.1% from 8.4% QoQ while it has remained stable for wheels segment at 1.9%.

#### Other details

C/I ratio remained elevated at 61%. On C/I ratio guidance, the management expects it to be at 60% peak in the 4QFY19. Within next 2-3 quarters C/I ratio is expected to stabilize at 56-57% range. CASA ratio declined to 24% from 26% QoQ. Other income declined by 0.11% YoY. PCR remained stable at 38% for 3QFY19. CAR ratio stood at 19% for 3QFY19 with Tier I ratio at 15.50%. Other income for the 4QFY19 is expected to be in the range of Rs 125-130 cr.

**Concall Highlights**

- NIM for Q4FY19 is expected to be at 6%. Rise in incremental yield to provide cushion to NIM pressure.
- One of the reasons for lower yield reported in 3QFY19 has been high investments, excess liquidity and lag in passing on the cost of funds to customers.
- On C/I ratio guidance, the management expects it to be at 60% peak in the 4QFY19. Within next 2-3 quarters C/I ratio is expected to stabilize at 56-57% range. In absolute terms, absolute OPEX growth is expected to be at 25%, around Rs 1050 cr for this year and Rs 1300 cr for the year 2020.
- Other income for the Q4FY19 is expected to be in the range of Rs 125-130 cr. In the other income, loan processing fees, PSLC and recovery from loans written off are expected to increase in the next quarter. Other income in 3QFY19 declined mainly on the account of decline in cross sell and distribution fees to Rs 8 cr from Rs 27 cr in 2QFY19. The decline in cross sell and distribution related fees are because the bank is now focusing on building up their own franchise.
- The increased focus on retail assets has been helpful in growth and management tends to stay focused on this segment.
- The management gives guidance of AUM growth of 40% for the financial year 2020. Assets are expected to grow at the rate of minimum 50% in 4QFY19.
- The management gives guidance of profit growth of 25% in 4QFY19.
- Deposits are also expected to grow at the same pace with more emphasis on retail portfolio.
- The bank may raise more tier I capital in the FY21.
- Vehicle finance is targeted to grow at 30% year on year and by march 2022 there will be a Rs 20000 cr portfolio.
- The branch banking for the bank is expected to break even in next 18-24 months period.
- The main area of focus is building up the branch liability well and managing the OPEX in a proper way.
- By 1QFY20 the bank may start selling PSLC. The PSLC target for the current year has been done ,if there is further requirement the bank will buy out the PSLC portfolio in 4QFY19.
- The bank's outlook on NBFCs continues to be cautious. As NBFC were in trouble due to liquidity issue, management has pull out Rs 500 Cr working capital limit from NBFC.
- The Bank Received RBI's approval for 142 new banking outlets; Identified 27 key locations in Mumbai, Delhi and Pune for the first phase and expected to be rolled beginning Q3FY20.
- Further strengthened Capital Adequacy; Raised Tier II Capital of INR 500 Cr from marquee institutional investors.

## Profitability Matrix

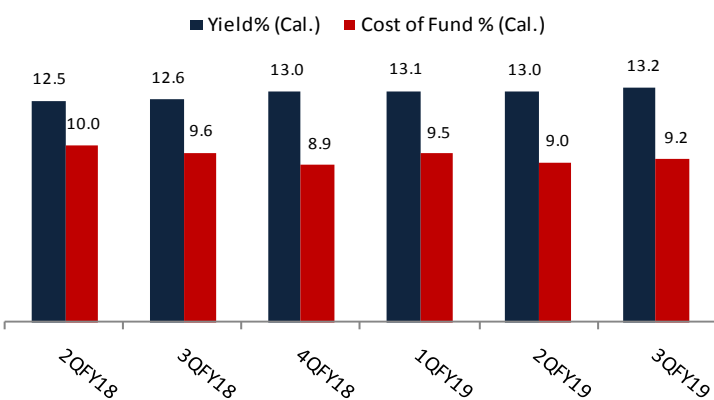
	1QFY18	2QFY18	3QFY18	4QFY18	1QFY19	2QFY19	3QFY19	YoY (+/-)	QoQ (+/-)
C/I Ratio %	48.4	54.6	57.1	63.3	60.9	60.5	60.6	3.53	0.13
Empl. Cost/ Tot. Exp. %	29.4	31.5	33.2	32.2	36.1	33.8	33.3	0.13	-0.45
Other Exp/Tot. Exp. %	19.0	23.0	23.9	31.2	24.8	26.7	27.3	3.40	0.58
Provision/PPP %	23.4	28.4	21.5	19.2	23.0	20.0	18.2	-3.34	-1.80
Tax Rate %	35.2	33.8	34.2	33.5	34.5	34.8	34.8	0.55	0.00
Int Exp./Int Inc. (%)	49.2	46.5	46.0	46.0	52.3	53.0	55.9	9.81	2.84
Other Inc./NII %	0.5	0.8	0.8	0.8	0.6	0.6	0.5	-0.30	-0.12
PPP/ Net Income %	51.6	45.4	42.9	36.7	39.1	39.5	39.4	-3.53	-0.13
PAT/ Net Income %	25.6	21.5	22.1	19.7	19.7	20.6	21.0	-1.14	0.39
NII Growth % (YoY)	9.1	12.4	27.5	26.7	56.1	46.1	39.0	11.46	-7.20
PPP Growth YoY %	16.0	(8.7)	(4.3)	6.8	22.4	21.6	16.8	21.14	-4.80
PAT Growth %	(89.5)	(3.0)	(4.8)	6.6	24.2	34.0	20.8	25.63	-13.17

## Margin Performance

Margin %	1QFY18	2QFY18	3QFY18	4QFY18	1QFY19	2QFY19	3QFY19	YoY (+/-)	QoQ (+/-)
Yield on Advances	12.2	12.5	12.6	13.0	13.1	13.0	13.2	0.64	0.20
Cost Of Funds	11.0	10.0	9.6	8.9	9.5	9.0	9.2	-0.38	0.16
Spreads	4.4	1.2	3.0	3.0	4.1	4.0	4.0	1.02	0.04
NIM	7.2	8.0	8.5	8.8	7.8	7.7	7.4	-1.07	-0.28

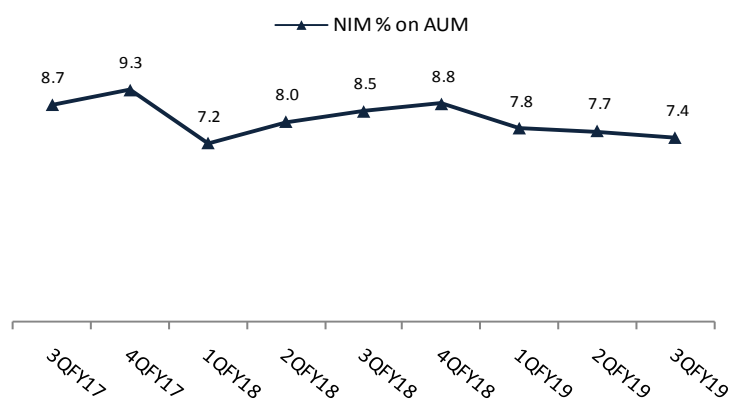
## Exhibit: Yield and Cost

Stable Margins



## Exhibit: Net Interest Margin

Lower NIM



## Asset &amp; Borrowings Growth Trend

	3QFY17	4QFY17	1QFY18	2QFY18	3QFY18	4QFY18	1QFY19	2QFY19	3QFY19
Disbursements	1230	2218	1513	2520	2588	4205	2885	4109	4048
Growth YoY %			-2	45	110	90	91	63	56
AUM	9749	11055	10757	12133	13416	16038	17322	20221	21765
Growth YoY %		34	25	30	38	45	61	67	62
Borrowings	-	7071	8208	9404	11041	15562	16874	20699	23502
Growth YoY %	-	0	70	98	0	120	106	120	113

## AUM Composition %

	3QFY17	4QFY17	1QFY18	2QFY18	3QFY18	4QFY18	1QFY19	2QFY19	3QFY19
Retail	85	86	89	85	83	83	82	80	80
Wholesale	15	14	11	15	17	17	18	19	19

Exhibit: AUM Growth %

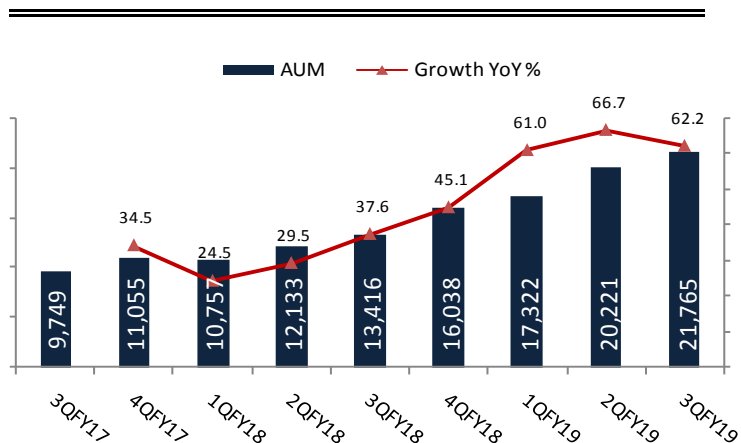
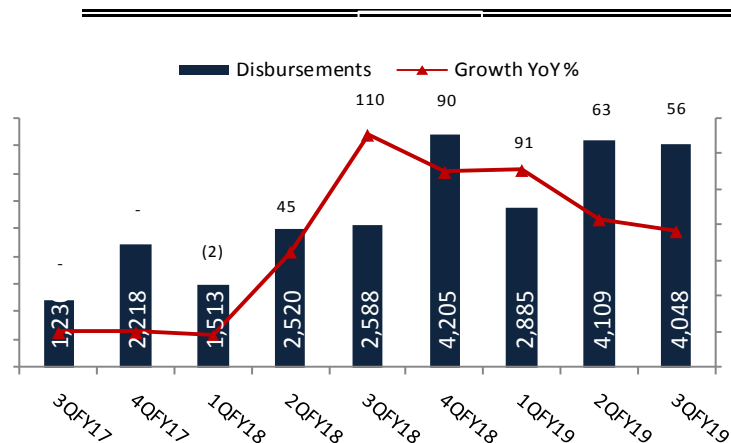


Exhibit: Disbursement Growth %



## Borrowings Mix

	2QFY18	3QFY18	4QFY18	1QFY19	2QFY19	3QFY19
Money Market / CBLO/ Line of Credit / others	1,975	155	31	101	455	494
Deposits	1,975	3,710	7,921	10,006	12,875	14,665
Tier II Capital	329	331	280	253	228	729
Loans from banks & NBFC	752	596	747	321	352	282
CPs	583	-	-	-	-	-
Refinance from FIs	2,012	2,528	3,548	3,780	4,802	5,335
NCDs	3,752	3720.82	3034.59	2412	1987	1997
Total Borrowings	9404	11041	15562	16874	20699	23502
Deposits%	21	33.6	50.9	59.3	62.2	62.4

## GNPA % segment wise

Retail	3.7	3.5	3.5	2.5	2.6	2.5
Wholesale	0.3	-	-	0.4	0.5	0.7

## Asset Quality

	1QFY18	2QFY18	3QFY18	4QFY18	1QFY19	2QFY19	3QFY19	YoY (+/-)	QoQ (+/-)
GNPA	217	266	286	270	334	371	421	155	50
GNPA %	3.0	3.1	2.8	2.0	2.2	2.0	2.1	(1.0)	0.1
NNPA	155	179	188	169	211	232	263	84	31
NNPA %	2.2	2.1	1.9	1.3	1.4	1.3	1.3	(0.8)	0.0
Total Specific PCR %	29	33	34	37	37	38	38	5	0

Exhibit: Asset Quality

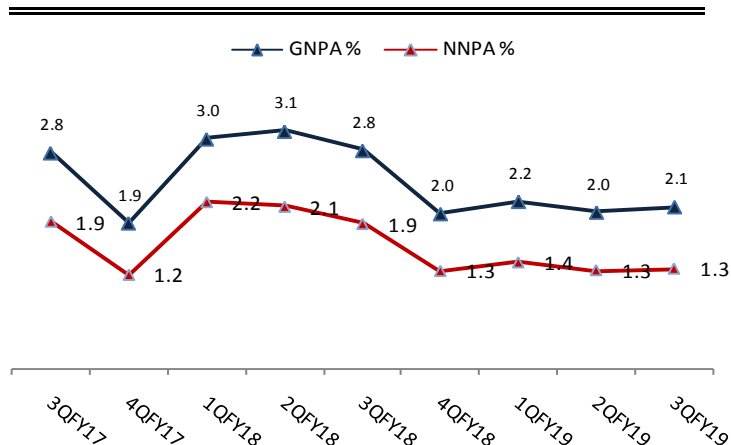
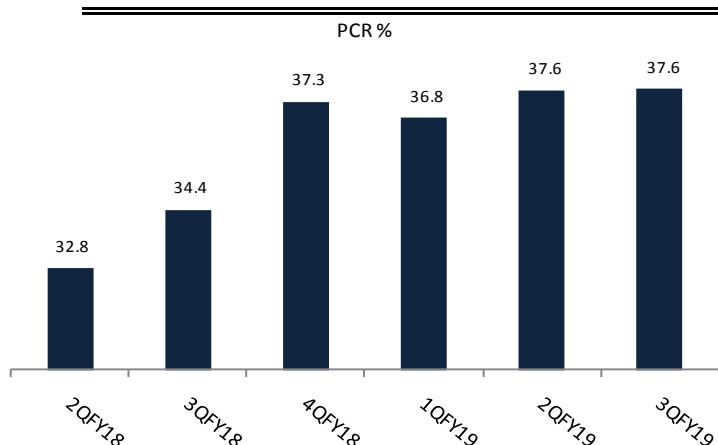


Exhibit: Provisions

PCR stable



## Financial Details

## Balance Sheet

Y/E March	FY13	FY14	FY15	FY16	FY17	FY18	FY19E	FY20E
<b>Share Capital</b>	<b>40</b>	<b>43</b>	<b>44</b>	<b>44</b>	<b>284</b>	<b>286</b>	<b>291</b>	<b>300</b>
>> Equity Capital	40	43	44	44	284	286	291	300
>> Preference Capital	-	-	-	-	-	-	-	-
Reserves & Surplus	425	598	767	965	1,703	1,995	2,747	3,718
<b>Networth</b>	<b>466</b>	<b>641</b>	<b>811</b>	<b>1,009</b>	<b>1,988</b>	<b>2,281</b>	<b>3,037</b>	<b>4,017</b>
Deposit	-	-	-	-	-	6,743	14,151	22,896
Change (%)	N/A	N/A	N/A		N/A	N/A	110	62
CASA Deposit	-	-	-	-	-	2,134	3,566	7,098
Change (%)	N/A	N/A	N/A	N/A	N/A	N/A	67.1	99.0
Total Borrowings	2,140	1,742	2,552	3,817	7,120	15,562	25,323	34,225
Provisions	999	1,271	1,483	2,477	674	989	1,393	1,540
<b>Total Liabilities</b>	<b>3,139</b>	<b>3,013</b>	<b>4,035</b>	<b>6,294</b>	<b>9,812</b>	<b>18,833</b>	<b>29,753</b>	<b>39,783</b>
Cash & Bank	-	-	-	123	625	1,761	1,384	2,321
Investments	739	114	140	232	2,150	3,051	5,094	5,724
Change (%)	2,290	(85)	23	66	829	42	67	12
Advances	1,919	2,637	3,624	5,842	6,551	13,312	22,373	30,211
Change (%)	116	37	37	61	12	103	68	35
Fixed Assets	17	17	19	25	276	386	481	664
Other Assets	465	245	253	72	179	323	421	863
<b>Total Assets</b>	<b>3,139</b>	<b>3,013</b>	<b>4,035</b>	<b>6,294</b>	<b>9,812</b>	<b>18,833</b>	<b>29,753</b>	<b>39,783</b>

## Income Statement

Y/E March	FY13	FY14	FY15	FY16	FY17	FY18	FY19E	FY20E
Interest income	438	611	704	1,010	1,280	1,767	2,933	4,242
Interest expended	202	289	282	395	496	827	1,616	2,462
Net Interest Income	236	322	422	615	784	940	1,318	1,781
Change (%)	63	36	31	46	27	20	40	35
Other Income	3	8	2	5	140	388	452	542
Change (%)	423	168	(70)	110	2,682	178	16	20
Total Net Income	239	330	424	620	923	1,329	1,770	2,323
Operating Expenses	97	115	155	258	353	753	1,070	1,387
Change (%)	52	18	35	66	37	113	42	30
>> Employee Expenses	52	70	95	158	193	425	601	790
Pre-provisioning Profit	142	215	269	362	570	576	699	936
Change (%)	75	51	25	35	57	1	21	34
Provisions	28	77	61	40	97	133	144	204
Change (%)	276	173	(21)	(34)	145	36	9	42
PBT	114	138	208	323	1,143	443	555	732
Tax	34	46	68	111	321	151	190	241
Profit After Tax	80	92	140	212	822	292	365	490
Change (%)	60	15	52	51	288	(64)	25	34
Adjusted Profit After Tax	80	92	140	212	822	292	365	490
Change (%)	60	15	52	51	288	(64)	25	34

## Financial Details

## Key Ratios

Y/E March	FY13	FY14	FY15	FY16	FY17	FY18	FY19E	FY20E
<b>Balance Sheet Metrics</b>								
AUM	3,704	4,449	5,568	8,221	11,055	16,038	24,057	33,199
>> Off-Book AUM	45	20	25	48	34	45	50	38
AUM Growth (%)	303.3	(18.6)	46.5	49.6	86.5	118.6	62.7	35.2
Borrowing Growth (%)	158.7	17.7	17.2	22.9	108.2	133.7	167.7	142.5
CASA Ratio	-	-	-	-	17.5	31.6	25.2	31.0
CRAR (%)	21	20	19	17	23	19	17	17
>> Tier 1 (%)	17.1	17.5	17.1	13.7	21.5	18.4	16.2	16.8
>> Tier 2 (%)	3.7	2.9	1.5	3.4	1.6	0.9	0.6	0.5

## Assets Quality Metrics

Gross NPA (Rs)	-	-	-	-	125	286	421	512
Gross NPA (%)	-	-	-	1.3	1.9	2.0	2.0	1.8
Net NPA (Rs)	-	-	-	-	125	270	441	539
Net NPA (%)	-	-	-	0.8	1.2	1.3	1.3	1.1
Slippages (%)	-	-	-	-	-	-	-	-
Provision Coverage (%)	-	-	-	-	35	37	40	45
Provision/Average Advances (%)	0.9	1.9	1.2	0.6	1.0	1.0	0.7	0.7

## Margin Metrics

Yield On Advances (%)	-	-	-	-	10.2	9.2	11.7	12.3
Yield On Investment (%)	-	-	-	-	0.8	4.9	6.5	6.1
Yield On Earning Assets (%)	-	-	-	14.7	11.6	10.3	11.6	12.1
Cost Of Funds (%)	-	-	-	-	14.0	7.3	7.9	8.3
Spread (%)	-	-	-	-	(2.4)	3.0	3.7	3.8
NIM on AUM (%)	7.6	7.9	8.4	8.9	8.1	6.9	6.6	6.2
NIM on Earning Assets (%)	-	-	-	-	7.1	5.5	5.2	5.1

## Profitability &amp; Efficiency Metrics

Int. Expense/Int.Income (%)	-	-	-	39.1	38.8	46.8	55.1	58.0
Fee Income/NII (%)	1.3	2.5	0.6	0.8	17.8	41.3	34.3	30.5
Cost to Income (%)	40.6	34.8	36.6	41.6	38.2	56.7	60.5	59.7
Cost on Average Assets (%)	4.5	3.7	4.4	5.0	4.4	5.3	4.4	4.0
Tax Rate (%)	29.8	33.2	32.7	34.4	28.1	34.1	34.2	33.0

## Valuation Ratio Metrics

EPS (Rs)	19.8	21.4	31.8	48.0	28.9	10.2	12.6	16.3
Change (%)	(27.4)	7.9	48.9	50.9	(39.8)	(65)	22.9	30.1
ROAE (%)	-	-	-	-	10.1	13.7	13.7	13.9
ROAA (%)	-	-	-	-	10.2	2.0	1.5	1.4
Dividend Payout (%)	-	-	-	-	-	5.9	9.5	11.0
Dividend yield (%)	-	-	-	-	-	0.1	0.2	0.2
Book Value (Rs)	57.5	74.1	183.9	229.0	69.9	79.8	104.5	134.0
Change (%)	(46)	29	148	25	(69)	14	31	28
ABVPS (Rs)	57.5	74.1	183.9	229.0	65.5	70.4	89.3	116.0
P/B (X)	-	-	-	-	-	7.7	6.0	4.6
P/E (X)	-	-	-	-	-	60.5	49.5	38.1

## Financial Details

## Exhibit: DuPont Analysis

	FY13	FY14	FY15	FY16	FY17	FY18	FY19E	FY20E
<i>Interest Income</i>	20.3	19.9	20.0	19.6	15.9	12.3	12.1	12.2
<i>Interest expended</i>	9.4	9.4	8.0	7.7	6.2	5.8	6.7	7.1
<i>Net Interest Income</i>	11.0	10.5	12.0	11.9	9.7	6.6	5.4	5.1
<i>Non-Fund Based Income</i>	0.1	0.3	0.1	0.1	1.7	2.7	1.9	1.6
<i>Core Operating Income</i>								
<i>Total Income</i>	11.1	10.7	12.0	12.0	11.5	9.3	7.3	6.7
<i>Total Operating Expenses</i>	4.5	3.7	4.4	5.0	4.4	5.3	4.4	4.0
<i>&gt;&gt; Employee Expenses</i>	2.4	2.3	2.7	3.1	2.4	3.0	2.5	2.3
<i>&gt;&gt; Other Expenses</i>	2.1	1.5	1.7	1.9	2.0	2.3	1.9	1.7
<i>Operating Profit</i>	6.6	7.0	7.6	7.0	7.1	4.0	2.9	2.7
<i>Provisions</i>	1.3	2.5	1.7	0.8	1.2	0.9	0.6	0.6
<i>Others</i>								
<i>PBT</i>	5.3	4.5	5.9	6.2	5.9	3.1	2.3	2.1
<i>Tax</i>	1.6	1.5	1.9	2.1	4.0	1.1	0.8	0.7
<b>PAT/RoAA</b>	<b>3.7</b>	<b>3.0</b>	<b>4.0</b>	<b>4.1</b>	<b>1.9</b>	<b>2.0</b>	<b>1.5</b>	<b>1.4</b>
<i>Equity Multiplier (x)</i>	5.0	5.6	4.9	5.7	5.4	6.7	9.1	9.9
<b>ROAE</b>	<b>18.6</b>	<b>16.7</b>	<b>19.3</b>	<b>23.3</b>	<b>10.1</b>	<b>13.7</b>	<b>13.7</b>	<b>13.9</b>



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Correspondence Office Address: Arch Waterfront, 5<sup>th</sup> Floor, Block GP, Saltlake, Sector 5, Kolkata 700 091; Tel No.: 033-40541700; [www.narnolia.com](http://www.narnolia.com).

Registered Office Address: Marble Arch, Office 201, 2<sup>nd</sup> Floor, 236B, AIC Bose Road, Kolkata 700 020; Tel No.: 033-4050 1500; [www.narnolia.com](http://www.narnolia.com)

Compliance Officer: Manish Kr Agarwal, Email Id: [mkagarwal@narnolia.com](mailto:mkagarwal@narnolia.com), Contact No.:033-40541700.

Registration details of Company: Narnolia Financial Advisors Ltd. (NFAL): SEBI Stock Broker Registration: INZ000166737 (NSE/BSE/MSEI); NSDL/CDSL: IN-DP-380-2018; Research Analyst: INH300006500, Merchant Banking: (Registration No.: INM000010791), PMS: (Registration No.: INP000002304), AMFI Registered Mutual Fund distributor: ARN 3087

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