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Despite elevated provisions, healthy profitability momentum remained intact

3QFY20 Result Update

- Bajaj Finance reported a robust growth NII growth of 41%/13% driven by strong AUM growth. OPEX reported growth of 38%/11% mainly coming from growth in employee expenses and marketing expenses leading to a C/I ratio of 34% in 3QFY20.
- GNPA remained stable at 1.61% QoQ whereas NNPA increased by 5 bps QoQ to 0.7%. Slippages have been high at Rs 936 Cr as against Rs 786 Cr last quarter. Provisions grew by 84%/40% YoY/QoQ. During the quarter, the Company has made an accelerated provision of Rs 85 Cr in its loan against securities portfolio. Adjusted for this, loan losses and provisions (expected credit loss) for 3QFY20 was Rs 746 Cr.
- AUM grew by 35%/7% YoY/QoQ driven by growth in mortgage lending segment. Added 182 locations in 3QFY20 taking geographic presence to 2179. Expecting to open 200 new locations in 4QFY20.

AUM growth in line with expectations

AUM grew by 35%/7% YoY/QoQ driven by growth in mortgage lending segment. All the segments grew reasonably well except commercial lending segment. Consumer lending segment grew by 34% YoY and mortgage lending segment grew by 44% YoY whereas commercial lending has been growing at 10% YoY. Consumer B2B sales finance had a slow quarter as the company witnessed significant slowdown in consumption categories. Securities lending segment de-grew by 9% QoQ, Rural lending grew strongly at 49% YoY. SME lending grew by 32% YoY. Borrowings grew by 31% YoY. Contribution of NCDs to borrowing mix increased to 37% from 35% QoQ. Banks borrowing reduced to 32% from 35% last quarter.

Expansion in margins continue

NII growth has been robust at 41%/13% backed by high advances growth in 3QFY20. Margins continue to be increasing as it increased by 28/66 bps YoY/QoQ to 13.77% due to growth in yield. Yield on overall loans grew by 33/62 bps YoY/QoQ to 21.35%. Due to large capital raise, the company saw its CP borrowing go down dramatically from 8% to 2% sequentially. This resulted in an overhang of 12-14 bps in overall cost of funds. This overhang will remain in Q4 as well.

High slippages

Asset quality remained stable in 3QFY20 as GNPA remained stable at 1.61% QoQ whereas NNPA increased by 5 bps QoQ to 0.7% in 3QFY20. PCR declined by 290 bps QoQ to 57% in 3QFY20. Slippages have been high at Rs 936 Cr as against Rs 786 Cr last quarter. The company has been able to have high reductions through recovery, up gradation and write off during the quarter as reductions increased by 19% QoQ to Rs 795 Cr in 3QFY20.

View and Valuation

Despite the higher credit cost since last few quarters, profitability and AUM growth remain at its healthy momentum. In the near-term slippages and credit cost is likely to remain at elevated level due to exposure to some of the stress accounts. Management believes credit cost has peaked at current level. On the growth front, there was some sign of slowdown in some of the segment but robust distribution network and customer acquisition metrics gives confidence of better AUM growth ahead. The company successfully raised Rs 8500 Cr through QIP in 3QFY20 leading to Capital Adequacy Ratio of 27%. We increase our PAT estimate for FY21 by 10% on account of rising fee income and better margins and increase the target price to Rs 4859 at 6.8x BV FY21e. ACCUMULATE.

Key Risks to our rating and target

- Increasing credit cost may impact the growth.
- Stress in macro will increase the delinquencies.

RATING

ACCUMULATE

CMP	4422
Price Target	4859
Potential Upside	10%

Rating Change	↑
Estimate Change	↑
Target Change	↑

STOCK INFO

52wk Range H/L	4444/2380
Mkt Capital (Rs Cr)	266,052
Free float (%)	41%
Avg. Vol 1M (,000)	1,885
No. of Shares (Cr)	60
Promoters Pledged %	0%

Fig. In Rs Cr

FINANCIAL	FY19	FY20E	FY21E
NII	11862	17156	24421
PPP	7681	11231	15927
PAT	3995	6161	9589
NIM %	12.0	12.8	13.6
EPS (Rs)	69	102	159
EPS growth (%)	50	48	56
ROE (%)	22	23	25
ROA (%)	3.8	4.3	5.0
BV	341	562	715
P/B (X)	8.9	7.9	6.2
P/E (x)	44	43	28

RESEARCH ANALYST

DEEPAK KUMAR

Deepak.kumar@narnolia.com
+91-22-62701205

AYUSHI GOYAL

aayushi.goyal@narnolia.com

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3QFY20 Results Below Expectation

Fig. In Rs Cr

FINANCIALS	3QFY19	4QFY19	1QFY20	2QFY20	3QFY20	YoY %	QoQ%	FY18	FY19	YoY %
Interest Inc.	4,983	5,308	5,801	6,321	7,011	40.7%	10.9%	12,744	18,485	45.0%
Interest Exp.	1,786	1,913	2,113	2,323	2,489	39.4%	7.1%	4,614	6,624	43.6%
NII	3,197	3,394	3,688	3,998	4,522	41.4%	13.1%	8,131	11,862	45.9%
Other Income	2	1	7	1	15	547.0%	1253%	12	17	34.1%
Total Income	3,199	3,395	3,695	3,999	4,537	41.8%	13.4%	8,143	11,878	45.9%
Ope Exp.	1,113	1,174	1,293	1,382	1,536	38.0%	11.1%	3,269	4,198	28.4%
PPP	2,086	2,221	2,402	2,617	3,001	43.9%	14.7%	4,874	7,681	57.6%
Provisions	451	409	551	594	831	84.3%	39.8%	1,030	1,501	45.7%
PBT	1,635	1,812	1,851	2,022	2,170	32.7%	7.3%	3,843	6,179	60.8%
Tax	576	636	656	516	556	-3.5%	7.7%	1,347	2,184	62.1%
Net Profit	923	1,060	1,176	1,195	1,506	63.1%	26.0%	2,496	3,995	60.0%

Concall Highlights

- Consumer B2B sales finance had a slow quarter as the company witnessed significant slowdown in consumption categories. This was in addition to cautious stance in digital products financing.
- Securities lending reported low growth of 5% in 3QFY20, the reason being exposure to Karvy broking. Securities lending business has a delinquent broker account with principal outstanding of Rs 303 Cr on which company has taken an accelerated provision of Rs 85 Cr.
- LAP portfolio has 2 major NPA accounts: IL&FS with principal outstanding of Rs 234 Cr and a coffee conglomerate account with principal outstanding of Rs 91 Cr. Coffee account is expected to be resolved in next 30 days. Provisioning of Rs 60 Cr is already done on IL&FS accounts.
- The management said credit cost is at the peak level now and is not expected to increase from this level further.
- Existing customers contributed to 68% of new loans booked during Q3FY20.
- The company added 182 new locations in Q3 FY20 taking total geographic presence to 2,179 locations in India as of 31 December 2019. Given corporate tax rate cut and capital raise, company has accelerated its geo expansion strategy and is opening over 200 new locations in Q4 as well.
- During the quarter, the Company raised \$575 Mn (equivalent to Rs 4,083 Cr) under the ECB facility agreement with various banks. The company has received approval to raise additional \$650 Mn ECBs.
- Loan losses and provisions grew by 84% YoY in Q3 FY20 to Rs 831 Cr. During the quarter, the Company has made an accelerated provision of Rs 85 Cr in one of its loans against securities account and Rs 15 Cr of provisions on Coffee conglomerate account. Adjusted for this, loan losses and provisions grew by 65% YoY in Q3 FY20 to Rs746 Cr.
- The only portfolio that turned red in Q3 from earlier disclosures is auto finance portfolio.
- The Company successfully completed Rs 8,500 Cr of capital raise through Qualified Institutions Placement in November 2019.
- The company looks to add 7-8 Mn customers to the franchise per year.
- ROE for BHFL is expected to be in the range of 13-15% in Fy21.
- Two wheeler business is 5.5% , three wheeler is 3.5% and commercial vehicle is 0.2% of the total portfolio and average yield here is 23-24%.

Profitability Matrix

	1QFY19	2QFY19	3QFY19	4QFY19	1QFY20	2QFY20	3QFY20	YoY (+/-)	QoQ (+/-)
C/I Ratio %	37.0	35.9	34.8	34.6	35.0	34.6	33.9	-0.94	-0.71
Empl. Cost/ Tot. Exp. %	46.9	46.9	45.9	45.3	45.1	45.4	47.0	1.12	1.56
Other Exp/Tot. Exp. %	34.4	33.6	33.9	35.3	33.2	31.0	29.9	-4.00	-1.07
Provision/PPP %	20.1	18.0	21.6	18.4	22.9	22.7	27.7	6.07	4.97
Tax Rate %	35.6	35.6	35.2	35.1	35.4	25.5	25.6	-9.61	0.10
Int Exp./Int Inc. (%)	34.6	36.8	35.8	36.0	36.4	36.8	35.5	-0.34	-1.25
PPP/ Net Income %	63.0	64.1	65.2	65.4	65.0	65.4	66.1	0.94	0.71
PAT/ Net Income %	32.4	33.8	33.1	34.6	32.3	37.7	35.6	2.48	-2.09
NII Growth % (YoY)	46.2	40.8	45.8	49.9	43.3	48.7	41.4	-4.35	-7.26
PPP Growth YoY %	59.6	53.0	55.4	61.5	47.9	49.6	43.9	-11.57	-5.74
PAT Growth %	81.4	54.5	53.5	57.3	43.0	63.1	52.4	-1.06	-10.69

Margin Performance

MARGIN %	1QFY19	2QFY19	3QFY19	4QFY19	1QFY20	2QFY20	3QFY20	YoY (+/-)	QoQ (+/-)
Yield on Advances	19.4	19.5	21.0	20.6	20.6	20.7	21.4	0.33	0.62
Cost Of Funds	8.9	9.1	9.2	8.8	8.7	8.7	8.7	-0.50	0.02
Spreads	10.5	10.3	11.8	11.8	11.9	12.0	12.6	0.82	0.59
NIM	12.7	12.3	13.5	13.2	13.1	13.1	13.8	0.28	0.66

Exhibit: Yield and Cost

Yield increased ,cost stable

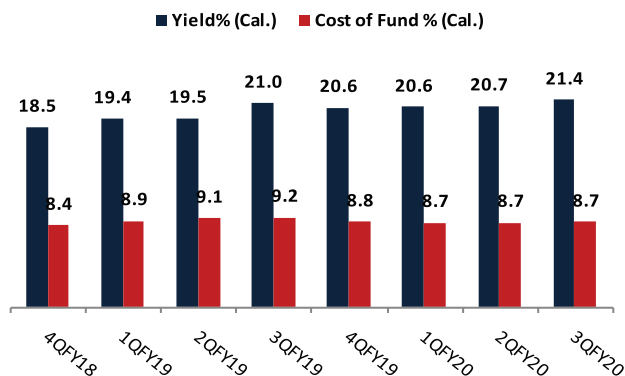
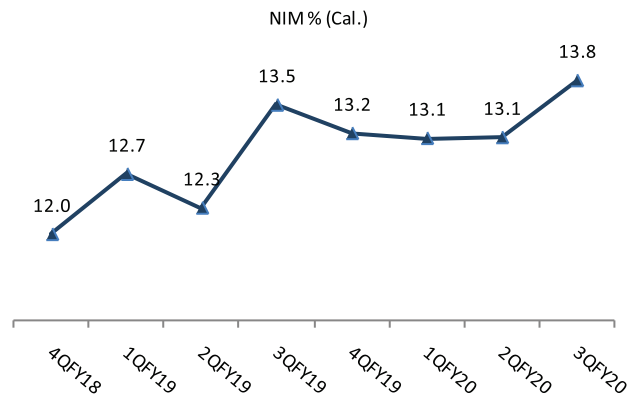


Exhibit: Net Interest Margin

NIM increased



Asset & Borrowings Growth Trend

Fig. In Rs Cr

	4QFY18	1QFY19	2QFY19	3QFY19	4QFY19	1QFY20	2QFY20	3QFY20
AUM	84033	91287	98013	107507	115889	128898	135533	145091
Growth YoY %	46	32	35	38	41	41	38	35
Borrowings	61567	67425	73822	80862	86352	94462	97597	97173
Growth YoY %	25	26	40	40	40	40	32	20

AUM Composition %

	4QFY18	1QFY19	2QFY19	3QFY19	4QFY19	1QFY20	2QFY20	3QFY20
Consumer Lending	33	38	38	40	39	39	39	39
SME lending	12	13	14	13	14	13	13	13
Commercial Lending	10	13	12	11	10	12	10	9
Rural Lending	5	7	7	8	8	8	8	9
House Lending	26	28	29	28	29	29	30	30

Exhibit: AUM Growth %

Strong AUM growth

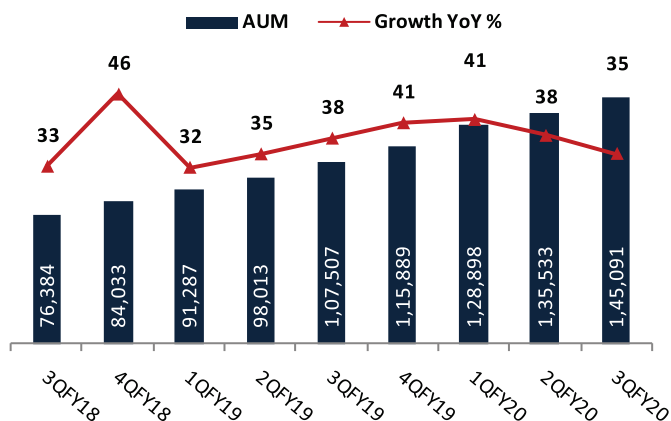
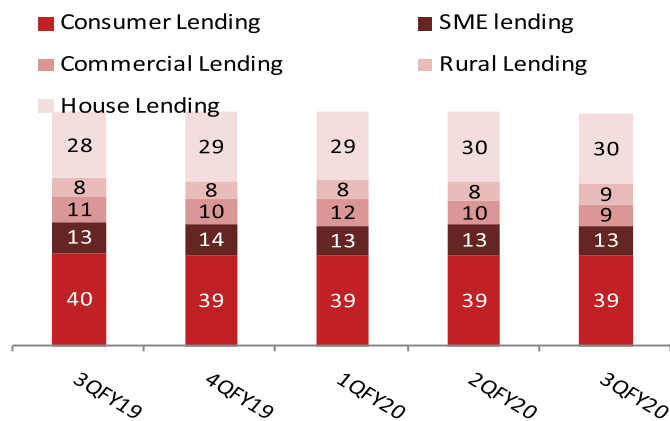


Exhibit: Asset Mix%

Stable



Borrowings Mix

	4QFY18	1QFY19	2QFY19	3QFY19	4QFY19	1QFY20	2QFY20	3QFY20
Banks	31	30	34	32	34	33	35	32
Non convertible debentures	43	37	35	36	38	35	35	37
Fixed deposits	12	14	15	14	15	16	18	4
Tier 2 debt(Sub Debt)	6	6	5	5	5	4	4	21
Commercial paper	6	12	9	11	7	10	8	6
Others(CBLO)	2	2	2	1	0	1	-	-

Asset Quality

	1QFY19	2QFY19	3QFY19	4QFY19	1QFY20	2QFY20	3QFY20	YoY (+/-)	QoQ (+/-)
GNPA	1,280	1,471	1,691	1,804	2,094	2,213	2,354	663	141
GNPA %	1.4	1.5	1.6	1.5	1.6	1.6	1.6	0	-
NNPA	400	522	488	727	824	888	1,019	531	131
NNPA %	0.4	0.5	0.6	0.6	0.6	0.7	0.7	0	0
Total Specific PCR %	69	65	71	60	61	60	57	(14)	(3)

Exhibit: Asset Quality

Asset Quality stable

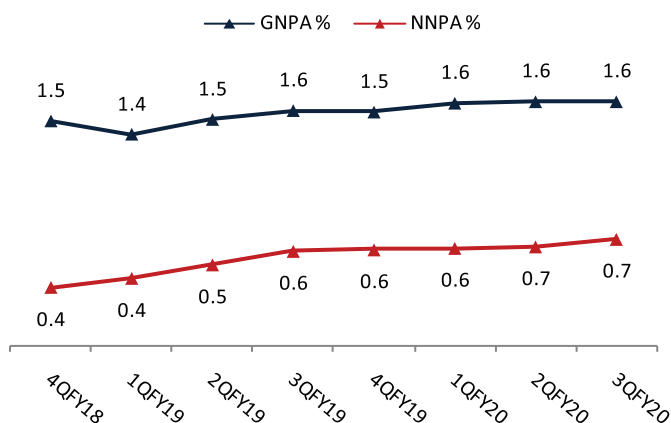


Exhibit: Provisions

PCR declined

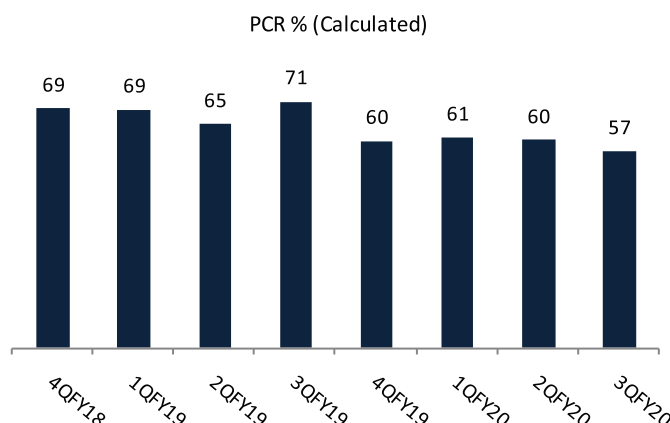


Exhibit: Bajaj Finance Presence

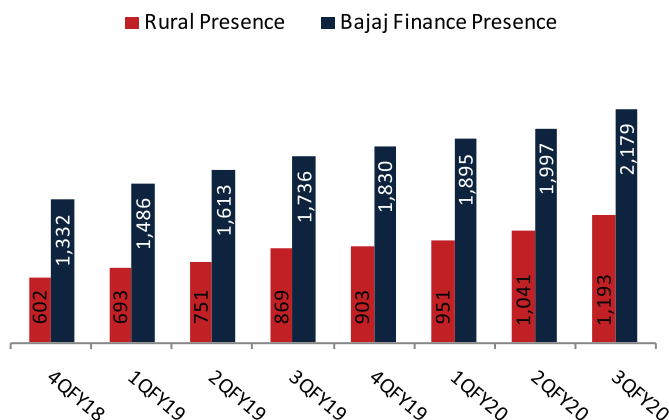
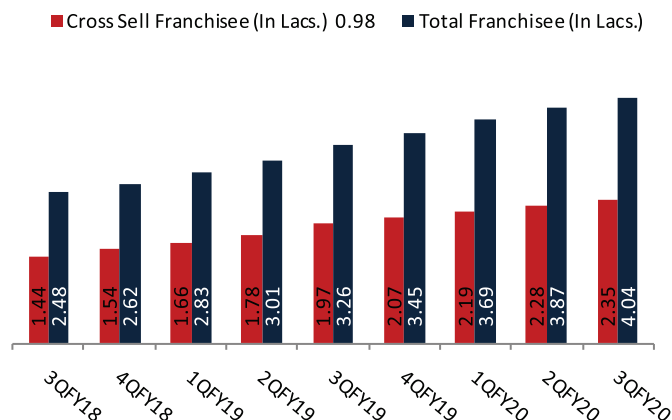


Exhibit: Customer Franchise



Point of Sale

Fig. In Rs Cr

	2011	2012	2013	2014	2015	2016	2017	2018	2019
CD retailer	2,500	2,800	3,500	4,900	7,000	9,400	14,000	15,500	20,400
Digital retailer					2,650	5,200	5,900	15,900	22,500
Lifestyle retailer					1,150	3,200	3,900	6,000	7,700
Retail EMI retailer							5,600	12,100	19,100
2W Dealer/ASCs	150	220	260	2,600	3,000	3,000	3,200	3,900	4,600
SME DSA	250	250	400	700	700	800	1,500	2,100	2,800
Rural retailer					1,500	3,200	5,500	8,200	14,500
Gold loan							191	380	
Total reach					16,000	24,800	39,700	64,300	91,700

Franchise

	3QFY18	4QFY18	1QFY19	2QFY19	3QFY19	4QFY19	1QFY20	2QFY20	3QFY20
New to Bajaj Finance	0.18	0.14	0.21	0.18	0.25	0.19	0.24	0.19	0.25
Credit segment filter	1.86	1.98	2.16	2.31	2.53	2.69	2.91	3.06	3.19
Overall Cross sell franchise	1.77	1.89	2.07	2.22	2.43	2.59	2.80	2.95	3.08
Non delinquent customers	1.61	1.72	1.88	2.01	2.21	2.33	2.52	2.63	2.74
Cross sell franchise	1.44	1.54	1.66	1.78	1.97	2.07	2.19	2.28	2.35
Total Franchise	2.48	2.62	2.83	3.01	3.26	3.45	3.69	3.87	4.04

Collection Efficiency

	3QFY18	4QFY18	1QFY19	2QFY19	3QFY19	4QFY19	1QFY20	2QFY20	3QFY20
CD Loan	98.83	98.91	99.04	98.91	98.96	98.69	98.54	98.52	98.59
2W/3W Loan portfolio	87.85	88.76	87.60	88.32	89.68	90.15	88.70	87.63	85.81
Lifestyle Finance	98.63	98.66	98.59	98.73	98.77	98.49	98.15	97.77	97.81
Digital Product Finance	98.86	98.49	98.47	98.72	98.81	98.30	97.69	97.85	98.24
Personal Loan Cross Sell	97.46	97.62	97.64	97.69	97.81	97.76	97.46	97.21	97.02
Salaried Personal Loans	99.63	99.70	99.66	99.68	99.70	99.70	99.67	99.61	99.63
Businee Loans	98.55	98.68	98.76	98.76	98.82	98.75	98.59	98.42	98.35
Loan Against Property portfolio	98.27	99.16	99.27	99.16	96.95	97.65	97.70	97.31	97.06
Home Loans portfolio	98.96	99.48	99.49	99.40	99.54	99.52	99.42	99.61	99.63
Rural B2B						99.26	98.93	98.87	99.21
Rural B2C						98.85	98.65	98.47	98.32

Financial Details

Balance Sheet

Fig. In Rs Cr

Y/E March	FY14	FY15	FY16	FY17	FY18	FY19	FY20E	FY21E
Share Capital	50	50	54	109	115	115	120	120
Equity Capital	50	50	54	109	115	115	120	120
Preference Capital								
Reserves & Surplus	3,941	4,750	7,271	9,491	15,733	19,582	33,716	42,871
Networth	3,991	4,800	7,325	9,600	15,848	19,697	33,836	42,992
Change (%)	19	20	53	31	65	24	72	27
Total Borrowings	19,750	26,690	37,025	49,250	64,481	101,588	127,478	170,673
Change (%)	50	35	39	33	31	58	25	34
Provisions	236	319	885	1,295	62	74	93	124
Other Liabilities	641	1,002	1,739	3,579	4,407	2,874	3,161	3,477
Total Liabilities	24,618	32,811	46,973	63,725	84,798	124,233	164,568	217,266
Investments	28	332	1,034	4,075	3,139	8,599	9,287	9,473
Loans	23,375	31,632	43,831	58,239	79,103	112,513	148,517	200,498
Change (%)	37	35	39	33	36	42	32	35
Fixed Assets	220	249	287	361	467	692	918	1,239
Other Assets	218	378	492	693	1,750	2,080	4,161	4,577
Cash Balances	777	220	1,329	357	340	349	1,685	1,479
Total Assets	24,618	32,811	46,973	63,725	84,798	124,233	164,568	217,266

Income Statement

Fig. In Rs Cr

Y/E March	FY14	FY15	FY16	FY17	FY18	FY19	FY20E	FY21E
Interest income	3,789	5,120	6,957	9,272	12,744	18,485	26,698	36,796
Interest expended	1,573	2,248	2,927	3,803	4,614	6,624	9,542	12,375
Net Interest Income	2,215	2,872	4,030	5,469	8,131	11,862	17,156	24,421
Change (%)	29	30	40	36	49	46	45	42
Other Income	285	298	427	731	12	17	61	91
Change (%)	53	5	43	71	(98)	34	268	49
Total Net Income	2,500	3,170	4,457	6,200	8,143	11,878	17,217	24,512
Change (%)	31	27	41	39	31	46	45	42
Operating Expenses	1,151	1,429	1,949	2,564	3,269	4,198	5,986	8,585
Change (%)	35	24	36	32	27	28	43	43
>> Employee Expenses	341	451	630	932	1,434	1,941	2,726	3,878
Change (%)	39	32	40	48	54	35	40	42
>> Other Expenses	810	978	1,320	1,633	1,835	2,257	3,260	4,706
Pre-provisioning Profit	1,349	1,741	2,507	3,636	4,874	7,681	11,231	15,927
Change (%)	28	29	44	45	34	58	46	42
Provisions	258	385	543	818	1,030	1,501	2,721	3,114
Change (%)	42	49	41	51	26	46	81	14
PBT	1,091	1,357	1,965	2,818	3,843	6,179	8,510	12,814
Tax	372	459	686	981	1,347	2,184	2,349	3,225
Profit After Tax	719	898	1,279	1,837	2,496	3,995	6,161	9,589
Change (%)	22	25	42	44	36	60	54	56
Adjusted Profit After Tax	719	898	1,279	1,837	2,496	3,995	6,161	9,589
Change (%)	22	25	42	44	36	60	54	56

Financial Details

Key Ratios

Y/E March	FY14	FY15	FY16	FY17	FY18	FY19	FY20E	FY21E
Balance Sheet Metrics								
AUM	24,061	32,410	44,229	60,194	82,422	115,889	152,974	206,514
Off-Book AUM	1,090	1,211	1,473	3,362	1,606	3,376	4,457	6,016
AUM Growth (%)	37	35	36	36	37	41	32	35
Borrowing Growth (%)	50.4	35.1	38.7	33.0	30.9	57.5	25.5	33.9
Loan/Borrowing (%)	1.2	1.2	1.2	1.2	1.2	1.1	1.2	1.2
CRAR (%)	19.1	18.0	19.5	20.3	24.7	20.7	23.3	21.9
Tier 1 (%)	17	14	16	15	20	16	21	20
Tier 2 (%)	3.0	3.8	3.4	5.7	5.0	4.4	2.7	2.1
Debt/Equity (x)	4.9	5.6	5.1	5.1	4.1	5.2	3.8	4.0
Assets Quality Metrics								
Gross NPA (Rs)								
Gross NPA (%)	271	471	538	982	1,164	1,804	2,471	3,531
Net NPA (Rs)	1.2	1.5	1.2	1.7	1.5	1.5	1.7	1.8
Net NPA (%)	65	137	123	255	297	727	988	1,413
Specific Provision Coverage (%)	0.3	0.5	0.3	0.4	0.4	0.6	0.7	0.7
Provision/Average Advances (%)	76	71	77	74	75	60	60	60
Margin Metrics								
Yield On Advances (%)	18.2	18.1	18.2	17.8	17.9	18.6	19.9	20.5
Cost Of Funds (%)	9.6	9.7	9.2	8.8	8.3	8.1	8.3	8.3
Spread (%)	8.7	8.5	9.0	8.9	9.5	10.5	11.5	12.2
NIM on AUM (%)	10.7	10.2	10.5	10.5	11.4	12.0	12.8	13.6
Profitability & Efficiency Metrics								
Int. Expense/Int.Income (%)	41.5	43.9	42.1	41.0	36.2	35.8	35.7	33.6
Other Income/NII (%)	12.9	10.4	10.6	13.4	0.2	0.1	0.4	0.4
Operating Profit/Net Income (%)	54.0	54.9	56.3	58.6	59.9	64.7	65.2	65.0
Net Profit/Net Income (%)	28.8	28.3	28.7	29.6	30.7	33.6	35.8	39.1
Cost to Income (%)	46.0	45.1	43.7	41.4	40.1	35.3	34.8	35.0
Employee Exp/Net Income (%)	13.6	14.2	14.1	15.0	17.6	16.3	15.8	15.8
Cost on Average Assets (%)	5.4	5.0	4.9	4.6	4.4	9.9	9.6	10.6
Provision/PPP (%)	19.1	22.1	21.6	22.5	21.1	19.5	24.2	19.5
Tax Rate (%)	34.1	33.8	34.9	34.8	35.0	35.3	27.6	25.2
Valuation Ratio Metrics								
EPS (Rs)	144.5	179.5	238.8	33.6	46.0	69.1	102.4	159.4
Change (%)	21.1	24.2	33.0	(85.9)	37.0	50	48.2	55.6
ROAE (%)	19.5	20.4	21.1	21.7	20.3	22.5	23.0	25.0
ROAA (%)	3.4	3.1	3.2	3.3	3.6	3.8	4.3	5.0
Dividend Payout (%)	13.0	12.0	12.6	12.9	9.4	8.7	7.0	4.5
Dividend yield (%)	8.9	4.4	1.0	0.3	0.2	0.2	0.1	0.1
DPS	16.0	18.0	25.0	3.6	4.0	5.0	6.0	6.0
Book Value(Rs)	802.2	959.9	1367.8	176	287.2	340.8	562.4	714.6
Change (%)	18	20	42	(87)	64	19	65	27
P/B (X)	2.2	4.3	5.1	6.7	6.2	8.9	7.9	6.2
P/E (X)	12.4	22.8	29.0	35.0	38.4	43.8	43.2	27.7

Financial Details

Exhibit: DuPont Analysis

	FY14	FY15	FY16	FY17	FY18	FY19	FY20E	FY21E
Interest Income	17.9	17.8	17.4	16.8	17.2	17.7	18.5	19.3
Interest expended	7.4	7.8	7.3	6.9	6.2	6.3	6.6	6.5
Net Interest Income	10.4	10.0	10.1	9.9	10.9	11.3	11.9	12.8
Non-Fund Based Income	1.3	1.0	1.1	1.3	0.0	0.0	0.0	0.0
Total Income	11.8	11.0	11.2	11.2	11.0	11.4	11.9	12.8
Total Operating Expenses	5.4	5.0	4.9	4.6	4.4	4.0	4.1	4.5
Employee Expenses	1.6	1.6	1.6	1.7	1.9	1.9	1.9	2.0
Other Expenses	3.8	3.4	3.3	2.9	2.5	2.2	2.3	2.5
Operating Profit	6.4	6.1	6.3	6.6	6.6	7.3	7.8	8.3
Provisions	1.2	1.3	1.4	1.5	1.4	1.4	1.9	1.6
Others	-	-	-	-	-	-	-	-
PBT	5.1	4.7	4.9	5.1	5.2	5.9	5.9	6.7
Tax	1.8	1.6	1.7	1.8	1.8	2.1	1.6	1.7
PAT/RoAA	3.4	3.1	3.2	3.3	3.4	3.8	4.3	5.0
Equity Multiplier (x)	5.8	6.5	6.6	6.5	5.8	5.9	5.4	5.0
ROAE	19.5	20.4	21.1	21.7	19.6	22.5	23.0	25.0

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Correspondence Office Address: Arch Waterfront, 5th Floor, Block GP, Saltlake, Sector 5, Kolkata 700 091; Tel No.: 033-40541700; www.narnolia.com.

Registered Office Address: Marble Arch, Office 201, 2nd Floor, 236B, AJC Bose Road, Kolkata 700 020; Tel No.: 033-4050 1500; www.narnolia.com

Compliance Officer: Manish Kr Agarwal, Email Id: 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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