

Industry
Bloomberg
BSE CODE

Financial
POWF IN
532810

RATING	HOLD
CMP	125
Price Target	131
Potential Upside	5%

Rating Change	↔
Estimate Change	↔
Target Change	↔

STOCK INFO	
52wk Range H/L	139/91
Mkt Capital (Rs Cr)	33278
Free float (%)	38%
Avg. Vol 1M (,000)	376
No. of Shares (Crs)	264
Promoters Pledged %	

Fig in Rs Cr

FINANCIAL	FY19	FY20E	FY21E
NII	9608	10246	11493
PPP	8944	10341	12224
PAT	6953	6782	8375
NIM %	3.2	3.1	3.1
EPS (Rs)	26	26	32
EPS growth (%)	58	-2	23
ROE (%)	17.3	15.6	18.1
ROA (%)	2.2	1.9	2.1
BV	164	165	187
P/B (X)	0.8	0.8	0.7
P/E (x)	4.7	4.9	3.9

RESEARCH ANALYST

DEEPAK KUMAR

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

SWETA PADHI

Shweta.padhi@narnolia.com

Healthy Growth with Resolution aiding Asset Quality Improvement

3QFY20 Result Update

- NII has grown at a rate of 11% YoY on the back of healthy AUM growth of 12%. The foreign exchange has an effect of negative Rs 291 Cr. The C/I ratio has declined sequentially to 3.42% from 4.92% QoQ. PAT growth has decreased by 19% YoY.
- NIM has improved to 3.28% as of 3QFY20. The yield has remained stable at 10.66% range while the cost of the fund has declined by 7 bps sequentially to 7.75%. Spread has improved on a QoQ basis to 2.91%.
- AUM growth has grown at the rate of 12% majorly driven by distribution segment at 24% YoY, transmission at 14% YoY, generation at the rate of 9% while the decrease in the Other segment by 12% YoY.
- The share of government sector to private sector exposure stood at 83%:17%. Out of the total loan assets upto 92% are regular in servicing & no stress is envisaged
- Distribution growth stood at 26% YoY with a higher share of generation segment at 65% followed by the distribution segment at 26%. The share of the portfolio has remained almost stable QoQ with Generation segment at 70%, Transmission segment at 8%, the Distribution segment stood at 21% while other segments stood at 0.8%.
- The GNPA has improved sequentially to 8.34% while NNPA stood at 3.94%. The PCR stood at 52.8% as of 3QFY20.
- The resolution of GMR Chhattisgarh & Rattan India Nasik has led to an improvement in the asset quality QoQ. There was sufficient provision provided for these exposures no additional provision was needed for these resolutions.
- PFC is expecting resolution in 6 projects amounting to Rs 9078 Cr with 47% provisioning already provided. Out of these 6 projects, 3 projects are resolved through NCLT. After the resolution of these assets, the GNPA will decline to 5% range.
- The 6 projects where resolution are nearby consolidating to Rs 9078 Cr of exposures are RKM Powergen where exposure stood at Rs 5163 Cr, Ind Barath Utkal where exposure stood at Rs 1368 Cr, India Power Haldia with exposure stood at Rs 959 Cr, Jhabua Power with exposure stood at Rs 764 Cr, Essar Transmission has an exposure of Rs 438 Cr and Jal Power has an exposure of Rs 386 Cr.
- Upto 67% exchange risk hedging for FCL with residual maturity upto 5 years. 41% exchange risk hedged for total FCL portfolio.
- The conso. Loan assets stood at Rs 640387 Cr with a GNPA/NNPA of 7.41% & 3.56%. The conso. CRAR stood at 18.12%.

View and Valuation

PFC has been able to raise borrowings in the liquidity stress environment and was able to maintain its loan growth at a 12% level. It has been able to improve its margin on the back of a decline in the cost of funds. The recently raised fund through ETF & foreign borrowing has led to better diversification of the borrowings as well as the decline in the cost of fund. The asset quality has improved sequentially on the back of resolution in the 2 accounts of GMR Chhattisgarh & Ratan India Amravati. Management is confident of recovering in 6 exposures in the next 2 quarters. We remain to maintain our Hold stance in the stock keeping in mind the time lag taken for resolution of the projects. We value the share at 0.7x P/B FY21e at Rs 131.

Key Risks to our rating and target

- Impending resolution will be important trackable
- Loan growth will be important

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Healthy Growth

3QFY20 Results Below Our Expectations

Fig in Rs Cr

FINANCIALS	3QFY19	4QFY19	1QFY20	2QFY20	3QFY20	YoY %	QoQ%	FY18	FY19	YoY %
Interest Inc.	7,241	7,659	7,577	8,023	8,211	13.4%	2.3%	12,168	13,271	9.1%
Interest Exp.	4,790	4,980	5,366	5,439	5,495	14.7%	1.0%	5,434	6,486	19.4%
NII	2,451	2,679	2,211	2,583	2,715	10.8%	5.1%	6,735	6,785	0.8%
Other Income	121	44	5	2	1	-99.2%	-45.1%	236	218	-7.5%
Total Income	2,558	2,538	2,243	2,229	2,425	-5.2%	8.8%	6,982	7,015	0.5%
Ope Exp.	95	131	81	110	83	-12.4%	-24.4%	1,489	1,493	0.3%
PPP	2,463	2,406	2,162	2,119	2,342	-4.9%	10.5%	5,494	5,523	0.5%
Provisions	(295)	(510)	221	390	(53)	-81.9%	-113.7%	3,122	1,722	-44.8%
PBT	2,759	2,916	1,941	1,729	2,396	-13.2%	38.6%	2,372	3,801	60.2%
Tax	685	798	558	571	715	4%	25.2%	804	1,341	66.9%
Extra Items	-	-	-	-	-	-	-	-	-	-
Net Profit	2,074	2,118	1,383	1,157	1,680	-19.0%	45.2%	1,568	2,459	57%

Concall Highlights

- The yield was maintained at 10.66% while the cost has reduced by 15 bps in 9MFY20. Spread has improved to 2.91% by 13 bps from 2QFY20.
- Disbursement has grown at 26% YoY with loan growth at 12%.
- Asset quality has improved on the back of resolution of Rs 2650 Cr (GMR Chhattisgarh & Rattan India Amravati (50% recovery) where resolution has been obtained through a One-time settlement with sufficient provision provided for these exposures).
- PFC is expecting resolution in 6 projects amounting to Rs 9078 Cr with 47% provisioning already provided. Out of these 6 projects, 3 projects are resolved through NCLT. After the resolution of these assets, the GNPA will decline to 5% range.
- 3 Projects which are being resolved outside NCLT are R.K.M Powergen with exposure of Rs 5163 Cr, SR Transmission with exposure of Rs 438 Cr (No haircut is expected) and lastly, India Power Haldia (31% provision is provided) has an exposure of Rs 960 Cr. In these projects approval of resolution plan from consortium lender is awaited).
- 3 Projects resolved under NCLT are Jhabua Power with exposure Rs 764 Cr, Jalpower exposure id at Rs 386 Cr and Ind Bharat Utkal Rs 1368 Cr. Resolution plan or OTS (One-time settlement plan is under approval from NCLT).
- The borrowing portfolio is diversified into both domestic and international markets. PFC has participated in the issuance of bond ETF has raised Rs 2500 Cr. PFC has 750\$ mn through the bond issue at the coupon rate 3.95%.
- PFC has hedged up to 67% of the exchange risk for the portfolio with residual maturity up to 5 years.
- In the merger deal, PFC is eager to retain ownership of the government in the merged entity.
- M B Power (Rs 1000 Cr approx), SASAN (Rs 1500 Cr) is a standard asset. SR Mahan (exposure stands at Rs 1300 Cr) resolution is underway. KSK Mahanadi (Rs 3300 Cr) NCLT proceeding is starting. Ratan India Nasik (3000 Cr) exposure efforts were put to get PPA. Lanco Amarkantak (Rs 2300 Cr) project is in NCLT. Dans & Shiga energy is in advance stage of resolution. The Athena is in a Liquidation process (100% provision is made) K V K Nilachal is in NCLT.
- ICA is signed in NPA cases only. Rs 13000 Cr exposure of 15 cases are in NCLT.
- PFC has reduced the effective tax rate to 25.17% effective from 1st April 2019. After taking into account tax savings and DTA reversal the net increase in tax stand at Rs 319 Cr accounted in 3QFY20.
- CAR has improved in the 9M time frame to 19.32%. Management has guided to see further improvement.
- PFC has an interim dividend of Rs 9.5 per share. With REC declaring dividend, a profit of Rs 1143 Cr is expected to reflect in 4QFY20.

Profitability Matrix

	1QFY19	2QFY19	3QFY19	4QFY19	1QFY20	2QFY20	3QFY20	YoY (+/-)	QoQ (+/-)
C/I Ratio %	3.2	5.3	3.7	5.2	3.6	4.9	3.4	-0.28	-1.50
Empl. Cost/ Tot. Exp. %	65.7	39.6	49.9	28.7	61.8	53.9	56.3	6.46	2.45
Other Exp/Tot. Exp. %	24.2	31.3	21.1	33.1	20.1	19.2	27.6	6.46	8.37
Provision/PPP %	0.1	(3.8)	(12.0)	(21.2)	10.2	18.4	(2.3)	9.72	-20.70
Tax Rate %	32.7	34.1	24.8	27.4	28.7	33.1	29.9	5.04	-3.19
Int Exp./Int Inc. (%)	68.6	67.6	66.2	65.0	70.8	67.8	66.9	0.78	-0.87
PPP/ Net Income %	96.8	94.7	96.3	94.8	96.4	95.1	96.6	0.28	1.50
PAT/ Net Income %	65.0	64.8	81.1	83.4	61.7	51.9	69.3	-11.80	17.36
NII Growth % (YoY)	(17.0)	(8.7)	26.7	43.7	6.6	15.5	10.8	-15.95	-4.72
PPP Growth YoY %	(19.3)	(12.4)	40.3	46.8	5.8	6.9	(4.9)	-45.21	-11.84
PAT Growth %	22.3	10.5	72.2	166	0.7	(14.6)	(19.0)	-91.18	-4.39

Margin Performance

MARGIN %	1QFY19	2QFY19	3QFY19	4QFY19	1QFY20	2QFY20	3QFY20	YoY (+/-)	QoQ (+/-)
Yield on Advances	9.8	9.9	10.0	10.3	9.9	10.2	10.2	0.15	-0.04
Cost Of Funds	8.2	8.1	8.0	8.0	8.2	8.0	7.8	-0.22	-0.20
Spreads	1.6	1.8	2.0	2.3	1.7	2.2	2.4	0.38	0.16
NIM	3.1	3.2	3.4	3.6	2.9	3.3	3.4	-0.03	0.07

Exhibit: Calculated Yield and Cost

Improved Spreads

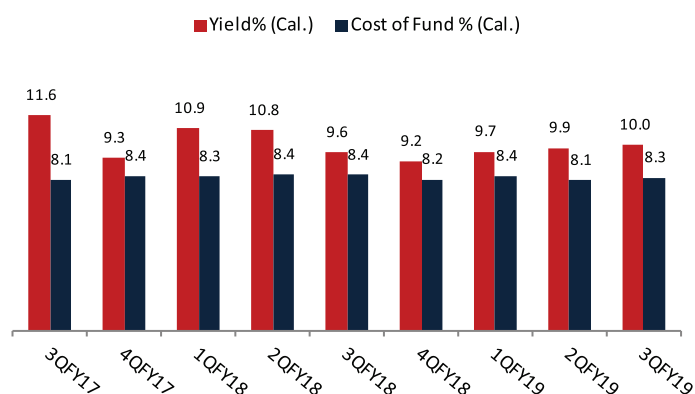
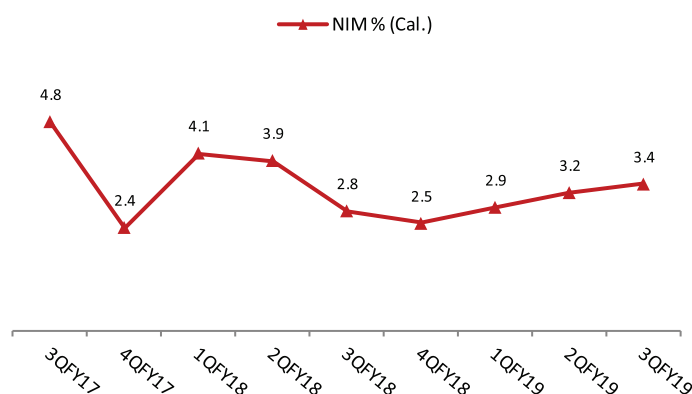


Exhibit: Net Interest Margin

NIM has improved marginally



Asset & Borrowings Growth Trend

Fig in Rs Cr

	3QFY18	4QFY18	1QFY19	2QFY19	3QFY19	4QFY19	1QFY20	2QFY20	3QFY20
Disbursements	10893	26852	12981	17505	14647	22544	10467	18366	18413
Growth YoY %	-10	-5	1	27	34	-16	-19	5	26
AUM	262110	279329	284849	293084	298128	314666	316886	325435	332963
Growth YoY %	10	14	13	14	14	13	11	11	12
Borrowings	213707	229539	233418	243485	249117	275692	280618	282262	289264
Growth YoY %	10	13	14	17	17	20	20	16	16

Exhibit: AUM Growth %

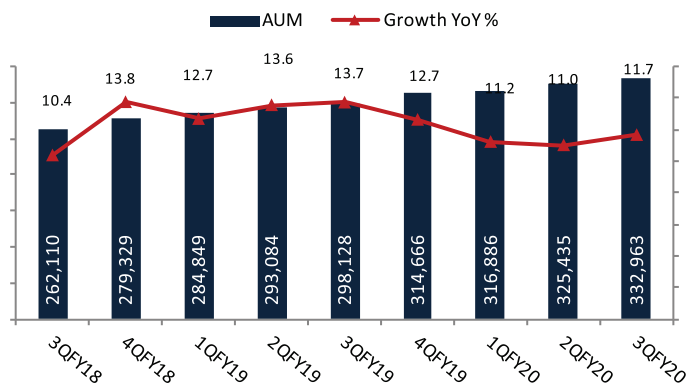
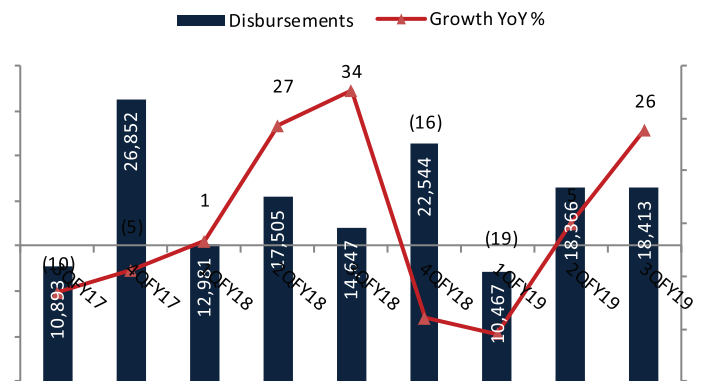


Exhibit: Disbursement Growth %



Portfolio Mix

	3QFY18	4QFY18	1QFY19	2QFY19	3QFY19	4QFY19	1QFY20	2QFY20	3QFY20
Generation	77	75	72	73	72	71	71	70	70
Renewable Energy	7	8	7	8	8	8	8	8	8
T&D	14	16	13	18	19	20	20	21	21
Short Term Loan	1	1	9	1	1	1	1	1	1

Portfolio Mix

	3QFY18	4QFY18	1QFY19	2QFY19	3QFY19	4QFY19	1QFY20	2QFY20	3QFY20
Generation	71	58	29	33	54	46	62	47	65
Renewable Energy	8	13	3	14	11	12	8	9	9
T&D	20	29	48	53	34	41	29	42	26
Short Term Loan	0	0	20	0	1	0	0	1	0

Asset Quality

	1QFY19	2QFY19	3QFY19	4QFY19	1QFY20	2QFY20	3QFY20	YoY (+/-)	QoQ (+/-)
GNPA	27,384	28,287	28,236	29,540	30,440	29,466	27,765	(522)	(1,701)
GNPA %	9.6	9.7	9.5	9.4	9.6	9.1	8.3	(1.3)	(0.7)
NNPA	12,893	13,648	13,555	14,332	14,740	13,917	13,111	(537)	(806)
NNPA %	4.5	4.7	4.6	4.6	4.7	4.3	3.9	(0.7)	(0.3)
Total Specific PCR %	53	52	52	51	52	53	53	1	0

Exhibit: Asset Quality

GNPA Improved Sequentially

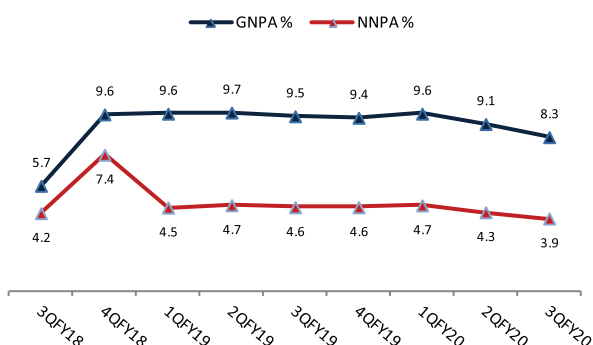


Exhibit: Provisions

PCR has Remained Stable

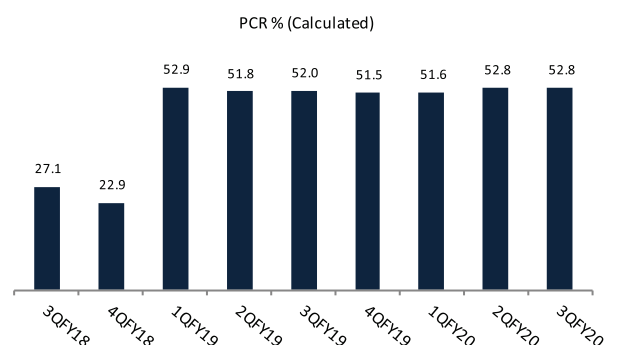


Exhibit: AUM Break Up

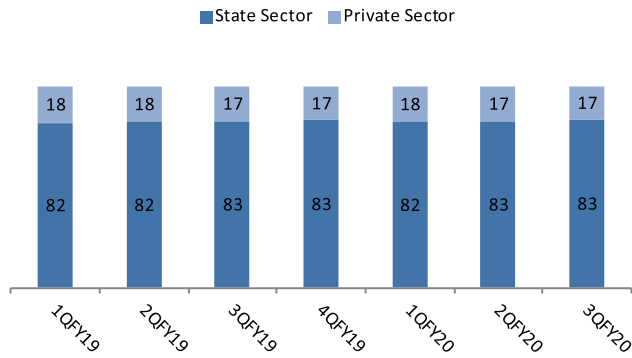
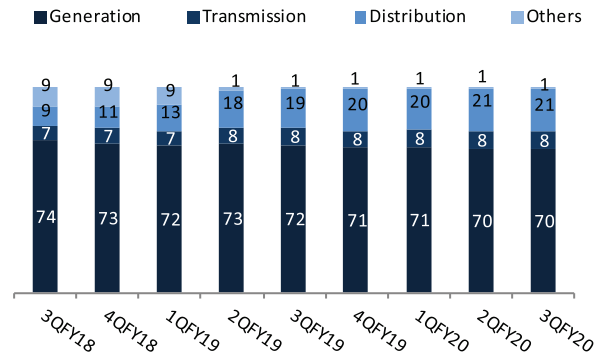


Exhibit: Portfolio Mix



Asset Quality

	1QFY19	2QFY19	3QFY19	4QFY19	1QFY20	2QFY20	3QFY20
Gross NPA (Stage 3)	27,384	28,287	28,236	29,540	30,440	29,466	27,765
Less: ECL Provisions (Stage 3)	14,491	14,639	14,681	15,208	15,700	15,549	14,654
Net NPA (Stage 3)	12,893	13,648	13,555	14,332	14,740	13,917	13,111
Coverage Ratio (%) Stage 3	52.9	51.8	52.0	51.5	51.6	52.8	52.8
Gross Stage 1 & 2	233177	264361	269892	285127	286446	295968	305197
ECL provision-Stage 1 & 2	2177	2523	2185	1160	888	726	801
Net Stage 1 & 2	231000	261838	267707	283967	285558	295242	304396
ECL provision (%) Stage 1 & 2	0.9	1.0	0.8	0.4	0.3	0.2	0.3

Disbursement Mix

	1QFY19	2QFY19	3QFY19	4QFY19	1QFY20	2QFY20	3QFY20
Generation	3793	5730	7908	10440	6483	8712	11936
Transmission	377	2,424	1,588	2,740	883	1,693	1,610
Distribution	6218	9276	4944	9300	3053	7758	4811
Others	2593	75	207	64	48	203	56

Exhibit: Provisions/Average AUM

Lower Credit Cost

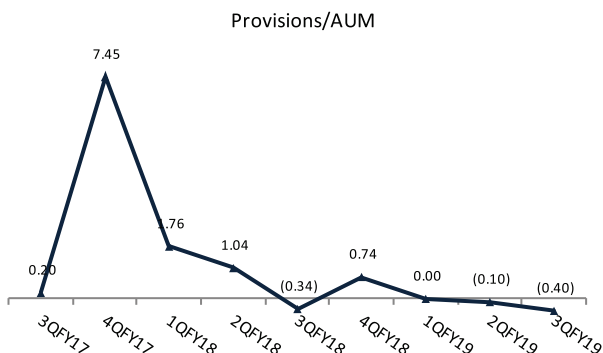
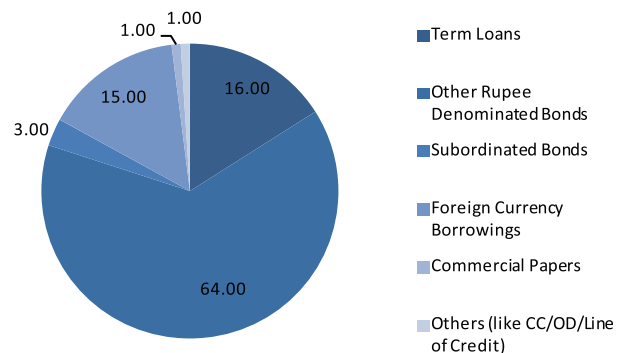


Exhibit: Diversified Funding Mix

Borrowing Mix



Financial Details

Balance Sheet

Fig in Rs Cr

Y/E March	FY14	FY15	FY16	FY17	FY18	FY19	FY20E	FY21E
Share Capital	1,320	1,320	1,320	2,640	2,640	2,640	2,640	2,640
Equity Capital	1,320	1,320	1,320	2,640	2,640	2,640	2,640	2,640
Preference Capital	-	-	-	-	-	-	-	-
Reserves & Surplus	26,202	30,899	34,446	33,830	34,316	40,648	40,882	46,631
Networth	27,522	32,219	35,766	36,470	36,956	43,288	43,522	49,271
Change (%)	14	17	11	2	1	17	1	13
Total Borrowings	159,215	187,773	200,485	202,589	229,539	275,692	306,385	343,097
Change (%)	14	18	7	1	13	20	11	12
Provisions	1,314	2,012	2,886	10,983	534	496	551	617
Other Liabilities	6,269	6,660	7,500	8,419	12,880	25,380	28,206	31,585
Total Liabilities	194,320	228,664	246,637	258,461	279,908	344,856	378,664	424,571
Investments	27	851	2,677	3,591	2,520	16,586	16,765	18,610
Loans	171,212	214,155	233,658	234,210	266,011	303,210	336,563	373,585
Change (%)	18	25	9	0	14	14	11	11
Fixed Assets	72	66	64	63	27	28	31	35
Other Assets	22,548	8,522	10,159	17,025	10,797	10,876	12,072	13,400
Cash Balances	459	5,071	78	3,573	553	14,155	13,231	18,940
Total Assets	194,320	228,664	246,637	258,461	279,908	344,856	378,664	424,571

Income Statement

Fig in Rs Cr

Y/E March	FY14	FY15	FY16	FY17	FY18	FY19	FY20E	FY21E
Interest income	20,980	24,586	27,079	26,270	25,830	28,590	32,150	35,264
Interest expended	13,207	15,439	16,474	16,433	16,956	18,982	21,904	23,771
Net Interest Income	7,773	9,147	10,606	9,837	8,874	9,608	10,246	11,493
Change (%)	31	18	16	(7)	(10)	8	7	12
Other Income	649	322	485	748	(256)	(259)	531	1,267
Change (%)	64	(50)	51	54	(134)	1	(305)	139
Total Net Income	8,422	9,469	11,091	10,586	8,618	9,349	10,777	12,760
Change (%)	33	12	17	(5)	(19)	8	15	18
Operating Expenses	328	249	326	381	382	405	436	536
Change (%)	32	(24)	31	17	0	6	8	23
Employee Expenses	91	86	90	115	177	174	218	204
Change (%)	0	(6)	5	27	54	(2)	26	(6)
Other Expenses	89	8	51	68	71	115	109	159
Pre-provisioning Profit	8,094	9,220	10,764	10,205	8,236	8,944	10,341	12,224
Change (%)	33	14	17	(5)	(19)	9	16	18
Provisions	470	844	1,706	5,094	2,391	(871)	814	907
Change (%)	481	80	102	199	(53)	(136)	(193)	11
PBT	7,624	8,376	9,059	5,111	5,845	9,816	9,527	11,317
Tax	2,163	2,419	2,947	2,983	1,458	2,863	2,745	2,942
Profit After Tax	5,462	5,959	6,113	2,126	4,387	6,953	6,782	8,375
Change (%)	23	9	3	(65)	106	58	(2)	23
Adjusted Profit After Tax	5,462	5,959	6,113	2,126	4,387	6,953	6,782	8,375
Change (%)	23	9	3	(65)	106	58	(2)	23

Financial Details

Key Ratios

Y/E March	FY14	FY15	FY16	FY17	FY18	FY19	FY20E	FY21E
Balance Sheet Metrics								
AUM	188994	217685	238920	245524	278914	314666	349279	387700
Off-Book AUM	17782	3530	5262	11314	12903	11456	12716	14114
AUM Growth (%)	17.8	15.2	9.8	2.8	13.6	12.8	11.0	11.0
Borrowing Growth (%)	14.2	17.9	6.8	1.0	13.3	20.1	11.1	12.0
Loan/Borrowing (%)	1.1	1.1	1.2	1.2	1.2	1.1	1.1	1.1
Disbursement (Rs Cr)	16935	17851	18106	28384	26852	22544	17464	19385
Disbursement Growth (%)	3.5	6.1	2.2	(0.8)	0.2	(5.1)	(0.1)	(0.9)
CRAR (%)	20	20	20	19	20	17	11	11
Tier 1 (%)	16.4	17.0	17.1	16.2	17.0	11.7	9.6	9.7
Tier 2 (%)	3.7	3.4	3.2	3.1	3.0	5.4	1.5	1.4
Debt/Equity(x)	5.8	5.8	5.6	5.6	6.2	6.4	7.0	7.0
Assets Quality Metrics								
Gross NPA (Rs)	1228	2364	7519	30702	26703	29540	27942	27139
Gross NPA (%)	0.7	1.1	3.2	3.2	9.6	9.4	8.0	7.0
Net NPA (Rs)	985	1890	6061	25346	20600	14332	13412	13027
Net NPA (%)	0.5	0.9	2.6	2.4	7.4	4.6	3.8	3.4
Specific Provision Coverage (%)	20	20	19	17	23	51	52	52
Provision/Average Advances (%)	0.3	0.4	0.7	2.1	0.9	(0.3)	0.2	0.2
Margin Metrics								
Yield On Advances (%)	12.0	12.1	11.9	10.8	9.9	9.6	9.7	9.6
Cost Of Funds (%)	8.8	8.9	8.5	8.2	7.8	7.5	7.5	7.3
Spread (%)	3.2	3.2	3.4	2.7	2.0	2.1	2.2	2.2
NIM on AUM (%)	4.4	4.5	4.6	4.1	3.4	3.2	3.1	3.1
Profitability & Efficiency Metrics								
Int. Expense/Int.Income (%)	62.9	62.8	60.8	62.6	65.6	66.4	68.1	67.4
Other Income/NII (%)	0.1	0.0	0.0	0.1	(0.0)	(0.0)	0.1	0.1
Operating Profit/Net Income (%)	96.1	97.4	97.1	96.4	95.6	95.7	96.0	95.8
Net Profit/Net Income (%)	64.9	62.9	55.1	20.1	50.9	74.4	62.9	65.6
Cost to Income (%)	3.9	2.6	2.9	3.6	4.4	4.3	4.0	4.2
Employee Exp/Net Income (%)	1.1	0.9	0.8	1.1	2.0	1.9	2.0	1.6
Cost on Average Assets (%)	0.2	0.1	0.1	0.2	0.1	0.1	0.1	0.1
Provision/PPP (%)	5.8	9.2	15.8	49.9	29.0	(9.7)	7.9	7.4
Tax Rate (%)	28.4	28.9	32.5	58.4	24.9	29.2	28.8	26.0
Valuation Ratio Metrics								
EPS (Rs)	21	23	23	8	17	26	26	32
Change (%)	23.1	9.1	2.6	(65.2)	106.3	58	(2.5)	23.5
ROAE (%)	21.1	19.9	18.0	5.9	11.9	17.3	15.6	18.1
ROAA (%)	3.0	2.8	2.6	0.8	1.6	2.2	1.9	2.1
Dividend Payout (%)	55.4	45.1	70.2	81.3	54.9	33.3	38.7	31.4
Dividend yield (%)	5.1	3.2	8.1	3.8	9.1	6.0	6.8	6.8
DPS	9.8	8.7	13.9	5.6	7.8	7.5	8.5	8.5
Book Value(Rs)	104	122	135	138	140	164	165	187
Change (%)	14	17	11	2	1	17	1	13
P/B (X)	0.9	1.1	0.6	0.5	0.6	0.8	0.8	0.7
P/E (X)	4.7	6.0	3.7	9.1	5.2	4.7	4.9	3.9

Financial Details

Exhibit: DuPont Analysis

	FY14	FY15	FY16	FY17	FY18	FY19	FY20E	FY21E
Interest Income	11.5	11.6	11.4	10.4	9.6	9.2	8.9	9.3
Interest expended	7.3	7.3	6.9	6.5	6.3	6.1	6.1	6.3
Net Interest Income	4.3	4.3	4.5	3.9	3.3	3.1	2.8	3.0
Non-Fund Based Income	0.4	0.2	0.2	0.3	(0.1)	(0.1)	0.1	0.3
Total Income	4.6	4.5	4.7	4.2	3.2	3.0	3.0	3.4
Total Operating Expenses	0.2	0.1	0.1	0.2	0.1	0.1	0.1	0.1
Employee Expenses	0.0	0.0	0.0	0.0	0.1	0.1	0.1	0.1
Other Expenses	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1
Operating Profit	4.4	4.4	4.5	4.0	3.1	2.9	2.9	3.2
Provisions	0.3	0.4	0.7	2.0	0.9	(0.3)	0.2	0.2
Others								
PBT	4.2	4.0	3.8	2.0	2.2	3.1	2.6	3.0
Tax	1.2	1.1	1.2	1.2	0.5	0.9	0.8	0.8
PAT/RoAA	3.0	2.8	2.6	0.8	1.6	2.2	1.9	2.2
Equity Multiplier (x)	7.0	7.1	7.0	7.0	7.3	7.8	8.3	8.2
ROAE	21.1	19.9	18.0	5.9	11.9	17.3	15.6	18.1

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Analyst's ownership of the stocks mentioned in the Report	NIL
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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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