



TM

Praj Industries

01 June 2024

Rising exports, margin improvement key positives; Retain BUY

RESULT UPDATE

Sector: Mid Cap Rating: BUY

CMP: Rs 522 Target Price: Rs 607

Stock Info

Sensex/Nifty	73,961 / 22,531
Bloomberg	PRJ IN
Equity shares (mn)	184
52-wk High/Low	Rs 651/ Rs 366
Face value	Rs 2
M-Cap	Rs 92bn/ USD 1.1bn
3-m Avg trading value	USD 6mn

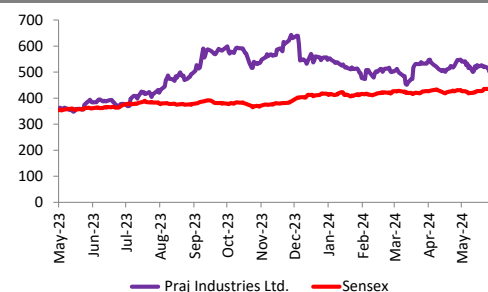
Financial Snapshot (Rs mn)

Y/E Mar	FY24	FY25E	FY26E
Net sales	34,663	41,435	49,651
EBITDA	3,718	4,783	5,975
PAT (adj.)	2,834	3,547	4,459
EPS (adj.) (Rs)	15.4	19.3	24.3
PE (x)	33.8	27.0	21.5
P/B (x)	7.5	6.5	5.4
EV/EBITDA (x)	24.3	19.0	15.2
RoE (%)	22.2	23.9	25.0
RoCE (%)	25.8	29.2	30.9
D/E (x)	0.13	0.11	0.09
OPM (%)	10.7	11.5	12.0
DPS (Rs)	6.0	6.8	6.8
Dividend Yield (%)	0.9	1.1	1.3
Dividend payout (%)	38.9	35.2	28.0

Shareholding Pattern (%)

	Mar'24	Dec'23	Sep'23
Promoter	32.8	32.8	32.8
- Pledged	--	--	--
FII	18.9	17.4	17.9
DII	13.7	13.1	10.2
Others	34.6	36.7	39.1

Stock Performance (1-year)



Pratik Tholiya

pratiktholiya@systematixgroup.in
+91 22 6704 8028

Yogeeta Rathod

yogeetarathod@systematixgroup.in
+91 22 6704 8081

Praj Industries' (PRJ IN) 4QFY24 revenue grew marginally by 1% YoY and 23% QoQ to Rs 10.2bn (in line with estimate). Bio energy slipped 3% YoY, Engineering grew by a meager 1% YoY and Hi-Purity segment reported a substantial jump of 44% YoY. Domestic revenue fell 2% YoY to Rs 7.9bn, as order execution and finalization slowed due to government of India's (GoI) recent policy flip-flop on ethanol. Export revenue surged 18% YoY to Rs 2.2bn. Gross margin expanded 265bps YoY and contracted 211bps QoQ to 43.6% (estimate of 46%) on softening raw material (RM) prices and enhancement in export revenues and order mix. EBITDA margin expanded 198bps YoY and 75bps QoQ to 12.4% (estimate of 11.7%). EBITDA increased 21% YoY and 31% QoQ to Rs 1.3bn (8% higher than our estimate). PAT dipped 4% YoY to Rs 919mn (in line). Order intake during 4QFY24 declined 11% YoY to Rs 9.2bn, owing to 30% YoY drop in domestic orders, partly offset by 51% YoY surge in export orders. Order backlog of Rs 38.6bn grew at 13% YoY (down 2% QoQ) as of 31st Mar 2024. Despite government restrictions on sugarcane-based feedstock to produce ethanol (halted orders at the sugary feedstock plant), PRJ maintained robust order book, supported by healthy inquiries and growing traction for starchy feedstock plants, Compressed Biogas (CBG) and Energy Transition & Climate Action (ETCA) segments. Management has reaffirmed its 3x revenue guidance by FY30. Its optimism stems from the huge expansion potential in bio-energy, CBG, ETCA, modularization, international services and Hi-Purity and likely restoration of Ethanol Blending Programme (EBP), all of which could translate into robust order book. Margins may continue to improve on the back of benign RM prices and rising exports. We have cut FY25E/FY26E revenue by 2.5%/1.0% to factor in the muted order intake but raised EBITDA margin by 50bps each and EPS by 3%/5% for FY25E/FY26E. Reiterating BUY, with a revised target price of Rs 607 (Rs 578 earlier), based on 25x FY26E P/E (unchanged). Key risks: Change in GoI's ethanol blending policy, inability to pass-through RM cost volatility, technology obsolescence, and supply-chain imbalance.

Bio-energy division - Revenue fell 3% YoY to Rs 6.9bn, while order intake plummeted 29% YoY to Rs 6bn, of which, ~Rs 1.5bn are international orders and the balance domestic orders. Starchy feedstock constituted ~90% of the domestic order booking vs 10% from sugary feedstock. Order execution and finalization for ethanol projects slowed owing to mandated realignment of sugarcane-based feedstock in the product mix. However, PRJ is in discussion with its customers and is making efforts to convert plant orders from sugary feedstock to multi feedstock. Management is confident of a healthy order pipeline, although it expects order book mix to change in terms of geography, applications, molecules, etc.

Engineering division- Revenue remained flat YoY at Rs 2.1bn. Order intake in 4QFY24 jumped 3x YoY to Rs 2.8bn, and total order backlog as on 31st March 2024 stood at Rs 7.3bn, up 95% YoY and 10% QoQ. The company is witnessing positive developments in its overall inquiry pipeline with the higher order book anticipated to translate into healthy revenues throughout the year. With the commencement of commercial production at GenX facility (Mangalore) in Feb 2024, management is confident of a healthy orderbook buildup in H1FY25 and will be executed in the subsequent quarters.

Praj HiPurity segment (PHS): Reported highest-ever quarterly revenue of Rs 1.2bn with a robust 44% YoY growth. However, order intake fell 44% YoY and 36% QoQ to Rs 462mn and order book as of 31st March 2024 stood at Rs 1.9bn (up 13% YoY, down 19% QoQ). Orders for high-capacity fermenters are gaining momentum. Additionally, the share of international business is rising in the overall pie. In FY24, PRJ completed 3 state-of-the-art blood plasma projects with one major customer achieving 100% capacity for the planned blood plasma products.

Other key takeaways from the concall

1G International

- With Brazil moving rapidly towards starchy feedstock for ethanol production, PRJ has capitalized on the opportunity by successfully commissioning its first grain (maize) to ethanol plant in Brazil.
- It has signed a contract with BE8 (a global renewable energy company in Brazil) for another grain (wheat) to ethanol plant. Engineering activities for this plant are slated to commence in 2QFY25.
- The company has received an order for 60KLPD greenfield ENA plant at Ivory Coast, Africa, from a French Group (marks their second order from the same customer) and is in the final stages of completing its first order for a plant set up in Congo, Africa.

1G services

- PRJ reported robust 2x YoY growth in revenue and has begun to offer solutions in the biogenic CO₂ capture space, which is witnessing increasing traction on the back of sequestration activities efficiently picking up. Biogenic CO₂ capture is an important element of this segment as it is rapidly gaining traction owing to CO₂ capture becoming a significant activity for several customers around the world.
- PRJ's Juicezyme-solution for enhancing sugar yield and quality is gaining traction in the Brazil market.
- Currently, the services business contributes 4-5% to topline, but management expects a larger share going forward, as it is in the process of expanding its offerings under the services umbrella.

2G ethanol

IOCL Panipat plant recommissioning is underway, and the plant has produced ~1mn litres of ethanol to date.

CBG

- PRJ has successfully commissioned commercial scale CBG plants based on press mud and rice straw, achieving benchmark results for yield (achieving yield poses a significant challenge for the industry). With this, PRJ now has proven commercial-scale CBG projects that operate on three key feedstocks, namely - spent wash, press mud and rice straw. With this, it is establishing Praj RenGas technology as a definitive solution for complex agriculture feedstocks.
- Management anticipates positive developments and a healthy order pipeline going forward. CBG projects have an internal rate of return (IRR) of 14-18%, depending upon the feedstock and the size of the order.

- PRJ is also working on full-proof solutions for other feedstocks. Management is optimistic on the long-term high growth prospects of the CBG business, both in India and globally.

Modularization: Modularized solution offering is gaining traction in international markets with 2x YoY growth in order book. PRJ has been chosen to build state-of-the-art modules for one of the largest Blue Hydrogen projects in Europe. Additionally, the company booked and executed an engineering project for modularization of ATJ (Alcohol-To-Jet) project in the US.

Order execution cycle: Typically hovers at 9-12 months for both bioenergy and engineering segments. Depending upon the complexity of the order, the engineering order execution cycle may sometimes be longer than the bio-energy order cycle.

Brewery & Beverage: The company is now witnessing healthy enquiries with demand in the market normalizing. Management is likely to incur capex for the same in FY25.

Polylactic Acid (PLA) demo plant update: Slated to commission in 2QFY25; management intends to build revenue from PLA post FY25.

FY24 export order mix: 20% of total revenues, which it targets to increase to 50%.

IOCL JV update: Expects to receive the final approval on the JV in June 2024.

Margins: Management believes the rising share of exports in revenue and order book will aid gross margins going forward. Additionally, softening commodity prices (steel) too would also support in maintaining the healthy gross margins. PRJ is targeting double-digit EBITDA margin, which it believes would be driven by gross margin improvement seen in the last two quarters, which would continue.

Change in estimates

We have pared our revenue estimates by 2.5%/1.0% for FY25E/FY26E, respectively, to factor in the muted order intake in 4QFY24. We have raised EBITDA margin by 50bps each for FY25/FY26E, as we expect benefits from softening RM prices to continue. We have raised our FY25E/FY26E EPS by 3%/5%, respectively, to factor in the higher margins. We maintain BUY with a TP of Rs 607 (Rs 578 earlier), based on 25x FY26E P/E (unchanged).

Exhibit 1: Change in estimates

	Old Estimates		New Estimates		Change (%)	
	FY25E	FY26E	FY25E	FY26E	FY25E	FY26E
Net Sales	42,503	50,158	41,435	49,651	(2.5)	(1.0)
EBITDA	4,665	5,775	4,783	5,975	2.5	3.5
EBITDA Margin (%)	11.0	11.5	11.5	12.0	57bp	52bp
Adjusted PAT	3,450	4,241	3,547	4,459	2.8	5.1
EPS (INR)	18.8	23.1	19.3	24.3	2.8	5.1
Target Price		578		607		5.0

Source: Company, Systematix Institutional Research

Exhibit 2: Financial snapshot

YE March (Rs mn)	4QFY24	4QFY23	YoY(%)	3QFY24	QoQ(%)	FY24	FY23	YoY(%)
Net Sales	10,186	10,040	1.5	8,286	22.9	34,663	35,280	(1.8)
RM cost	5,741	5,925	(3.1)	4,496	27.7	19,621	22,014	(10.9)
Employee Cost	819	705	16.2	852	(3.9)	3,187	2,576	23.7
Other Expenses	2,364	2,365	(0.0)	1,974	19.7	8,136	7,612	6.9
Operating Expenses	8,924	8,995	(0.8)	7,322	21.9	30,944	32,202	(3.9)
% of Sales	88	90	(197.9)	88	-75bp	89	91	(200.3)
EBITDA	1,262	1,045	20.7	965	30.8	3,718	3,078	20.8
EBITDA Margins (%)	12	10	197.9	12	75bp	11	9	200.3
Other Income	114	162	(29.4)	91	26.1	435	356	22.2
Finance Cost	38	22	70.9	38	(0.4)	98	46	111.6
Depreciation	153	95	61.8	109	41.3	441	302	45.7
Forex gain / (loss)	46	38	19.4	11	320.1	160	102	56.4
PBT	1,230	1,128	9.1	919	33.8	3,775	3,187	18.4
Tax	311	247	25.9	215	44.5	941	789	19.2
Effective Tax Rate (%)	25	22	338bp	23	187bp	25	25	17bp
Reported PAT	919	881	4.3	704	30.6	2,834	2,398	18.2
Less: Minority interest	0	0	(52.4)	0	(34.4)	0	0	(11.5)
Adjusted PAT	919	881	4.3	704	30.6	2,834	2,398	18.2
NPM (%)	9.0	8.8	25bp	8.5	53bp	8.2	6.8	138bp
No. of equity shares	184	184		184		184	184	
Adj. EPS (Rs)	5.0	4.8	4.3	3.8	30.6	15.4	13.1	18.2

Source: Company, Systematix Institutional Research

Exhibit 3: Key ratios (% of Net Sales)

Key Ratios (% of revenues)	4QFY24	4QFY23	YoY(bps)	3QFY24	QoQ(bps)	FY24	FY23	YoY(bps)
Raw Material Cost	56	59	-265bp	54	211bp	57	62	-579bp
Employee Cost	8	7	102bp	10	-224bp	9	7	189bp
Other Expenses	23	24	-35bp	24	-62bp	23	22	190bp
Effective Tax rate	25	22	338bp	23	187bp	25	25	17bp
Gross Margin	43.6	41.0	265bp	45.7	-211bp	43.4	37.6	579bp
OPM	12.4	10.4	198bp	11.6	75bp	10.7	8.7	200bp
NPM	9.0	8.8	25bp	8.5	53bp	8.2	6.8	138bp

Source: Company, Systematix Institutional Research

Exhibit 4: Segmental financial snapshot

YE March (Rs mn)	4QFY24	4QFY23	YoY(%)	3QFY24	QoQ(%)	FY24	FY23	YoY(%)
REVENUE								
Bio-Energy	6,945	7,170	-3%	5,883	18%	25,656	26,040	-1%
Engineering	2,074	2,062	1%	1,740	19%	6,085	6,820	-11%
High Purity	1,166	808	44%	663	76%	2,922	2,420	21%
Net Revenues	10,186	10,040	1%	8,286	23%	34,663	35,280	-2%
Sales mix (%)								
Bio-Energy	68	71		71		74	74	
Engineering	20	21		21		18	19	
High Purity	12	8		8		8	7	
Order Intake								
Bio-Energy	6,006	8,512	-29%	8,400	-28%	28,240	32,920	-14%
Engineering	2,772	1,038	167%	1,244	123%	9,768	5,676	72%
High Purity	462	830	-44%	726	-36%	3,242	1,974	64%
Order Backlog								
Bio-Energy	29,298	28,678	2%	30,415	-4%	29,298	28,678	2%
Engineering	7,325	3,755	95%	6,715	9%	7,325	3,755	95%
High Purity	1,928	1,707	13%	2,370	-19%	1,928	1,707	13%

Source: Company, Systematix Institutional Research

FINANCIALS

Profit & Loss Statement

YE: Mar (Rs mn)	FY22	FY23	FY24	FY25E	FY26E
Net revenues	23,333	35,280	34,663	41,435	49,651
Revenue growth (%)	78.8	51.2	(1.8)	19.5	19.8
- Op. expenses	21,395	32,202	30,944	36,652	43,676
EBITDA	1,938	3,078	3,718	4,783	5,975
EBITDA margins (%)	8.3	8.7	10.7	11.5	12.0
- Interest expenses	25	46	98	92	91
- Depreciation	226	302	441	494	554
+ Other income	241	356	435	500	575
- Tax	518	789	941	1,151	1,447
Effective tax rate (%)	27	26	26	25	25
Reported PAT	1,410	2,296	2,674	3,547	4,459
+/- Extraordinary items	(28)	-	-	-	-
+/- Minority interest	(0)	0	0	-	-
Adjusted PAT	1,502	2,398	2,834	3,547	4,459
EPS (Rs/share)	8.2	13.1	15.4	19.3	24.3

Source: Company, Systematix Institutional Research

Balance Sheet

YE: Mar (Rs mn)	FY22	FY23	FY24	FY25E	FY26E
Share capital	367	367	367	367	367
Warrants	-	-	-	-	-
Reserves & Surplus	8,790	10,413	12,377	14,451	17,436
Networth	9,157	10,780	12,744	14,818	17,804
Minority interest	1	1	1	1	1
Total Debt	211	421	1,693	1,673	1,653
Def. tax liab. (net)	(19)	(111)	(78)	(78)	(78)
Other Financial Liabilities	6	6	6	6	6
Capital employed	9,356	11,097	14,367	16,421	19,387
Net Fixed assets	2,882	3,238	5,178	6,884	7,530
Investments	4,800	5,602	5,468	5,468	5,468
Net Working capital	1,674	2,257	3,722	4,069	6,388
Cash and bank balance	1,075	986	1,684	1,056	1,350
Capital deployed	9,356	11,097	14,367	16,421	19,387
Net debt	(864)	(564)	9	617	303
WC (days)	53	55	62	50	50
DE(x)	0	0	0	0	0

Source: Company, Systematix Institutional Research

Cash Flow

YE: Mar (Rs mn)	FY22	FY23	FY24	FY25E	FY26E
PBT	2,049	3,187	3,775	4,698	5,906
- Cash Tax	(450)	(625)	(1,045)	(1,151)	(1,447)
+ Non cash items	55	281	235	586	645
Cash profit	1,654	2,843	2,965	4,132	5,103
- Incr/(Decr) in WC	223	(1,222)	(971)	(975)	(2,026)
Operating cash flow	1,876	1,621	1,994	3,157	3,078
- Capex	(185)	(352)	(893)	(2,200)	(1,200)
Free cash flow	1,691	1,269	1,101	957	1,878
- Dividend	397	771	827	1,473	1,473
+ Equity raised	26	4	9	-	-
+ Debt raised	-	-	-	(20)	(20)
- Investments	1,299	572	(632)	-	-
- Misc. items	68	55	(164)	(92)	(91)
Net cash flow	36	(157)	654	(628)	294
+ Opening cash	1,039	1,074	986	1,684	1,056
Closing cash	1,074	986	1,684	1,056	1,350

Source: Company, Systematix Institutional Research

Ratios

YE: Mar	FY22	FY23	FY24	FY25E	FY26E
P/E (x)	63.8	40.0	33.8	27.0	21.5
P/BV (x)	10.5	8.9	7.5	6.5	5.4
EPS (Rs/share)	8.2	13.1	15.4	19.3	24.3
EV/EBITDA (x)	46.5	29.1	24.3	19.0	15.2
RoE (%)	16.4	22.2	22.2	23.9	25.0
RoCE (%)	20.9	28.2	25.8	29.2	30.9
DE(x)	0.0	0.0	0.1	0.1	0.1
Fixed Asset turnover (x)	10.5	14.1	8.5	9.0	9.4
Dividend (%)	135.0	225.0	300.0	340.0	340.0
Dividend yield (%)	0.5	0.9	1.1	1.3	1.3
Dividend payout (%)	33.0	34.4	38.9	35.2	28.0
Debtors days	80.1	82.2	88.0	70.0	70.0
Creditor days	66.4	52.2	52.3	50.0	50.0
Inventory days	54.0	34.5	23.3	30.0	30.0
Revenue growth (%)	78.8	51.2	-1.8	19.5	19.8
EBITDA growth (%)	72.5	58.8	20.8	28.6	24.9
PAT growth (%)	85.3	59.6	18.2	25.1	25.7

Source: Company, Systematix Institutional Research

Institutional Equities Team

Nikhil Khandelwal Managing Director +91-22-6704 8001 nikhil@systematixgroup.in

Equity Research

Analysts	Industry Sectors	Desk-Phone	E-mail
Dhananjay Sinha	Co Head of Equities & Head of Research - Strategy & Economics	+91-22-6704 8095	dhananjaysinha@systematixgroup.in
Abhishek Mathur	FMCG	+91-22-6704 8059	abhishekmathur@systematixgroup.in
Ashish Poddar	Consumer Durables, EMS, Building Materials, Small-Mid Caps	+91-22-6704 8039	ashishpoddar@systematixgroup.in
Himanshu Nayyar	Consumer Staples & Discretionary	+91-22-6704 8079	himanshunayyar@systematixgroup.in
Manjith Nair	Banking, Insurance	+91-22-6704 8065	manjithnair@systematixgroup.in
Pradeep Agrawal	NBFCs & Diversified Financials	+91-22-6704 8024	pradeepagrawal@systematixgroup.in
Pratik Tholiya	Specialty & Agro Chem, Fertilisers, Sugar, Textiles and Select Midcaps	+91-22-6704 8028	pratiktholiya@systematixgroup.in
Sameer Pardikar	IT & ITES	+91-22-6704 8041	sameerpardikar@systematixgroup.in
Santosh Yellapu	Capital Goods	+91-22-6704 8094	santoshiyellapu@systematixgroup.in
Shweta Dikshit	Metals & Mining	+91-22-6704 8042	shwetadikshit@systematixgroup.in
Sudeep Anand	Oil & Gas, Logistics, Cement, Wagons	+91-22-6704 8085	sudeepanand@systematixgroup.in
Vishal Manchanda	Pharmaceuticals and Healthcare	+91-22-6704 8064	vishalmanchanda@systematixgroup.in
Chetan Mahadik	Consumer Staples & Discretionary	+91-22-6704 8091	chetanmahadik@systematixgroup.in
Deeksha Bhardwaj	Strategy & Economics	+91-22-6704 8017	deekshabhardwaj@systematixgroup.in
Devanshi Kamdar	IT & ITES	+91-22-6704 8098	devanshikamdar@systematixgroup.in
Hinal Kothari	Metals & Mining	+91-22-6704 8076	hinalkothari@systematixgroup.in
Jennisapopat	Oil & Gas, Logistics, Cement, Wagons	+91-22-6704 8066	jennisapopat@systematixgroup.in
Kalash Jain	Midcaps	+91-22-6704 8038	kalashjain@systematixgroup.in
Krishna Zaveri	Consumer Durables, EMS, Building Materials, Small-Mid Caps	+91-22-6704 8023	krishnazaveri@systematixgroup.in
Mahek Shah	Consumer Durables, EMS, Building Materials, Small-Mid Caps	+91-22-6704 8040	mahekshah@systematixgroup.in
Nirali Chheda	Banking, Insurance	+91-22-6704 8019	niralichheda@systematixgroup.in
Pashmi Chheda	Banking, Insurance	+91-22-6704 8063	pashmichheda@systematixgroup.in
Pravin Mule	NBFCs & Diversified Financials	+91-22-6704 8034	pravinmule@systematixgroup.in
Prathmesh Kamath	Oil & Gas, Logistics, Cement, Wagons	+91-22-6704 8022	prathmeshkamath@systematixgroup.in
Purvi Mundhra	Macro-Strategy	+91-22-6704 8078	purvimundhra@systematixgroup.in
Rajesh Mudaliar	Consumer Staples & Discretionary	+91-22-6704 8084	rajeshmudaliar@systematixgroup.in
Ronak Dhruv	NBFCs & Diversified Financials	+91-22-6704 8045	ronakdhruv@systematixgroup.in
Rushank Mody	Pharmaceuticals and Healthcare	+91-22-6704 8046	rushankmody@systematixgroup.in
Swati Saboo	Midcaps	+91-22-6704 8043	swatisaboo@systematixgroup.in
Vivek Mane	Pharmaceuticals and Healthcare	+91-22-6704 8046	vivekmane@systematixgroup.in
Yogeeta Rathod	Midcaps	+91-22-6704 8081	yogeeathod@systematixgroup.in

Equity Sales & Trading

Name		Desk-Phone	E-mail
Vipul Sanghvi	Co Head of Equities & Head of Sales	+91-22-6704 8062	vipulsanghvi@systematixgroup.in
Jignesh Desai	Sales	+91-22-6704 8068	jigneshdesai@systematixgroup.in
Sidharth Agrawal	Sales	+91-22-6704 8090	sidharthagrawal@systematixgroup.in
Shreya Chaudhary	Sales	+91-22-6704 8033	shreyachaudhary@systematixgroup.in
Rahul Khandelwal	Sales	+91-22-6704 8003	rahul@systematixgroup.in
Chintan Shah	Sales	+91-22-6704 8061	chintanshah@systematixgroup.in
Pawan Sharma	Director and Head - Sales Trading	+91-22-6704 8067	pawansharma@systematixgroup.in
Mukesh Chaturvedi	Vice President and Co Head - Sales Trading	+91-22-6704 8074	mukeshchaturvedi@systematixgroup.in
Vinod Bhuwad	Sales Trading	+91-22-6704 8051	vinodbhuwad@systematixgroup.in
Rashmi Solanki	Sales Trading	+91-22-6704 8097	rashmisolanki@systematixgroup.in
Karan Damani	Sales Trading	+91-22-6704 8053	karandamani@systematixgroup.in
Vipul Chheda	Dealer	+91-22-6704 8087	vipulchheda@systematixgroup.in
Paras Shah	Dealer	+91-22-6704 8047	parasshah@systematixgroup.in
Rahul Singh	Dealer	+91-22-6704 8054	rahulsingh@systematixgroup.in
Niraj Singh	Dealer	+91-22-6704 8096	nirajsingh@systematixgroup.in

Corporate Access

Mrunal Pawar	Vice President & Head Corporate Access	+91-22-6704 8088	mrunalpawar@systematixgroup.in
Darsha Hiwrale	Associate Corporate Access	+91-22-6704 8083	darshahiwrale@systematixgroup.in

Production

Madhu Narayanan	Editor	+91-22-6704 8071	madhunarayanan@systematixgroup.in
Mrunali Pagdhare	Production	+91-22-6704 8057	mrunalip@systematixgroup.in
Vijayendra Achrekar	Production	+91-22-6704 8089	vijayendraachrekar@systematixgroup.in

Operations

Sachin Malusare	Vice President	+91-22-6704 8055	sachinmalusare@systematixgroup.in
Jignesh Mistry	Manager	+91-22-6704 8049	jigneshmistry@systematixgroup.in
Hiren Patel	Assistant Manager	+91-22-6704 8056	hirenpatel@systematixgroup.in

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Systematix Shares and Stocks (India) Limited:

Registered and Corporate address: The Capital, A-wing, No. 603 – 606, 6th Floor, Plot No. C-70, G Block, Bandra Kurla Complex, Bandra (East), Mumbai – 400 051

Tel no. 022-66198000/40358000 Fax no. 022-66198029/40358029 Email id contactus@systematixgroup.in. Visit us at: www.systematixgroup.in

Details of Compliance officer: Ms Nipa Savla, Compliance officer Tel no. 022-66198092/4035808092 Email id compliance@systematixgroup.in

Details of Email id grievance redressal cell : grievance@systematixgroup.in

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