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Stock Update SIS Ltd.

02-Aug-2021





Industry	LTP	Recommendation	Base Case Fair Value	Bull Case Fair Value	Time Horizon
Services	Rs 480.75	Buy at Rs 478-485 & add more on dips to Rs 434	Rs 532	Rs 573	2 quarters

HDFC Scrip Code	SECINTEQNR
BSE Code	540673
NSE Code	SIS
Bloomberg	SECIS IN
CMP Jul 30, 2021	480.75
Equity Capital (Rs cr)	73.2
Face Value (Rs)	5
Equity Share O/S (cr)	14.66
Market Cap (Rs cr)	7058
Book Value (Rs)	125
Avg. 52 Wk Volumes	338221
52 Week High	534.8
52 Week Low	313.7

Share holding Pattern % (Jun, 2021)	
Promoters	72.9
Institutions	19.6
Non Institutions	7.5
Total	100.0

Retail Research Risk Rating:

	Blue*	
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* Refer at the end for explanation on Risk Ratings

Fundamental Research Analyst

Kushal Rughani

kushal.rughani@hdfcsec.com

Our Take:

Security and Intelligence Services (India) (SIS) is a market leader in security, cash logistics and facility management services in India. Company has presence in India, Australia, Singapore and New Zealand. SIS is no.1 security service provider in India and Australia. The company is no.2 player in Facility Management and Cash Logistics segment in India. SIS had a total of 2.15 lakh trained workforce as on Jun-2021. Company sees limited competition owing to pan-India presence, strong brand equity, and diversified business mix. Organic growth, partnerships with leading global players, and the acquisitions have enabled the company to achieve a dominant position in its respective areas. Security solutions contributed 87.6% of overall revenues while Facility management accounted for remaining 12.4% of revenues. International segment stood out with 22% growth in revenues and 29% growth in EBITDA in FY21. Company got benefit due to COVID-related security needs. All the geographies – Australia, Singapore and New Zealand did extremely well in FY21. In Jun-2021, the company completed buy back of 18.2 lakh equity shares through tender offer route at Rs 550 per share and spent Rs 100cr in the buy back. SIS has announced its Vision 2025 with two main goals: i) converting its market leadership into market share and ii) achieving 20% of the group EBITDA in 2025 through tech-based solutions. Management intends to focus on achieving 85% growth organically and the balance via inorganic opportunities.

Despite being market leaders in security services and facility management, SIS has around 5% market share in these areas. Company plans to double market share over the next four years. Company is the largest private security services player in India and also offers services in Facility Management Solutions (FMS) and Cash logistics. In India, it services ~7200 customers across 19,500 locations. In international security business, it services ~8700 clients across 22500 operational sites. We are positive on SIS because of the leadership position in India and Australia, steady rise in margins and strong demand for private security services in India and internationally.

On Jan 29 2021, we had initiated coverage on SIS for the base case target of Rs 435 and bull case target of Rs 471 and our bull case target was achieved on Jul 07, 2021. (https://www.hdfcsec.com/hsl.research.pdf/Initiating%20Coverage%20-%20SIS_29012021.pdf)

SIS recorded strong performance in FY21 mainly led by international security business. Given leadership position in the security market, eyeing higher market share and strong balance sheet, we are positive on the stock. After strong set of numbers in FY21, we have revised estimates and increased target price for the stock.

Valuation & Recommendation:

We estimate 10.5% revenue CAGR over FY21-23E led by growth from across its verticals. India Security business may clock 12% CAGR while international security revenue is expected to grow at 5.5% CAGR over the next two years. We expect margin to remain around 5.5-6% over the same period. We have revised upwards revenue estimates by 2.4%/3.6% and PAT estimates by 5.5%/15.5% for FY22/FY23. Organic revenue growth continues to remain strong in India businesses with growth in international geographies also likely to pick up as seen in FY21. Over the medium to long term, as both the central and state government look to liberalize and formalize the labor markets, SIS should be among the biggest direct beneficiaries. SIS has been able to reduce working capital intensity as it adds fewer new contracts and resultantly, cash generation is higher. This has helped in strengthening the balance sheet. Net debt to EBITDA is the lowest ever since the IPO year - FY17. OCF/EBITDA for FY21 stood at 123%. The company generated operating cash flow (OCF) of Rs 640cr; it is 3x jump from OCF for FY20. A consistent improvement in cash generation and deleveraging would be the key upside catalysts. SIS's business model participates in growth during economic upturns and remains highly resilient even during severe downturns. The stock trades at ~18x FY23E EPS which is reasonable given strong revenue and EBITDA growth expected in the coming years. We feel that investors' can buy the stock in the Rs 478-485 band and add on dips to Rs 434 for base case fair value of Rs 532 (19x FY23E earnings) and bull case fair value of Rs 573 (20.5x FY23E earnings) over the next two quarters.

Financial Summary

Particulars (Rs cr)	Q1 FY22	Q1 FY21	YoY (%)	Q4 FY21	QoQ (%)	FY19	FY20	FY21	FY22E	FY23E
Total Revenues	2379	2167	9.8	2445	-2.7	7,093	8,485	9,127	10,067	11,150
EBITDA	121	121	0.5	123	-1.7	365	521	521	581	652
Depreciation	27	29	-5.6	28.5	-5.6	66	128	113	119	128
Other Income	12	23	-50.2	74.5	-84.6	18	53	478	54	68
Interest Cost	25	37	-34.3	28.2	-13.1	94	152	127	108	97
Tax	21	20	6.0	38.7	-45.2	-5	64	115	88	82
PAT	59	58	2.8	102.2	-41.9	215	226	366	318	410
EPS (Rs)						14.6	15.4	24.9	21.7	28.0
RoE (%)						18.8	17.1	22.7	16.1	17.9
P/E (x)						32.9	31.3	19.3	22.2	17.2
EV/EBITDA (x)						19.1	13.4	13.4	12.0	10.7

(Source: Company, HDFC sec)



Q1FY22 result update

Total revenue grew 9.8% YoY at Rs 2379cr. EBITDA margin slipped 50bps YoY at 5.1%. Other Income declined 52% YoY at Rs 10.9cr. Net profit grew 2.8% YoY at Rs 59.5cr. Operating cash flow for the quarter stood at Rs 116cr as compared to Rs 98cr in Q1FY21. Gross debt stood at Rs 1522cr. Net debt stood at Rs 602cr as against Rs 675cr, a year ago.

Security India business recorded 2.6% YoY growth at Rs 880.6cr. It had total headcount of 1.49 lakh as on Jun-2021. Security International revenue increased 17.7% YoY at Rs 1201cr. It had total headcount of 8296 as on Jun-2021. International business had recorded very strong performance in FY21 on the back of good ad-hoc orders from the Australian government for securing quarantine centres. This business is slowly tapering off. It got offset to some extent by the recovery in the aviation and other segments.

Facility Management Solutions (FMS) revenue grew 4.2% YoY at Rs 305cr. It had total employees of 56,765. Cash logistics revenue increased 17.4% at Rs 84cr.

Key highlights from conference call

- International business witnessed decline on account of normalization of revenue and margin to pre-COVID levels after a record performance in FY21. The ad hoc business will gradually taper off over the next two quarters. However, it will be compensated by growth in the regular permanent business.
- Margin decline was majorly weighed by a reduction in the high-margin ad hoc business in Australia, leading to 50bps sequential decline in the International business. Margin in the India business remained flat, while for the Facility Management business expanded 240bps QoQ on a lower base.
- Cash generation for the company is slow, given the management's focus on growth in the Indian market. In the International business, low growth is helping to deliver better cash flows.
- The India Security business is back to pre-COVID levels, while Facility Management (FMS) is near to a complete recovery and is expected to be the biggest winner among all segments in the medium to long term.
- SIS is looking to double its market share in Security, FMS, and Cash Logistics in India over the next 4-5 years.
- Management guided margin to be in the 5.5-6% range for FY22.
- Net debt stood at Rs.600 cr against Rs.370 cr in Q4FY21. The increase in net debt was due to significant cash outflows on account of balance stake purchase in Henderson and Uniq – Rs.170cr and buybacks of Rs 100cr.



India Security Business

Despite being market leaders in security services and facility management, SIS has around 5% market share in these areas. Company plans to double market share over the next four years. Post-COVID, many small players will be under stress, which would lead to organic market share gains. Most leaders in these segments in developed markets have 15-20%+ market share. The segment registered revenue CAGR of 22% over FY17-21. The year-end monthly run-rate was at Rs 309cr as against Rs 302cr in FY20. The number of security personnel employed by the Group in India as on Jun, 2021 was at 1.49 lakhs.

Management has shifted its focus to verticals like Manufacturing, Retail, Logistics, and E-Commerce, where it sees huge opportunity. Company has identified certain areas of improvement: 1) better working capital management; 2) customers are now hesitant to change vendors, due to which SIS needs to make its sales efforts more aggressive; 3) cross-business synergies and 4) tech solutions need to be more nimble to enable innovation and a faster go-to-market route.

Evolve from a service provider to a solutions business

SIS has been in selling technology-based solutions. Whether in security or facility management and with the added push in the post-COVID environment, the company aims to get minimum 20% of EBITDA from tech-based solutions. Companies will look to increase efficiency of operations and increase allocation of their security and facility management budgets to blended solutions, which come at higher margins than traditional business. Company believes that it is well placed to deliver on these ambitions with renewed sense of purpose and commitment.

International Security

International security segment stood out with 22% growth in revenues at Rs 4529cr and 29% growth in EBITDA in FY21. Company got benefit due to COVID-related security needs. All the geographies – Australia, Singapore and New Zealand did extremely well in FY21. EBITDA margin improved by 30bps, from 6.1% in FY20 to 6.4% in FY21 due to high-margin government contracts to safeguard the COVID-19 isolation facilities and quarantine hotels across both Australia and New Zealand markets, in addition to significant cost-saving measures undertaken by the Group, which included reduced travel and discretionary spend.

The division reported the highest revenue, EBITDA, and cash flow during the year as all geographies fared well in FY21. The segment reported a revenue CAGR of 21% over FY17-21, with organic growth of 12%. Growth was faster than the industry, and SIS continues to gain market share. Furthermore, despite the Aviation, Retail, and Entertainment verticals being shut, the segment posted a strong performance. SIS has now enhanced its tech offerings to offer a broad range of solutions (and not only security-based solutions).



Furthermore, the company has enhanced its national business development plan and restructured the Aviation business to focus on growth. Initial feedback from the industry is also very encouraging. Highly disrupted verticals are seeing positive signs of recovery, and the management is confident of a revival in FY22. SIS ended the year with a monthly run-rate of Rs 416cr in March-2021 as against Rs 309cr in March-2020. The number of security personnel employed by the Group as on Jun, 2021 was at 8296 as compared to 8830 as on Mar, 2021.

Australia Business

MSS is Australia's largest security solutions company. SIS clocked highest ever revenues and growth rate, despite being affected by the COVID-19 pandemic and the multiple stages of lockdown in Australia. SIS continues to offer solutions to customers across Australia's aviation, defence, healthcare, mining, oil and gas, manufacturing, education and heavy construction markets, besides several governmental institutions. The SXP business continued to grow strongly in the mobile patrolling space and is now an AUD 120mn business. The business recorded significant growth during the year on the back of offering ad-hoc casual guarding services to quarantine hotels and isolation facilities, coupled with incremental revenue from existing customers to provide additional guarding services.

During FY21, a subsidiary of the company acquired all the remaining shareholding in SX Protective Holdings Pty Ltd ("SXP"), for an aggregate consideration of Rs 191cr (AUD 36.8mn) and as a result SXP and its subsidiaries became wholly owned subsidiaries of the Company.

Facility Management Solutions (FMS)

FMS business segment posted a revenue CAGR of 30% over FY17-21. It is the largest facility management services company in India with over 1765 customers and 6362 operational sites. This was the fastest growing business before the pandemic caused severe disruption. The reduction in this business was largely weighed by service volume reductions due to work from home. It was partly offset by significant contract additions in the Pharma and Healthcare vertical. Gross margin for the segment remained strong due to cost savings via control on overheads and discretionary expenses. However, EBITDA margin took a hit due to negative operating leverage impact. Management stated the future would have a hybrid model, enabling SIS to work in smaller cities and with SME clients.

FMS segment has been the most impacted segment among all its businesses, with revenues for the segment declining by 12% in FY21 over FY20, primarily on account of reduction in volumes in certain highly impacted segments such as railways, hospitality and retail coupled with extended work from home for IT/ ITes customers. Newly designed and customised solutions helped de-risk the business while the company also offered more relevant solutions for the current crisis. Railways continues to be strong customer segment, witnessed 41%



reduction in revenue on an annual basis, with no operations for almost first half of the financial year. The industry is forecast to grow from Rs. 1,055bn in FY19 to Rs. 2,328bn in FY24E at ~17% CAGR. The cleaning services market in India contributes ~62% of the total soft FM services market, while pest control accounts for 10% share. With majority of the malls, retail, events, hospitality, railways, and travel opening post Q3FY21, the segment has seen significant volume uptick in the last 4-5 months. SIS ended the year with monthly revenue run rate of Rs 102cr in March-2021 as against Rs 116cr in March 2020. The number of security personnel employed by the Group in India as on Jun, 2021 was at 56765 as compared to 54000 as on Jun, 2020.

Management expect volumes to pick up shortly as some IT majors have initiated “back to work” plans and the hospitality sector is also reviving.

Cash Logistics

The Cash Logistics business is a JV with Prosegur of Spain, a world leader in cash solutions. The company has 49% holding in the JV, which is the second largest cash logistics business in India. It includes three functions viz. Cash-in-Transit (CIT), Cash Pickup and Delivery (CPD) and ATM replenishment services. ATM replenishment is the largest segment of the Cash Logistics market. SIS is the second largest player in the Cash Logistics space in India. During FY21, the segment reported revenue of Rs 330cr and EBITDA of Rs 28.4cr. The cash business was largely dominated by ATM servicing (about 60% of revenue). However, higher competition and fewer ATM additions have led to sluggishness in the Cash Logistics business. Also the ATM business is mainly tender driven which is vulnerable to the pricing pressure. With revenue diversification, SIS has significantly reduced its dependency on the ATM business, which contributes 20-25% to the segment revenue.

Key Risks

- Demand for staffing and other business services is subject to the state of the overall economy. The staffing industry is a play on employment, which has a correlation with the economic conditions of any country. Any economic downturn could impact the demand for staffing services as many companies reduce their use of temporary employees.
- Pandemic related lockdown has an adverse impact on Facility management business of the company which had declined by 12% in FY21 over FY20. Any possibility of 3rd wave of Covid-19, can further have a negative impact on the company.
- In case the acquired companies do not show continuous improvement in their performance, SIS will have to impair Goodwill and also write off intangibles putting pressure on profitability and network.

- Higher working capital requirement due to debtors outstanding funded through short term debt could put pressure on profitability. Delay in payment from key clients would affect working capital management and cash flows.
- Higher than expected competitive pressure leading to lower headcount growth, loss of market share or lower margins is a downside risk.
- Inability of the company to consistently improve margin would hinder growth in profitability. Over long term, with higher scale and size, if the company is unable to expand its margin, it may have a downside risk to overall earnings growth trajectory.
- Any unreasonable acquisition or a failure to efficiently manage any acquired business remains a risk.
- Any slowdown in the Australian economy leading to lower demand for security services will pose downside risk to our assumptions.

Peer Comparison

Company	Mcap (Rs cr)	Revenue				EBITDA Margin				PAT				RoE			
		FY20	FY21	FY22E	FY23E	FY20	FY21	FY22E	FY23E	FY20	FY21	FY22E	FY23E	FY20	FY21	FY22E	FY23E
Quess Corp	12813	10991	10837	12699	14977	6.0	5.4	5.6	5.9	261	245	381	533	10.4	9.5	14.8	18.0
SIS	7058	8485	9127	10067	11150	6.1	5.7	5.8	5.8	226	366	318	410	17.1	22.7	16.1	17.9
TeamLease	7277	5201	4881	5811	7126	1.8	2.0	2.5	2.7	85	81	126	178	15.2	13.5	17.8	20.5

Company	EV/EBITDA				P/E			
	FY20	FY21	FY22E	FY23E	FY20	FY21	FY22E	FY23E
Quess Corp	18.5	19.8	16.5	13.5	48.5	51	33.8	24.5
SIS	13.4	13.4	12.0	10.7	31.3	19.3	22.2	17.2
TeamLease	71.5	65.8	46.8	33.8	84.5	87.8	56.8	40.8

Source: Company, HDFC sec Research

Segment wise quarterly trend

Security India (Rs cr)	Q4 FY20	Q1 FY21	Q2 FY21	Q3 FY21	Q4 FY21	Q1 FY22
Employees	157590	141469	146617	151062	155028	148567
Revenue	924	858	839	889	901	881
EBITDA	50	46	49	51	44	44.3
Margin (%)	5.4	5.4	5.8	5.7	4.9	5.0
Contribution to revenue (%)	42	40	39	37.7	36.9	37.0
Contribution to EBITDA (%)	36	32	38	34.7	35.8	36.5

Security International (Rs cr)	Q4 FY20	Q1 FY21	Q2 FY21	Q3 FY21	Q4 FY21	Q1 FY22
Employees	9500	9000	8800	9150	8830	8296
Revenue	949	1019	1067	1190	1253	1201
EBITDA	64	60	75	84	73	64.3
Margin (%)	6.7	5.9	7.0	7.1	5.8	5.4
Contribution to revenue	43	41	50	50.5	51.2	50.5
Contribution to EBITDA	46	50	58	57.1	59.4	53

Facility Management (FMS) (Rs cr)	Q4 FY20	Q1 FY21	Q2 FY21	Q3 FY21	Q4 FY21	Q1 FY22
Employees	64500	54000	50700	52800	55700	56765
Revenue	343	293	256	283	296	305
EBITDA	23	15	6.5	12	5.7	13.1
Margin (%)	6.7	5.1	2.5	4.2	1.9	4.3
Contribution to revenue	16	14	12	12	12	13
Contribution to EBITDA	17	12	6	8.2	4.6	10.8

Source: Company, HDFC sec Research

Financials (Consolidated)

Income Statement

(Rs Cr)	FY19	FY20	FY21	FY22E	FY23E
Total Revenues	7093	8485	9127	10067	11150
Growth (%)	21.6	19.6	7.6	10.3	10.8
Operating Expenses	6728	7964	8606	9486	10482
EBITDA	365	521	521	581	652
Growth (%)	17.1	42.6	0.1	11.5	12.2
EBITDA Margin (%)	5.1	6.1	5.7	5.8	5.8
Depreciation	66	128	113	119	128
EBIT	299	392	408	462	524
Other Income	18	53	478	54	68
Interest expenses	94	152	127	108	97
Exceptional Items	-14	-4	-276	-	-
PBT	209	289	483	408	497
Tax	-5	64	115	88	82
RPAT	215	226	366	318	410
Growth (%)	32.4	5.2	61.9	-13	28.9
EPS	14.6	15.4	24.9	21.7	28

Balance Sheet

As at March	FY19	FY20	FY21	FY22E	FY23E
SOURCE OF FUNDS					
Share Capital	73.3	73.3	73.3	73.3	73.3
Reserves	1177	1315	1757	2039	2400
Shareholders' Funds	1250	1388	1830	2112	2474
Long Term Debt	614	630	742	683	533
Net Deferred Taxes	35	52	47	47	45
Long Term Provisions & Others	895	668	233	252	297
Total Source of Funds	2794	2738	2855	3096	3351
APPLICATION OF FUNDS					
Net Block	183	279	276	390	458
Intangible Assets	1400	1394	1298	1215	1140
Deferred Tax Assets (net)	205	245	241	241	241
Long Term Loans & Advances	323	343	311	333	362
Total Non-Current Assets	2111	2261	2126	2179	2201
Inventories	25	34	31	37	43
Trade Receivables	953	1174	1243	1329	1451
Short term Loans & Advances	91	1	1	3	6
Cash & Equivalents	543	614	1088	1174	1239
Other Current Assets	495	569	551	562	588
Total Current Assets	2114	2389	2914	3104	3325
Short-Term Borrowings	336	542	422	401	369
Trade Payables	66	54	66	86	92
Other Current Liab & Provisions	769	1029	1327	1364	1391
Short-Term Provisions	259	287	369	336	322
Total Current Liabilities	1430	1912	2184	2188	2175
Net Current Assets	684	477	729	917	1150
Total Application of Funds	2794	2738	2855	3096	3351

Source: Company, HDFC sec Research

Cash Flow Statement

(Rs Cr)	FY19	FY20	FY21	FY22E	FY23E
Reported PBT	209	289	483	408	497
Non-operating & EO items	-18	-53	-177	-54	-68
Interest Expenses	94	152	127	108	97
Depreciation	66	128	113	119	128
Working Capital Change	-42	-188	154	-103	-168
Tax Paid	-105	-128	-60	-88	-82
OPERATING CASH FLOW (a)	205	201	640	390	404
Capex	-86	-78	-46	-150	-120
Free Cash Flow	-552	533	318	240	284
Investments	-453	-251	-295	-22	-30
Non-operating income	18	53	177	54	68
INVESTING CASH FLOW (b)	-522	-275	-164	-118	-82
Debt Issuance / (Repaid)	233	66	170	-40	-107
Interest Expenses	-94	-152	-127	-108	-97
FCFE	228	139	-137	92	80
Share Capital Issuance	6	-1	2	0	0
Dividend	-30	-11	0	-39	-53
FINANCING CASH FLOW (c)	127	-141	44	-187	-257
NET CASH FLOW (a+b+c)	-190	-215	520	86	65

Key Ratios

	FY19	FY20	FY21	FY22E	FY23E
Profitability (%)					
EBITDA Margin	5.1	6.1	5.7	5.8	5.8
EBIT Margin	4.2	4.6	4.5	4.6	4.7
APAT Margin	3.2	2.7	4	3.2	3.7
RoE	18.8	17.1	22.7	16.1	17.9
RoCE	10.7	14.3	14.3	14.9	15.6
Solvency Ratio					
Net Debt/EBITDA (x)	1.1	1.1	0.1	-0.2	-0.5
D/E	0.8	0.8	0.6	0.5	0.4
Net D/E	0.3	0.4	0	0	-0.1
Per Share Data					
EPS	14.6	15.4	24.9	21.7	28
CEPS	19.1	24.1	32.6	29.8	36.7
BV	85	95	125	144	169
Dividend	3.5	2	0	2.5	3.5
Turnover Ratios (days)					
Debtor days	49	51	50	48	48
Inventory days	1	1	1	1	1
Creditors days	25	18	16	18	18
VALUATION (x)					
P/E	33.3	31.7	19.6	22.2	17.2
P/BV	5.8	5.2	4	3.3	2.9
EV/EBITDA	19.1	13.4	13.4	12	10.7
EV / Revenues	1	0.8	0.8	0.7	0.6
Dividend Payout (%)	23.9	13	0	11.5	12.5

Source: Company, HDFC sec Research

Stock Price Chart



HDFC Sec Retail Research Rating description

Green Rating stocks

This rating is given to stocks that represent large and established business having track record of decades and good reputation in the industry. They are industry leaders or have significant market share. They have multiple streams of cash flows and/or strong balance sheet to withstand downturn in economic cycle. These stocks offer moderate returns and at the same time are unlikely to suffer severe drawdown in their stock prices. These stocks can be kept as a part of long term portfolio holding, if so desired. These stocks offer low risk and lower reward and are suitable for beginners. They offer stability to the portfolio.

Blue Rating stocks

This rating is given to stocks that have strong balance sheet and are from relatively stable industries which are likely to remain relevant for long time and unlikely to be affected much by economic or technological disruptions. These stocks have emerged stronger over time but are yet to reach the level of green rating stocks. They offer medium risk, medium return opportunities. Some of these have the potential to attain green rating over time.

Red Rating stocks

This rating is given to emerging companies which are riskier than their established peers. Their share price tends to be volatile though they offer high growth potential. They are susceptible to severe downturn in their industry or in overall economy. Management of these companies need to prove their mettle in handling cyclicality of their business. If they are successful in navigating challenges, the market rewards their shareholders with handsome gains; otherwise their stock prices can take a severe beating. Overall these stocks offer high risk high return opportunities.



Disclosure:

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Any holding in stock – No

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HDFC securities Limited, I Think Techno Campus, Building - B, "Alpha", Office Floor 8, Near Kanjurmarg Station, Opp. Crompton Greaves, Kanjurmarg (East), Mumbai 400 042 Phone: (022) 3075 3400 Fax: (022) 2496 5066

Compliance Officer: Binkle R. Oza Email: complianceofficer@hdfcsec.com Phone: (022) 3045 3600

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