

June 11, 2020

## Q4FY20 Result Update

Change in Estimates |  Target |  Reco

### Change in Estimates

	Current		Previous	
	FY21E	FY22E	FY21E	FY22E
Rating	ACCUMULATE		BUY	
Target Price	809		940	
NII (Rs.)	68,459	75,728	67,563	73,039
% Chng.	1.3	3.7		
PPoP (Rs.)	46,188	52,004	50,415	54,595
% Chng.	(8.4)	(4.7)		
EPS (Rs.)	62.9	126.6	91.7	120.9
% Chng.	(31.5)	4.7		

### Key Financials - Standalone

Y/e Mar	FY19	FY20	FY21E	FY22E
Net Int.Inc. (Rs m)	80,179	82,921	68,459	75,728
Growth (%)	15.7	3.4	(17.4)	10.6
Op. Profit (Rs m)	61,605	62,336	46,188	52,004
PAT (Rs m)	25,640	25,018	14,262	28,721
EPS (Rs.)	113.0	110.3	62.9	126.6
Gr. (%)	4.2	(2.4)	(43.0)	101.3
DPS (Rs.)	13.0	15.5	15.5	15.5
Yield (%)	2.0	2.4	2.4	2.4
Margin (%)	7.9	7.6	5.8	5.9
RoAE (%)	17.4	14.8	7.6	13.8
RoAA (%)	2.5	2.3	1.2	2.2
PE (x)	5.6	5.8	10.1	5.0
P/BV (x)	0.9	0.8	0.7	0.6
P/ABV (x)	1.4	1.2	1.0	0.8

### Key Data

SRTR.BO | SHTF IN

52-W High / Low	Rs.1,367 / Rs.440
Sensex / Nifty	34,247 / 10,116
Market Cap	Rs.144bn / \$ 1,906m
Shares Outstanding	227m
3M Avg. Daily Value	Rs.7438.93m

### Shareholding Pattern (%)

Promoter's	26.25
Foreign	64.66
Domestic Institution	2.70
Public & Others	6.39
Promoter Pledge (Rs bn)	-

### Stock Performance (%)

	1M	6M	12M
Absolute	(14.7)	(40.8)	(41.0)
Relative	(21.2)	(30.5)	(31.4)

Shweta Daptardar

shwetadaptardar@plindia.com | 91-22-66322245

## Liquidity vs growth conundrum creeps in

### Quick Pointers:

- 70% of AUMs under morat end-May; 80-90% expected till Sep'20
- Rs80bn repayment obligations over Jun-Dec'20

**Only when we thought asset quality was on mend and liquidity overhang subsiding for SHTF, the pandemic shocks knocked both the aforesaid parameters yet again putting near term earnings under pressure. Q4FY20 witnessed 70%+ decline in PAT both YoY/QoQ to Rs2.2bn (PLe:Rs7.9bn) largely on account of Rs9.1bn COVID provisioning. Business trends stood weaker than expectations for 81-day quarter with AUMs at Rs1097bn (PLe:Rs1117bn) growing flattish QoQ (5% up YoY) led by slowing pace of used CV financing with avg growth of 1.4% over H2FY20. Disbursals at Rs109bn de-grew 5%QoQ as used CV disbursals were down 4%. While used CV has steadily risen, now at 86% of overall mix, SHTF stands as a bigger beneficiary of cyclical upturn on the used CV finance side. However, near term COVID led business impact looms large led by lower fleet utilization levels (50-70% Jun'20 and ahead), 70% AUMs under moratorium (May'20) & 80-90% (Jun-Aug'20), Rs80bn repayment obligations (Jun-Dec'20) and therefore liquidity maintenance taking precedence. While collection efficiency at 52% (May-end) does not stand sacrosanct with customers not paying in entirety, we believe asset quality pain to stay pronounced for FY21.**

**Against this backdrop, we trim our growth estimates sharply to 4/10% (earlier 7/16%), maintain high order NPAs at 9%/8.2% & tweak credit costs estimate to 2.6% / marginally lower over FY21/FY22 resp. Consequently, our EPS estimates now stand lower by 31% for FY21 but marginally higher in FY22. As return profile takes a hit, RoEs fall below 15% respectable mark for FY22 prompting us to downgrade stock to Accumulate (earlier BUY). We assign multiple of 1x to BV of FY22 arriving at a price target of Rs809 (earlier Rs940).**

- Business hit stands pronounced:** AUM at Rs 1097bn [PLe: Rs 1117bn] grew 5%YoY /1%QoQ with used CV share in overall mix now at 86% as against 83% a year ago. While overall disbursals stood down 5%QoQ, the used CV disbursals too declined 4%+. While Management stands confident on post-harvest demand and essentials transport activity catching up, we remain circumspect on overall AUM growth due to lower utilization levels, lack of genuine demand and higher share of moratorium book prompting Co. to stay cautious on incremental disbursals. Moreover, as liquidity maintenance takes precedence, we trim growth estimates to 4/10% (earlier7/16%) over FY21/22E.
- Asset quality issues may resurface:** While Stage 3 assets at 8.4% stood lower than expectations, higher percentage of morat AUMs (80-90% over Jun-Aug'20) and clouded picture on collections (52% paid in May but not in entirety) prompt us to maintain high NPAs of 9%/8% over FY21/22E. Consequently, our credit costs estimate now stand at 250-260bps (earlier 200-225) for FY21-22. **Higher credit costs and lower growth should have direct bearing on return profile with RoAs expected at 2.2% and RoEs at ~14% for FY22E.**

PAT de-grew by 70%+ both YoY/QoQ to Rs2.23bn [PLe: Rs7.85bn] largely on account of hefty provisions (2.4x our estimates) driven by Rs9.1bn COVID provisioning.

NII at Rs19.3bn stood in-line [PLe:Rs19.2bn] but de-grew 6%QoQ/flat YoY on account of stagnant AUM QoQ at Rs1097bn as against PLe of Rs1117bn. Used CV AUMS=s grew by mere 1%QoQ. Disbursals for the quarter stood down 5%QoQ with used CV disbursals also declining by a similar percentage QoQ (4.4%)

Operating profit weakens with PPop declining 3%YoY/10%QoQ to Rs14.7bn [PLe: Rs15.2bn]

Operating expenses stood in-line at 5.4bn [PLe:Rs5.6bn] and flat QoQ.

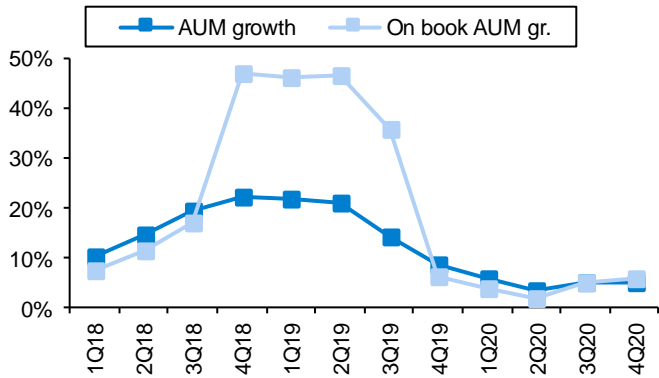
GNPA stood at 8.4% as against our expectation of 8.7% for Q4; in absolute terms GNPA spiked 6.5% YoY

**Exhibit 1: Higher provisions mar earnings; operating profit weakens**

Y/e March (Rs mn)	Q3FY20	Q3FY19	YoY gr.	Q2FY20	QoQ gr.
Interest income	40,922	38,039	7.6	41,154	(0.6)
Interest expenses	21,589	18,885	14.3	20,512	5.2
<b>Net Interest Income</b>	<b>19,333</b>	<b>19,155</b>	<b>0.9</b>	<b>20,641</b>	<b>(6.3)</b>
<b>Total Net Interest Income</b>	<b>19,333</b>	<b>19,155</b>	<b>0.9</b>	<b>20,641</b>	<b>(6.3)</b>
Operating & Other Income	809	795	1.8	1,068	(24.3)
<b>Net revenue</b>	<b>20,142</b>	<b>19,949</b>	<b>1.0</b>	<b>21,710</b>	<b>(7.2)</b>
Operating expenses	5,416	4,829	12.2	5,403	0.3
Staff Cost	2,723	2,040	33.5	2,550	6.8
<b>Operating profit</b>	<b>14,726</b>	<b>15,120</b>	<b>(2.6)</b>	<b>16,307</b>	<b>(9.7)</b>
Provisions	11,287	5,398	109.1	4,444	154.0
<b>Profit before tax</b>	<b>3,439</b>	<b>9,722</b>	<b>(64.6)</b>	<b>11,863</b>	<b>(71.0)</b>
Tax	1,205	2,262	(46.7)	3,072	(60.8)
<b>Profit after tax</b>	<b>2,234</b>	<b>7,460</b>	<b>(70.1)</b>	<b>8,792</b>	<b>(74.6)</b>
<b>Busines mix</b>					
<b>Total AUM</b>	<b>10,97,490</b>	<b>10,44,823</b>	<b>5.0</b>	<b>10,89,314</b>	<b>0.8</b>
on book	10,85,017	10,23,075	6.1	10,74,830	0.9
off book	12,475	21,748	(42.6)	14,484	(13.9)
on book %	99%	98%	0.9	99%	0.2
Used CV book	9,39,490	8,70,500	7.9	9,26,255	1.4
New CV book	97,951	1,15,941	(15.5)	1,04,651	(6.4)
Used CV book share	86%	83%	2.3	85%	0.6
New CV book share	9%	11%	(2.2)	10%	(0.7)
<b>Disbursement</b>	<b>1,08,690</b>	<b>1,19,580</b>	<b>(9.1)</b>	<b>1,16,070</b>	<b>(6.4)</b>
Used CVs	-	1,10,240	NA	1,08,070	NA
New CVs	-	8,120	NA	4,760	NA
<b>Asset quality</b>					
Gross NPA (mn)	91,797	70,998	29.3	93,924	(2.3)
Net NPA (mn)	59,911	20,554	191.5	63,748	(6.0)
Gross NPA (%)	8.4%	8.3%	0.1	8.7%	(0.4)
Net NPA (%)	5.6%	2.6%	3.1	6.1%	(0.5)
Coverage ratio(%)	34.7%	71.0%	(36.3)	32.1%	2.6
Credit Cost (%)	4.1%	2.1%	2.1	1.6%	2.5
<b>Ratios</b>					
Gross Spread (on book)	5.7%	6.1%	(42)	6.2%	(48)
<b>NIM/AUM</b>	<b>7.1%</b>	<b>7.4%</b>	<b>(28)</b>	<b>7.6%</b>	<b>(54)</b>
<b>NIM/AUM - Reported</b>	<b>6.8%</b>	<b>7.2%</b>	<b>(47)</b>	<b>7.1%</b>	<b>(38)</b>
CRAR	22.0%	20.3%	172	20.7%	131
<b>Asset quality under IND-AS</b>					
Gross Stage 3	91,797	86,223	6.5	93,924	(2.3)
Gross Stage 3 (%)	8.4%	8.4%	(1)	8.7%	(4.0)
Net Stage 3	59,911	56,553	5.9	63,748	(6.0)
Net Stage 3 (%)	5.6%	5.7%	(3)	6.1%	(7.7)
ECL Prov. on Gross Stage 3	31,887	29,670	7.5	30,176	5.7
Coverage Ratio Stage 3	34.7%	34.4%	33	32.1%	8.1
Gross Stage 1 & 2	10,06,320	9,43,585	6.6	9,83,850	2.3
Net Stage 1 & 2	9,74,886	9,17,548	6.2	9,57,056	1.9
ECL Prov. on Gross Stage 1 & 2	31,434	26,037	20.7	26,794	17.3
ECL Prov. (%) Stage 1 & 2	3.1%	2.8%	36	2.7%	14.7

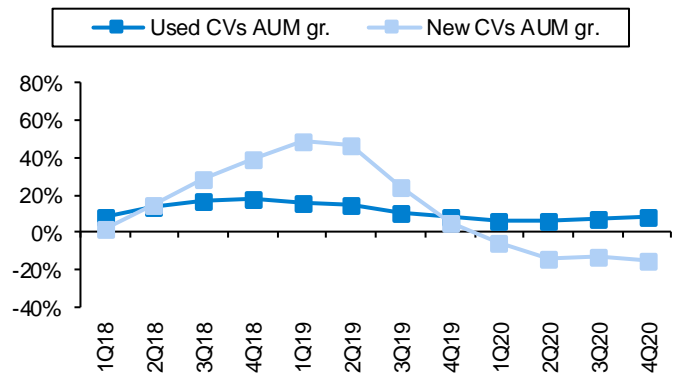
Source: Company, PL

Exhibit 2: AUM growth declines...



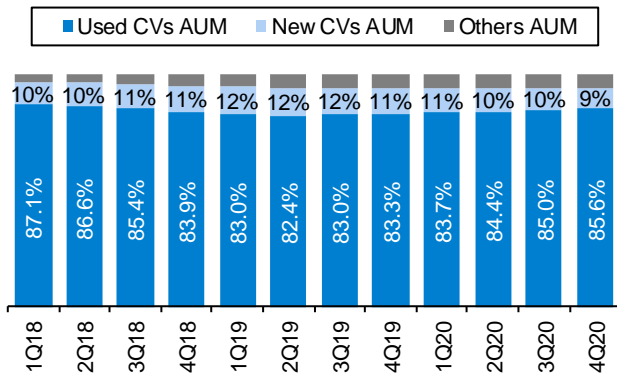
Source: Company, PL

Exhibit 3: ...led by used CVs slowing



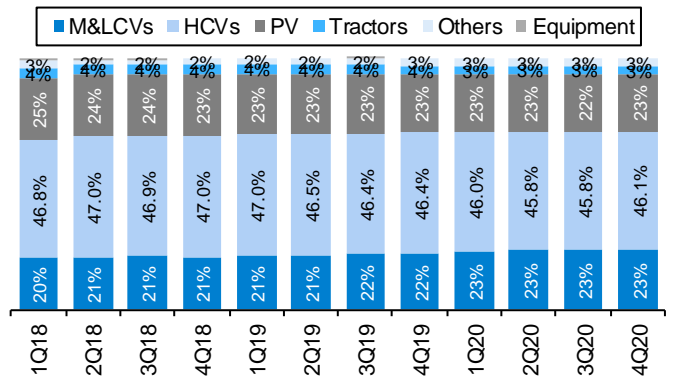
Source: Company, PL

Exhibit 4: Used CV mix inching up though



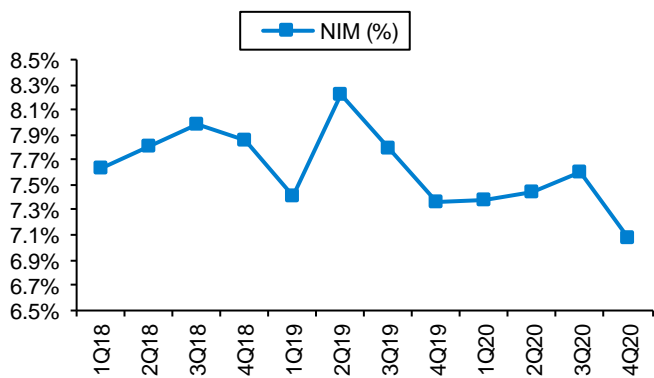
Source: Company, PL

Exhibit 5: Stable AUM mix



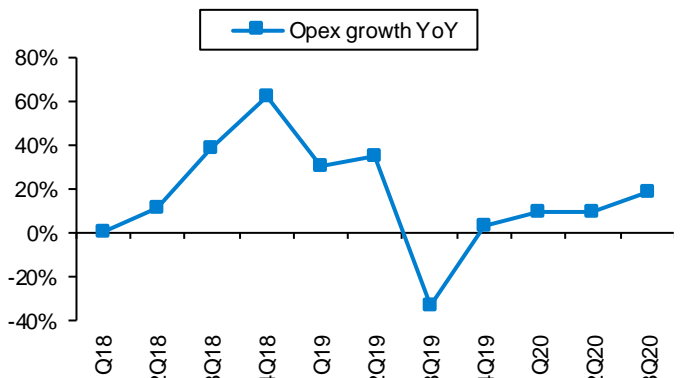
Source: Company, PL

Exhibit 6: NIMs come under pressure



Source: Company, PL

Exhibit 7: Opex descends



Source: Company, PL

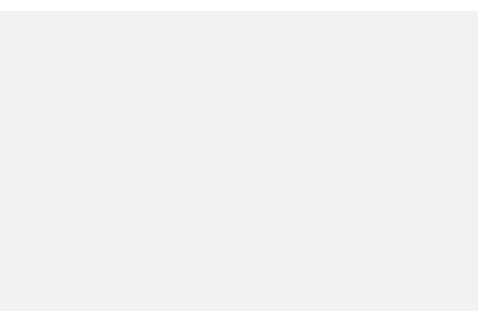
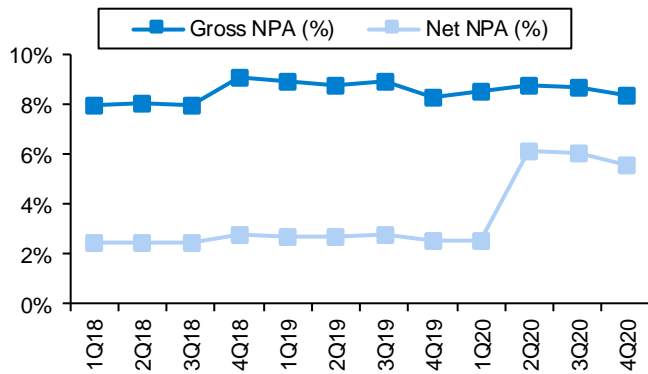
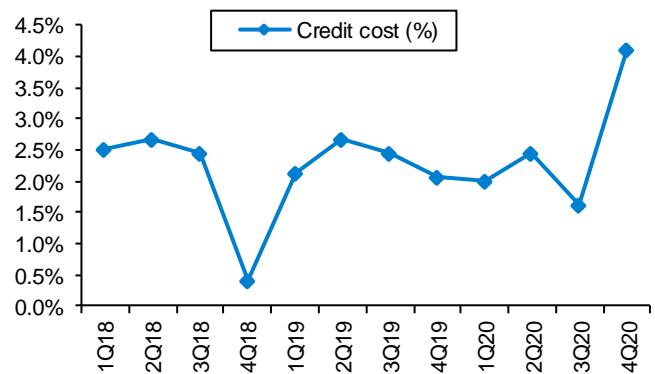


Exhibit 8: Marginal improvement in asset quality



Source: Company, PL

Exhibit 9: However, credit costs jump sharply



Source: Company, PL

### COVID led business details:

- Collections:** In spite of the moratorium, collection from 84%, 23% and 52% borrowers happened during Mar, Apr, May'20 resp
- Business:** Disbursements badly affected as RTO offices & dealers were non-functional up to 7thJun'20 in most parts of the country. The buying/selling and new vehicle sales transactions needing personal interactions started from Jun'20. Demand for new loans would start with the beginning of monsoon mostly from rural area to start with and should pick up in urban area as well when the economic activity starts fully.
- Liquidity:** Liquidity position has been adversely impacted due to moratorium. Liquidity buffer of Rs104bn & SLR investments of Rs. 18bn as on Mar'20 which has declined to Rs57bn and 18bn resp as on 31stMay'20. Ability to service debts and other financial debt commitment has not been affected financial leveraging is low. While there is no significant impact on the Co's capital and financial resources, Co will be exploring various options for capital raise
- Operations:** Out of 1,758 branches, other than 18 branches which are in containment zones, are fully functional. Frozen all hiring, deferred branch expansion plans and minimised travel and all other discretionary expenses

### Key Concall highlights:

- Industry:** Enquiries are coming from rural market for used vehicles as harvest stood good this year. Govt has procured grains from market and haven't released full payment yet. Once it is released demand will pick up further. Urban market demand will pick up post September, once infrastructure activities stand resumed. Demand for tractors are coming in but won't move the needle as it stands as a low ticket product with mere 3% share into portfolio mix.
- Liquidity:** As of May, liquidity stood at Rs.104bn in the form of cash and Rs 0.2bn worth of SLR investments. This stands sufficient to cover the debt repayments till Sep'20. Borrowing from banks in Apr-May'20 stood at Rs8bn and under TLTRO at Rs2 bn. Debt repayments stand at Rs80 bn over Jun-Dec'20

- **Collection:** 30% in value terms was repaid as at May-end.
- **Morat from lenders:** Did not opt for moratorium from lenders till May. Opted moratorium from banks (on Rs.20 bn worth of payments) for the period Jun-Aug'20. 8-9 banks have approved moratorium
- **Morat to borrowers:** 70% of borrowers under moratorium as of May'20. In absolute terms, Rs100 bn worth of additional loans to fall under morat in Jun'20 and similar one in Aug'20.
- **Provisioning:** Rs. 9096 mn worth of additional provisions in Q4FY20 for COVID-19. Credit cost to remain at 3% level in near term but Co. aims to strive to maintain below 2% levels on a longer horizon.
- **SCUF Merger:** Stalled for now
- **LTV:** 70% till FY18 and then stood down to 65%. New LTV stand higher at 75% to 80%.
- **Utilisation of vehicles:** 30% in April, 50% in May and 70% at Jun'20 beginning.
- Reduced FD rates by 30-40 bps. MCOB stood at 8.5% to 9.0%.
- Stage 1 assets stood at 80.43% and stage 2 stood at 11.21%.

**Exhibit 10: Lower growth and higher credit costs coupled with higher liquidity on BS mar EPS trends ahead**

(Rs mn)	Old			Revised			% Change		
	FY20E	FY21E	FY22E	FY20E	FY21E	FY22E	FY20E	FY21E	FY22E
Net Interest Income	78,788	67,563	73,039	82,921	68,459	75,728	5%	1%	4%
Operating Profit	62,859	50,415	54,595	62,336	46,188	52,004	-1%	-8%	-5%
Net Profit	30,642	20,818	27,442	25,018	14,262	28,721	-18%	-31%	5%
EPS (Rs)	135	92	121	110.3	62.9	126.6	-18%	-31%	5%
<b>Price Target (Rs)</b>		<b>940</b>			<b>809</b>			<b>-14.0%</b>	
<b>Reco</b>		<b>BUY</b>			<b>Accumulate</b>				

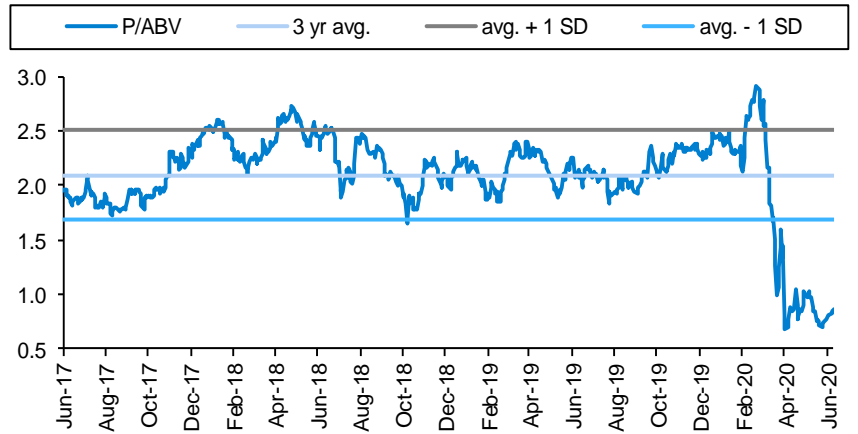
Source: PL

**Exhibit 11: TP at Rs809, downgrade to ACCUMULATE**

Fair price - EVA	1,005
Fair price - P/ABV	612
<b>Average of the two</b>	<b>809</b>
<b>Target P/ABV</b>	<b>1.0</b>
<b>Target P/E</b>	<b>8.5</b>
Current price, Rs	635
<b>Upside (%)</b>	<b>27%</b>
Dividend yield (%)	2%
<b>Total return (%)</b>	<b>30%</b>

Source: Company, PL

Exhibit 12: SHTF valuations although lower, pain yet to be fully factored



Source: Company, Bloomberg, PL



Income Statement (Rs. m)				
Y/e Mar	FY19	FY20	FY21E	FY22E
Int. Inc. / Opt. Inc.	1,55,383	1,65,624	1,53,160	1,67,816
Interest Expenses	75,113	82,703	84,202	91,584
<b>Net interest income</b>	<b>80,179</b>	<b>82,921</b>	<b>68,459</b>	<b>75,728</b>
Growth(%)	15.7	3.4	(17.4)	10.6
Non-interest income	275	203	277	401
Growth(%)	(56.3)	(26.3)	36.4	45.0
Net operating income	80,454	83,124	68,735	76,129
<b>Expenditures</b>				
Employees	8,831	10,108	11,018	11,789
Other Expenses	9,588	9,270	11,529	12,336
Depreciation	430	1,411	-	-
Operating Expenses	18,419	19,378	22,547	24,125
<b>PPP</b>	<b>61,605</b>	<b>62,336</b>	<b>46,188</b>	<b>52,004</b>
Growth(%)	14.4	1.2	(25.9)	12.6
Provisions	23,823	27,949	27,130	13,621
<b>Profit Before Tax</b>	<b>37,783</b>	<b>34,387</b>	<b>19,059</b>	<b>38,382</b>
Tax	12,143	9,368	4,797	9,661
Effective Tax rate(%)	32.1	27.2	25.2	25.2
<b>PAT</b>	<b>25,640</b>	<b>25,018</b>	<b>14,262</b>	<b>28,721</b>
Growth(%)	4.2	(2.4)	(43.0)	101.4

Balance Sheet (Rs. m)				
Y/e Mar	FY19	FY20	FY21E	FY22E
<b>Source of funds</b>				
Equity	2,269	2,269	2,269	2,270
Reserves and Surplus	1,56,094	1,77,783	1,92,045	2,20,766
Networth	1,58,363	1,80,052	1,94,313	2,23,036
Growth (%)	16.7	13.7	7.9	14.8
Loan funds	8,79,144	9,43,718	10,45,329	11,18,342
Growth (%)	7.0	7.3	10.8	7.0
Deferred Tax Liability	-	-	-	-
Other Current Liabilities	15,418	17,517	34,238	43,358
Other Liabilities	-	-	-	-
<b>Total Liabilities</b>	<b>10,52,925</b>	<b>11,41,286</b>	<b>12,73,879</b>	<b>13,84,736</b>
<b>Application of funds</b>				
Net fixed assets	1,475	4,824	4,223	4,433
Advances	9,67,515	10,22,316	10,72,810	11,80,091
Growth (%)	6.6	5.7	4.9	10.0
Investments	39,991	27,985	41,198	49,170
Current Assets	40,685	81,349	1,32,689	1,32,397
<b>Net current assets</b>	<b>25,267</b>	<b>63,832</b>	<b>98,451</b>	<b>89,039</b>
Other Assets	3,259	4,812	22,959	18,645
<b>Total Assets</b>	<b>10,52,925</b>	<b>11,41,286</b>	<b>12,73,879</b>	<b>13,84,736</b>
Growth (%)	8.3	8.4	11.6	8.7
<b>Business Mix</b>				
AUM	10,44,823	10,97,492	11,41,392	12,38,566
Growth (%)	8.5	5.0	4.0	8.5
On Balance Sheet	10,23,075	10,85,017	11,28,418	12,25,462
% of AUM	97.92	98.86	98.86	98.94
Off Balance Sheet	21,748	12,475	12,600	13,104
% of AUM	2.08	1.14	1.10	1.06

Profitability & Capital (%)				
Y/e Mar	FY19	FY20	FY21E	FY22E
NIM	7.9	7.6	5.8	5.9
ROAA	2.5	2.3	1.2	2.2
ROAE	17.4	14.8	7.6	13.8

Source: Company Data, PL Research

Quarterly Financials (Rs. m)				
Y/e Mar	Q1FY20	Q2FY20	Q3FY20	Q4FY20
Int. Inc. / Operating Inc.	39,868	41,099	41,154	40,922
Income from securitization	-	-	-	-
Interest Expenses	20,431	21,134	20,512	21,589
<b>Net Interest Income</b>	<b>19,436</b>	<b>19,965</b>	<b>20,641</b>	<b>19,333</b>
Growth (%)	6.7	(3.2)	1.7	0.9
Non-Interest Income	749	1,099	1,068	809
<b>Net Operating Income</b>	<b>20,185</b>	<b>21,064</b>	<b>21,710</b>	<b>20,142</b>
Growth (%)	9.7	0.4	4.6	1.0
Operating expenditure	4,758	5,189	5,403	5,416
<b>PPP</b>	<b>15,428</b>	<b>15,875</b>	<b>16,307</b>	<b>14,726</b>
Growth (%)	-	-	-	-
Provision	5,612	6,607	4,444	11,287
Exchange Gain / (Loss)	-	-	-	-
Profit before tax	9,816	9,269	11,863	3,439
Tax	3,473	1,618	3,072	1,205
Prov. for deferred tax liability	3,344	1,412	1,401	1,463
Effective Tax Rate	35.4	17.5	25.9	35.0
<b>PAT</b>	<b>6,343</b>	<b>7,651</b>	<b>8,792</b>	<b>2,234</b>
Growth	11	26	38	(70)
AUM	10,63,435	10,81,202	10,89,314	10,97,492
YoY growth (%)	5.8	3.6	4.9	5.0
Borrowing	9,24,627	10,83,764	11,87,399	-
YoY growth (%)	7.4	18.2	28.0	(100.0)

Key Ratios				
Y/e Mar	FY19	FY20	FY21E	FY22E
CMP (Rs)	635	635	635	635
EPS (Rs)	113.0	110.3	62.9	126.6
Book value (Rs)	697.9	793.6	856.5	982.8
Adj. BV(Rs)	448.7	529.5	652.5	773.0
P/E(x)	5.6	5.8	10.1	5.0
P/BV(x)	0.9	0.8	0.7	0.6
P/ABV(x)	1.4	1.2	1.0	0.8
DPS (Rs)	13.0	15.5	15.5	15.5
Dividend Payout Ratio(%)	11.5	14.1	24.7	12.2
Dividend Yield(%)	2.0	2.4	2.4	2.4

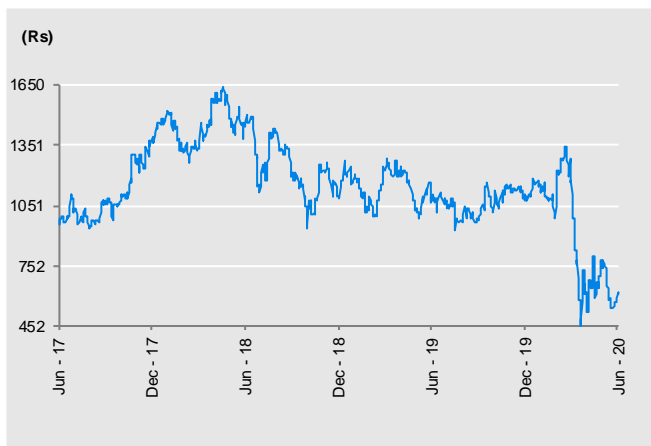
Asset Quality				
Y/e Mar	FY19	FY20	FY21E	FY22E
Gross NPAs(Rs m)	70,998	91,797	1,04,437	1,00,451
Net NPA(Rs m)	56,553	59,911	46,272	47,635
Gross NPAs to Gross Adv.(%)	8.4	8.4	9.0	8.2
Net NPAs to net Adv.(%)	5.7	5.6	4.4	4.2
NPA coverage(%)	34.4	34.7	55.7	52.6

Du-Pont as a % of AUM				
Y/e Mar	FY19	FY20	FY21E	FY22E
NII	7.9	7.6	5.7	5.7
NII INCL. Securitization	7.9	7.6	5.7	5.7
Total income	8.0	7.6	5.7	5.8
Operating Expenses	1.9	1.9	1.9	1.8
PPOP	6.1	5.7	3.9	3.9
Total Provisions	2.4	2.5	2.2	1.0
RoAA	2.5	2.3	1.2	2.2
Avg. Assets/Avg. net worth	-	-	-	-
RoAE	17.4	14.8	7.6	13.8

Source: Company Data, PL Research



## Price Chart



## Recommendation History

No.	Date	Rating	TP (Rs.)	Share Price (Rs.)
1	17-Apr-20	BUY	940	802
2	04-Feb-20	BUY	1,444	1,060
3	03-Jan-20	BUY	1,441	1,160
4	27-Oct-19	BUY	1,441	1,125
5	03-Oct-19	BUY	1,441	1,035
6	04-Jul-19	BUY	1,481	1,063

## Analyst Coverage Universe

Sr. No.	Company Name	Rating	TP (Rs)	Share Price (Rs)
1	Bajaj Finance	BUY	3,000	1,965
2	Cholamandalam Investment and Finance Company	Accumulate	189	143
3	HDFC	Accumulate	1,992	1,516
4	L&T Finance Holdings	Sell	50	53
5	LIC Housing Finance	Reduce	282	278
6	Mahindra & Mahindra Financial Services	Reduce	171	168
7	Manappuram Finance	Accumulate	142	123
8	SBI Cards and Payment Services	BUY	643	570
9	Shriram Transport Finance	BUY	940	802

## PL's Recommendation Nomenclature (Absolute Performance)

<b>Buy</b>	: > 15%
<b>Accumulate</b>	: 5% to 15%
<b>Hold</b>	: +5% to -5%
<b>Reduce</b>	: -5% to -15%
<b>Sell</b>	: < -15%
<b>Not Rated (NR)</b>	: No specific call on the stock
<b>Under Review (UR)</b>	: Rating likely to change shortly



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**3rd Floor, Sadhana House, 570, P. B. Marg, Worli, Mumbai-400 018, India | Tel: (91 22) 6632 2222 Fax: (91 22) 6632 2209**

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