



TM

## Prince Pipes & Fittings

06 February 2024

### RESULT UPDATE

Sector: Plastic Pipes

Rating: BUY

CMP: Rs 670

Target Price: Rs 778

#### Stock Info

Sensex/Nifty	71,731/21,772
Bloomberg	PRNCPIP IN
Equity shares (mn)	110.6
52-wk High/Low	757/537
Face value	Rs 10
M-Cap	Rs 74bn/ USD 890mn
3-m Avg turnover	USD 3.8mn

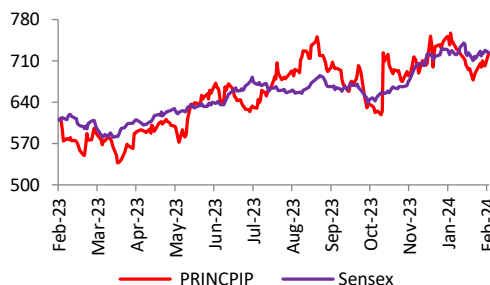
#### Financial Snapshot (Rs mn)

Y/E Mar	FY24E	FY25E	FY26E
Net sales	25,436	32,495	38,493
EBITDA	3,146	4,578	5,577
OPM (%)	12.4	14.1	14.5
PAT (adj.)	1,682	2,730	3,440
EPS (adj.) (Rs)	15	25	31
PE (x)	44.0	27.1	21.5
P/B (x)	5.0	4.4	3.8
EV/EBITDA (x)	22.7	15.6	12.5
RoE (%)	11.3	16.1	17.6
RoCE (%)	16.0	22.6	24.9
Net-D/E (x)	(0.2)	(0.2)	(0.2)

#### Shareholding Pattern (%)

	Dec'23	Sep'23	Jun'23
Promoter	60.9	60.9	60.9
- Pledged			
FII	5.7	5.0	6.1
DII	18.4	18.6	16.4
Others	14.9	15.5	16.6

#### Stock Performance (1-year)



### Measures taken to re-gain lost market-share from 1QFY25

Prince Pipes' (PRNCPIP) lower-than-expected pipes-volume (down 2% YoY), revenue (down 12% YoY) and EBITDA margin (12.2%, down 212bps QoQ) led to a large miss in 3Q PAT (up 6% YoY). A Rs 100mn inventory loss (1.6% of revenue) and Rs 30mn fixed costs in bathroom division also weighed on margins. After losing market-share in a year due to ERP transition, management is confident to strongly catchup volumes from 1QFY25 with measures taken such as price cuts etc. Project segment is growing well with faster approvals after Lubrizol tie-up. PVC prices are low and stable; 3Q adj. EBITDA margin (~14%) is likely to sustain, in our view. Along with Rs 1bn capex on plant modernization, the greenfield plant in Bihar (capex upped to Rs 2bn for 50kt integrated capacity incl. fittings) is likely operational by 4QFY25 and will boost market-share in the fast-growing eastern market (~15% revenue mix). Bathware (3Q revenue Rs 60mn, fixed cost Rs 30mn) products are now present across 100+ retailers in tier 2/3 markets in northern and southern India and would enhance company's brand visibility. Post weak 3Q, we cut earnings estimates by 10-20% and now estimate 12%/31%/41% CAGR in revenue/EBITDA/PAT over FY23-26E, resulting in healthy OCF and RoCE (25%). Maintain BUY with a revised TP of Rs 778 (earlier Rs 863), based on 25x FY26E P/E. Strong volumes/margins are keys for a re-rating. ([concall KTAs](#))

**3Q – large earnings miss on lower volume, revenue and margins:** Lower than expected pipes volume (down 2% YoY; agri underperformed others), revenue (down 12% YoY) and EBITDA margin (12.2%, down 212bps QoQ) led to a large miss in 3Q PAT (up 6% YoY). Lower volumes, a Rs 100mn inventory loss (1.6% of revenue) and Rs 30mn fixed costs in bathroom division impacted margins and PAT. Increased days of debtors (73) and inventory (75) is aimed to reduce via channel finance etc.

**Taking measures to re-gain lost market-share from 1Q25; Bihar g/f plant likely to be operational in 4QFY25:** After lagging behind industry growth in last 3-4 quarters due to ERP transition and capacity constraint in HDPE pipes, management is confident to strongly catchup volumes in coming quarters. It took price corrections in few regions to reduce gap with leaders and reach to close parity in PVC pipes and a slight discount CPVC. Expecting stable PVC prices, demand should be healthy across verticals. Project segment growing well with faster approvals after Lubrizol tie-up. 3Q EBITDA margin (~14%, adj. for losses on inventory and bathware division) is likely to sustain, in our view. Along with Rs 1bn capex on plant modernization and others in FY24, the greenfield plant in Bihar (capex upped to Rs 2bn for 50kt integrated capacity incl. fittings; likely operational by 4QFY25) will boost its presence in the fast-growing eastern market (15-20% revenue mix). It eyes Bihar plant to be the largest capacity for itself in next 3 years having comprehensive product basket. Water tank is now manufactured at 7 locations (aims 2x revenue soon from Rs 330mn in FY23).

**Bathware foray – presence across 100+ retailers in tier 2/3 markets:** In the first full quarter of operations, PRNCPIP clocked Rs 60mn revenue and had Rs 30mn fixed costs. It is now present across 100+ retailers in tier 2/3 markets in northern India (Srinagar, Punjab, Haryana, Delhi, Rajasthan, Uttar Pradesh) and western India (Mumbai, Rest of Maharashtra and Gujarat). It now plans to enter East. From vendor sourcing currently, the company aims to set up inhouse manufacturing in 18 months. The division is expected to grow rapidly with 12-14% EBITDA margin at a scale. We see this foray as a long-term positive for PRNCPIP, as it would enhance its brand visibility and direct connect with consumers.

Ashish Poddar

ashishpoddar@systematixgroup.in  
+91 22 6704 8039

Pranay Shah

pranayshah@systematixgroup.in

Kalash Jain

kalashjain@systematixgroup.in

## 3QFY24 concall KTAs

### 3QFY24 and Outlook

- 3Q - large earnings miss was on lower volume (down 2% YoY), revenue (down 12% YoY) and EBITDA margin (12.2%)
- Plumbing & Infra pipes continued to do better than agri pipes
- **3Q inventory loss stood at Rs 100mn (1.6% of revenue)**
- Weak 9MFY24 results were due to ERP implementation and price cuts taken to become competitive
- Market share loss has been in certain markets and products where pricing action took place
- **Taking adequate actions to regain lost market share starting 1QFY25**
- Projects segment is growing well with faster approvals after Lubrizol tie-up
- Debtors, Inventory days elongated QoQ in 3Q > expected to normalise in coming quarters using channel finance, etc.
- Channel inventory is at normal level now
- CPVC price correction of 5-7%; expects PVC prices to remain low and stable

### Bathware - presence across 100+ retailers in tier 2/3 markets

- First full quarter of sales - encouraging response from dealers and consumers
- 3Q revenue - Rs 60mn, fixed cost - Rs 30mn
- Reached Northern India (Srinagar, Punjab, Haryana, Delhi, Rajasthan, Uttar Pradesh) and Western India (Mumbai, Rest of Maharashtra and Gujarat)
- Received positive response at exhibitions participated in and retailer meets conducted

### Capex at Bihar

- Bhoomi Pujan was done in Dec'23
- Increased Capex to Rs 2.2bn (from Rs 1.5bn earlier) to set-up a 50kt integrated facility including Fittings
- Capex spent expected in FY24E of Rs 550mn and in FY25E of Rs 1.75bn
- Will drive sales in the fast-growing east market (~20% mix currently)

### Others

- A&P spend: 3Q - Rs 120mn, 9M - Rs 390mn
- Gross debt: Rs 600mn WC + Rs 40mn LT (Bihar capex)
- HDPE capacity operational at Jaipur
- Water tanks - aims manufacturing at 7 locations

## Exhibit 1: Prince Pipes &amp; Fittings – quarterly performance

(Rs mn)	3QFY23	4QFY23	1QFY24	2QFY24	3QFY24	YoY (%)	QoQ (%)	9MFY24	9MFY23	YoY (%)
<b>P&amp;L</b>										
<b>Total Income</b>	<b>7,059</b>	<b>7,644</b>	<b>5,536</b>	<b>6,565</b>	<b>6,186</b>	<b>(12)</b>	<b>(6)</b>	<b>18,286</b>	<b>19,465</b>	<b>(6)</b>
Raw material costs	5,483	5,121	4,142	4,511	4,316	(21)	(4)	12,969	15,801	(18)
Employee costs	311	309	320	405	373	20	(8)	1,098	852	29
Other expenses	570	731	620	707	741	30	5	2,068	1,792	15
<b>EBITDA</b>	<b>695</b>	<b>1,483</b>	<b>453</b>	<b>942</b>	<b>757</b>	<b>9</b>	<b>(20)</b>	<b>2,152</b>	<b>1,020</b>	<b>111</b>
Depreciation	211	211	218	225	229	9	2	673	619	9
Finance costs	16	28	17	7	27	68	293	51	82	(37)
Other income	12	34	38	40	30	147	(24)	108	51	110
Exceptional gain/ (loss)	-	-	-	179	-			179	-	
<b>PBT</b>	<b>480</b>	<b>1,278</b>	<b>256</b>	<b>928</b>	<b>530</b>	<b>10</b>	<b>(43)</b>	<b>1,714</b>	<b>370</b>	<b>363</b>
Tax	126	337	59	222	154	22	(31)	436	97	347
<b>PAT</b>	<b>354</b>	<b>941</b>	<b>196</b>	<b>706</b>	<b>376</b>	<b>6</b>	<b>(47)</b>	<b>1,279</b>	<b>273</b>	<b>368</b>
EPS (Rs)	3.2	8.5	1.8	6.4	3.4	6	(47)	11.6	2.5	368
<b>As % Total Income</b>						<b>YoY (bps)</b>	<b>QoQ (bps)</b>			<b>YoY (bps)</b>
<b>Gross margin</b>	<b>22.3</b>	<b>33.0</b>	<b>25.2</b>	<b>31.3</b>	<b>30.2</b>	<b>791</b>	<b>(105)</b>	<b>29.1</b>	<b>18.8</b>	<b>1,025</b>
Employee costs	4.4	4.0	5.8	6.2	6.0	162	(14)	6.0	4.4	163
Other expenses	8.1	9.6	11.2	10.8	12.0	390	121	11.3	9.2	210
<b>EBITDA margin</b>	<b>9.8</b>	<b>19.4</b>	<b>8.2</b>	<b>14.3</b>	<b>12.2</b>	<b>239</b>	<b>(212)</b>	<b>11.8</b>	<b>5.2</b>	<b>653</b>
Depreciation	3.0	2.8	3.9	3.4	3.7	72	27	3.7	3.2	50
Finance costs	0.2	0.4	0.3	0.1	0.4	21	33	0.3	0.4	(14)
Other income	0.2	0.4	0.7	0.6	0.5	31	(11)	0.6	0.3	33
<b>PBT</b>	<b>6.8</b>	<b>16.7</b>	<b>4.6</b>	<b>11.4</b>	<b>8.6</b>	<b>177</b>	<b>(284)</b>	<b>8.4</b>	<b>1.9</b>	<b>649</b>
Effective tax rate	26.3	26.4	23.2	23.9	29.1	275	515	25.4	26.3	(90)
<b>PAT</b>	<b>5.0</b>	<b>12.3</b>	<b>3.5</b>	<b>10.8</b>	<b>6.1</b>	<b>107</b>	<b>(468)</b>	<b>7.0</b>	<b>1.4</b>	<b>559</b>
<b>Pipes</b>										
Revenue	7,059	7,644	5,536	6,565	6,126	(13)	(7)	18,226	19,465	(6)
Volume (MT)	43,693	44,317	37,155	41,529	42,665	(2)	3	1,21,349	1,13,401	7
Realisation/kg (Rs)	162	172	149	158	144	(11)	(9)	150	172	(12)
EBITDA/kg (Rs)	15.9	33.5	12.2	22.7	18.0	13	(21)	18	9	97
<b>Bathware Revenue</b>					<b>60</b>			<b>60</b>		

Source: Company, Systematix Institutional Research

Exhibit 2: Revenue growth - quarterly trend

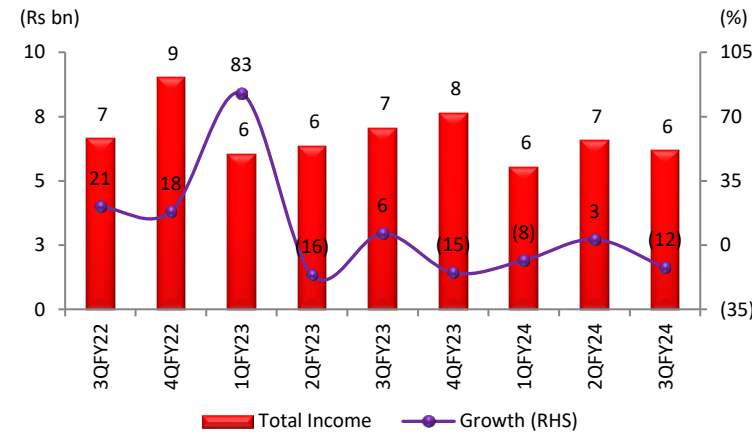


Exhibit 3: Volume growth - quarterly trend

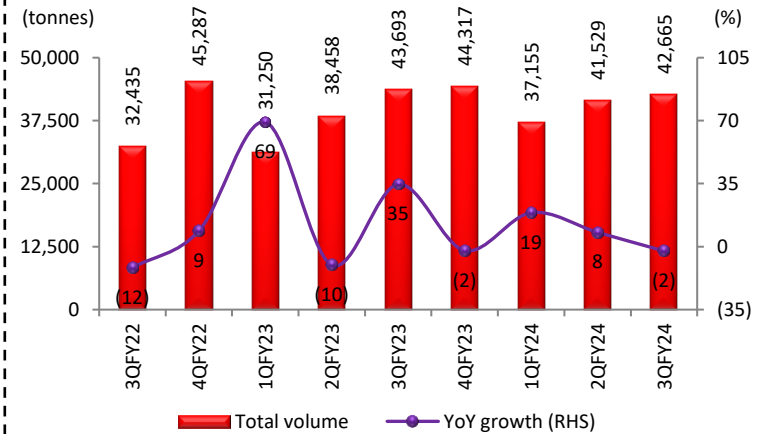


Exhibit 4: Pipes realisation - quarterly trend

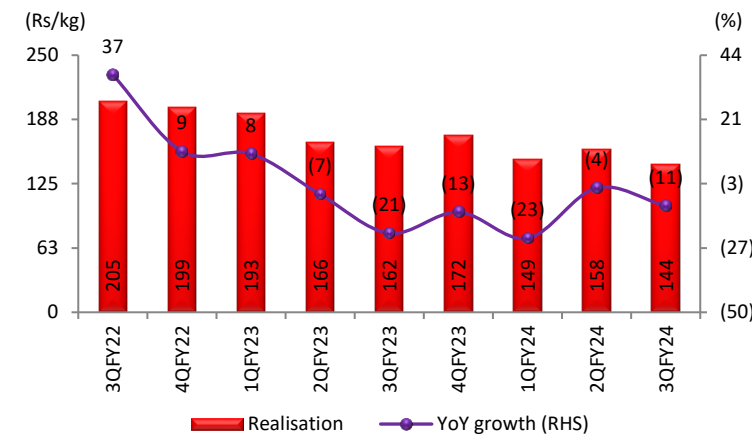


Exhibit 5: EBITDA per kg - quarterly trend

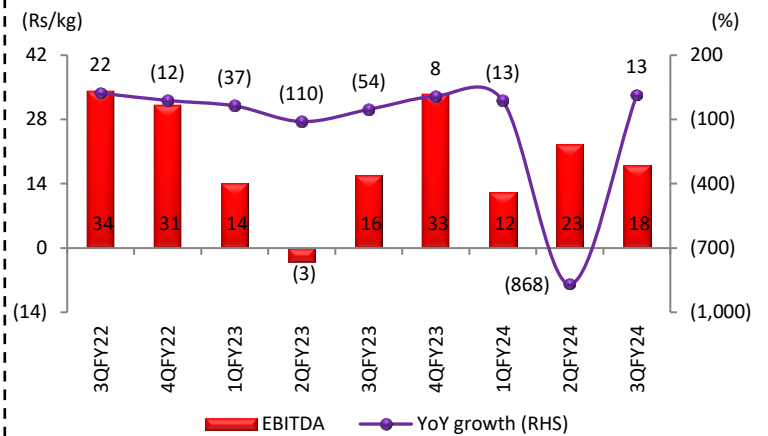


Exhibit 6: Expenses as percentage of total income - quarterly trend

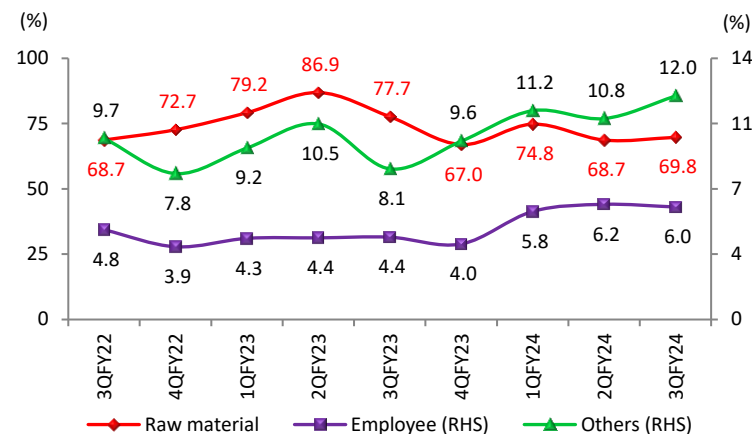
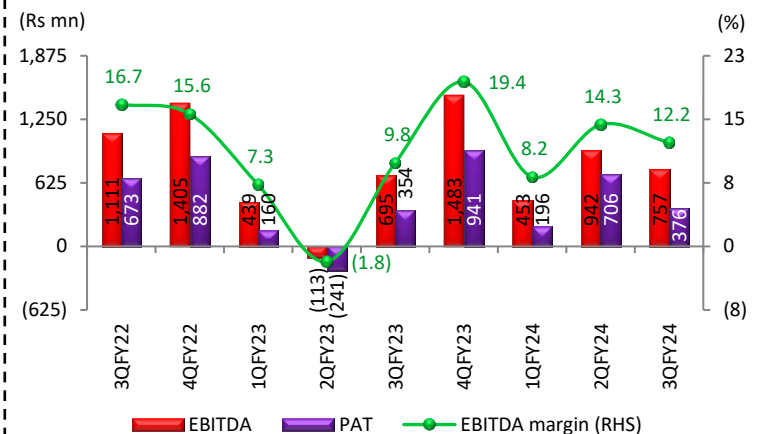


Exhibit 7: EBITDA, PAT and margin trend



Source: Company, Systematix Institutional Research

Exhibit 8: Total Income - annual trend

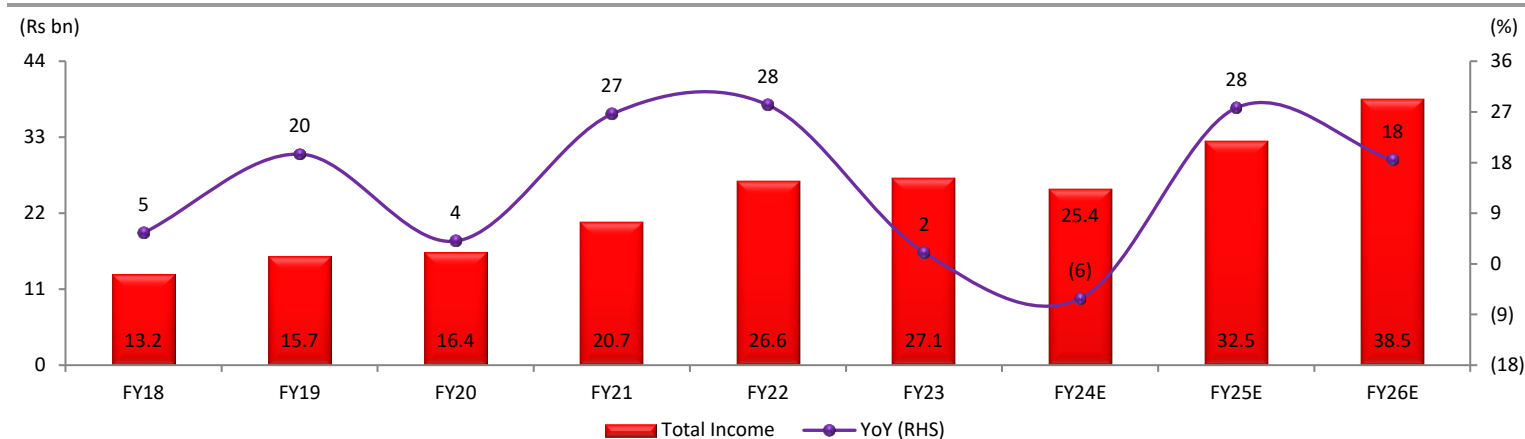


Exhibit 9: EBITDA margin and PAT margin - annual trend

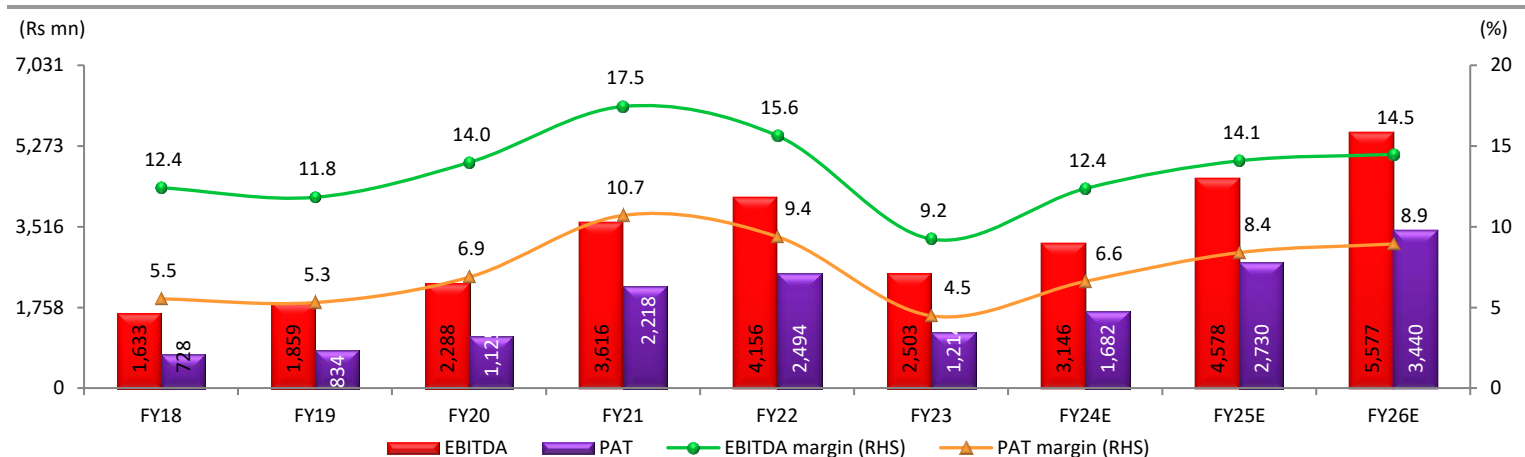
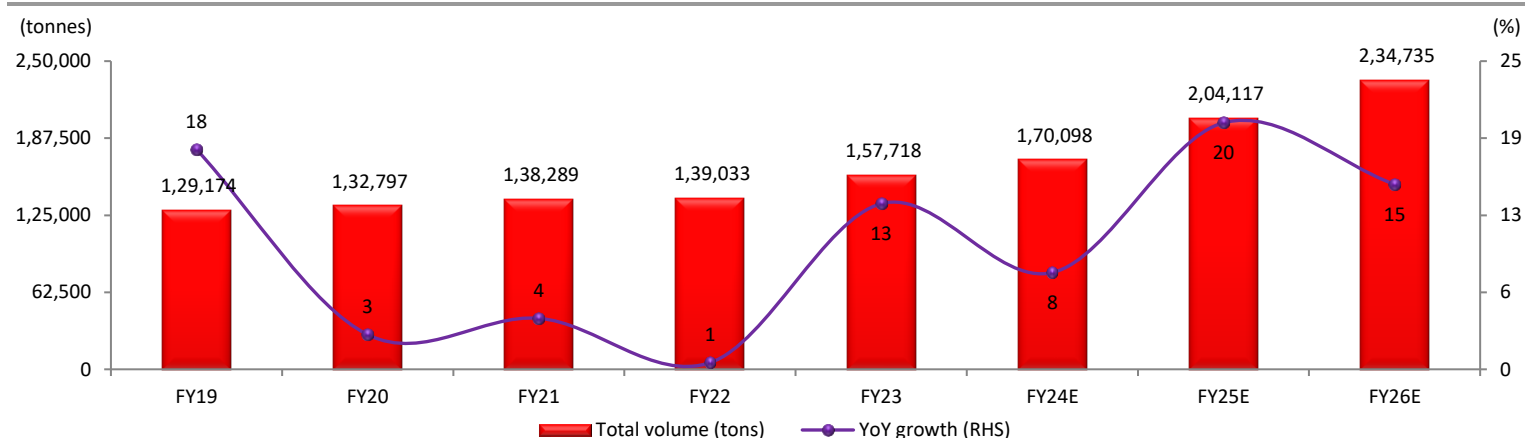


Exhibit 10: Volume growth - annual trend



Source: Company, Systematix Institutional Research

Exhibit 11: Pipes realisation - annual trend

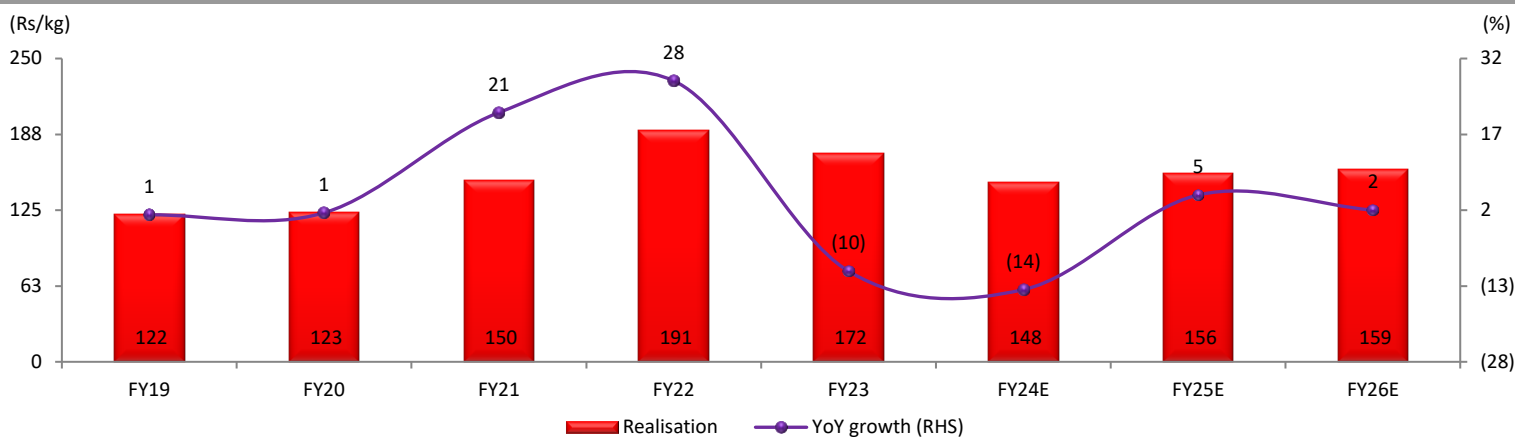
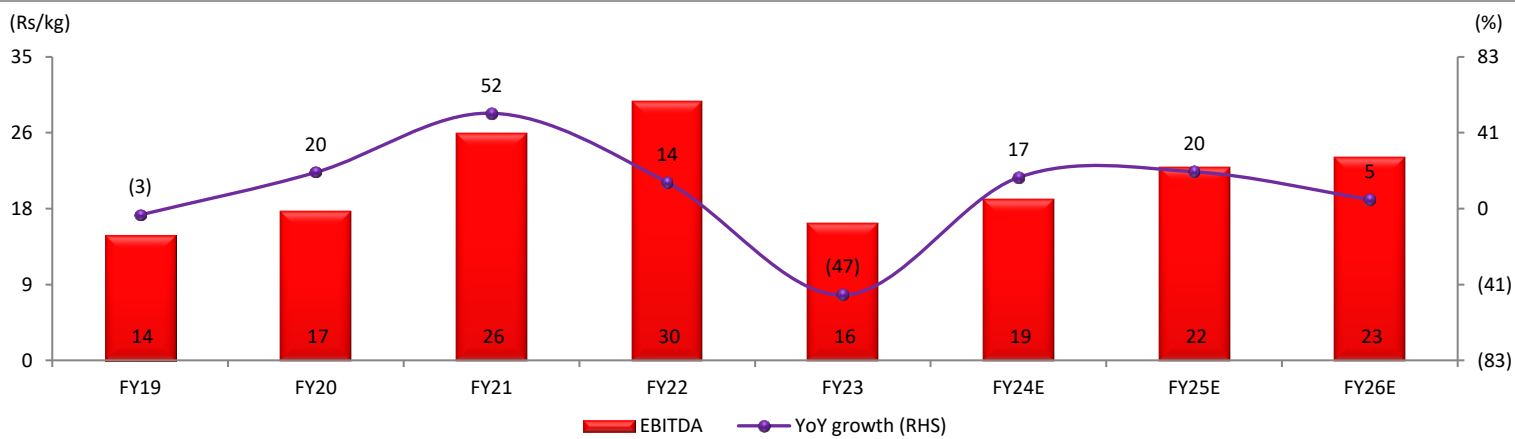


Exhibit 12: EBITDA per kg - annual trend



Source: Company, Systematix Institutional Research

## Outlook and valuation

PRINCEPIP is one of India's largest integrated piping solutions and multi polymer (CPVC, UPVC, HDPE, PPR) manufacturer. In August 2020, the company tied up with Lubrizol (inventors and largest manufacturers of CPVC compounds worldwide) and launched Prince *FlowGuard Plus* CPVC plumbing systems. The company is expanding its network of 1,500+ distributors. It has 7 state-of-the-art manufacturing units located across India, these being in Haridwar (Uttarakhand), Athal (Dadra and Nagar Haveli), Dadra (Dadra and Nagar Haveli), Kolhapur (Maharashtra), Chennai (Tamil Nadu), Jobner (Rajasthan) and Sangareddy (Telangana).

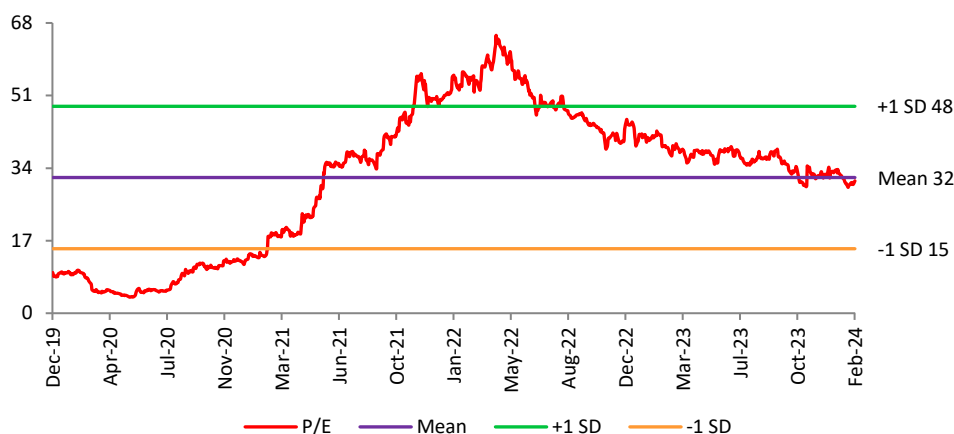
PRINCEPIP achieved 16%/9%/11% CAGR in revenue/EBITDA/PAT over FY18-23 through healthy volume growth (8%) and superior realisations. Post weak 3Q, we cut earnings estimates by 10-20% and now estimate 12%/31%/41% CAGR in revenue/EBITDA/PAT over FY23-26E, on healthy volume (14% CAGR) and margin expansion, resulting in healthy OCF and RoCE (25%). Maintain **BUY** with a revised TP of Rs 778 (earlier Rs 863), based on 25x FY26E P/E. Strong volumes/margins are keys for a re-rating.

**Exhibit 13: Change in estimates**

(Rs mn)	Old estimates			New estimates			% Var		
	FY24E	FY25E	FY26E	FY24E	FY25E	FY26E	FY24E	FY25E	FY26E
Total Income	28,843	35,224	41,645	25,436	32,495	38,493	(12)	(8)	(8)
EBITDA	3,699	4,940	6,091	3,146	4,578	5,577	(15)	(7)	(8)
EBITDA margin (%)	12.8	14.0	14.6	12.4	14.1	14.5			
PAT	2,130	2,969	3,815	1,682	2,730	3,440	(21)	(8)	(10)
EPS	19.3	26.9	34.5	15.2	24.7	31.1	(21)	(8)	(10)

Source: Systematix Institutional Research

**Exhibit 14: P/E band – One-year-forward and standard deviation**



Source: BSE, Systematix Institutional Research

## Risks

- High and volatile raw material prices may impact demand and profitability
- Intensifying competition may suppress demand and margins

## FINANCIALS

### Profit & Loss Statement

YE: Mar (Rs mn)	FY22	FY23	FY24E	FY25E	FY26E
<b>Net revenues (Rs mn)</b>	<b>26,568</b>	<b>27,109</b>	<b>25,436</b>	<b>32,495</b>	<b>38,493</b>
<i>Growth (%)</i>	28.3	2.0	-6.2	27.8	18.5
Direct costs	18,915	20,922	17,938	22,390	26,408
<i>Gross Margin (%)</i>	28.8	22.8	29.5	31.1	31.4
SG&A	3,497	3,684	4,352	5,527	6,509
<b>EBITDA</b>	<b>4,156</b>	<b>2,503</b>	<b>3,146</b>	<b>4,578</b>	<b>5,577</b>
<i>EBITDA margins (%)</i>	15.6	9.2	12.4	14.1	14.5
- Depreciation	703	830	905	1,034	1,145
Other income	55	86	148	166	231
Interest Exp	139	110	71	46	46
PBT	3,369	1,648	2,317	3,664	4,617
<i>Effective tax rate (%)</i>	26.0	26.3	27.4	25.5	25.5
+ Associates/(Minorities)	-	-	-	-	-
<b>Net Income</b>	<b>2,494</b>	<b>1,214</b>	<b>1,682</b>	<b>2,730</b>	<b>3,440</b>
Adjusted income	2,494	1,214	1,682	2,730	3,440
WANS	111	111	111	111	111
FDEPS (Rs/share)	22.6	11.0	15.2	24.7	31.1
<i>FDEPS growth (%)</i>	12.4	(51.3)	38.6	62.2	26.0

### Balance Sheet

YE: Mar (Rs mn)	FY22	FY23	FY24E	FY25E	FY26E
Share capital	1,106	1,106	1,106	1,106	1,106
Net worth	12,653	13,640	14,880	16,946	19,501
Total debt (incl. Pref)	1,500	581	381	381	381
Minority interest	-	-	-	-	-
DT Liability/(Asset)	123	137	150	150	150
<b>Capital Employed</b>	<b>14,275</b>	<b>14,358</b>	<b>15,411</b>	<b>17,478</b>	<b>20,033</b>
Net tangible assets	6,430	6,795	7,391	8,357	8,212
Net Intangible assets	29	56	56	56	56
Goodwill	-	-	-	-	-
CWIP	223	190	180	170	160
Investments (Strategic)	-	-	-	-	-
Investments (Financial)	117	920	920	920	920
Current Assets	12,005	9,337	8,781	10,895	12,650
Cash	586	1,244	2,241	2,116	3,819
Current Liabilities	5,115	4,184	4,157	5,036	5,784
Working capital	6,890	5,152	4,624	5,859	6,866
<b>Capital Deployed</b>	<b>14,275</b>	<b>14,358</b>	<b>15,411</b>	<b>17,478</b>	<b>20,033</b>
Contingent Liabilities	45	121	-	-	-

### Cash Flow

YE: Mar (Rs mn)	FY22	FY23	FY24E	FY25E	FY26E
EBIT (incl. other income)	3,591	1,700	2,241	3,544	4,432
+ Non-cash items	703	830	905	1,034	1,145
OCF before WC changes	4,295	2,530	3,146	4,578	5,577
- Incr./(decr.) in WC	4,288	(1,123)	(548)	1,215	987
Others including taxes	201	51	610	909	1,153
Operating cash-flow	(195)	3,602	3,084	2,453	3,437
- Capex (tangible + Intangible)	1,687	998	1,490	1,990	990
Free cash-flow	(1,882)	2,604	1,594	463	2,447
Acquisitions					
- Dividend	385	221	442	663	884
+ Equity raised	107	-	-	-	-
+ Debt raised	648	(919)	(200)	-	-
- Fin Investments	(1,846)	531	-	-	-
- Misc. Items (CFI + CFF)	102	34	(45)	(75)	(140)
<b>Net cash-flow</b>	<b>232</b>	<b>899</b>	<b>997</b>	<b>(125)</b>	<b>1,703</b>

### Ratios @ Rs 670

YE: Mar	FY22	FY23	FY24E	FY25E	FY26E
P/E (x)	29.7	61.0	44.0	27.1	21.5
EV/EBITDA (x)	18.0	29.0	22.7	15.6	12.5
EV/sales (x)	2.8	2.7	2.8	2.2	1.8
P/B (x)	5.9	5.4	5.0	4.4	3.8
RoE (%)	19.7	8.9	11.3	16.1	17.6
RoCE (%)	27.3	12.3	16.0	22.6	24.9
ROIC (%)	30.5	13.3	18.4	26.6	29.9
DPS (Rs per share)	3.5	-	4.0	6.0	8.0
Dividend yield (%)	0.5	-	0.6	0.9	1.2
Dividend payout (%)	15.5	-	26.3	24.3	25.7
Net debt/equity (x)	0.1	(0.1)	(0.2)	(0.2)	(0.2)
Receivables (days)	60	56	55	54	53
Inventory (days)	85	57	57	57	57
Payables (days)	55	43	45	45	45
CFO:PAT (%)	(8)	297	183	90	100

Source: Company, Systematix Institutional Research



## Institutional Equities Team

<b>Nikhil Khandelwal</b>	<b>Managing Director</b>	<b>+91-22-6704 8001</b>	<b>nikhil@systematixgroup.in</b>
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### 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
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
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
Devanshi Kamdar	IT & ITES	+91-22-6704 8098	devanshikamdar@systematixgroup.in
Hinal Kothari	Metals & Mining	+91-22-6704 8076	hinalkothari@systematixgroup.in
Jennisa Popat	Oil & Gas, Logistics, Cement, Wagons	+91-22-6704 8066	jennisapopat@systematixgroup.in
Kalash Jain	Consumer Durables, EMS, Building Materials, Small-Mid Caps	+91-22-6704 8038	kalashjain@systematixgroup.in
Nirali Chheda	Banking, Insurance	+91-22-6704 8019	niralichheda@systematixgroup.in
Pashmi Chheda	Banking, Insurance	+91-22-6704 8063	pashmichheda@systematixgroup.in
Pranay Shah	Consumer Durables, EMS, Building Materials, Small-Mid Caps	+91-22-6704 8017	pranayshah@systematixgroup.in
Pratik Oza	Midcaps	+91-22-6704 8036	pratikoza@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
Shweta Dikshit	Metals & Mining	+91-22-6704 8042	shwetadikshit@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	yogeetarathod@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
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

### 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
Sushant Chavan	Manager	+91-22-6704 8056	sushantchavan@systematixgroup.in

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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](mailto:contactus@systematixgroup.in). Visit us at: [www.systematixgroup.in](http://www.systematixgroup.in)

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

Details of Email id grievance redressal cell : [grievance@systematixgroup.in](mailto:grievance@systematixgroup.in)

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