IPO NOTE

SANATHAN TEXTILES LIMITED

18.12.2024

Canara Bank Securities Ltd
A Wholly Owned Subsidiary Of Canara Bank

- Incorporated in 2005, Sanathan Textiles Limited is a polyester yarn manufacturer and a global supplier of Cotton Yarn.
- The company's business is divided into three separate yarn business verticals, consisting of:
  - ⇒ Polyester yarn products;
  - ⇒ Cotton yarn products; and
  - ⇒ Yarns for technical textiles and industrial uses. These technical textiles are used in various sectors such as automotive, healthcare, construction, sports and out-door activities, and protective clothing.
- As of September 30, 2024, the company had more than 3,200 active varieties of yarn products (i.e., yarn products manufactured by them from April 1, 2021, to September 30, 2024) and more than 45,000 stock-keeping units (SKUs).
- It can also manufacture a diversified product portfolio of more than 14,000 yarn varieties and more than 190,000 SKUs used in various forms and for varied end uses.
- As of June 30, 2024, Fiscal 2024, and Fiscal 2023, Sanathan Textiles Limited exported its products to 14, 27 and 29 countries.
- As of June 30, 2024, the company had more than 925 distributors in 7 countries, including India, Argentina, Singapore, Germany, Greece, Canada, and Israel.
- The company's manufacturing unit is located in Silvassa. The company's clients comprise several multinational, regional and local companies such as Welspun India Limited, Valson Industries Limited, G.M. Fabrics Private Limited, Premco Global Limited, Creative Garments Textile Mills Private Limited, Banswara Syntex Limited, AYM Syntex Limited, Techno Sportswear Private Limited, Haren Textiles Private Limited, Khosla Profil Private Limited, Tulip Elastics Private Limited and more.

Issue Details

Price Band (in ₹ per share)	305-321
Issue size (in ₹ Crore)	550.00
Fresh Issue (in ₹ Crore)	400.00
OFS (in ₹ Crore)	150.00
Issue open date	19-12-24
Issue close date	23-12-24
Tentative date of Allotment	24-12-24
Tentative date of Listing	27-12-24
Total number of shares (lakhs)	180.33-171.34
No. of shares for QIBs (50%) (lakhs)	90.16-85.67
No. of shares for NII (15%) (lakhs)	27.05-25.70
No. of shares for S-HNI (33%) (lakhs)	9.02-8.57
No. of shares for B-HNI (66%) (lakhs)	18.03-17.13
No. of shares for retail investors (35%) (lakhs)	63.11-59.97
No of shares for Employee Reservation (lakhs)	NA
Minimum order quantity	46
Face value (in ₹)	10.00
Amount for retail investors (1 lot) (in ₹)	14030-14766
Maximum no. of shares for Retail investors at Lower Band	644 (14 lots)
Maximum no. of shares for Retail investors at Upper Band	598 (13 lots)
Maximum amount for retail investors at lower band - upper band (in ₹)	196240-191958
Minimum no. of shares for sHNI (2 Lakhs) at upper band	644 (14 lots)
Maximum no. of shares for sHNI (10 Lakhs) at upper band	3082 (67 lots)
Minimum number of shares for bHNI at upper band	3128 (68 lots)
Exchanges to be listed on	BSE & NSE

Promoters

- PARESH VRAJLAL DATTANI
- AJAY VALLABHDAS DATTANI
- ANILKUMAR VRAJDAS DATTANI
- DINESH VRAJDAS DATTANI
- NIMBUS TRUST
- D&G FAMILY TRUST
- A&J FAMILY TRUST AND P&B FAMILY TRUST

Objects of the Offer

The company proposes to utilise the Net Proceeds towards funding the following objects:

- ♦ Repayment and/ or pre-payment, in full or part, of certain borrowings availed by the Company.
- ♦ Investment in their subsidiary viz. Sanathan Polycot Private Limited, for repayment and/ or pre-payment, in full or part, of certain borrowings availed by their subsidiary viz. Sanathan Polycot Private Limited.
- ♦ General corporate purposes.

BRIEF FINANCIALS

PARTICULARS (Rs. Cr) *	Q1FY25	FY24	FY23	FY22
Share Capital	71.94	71.94	71.94	71.94
Net Worth	1324.05	1273.98	1140.13	987.39
Total Income	781.12	2957.50	3329.21	3185.32
EBITDA	76.43	226.58	259.53	537.61
EBITDA Margin (%)	9.79	7.66	7.80	16.88
Profit/(Loss) After Tax	50.07	133.84	152.74	355.44
EPS (in Rs.)	6.96^	18.60	21.24	49.40
Net Asset Value (in Rs.)	184.16	177.22	158.47	137.14
Total borrowings	644.92	379.88	281.00	378.19
P/E#	11.53	17.26	NA	NA
P/B#	1.74	1.81	NA	NA

**Restated consolidated financials; #Calculated at upper price band ^Annualised*

Profit & Loss Statement

Particulars (In Crores)	FY2022	FY2023	FY2024
INCOME			
Revenue from operations	3185.32	3329.21	2957.50
Other income	16.14	15.81	22.30
Total Income	**3,201.46**	**3,345.02**	**2,979.80**
YoY Growth (%)	-	4.52%	-11.17%
Cost of materials consumed	2063.27	2334.91	2131.72
Cost of materials consumed-% of Revenue	64.45%	69.80%	71.54%
Purchases of stock-in-trade	32.47	5.23	0.64
Purchases of stock-in-trade-% of Revenue	1.01%	0.16%	0.02%
Changes in inventories of finished goods, stock	-72.00	65.15	-0.07
Employee benefit expenses	94.74	88.54	90.60
Employee Expenses-% of Revenue	2.96%	2.65%	3.04%
Other expenses	529.23	575.86	508.04
EBIDTA	**537.61**	**259.53**	**226.58**
EBIDTA Margin (%)	16.79%	7.76%	7.60%
Depreciation and amortisation expense	42.17	43.49	44.39
EBIT	**495.44**	**216.04**	**182.19**
EBIT Margin (%)	15.48%	6.46%	6.11%
Finance cost	32.46	22.42	23.08
Restated Profit before tax	479.12	209.43	181.41
Tax expenses			
Current tax			
for the period / year	112.71	47.90	42.14
pertaining to earlier year(s)	2.60	0.43	-0.81
Deferred Tax	8.37	8.36	6.23
Total tax expenses	**123.68**	**56.69**	**47.56**
Profit for the year	**355.44**	**152.74**	**133.85**
PAT Margin (%)	11.16%	4.59%	4.53%
Earnings per share			
Basic earnings per share (₹)	49.4	21.24	18.6

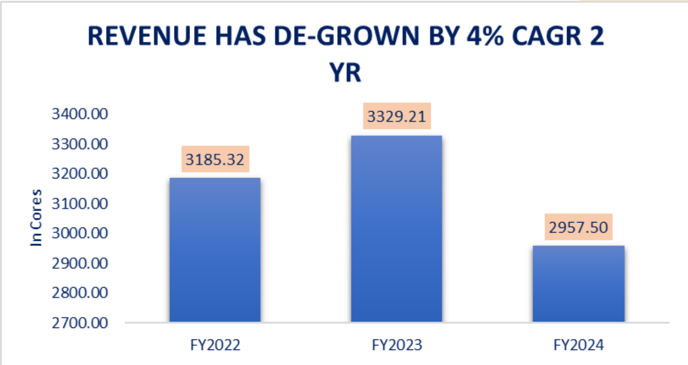
Cashflow Statement

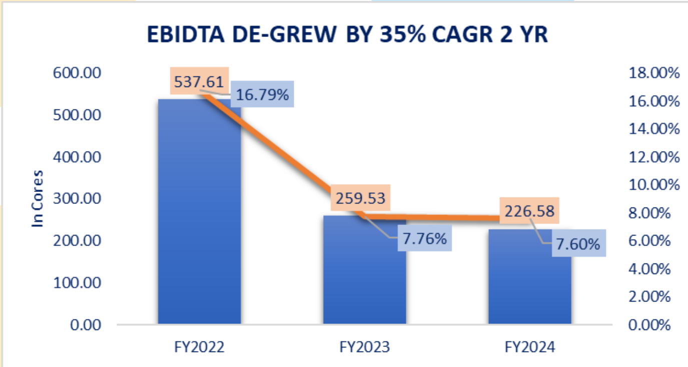
Particulars (In Crores)	FY2022	FY2023	FY2024
Cash generated from operating activities	408.62	417.58	228.11
Income tax paid (net of refunds)	-114.06	-55.27	-36.38
Net cash generated from operating activities	294.56	362.31	191.74
Net cash used in investing activities	-114.19	-235.06	-245.29
Net cash used in financing activities	-198.99	-126.17	74.47
Net increase/ (decrease) in cash and cash equivalents	**-18.61**	**1.09**	**20.91**
Add: Cash and cash equivalents at the beginning of the period	26.53	7.93	9.02
Add: Cash acquired under business combination	0.01	0.00	0.00
Cash and cash equivalent as at year end	**7.93**	**9.02**	**29.93**

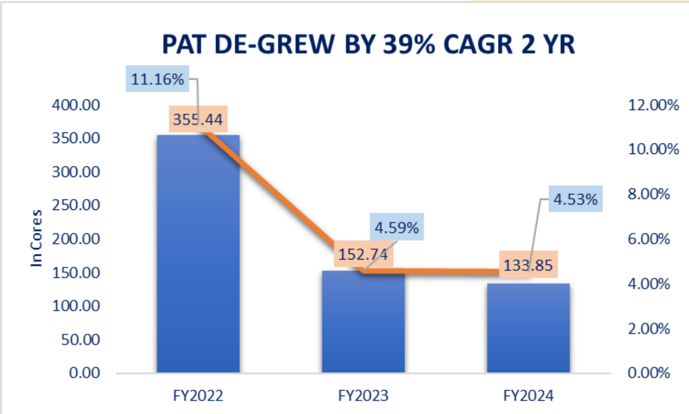
Balance Sheet

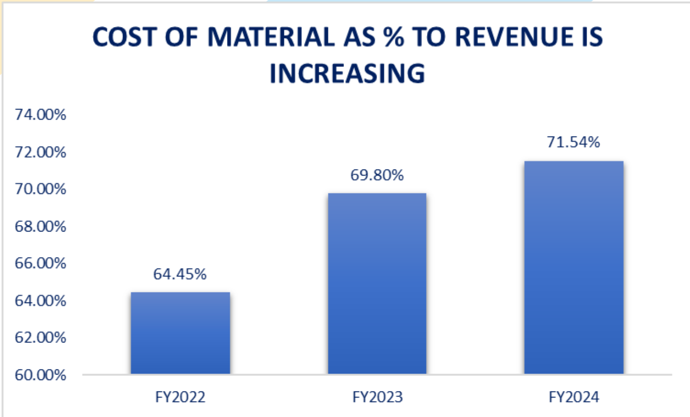
Particulars (In Crores)	FY2022	FY2023	FY2024
Assets			
Non-current assets			
Property, Plant and Equipment	894.87	948.37	926.47
Capital work in progress	2.39	18.80	140.51
Itangible assets	-	-	2.48
Intangible assets under development	-	2.13	-
Goodwill	1.91	1.91	1.91
Financial assets			
Other financial assets	8.32	5.95	15.53
Icome-tax assets (net)	3.53	4.41	-
Other non-current assets	25.13	123.60	207.46
Total non- current assets	**936.15**	**1105.16**	**1294.35**
Current assets			
Inventories	443.92	401.60	405.50
Financial Assets			
Investment	54.84	47.50	106.95
Trade receivables	136.19	141.74	125.68
Cash and cash equivalents	7.93	9.02	29.93
Bank balances other than cash and cash	70.83	97.32	71.47
Other financial assets	2.85	0.44	1.60
Other current assets	143.76	103.89	168.20
Total current Asset	**860.32**	**801.51**	**909.33**
Total assets	**1796.47**	**1906.67**	**2203.68**
Equity and liabilities			
Equity			
Equity Share Capital	71.94	71.94	71.94
Other Equity	914.70	1068.17	1203.03
Total equity	**986.64**	**1140.11**	**1274.97**
Liabilities			
Non-Current liabilities			
Financial Liabilities			
Borrowings	280.02	221.64	337.20
Provisions	6.52	7.00	7.62
Deferred tax liabilities (net)	62.94	71.21	77.53
Other non-current liabilities	0.93	0.54	1.01
Total Non-Current liabilities	**350.41**	**300.40**	**423.36**
Current liabilities			
Financial liabilities			
Borrowings	98.17	59.36	42.68
Trade payables			
Due to MSME	6.01	14.78	12.72
Due to other than MSME	331.61	362.54	424.22
Other financial liabilities	7.32	6.82	7.34
Other current liabilities	7.42	20.16	14.98
Provisions	2.84	2.51	2.76
Current tax liabilities	6.06	0.00	0.65
Total Current liabilities	**459.43**	**466.16**	**505.35**
Total liabilities	**809.83**	**766.56**	**928.71**
Total equity and liabilities	**1796.47**	**1906.67**	**2203.68**

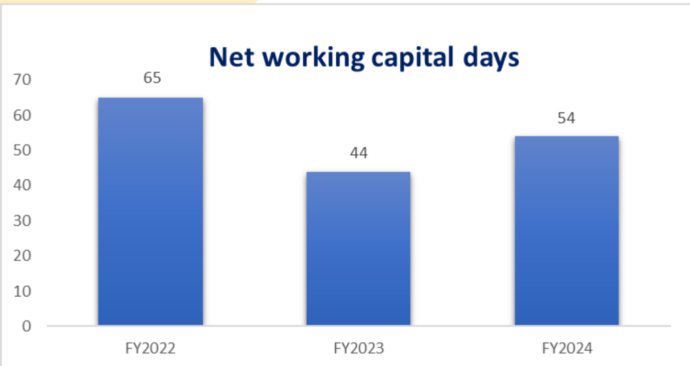
PERFORMANCE THROUGH CHARTS

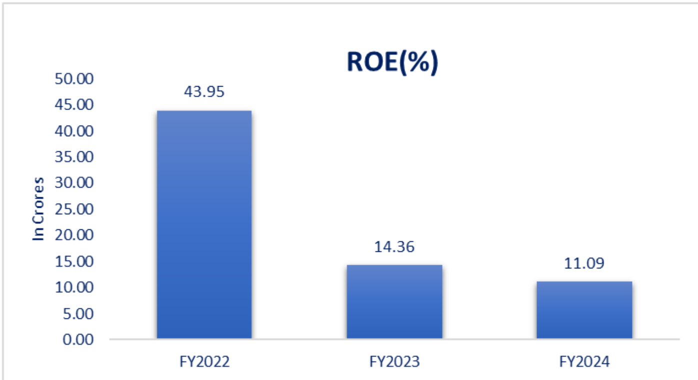


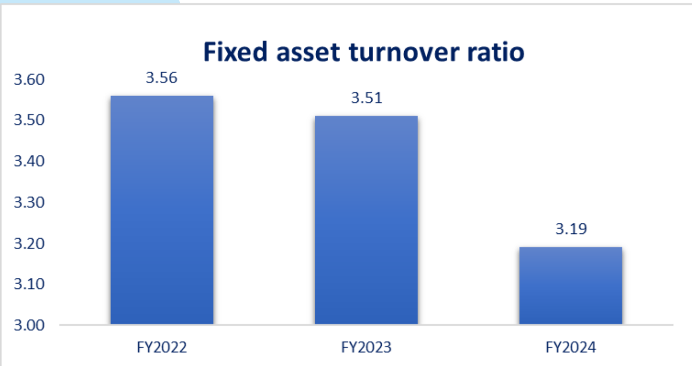


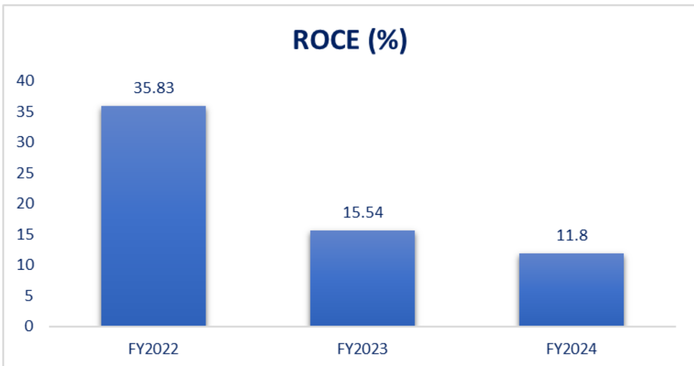












INDUSTRY REVIEW

Investments in the textile and wearing apparel segment have grown at ~5.4% CAGR between fiscals 2012 and 2023

- The investments in the textile and wearing apparel segment in India increased from Rs. 2,052 billion in fiscal 2012 to Rs. 3,651 billion in fiscal 2023, growing at a CAGR of ~5.4%.
- The increase in investments had led to the total number of textile and apparel factories reaching the figure of 30,672 in fiscal 2023, increased from 27,958 in fiscal 2012.
- The Government of India has introduced several schemes for the textile and apparel sectors such as the Amended Technology Upgradation Fund Scheme (ATUFS), the Scheme for Integrated Textiles Park (SITP), the Samarth scheme, etc. ATUFS aims to modernize and upgrade the technology of the Indian textile industry.
- SITP provides world-class infrastructure facilities. In addition to these, many other schemes specific to silk, jute, wool, handloom, and handicraft sectors are also being implemented.

For fiscal 2025, budget allocation to the Ministry of Textiles has been increased by ~28%

- The government of India increased the budget allocated to the Ministry of Textiles by ~28% in fiscal 2025 to Rs 44 billion compared to the revised allocated budget in fiscal 2024 of Rs 34 billion.
- Out of Rs 44 billion, the major component will be of a revenue nature, followed by capital expenditure.
- A few major schemes that will be benefitted from this budget include Amended Technology Upgradation Fund Scheme (ATUFS) (~Rs 7 billion allocated), National Handloom Development Programme (~Rs 2 billion allocated), and National Handicrafts Development Programme (NHDP) (~Rs 2 billion allocated), National Technical Textiles Mission (~ Rs 4 billion allocated) and PM-MITRA (~Rs 3 billion allocated).
- The Government of India announced multiple schemes to increase the economies of scale, export potential and competitiveness in the textile sector.
- The Government of India introduced several schemes for the textile and apparel sectors including Pradhan Mantri Mega Integrated Textile Region and Apparel (PM MITRA), Production Linked Incentive Scheme (PLI scheme), Kasturi Cotton Bharat, National Technical Textile Mission (NTTM), Amended Technology Upgradation Fund Scheme (ATUFS), and Scheme for Capacity Building in Textiles Sector (SAMARTH).

Indian textile and apparel market is projected to grow at 6-7% CAGR between fiscal 2024 and 2028;

- Indian textile and apparel industry is projected to grow at a CAGR of 6.0-7.0% between fiscal 2024 and fiscal 2028, reaching a value of Rs. 12,400-12,500 billion in fiscal 2028.
- During this period, exports are expected to grow at a CAGR of 4.5-5.5% while domestic industry is expected to grow at slightly higher pace of 7.0-8.0%.
- Between fiscal 2019 to fiscal 2024, the total Indian textile and apparel industry had grown at a CAGR of 4.5%.
- Within the total industry, the domestic Indian textile and apparel industry had grown at a higher pace of 5.8%, while exports have grown at a CAGR of 2.1%.
- The slower growth in exports is majorly due to a decline in fiscal 2020 as a result of the global slowdown which was further compounded by the Covid-19 pandemic leading to disruptions in the supply chain and demand causing order cancellations.
- Also, high export tariffs levied on Indian exporters in countries like the European Union (EU) when compared to zero import duty for other exporting countries such as Bangladesh have further dampened the export performance.
- The future growth in the Indian textile and apparel market will be led by various economic factors such as an increase in discretionary income and, a rising urban population.
- Further, the demand is poised by an increase in online retailing, a shift from cotton to man-made fibre, and robust growth of the technical textiles segment.
- Additionally, global industry expansion outside of China would aid the Indian export markets in the growth trajectory.

COMPETITIVE STRENGTHS OF THE COMPANY

They are one of the few companies (amongst their peer group) in India with a presence across the polyester, cotton and technical textile sectors.

- They are present across three yarn verticals, i.e. (a) Polyester yarn products; (b) Cotton yarn products; and (c) Yarns for technical textiles and industrial uses.
- All three yarn verticals are, currently, housed under a single corporate entity.
- One of their business strengths lies in the diversity of their product range and the relatively higher share of value-added products.
- As of June 30, 2024, they manufacture more than 14,000 varieties of yarn products with more than 190,000 SKUs that are used in various forms and for varied end uses.
- They also have a high share of value-added products such as dope dyed, superfine/micro, functional, industrial and technical yarn, cationic dyeable and speciality yarn which are produced after extensive in-house research.
- These value-added products are tailor-made to customer requirements and have properties and characteristics that are distinctive from their other products.
- The consistent capacity utilization has been possible because their products have end-use applications across a broad spectrum of industries such as apparel (including sportswear, activewear and innerwear), home textiles, travel and leisure (luggage, suitcases, parachutes, etc.), medical usage, automobiles, etc, and, therefore, there has been consistent demand for their products.
- The capacity utilization also demonstrates a well-established and efficient manufacturing process.
- Their diversified product portfolio allows them to scale new markets, provide their customers with a broader range of options and help cater to disparate requirements across geographies.
- This helps them insulate themselves from segmental downturns, economic upheavals in specific geographies and uncertain events.

Focus on the product development of new products, through process innovation.

- They constantly seek to innovate and design products that are unique in colour, property, and characteristics to suit specific customer requirements.
- They have an in-house Product Innovation and Development team that is continually focused on developing value-added products and using their existing machines and infrastructure to prepare customized made-to-order products.
- Value-added products and customisation of products an integral elements to ensuring the longevity of customer relationships and repeat business.
- They offer a varied range of value-added products which constitute a significant proportion of their revenues and have higher margins since these are tailor-made to customer requirements and distinctive properties and characteristics.
- The efforts of their Product Innovation and Development team are supported by their sales teams which give them constant feedback on customer requirements and market trends.
- They also have an in-house sales team that interacts regularly with their customers in addition to their dealer-based sales and distribution network which focuses on order servicing and collections.

Fully integrated Yarn manufacturing plant set up at a strategic location with equipment supplied by domestic and globally renowned players.

- Their products are manufactured at their facility at Silvassa which lies in western Gujarat (Operating Facility).
- The West Gujarat Cluster is amongst the major strategic locations for polyester yarn manufacturers in India due to the availability of manufacturing facilities across the supply chain of the polyester segment.
- The presence of raw materials manufacturers, for MEG and PTA, such as Reliance Industries, provides a logistical advantage for manufacturers in the location. (Source: CRISIL Report)
- Their facility has access to the textile markets of Gujarat and Maharashtra.
- The equipment in their facility has been designed and supplied by a few of the domestic and globally renowned players in the yarn industry and has been designed to handle a high number of SKUs to service made-to-order products as well as high-value-added products.
- They believe that their automatic doffing, transportation and package handling systems meet global inventory management standards, and their automated warehouse management system ensures high efficiency, less damage and better inventory management in limited space for handling a large number of SKUs.
- Process automation and technology help in the reduction of labour dependency and bring in more efficiency.
- Further, data-driven decision-making helps in the timely management of production resulting in higher profitability.

RISK FACTORS

They do not have long-term agreements for the supply of their raw materials.

- They are dependent on third-party suppliers for certain raw materials, such as purified terephthalic acid (PTA) and mono ethylene glycol (MEG) Industrial Yarn (IDY) chips, and raw cotton which are the primary raw materials used in the manufacture of their products.
- During the quarter ended June 30, 2024, Fiscals 2024, 2023 and 2022, they sourced raw materials from 48 suppliers, 165 suppliers, 186 suppliers and 177 suppliers, respectively.
- They procure a large portion of their raw materials from a few key suppliers, any disruption of the supply of raw materials from such suppliers could adversely impact their operations and business if they are unable to replace such suppliers promptly.
- They cannot assure you that they will be able to enter into new arrangements with suppliers on terms acceptable to them, which could hurt their ability to source raw materials in a commercially viable and timely manner, if at all, which may impact their business and profitability.

If they are unable to gauge the demand for their products accurately and are unable to maintain an optimal level of inventory, their business, results of operations and financial condition may be adversely affected.

- The success of their business depends upon their ability to anticipate and forecast customer demand and trends.
- Any error in their forecast could result in either surplus stock, which they may be unable to sell promptly, or at all, or under-stocking, which will affect their ability to meet customer demand.
- They plan their inventory and commence their production based on the forecast and anticipated demand.
- They have inventory manufactured and stored at their warehouses and seek to maintain an optimal level of inventory which is important to their business as it allows them to respond to customer demand effectively. If they fail to accurately forecast customer demand, they may experience excess inventory levels or a shortage of products available for sale.
- If they under-stock inventory, their ability to meet customer demand may be impaired.
- If they over-stock inventory, their capital requirements may increase, and they may incur additional financing costs.
- Any unsold inventory may have to be sold at a discount or discarded, potentially leading to losses.
- While, there has not been any instance of them selling unsold inventory at a steep discount nor has there been any instance of inventory being discarded, potentially leading to losses, in the last 3 financial years and the current financial year; they cannot assure you that they will be able to sell surplus stock promptly, or at all, which in turn may adversely affect their business, results of operations and financial condition.

Any variation in the utilization of the Net Proceeds as disclosed in this Red Herring Prospectus shall be subject to certain compliance requirements, including prior Shareholders' approval.

- The funding requirements and the deployment (including the schedule of deployment) of the Net Proceeds are based on the current business plan and strategy of the Company.
- Their Company may have to revise these from time to time as a result of variations including changes in estimates and other external factors, which may not be within the control of the management of their Company.
- This may entail rescheduling, revising or cancelling the planned expenditure and fund requirement and increasing or decreasing the deployment for a particular purpose from its planned expenditure or changing the schedule of deployment of the Net Proceeds at the discretion of the Board of Directors of their Company, in compliance with applicable law.
- By Section 27 of the Companies Act, 2013, they cannot undertake any variation in the utilization of the Net Proceeds or the schedule of deployment of the Net Proceeds as disclosed in this Red Herring Prospectus without obtaining the shareholders' approval through a special resolution.
- In the event of any such circumstances that require them to undertake variation in the disclosed utilization of the Net Proceeds, they may not be able to obtain the Shareholders' approval promptly, or at all.
- Any delay or inability to obtain such Shareholders' approval may adversely affect their business or operations.
- Further, their Promoters or controlling shareholders would be required to provide an exit opportunity to the shareholders who do not agree with their proposal to modify the objects of the Offer as prescribed in the SEBI ICDR Regulations.
- If their shareholders exercise such an exit option, their business and financial condition could be adversely affected.

PEER COMPARISON

Name of the company	Revenue from Operations (in Cr.)	Face Value (Rs per share)	EPS (in Rs)	NAV (Per share Rs)	RoNW (%)	P/E*	P/B*
Sanathan Textiles Limited	2957.50	10.00	18.60	177.22	10.42	17.26	1.81
K.P.R. Mill Ltd	6059.68	1.00	23.56	127.50	18.48	45.86	8.47
Vardhman Textiles Ltd.	9504.68	2.00	22.20	314.69	7.00	24.62	1.74
Indo Count Industries Ltd.	3557.06	2.00	17.06	105.48	16.35	23.42	3.79
Filatex India Ltd.	4285.90	1.00	2.49	27.13	9.19	26.98	2.48
Garware Technical Fibres Ltd.	1325.61	10.00	102.16	621.49	16.87	44.79	7.36

**P/E & P/B ratio based on closing market price as of December 13th, 2024, at the upper price and of IPO, financial details consolidated audited results as of FY24.*

KEY BUSINESS INSIGHTS

- The company specializes in manufacturing colored yarns in a variety of color options, serving a customer base that includes apparel manufacturers such as Siyaram. Exports contribute approximately 10% to the company's total revenue.
- Revenue concentration is notable, with the top 5 clients contributing 16-17% and the top 10 clients contributing 24% of total revenue.
- The company is investing in a new 6-acre facility in Wazirabad, Punjab, specifically for polyester manufacturing, which will significantly increase production capacity. The new facility in Punjab will double the company's polyester production capacity to 225,000 tons in two phases. The first phase will involve executing 91,000 tons of polyester production. The company has an existing plant in Silvasa, and the expansion in Punjab will make it the only local vendor for polyester with this level of capacity.
- The new facility is strategically located near major textile hubs such as Panipat, Delhi, and the NCR, offering logistical advantages. The new facility will provide an additional 500 tons per day in production capacity, which is expected to increase to 700 tons per day as operations ramp up. The company expects the new facility to start generating revenue from the first quarter of 2025.
- Automation is employed in large-scale production to enhance efficiency and reduce operational costs, with the company achieving 95% capacity utilization over the last 3-5 years.
- The company may benefit from India's Production Linked Incentive (PLI) scheme for man-made technical textiles, potentially improving its competitive edge. The turmoil in Bangladesh has created opportunities for Indian companies, especially in knitting and weaving sectors, which could reduce competition and increase demand for the company's products.
- The global polyester market is growing at a CAGR of 2-3%, while domestic demand in India is growing at a faster rate of 6-7% CAGR. Cotton yarn offers higher EBITDA margins of 20%, while polyester yields lower margins at 9%. Polyester production, however, provides a higher asset turnover ratio of 2.1-2.2, compared to cotton yarn, which stands at 1.1. Revenue from polyester accounts for the majority of the company's total income, contributing 77%, while cotton yarn contributes 18%.
- The company faces exposure to raw material price fluctuations, which change on a weekly basis, impacting profitability.
- In 2022, the company experienced a surge in demand due to pent-up consumer demand, but 2023 saw a decline in revenue, attributed to weaker exports amid geopolitical tensions and global economic challenges.
- The company's average EBITDA margin is expected to stand at around 10.8%, driven by the capacity expansion and improved production efficiency at the new facility.
- The total capital expenditure (capex) for the new facility is ₹1,200 crore, of which ₹280 crore will be sourced from the holding company, and the remaining amount will be financed through borrowings. The company has also purchased 80 acres of land from the government for ₹90 crore to support the new facility's development.

OUR VIEW

The company specializes in colored yarn production, catering primarily to the Indian market, with exports contributing ~10% of revenue. Its client base is concentrated, with the top 10 clients accounting for 24% of revenue. The new facility in Punjab will double polyester capacity to 225,000 tons, leveraging proximity to textile hubs and increasing production efficiency. While polyester production offers better asset turnover (2.1-2.2), its EBITDA margins (9%) remain lower than cotton yarn (20%), contributing to weaker profitability compared to peers. The company's valuation at 17x FY24 earnings appears lower than peers, but this reflects its margin challenges due to raw material price volatility and a high reliance (77% of revenue) on polyester. With government incentives and strong domestic demand, the company is well-positioned for growth but faces risks from economic uncertainties and price fluctuations.

Hence, We maintain a NEUTRAL stance due to steady margin performance as compared peers and a gradual revenue recovery post-geopolitical turmoil, with performance expected to stabilize over the next few quarters, particularly with the new facility coming in to operations.

Sources: Company website and red herring prospectus

Report Prepared By
Sankita V
sankita@canmoney.in | Tel 022-43603861

Canara Bank Securities Ltd.

(A Wholly Owned Subsidiary of Canara Bank)

Research Desk

Canara Bank Securities Ltd

SEBI: RESEARCH ANALYST REGISTRATION: INH000001253

BSE: INB 011280238, BSE F&O: INF 011280238

NSE: INB 23180232, F&O: INF 231280232, CDS: 231280232

Maker Chambers III, 7th floor,

Nariman Point, Mumbai 400021

Contact No. : 022 - 43603861/62/63

Email id: researchdesk@canmoney.in

Website: www.canmoney.in

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