IPO NOTE

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SENORES PHARMACEUTICALS LIMITED

19.12.2024

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Canara Bank Securities Ltd
A Wholly Owned Subsidiary Of Canara Bank

- The company is a global research-driven pharmaceutical company engaged in developing and manufacturing a wide range of pharmaceutical products predominantly for the Regulated Markets of the US, Canada and the United Kingdom across various therapeutic areas and dosage forms, with a presence in Emerging Markets.
- Their strength lies in identifying, developing, and manufacturing a diverse range of speciality, underpenetrated, and complex pharmaceutical products, which has established them as a preferred partner to certain customers.
- Through data analytics, research, market assessment and experienced management, they strategically identify commercially underpenetrated molecules to launch products in Regulated and Emerging Markets.
- They leverage their R&D capabilities to develop and manufacture a portfolio of differentiated complex pharmaceutical products.
- Their focus on quality and their ability to identify speciality and complex molecules has resulted in a pipeline of curated complex products spanning diverse dosage forms and therapeutic domains, demonstrated through their partnerships in the Regulated Markets of US, Canada and United Kingdom with foreign and Indian pharmaceutical companies including Prasco LLC, Lannett Company Inc., Jubilant Cadista Pharmaceuticals Inc., Alkem Laboratories Limited, Sun Pharmaceuticals Industries Limited, Dr. Reddy's Laboratories Inc. and Cipla USA Inc.
- As of September 30, 2024, the company has launched 55 products in key therapeutic areas, including antibiotics and anti-fungal treatments. They have established partnerships with distributors and hospitals across several states in India.
- As of September 30, 2024, the company operates three dedicated R&D facilities in India and the US.
- The company operates in Emerging Markets across 43 countries and manufactures critical care injectables and APIs.
- The company's manufacturing unit is situated in Ahmedabad, Gujarat.

Issue Details

Price Band (in ₹ per share)	372-391
Issue size (in ₹ Crore)	578.12-582.11
Fresh Issue (in ₹ Crore)	500.00
OFS (in ₹ Crore)	78.12-82.11
Issue open date	20.12.2024
Issue close date	24.12.2024
Tentative date of Allotment	26.12.2024
Tentative date of Listing	30.12.2024
Total number of shares (lakhs)	155.41-148.88
No. of shares for QIBs (75%) (lakhs)	115.99-111.10
No. of shares for NII (15%) (lakhs)	23.20-22.22
No. of shares for S-HNI (33%) (lakhs)	7.73-7.41
No. of shares for B-HNI (66%) (lakhs)	15.47-14.81
No. of shares for retail investors (10%) (lakhs)	15.47-14.81
No of shares for Employee Reservation (lakhs)	0.75
Minimum order quantity	38
Face value (in ₹)	10.00
Amount for retail investors (1 lot) (in ₹)	14136-14858
Maximum no. of shares for Retail investors at Lower Band	532 (14 lots)
Maximum no. of shares for Retail investors at Upper Band	494 (13 lots)
Maximum amount for retail investors at lower band - upper band (in ₹)	197904-193154
Minimum no. of shares for sHNI (2 Lakhs) at upper band	532 (14 lots)
Maximum no. of shares for sHNI (10 Lakhs) at upper band	2546 (67 lots)
Minimum number of shares for bHNI at upper band	2584 (68 lots)
Exchanges to be listed on	BSE & NSE

Promoters

- SWAPNIL JATINBHAI SHAH
- ASHOKKUMAR VIJAYSINH BAROT

Objects of the Offer

- Investment in one of the Subsidiaries to fund capital expenditure requirements for setting up a manufacturing facility for the production of sterile injections in the Atlanta Facility;
- Repayment/pre-payment, in full or in part, of certain borrowings availed by the Company;
- Investment in the Subsidiary, namely, Havix, for re-payment/pre-payment in whole or part of certain borrowings availed by such Subsidiary;
- Funding the working capital requirements of the Company;
- Investment in the Subsidiaries, namely, Senores Pharmaceuticals Inc. ("SPI")and Ratnatris Pharmaceutical Private Limited ("Ratnatris"), to fund their working capital requirements.
- Funding inorganic growth through acquisition and other strategic initiatives and general corporate purposes.

BRIEF FINANCIALS

PARTICULARS (Rs. Cr) *	H1FY25	FY24	FY23	FY22
Share Capital^^	33.26	30.50	9.81	8.74
Net Worth	291.50	204.26	45.49	36.59
Total Income	183.35	217.34	39.02	14.63
EBITDA	46.91	44.41	16.35	2.41
EBITDA Margin (%)	25.91	20.70	46.28	17.03
Profit/(Loss) After Tax	23.94	32.70	8.43	0.99
EPS (in Rs.)	7.20	13.67	8.87	1.81
Net Asset Value (in Rs.)	87.63	66.96	46.36	41.86
Total borrowings	242.03	248.38	60.76	14.20
P/E#	27.15^	28.60	NA	NA
P/B#	4.46	5.84	NA	NA

**Restated consolidated financials; #Calculated at upper price band ^Annualised^^rights and conversion of Unsecured CCDs*

Profit & Loss Statement

Particulars (In Crores)	FY2022	FY2023	FY2024
INCOME			
Revenue from operations	14.17	35.34	214.52
Other Operating Revenue	0.46	3.68	2.82
Total Income	**14.63**	**39.02**	**217.34**
YoY Growth (%)	-	149.38%	507.08%
Cost of Materials Consumed	0.00	0.35	31.96
Cost of Materials Consumed-% of Revenue	0.01%	0.88%	14.70%
Purchases of stock-in-trade	10.43	12.90	70.30
Purchases of stock-in-trade-% of Revenue	71.31%	33.07%	32.35%
Changes in inventories of stock in trade	3.88	-0.48	-2.40
Changes in inventories of stock in trade-% of Revenue	26.50%	-1.24%	-1.10%
Employee benefit expenses	2.86	4.79	35.45
Employee Expenses-% of Revenue	19.55%	12.28%	16.31%
Other expenses	1.32	5.11	31.35
EBIDTA	**2.41**	**16.35**	**44.41**
EBIDTA Margin (%)	16.49%	41.91%	20.43%
Depreciation and amortisation expense	0.71	1.78	10.02
EBIT	**1.71**	**14.58**	**34.39**
EBIT Margin (%)	11.67%	37.35%	15.82%
Finance cost	0.57	2.14	9.45
Profit before tax	**1.14**	**12.44**	**24.94**
Tax expenses			
Current tax	0.17	1.43	8.00
Deferred Tax	-0.02	2.58	-15.76
Total tax expenses	**0.15**	**4.00**	**-7.76**
Profit for the year	**0.99**	**8.43**	**32.71**
PAT Margin (%)	0.46%	23.86%	230.83%
Earnings per share			
Basic earnings per share (₹)	1.81	8.87	13.67

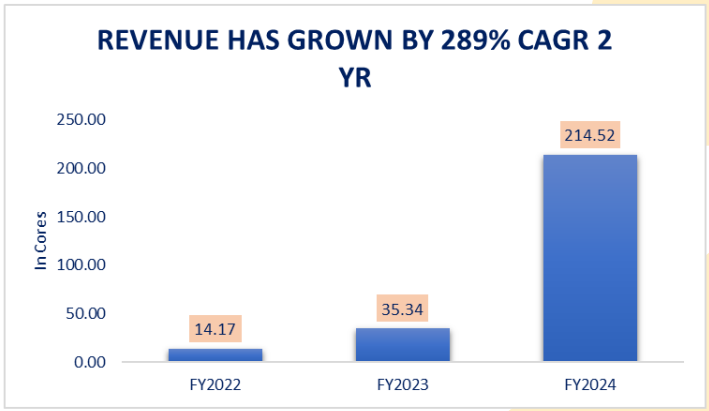
Cashflow Statement

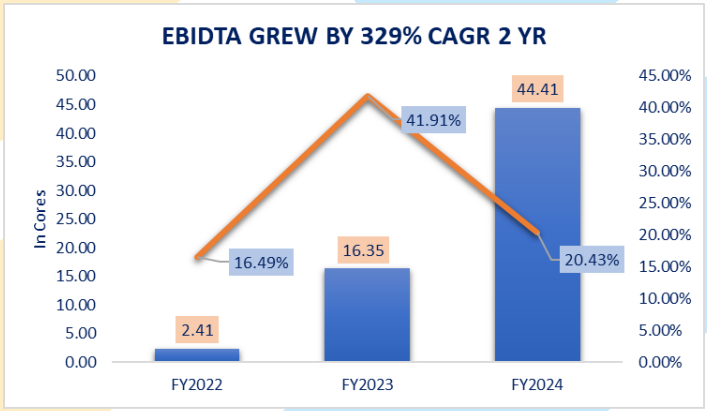
Particulars (In Crores)	FY2022	FY2023	FY2024
Cash generated from operating activities	-10.31	0.37	-11.87
Income tax paid (net of refunds)	-0.14	-1.45	-8.01
Net cash generated from operating activities	-10.45	-1.08	-19.87
Net cash used in investing activities	-24.44	-48.29	-54.66
Net cash used in financing activities	36.46	46.25	86.98
Net increase/ (decrease) in cash and cash equivalent	**1.58**	**-3.12**	**12.45**
Cash and cash equivalents at the beginning of the ye	1.64	3.22	0.10
Add: Cash & Bank Acquired in Business Combinations	0.00	0.00	0.50
Cash and cash equivalent as at year end	**3.22**	**0.10**	**13.06**

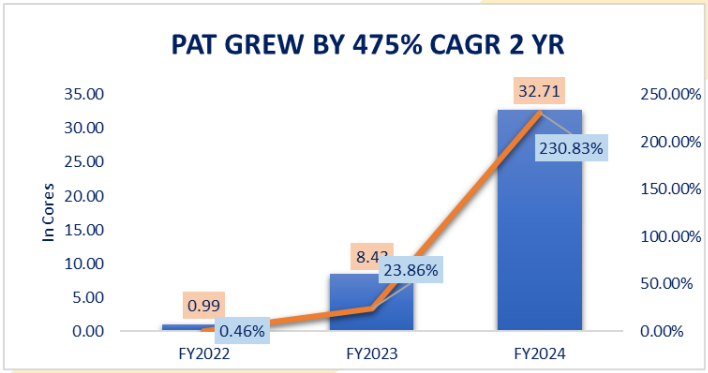
Balance Sheet

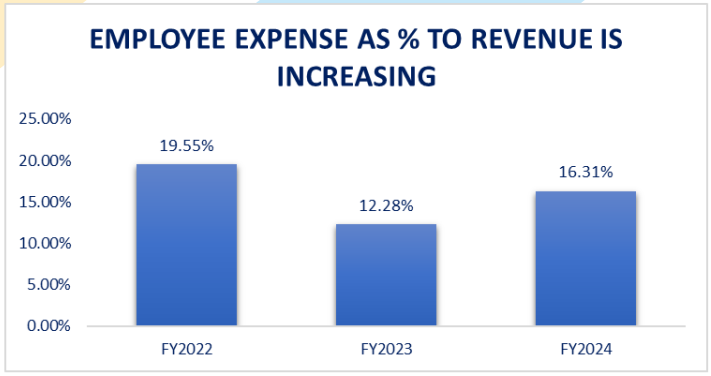
Particulars (In Crores)	FY2022	FY2023	FY2024
Assets			
Non-current assets			
Property, Plant and Equipment	5.32	5.51	152.20
Right of use assets	0.45	1.70	9.14
Capital work in progress	0.35	8.06	17.77
Goodwill	0.00	0.00	38.21
Other intangible assets	1.13	20.04	35.88
Intangible Assets under Developmen	7.72	26.41	79.32
Financial assets			
Investments	15.41	16.45	0.01
Loans	1.04	0.10	0.00
Other financial assets	0.25	0.52	20.46
Deferred tax assets (net)	0.45	0.00	14.96
Other non-current assets	0.00	0.94	3.04
Income tax assets (net)			
Total non- current assets	**32.10**	**79.72**	**370.97**
Current assets			
Inventories	2.98	3.12	37.37
Financial Assets			
Investments			
Trade Receivables	19.63	22.11	112.01
Cash and Cash Equivalents	2.02	0.10	7.65
Bank balances other than (iii) above	1.20	0.00	5.41
Loans	0.00	0.00	0.33
Other financial assets	0.00	16.82	66.16
Current tax assets (net)	0.00	0.00	0.00
Other current assets	1.22	9.19	21.99
Assets classified as held for sale	0.00	0.00	0.00
Total current Asset	**27.05**	**51.34**	**250.91**
Total assets	**59.15**	**131.05**	**621.88**
Equity and liabilities			
Equity			
Equity Share Capital	8.74	9.82	30.51
Instruments entirely equity in nature	0.00	0.00	0.00
Other Equity	27.85	35.68	173.76
Non controlling interest	0.00	0.00	27.44
Total equity	**36.59**	**45.50**	**231.71**
Liabilities			
Non-Current liabilities			
Financial Liabilities			
Borrowings	12.22	29.73	133.66
Lease liabilities	0.41	1.58	7.78
Provisions	0.05	0.26	1.24
Deferred tax liabilities (net)	0.00	2.10	0.00
Total Non-Current liabilities	**12.68**	**33.67**	**142.67**
Current liabilities			
Financial liabilities			
Borrowings	1.99	31.03	114.73
Lease liabilities	0.14	0.25	1.48
Trade payables			
Due to MSME	0.05	0.29	21.09
Due to other than MSME	7.09	13.30	91.92
Other financial liabilities	0.28	4.47	4.60
Other current liabilities	0.21	0.89	5.19
Provisions	0.01	0.08	1.38
Current tax liabilities (net)	0.13	1.59	7.11
Total Current liabilities	**9.89**	**51.88**	**247.50**
Total liabilities	**22.56**	**85.55**	**390.17**
Total equity and liabilities	**59.15**	**131.05**	**621.88**

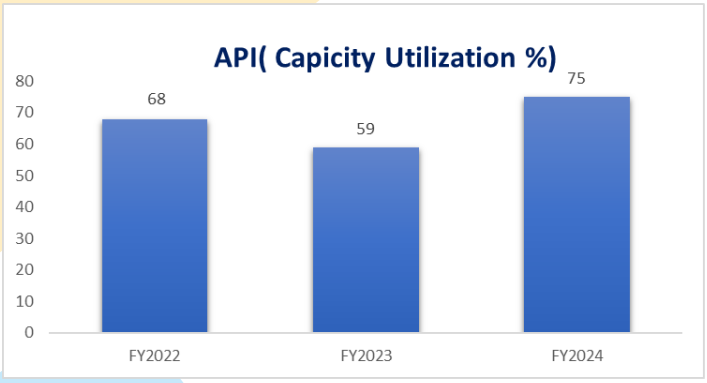
PERFORMANCE THROUGH CHARTS

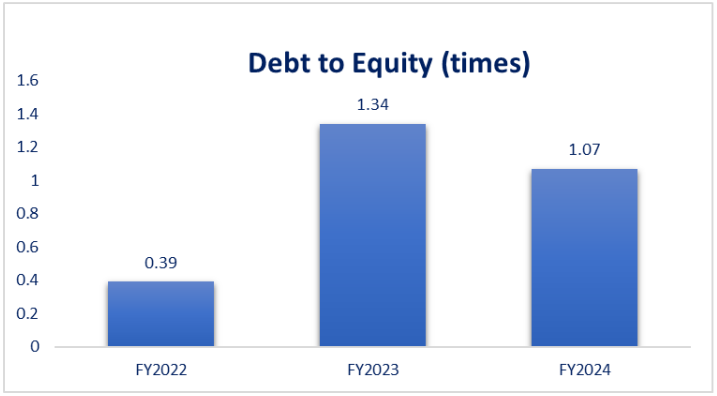


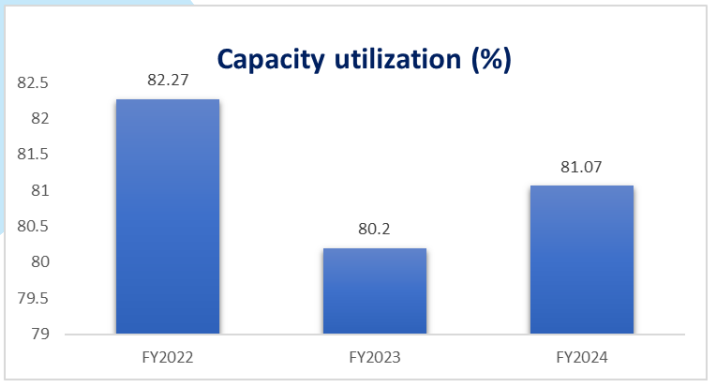


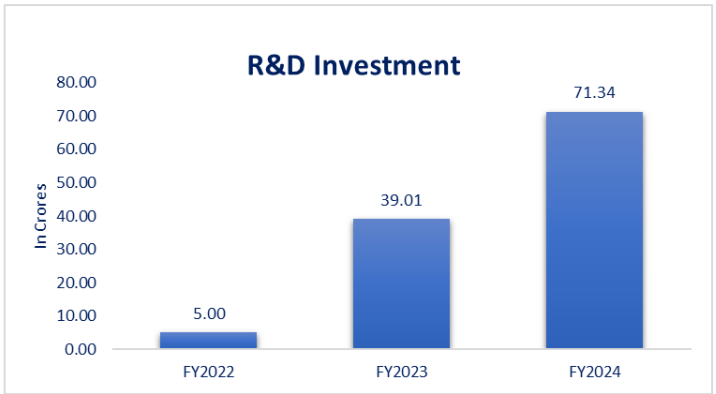












INDUSTRY REVIEW

Global and Regional Healthcare Expenditure;

- Current healthcare expenditures (CHE) as a percentage of GDP are driven upward by various intersecting factors.
- Increased spending power, fueled by economic growth, allows for greater investment in healthcare, aiming to improve accessibility and quality.
- Efforts to enhance affordability further boost healthcare utilization. Meanwhile, advancements in medical technology, though beneficial, often come with increased costs.
- The prevalence of chronic diseases and ageing populations also contribute to rising healthcare spending.
- Post-pandemic behavioural changes and a growing focus on wellness add to this trend.
- Both voluntary and government expenditures have surged since the pandemic, leading to a significant increase in global healthcare spending, from 6.5% of GDP in 2015 to 7.3% in 2021, representing a CAGR of 4.9% over the period.
- While global healthcare spending is on the rise, there are notable regional variations that underscore the diverse healthcare landscapes across different parts of the world, which are also influenced by a complex interplay of economic, demographic, and societal factors.

Indian API Market Overview.

- The demand for pharmaceutical products corresponds directly to API sales, and as this demand grows, so does the need for APIs.
- As disease patterns shift from acute to chronic and translate into high drug volume consumption, the access to healthcare facilities and affordable medicine increases, along with an increase in the purchasing power of the middle class in the country; the growth of the API industry will follow suit.
- Moreover, with the increasing adoption of novel drugs, including biologics, coupled with the volume growth of the generics industry, the segment is expected to grow steadily.
- Notably, there is a rising preference for complex APIs like Highly Potent Active Pharmaceutical Ingredients (HPAPIs) or those derived from fermentation, contributing to improved drug efficacy and increasing production costs.
- India is the third-largest producer of APIs, commanding an impressive 8% share of the Global API Industry.
- With over 500 distinct APIs manufactured within its borders, India emerges as a pivotal contributor, supplying 57% of APIs listed on the prequalified World Health Organization (WHO) roster.
- The escalating tensions between Western nations and China have catalyzed a significant shift in the sourcing strategies of global pharmaceutical majors.
- Moreover, as China started following stringent environmental norms leading to production cuts during winters (approximately 40% of the factories in China were shut down to curb air pollution), followed by geopolitical changes, trade wars, and the COVID-19 pandemic, large companies and multi-national companies recognized the need to de-risk their supply chain. Increasingly, these companies are seeking alternative API providers outside China.
- India has swiftly risen to prominence as a compelling alternative source for bulk drugs, showcasing a remarkable trajectory of growth in this sector.
- Moreover, India has a distinctive advantage over its other Asian peers such as Bangladesh, Vietnam, and Indonesia, because of its infrastructure, large and skilled English-speaking population, large pool of scientists, competitive labour prices, and sophistication in information and communications technology.
- The early signs of adoption of this strategy in favour of India are already reflected in the Indian Ministry of Statistics and Programme Implementation's Index of Industrial Production for the Manufacture of Pharmaceuticals, Medicinal Chemicals, and Botanical Products, which increased to 233.4 in FY24, up from 216.2 in FY23.

Competitive Landscape of the Global Pharmaceutical Market.

- The pharmaceutical market is experiencing a notable surge in competition, fueled by its inherent attractiveness driven by its size, growth prospects, and the sector's critical role in healthcare.
- As a result, an influx of companies, ranging from multinational powerhouses to agile startups, are entering the fray, intensifying competition as each strives to capture a slice of this lucrative market.
- In this fiercely competitive landscape, pharmaceutical entities employ diverse tactics to distinguish themselves.
- Beyond the fundamental criterion of targeting markets and launching products aligned with companies' inherent strengths, differentiation strategies encompass strategic collaborations, mergers and acquisitions, and business models, to name a few.
- For instance, in regulated markets, a diverse mix of local and international pharmaceutical companies compete for market share since the maturity and legacy of regulatory systems allow a diverse array of companies to navigate these markets with more advanced planning.

COMPETITIVE STRENGTHS OF THE COMPANY

Ability to cater to the Regulated Markets of the US, Canada and the United Kingdon through their US FDA-approved formulation manufacturing facility in the US;

- They manufacture products for the Regulated Markets of the US, Canada and the United Kingdom through their US FDA-approved OSD facility in Atlanta, US. The Atlanta Facility has a regulatory track record of compliance having been audited and approved by the US FDA four times since commencement of its operations, with the latest audit being completed in April 2024.
- The US FDA approval certifies the quality of their manufacturing facility and processes for its consumption in a stringent Regulated Market such as the US, demonstrating their commitment to maintaining quality standards.
- This enforces belief in the product, thereby increasing the ability to scale, permits access to customers in certain markets in which the US FDA approval is a precondition, increases corporate goodwill and provides them with a competitive advantage.
- The Atlanta Facility is also (i) approved by the DEA which makes them eligible for manufacturing formulations having controlled substances in the US market; and (ii) compliant with the Trade Agreements Act and the Buy American Act which is a pre-requisite for catering to government supplies in the US market.
- They believe their ability to serve Regulated Markets through their US FDA-approved formulation manufacturing facility in the US provides them with a distinct competitive advantage.
- This approval not only ensures compliance with stringent regulatory standards but also enhances their credibility and market reach, positioning them favourably against competitors.

Distinct niche product portfolio built in a short span for Regulated Markets;

- Their approach to product selection strategy for the Regulated Markets of the US, Canada and the United Kingdom is to target the development and manufacture of speciality, niche and difficult-to-manufacture complex products that have market potential in the small to mid-market range, where typically global pharmaceutical companies are not present and therefore the competition is lesser.
- Complex products present multiple advantages for pharmaceutical companies. As per the F&S Report, while the competitive landscape may vary across different drugs, generic prices plummet by 85% (on an average of 5 competitors per product).
- However, this is not the same for complex products (Source: F&S Report).
- They tend to be less affected by price erosion, ensuring more stable pricing and profitability over time.
- Complex products that are difficult to manufacture also face lower competition and therefore enjoy lower price erosion and higher market share (Source: F&S Report).
- They follow a product identification strategy wherein they analyse the data available on various databases, data on government sourcing, as well as insights that they obtain relating to new molecular application trends in India and other markets.
- Following this strategy, they have 19 ANDAs approved by the US FDA and they have commercialized 21 products in the US and Canadian markets.

Presence in Emerging Markets with a product portfolio, including speciality or complex products;

- They have a presence in Emerging Markets and are currently marketing their products in 43 countries with a specific focus on Latin America, Africa, Commonwealth of Independent States, South-East Asia and Middle East regions.
- They cater to the Emerging Markets through their Chhatral Facility.
- They focus on value-added and niche products which are identified based on research and analysis of market trends and demand trends in the regions to which they cater.
- They have adopted a product identification and launch approach by registering and launching complex products that are widely sold in Regulated Markets of the US, Canada and the United Kingdom, but which they have chosen to launch in the Emerging Markets instead of launching the products in the Regulated Markets to receive benefits of relatively less competition for these products in the Emerging Markets.
- All of these products are under patent protection in the US markets and are not available in some countries within the Emerging Markets.
- They sell and market their products in the Emerging Markets through various business models which include the distributor model, P2P model and CDMO.
- In the CDMO segment, they have partnered with companies such as Ajanta Pharma Limited and La Renon Healthcare Private Limited to develop and manufacture complex oral solids and injectables for India and in other countries within the Emerging Markets.
- Their success in Emerging Markets and product portfolio stems from their strategic approach and understanding of local dynamics.
- They have invested in building relationships and localised experience, enabling them to navigate regulatory frameworks efficiently and establish a structured distribution network.

RISK FACTORS

Their business is dependent on the sale of their products through third-party marketing partners and distributors.

- They typically enter into long-term marketing agreements for a period ranging between 5-7 years with their marketing partners or distributors in the Regulated Markets of the US, Canada and the United Kingdom which results in predictable and stable cash flows.
- There is no assurance that their business from arrangements with marketing partners or distributors will not decline in the future as a result of increased competition, pricing pressures or fluctuation in the demand or supply of their products.
- Similarly, in the event of any breakthroughs in the development or invention of alternative products, they may be exposed to the risk of their products being substituted to a greater or lesser extent by these alternatives, and they may fail to introduce new products that would cater to the demand by their marketing partners or distributors.
- Further, some of their marketing partners or distributors may start manufacturing their products or switch production to their competitors and may discontinue their arrangement with them.
- Although they have long-term contracts with such key customers, with an average period of 5-7 years for the Regulated Markets of the US, Canada and the United Kingdom with options for renewal, their dependence on such parties subjects them to several other risks.

Their business is dependent on the sale of their products and the continued growth of the Regulated Markets.

- Their business is and may continue to be dependent on the continued growth of the Regulated Markets in the United States Canada and the United Kingdom as well as their Emerging Markets.
- If market growth for their products decreases in these regions, market acceptance for their competitors' products in these regions increases and results in substitution of their products, or they fail to respond to changes in market conditions or customer preferences in these regions, their business, results of operations, financial condition and cash flows could be adversely affected.

Failure to comply with the quality standards and technical specifications prescribed by their customers may lead to loss of business from such customers and could negatively impact their business.

- Their products and manufacturing processes are subject to stringent quality standards and specifications, typically specified by their customers through their respective agreements.
- Adherence to quality standards is a critical factor in their production process as any deviations from the required specifications by their Company or failure to comply with the technical specifications of their customers regarding the composition of drugs may lead to a recall of products or cancellation of the orders placed by their customers.
- They are also required to furnish quality assurance and compliance certificates to the customers certifying that the quality of the products is as per the agreed specifications.
- Further, for any change in the product specifications, manufacturing process, manufacturing site, manufacturing method or raw 37 material used, they are required to inform or obtain prior consent from some of their customers.
- They are also required to provide specific representations in certain agreements to the customers about adherence with applicable laws including environmental laws, labour laws and laws dealing with hazardous waste.
- Further, given the stringent nature of obligations imposed by their agreements, they face the risk of potential liabilities from lawsuits or claims by their customers for the breach of the terms of their contractual obligations which could hurt their business, results of operations and financial condition.

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*
Senores Pharmaceuticals Limited	214.52	10.00	13.67	66.96	23.6	28.60	5.84
Ajanta Pharma Limited	4208.71	2.00	64.82	281.60	23.47	44.37	10.21
Alembic Pharmaceuticals Limited	6228.63	2.00	31.33	245.12	13.4	33.71	4.31
Caplin Point Laboratories Limited	1694.10	2.00	60.79	309.03	21.69	40.08	7.88
Gland Pharma Limited	5664.72	1.00	46.9	529.65	9.26	37.26	3.30
Strides Pharma Science Limited	4051.12	10.00	(7.76)	225.43	(4.44)	NA	3.06

**P/E & P/B ratio based on closing market price as of December 17th, 2024, at the upper price and of IPO, financial details consolidated audited results as of FY24.*

KEY BUSINESS INSIGHTS

- **Strategic Location:** Senores Pharmaceuticals Limited operates through four manufacturing facilities, strategically positioned with one in the United States for regulated markets and three in India catering to emerging and semi-regulated markets.
- **Product Pipeline:** The company has developed a robust pipeline of 51 products, with 28 categorized under Competitive Generic Therapy (CGT) designations. These products target complex, niche categories with limited competition, ensuring strategic early-market entry and exclusivity.
- **Revenue Sources:** Senores generates 61% of its revenue from regulated markets and 32% from emerging markets, supported by backward-integrated Active Pharmaceutical Ingredient (API) manufacturing to ensure supply chain control.
- **Licensing Model:** The company operates a licensing model where product development and intellectual property (IP) ownership remain with Senores, while distribution is handled by partners such as Dr Reddy and Jubilant. This model yields income from licensing fees, transfer pricing, and profit-sharing agreements, offering long-term revenue visibility.
- **CDMO/CMO Services:** Additionally, Senores capitalizes on Contract Development and Manufacturing Organization (CDMO) and Contract Manufacturing Organization (CMO) services for government contracts and controlled substances in the US, benefiting from mandated local manufacturing requirements.
- **Emerging Market Strategy:** Its emerging market strategy targets products with no US patent restrictions, focusing on high-growth opportunities such as Ferric Carboxymaltose and Sugammadex.
- **Research and Development:** A strong in-house R&D team, including centres in India and the US, facilitates complex product development and regulatory compliance. Recent expansions include investments in an injectable manufacturing facility in the US and the consolidation of subsidiaries such as Avis and Ratnatris.
- **Regulatory Compliance:** Senores maintains a competitive edge with zero FDA observations and comprehensive compliance.

OUR VIEW

Senores Pharmaceuticals Limited exhibits robust financial fundamentals, underpinned by its specialized product portfolio and an efficient licensing-based revenue model. With 61% of its revenue generated from regulated markets and a product pipeline comprising 51 offerings, including 28 under Competitive Generic Therapy (CGT) designations, the company secures sustainable growth through market exclusivity opportunities.

The company's backward-integrated Active Pharmaceutical Ingredient (API) manufacturing and exceptional R&D capabilities enhance cost competitiveness and drive innovation. Strategic investments in US-based injectable manufacturing facilities and inorganic growth through recent acquisitions expand its operational scale and market penetration.

Notwithstanding these strengths, the company faces risks associated with price erosion in the generic drug market and reliance on partnerships for product distribution and licensing revenue. Furthermore, the regulatory landscape in core markets necessitates continuous compliance investments.

Despite these challenges, Senores demonstrates superior financial performance with a Return on Equity (RoE) of 23.6%, significantly surpassing the listed peer average of 16.96%. The company's current valuation is relatively favourable, trading at a Price-to-Earnings (P/E) ratio of 28x based on FY24 earnings, compared to the listed peer average P/E of 31x, presenting a balanced investment proposition.

Future growth is anchored in Senores' expanding product pipeline and strategic market entry into mid-tier regions such as the EU, Australia, and Latin America, positioning the company for continued revenue diversification and margin expansion.

We recommend to SUBSCRIBE to this issue for listing & long-term gains.

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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