



TM

SYSTEMATIX INSTITUTIONAL EQUITIES

Systematix

Institutional Equities

Shaily Engineering

27 May 2024

RESULT UPDATE

Sector: Plastic Products Rating: BUY

CMP: Rs 640 Target Price: Rs 769

Stock Info

Sensex/Nifty	75,390/22,932
Bloomberg	SHEP IN
Equity shares (mn)	45.9
52-wk High/Low	677/255
Face value	Rs 2
M-Cap	Rs 29.4bn/USD 358mn
3-m Avg turnover	USD 0.8mn

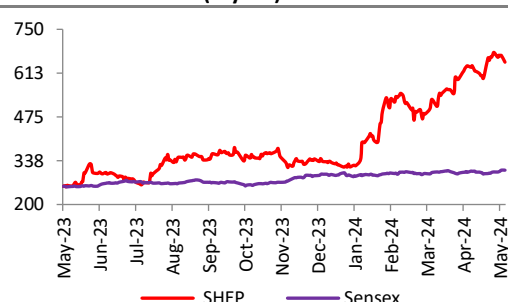
Financial Snapshot (Rs mn)

Y/E Mar	FY24	FY25E	FY26E
Net sales	6,439	8,517	10,235
EBITDA	1,169	1,649	2,012
OPM (%)	18.2	19.4	19.7
PAT (adj.)	573	883	1,175
EPS (adj.) (Rs)	12.5	19.2	25.6
PE (x)	51.2	33.3	25.0
P/B (x)	6.4	5.5	4.6
EV/EBITDA (x)	26.7	18.7	14.9
RoE (%)	12.5	16.4	18.3
RoCE (%)	13.6	18.7	22.3
Net-D/E (x)	0.4	0.3	0.1

Shareholding Pattern (%)

	Mar'24	Dec'23	Sep'23
Promoter	43.8	43.8	43.8
- Pledged			
FII	6.6	7.0	7.0
DII	7.7	13.0	13.8
Others	41.9	36.2	35.4

Stock Performance (1-year)



Strong traction in healthcare division to drive robust outlook

Shaily Engineering (SHEP IN) reported a healthy quarter (revenue/EBITDA/PAT grew 27%/38%/95% YoY and 8%/9%/33% QoQ). Despite surge in gross margin (46.8%, up 284bps QoQ), EBITDA margin came flattish QoQ at 20.3% due to surge in other expenses. A 27% YoY revenue growth was driven by 30% surge in overseas (incl. UK subsidiary) and 18% rise in domestic sales. Volume grew 17% YoY; plant utilization stood low at 40%. CFO (Rs 923mn) stood healthy at ~75% of EBITDA. While non-healthcare divisions are seeing healthy traction in business, the healthcare division revenue is expected to surge 50-60% in FY25 with fast growth likely to sustain for next 5-10 years. It aims to sell 17mn+ injector devices in FY25 (FY23/FY24: ~7mn/12mn). SHEP's current infrastructure can manufacture 60-70mn devices with a small capex. UK innovation center is strengthening SHEP's presence in the global healthcare market. We increase earnings estimates by 7-12% owing to expectation of better cash flows. Based on its strong order book and guidance received from key customers, we expect SHEP to report robust 26%/31%/43% CAGR in revenue/EBITDA/PAT over FY24-26E (FY19-24: 14%/17%/24%) with EBITDA margin inching towards 20%. With no major capex planned (till capacity utilization reaches 75% from ~40% in FY24) and prudent working capital management, we expect healthy FCFs and RoCE to reach ~22% in FY26E. SHEP's scrip has run up ~30% since our initiation ([IC note](#)) on 2nd Apr'24. We remain constructive on SHEP and maintain BUY with a higher target price of Rs 769 (30x FY26E P/E, earlier Rs 720 at 30x). ([concall KTAs](#))

4Q – healthy quarter; missed estimates though: Consolidated revenue/EBITDA/PAT grew 27%/38%/95% YoY and 8%/9%/33% QoQ. Despite surge in gross margin (46.8%, up 284bps QoQ), EBITDA margin came flattish QoQ at 20.3% due to surge in other expenses. A 27% YoY revenue growth was driven by 30% surge in overseas (incl. UK subsidiary) and 18% rise in domestic sales. Volume grew 17% YoY; plant utilization stood low at 40%. CFO (Rs 923mn) stood healthy at ~75% of EBITDA. It appointed a dedicated CFO; Mr. Sanjay Shah is now re-designated as Chief Strategy Officer.

Consumer (largest) and healthcare (fastest) the growing segments: SHEP has divided business into three verticals. Consumer (~75% mix, comprise of home furnishing, personal care, steel furniture and toys) division is highly dependent on a large Swedish home furnishing major. After a slowdown during covid, business has returned to normalcy in FY24. Healthcare division (~17% mix) is expected to witness strong growth on the back of a robust order book of insulin pens. The company has collaborated with large multinationals in the design and manufacture of medical devices considered integral to the launch of select GLP-1 block buster drugs (Semaglutide current market of ~200mn pens pa is estimated to be 500mn pens by 2030). SHEP's ability to develop IP & own pen injector platforms is expected to enhance the brand of the company as a research-led solutions provider. A ~Rs 1.5bn capex done in the healthcare division in last 2 years provides ~3x revenue potential in the next 3-5 years. Industrial division (~9% mix) grew healthy in FY24 and is seeing good traction from the newly added customers and products.

New businesses acquired in 4Q: In Home Furnishing, SHEP added 1 new product each in Carbon Steel and Plastics. In Appliances, it received a new business confirmation from GE USA for supply of knobs. 3 new customers were added in the Healthcare division for supply of pen injectors.

Ashish Poddar

ashishpoddar@systematixgroup.in
+91 22 6704 8039

Krisha Zaveri

krishazaveri@systematixgroup.in
+91 22 6704 8023

Investors are advised to refer disclosures made at the end of the research report.

Concall key highlights (4QFY24)

Business development & Outlook

- Pharma business expected to grow at 50-60% in FY25; fast growth to sustain for next 5 years
- Aims to sell 17mn+ injector devices in FY25 (FY23/FY24: ~7mn/12mn)
- SHEP's current infrastructure can manufacture 60-70mn devices with small capex
- Strengthening presence in global healthcare market via UK innovation center
- Own IP pens expected to launch in FY25
- Added 2 new customers for Semaglutide in 4Q
- Working on premium reusable pens to make a mark at the global level

New businesses acquired in 4Q

- Home Furnishing – 1 new product each in Carbon Steel and Plastics
- Appliances - New business confirmed for supply of knobs for export
- Healthcare - business confirmed with 3 new customers for supply of pen injectors

Business update for FY24 and New opportunity

- GE Appliances - New Knobs Business - Total Business Value Rs 400mn per annum
- Home Furnishing (Plastics) – New business supplies to start by 2QFY25 - Total Business Value Rs 500mn per annum
- Pharma - New Applicator Project – supply to start in 2QFY25 - Total Business Value Rs 350mn per annum
- Personal Care - awarded for supply of caps by FMCG Customer Components
- Home Furnishing (Carbon Steel) - business confirmation for additional volumes (will improve plant capacity utilization)
- Automotive - 3 New Products confirmed with 2 customers - Total Business Value Rs 50mn per annum
- FMCG - New Packaging Development Confirmed {ASCO : New order for supply of 6 components}
- Pharma - Contracts signed for development and supply of Pen injectors - Total 4 Contracts Received

Revenue mix - FY24/FY23

- **Consumer - 74.7%/82.9%**
 - o Revenue declined 4% YoY due to low toy sales and pass through of lower raw material costs
- **Healthcare - 16.7%/9.5%**
 - o Sanofi is the only innovator company SHEP is currently working with
 - o Invested in tool manufacturing last year; product quality is at par with global peers
 - o Has 4 auto injectors; rest are pen injectors
 - o GLP-1 is better margin business than insulin

- **Industrial - 8.5%/7.6%**
 - o Revenue Rs 550mn, up 19% YoY

4Q key highlights

- Revenue/EBITDA/PAT up 27%/38%/95% YoY and 8%/9%/33% QoQ
- EBITDA margin sustained above 20%
- A 27% YoY revenue growth was driven by 30% surge in overseas (including UK subsidiary) and 18% rise in domestic sales
- Polymer processed volume up 17% YoY; plant utilization at 40%
- CFO/EBITDA remains high in FY24 at ~75%
- Appointed a dedicated CFO; Sanjay Shah re-designated as Chief Strategy Officer

Exhibit 1: Shaily Engineering - Quarterly results

(Rs mn)	4QFY23	1QFY24	2QFY24	3QFY24	4QFY24	YoY (%)	QoQ (%)	FY24	FY23	YoY (%)
Revenue	1,345	1,573	1,576	1,584	1,706	27	8	6,439	6,071	6
Raw material costs	801	927	978	888	908	13	2	3,701	3,865	(4)
Employee costs	120	135	131	147	158	32	8	573	479	20
Power & Fuel	49	82	75	65	71	44	10	292	265	10
Other expenses	123	160	156	166	221	81	34	703	543	29
EBITDA	252	270	236	319	347	38	9	1,169	919	27
Depreciation	99	81	81	94	100	1	6	357	333	7
Finance costs	49	39	43	50	47	(4)	(6)	179	179	0
Other income	13	9	30	11	16	23	45	65	45	44
PBT	117	158	141	186	216	84	16	698	452	55
Tax	18	30	33	40	22	24	(45)	126	101	25
PAT (after JV share)	99	128	108	145	193	95	33	573	351	63
EPS (Rs)	2.2	2.8	2.4	3.2	4.2	95	33	12.5	7.7	63
As % Revenue						YoY (bps)	QoQ (bps)			YoY (bps)
Gross margin	40.5	41.1	37.9	43.9	46.8	631	284	42.5	36.3	618
Employee cost	8.9	8.6	8.3	9.3	9.3	34	(1)	8.9	7.9	100
Power & Fuel	3.7	5.2	4.8	4.1	4.2	51	10	4.5	4.4	18
Other expenses	9.1	10.1	9.9	10.5	13.0	386	253	10.9	8.9	197
EBITDA margin	18.7	17.1	15.0	20.1	20.3	160	22	18.2	15.1	303
Depreciation	7.3	5.2	5.1	5.9	5.9	(147)	(8)	5.5	5.5	6
Interest	3.6	2.5	2.7	3.2	2.8	(88)	(40)	2.8	2.9	(17)
Other income	1.0	0.6	1.9	0.7	0.9	(3)	24	1.0	0.7	27
Effective tax rate	15.4	18.8	23.5	21.7	10.4	(501)	(1,136)	18.0	22.3	(428)
PAT margin	7.4	8.2	6.9	9.2	11.3	395	217	8.9	5.8	311
Revenue Mix (Rs mn)										
Overseas (incl. UK subs)	972	1,188	1,174	1,202	1,268	30	5	4,832	4,635	4
Domestic	372	385	402	383	438	18	14	1,607	1,435	12
Revenue Mix (%)										
Overseas (incl. UK subs)	72	76	75	76	74			75	76	
Domestic	28	24	25	24	26			25	24	
Operational Data										
Polymers Processed (mt)	4,590	6,760	5,673	5,223	5,380	17	3	22,098	20,615	7
Machine Utilization (%)	35	50	40	38	40			40	42	

Source: Company, Systematix Institutional Research

Exhibit 2: Revenue mix – 4QFY24

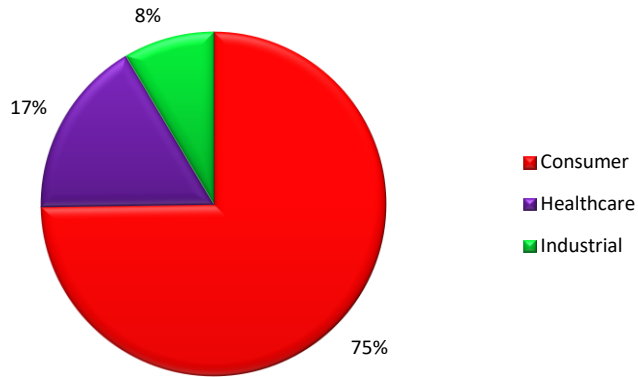


Exhibit 3: Revenue mix – Quarterly trend

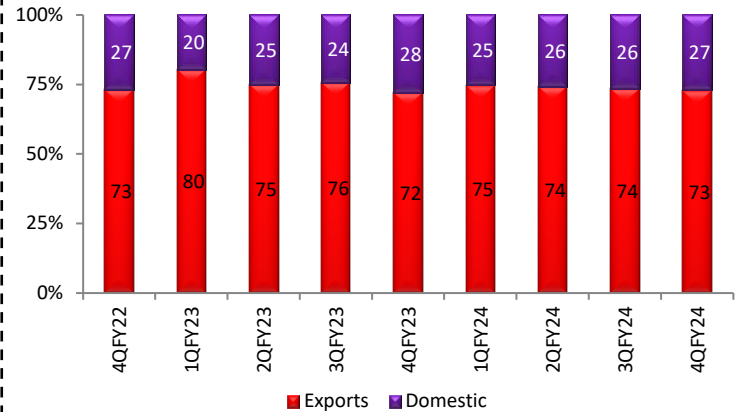


Exhibit 4: Revenue - growth trend

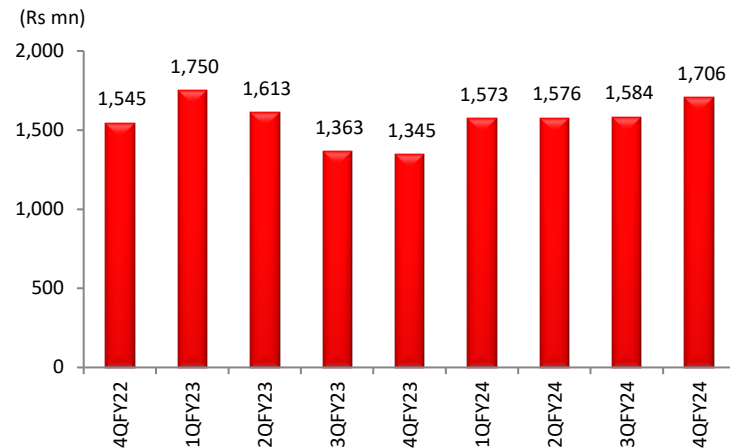


Exhibit 5: Expenses as % Revenue

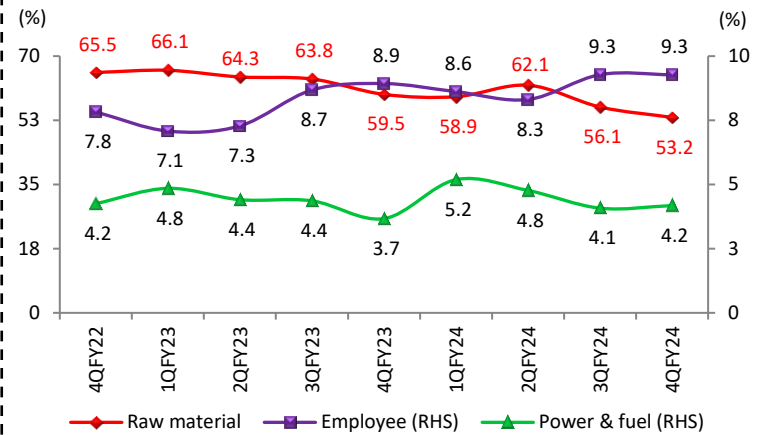


Exhibit 6: EBITDA, PAT & margin trend

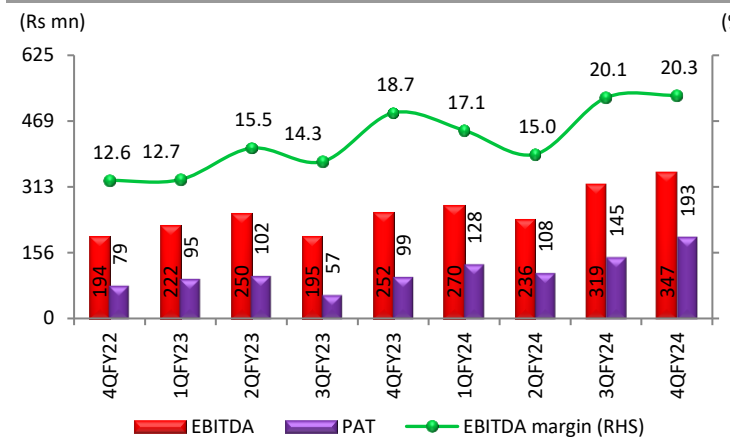
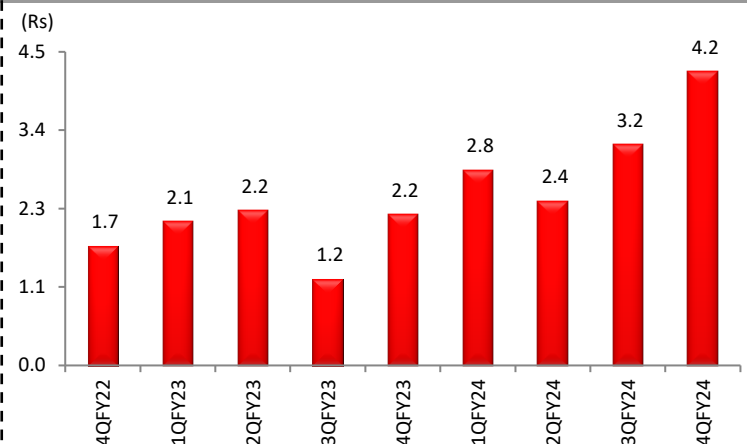


Exhibit 7: Earnings - growth trend



Source: Company, Systematix Institutional Research

Exhibit 8: Exports - revenue, growth trend

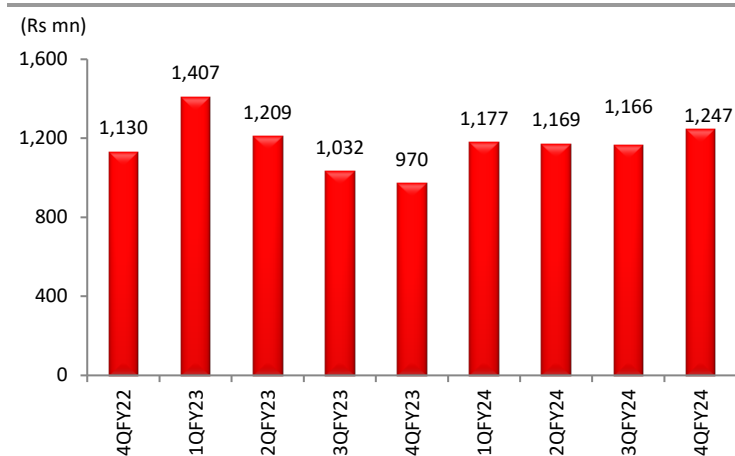


Exhibit 9: Domestic - revenue, growth trend

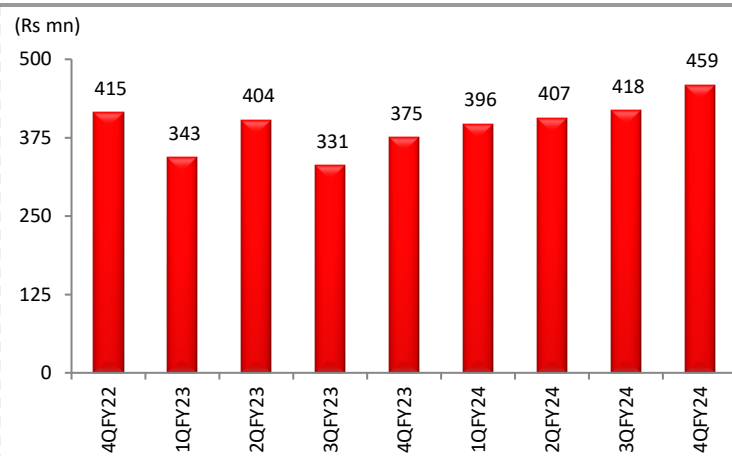


Exhibit 10: Revenue – annual growth trend

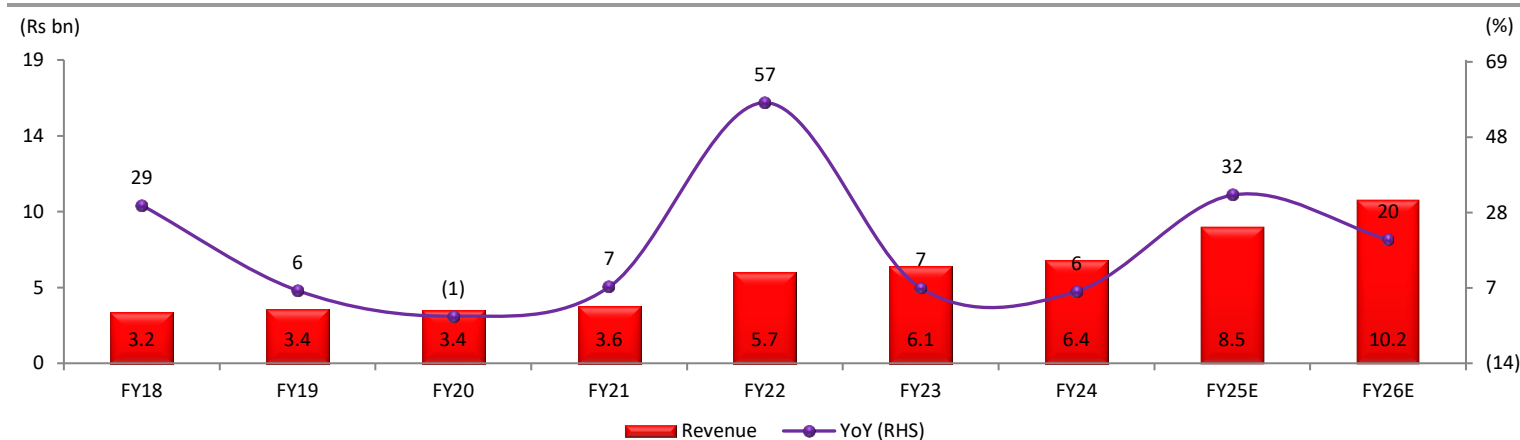
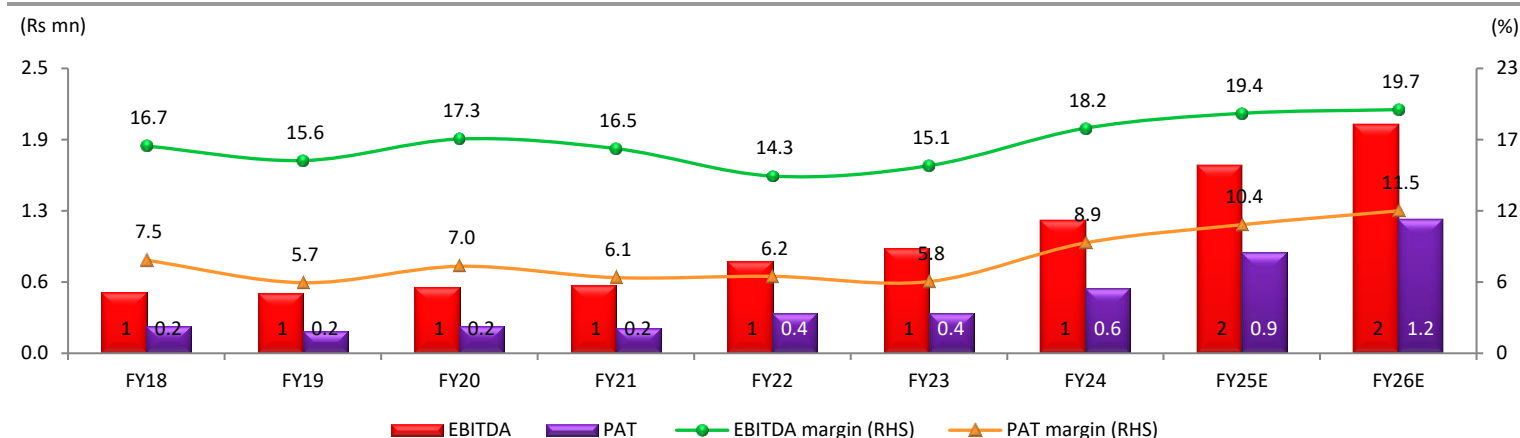


Exhibit 11: EBITDA, PAT – Annual growth, margin trend



Source: Company, Systematix Institutional Research

Valuation and View

Shaily Engineering Plastics (SHEP), founded in 1987, is India's leading exporter of high-precision engineered plastic products and components. Its wide customer base is spread across the healthcare, consumer, personal care, appliances, automotive and lighting industries. The company operates in the niche segment of precision molding and caters to demand from global industry leaders in their respective segments (given its long-standing relationship with a Swedish home furnishing major). Over the years, SHEP has been de-risking its business model by focusing on new business segments and customers. SHEP's entry into proprietary intellectual property (IP) for self-use drug delivery systems (set up an innovation center in UK) gives it a competitive advantage.

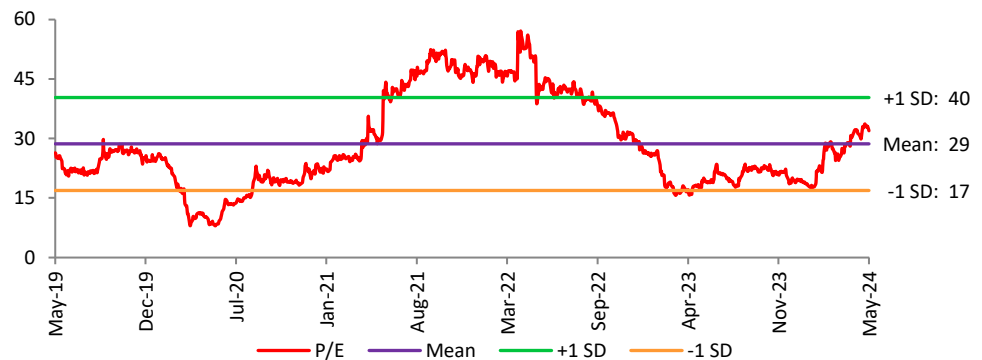
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Exhibit 12: Change in estimates

(Rs mn)	Old estimates		New estimates		% Var	
	FY25	FY26	FY25	FY26	FY25	FY26
Revenue	8,461	10,160	8,517	10,235	1	1
EBITDA	1,605	1,957	1,649	2,012	3	3
EBITDA margin (%)	19.0	19.3	19.4	19.7		
PAT	786	1,100	883	1,175	12	7
EPS	17.1	24.0	19.2	25.6	12	7

Source: Systematix Institutional Research

Exhibit 13: P/E band – 1-year-forward and standard deviation (SD)



Source: BSE, Systematix Institutional Research

Key risks

- High concentration of customers with moderate bargaining power (largest customer contributes ~70% to total revenue)
- Raw material price volatility poses risk to margins (has pass through clause though)
- Exposure to forex fluctuations poses risk to margins (earns ~75% of its revenue from exports)

FINANCIALS

Profit & Loss Statement

YE: Mar (Rs mn)	FY22	FY23	FY24	FY25E	FY26E
Net revenues (Rs mn)	5,677	6,071	6,439	8,517	10,235
<i>Growth (%)</i>	57	7	6	32	20
RM costs	3,575	3,865	3,701	4,810	5,770
<i>Gross Margin (%)</i>	37.0	36.3	42.5	43.5	43.6
Employee & Other exp.	1,290	1,287	1,568	2,058	2,452
EBITDA	812	919	1,169	1,649	2,012
<i>EBITDA margins (%)</i>	14.3	15.1	18.2	19.4	19.7
- Depreciation	265	333	356	400	404
Other income	88	45	65	85	102
Interest Exp	169	179	179	187	184
PBT	465	452	699	1,147	1,526
<i>Effective tax rate (%)</i>	24.2	22.2	18.0	23.0	23.0
+ Associates/(Minorities)	-	-	-	-	-
Net Income	353	351	573	883	1,175
Adjusted income	353	351	573	883	1,175
WANS	46	46	46	46	46
FDEPS (Rs)	7.7	7.7	12.5	19.2	25.6
<i>FDEPS growth (%)</i>	60	(0)	63	54	33

Balance Sheet

YE: Mar (Rs mn)	FY22	FY23	FY24	FY25E	FY26E
Share capital	92	92	92	92	92
Net worth	3,670	4,014	4,592	5,383	6,420
Total debt	1,749	1,872	2,084	2,004	1,524
Minority interest	-	-	-	-	-
DT Liability/(Asset)	132	170	208	-	-
Capital Employed	5,550	6,056	6,884	7,386	7,944
Net tangible assets	3,224	3,479	4,354	4,204	4,050
Net Intangible assets	215	372	424	424	424
Goodwill	-	-	-	-	-
CWIP	161	490	153	53	53
Investments (Strategic)	-	-	-	-	-
Investments (Financial)	0	0	0	0	0
Current Assets	2,686	2,344	2,623	3,332	3,908
Cash	471	230	264	540	850
Current Liabilities	1,205	859	934	1,167	1,341
Working capital	1,480	1,485	1,689	2,165	2,567
Capital Deployed	5,551	6,056	6,884	7,386	7,944
Contingent Liabilities	32	30	-	-	-

Cash Flow

YE: Mar (Rs mn)	FY22	FY23	FY24	FY25E	FY26E
EBIT (incl. other income)	615	633	923	1,248	1,608
+ Non-cash items	265	333	357	400	404
OCF before WC changes	881	966	1,280	1,648	2,012
- Incr./ (decr.) in WC	266	6	270	476	402
Others including taxes	64	60	88	264	351
Operating cash-flow	550	900	923	909	1,259
- Capex	1,207	1,116	950	150	250
Free cash-flow	(657)	(216)	(27)	759	1,009
Acquisitions					
- Dividend	-	-	-	92	138
+ Equity raised	1,497	-	-	-	-
+ Debt raised	(251)	118	210	(80)	(480)
- Fin Investments	100	(80)	2	-	-
- Misc. Items (CFI + CFF)	148	142	150	311	82
Net cash-flow	341	(160)	31	276	310

Ratios @ Rs 640

YE: Mar	FY22	FY23	FY24	FY25E	FY26E
P/E (x)	83.2	83.5	51.2	33.3	25.0
EV/EBITDA (x)	37.7	33.7	26.7	18.7	14.9
EV/sales (x)	5.4	5.1	4.8	3.6	2.9
P/B (x)	8.0	7.3	6.4	5.5	4.6
RoE (%)	9.6	8.8	12.5	16.4	18.3
RoCE (%)	13.4	10.9	13.6	18.7	22.3
ROIC	13.6	11.1	13.9	19.4	23.9
DPS (Rs per share)	-	-	1.0	2.0	3.0
Dividend yield (%)	-	-	0.2	0.3	0.5
Dividend payout (%)	-	-	8.0	10.4	11.7
Net debt/equity (x)	0.3	0.4	0.4	0.3	0.1
Receivables (days)	65	55	67	65	65
Inventory (days)	72	44	47	50	50
Payables (days)	55	32	39	40	40
CFO:PAT (%)	156	256	161	103	107

Source: Company, Systematix Institutional Research

Institutional Equities Team

Nikhil Khandelwal	Managing Director	+91-22-6704 8001	nikhil@systematixgroup.in
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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
Abhishek Mathur	FMCG	+91-22-6704 8059	abhishekmathur@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
Santosh Yellapu	Capital Goods	+91-22-6704 8094	santoshiyellapu@systematixgroup.in
Shweta Dikshit	Metals & Mining	+91-22-6704 8042	shwetadikshit@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
Deeksha Bhardwaj	Strategy & Economics	+91-22-6704 8017	deekshabhardwaj@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	Midcaps	+91-22-6704 8038	kalashjain@systematixgroup.in
Krishna Zaveri	Consumer Durables, EMS, Building Materials, Small-Mid Caps	+91-22-6704 8023	krishnazaveri@systematixgroup.in
Mahek Shah	Consumer Durables, EMS, Building Materials, Small-Mid Caps	+91-22-6704 8040	mahekshah@systematixgroup.in
Nirali Chheda	Banking, Insurance	+91-22-6704 8019	niralichheda@systematixgroup.in
Pashmi Chheda	Banking, Insurance	+91-22-6704 8063	pashmichheda@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
Rushank Mody	Pharmaceuticals and Healthcare	+91-22-6704 8046	rushankmody@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	yogeeathod@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
Shreya Chaudhary	Sales	+91-22-6704 8033	shreyachaudhary@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
Niraj Singh	Dealer	+91-22-6704 8096	nirajsingh@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
Hiren Patel	Assistant Manager	+91-22-6704 8056	hirenpatel@systematixgroup.in

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Systematix Shares and Stocks (India) Limited:

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. Visit us at: www.systematixgroup.in

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

Details of Email id grievance redressal cell : grievance@systematixgroup.in

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