

Gas segment continues to perform well...

Gail India reported a mixed set of results for Q4FY19. The profitability of gas transmission, gas trading were marginally above our estimates whereas petchem segment, LPG segment results were below our estimates. EBITDA at ₹ 1684.1 crore (flattish YoY), came below our estimates of ₹ 2176.4 crore also on account of higher other expenses. Subsequently, the reported PAT at ₹ 1122.2 crore (up 9.9% YoY) was below our estimate of ₹ 1334 crore.

Higher margins on gas trading business to sustain

The gas transmission segment reported steady volumes at 109.2 mmscmd, largely in line with our estimates. Going forward, due to an increase in domestic gas production and growth of LNG volumes, we expect transmission volumes at 119.2 mmscmd for FY21E. Gas transmission EBIT was at ₹ 772.9 crore, up 8.3% YoY on account of higher tariffs. On the gas trading front, volumes were at 98.4 mmscmd (up 10.3% YoY). Gas trading profitability was also above our estimate at ₹ 587.5 crore (our estimate: ₹ 552.7 crore) led by higher-than-expected trading margins. Going forward, the company expects trading margins to sustain at higher levels. We assume EBIT at ₹ 2826.1 crore and ₹ 2932.2 crore in FY20E and FY21E, respectively.

Petchem, LPG segments disappoints on lower prices

The petchem segment in Q4FY19 reported volumes at 213 KT, above our estimates, as the plant operated at full capacity. However, lower realisations during the quarter led to EBIT loss of ₹ 20 crore vs. our estimate of EBIT profit ₹ 13.9 crore. We reduce petchem segment EBIT to ₹ 65.3 crore and ₹ 44.2 crore for FY20E and FY21E, respectively, to factor in lower realisations. LPG/LLH volumes were at 335 KT, in line with our estimates. Lower realisation resulted in profit of ₹ 416.2 crore, below our estimates. Going forward, we assume higher product prices than Q4FY19 quarter prices (linked to higher crude oil prices) for LPG/LLH segment with EBIT at ₹ 2297.5 crore and ₹ 2365.7 crore for FY20E and FY21E, respectively.

Valuation & Outlook

Petroleum and Natural Gas Regulatory Board's (PNGRB) implementation of Gail's proposal for unified tariff plan will provide significant movement in Gail's performance over the long term. In the medium term, tariff revision for HVJ, DVPL pipelines will be positive for earnings. On the operational front, stable gas volumes, further pipeline expansion and growing CGD sector would serve as key triggers for the stock. However, lower product prices are expected to impact performance petchem segment. We value the company using the SOTP methodology, valuing the core business using DCF and assigning a target multiple to the EBITDA of other business segments with a **BUY** recommendation and target price of ₹ 415.



Particulars	
Particular	Amount
Market Capitalization (₹ Crore)	78,699.9
Total Debt (FY18) (₹ Crore)	2,080.5
Cash and Investments (FY18) (₹ Crore)	2,529.4
EV (₹ Crore)	78,250.9
52 week H/L	398/296
Equity capital (₹ Crore)	2,255.0
Face value (₹)	10.0

Key Highlights

- The profitability of gas transmission, gas trading were marginally above our estimates whereas petchem segment, LPG segment results were below our estimates
- Gas trading margins are expected to sustain at higher levels
- Tariffs revision for HVJ, DVPL pipelines will be positive for earnings
- Maintain BUY on stock with target price of ₹ 415 /share

Research Analyst

Mayur Matani
mayur.matani@icicisecurities.com

Key Financial Summary

Key Financials	FY17	FY18	FY19	FY20E	FY21E	CAGR (FY19-21E)
Revenue (₹ crore)	48,902.7	53,825.1	75,126.3	77,565.6	80,951.0	3.8
EBITDA (₹ crore)	6,409.5	7,633.9	9,528.7	9,439.0	10,251.2	3.7
PAT (₹ crore)	3,503.0	4,618.4	6,025.7	5,772.6	6,091.8	0.5
EPS (₹)	15.5	20.5	26.7	25.6	27.0	
PE (x)	22.5	17.0	13.1	13.6	12.9	
P/Book (x)	2.1	2.0	1.8	1.7	1.5	
EV / EBITDA	12.8	10.3	8.4	8.6	8.4	
ROCE (%)	11.7	14.7	16.8	14.7	13.8	
ROE (%)	9.2	11.5	13.6	12.1	11.9	

Source: Company, ICICI Direct Research

Exhibit 1: Variance Analysis

	Q4FY19	Q4FY19E	Q4FY18	YoY (%)	Q3FY19	QoQ (%)	Comments
Total Revenues	18,763.4	17,910.8	15,430.7	21.6	19,789.0	-5.2	Above estimates on account of higher volumes from gas trading and marketing segment
Raw materials costs	15,186.5	14,415.7	12,149.6	25.0	15,601.6	-2.7	
Employees Cost	399.3	380.9	352.7	13.2	392.0	1.9	
Other Expenses	1,493.6	937.7	1,233.1	21.1	1,122.0	33.1	Higher other expenses than estimated
Total Expenditure	17,079.3	15,734.4	13,735.4	24.3	17,115.5	-0.2	
EBITDA	1,684.1	2,176.4	1,695.3	-0.7	2,673.5	-37.0	EBITDA below our estimates mainly on lower profitability from LPG/LLH and petchem segment
EBITDA margins (%)	9.0	12.2	11.0	-201 bps	13.5	-453 bps	
Depreciation	457.4	384.6	360.8	26.8	363.4	25.9	
EBIT	1,226.7	1,791.8	1,334.4	-8.1	2,310.1	-46.9	
Interest	26.3	40.8	33.3	-20.9	22.7	16.2	
Other Income	865.9	240.0	275.6	214.2	220.1	293.5	Other income higher on account of forex gain and settlement receipts from Dominion Energy
Extra Ordinary Item	-326.3	0.0	27.7	NA	0.0	NA	One-off impairment provision
PBT	1,739.9	1,991.0	1,604.4	8.4	2,507.5	-30.6	
Total Tax	617.7	657.0	583.5	5.9	826.2	-25.2	
PAT	1,122.2	1,334.0	1,020.9	9.9	1,681.2	-33.2	

Key Metrics

Exchange rate (₹/\$)	70.5	70.5	64.5	9.3	72.1	-2.2	
GAIL subsidy burden (₹ cr)	0.0	0.0	0.0	NA	0.0	NA	
Transmn vol (mmscmd)	109.2	108.5	106.1	2.8	107.7	1.3	
Transmn realisatn (₹/tscm)	1490.5	1475.0	1243.6	19.9	1485.8	0.3	
Trading Vol (mmscmd)	98.4	96.0	89.2	10.3	96.0	2.5	Benefits of higher volumes from US supported higher gross margins, thus, adding to profitability
Trading realisatn(\$/mmbtu)	6.8	6.8	6.4	5.7	7.0	-2.7	
Petchem Vol (000' tonnes)	213.0	160.0	191.0	11.5	173.0	23.1	
Petchem realisatn(₹/tonne)	80702.3	82440.0	85785.9	-5.9	92451.4	-12.7	Lower-than-expected realisations
LPG/OLH vol (000' tonnes)	335.0	335.0	324.0	3.4	342.0	-2.0	
LPG/OLH realisatn(₹/tonne)	33489.3	34612.5	37250.0	-10.1	44214.9	-24.3	Lower-than-expected realisations led to reduced profitability

Source: Company, ICICI Direct Research

Exhibit 2: Change in estimates

(₹ Crore)	FY20E			FY21E			Comments
	Old	New	% Change	Old	New	% Change	
Revenue	76898.8	77,565.6	0.9	NA	80,951.0	NA	
EBITDA	9654.5	9,439.0	-2.2	NA	10,251.2	NA	Better gas trading margins negated by lower profitability in petchem segment and increase in other expenses
EBITDA Margin (%)	12.6	12.2	-39 bps	NA	12.7	NA	
PAT	6002.9	5,772.6	-3.8	NA	6,091.8	NA	
EPS (₹)	26.6	25.6	-3.8	NA	27.0	NA	

Source: Company, ICICI Direct Research

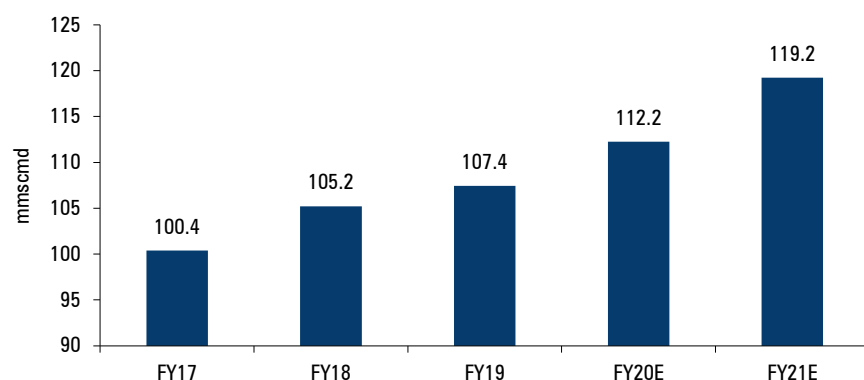
Exhibit 3: Assumptions

	Current				Earlier		Comments
	FY18	FY19	FY20E	FY21E	FY20E	FY21E	
Exchange rate (₹/\$)	64.5	69.9	71.0	71.0	71.0	NA	
GAIL subsidy burden (₹ cr)	0.0	0.0	0.0	0.0	0.0	NA	
Transmn vol (mmscmd)	105.2	107.4	112.2	119.2	111.2	NA	
Transmn realisatn (₹/tscm)	1,293.0	1,473.6	1,600.0	1,650.0	1,550.0	NA	Tariffs revised upward
Trading Vol (mmscmd)	85.0	96.9	100.1	103.9	99.1	NA	
Trading realisatn(\$/mmbtu)	5.7	6.8	6.9	6.9	6.9	NA	
Petchem Vol (000' tonnes)	673.0	735.0	770.0	800.0	800.0	NA	
Petchem realisatn(₹/tonne)	87,005.2	91,210.1	82,080.0	82,080.0	85,500.0	NA	Lower global prices led to downward revision in realisations
LPG/OLH vol (000' tonnes)	1,276.0	1,331.0	1,360.0	1,400.0	1,360.0	NA	
LPG/OLH realisatn(₹/tonne)	33,931.1	38,190.4	36,225.0	36,225.0	35,175.0	NA	

Source: Company, ICICI Direct Research

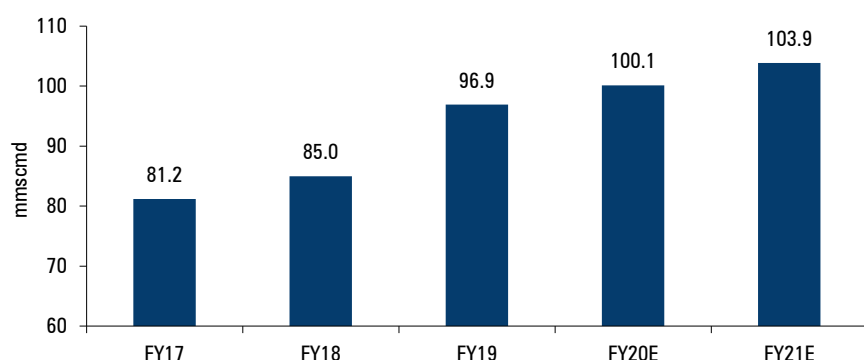
Story in charts

Exhibit 4: Gas transmission volumes trend



Source: Company, ICICI Direct Research

Exhibit 5: Gas trading volumes trend



Source: Company, ICICI Direct Research

Exhibit 6: EBIT trend (₹ crore)

	FY17	FY18	FY19	FY20E	FY21E
Natural Gas transmission	2345.7	2877.4	3253.9	3599.8	3952.5
LPG transmission	252.0	271.2	301.4	279.5	273.0
Natural Gas Trading	1320.7	1244.4	2859.1	2826.1	2932.2
Petrochemicals	419.6	261.2	384.9	65.3	44.2
LPG and Liquid Hydrocarbons	1236.8	2304.6	2546.5	2297.5	2365.7
Gailtel	0.0	0.0	0.0	-23.6	-27.1
Others	199.3	258.4	297.9	346.2	405.2
EBIT	5774.2	7217.2	9643.7	9390.8	9945.7

Source: Company, ICICI Direct Research

Exhibit 7: EBIT (%)

	FY17	FY18	FY19	FY20E	FY21E
Natural Gas	40.6	39.9	33.7	38.3	39.7
LPG	4.4	3.8	3.1	3.0	2.7
Natural Gas Trading	22.9	17.2	29.6	30.1	29.5
Petrochemicals	7.3	3.6	4.0	0.7	0.4
LPG and Liquid Hydrocarbons	21.4	31.9	26.4	24.5	23.8
Gailtel	0.0	0.0	0.0	-0.3	-0.3
Others	3.5	3.6	3.1	3.7	4.1
Total	100.0	100.0	100.0	100.0	100.0

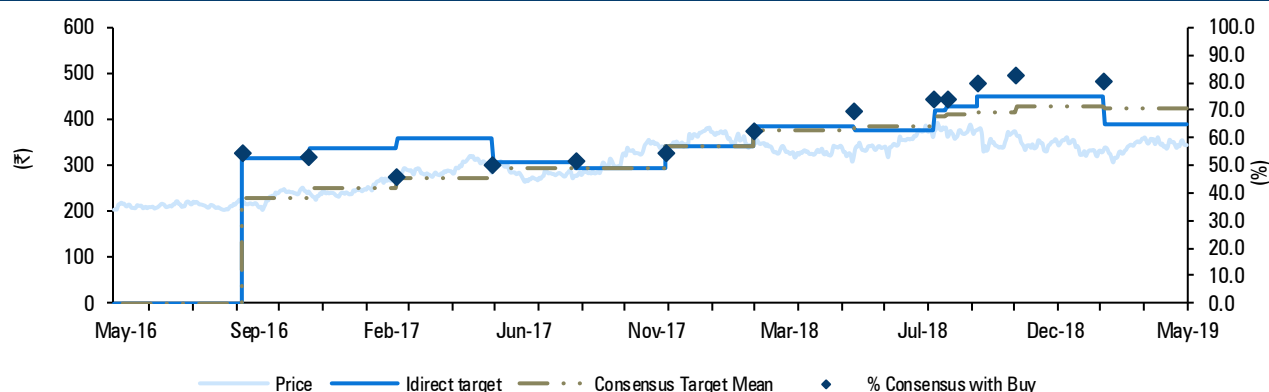
Source: Company, ICICI Direct Research

Exhibit 8: Valuation

Segments	Enterprise Value (₹ Crore)	₹ per share	% of SOTP	Method
Transmission Business				
Natural Gas Transmission	45183.0	200.4	48.3	DCF
LPG Transmission	3947.3	17.5	4.2	DCF
Value of transmission business	49130.4	218	52.5	
Other Businesses				
Natural Gas Trading	14680.8	65.1	15.7	5x FY20E EV/EBITDA
Petrochemicals	2780.8	12.3	3.0	5x FY20E EV/EBITDA
LPG and Liquid Hydrocarbons	12465.3	55.3	13.3	5x FY20E EV/EBITDA
Value of Other Businesses	29927.0	133	32.0	
Investments				
Quoted	15550.4	69.0	16.6	25% discount to CMP
Unquoted	6587.1	29.2	7.0	
Value of Investments	22137.5	98	23.7	
Firm Value	101194.8	449	108.2	
Less: Net Debt	-7675.4	-34.0	-8.2	
Equity Value	93519.4	415	100.0	

Source: Company, ICICI Direct Research

Exhibit 9: Recommendation History vs. Consensus



Source: Bloomberg, Company, ICICI Direct Research

Exhibit 10: Top 10 Shareholders

Rank	Investor Name	Filing Date	% O/S	Position	Change (m)
1	Government of India	31-Mar-19	51.8	1177.0	-19.8
2	Oil and Natural Gas Corporation Ltd	31-Mar-19	4.8	108.9	0.0
3	Life Insurance Corporation of India	31-Mar-19	4.7	106.3	14.8
4	HDFC Asset Management Co., Ltd.	31-Mar-19	2.8	64.0	-1.2
5	Indian Oil Corpn Ltd	31-Mar-19	2.4	54.5	0.0
6	ICICI Prudential Asset Management Co. Ltd.	31-Mar-19	1.6	35.6	-3.2
7	Matthews International Capital Management, L.L.C.	31-Dec-18	1.4	31.5	-1.7
8	BlackRock Institutional Trust Company, N.A.	31-Mar-19	1.1	24.1	0.0
9	Goldman Sachs Asset Management (India) Private Lt	31-Mar-18	0.9	19.8	0.6
10	The Vanguard Group, Inc.	31-Mar-19	0.9	19.7	-0.1

Source: Reuters, ICICI Direct Research

Exhibit 11: Recent Activity

BUYS				SELLS				
Investor name	Value (m)	Shares (m)	Investor name	Value (m)	Shares (m)	Investor name	Value (m)	Shares (m)
Life Insurance Corporation of India	74.31	14.79	Government of India	-99.72	-19.84			
RWC Partners Limited	17.91	3.46	Norges Bank Investment Management (NBIM)	-79.93	-15.43			
Swedbank Robur Fonder AB	11.20	2.23	ICICI Prudential Asset Management Co. Ltd.	-16.07	-3.20			
Russell Investments Limited	3.21	0.64	DSP Investment Managers Pvt. Ltd.	-12.11	-2.41			
Origin Asset Management LLP	2.43	0.48	Goldman Sachs Asset Management International					

Source: Reuters, ICICI Direct Research

Exhibit 12: Shareholding Pattern

(in %)	Mar-18	Jun-18	Sep-18	Dec-18	Mar-19
Promoter	54.0	53.3	53.3	53.5	52.6
FII	17.4	17.4	18.7	20.6	20.9
DII	23.7	25.0	23.6	21.8	21.8
Others	5.0	4.3	4.4	4.1	4.7

Source: Company, ICICI Direct Research

Financial summary

Exhibit 13: Profit and loss statement				
	₹ crore			
(Year-end March)	FY18	FY19	FY20E	FY21E
Revenue	53825.1	75126.3	77565.6	80951.0
Growth (%)	10.1	39.6	3.2	4.4
(Inc.) / Dec stock in trade	-34.1	-382.5	0.0	0.0
Raw material Costs	3712.4	4584.3	5146.3	5272.2
Purchase of trading goods	36758.6	54662.3	56367.3	58568.0
Employee Costs	1301.5	1757.7	1760.4	1848.4
Other Expenditure	4452.8	4975.7	4852.5	5011.2
Op. Expenditure	46191.1	65597.6	68126.6	70699.8
EBITDA	7633.9	9528.7	9439.0	10251.2
Growth (%)	19.1	24.8	-0.9	8.6
Depreciation	1415.1	1550.2	1728.2	1985.5
EBIT	6218.8	7978.5	7710.8	8265.7
Interest	275.1	138.5	240.0	398.4
Other Income	987.0	1571.2	1145.0	1225.0
PBT	6958.4	9084.8	8615.8	9092.3
Growth (%)	28.6	30.6	-5.2	5.5
Tax	2340.0	3059.2	2843.2	3000.5
Reported PAT	4618.4	6025.7	5772.6	6091.8
Growth (%)	31.8	30.5	-4.2	5.5
EPS	20.5	26.7	25.6	27.0

Source: Company, ICICI Direct Research

Exhibit 14: Cash flow statement				
	₹ crore			
(Year-end March)	FY18	FY19	FY20E	FY21E
Profit after Tax	4,618.4	6,025.7	5,772.6	6,091.8
Add: Depreciation	1,415.1	1,550.2	1,728.2	1,985.5
Add: Others	-25.0	150.0	150.0	150.0
Cash Profit	3,905.5	5,624.4	5,292.5	5,869.0
Increase/(Decrease) in CL	2,404.7	2,781.9	1,450.5	635.1
(Increase)/Decrease in CA	1,813.0	-1,656.2	164.4	63.3
CF from Operating Activities	10226.3	8851.7	9265.7	8925.7
Purchase of Fixed Assets	3,485.4	6,549.3	6,800.0	9,600.0
(Inc)/Dec in Investments	-443.5	-1,800.0	-1,800.0	-1,800.0
Others	0.0	0.0	1.0	1.0
CF from Investing Activities	-3,928.9	-8,349.3	-8,600.0	-11,400.0
Inc/(Dec) in Loan Funds	-2,670.1	1,280.0	1,280.0	4,000.0
Less: Dividend Paid	2,103.0	2,101.5	2,358.3	2,358.3
Inc/(Dec) in Sh. Cap. & Res.	-336.7	0.0	0.0	0.0
Others	0.0	0.0	0.0	0.0
CF from financing activities	-5,109.9	-821.5	-1,078.3	1,641.7
Change in cash Eq.	1,187.5	-319.2	-412.6	-832.6
Op. Cash and cash Eq.	1,341.9	2,529.4	2,210.2	1,797.6
Cl. Cash and cash Eq.	2,529.4	2,210.2	1,797.6	965.0

Source: Company, ICICI Direct Research

Exhibit 15: Balance sheet				
	₹ crore			
(Year-end March)	FY18	FY19	FY20E	FY21E
Source of Funds				
Equity Capital	2,255.0	2,255.0	2,255.0	2,255.0
Preference capital	0.0	0.0	0.0	0.0
Reserves & Surplus	38,073.1	41,997.3	45,411.6	49,145.1
Shareholder's Fund	40,328.1	44,252.3	47,666.6	51,400.1
Loan Funds	2,080.5	3,360.5	4,640.5	8,640.5
Deferred Tax Liability	4,630.9	4,780.9	4,930.9	5,080.9
Minority Interest	0.0	0.0	0.0	0.0
Source of Funds	47039.5	52393.7	57238.0	65121.5
Application of Funds				
Gross Block	33,091.8	35,591.8	43,591.8	51,591.8
Less: Acc. Depreciation	4,085.9	5,586.8	7,315.0	9,300.5
Net Block	29,005.9	30,005.0	36,276.8	42,291.3
Capital WIP	5,373.9	9,373.9	8,173.9	9,773.9
Total Fixed Assets	34,379.8	39,378.9	44,450.7	52,065.2
Investments	9,953.2	11,753.2	13,553.2	15,353.2
Inventories	1,919.5	2,469.9	2,550.1	2,661.4
Debtor	4,051.5	5,557.3	5,737.7	5,988.2
Cash	2,529.4	2,210.2	1,797.6	965.0
Loan & Advance, Other CA	5324.9	4924.9	4499.9	4074.9
Total Current assets	13825.3	15162.3	14585.3	13689.5
Current Liabilities	9690.5	11320.4	12750.5	13307.0
Provisions	1428.3	2580.3	2600.7	2679.4
Total CL and Provisions	11118.8	13900.7	15351.3	15986.4
Net Working Capital	2706.5	1261.6	-765.9	-2296.9
Miscellaneous expense	0.0	0.0	0.0	0.0
Application of Funds	47039.5	52393.7	57237.9	65121.5

Source: Company, ICICI Direct Research

Exhibit 16: Key ratios				
	₹ crore			
(Year-end March)	FY18	FY19	FY20E	FY21E
Per share data (₹)				
Book Value	178.8	196.2	211.4	227.9
Cash per share	11.2	9.8	8.0	4.3
EPS	20.5	26.7	25.6	27.0
Cash EPS	26.8	33.6	33.3	35.8
DPS	7.8	8.0	9.0	9.0
Profitability & Operating Ratios				
EBITDA Margin (%)	14.2	12.7	12.2	12.7
PAT Margin (%)	8.6	8.0	7.4	7.5
Fixed Asset Turnover (x)	1.6	1.9	1.7	1.6
Inventory Turnover (Days)	13.0	12.0	12.0	12.0
Debtor (Days)	27.5	27.0	27.0	27.0
Current Liabilities (Days)	65.7	55.0	60.0	60.0
Return Ratios (%)				
RoE	11.5	13.6	12.1	11.9
RoCE	14.7	16.8	14.7	13.8
RoIC	15.6	17.6	15.3	14.0
Valuation Ratios (x)				
PE	17.0	13.1	13.6	12.9
Price to Book Value	2.0	1.8	1.7	1.5
EV/EBITDA	10.3	8.4	8.6	8.4
EV/Sales	1.5	1.1	1.1	1.1
Leverage & Solvency Ratios				
Debt to equity (x)	0.1	0.1	0.1	0.2
Interest Coverage (x)	22.6	57.6	32.1	20.7
Debt to EBITDA (x)	0.3	0.4	0.5	0.8
Current Ratio	1.2	1.1	1.0	0.9
Quick ratio	1.1	0.9	0.8	0.7

Source: Company, ICICI Direct Research

Exhibit 17: ICICI Direct Coverage Universe (Oil & Gas)

Sector / Company	CMP (₹)	TP (₹)	Rating	M Cap (₹ Cr)	EPS (₹)			P/E (x)			EV/EBITDA (x)			RoCE (%)			RoE (%)		
					FY18	FY19E	FY20E	FY18	FY19E	FY20E	FY18	FY19E	FY20E	FY18	FY19E	FY20E	FY18	FY19E	FY20E
BPCL (BHAPET)	372	375	Hold	80,696	40.3	36.3	34.7	9.2	10.3	10.7	8.3	8.4	8.1	15.7	13.0	12.7	23.2	19.3	17.2
Castrol India (CASIND)	152	140	Reduce	15,035	7.2	7.9	7.4	21.2	19.3	20.5	13.4	11.8	12.6	88.3	91.0	86.1	61.6	63.1	60.3
GAIL (India) (GAIL)	349	415	Buy	78,700	20.5	26.7	25.6	17.0	13.1	13.6	10.3	8.4	8.6	14.7	16.8	14.7	11.5	13.6	12.1
Gujarat Gas (GUJGA)	164	190	Buy	11,290	3.2	4.2	6.3	50.6	38.7	26.0	18.1	14.9	13.2	12.3	15.3	16.8	13.6	15.8	19.8
Gujarat State Petro (GSPL)	176	180	Hold	9,915	8.8	11.9	14.1	20.0	14.8	12.5	11.9	11.5	8.4	13.8	11.6	15.7	11.0	13.2	13.9
Gulf Oil Lubricants (GULO)	827	900	Hold	4,100	31.9	35.8	41.2	25.9	23.1	20.1	17.1	14.1	12.4	31.5	35.8	34.0	33.9	30.7	29.2
HPCL (HINPET)	285	300	Hold	43,478	13.9	13.2	10.3	6.8	7.2	9.2	6.0	5.6	7.0	17.5	16.6	10.7	26.5	22.1	16.1
Indian Oil Corp (INDOIL)	157	170	Hold	76,238	22.5	18.4	17.4	7.0	8.5	9.0	3.8	4.3	4.3	19.4	13.4	13.7	19.4	15.0	13.3
Indraprastha Gas (INDGAS)	335	350	Hold	23,450	9.6	11.2	12.8	35.0	29.8	26.1	20.6	18.4	15.9	26.5	25.6	24.6	19.1	19.2	18.7
Mahanagar Gas (MAHGAS)	895	1050	Buy	8,841	39.8	48.4	55.3	22.5	18.5	16.2	13.5	11.2	9.4	29.8	31.9	31.5	21.4	22.8	22.7
Mangalore Refinery (MRPL)	63	70	Hold	11,042	12.8	1.8	5.7	4.9	34.4	11.0	3.5	9.5	5.7	23.2	5.7	10.5	20.4	2.9	8.5
ONGC (ONGC)	171	153	Hold	219,450	16.9	24.8	22.5	10.1	6.9	7.6	5.8	3.9	4.0	7.9	13.6	12.2	9.4	12.4	10.7
Petronet LNG (PETLNG)	220	245	Hold	33,000	13.9	14.4	16.4	15.9	15.3	13.4	10.2	10.1	8.3	25.9	26.5	32.2	21.4	21.3	23.1

Source: Company, ICICI Direct Research

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Hold: -5% to 15%;

Reduce: -15% to -5%;

Sell: <-15%



Pankaj Pandey

Head – Research

pankaj.pandey@icicisecurities.com

ICICI Direct Research Desk,
ICICI Securities Limited,
1st Floor, Akruti Trade Centre,
Road No 7, MIDC,
Andheri (East)
Mumbai – 400 093
research@icicidirect.com

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