

January 29, 2024

RESULT REPORT Q3 FY24 | Sector: Energy

GAIL Ltd

Strong performance driven by Natural Gas trading and LPG & LHC segment

Our View

The resilient performance in Q3FY24 showcased GAIL's strength, with EBITDA/PAT soaring to Rs 38.2bn/Rs 28.4bn, up 14x/11x YoY, exceeding expectations. The standout performers were Natural Gas trading and LPG/LHC segments, while the unexpected EBIT profit in Petchem added to the positive narrative. We give GAIL an ADD rating, with a revised 12-mth TP of Rs177 (vs 166 earlier).

Result Highlights

- **Performance:** GAIL's Q3FY24 EBITDA/ PAT were Rs38.2bn/Rs28.4bn, up 14x/11x YoY and 9%/18% QoQ (higher than our Rs 35.2/23 and consensus estimates: Rs33.4bn/Rs23.8bn). The strong performance was largely driven by a NG trading and LPG and LHC segment, while Petchem reported an EBIT profit versus our expectation of a loss.
- **Gas transmission** volumes were lower than our expectation at 121.5mmscmd, up 17.8mmscmd YoY, 1.2mmscmd QoQ. Gas capacity utilisation (pipelines) was ~58%. Revenue was Rs2,393/tscm (up 38% YoY and flat QoQ). Opex/unit was higher YoY due to there being no allocated APM gas. The segment gross margins at Rs 1,396/tscm was up 84% YoY down 6% QoQ on higher volumes and unified tariff implementation which resulted in an increase in the tariff.
- **LPG transmission** volumes were 1,095 ('000 mt), down 1% YoY, 2% QoQ. Revenue/ton was Rs1,679, up 3% YoY and 1% QoQ, while the gross margin/ton was Rs922 (down 6% YoY, 1% QoQ).
- **Gas trading** volumes were 98.1mmscmd, higher YoY by 8.3mmscmd and 1.2mmscmd QoQ. The margin was stronger at Rs2,296/tscm (Rs2,189 the prior quarter and just Rs4 a year ago). The performance was better than our expectations on falling gas prices and better contracted basket.
- **Petchem** production was up 2x YoY and 28% QoQ, to 205 ('000 mt). The realisation was down 17% YoY and 8% QoQ despite the gas got cheaper while the utilisation was ~93%.
- **LPG and LHC.** Sales volumes were flat YoY and up 3% QoQ; realisation was lower by 5% YoY but up 22% QoQ.
- **CGD segment.** The CGD revenue/EBIT at Rs bn 33.9/1.83 up 20%/55% YoY and 14%/97% QoQ.
- **Capex.** As per PPAC, the company has incurred Rs18.8bn (Rs63.7bn capex in 9MFY24); FY24 target: Rs77.5bn) mainly on pipelines, petrochemicals, equity to JVs, etc.

Valuation

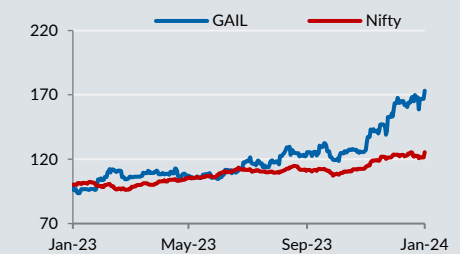
We believe GAIL's EBITDA to record a 29% CAGR over FY23-26e led by a 36% CAGR in gas transmission EBITDA. The gas transmission business has bright prospects (currently contributing ~54% to EBITDA in FY26e, expected to increase further) while the commodity business is a little volatile. Given the recent rally in the stock price and per our valuation, we maintain an ADD rating on the stock with a revised TP of Rs177 (vs 166 earlier), valuing it on a sum-of-parts basis (core business at Rs146, 7.7x EV/EBITDA and investments at Rs31).

Reco	: ADD
CMP	: Rs 172
Target Price	: Rs 177
Potential Return	: +3%

Stock data (as on Jan 29, 2024)

Nifty	21,738
52 Week h/l (Rs)	175 / 91
Market cap (Rs/USD mn)	1087522 / 13132
Outstanding Shares (mn)	6,575
6m Avg t/o (Rs mn):	2,264
Div yield (%):	3.02
Bloomberg code:	GAIL IN
NSE code:	GAIL

Stock performance



	1M	3M	1Y
Absolute return	6.0%	45.2%	73.2%

Shareholding pattern (As of Dec'23 end)

Promoter	51.5%
FII+DII	41.5%
Others	6.3%

Δ in stance

(1-Yr)	New	Old
Rating	ADD	ADD
Target Price	177	166

Δ in estimates

(1-Yr)	FY24e	FY25e	FY26E
EPS (New)	12.3	13.0	14.0
EPS (Old)	10.6	12.6	13.5
% Change	16.4	3.3	4.4

Financial Summary

(Rs bn)	FY24E	FY25E	FY26E
Revenue	1,209.0	1,250.1	1,246.2
YoY Growth	(16.2)	3.4	(0.3)
EBIDTA	122.5	131.7	143.8
OPM %	10.1	10.5	11.5
PAT	81.0	85.4	92.3
YoY Growth	52.7	5.5	8.1
ROE	13.5	13.1	13.0
EPS	12.3	13.0	14.0
P/E	14.0	13.2	12.2
BV	91.5	99.2	107.7
EV/EBITDA	10.6	6.1	6.1

HARSHRAJ AGGARWAL

Lead Analyst

harshraj.aggarwal@ysil.in



Exhibit 1: Actual vs estimate

Rs mn	Actual	Estimate		% Variation		Remarks
		YES Sec	Consensus	YES Sec	Consensus	
Sales	342,365	306,262	129,469	11.79%	164.44%	Above estimates on stronger than estimated natural gas trading, oetchem and LPG & LHC segment
EBITDA	38,226	35,137	12,108	8.79%	215.71%	
EBITDA Margin (%)	11.17%	11.47%	9.35%	-31bps	181bps	
Adjusted PAT	28,426	23,001	8,104	23.59%	250.77%	

Exhibit 2: Earnings snapshot

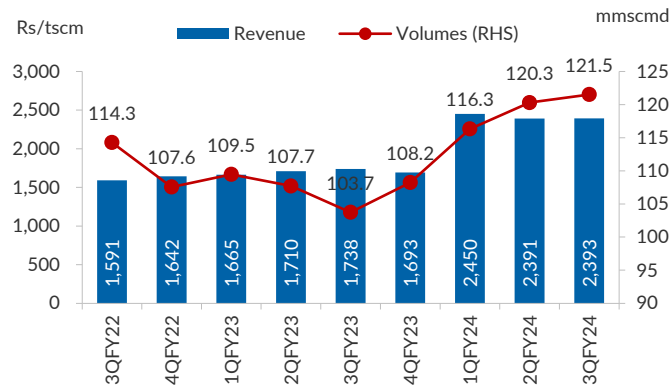
Particulars (Rs mn)	Q3 FY23	Q4 FY23	Q1 FY24	Q2 FY24	Q3 FY24	y/y (%)	q/q (%)	9M FY23	9M FY24	y/y (%)
Revenue	353,654	328,432	322,121	318,068	342,365	(3.2)	7.6	1,114,065	982,553	(11.8)
Expenditure	351,041	325,360	297,794	283,155	304,139	(13.4)	7.4	1,050,148	885,088	(15.7)
-Raw Material	328,978	297,560	273,029	260,360	277,664	(15.6)	6.6	991,200	811,052	(18.2)
-Staff Cost	4,334	4,793	4,900	4,932	4,943	14.1	0.2	12,945	14,775	14.1
- Other Expenses	17,729	23,007	19,866	17,863	21,532	21.5	20.5	46,003	59,260	28.8
Operating Profit	2,613	3,072	24,327	34,913	38,226	1,362.7	9.5	63,917	97,466	52.5
OPM(%)	0.7	0.9	7.6	11.0	11.2	1,411.0	1.7	5.7	9.9	418 bps
Other Income	6,889	10,172	2,676	5,609	8,121	17.9	44.8	16,675	16,406	(1.6)
Depreciation	6,226	6,432	6,358	7,503	7,843	26.0	4.5	18,449	21,703	17.6
Interest	1,050	903	1,758	1,718	1,564	49.0	(9.0)	2,214	5,041	127.7
Excpnl Loss/(Profit)	-	-	-	-	-	-	-	-	-	n.a.
PBT	2,227	5,909	18,887	31,301	36,940	1,559.0	18.0	59,929	87,128	45.4
Tax	(231)	(127)	4,767	7,252	8,514	(3,792.0)	17.4	12,950	20,533	58.6
PAT	2,457	6,035	14,120	24,049	28,426	1,056.8	18.2	46,980	66,595	41.8
Adj PAT	2,457	6,035	14,120	24,049	28,426	1,056.8	18.2	46,980	66,595	41.8

Exhibit 3: Operating highlights

Particulars	Q3 FY23	Q4 FY23	Q1 FY24	Q2 FY24	Q3 FY24	y/y (%)	q/q (%)	9M FY23	9M FY24	y/y (%)
Volumes										
NG Transmission - mmscmd	103.7	108.2	116.3	120.3	121.5	17.2	1.0	107.0	119.4	11.6
LPG Transmission - mmt	1,101.0	1,079.0	1,073.0	1,114.0	1,095.0	(0.5)	(1.7)	3,256.0	3,282.0	0.8
Gas Trading - mmscmd	89.9	96.5	98.8	97.0	98.1	9.2	1.2	94.4	98.0	3.8
Petchem - tmt	65.0	118.0	162.0	168.0	215.0	230.8	28.0	282.0	545.0	93.3
LPG & LHC -tmt	248.0	230.0	247.0	242.0	249.0	0.4	2.9	699.0	738.0	5.6
Gross Margin (Rs mn)										
NG Transmission	7,230	2,970	13,510	16,500	15,610	115.9	(5.4)	28,230	45,620	61.6
LPG Transmission	1,080	970	960	1,040	1,010	(6.5)	(2.9)	3,380	3,010	(10.9)
Gas Trading	30	5,760	11,030	19,530	20,730	69,000.0	6.1	28,570	51,290	79.5
Petchem	(2,100)	(2,570)	(1,730)	(380)	2,050	(197.6)	(639.5)	(2,510)	(60)	(97.6)
LPG & LHC	(60)	1,460	2,250	50	2,800	(4,766.7)	5,500.0	11,810	5,100	(56.8)
Gross margin										
NG Transmission (Rs/tscm)	758	305	1,276	1,491	1,396	84.3	(6.4)	960	1,389	44.8

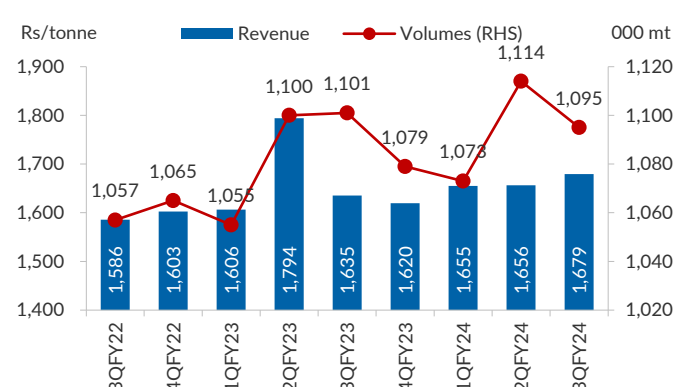
Particulars	Q3 FY23	Q4 FY23	Q1 FY24	Q2 FY24	Q3 FY24	y/y (%)	q/q (%)	9M FY23	9M FY24	y/y (%)
LPG Transmission (Rs/ton)	981	899	895	934	922	(6.0)	(1.2)	1,038	917	(11.7)
Gas Trading (Rs/tscm)	4	663	1,226	2,189	2,296	63,191.2	4.9	1,101	1,904	73.0
Petchem (Rs/ton)	(32,308)	(21,780)	(10,679)	(2,262)	9,535	(129.5)	(521.5)	(8,901)	(110)	(98.8)
LPG & LHC (Rs/ton)	(242)	6,348	9,109	207	11,245	(4,747.9)	5,342.6	16,896	6,911	(59.1)
Realisation (Rs/ton)										
Petchem	115,465	115,209	105,162	103,769	95,356	(17.4)	(8.1)	124,720	101,429	(18.7)
LPG & LHC	54,635	59,380	53,402	42,749	52,063	(4.7)	21.8	60,377	49,405	(18.2)
CGD (Rs mn)										
Revenue	28,278	27,359	24,038	29,686	33,891	19.8	14.2	85,508	87,615	2.5
EBIT	1,188	889	1,336	931	1,837	54.6	97.3	3,403	4,104	20.6
Asset	69,347	70,019	72,743	74,905	77,577	11.9	3.6	69,347	77,577	11.9
Liabilities	11,949	11,113	12,244	11,827	11,490	(3.8)	(2.8)	11,949	11,490	(3.8)

Exhibit 4: NG Transmission Performance



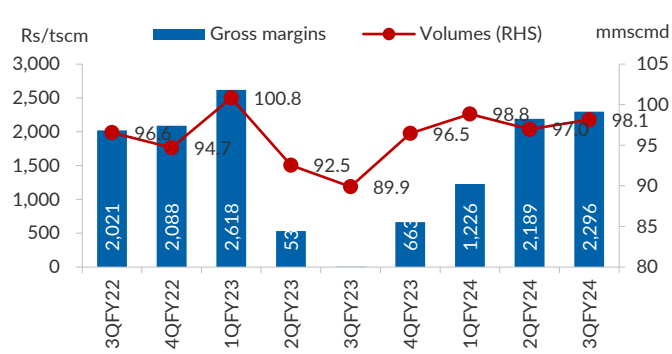
Source: Company, YES Sec

Exhibit 5: LPG Transmission Performance



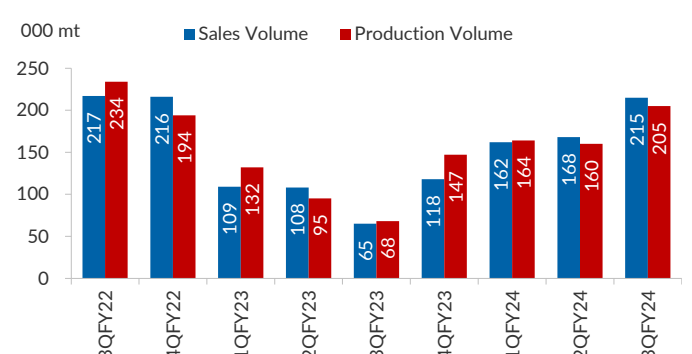
Source: Company, YES Sec

Exhibit 6: Gas Trading Performance



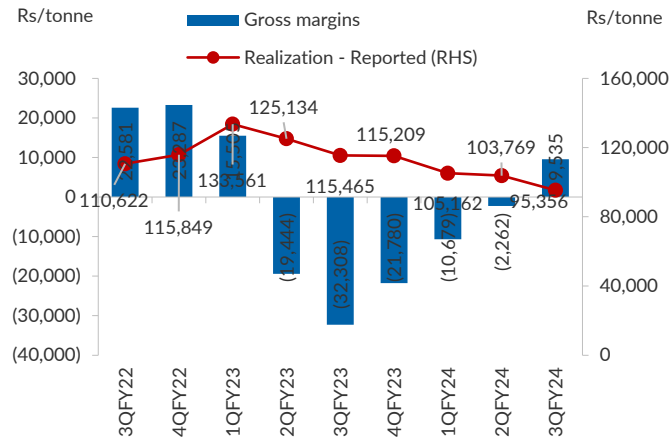
Source: Company, YES Sec

Exhibit 7: Petchem Sales and Production Volume



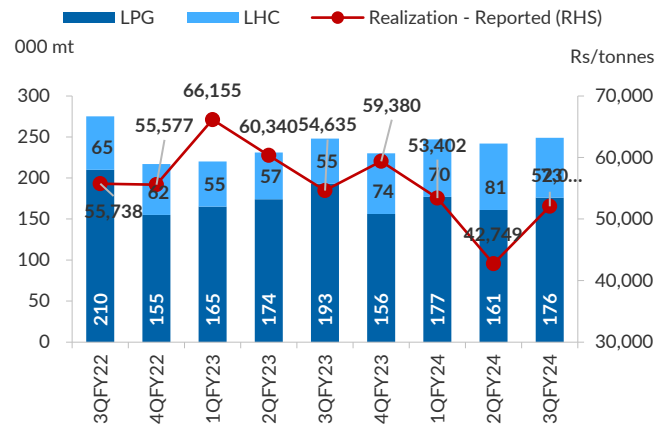
Source: Company, YES Sec

Exhibit 8: Petchem Performance



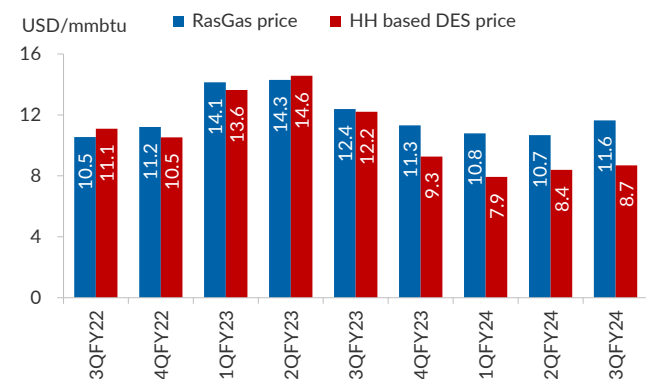
Source: Company, YES Sec

Exhibit 9: LPG and LHC Performance



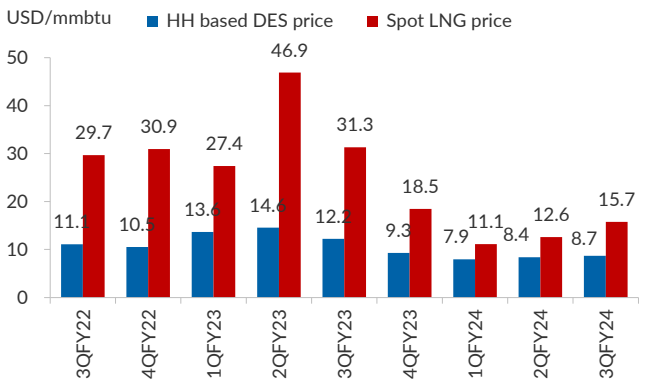
Source: Company, YES Sec

Exhibit 10: RasGas price and HH based DES price



Source: Company, YES Sec

Exhibit 11: HH based DES price and Spot LNG price



Source: Company, YES Sec

CONCALL HIGHLIGHTS

- **Gas Transmission:** Volumes at ~121mmscmd, an increase of 1.2 mmscmd. The pipeline utilization was at 58%, (Q2FY24: 58%), maintained at the same level. The QoQ increase in transmission is attributed to increase in shippers' volume. For FY24 the volumes would average 120mmscmd and by FY25 to reach 132mmscmd (increase of 12mmscmd). Even if the utilization surpasses 75%, the tariff will remain unchanged as the company aims to recover under-utilization of previous years. Efforts are underway to revise tariffs with PNGRB to accommodate the increased gas cost. There was no allocation of APM gas in NG transmission, it had reduced from Oct'23 and stopped on 15th Dec'23, since then GAIL is sourcing domestic gas or from its LNG portfolio.
- **Gas Marketing:** Volumes at 98.1mmscmd, which is an increase of 1.18mmscmd coming from increase in overseas volumes. Revise the EBITDA guidance to Rs55bn in FY24 and Rs 40bn for FY25 on strong visibility, benefit from gas swapping and destination swap.
- **Guidance:** During Q4FY23, GAIL had guided marketing margin of Rs 35bn, confident of achieving Rs55bn and for FY25 expect to reach Rs 40bn. The fiscal year is expected to conclude with a transmission volume of 123-124 mmscmd. The company is targeting an additional 12-15 mmscmd of gas within the next year. Challenges in the Dadri-Panipat supply are anticipated to contribute an extra 3mmscmd, while CGD is poised to grow by another 3mmscmd and IOCL's Barauni refinery expected to add 0.5 mmscmd to the overall volume.
- **Pipelines:** Mumbai-Nagpur-Jharsuguda Pipeline of 1,755km out of which 698km expected to complete in Oct'24. JHBDPL of 2951km has commissioned out of 3293km, remaining expected to complete by Jun'24, Srikakulam-Angul pipeline of 420km is expected to be completed by June'24. Gurdaspur-Jammu pipeline of 160km which was recently authorized to be completed by Jul'26. Dhamra-Haldia Pipeline 253km expected to be completed by June'24.
- **Petchem:** PDH-PP USAR with capacity of 500ktpa, cost of Rs 113bn, expected to complete by Apr'25. IPA at USAR with 50ktpa, cost of Rs 5.3bn, expected to complete by Dec'25. PP project at PATA of 60ktpa, cost of Rs 13bn to be completed by Jul'24. GAIL acquired JBF petrochemical and renamed it to GAIL Mangalore Petrochemical Limited, capacity of 125ktpa, cost of Rs 42bn and expected to complete by Mar'25. Operating at 101% capacity during the quarter allowed the company to reap the advantages of surpassing 100% utilization. Given the ongoing trends, profitability is anticipated in the upcoming fiscal year. The Polymer Production increase by 45 tmt to 205tmt vs 160 tmt in Q2, capacity utilisation ~101%.
- **LHC:** At 249tmt vs 208tmt in previous quarter, and capacity utilisation at 69%
- **LPG Transmission:** Volumes at 1,095 vs 1,114tmt in Q2, capacity utilisation at 95%
- **CGD:** GAIL has 6 GAs, 165 CNG stations, over 2,90,000 PNG connections. In Q3 it added 8 CNG stations and 16,000 PNG connections. It had a volume of 0.3mmscmd and for future, plans to add over 100 CNG stations and 0.2m PNG connections in the near term. **GAIL Gas** - Volumes increased to 7.18mmscmd vs 6.55mmscmd in Q2 this increase of 10 % is due to increase in bulk trading quantity by 12% and CNG quantity by 11%, during Q3 it added 29 CNG stations and 17,731 PNG connections having an infrastructure of 9,06,000 PNG connections on group company level while GAIL Gas has almost 5,00,000 PNG connections. Bengal Gas has 13 CNG stations, 237inch km pipeline and 8,000 PNG connections.
- **Capex:** Rs 17.3bn during Q3FY24 on pipeline, petrochemicals, CGD projects, operational capex and equity contribution. FY25 capex target at Rs 90bn; ~Rs 30bn on pipeline, Rs 33bn petchem, Rs 7.5bn operational capex, CGD Rs 2bn, E&P 1.5bn, other Rs5bn and Rs 10bn equity contribution to JVs/Subsidiaries.

VIEW & VALUATION

ADD with a TP of Rs 177/sh

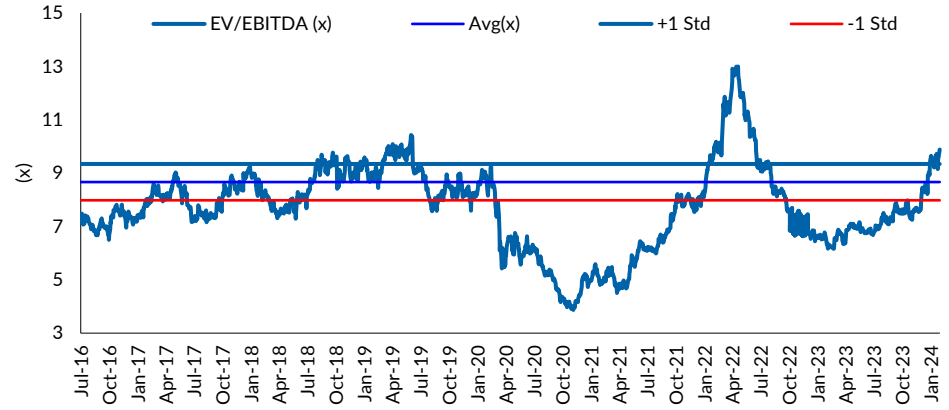
We note that the near-term outlook for gas transmission, trading and petchem has improved following the fall in spot LNG prices. Such lower prices could drive higher gas transmission and trading volumes and lead to lower operating costs.

We believe GAIL's EBITDA to record a 29% CAGR over FY23-26e led by a 36% CAGR in gas transmission EBITDA. The gas transmission business has bright prospects (currently contributing ~54% to EBITDA in FY26e, expected to increase further) while the commodity business is a little volatile. Given the recent rally in the stock price and per our valuation, we maintain an ADD rating on the stock with a revised TP of Rs177 (vs 166 earlier), valuing it on a sum-of-parts basis (core business at Rs146, 7.7x EV/EBITDA and investments at Rs31).

Exhibit 12: SOTP Valuation table

EV/EBITDA Based valuation				
Particulars				
Core Value	EBITDA	(x)	EV	Rs/Share
Natural gas transmission	78,073	8.0	624,581	95
LPG Transmission	4,201	8.0	33,605	5
Natural gas trading	40,115	7.5	300,865	46
Petchem	12,334	6.0	74,004	11
LPG & LHC	19,080	6.5	124,018	19
Unallocated	(10,000)	5.0	(50,000)	(8)
Standalone	143,802	7.7	1,107,072	168
Net Debt			146,412	22
Total Core value			960,661	146
Value of investments				
Listed Investments				
PLNG	49,125	30	34,388	5
ONGC	76,438	30	53,506	8
IGL	65,678	30	45,974	7
China Gas	16,380	30	11,466	2
MGL	45,426	30	31,799	5
Total value of listed investments @ 30% discount	253,047	30	177,133	27
Unlisted Investments				
Brahmaputra Cracker & Polymer Ltd (BCPL)				2
ONGC Petro-Additions Ltd (OPAL)				2
Ramagundam Fertilizers				0
South East Asia Gas Pipeline Company				0
Total value of listed investments				4
Fair Value				177

Exhibit 13: EV/EBITDA (x) band, one-year-forward



Source: Company, YES Sec

FINANCIALS

Exhibit 14: Income statement

Y/e 31 Mar (Rs mn)	FY22	FY23	FY24E	FY25E	FY26E
Revenue	916,265	1,442,497	1,209,040	1,250,127	1,246,236
Total Expense	777,975	1,375,508	1,086,578	1,118,460	1,102,434
Operating Profit	138,290	66,989	122,462	131,667	143,802
Other Income	20,469	26,847	22,551	23,454	24,392
Depreciation	21,112	24,881	30,458	34,643	38,468
EBIT	137,647	68,955	114,555	120,477	129,726
Interest	1,744	3,117	6,344	6,344	6,344
Extraordinary Item	-	-	-	-	-
PBT	135,903	65,838	108,211	114,133	123,382
Tax	32,263	12,823	27,237	28,727	31,055
PAT	103,640	53,015	80,975	85,406	92,327
Adj. PAT	103,640	53,015	80,975	85,406	92,327
Eps	15.8	8.1	12.3	13.0	14.0

Exhibit 15: Balance sheet

Y/e 31 Mar (Rs mn)	FY22	FY23	FY24E	FY25E	FY25E
Equity capital	44,404	65,751	65,751	65,751	65,751
Reserves	511,464	490,786	535,597	586,484	642,647
Net worth	555,868	556,537	601,348	652,235	708,398
Debt	76,558	157,295	157,295	157,295	157,295
Deferred tax liab (net)	47,673	46,628	46,628	46,628	46,628
Capital Employed	680,098	760,460	805,271	856,158	912,322
Fixed assets	528,523	579,698	664,299	722,656	769,188
Investments	186,194	194,084	194,084	194,084	194,084
Net working capital	(34,619)	(13,322)	(53,111)	(60,582)	(50,950)
Inventories	30,152	52,813	39,749	41,100	40,972
Sundry debtors	73,164	103,663	66,979	69,343	68,415
Cash & Bank Balance	20,850	4,020	10,547	1,725	12,189
Other current assets	24,522	27,039	27,039	27,039	27,039
Sundry creditors	54,660	72,992	69,561	71,925	71,701
Other liabilities	128,647	127,864	127,864	127,864	127,864
Application of Funds	680,098	760,460	805,272	856,158	912,322

Exhibit 16: Cash flow statement

Y/e 31 Mar (Rs mn)	FY22	FY23	FY24E	FY25E	FY25E
PBT	135,903	65,838	108,211	114,133	123,382
Depreciation & amortization	21,112	24,881	30,458	34,643	38,468
Interest expense	(4,269)	(3,681)	6,344	6,344	6,344
(Inc)/Dec in working capital	(30,198)	(30,932)	46,316	(1,351)	832
Tax paid	(31,960)	(15,178)	(27,237)	(28,727)	(31,055)
Less: Interest/Dividend Income Received	(8,709)	(14,640)			
Other operating Cash Flow	5,662	1,791			
Cash flow from operating activities	87,540	28,080	164,093	125,042	137,971
Capital expenditure	(59,184)	(73,416)	(115,059)	(93,000)	(85,000)
Inc/(Dec) in investments	(4,372)	(10,586)	-	-	-
Add: Interest/Dividend Income Received	19,426	18,469	-	-	-
Cash flow from investing activities	(44,130)	(65,533)	(115,059)	(93,000)	(85,000)
Inc/(Dec) in share capital	19,000	90,770	-	-	-
Inc/(Dec) in debt	(17,430)	(14,720)	-	-	-
Dividend Paid	(39,943)	(30,679)	(36,163)	(34,519)	(36,163)
Others	(3,485)	(19,856)	(6,344)	(6,344)	(6,344)
Cash flow from financing activities	(41,857)	25,515	(42,507)	(40,863)	(42,507)
Net cash flow	1,553	(11,938)	6,527	(8,821)	10,464

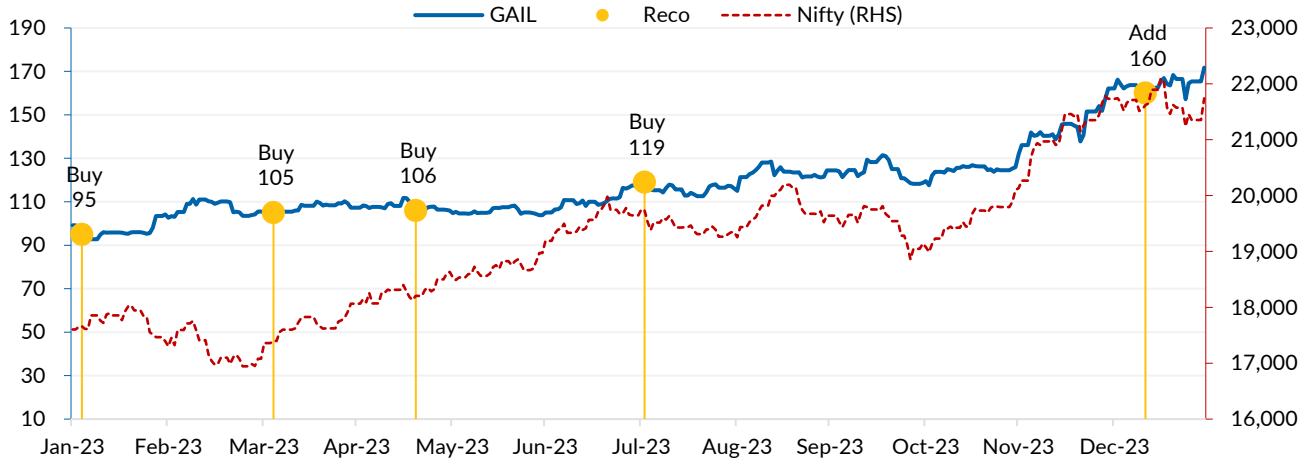
Exhibit 17: Du-pont analysis

Y/e 31 Mar (Rs mn)	FY22	FY23	FY24E	FY25E	FY25E
Tax burden (x)	0.8	0.8	0.7	0.7	0.7
Interest burden (x)	1.0	1.0	0.9	0.9	1.0
EBIT margin (x)	0.2	0.0	0.1	0.1	0.1
Asset turnover (x)	1.1	1.6	1.2	1.2	1.1
Financial leverage (x)	1.6	1.6	1.7	1.6	1.6
RoE (%)	20.3	9.5	14.0	13.6	13.6

Exhibit 18: Ratio analysis

Y/e 31 Mar	FY22	FY23	FY24E	FY25E	FY25E
Growth matrix (%)					
Revenue growth	61.5	57.4	(16.2)	3.4	(0.3)
Op profit growth	114.6	(51.6)	82.8	7.5	9.2
EBIT growth	110.4	(49.9)	66.1	5.2	7.7
Net profit growth	111.9	(48.8)	52.7	5.5	8.1
Profitability ratios (%)					
OPM	15.1	4.6	10.1	10.5	11.5
EBIT margin	15.0	4.8	9.5	9.6	10.4
Net profit margin	11.3	3.7	6.7	6.8	7.4
RoCE	20.2	9.1	14.2	14.1	14.2
RoE	18.6	9.5	13.5	13.1	13.0
RoA	13.0	5.8	8.2	8.3	8.5
Per share ratios					
EPS	15.8	8.1	12.3	13.0	14.0
Dividend per share	6.1	4.0	5.5	5.3	5.5
Cash EPS	19.0	11.8	16.9	18.3	19.9
Book value per share	84.5	84.6	91.5	99.2	107.7
Valuation ratios					
P/E	6.6	13.0	14.0	13.2	12.2
P/CEPS	5.5	8.9	10.1	9.4	8.6
P/B	1.2	1.2	1.9	1.7	1.6
EV/EBIDTA	8.0	4.4	10.6	6.1	6.1
Payout (%)					
Dividend payout	38.6	49.6	44.7	40.4	39.2
Tax payout	23.7	19.5	25.2	25.2	25.2
Liquidity ratios					
Debtor days	29.1	26.2	20.2	20.2	20.0
Inventory days	14.3	11.0	15.5	13.2	13.6
Creditor days	23.0	16.9	23.9	23.1	23.8

Recommendation Tracker



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YES Securities (India) Limited

Registered Address: 2nd Floor, North Side, YES BANK House,
Off Western Express Highway, Santacruz East,
Mumbai - 400 055, Maharashtra, India.

Correspondence Address: 7th Floor, Urmi Estate Tower A, Ganpatrao
Kadam Marg, Opp. Peninsula Business Park, Lower Parel (West),
Mumbai - 400 013, Maharashtra, India.

✉ research@ysil.in | Website: www.yesinvest.in

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Code: BSE - 6538, NSE - 14914, MCX - 56355 & NCDEX - 1289 | CDSL &
NSDL: IN-DP-653-2021 | MERCHANT BANKER: INM000012227 |
RESEARCH ANALYST: INH000002376 | INVESTMENT ADVISER:
INA000007331 | Sponsor and Investment Manager to YSL Alternates
Alpha Plus Fund (CAT III AIF) SEBI Registration No.: IN/AIF3/20-21/0818 |
AMFI ARN Code - 94338.

Details of Compliance Officer: Name: Aditya Goenka,
Email id: compliance@ysil.in, **Contact No:** 022- 65078127 (Extn: 718127)

Grievances Redressal Cell: customer.service@ysil.in/igc@ysil.in

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