

# Interglobe Aviation

**BUY**
**INDUSTRY AVIATION**
**CMP (as on 24 Jan 2018) Rs 1,238**
**Target Price Rs 1,395**

Nifty 11,086

Sensex 36,162

**KEY STOCK DATA**

Bloomberg INDIGO IN

No. of Shares (mn) 384

MCap (Rs bn) / (\$mn) 476/7,469

6m avg traded value (Rs mn) 762

**STOCK PERFORMANCE (%)**
**52 Week high / low Rs 1,347/815**

	3M	6M	12M
Absolute (%)	6.0	0.4	33.1
Relative (%)	(4.9)	(11.8)	1.0

**SHAREHOLDING PATTERN (%)**

Promoters 75.0

FIs &amp; Local MFs 8.0

FPIs 11.3

Public &amp; Others 5.7

Source : BSE

**Vishal Rampuria**

vishal.rampuria@hdfcsec.com

+91-22-6171-7325

## Strong results

Interglobe's 3QFY18 results were in line with expectations. Revenue grew 23.9% YoY to Rs 61.8bn, driven by RPKM growth at 14.6%, while yield increased 6.3%. PAT increased 56.6% to Rs 5.7bn.

**ASKM growth was good at 13%, with the load factor improving 120bps to 88.5%. Fuel cost per ASKM increased 13.7% QoQ, as avg. ATF prices shot up. EBITDAR margin increased 240bps to 31.3% due to improved pricing. Margin (RASK-CASK) was strong at Rs 0.49 per ASKM in a seasonally strong quarter, as compared to Rs 0.30 per ASKM in 3QFY17.**

**Like 2Q, the company received compensation from manufacturers. We expect margin to be under pressure in coming quarters owing to sustained higher crude prices (At \$69/bbl). However, we expect the prices to soften. We increase our crude assumption to \$64/60/bbl for FY19/20. Airbus is expected to improve delivery of A320neo in CY18, after having improved delivery in 4QCY17. Interglobe offers a structural play on the underpenetrated**

### Financial Summary

(Rs mn)	3QFY18	3QFY17	YoY (%)	2QFY17	QoQ (%)	FY17	FY18E	FY19E	FY20E
Net Sales	61,779	49,865	23.9	52,910	16.8	185,805	235,490	291,494	347,290
EBITDAR	19,357	14,410	34.3	15,574	24.3	52,687	70,950	83,158	108,203
APAT	7,620	4,866	56.6	5,511	38.3	16,592	25,009	26,818	36,890
Diluted EPS (Rs)	19.8	13.5	46.7	14.4	38.2	46.0	69.4	74.4	102.4
P/E (x)						27.0	17.9	16.7	12.2
Dividend Yield (%)						2.7	3.1	3.3	4.5
RoE (%)						59.1	45.6	35.1	42.4

Source: Company, HDFC sec Inst Research

aviation market, with cost leadership. Maintain BUY TP of Rs 1,395 based on 14.5x FY20 EPS.

### Highlights of the quarter/concall

- Fleet update:** It added 12 aircrafts during the quarter. For 4QFY18, Interglobe expects ASKM growth of 24%. It has entered into short term lease for four aircrafts for the period Dec'17-Apr'18 to capture growth.
- Owned aircraft:** During the quarter, it purchased 3ATR while 8 new A320neos was deployed through operating lease. It has free cash of Rs 81bn, out of Rs 139bn, which it plans to deploy to acquire aircrafts.
- Compensation:** Like previous quarter, Interglobe received compensation from engine supplier owing to non-availability of engine issues during in the start of the quarter. Currently, no A320neo are grounded, as sufficient spare engines are available.
- Near-term outlook:** Higher crude cost is expected to be a drag on profitability over the next few quarters as we expect gradual pass through. Yield improvement remain key monitorable.

Revenue includes credits from manufacturers for both 2Q and 3Q

Other expenses include forex gain of ~ Rs 400 mn in 3QFY18 against loss in 3QFY17

Fuel unit cost increased 13.7% QoQ as avg ATF prices shot up by 12.5%

In Jan'18, ATF rate has increased to Rs 59K

### Quarterly Financials Snapshot

Particulars (Rs mn)	3QFY18	3QFY17	YoY (%)	2QFY17	QoQ (%)
<b>Net Sales</b>	<b>61,779</b>	<b>49,865</b>	<b>23.9</b>	<b>52,910</b>	<b>16.8</b>
Aircraft Fuel	20,160	16,712	20.6	16,473	22.4
Employee Expenses	6,137	5,273	16.4	6,004	2.2
Lease Rental	9,442	8,164	15.6	8,193	15.2
Other Expenses	16,125	13,470	19.7	14,859	8.5
<b>EBITDA</b>	<b>9,915</b>	<b>6,246</b>	<b>58.7</b>	<b>7,381</b>	<b>34.3</b>
<b>EBITDAR</b>	<b>19,357</b>	<b>14,410</b>	<b>34.3</b>	<b>15,574</b>	<b>24.3</b>
Depreciation	1,074	1,184	(9.3)	1,025	4.7
<b>EBIT</b>	<b>8,841</b>	<b>5,062</b>	<b>74.7</b>	<b>6,356</b>	<b>39.1</b>
Other Income	2,719	1,719	58.2	2,146	26.7
Interest Cost	844	759	11.3	857	(1.4)
<b>PBT</b>	<b>10,716</b>	<b>6,022</b>	<b>77.9</b>	<b>7,645</b>	<b>40.2</b>
Tax	3,096	1,149	169.5	2,130	45.4
Other Comprehensive Income	(0)	(8)	(99.9)	(4)	(99.8)
<b>RPAT</b>	<b>7,620</b>	<b>4,866</b>	<b>56.6</b>	<b>5,511</b>	<b>38.3</b>
<b>Adj. PAT</b>	<b>7,620</b>	<b>4,866</b>	<b>56.6</b>	<b>5,511</b>	<b>38.3</b>
<b>EPS</b>	<b>19.8</b>	<b>13.5</b>	<b>46.7</b>	<b>14.4</b>	<b>38.2</b>

Source: Company, HDFC sec Inst Research

### Unit Analysis On ASKM

Rs /ASKM	3QFY18	3QFY17	YoY (%)	2QFY17	QoQ (%)
<b>Revenue/ASKM (RASKM)</b>	<b>3.80</b>	<b>3.47</b>	<b>9.6</b>	<b>3.50</b>	<b>8.4</b>
Aircraft Fuel/ASKM (A)	1.24	1.16	6.8	1.09	13.7
<b>Gross margin</b>	<b>2.56</b>	<b>2.30</b>	<b>11.1</b>	<b>2.41</b>	<b>6.1</b>
Employee Cost/ASKM	0.38	0.37	3.0	0.40	(5.1)
Other Operating Exp./ASKM	0.99	0.94	5.9	0.98	0.8
Ownership cost/ASKM	0.70	0.70	(0.5)	0.67	4.7
Non-Fuel Op.Exp/ASKM (B)	2.07	2.01	3.1	2.05	0.9
<b>CASK (A+B)</b>	<b>3.31</b>	<b>3.17</b>	<b>4.5</b>	<b>3.14</b>	<b>5.4</b>
CASK Net of Other Income	3.14	3.05	3.1	3.00	4.8
<b>RASK-CASK with other income</b>	<b>0.66</b>	<b>0.42</b>	<b>57.5</b>	<b>0.51</b>	<b>30.2</b>
<b>RASK-CASK without other income</b>	<b>0.49</b>	<b>0.30</b>	<b>64.5</b>	<b>0.36</b>	<b>35.0</b>
<b>Closing Fleet Size (Nos.)</b>	<b>153</b>	<b>126</b>	<b>21.4</b>	<b>141</b>	<b>8.5</b>
<b>Avg ATF Price (Rs per KL)</b>	<b>56,450</b>	<b>50,114</b>	<b>12.6</b>	<b>50,182</b>	<b>12.5</b>

Source: Company, HDFC sec Inst Research

Lease rental increased faster than ASKM QoQ as no credit were accounted from manufacturers under this head

Interest income on investments; It includes forex gain of Rs300mn

Lower fuel increase per unit YoY is attributed to sourcing benefit which started in 1QFY18

Spreads was in line with expectation

*ASKM growth is expected to be 20% for next 2-3 years*

*Interglobe's market share, after contraction for last few quarter, would improve doing forward as capacity addition improves*

*Lease savings will start as it gets delivery of new A320neos; currently company has undertaken short term leases to recoup delivery of new aircrafts*

*We marginally increase of crude cost assumption to \$64/60 for FY19/20. Receipt from manufacturer is not expected in coming quarters*

## Key Assumptions

	FY16	FY17	FY18E	FY19E	FY20E
Fleet Size	107	131	161	192	233
ASKM (in mn)	42,826	54,583	64,113	77,856	92,848
YoY Growth (%)	21.2%	27.5%	17.5%	21.4%	19.3%
Load Factor	84%	85%	84%	85%	85%
RPKM (in mn)	35,968	46,288	53,694	66,178	78,642
YoY Growth (%)	27.6%	28.7%	16.0%	23.2%	18.8%
Yield (Rs)	3.91	3.50	3.80	3.85	3.87
YoY Growth (%)	(10.4%)	(10.5%)	8.6%	1.3%	0.5%
Operating Revenue (Rs mn)	161,399	184,639	231,739	289,691	345,433
YoY Growth (%)	15.9%	14.4%	25.5%	25.0%	19.2%
<b>RASK (Rs)</b>	<b>3.77</b>	<b>3.40</b>	<b>3.67</b>	<b>3.74</b>	<b>3.74</b>
<b>Aircraft Fuel/ASKM (Rs)</b>	<b>1.12</b>	<b>1.16</b>	<b>1.22</b>	<b>1.28</b>	<b>1.19</b>
<b>Brent Crude (USD/bbl)</b>	<b>49</b>	<b>46</b>	<b>59</b>	<b>64</b>	<b>60</b>
Employee Cost/ASKM (Rs)	0.42	0.38	0.39	0.40	0.40
Ownership Cost/ASKM (Rs)	0.74	0.72	0.70	0.70	0.70
Other Operating Exp./ASKM (Rs)	0.92	0.90	0.96	0.99	0.99
<b>CASK (Rs)</b>	<b>3.20</b>	<b>3.16</b>	<b>3.27</b>	<b>3.36</b>	<b>3.27</b>
Non-Fuel Op.Exp/ASKM (Rs)	2.08	1.99	2.05	2.09	2.08
<b>Margin OPASK (Rs)</b>	<b>0.57</b>	<b>0.25</b>	<b>0.41</b>	<b>0.38</b>	<b>0.47</b>

Source: Company, HDFC sec Inst Research

## Change In Estimates

- We tweak our assumptions. We increase our crude assumption to \$64/60/bbl for FY19/20 from

\$62/58/bbl. We also incorporate higher other income and receipt from manufacturer.

(Rs mn)	FY18E			FY19E			FY20E		
	New	Old	% Change	New	Old	% Change	New	Old	% Change
Revenues	235,490	237,274	-0.8	291,494	294,316	-1.0	347,290	350,329	-0.9
EBITDAR	70,950	71,015	-0.1	83,158	84,973	-2.1	108,203	110,541	-2.1
Adj. PAT	25,009	24,407	2.5	26,818	27,504	-2.5	36,890	37,697	-2.1
EPS (Rs.)	69.4	67.8	2.4	74.4	76.3	-2.5	102.4	104.6	-2.1

Source: HDFC sec Inst Research

*On the positive side, stable currency with positive bias is expected to help the industry as 70% of cost is dollar dominated*

**FY19 EPS Sensitivity With Load Factor And Yield**

		Passenger Yield (Rs)						
		74.4	3.69	3.77	3.85	3.93	4.01	4.09
Load Factor(%)	83%	51.4	58.7	66.0	73.3	80.6	87.8	
	84%	55.4	62.8	70.2	77.6	85.0	92.3	
	85%	59.5	67.0	74.4	81.9	89.4	96.8	
	86%	63.5	71.1	78.7	86.2	93.8	101.3	
	87%	67.6	75.2	82.9	90.5	98.2	105.8	

Source: HDFC sec Inst Research

**FY19 EPS Sensitivity With Crude Oil And Currency**

		Crude Price (USD/bbl)					
		60	62	64	66	68	70
Load Factor(%)	63	98.8	89.7	80.5	71.3	62.2	53.0
	64	96.0	86.7	77.4	68.2	58.9	49.7
	65	93.1	83.8	74.4	65.1	55.7	46.4
	66	90.3	80.8	71.4	61.9	52.5	43.0
	67	87.4	77.9	68.3	58.8	49.2	39.7

Source: HDFC sec Inst Research

**Peer Valuation**

Name	Mkt Cap (Rs bn)	CMP (Rs)	Reco	TP (Rs)	P/E	P/E	P/E	ROE	ROE	ROE
					FY18E	FY19E	FY20E	FY18E (%)	FY19E (%)	FY20E (%)
Interglobe Aviation	476	1,238	BUY	1,395	17.9	16.7	12.2	45.6	35.1	42.4
Spicejet	72	120	NEU	145	13.7	14.8	10.3	N.A.	90.1	61.7

Source: Companies, HDFC sec Inst Research

**ASKM growth was 13% for the quarter**

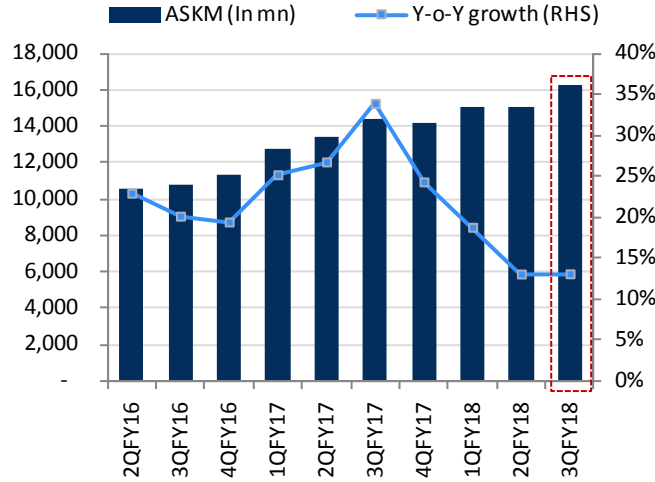
**14% of total ASKM is deployed for international routes**

**RSKM growth was 14.6% for the quarter**

**Load factor has been higher at ~88.5%**

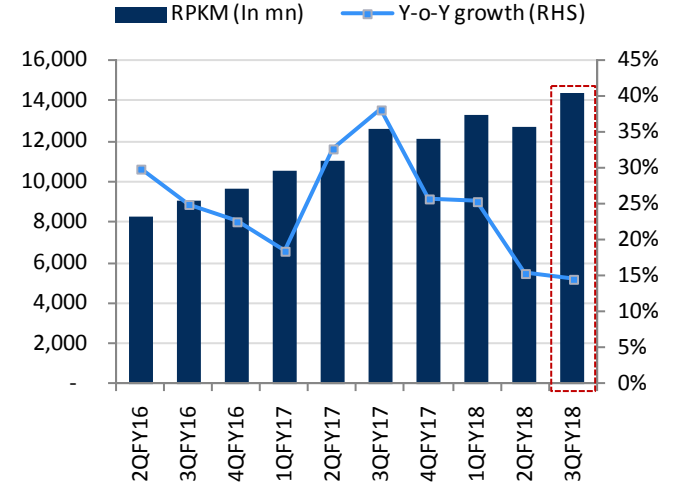
**Yield improved 6.3% YoY supported by lower base**

**ASKM Growth Has Been Hit By Engine Issues**



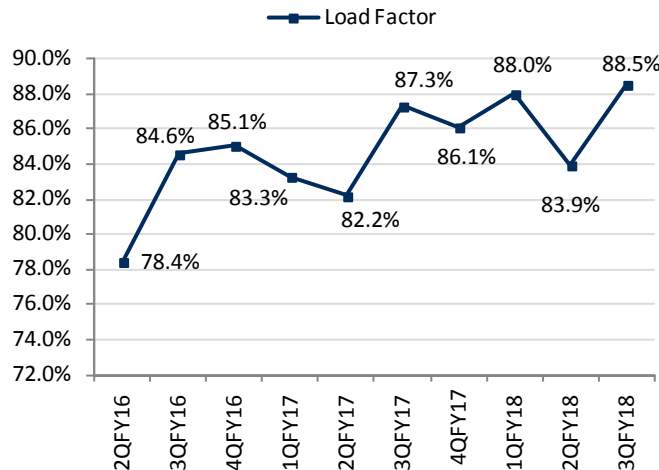
Source: Company, HDFC sec Inst Research

**Strong Growth In RPKM**



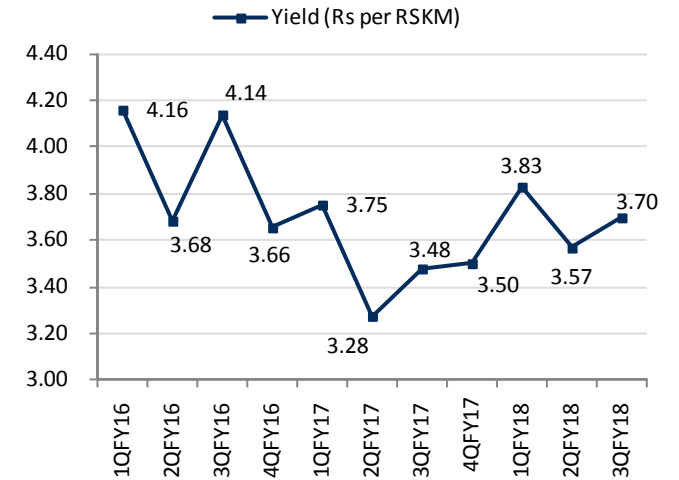
Source: Company, HDFC sec Inst Research

**Load Factor Is Holding Strong**



Source: Company, HDFC sec Inst Research

**Trend In Yield**



Source: Company, HDFC sec Inst Research

## Income Statement

Year ending Mar (Rs mn)	FY16	FY17	FY18E	FY19E	FY20E
<b>Net Revenues</b>	<b>161,399</b>	<b>185,805</b>	<b>235,490</b>	<b>291,494</b>	<b>347,290</b>
<b>Growth (%)</b>	<b>15.9</b>	<b>15.1</b>	<b>26.7</b>	<b>23.8</b>	<b>19.1</b>
Aircraft Fuel	47,793	63,415	77,978	100,334	110,737
Employee Expenses	17,899	20,482	25,016	30,966	36,893
Lease Rental	26,122	31,254	37,079	44,253	52,585
Other Operating Expenses	39,530	49,221	61,545	77,037	91,457
<b>EBITDA</b>	<b>30,055</b>	<b>21,433</b>	<b>33,871</b>	<b>38,904</b>	<b>55,618</b>
<b>EBITDA Margin (%)</b>	<b>18.6</b>	<b>11.5</b>	<b>14.4</b>	<b>13.3</b>	<b>16.0</b>
<b>EBITDA Growth (%)</b>	<b>60.7</b>	<b>(28.7)</b>	<b>58.0</b>	<b>14.9</b>	<b>43.0</b>
<b>EBITDAR</b>	<b>56,176</b>	<b>52,687</b>	<b>70,950</b>	<b>83,158</b>	<b>108,203</b>
<b>EBITDAR Margin (%)</b>	<b>34.8</b>	<b>28.4</b>	<b>30.1</b>	<b>28.5</b>	<b>31.2</b>
Depreciation	5,031	4,573	4,447	7,064	8,842
<b>EBIT</b>	<b>25,024</b>	<b>16,861</b>	<b>29,424</b>	<b>31,840</b>	<b>46,776</b>
Other Income (Incl. EO Items)	4,614	7,891	8,633	9,149	9,736
Interest	1,349	3,308	3,322	3,217	3,434
<b>PBT</b>	<b>28,290</b>	<b>21,443</b>	<b>34,735</b>	<b>37,772</b>	<b>53,079</b>
Tax (Incl Deferred)	8,392	4,852	9,726	10,954	16,189
<b>RPAT</b>	<b>19,897</b>	<b>16,592</b>	<b>25,009</b>	<b>26,818</b>	<b>36,890</b>
EO (Loss) / Profit (Net Of Tax)	-	-	-	-	-
<b>APAT</b>	<b>19,897</b>	<b>16,592</b>	<b>25,009</b>	<b>26,818</b>	<b>36,890</b>
<b>APAT Growth (%)</b>	<b>53.6</b>	<b>(16.6)</b>	<b>50.7</b>	<b>7.2</b>	<b>37.6</b>
<b>Adjusted EPS (Rs)</b>	<b>55.2</b>	<b>46.0</b>	<b>69.4</b>	<b>74.4</b>	<b>102.4</b>
<b>EPS Growth (%)</b>	<b>30.8</b>	<b>(16.6)</b>	<b>50.7</b>	<b>7.2</b>	<b>37.6</b>

Source: Company, HDFC sec Inst Research

## Balance Sheet

Year ending March (Rs mn)	FY16	FY17	FY18E	FY19E	FY20E
<b>SOURCES OF FUNDS</b>					
Share Capital - Equity	3,604	3,615	3,841	3,841	3,841
Reserves	14,739	34,177	67,943	77,009	89,479
<b>Total Shareholders' Funds</b>	<b>18,343</b>	<b>37,792</b>	<b>71,784</b>	<b>80,850</b>	<b>93,319</b>
<b>Total Debt</b>	<b>32,008</b>	<b>25,962</b>	<b>25,088</b>	<b>22,229</b>	<b>19,388</b>
Other Long Term Liabilities	24,722	22,760	27,752	33,142	40,330
Deferred Tax (net)	5,180	1,618	1,618	1,618	1,618
Long Term Provisions & Incentives	12,589	18,124	24,544	29,339	34,769
<b>TOTAL SOURCES OF FUNDS</b>	<b>92,842</b>	<b>106,256</b>	<b>151,638</b>	<b>168,029</b>	<b>190,275</b>
<b>APPLICATION OF FUNDS</b>					
Net Block	46,955	37,938	48,398	60,884	76,992
CWIP & Intangible Assets under Development	320	252	252	252	252
Investments	0	0	0	0	0
LT Loans & Advances	11,931	5,440	15,658	17,712	20,451
Other Assets	14,978	3,646	3,646	3,646	3,646
<b>Total Non-current Assets</b>	<b>83,924</b>	<b>84,411</b>	<b>105,089</b>	<b>119,629</b>	<b>138,476</b>
Inventories	1,267	1,632	1,772	2,114	2,424
Debtors	1,571	1,587	2,001	2,477	2,951
Other Current Assets	3,993	3,645	4,620	5,719	6,813
Cash & Equivalents	46,928	97,920	126,190	137,127	149,815
Short Term Loans and Advs	2,249	40	50	62	74
<b>Total Current Assets</b>	<b>46,267</b>	<b>67,689</b>	<b>93,853</b>	<b>106,719</b>	<b>121,297</b>
Creditors	7,412	7,746	7,742	9,583	11,418
Other Current Liabilities, Provns & Incentives	29,937	38,099	39,562	48,736	58,080
<b>Total Current Liabilities</b>	<b>37,349</b>	<b>45,844</b>	<b>47,305</b>	<b>58,319</b>	<b>69,497</b>
<b>Net Current Assets</b>	<b>8,917</b>	<b>21,845</b>	<b>46,549</b>	<b>48,400</b>	<b>51,800</b>
<b>TOTAL APPLICATION OF FUNDS</b>	<b>92,842</b>	<b>106,256</b>	<b>151,638</b>	<b>168,029</b>	<b>190,275</b>

Source: Company, HDFC sec Inst Research

## Cash Flow Statement

Year ending Mar (Rs mn)	FY16	FY17	FY18E	FY19E	FY20E
Reported PBT	28,290	21,443	34,735	37,772	53,079
Non-operating & EO items	(1,222)	(7,891)	(8,633)	(9,149)	(9,736)
Interest expenses	1,157	3,308	3,322	3,217	3,434
Depreciation	5,031	4,573	4,447	7,064	8,842
Working Capital Change	3,497	10,671	(81)	9,086	9,288
Tax Paid	(5,761)	(4,852)	(9,726)	(10,954)	(16,189)
<b>OPERATING CASH FLOW ( a )</b>	<b>30,991</b>	<b>27,253</b>	<b>24,065</b>	<b>37,037</b>	<b>48,717</b>
Capex	(2,320)	9,869	(20,050)	(19,550)	(24,950)
Free cash flow (FCF)	28,671	37,122	4,015	17,487	23,767
Investments/Long term advances	-	(15,781)	(3,797)	2,740	2,691
Non-operating Income	3,286	7,891	8,633	9,149	9,736
<b>INVESTING CASH FLOW ( b )</b>	<b>966</b>	<b>1,979</b>	<b>(15,214)</b>	<b>(7,661)</b>	<b>(12,523)</b>
Debt Issuance/ (Repaid)/ Change in long term liability	(10,241)	(8,008)	4,117	2,532	4,347
Interest Expenses	(825)	(3,308)	(3,322)	(3,217)	(3,434)
Others					
FCFE	17,604	25,805	4,810	16,802	24,680
Share Capital Issuance	12,138	-	25,538	-	-
Dividend	(13,271)	(14,746)	(16,555)	(17,753)	(24,420)
<b>FINANCING CASH FLOW ( c )</b>	<b>(12,200)</b>	<b>(26,063)</b>	<b>9,778</b>	<b>(18,438)</b>	<b>(23,507)</b>
NET CASH FLOW (a+b+c)	19,757	3,169	18,628	10,938	12,688
EO Items, Others					
<b>Closing Cash &amp; Equivalents</b>	<b>46,928</b>	<b>97,920</b>	<b>126,190</b>	<b>137,127</b>	<b>149,815</b>

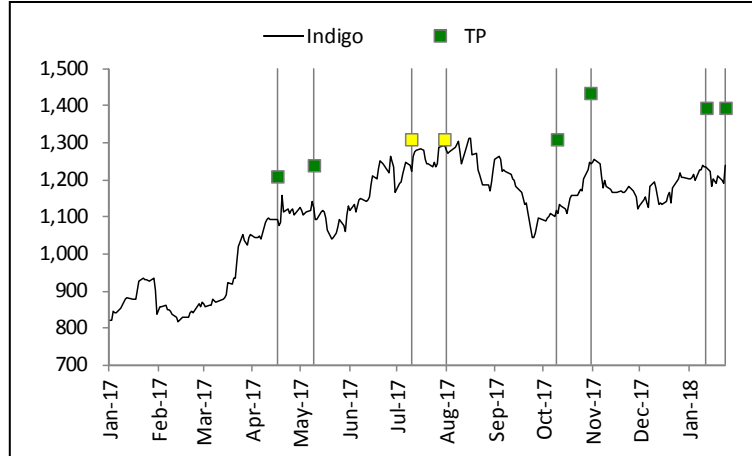
Source: Company, HDFC sec Inst Research

## Key Ratios

	FY16	FY17	FY18E	FY19E	FY20E
EBITDAR Margin	34.8	28.4	30.1	28.5	31.2
EBITDA Margin	18.6	11.5	14.4	13.3	16.0
APAT Margin	12.3	8.9	10.6	9.2	10.6
RoE	176.5	59.1	45.6	35.1	42.4
RoIC (or Core RoCE)	44.4	68.9	140.6	80.2	91.1
RoCE	20.2	13.4	16.4	14.1	18.1
<b>EFFICIENCY</b>					
Tax Rate (%)	29.7	22.6	28.0	29.0	30.5
Fixed Asset Turnover (x)	2.8	3.3	3.9	3.6	3.4
Inventory (days)	2.9	2.8	2.7	2.6	2.5
Debtors (days)	3.0	3.1	3.1	3.1	3.1
Other Current Assets (days)	9.0	7.2	7.2	7.2	7.2
Payables (days)	16.8	15.2	12.0	12.0	12.0
Other Current Liab & Provns (days)	48.7	58.0	50.0	50.0	50.0
Cash Conversion Cycle (days)	(51)	(60)	(49)	(49)	(49)
Debt/EBITDA (x)	1.1	1.2	0.7	0.6	0.3
Net D/E (x)	(0.3)	(0.9)	(0.8)	(0.9)	(1.0)
Interest Coverage (x)	18.6	5.1	8.9	9.9	13.6
<b>PER SHARE DATA (Rs)</b>					
EPS	55.2	46.0	69.4	74.4	102.4
CEPS	69.2	58.7	81.7	94.0	126.9
Dividend	47.7	34.0	38.2	40.9	56.3
Book Value	50.9	104.9	199.2	224.4	259.0
<b>VALUATION</b>					
P/E (x)	22.5	27.0	17.9	16.7	12.2
P/BV (x)	24.4	11.9	6.2	5.5	4.8
EV/EBITDA (x)	20.8	29.2	18.5	16.1	11.3
EV/Revenues (x)	3.9	3.4	2.7	2.1	1.8
OCF/EV (%)	5.0	4.4	3.8	5.9	7.8
FCF/EV (%)	4.6	5.9	0.6	2.8	3.8
FCFE/Mkt Cap (%)	3.9	5.8	1.1	3.7	5.5
Dividend Yield (%)	3.8	2.7	3.1	3.3	4.5

Source: Company, HDFC sec Inst Research

**RECOMMENDATION HISTORY**



Date	CMP	Reco	Target
17-Apr-17	1,090	BUY	1,210
10-May-17	1,140	BUY	1,240
11-Jul-17	1,224	NEU	1,310
1-Aug-17	1,290	NEU	1,310
10-Oct-17	1,101	BUY	1,310
1-Nov-17	1,244	BUY	1,435
12-Jan-18	1,236	BUY	1,395
25-Jan-18	1,238	BUY	1,395

**Rating Definitions**

- BUY : Where the stock is expected to deliver more than 10% returns over the next 12 month period
- NEUTRAL : Where the stock is expected to deliver (-) 10% to 10% returns over the next 12 month period
- SELL : Where the stock is expected to deliver less than (-)10% returns over the next 12 month period



## INSTITUTIONAL RESEARCH

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**HDFC securities Limited, I Think Techno Campus, Building - B, "Alpha", Office Floor 8, Near Kanjurmarg Station, Opp. Crompton Greaves, Kanjurmarg (East), Mumbai 400 042 Phone: (022) 3075 3400 Fax: (022) 2496 5066**

**Compliance Officer: Binkle R. Oza Email: [complianceofficer@hdfcsec.com](mailto:complianceofficer@hdfcsec.com) Phone: (022) 3045 3600**

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