

We downgrade GSPL to REDUCE from Buy, as the long-awaited HP grid tariff revision came as a major negative surprise. Regulated tariff was set 47% lower from Rs34/mmbtu, at Rs18.1/mmbtu (GCV, wef 1-May), and was a far call from the Rs50.8 sought by GSPL. The effective cut vs FY19 blended book rate is hence ~37% (assuming ~20% LP vol. share) vs our built-in ~20%. PNGRB's assumptions deviated on future capex, volume divisor & opex vs GSPL's, while the prospective impact was Rs11/mmbtu vs earlier rate. FY25/26E standalone earnings hence get cut 16%/21% and the DCF-SOTP based TP clipped by Rs45/sh (11%), to Rs370/sh (with rollover to Mar-26). Mgmt said it is studying the 'order', though given inordinate delays and the tariff model's long-term nature, the outlook has turned weak despite tailwinds like lower LNG prices.

Gujarat State Petronet: Financial Snapshot (Standalone)

Y/E Mar (Rs mn)	FY22	FY23	FY24E	FY25E	FY26E
Revenue	20,200	17,458	20,479	13,020	13,327
EBITDA	13,976	12,585	15,033	8,600	8,722
Adj. PAT	9,536	9,447	13,044	7,631	7,717
Adj. EPS (Rs)	16.9	16.7	23.1	13.5	13.7
EBITDA margin (%)	69.2	72.1	73.4	66.0	65.4
EBITDA growth (%)	(5.1)	(10.0)	19.5	(42.8)	1.4
Adj. EPS growth (%)	14.8	(10.1)	38.0	(41.5)	1.1
RoE (%)	11.9	10.7	13.4	7.3	7.0
RoIC (%)	23.9	23.6	28.8	12.6	11.3
P/E (x)	22.8	23.0	16.7	28.6	28.3
EV/EBITDA (x)	15.6	16.8	13.8	23.8	23.1
P/B (x)	2.6	2.3	2.1	2.0	1.9
FCFF yield (%)	4.6	3.7	1.8	1.1	0.5

Source: Company, Emkay Research

HP grid tariff revised down by 47% vs the assumed ~30% implied rate

PNGRB's tariff order for GSPL's high-pressure gas grid held a huge negative surprise, with a 47% cut in regulated rate to Rs18.1/mmbtu from Rs34.0. The 3-year delay caused a Rs11.1/mmbtu impact from prospective implementation with higher past volumes and economic life extension also playing a part. GSPL's own tariff filing sought an even higher rate at Rs50.8/mmbtu, driven by higher future capex & opex and lower volumes, which were all refuted by the PNGRB. Last-mile connectivity capex under O&M and various projects were disallowed, while SUG and unaccounted gas expenses were substantially reduced in opex, assuming lower gas prices. Volume divisor was raised to 31.7mmcmd for the future (based on FY20-24 rate) vs 26mmcmd filed by GSPL.

Outlook weakens given delays in tariff revision; GSPL needs to up its capex

Inordinate delays in pipeline tariff revision and the long-term nature of the pipeline tariff model, with multitude of assumptions and subjectivity, has weakened GSPL's outlook despite sectoral tailwinds like higher gas supplies, rise in demand and lower LNG prices. The volume-tariff trade-off, potential lack of major expansion options in Gujarat, and the last 5 years being high on volume and low on capex also keep the future tariff estimates cloudy. The only respite would be higher capex (in FY24E, capex rose to Rs6-7bn vs Rs1-2bnpa earlier) and GSPL aggressively pursuing capacity expansion with some leverage.

Core business weak, though SOTP valuation support should partly aid

The effective tariff cut vs the FY19 blended book rate is ~37% (assuming ~20% LP volume share) vs our earlier assumption of ~20%. FY25E/26E EPS is hence down 16%/21% (11M impact for FY25). We keep our LT volume and capex-opex estimates unchanged, but our DCF-based TP is down ~11% to Rs370/sh, with rollover from Dec-25 to Mar-26. GSPL's SOTP-based valuation has major contribution from the Gujarat Gas stake, on which though we have a Sell, with TP of Rs440/sh vs CMP of Rs545/sh. For GAIL, we do not see any material reading from this order (gas cost taken slightly higher).

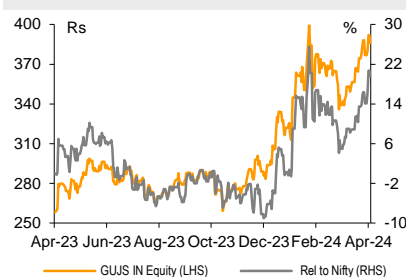
Target Price – 12M	Mar-25
Change in TP (%)	(10.9)
Current Reco.	REDUCE
Previous Reco.	BUY
Upside/(Downside) (%)	(4.2)
CMP (18-Apr-24) (Rs)	385.9

Stock Data	Ticker
52-week High (Rs)	407
52-week Low (Rs)	255
Shares outstanding (mn)	564.2
Market-cap (Rs bn)	218
Market-cap (USD mn)	2,606
Net-debt, FY24E (Rs mn)	-9,858
ADTV-3M (mn shares)	2
ADTV-3M (Rs mn)	691.6
ADTV-3M (USD mn)	8.3
Free float (%)	51.0
Nifty-50	21,996
INR/USD	83.5
Shareholding, Dec-23	
Promoters (%)	37.6
FPIs/MFs (%)	16.0/24.8

Price Performance

(%)	1M	3M	12M
Absolute	12.8	23.3	45.2
Rel. to Nifty	12.9	20.9	16.9

1-Year share price trend (Rs)



Sabri Hazarika

sabri.hazarika@emkayglobal.com
+91 22 6612 1282

Harsh Maru

harsh.maru@emkayglobal.com
+91 22 6612 1336

Arya Patel

arya.patel@emkayglobal.com
+91 22 6612 1285

Exhibit 1: PNGRB has adjusted the tariff submitted by GSPL on three main counts, viz. capex estimates, gas price considered for opex, and volume estimates

(Rs. /MMBTU on GCV basis)

S. No.	Particulars	Impact	Tariff
	Submitted Tariff		50.77
1	Working Days (Para 8.6)	1.05	51.82
2	Opening working capital/Discounting factor/Tax Rate (Para 8.5, Para 8.10)	(0.09)	51.73
3	Capex (Para 8.2.2, Para 8.2.3)	(13.75)	37.98
4	Opex (Para 8.3.1, Para 8.3.2)	(8.70)	29.28
5	Calorific Value (Para 8.8)	0.01	29.29
6	Volume Divisor (Para 8.4)	(10.92)	18.37
7	Tariff applicability 01.05.2024	(0.27)	18.10
	Levelized Tariff Determined by PNGRB		18.10

Source: PNGRB

Exhibit 2: O&M capex estimates were considered to be materially lower at Rs1.3bn vs. Rs15.3bn submitted by GSPL

(Rs. In Crore)

Particulars	Amount Claimed	Amount Considered
GAIL Ankot Connectivity	55.00	0.00
Jamnagar Okha Pipeline Project	279.00	279.00
Vapi-Tarapur Spurline	139.50	139.50
Botad -Jasdan Spurline	72.00	72.00
Mundra-Mandvi Spurline	67.50	67.50
Bhayla Connectivity	52.50	52.50
Amreli - Kunkavav vadia Spurline	42.00	42.00
Saykha GIDC Connectivity	43.50*	9.50
Silvasa Spur Line	43.50*	17.80
Projects Under Development (A)	794.50	679.80
Vantevad Rajpipla	133.92	133.92
Chhara LNG Source Connectivity	608.52	608.52
Swan LNG Connectivity	2.92	2.92
Dahej Bhadbhut Pipeline Project	299.69	288.96#
Projects under execution(B)	1,045.04	1034.32
Heating System	64.00	7.02
Metering System Upgradation	50.00	36.20
SCADA & Telecom Upgradation	100.00	60.59
Staff Training Centre	8.43	8.43
High Pressure Pipeline in Hazira Region	100.00	0.00
Future Capex – LMCs	883.34	3.32
O&M Capex	64.00	12.81
Total O&M capex (C)	1,529.83	128.37
Total Future Capex (A+B+C)	3,369.37	1842.49

* Revised capex vide email dated 15.02.2024

#NFA Rs.10.73 Crore reduced on account of old pipeline

Source: PNGRB; Note: Rs1 crore = Rs10mn

Exhibit 3: Lower opex estimates by the PNGRB are mainly attributable to lower gas price considered by the PNGRB on SUG and unaccounted gas

Rs.in Crore			
Particulars	Claimed by Entity	Disallowances / Not Considered	Considered by PNGRB
Consumables & Chemicals	43.80	-	43.80
Utilities (Power, Fuel and Water)	91.54	-	91.54
SUG Cost	37.68	(25.89)	11.79
Gana Compressor SUG	967.56	(816.19)	151.36
LAUG Claim	610.19	(286.66)	323.53
Salaries	1,031.29	(275.41)	755.88
Repair & Maintenance	534.70	-	534.70
Repair & Maintenance-Compressor	68.11	-	68.11
Gen Administrative Expense	281.35	(1.70)	279.66
Insurance	43.59	-	43.59
Sub Total	3,709.80	(1,405.84)	2,303.95
Add: Opex for Future Pipeline Capex	496.54	(167.42)	329.13
Add: Opex for Future other Capex	258.62	(230.91)	27.72
Add: SUG for New gas heaters	449.48	(444.41)	5.07
Less: Non-Operating Income	-	78.56	78.56
Less: Connectivity Charges	-	43.90	43.90
Less: Operating Charges Income	-	-	-
Tariff not recovered System Usage Gas	50.63	(38.95)	11.68
Total	4,965.07	(2,409.98)	2,555.09

Source: PNGRB; Note: Rs1 crore = Rs10mn

Exhibit 4: PNGRB has maintained gas price consistency in its recent tariff orders, based on historical average HP-HT price at ~USD7.6/mmbtu vs. USD12.1/mmbtu claimed by GSPL.

(Rs. / MMBTU)				
Particulars	Claimed by Entity	Considered by PNGRB		
		FY 23-24	FY 24-25	FY 25-26 onwards
Transportation Tariff of UFT-Zone 3	114.52	114.52	114.52	114.52
12% GST on Transportation Tariff	13.74	-	-	-
Exchange Charges	8.00	-	-	-
Broker Charges for exchange	1.00	-	-	-
18% GST on Exchange Charges	1.62	-	-	-
Total transportation cost	138.88	114.52	114.52	114.52
Exchange Rate (Rs/US\$)	85*	83.18	83.18	83.18
US\$ Equivalent cost of transportation	1.63	1.38	1.38	1.38
Gas Price Considered (US\$/MMBTU)	12.12	11.04	8.75	7.63
AP Vat on Gas Price @ 24.5%, 5%	2.97	2.70	0.44	0.38
Total Gas Price (\$/MMBTU)	16.72	15.12	10.56	9.39

Source: PNGRB

Exhibit 5: PNGRB's assessment of GSPL's pipeline capacity based on EIL's estimate is higher than the company's own estimates.

Assessment years	Pipeline Capacity as determined by Entity (in MMSCMD)	Pipeline Capacity as assessed by EIL (in MMSCMD)	Remark
2017-18	28.29	30.1	
2018-19	29.62	30.2 (Note-2)	
2019-20	32.13	32.2	
2020-21	35.22	36.0 (Note-3)	GLL Mundra source added to the network
2021-22	35.21	36.0	
2022-23	34.17	36.0	
2023-24	34.17	36.0	

Source: PNGRB

Exhibit 6: PNGRB's final tariff for GSPL's HP grid is 47% lower than provisional numbers

(Rs./MMBTU on GCV basis)

S. No.	Particulars	Impact	Tariff
	Provisional Tariff determined by PNGRB		34.00
1	Economic Life Extension (Para 8.1)	(4.70)	29.30
2	Capex (Para 8.2)	4.79	34.09
3	Opex (Para 8.3)	1.41	35.50
4	Calorific Value, Working Days, Discounting Factor, Tax Rate etc. (Para 8.8, Para 8.5, Para 8.6, Para 8.10)	(0.23)	35.27
5	Volume Divisor (Para 8.4)	(6.05)	29.22
6	Prospective implementation from 01.05.2024	(11.12)	18.10
	Final Levelized Tariff		18.10

Source: PNGRB

Exhibit 7: Historical trend of GSPL's HP grid tariff

(Rs./MMBTU on GCV basis)

Particulars	Submitted by GSPL	Determined by PNGRB
Provisional tariff from 2012-13 to 2017-18	39.55	26.58
Final Tariff from 2018-19 to 31.01.2024	64.70	34.00
Tariff Review from 01.05.2024 onwards	50.77*	18.10

*GSPL has submitted tariff from 01.04.2024 onwards

Source: PNGRB

Exhibit 8: Change in assumptions

	FY24E			FY25E			FY26E		
	Previous	Revised	Variance	Previous	Revised	Variance	Previous	Revised	Variance
Adj Tariff (Rs/mscm)	1,562	1,549	-1%	1,082	905	-16%	1,082	858	-21%
Growth	-2%	-3%	-80bps	-31%	-42%	-1090bps	0%	-5%	-510bps
Volumes (mmscmd)	29.5	29.8	1%	32.0	32.0	0%	34.5	34.5	0%
Growth (%)	16%	17%	107bps	8%	7%	-98bps	8%	8%	0bps

Source: Company, Emkay Research

Exhibit 9: Change in estimates

(Rs mn)	FY24E			FY25E			FY26E		
	Previous	Revised	Variance	Previous	Revised	Variance	Previous	Revised	Variance
Revenue	20,461	20,479	0%	15,510	13,020	-16%	16,709	13,327	-20%
EBITDA	15,094	15,033	0%	10,613	8,600	-19%	11,456	8,722	-24%
EBITDA Margin	73.8%	73.4%	-36bps	68.4%	66.0%	-237bps	68.6%	65.4%	-311bps
PAT	13,089	13,044	0%	9,137	7,631	-16%	9,761	7,717	-21%
EPS (Rs)	23.2	23.1	0%	16.2	13.5	-16%	17.3	13.7	-21%

Source: Company, Emkay Research

Exhibit 10: DCF-based valuation of the core business (Mar-25E)

DCF Assumptions				Rs. mn
Risk Free Rate	7.0%	NPV Of FCF (Mar '26-Mar '37)		35,186
Risk Premium	5.3%	Terminal Value		87,158
Beta	0.8	PV Of TV		24,381
Cost Of Equity	11.2%	Total Value		59,567
Cost Of Debt	9.0%	Less: Net Debt (Mar-25E)		-17,568
Post Tax Cost Of Debt	6.8%	Equity Value		77,135
Average Debt:Equity Ratio	0.0%	No. Of Shares O/S (mn)		565
WACC	11.2%	Core Business FV (Rs)		137
Terminal Growth Rate	0.0%			

Source: Company, Emkay Research

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Exhibit 11: Value of Gujarat Gas’s stake

Gujarat Gas at FV (Rs mn)	
FV (Rs/share)	440
No. Of Shares O/S (mn)	689
FV of GGL	303,160
At 30% Holdco Disc.	212,212
GSPL's Stake	54.2%
GSPL's Value	114,955
GSPL's Shares O/S (mn)	565
Value/share For GSPL	204

Source: Company, Emkay Research

Exhibit 12: SOTP-based valuation

Parts (Rs)	Method	Value
Core Gujarat Business	DCF Based	137
Gujarat Gas Stake	FV Based	204
3 New Pipelines	DCF Based	16
Sabarmati Gas	PE Based	13
Target Price		370

Source: Company, Emkay Research

Gujarat State Petronet: Standalone Financials and Valuations

Profit & Loss					
Y/E Mar (Rs mn)	FY22	FY23	FY24E	FY25E	FY26E
Revenue	20,200	17,458	20,479	13,020	13,327
Revenue growth (%)	(2.9)	(13.6)	17.3	(36.4)	2.4
EBITDA	13,976	12,585	15,033	8,600	8,722
EBITDA growth (%)	(5.1)	(10.0)	19.5	(42.8)	1.4
Depreciation & Amortization	1,960	1,939	1,935	2,137	2,392
EBIT	12,016	10,646	13,099	6,463	6,330
EBIT growth (%)	(5.4)	(11.4)	23.0	(50.7)	(2.1)
Other operating income	0	0	0	0	0
Other income	1,045	1,684	3,551	3,776	4,020
Financial expense	313	47	40	37	34
PBT	12,748	12,283	16,610	10,202	10,316
Extraordinary items	416	2	3	0	0
Taxes	3,067	2,836	3,568	2,571	2,600
Minority interest	0	0	0	0	0
Income from JV/Associates	0	0	0	0	0
Reported PAT	10,514	9,452	13,047	7,631	7,717
PAT growth (%)	14.8	(10.1)	38.0	(41.5)	1.1
Adjusted PAT	9,536	9,447	13,044	7,631	7,717
Diluted EPS (Rs)	16.9	16.7	23.1	13.5	13.7
Diluted EPS growth (%)	14.8	(10.1)	38.0	(41.5)	1.1
DPS (Rs)	2.0	5.0	6.9	4.1	4.1
Dividend payout (%)	10.7	29.8	30.0	30.0	30.0
EBITDA margin (%)	69.2	72.1	73.4	66.0	65.4
EBIT margin (%)	59.5	61.0	64.0	49.6	47.5
Effective tax rate (%)	28.5	23.1	21.5	25.2	25.2
NOPLAT (pre-IndAS)	8,596	8,186	10,285	4,834	4,735
Shares outstanding (mn)	564.2	564.2	564.5	564.8	565.1

Source: Company, Emkay Research

Cash flows					
Y/E Mar (Rs mn)	FY22	FY23	FY24E	FY25E	FY26E
PBT	12,748	12,283	16,610	10,202	10,316
Others (non-cash items)	850	393	(1,576)	(1,603)	(1,594)
Taxes paid	(3,062)	(2,741)	(3,601)	(2,602)	(2,630)
Change in NWC	(202)	(274)	(621)	1,346	(115)
Operating cash flow	10,752	9,664	10,814	7,344	5,977
Capital expenditure	(798)	(1,892)	(7,000)	(5,000)	(5,000)
Acquisition of business	0	0	0	0	0
Interest & dividend income	912	1,137	3,551	3,776	4,020
Investing cash flow	59	(1,585)	(3,449)	(1,224)	(980)
Equity raised/(repaid)	0	0	3	3	3
Debt raised/(repaid)	(9,354)	(886)	(10)	(10)	(10)
Payment of lease liabilities	(9)	(9)	(9)	(9)	(9)
Interest paid	(341)	(12)	(40)	(37)	(34)
Dividend paid (incl tax)	(1,128)	(1,128)	(3,913)	(2,289)	(2,315)
Others	0	0	0	0	0
Financing cash flow	(10,823)	(2,026)	(3,960)	(2,333)	(2,356)
Net chg in Cash	(13)	6,053	3,404	3,787	2,642
OCF	10,752	9,664	10,814	7,344	5,977
Adj. OCF (w/o NWC chg.)	10,953	9,938	11,435	5,997	6,092
FCFF	9,953	7,772	3,814	2,344	977
FCFE	10,552	8,863	7,325	6,083	4,964
OCF/EBITDA (%)	76.9	76.8	71.9	85.4	68.5
FCFE/PAT (%)	100.4	93.8	56.1	79.7	64.3
FCFF/NOPLAT (%)	115.8	94.9	37.1	48.5	20.6

Source: Company, Emkay Research

Balance Sheet					
Y/E Mar (Rs mn)	FY22	FY23	FY24E	FY25E	FY26E
Share capital	5,642	5,642	5,645	5,648	5,651
Reserves & Surplus	78,787	87,090	96,221	101,563	106,964
Net worth	84,429	92,732	101,866	107,210	112,615
Minority interests	0	0	0	0	0
Deferred tax liability (net)	4,250	4,238	4,205	4,174	4,144
Total debt	1,275	473	463	453	443
Total liabilities & equity	89,955	97,443	106,533	111,837	117,201
Net tangible fixed assets	31,528	29,826	31,486	35,881	39,715
Net intangible assets	1,434	1,434	1,434	1,434	1,434
Net ROU assets	292	292	292	292	292
Capital WIP	2,531	4,257	7,662	6,130	4,904
Goodwill	0	0	0	0	0
Investments [JV/Associates]	51,737	51,700	51,700	51,700	51,700
Cash & equivalents	864	6,917	10,321	14,107	16,749
Current assets (ex-cash)	5,013	6,457	7,177	5,764	5,939
Current Liab. & Prov.	3,445	3,440	3,539	3,471	3,531
NWC (ex-cash)	1,568	3,017	3,638	2,292	2,407
Total assets	89,955	97,443	106,533	111,837	117,201
Net debt	411	(6,444)	(9,858)	(13,655)	(16,306)
Capital employed	89,955	97,443	106,533	111,837	117,201
Invested capital	34,823	34,569	36,850	39,900	43,849
BVPS (Rs)	149.6	164.4	180.5	189.8	199.3
Net Debt/Equity (x)	0.0	(0.1)	(0.1)	(0.1)	(0.1)
Net Debt/EBITDA (x)	0.0	(0.5)	(0.7)	(1.6)	(1.9)
Interest coverage (x)	0.0	0.0	0.0	0.0	0.0
RoCE (%)	14.5	13.2	16.3	9.4	9.0

Source: Company, Emkay Research

Valuations and key Ratios					
Y/E Mar	FY22	FY23	FY24E	FY25E	FY26E
P/E (x)	22.8	23.0	16.7	28.6	28.3
P/CE(x)	18.9	19.1	14.5	22.3	21.6
P/B (x)	2.6	2.3	2.1	2.0	1.9
EV/Sales (x)	10.8	12.1	10.2	15.7	15.1
EV/EBITDA (x)	15.6	16.8	13.8	23.8	23.1
EV/EBIT(x)	18.2	19.8	15.9	31.6	31.9
EV/IC (x)	6.3	6.1	5.6	5.1	4.6
FCFF yield (%)	4.6	3.7	1.8	1.1	0.5
FCFE yield (%)	4.8	4.1	3.4	2.8	2.3
Dividend yield (%)	0.5	1.3	1.8	1.1	1.1
DuPont-RoE split					
Net profit margin (%)	47.2	54.1	63.7	58.6	57.9
Total asset turnover (x)	0.2	0.2	0.2	0.1	0.1
Assets/Equity (x)	1.1	1.1	1.0	1.0	1.0
RoE (%)	11.9	10.7	13.4	7.3	7.0
DuPont-RoIC					
NOPLAT margin (%)	42.6	46.9	50.2	37.1	35.5
IC turnover (x)	0.0	0.0	0.0	0.0	0.0
RoIC (%)	23.9	23.6	28.8	12.6	11.3
Operating metrics					
Core NWC days	19.2	36.3	36.3	36.3	36.3
Total NWC days	19.2	36.3	36.3	36.3	36.3
Fixed asset turnover	0.4	0.4	0.4	0.2	0.2
Opex-to-revenue (%)	30.8	27.9	26.6	34.0	34.6

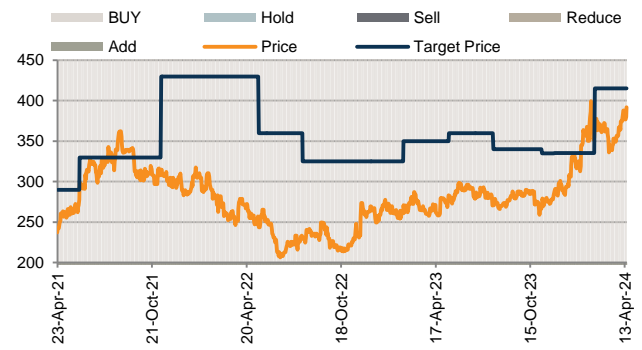
Source: Company, Emkay Research

RECOMMENDATION HISTORY - DETAILS

Date	Closing Price (INR)	TP (INR)	Rating	Analyst
15-Feb-24	374	415	Buy	Sabri Hazarika
03-Jan-24	326	335	Buy	Sabri Hazarika
30-Nov-23	289	335	Buy	Sabri Hazarika
06-Nov-23	273	335	Buy	Sabri Hazarika
05-Aug-23	271	340	Buy	Sabri Hazarika
13-Jul-23	287	360	Buy	Sabri Hazarika
12-May-23	282	360	Buy	Sabri Hazarika
14-Feb-23	271	350	Buy	Sabri Hazarika
22-Nov-22	234	325	Buy	Sabri Hazarika
11-Nov-22	229	325	Buy	Sabri Hazarika
05-Aug-22	229	325	Buy	Sabri Hazarika
13-May-22	244	360	Buy	Sabri Hazarika
11-Feb-22	290	430	Buy	Sabri Hazarika
23-Nov-21	301	430	Buy	Sabri Hazarika
07-Nov-21	308	430	Buy	Sabri Hazarika
26-Jul-21	330	330	Buy	Sabri Hazarika
23-Jun-21	323	330	Buy	Sabri Hazarika
04-Jun-21	298	330	Buy	Sabri Hazarika
29-May-21	270	290	Buy	Sabri Hazarika
23-Apr-21	242	290	Buy	Sabri Hazarika

Source: Company, Emkay Research

RECOMMENDATION HISTORY - TREND



Source: Company, Bloomberg, Emkay Research

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ADD	5-15% upside
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Emkay Global Financial Services Ltd.

CIN - L67120MH1995PLC084899

7th Floor, The Ruby, Senapati Bapat Marg, Dadar - West, Mumbai - 400028. India
Tel: +91 22 66121212 Fax: +91 22 66121299 Web: www.emkayglobal.com

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Digitally signed by SESHADRI KUMAR SEN
DN: c=IN, o=Personal,
pseudonym=133422712594461905D5Uy8kk9u
n4ET,
2.5.4.20=1217a0ac22644d6a490a50ef35978ca2c
bcf94e39548b678bafci17296e1ced7,
postalCode=400011, st=Maharashtra,
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af5d5d599551e83b808ee76a10dbb491f06e,
cn=SESHADRI KUMAR SEN
Date: 2024.04.22 01:08:45 +05'30'

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