

Company Overview

Incorporated in 2015, IRM Energy Ltd. is involved in the business of storage, supply, distribution, and sale of natural gas and working on laying, operating, maintaining, and expanding the city's gas distribution networks. Authorized through PNGRB (which allows exclusivity to operate in a particular geographical area (GA) for a limited period), the company develops its natural gas distribution projects catering to both CNG (Compressed Natural Gas - 50.73% revenue mix) and PNG (Piped Natural Gas - 49.27% revenue mix) customers. Presently, IRM's customer network comprises 66 CNG stations with its application in automobiles and PNG is directed to use by domestic households (serving 52,454 customers) along with commercial (269 customers) and industrial units (184 customers). The company operates its business in Banaskantha (Gujarat), Diu & Gir Somnath (Union Territory of Daman and Diu/Gujarat) which are predominantly CNG-focused areas whereas Fatehgarh Sahib (Punjab) focuses on the supply of PNG. The company has further received authorization in Namakkal and Tiruchirappalli for creating the infrastructure of a 1,450-inch km gas pipeline (consisting of steel pipelines), 17,74,000 PNG domestic connections, and 290 CNG stations in Namakkal & Tiruchirappalli. For its gas procurement needs, the company sources its gas through RIL and GAIL for its mid to long-term gas sale and purchase agreements while it fulfils short-term requirements through its subscription to the Indian Gas Exchange (IGX).

Objects of the issue

The net proceeds from the fresh issue will be used towards the following purposes:

- ⇒ Funding capital expenditure requirements for the development of the City Gas Distribution network in the GAs of Namakkal and Tiruchirappalli (Tamil Nadu) in Fiscal 2024, Fiscal 2025 and Fiscal 2026.
- ⇒ Prepayment or repayment of all or a portion of certain outstanding borrowings availed by the company.
- ⇒ General corporate purposes.

Investment Rationale

Expanding presence in newer GAs and enjoying exclusivity rights in the existing ones

In the next three fiscals, the company envisions adding 24,000 PNG domestic connections, 62 PNG commercial connections, 10 PNG industrial connections, along 63 CNG retail outlets. To achieve this, the company has ventured to expedite the development of the CGD (City Gas Distribution) network in the newly awarded GA of Namakkal & Tiruchirappalli districts in Tamil Nadu which has a high urban population. Additionally, favourable regulation like the ban by the National Green Tribunal (NGT) on the usage of polluting fuels in Fatehgarh Sahib has resulted in overall volume growth from its industrial segment, with its industrial customers increasing to 170 in FY23 compared to 56 in FY21. Currently, the company enjoys network exclusivity rights of 25 years for infrastructure creation for all its GAs, including the laying down of pipelines and CNG distribution. This helps the business in creating entry barriers in its respective GAs and increases the requirement of large investments by its competitors to establish a natural gas distribution network post the expiry of its marketing exclusivity. Meanwhile, the company's marketing exclusivity is valid up to September 2028 for the Diu & Gir Somnath GA, and until March 2030 for Namakkal & Tiruchirappalli GA. For Banaskantha GA and Fatehgarh Sahib GA, the company's marketing exclusivity expired in June 2023 and September 2023, respectively.

Optimizing operations through a higher focus on technology

The company has prioritized the use of technology to improve its efficiency and cut down on its operational costs by implementing supervisory control and data acquisition ("SCADA") at all operational CNG stations and awarding technology study assignments to the Punjab State Council for Science and Technology for the faster adoption of PNG in steel re-rolling mills in Mandi Gobindgarh, Fatehgarh Sahib. Going ahead, the business aims to increase its efficiency further and imbibe technical expertise through its association with ShizGas which is an energy provider in Japan. The business is also evaluating opportunities with ShizGas for sourcing R-LNG from outside India at competitive prices and tapping into new growth opportunities in the natural gas market in India. Moreover, the business has also signed a MoU with Mindra EV Private Limited for setting up an EV charging infrastructure at its CNG stations for a period of five years with the intention of driving another source of revenue for the business.

Issue Details	
Offer Period	18 th Oct, 2023 - 20 th Oct, 2023
Price Band	Rs. 480 to Rs. 505
Bid Lot	29
Listing	BSE & NSE
Issue Size (no. of shares in mn)	10.80
Issue Size (Rs. in bn)	5.45
Face Value (Rs.)	10

Issue Structure	
QIB	50%
NIB	35%
Retail	15%

	HDFC Bank Ltd.
BRLM	BOB Capital Markets Ltd.
Registrar	Link Intime India Private Ltd.

Particulars	Pre Issue %	Post Issue %
Promoters & Promoters Group	67.94	50.07
Public	32.06	49.93
Total	100.00	100.00

(Assuming issue subscribed at higher band)

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IRM Energy Ltd.

Valuation & Outlook

It is expected that natural gas demand from the CGD sector in India is set to grow at a CAGR of around 19-20% between FY23 and FY30 to 117-120 MMSCMD, with healthy demand for both CNG and PNG. As discussed earlier, favourable government regulations have supported increased adoption of PNG wherein it is forecast that total household PNG connections are expected to grow from around 78.2 lakhs in FY21 to around 190-200 lakhs by FY26. Presently, the share of natural gas in India's primary energy mix has increased from 6.3% in 2020 to 6.5% which is still significantly lower than the global average share of 24%. This provides the company with an ample amount of room to expand further in the coming years. IRM Energy Ltd. also benefits from its strong parentage of Cadila Pharmaceuticals Ltd. (49.5% stake) which has aided the business in overcoming certain entry barriers such as the requirement of large investments in this sector. Coming to the financial performance, the business has recorded a healthy volume CAGR growth of 76.58% to 196 MMSCM in FY23 compared to 63 MMSCM in FY21 while its ROE and ROCE ratios stood at 18.2% and 14.2% in FY23, respectively. **On the upper price band, the issue is valued at a P/E of 24.1x based on FY2023 earnings, which is fairly valued compared to the average industry P/E of 43.9x. We, therefore, recommend a "SUBSCRIBE" rating for the issue.**

Key Risks

- ⇒ The company typically requires around 15-18 months to generate revenue in its GAs. Any further delay in realizing revenue may affect the business projections, results of operations and cash flows.
- ⇒ The business is 100% dependent on third parties for sourcing and transportation of natural gas. Any disruption in the receipt of such natural gas from these third parties, or delay or default in timely transportation of the natural gas could lead to a disruption or failure in the supply of natural gas which could adversely affect its business, reputation, results of operations and cash flows.
- ⇒ The company has two ongoing criminal litigations, 29 regulatory actions and 12 material tax litigations as per the company's Materiality Policy, involving its promoters. In the event of any adverse outcome, the company's business operations and reputation may be affected.



IRM Energy Ltd.

Income Statement (Rs. in millions)

Particulars	FY21	FY22	FY23	Q1FY24
Revenue				
Revenue from Operations	2,118	5,461	10,391	2,452
Total Revenue	2,118	5,461	10,391	2,452
Expenses				
Purchases of stock in trade of natural gas	771	2,492	7,795	1,711
Changes in inventory	(0)	(10)	3	(34)
Excise duty	222	390	590	152
Other expenses	352	653	790	174
Employee Benefit expenses	41	72	91	29
Total Operating Expenses	1,386	3,597	9,269	2,032
EBITDA	732	1,864	1,122	421
Depreciation and Amortization expenses	120	150	209	58
Other income	7	31	60	34
EBIT	619	1,744	973	397
Finance costs	159	221	229	60
Exceptional Item	-	-	-	-
PBT	461	1,524	744	336
Corporate tax	90	335	141	53
Deferred tax credit	20	54	38	5
Total tax	110	388	180	58
PAT before share of profit/(loss) of Joint Control Entities	351	1,136	564	278
Share of Profit/(loss) of Joint Control Entities	(2)	145	67	(9)
Profit for the year	349	1,280	631	269
Less transfer of non-controlling interests	-	-	(0)	(0)
Profit for the year	349	1,280	631	269
Diluted EPS	12.4	43.9	20.9	8.9

Source: RHP, BP Equities Research

Cash Flow Statement (Rs. in millions)

Particulars	FY21	FY22	FY23	Q1FY24
Cash Flow from operating activities	454	1,286	467	467
Cash flow from investing activities	(420)	(1,103)	(2,016)	(582)
Cash flow from financing activities	103	151	1,177	110
Net increase/(decrease) in cash and cash equivalents	137	334	(373)	(4)
Cash and cash equivalents at the beginning of the period	121	258	591	219
Cash and cash equivalents at the end of the period	258	591	219	214

Source: RHP, BP Equities Research



IRM Energy Ltd.

Balance Sheet (Rs. in millions)

Particulars	FY21	FY22	FY23	Q1FY24
Equity and Liabilities				
Equity Share Capital	290	294	303	303
Other equity	886	2,144	3,162	3,431
Non Controlling Interests			0	
Total Equity	1,176	2,437	3,464	3,733
Non-Current Liabilities				
Financial Liabilities				
(i) Borrowings	1,582	1,868	2,822	2,692
(ii) Lease Liabilities	50	108	151	176
(iii) Trade Payables	-	-	-	-
(iv) Other financial liabilities	143	195	274	367
Provisions	7	9	14	16
Deferred tax liabilities	94	147	185	190
Total Non-Current Liabilities	1,875	2,328	3,445	3,441
Current Liabilities				
(a) Financial Liabilities				
(i) Borrowings	52	158	216	521
(ii) Lease Liabilities	6	9	9	8
(iii) Trade Payables				
(a) Dues of micro enterprises and small enterprises	11	2	2	1
(b) Dues of creditors other than (a)	89	249	310	295
(iv) Other Financial Liabilities	141	219	461	313
Provisions	0	0	1	1
Other current liabilities	30	61	21	70
Current tax liabilities (net)	-	84	-	-
Total Current Liabilities	330	783	1,019	1,207
Total liabilities	2,205	3,111	4,465	4,649
Total Equity and Liabilities	3,381	5,548	7,929	8,382
Assets				
Non-Current Assets				
Property, plant and equipment	2,308	2,848	3,610	3,876
Capital work in progress	197	523	911	992
Intangible assets	27	27	34	32
Right-to-use assets	71	129	162	190
Intangible assets under development	2	2	-	1
Financial Assets				
Investments	61	257	324	314
Loans	-	77	77	77
Other financial assets	43	182	110	131
Income tax assets (net)	32	-	42	21
Other non current assets	63	88	404	380
Total Non-Current Assets	2,805	4,134	5,674	6,015
Current Assets				
Inventories	8	17	19	55
Financial assets				
(i) Investments	14	103	543	649
(ii) Trade Receivables	112	227	386	398
(iii) Cash and cash equivalents	258	591	219	214
(iv) Bank balances other than (iii)above	157	406	766	822
Other financial assets	5	26	38	53
Other current assets	23	44	284	176
Total Current Assets	576	1,414	2,255	2,367
Total Assets	3,381	5,548	7,929	8,382

Source: RHP, BP Equities Research

**Disclaimer Appendix****Analyst (s) holding in the Stock : Nil****Analyst (s) Certification:**

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