

The Issue	
Type of Issue	Issue size Rs. Mn
Fresh Issue	5,454
Total	5,454
Post issue mkt cap*	20,735
Lot size	29 shares

*At Upper Price Band

Issue Break-Up	
Reservation for	% of Issue
QIB	50%
NII	15%
Retail	35%
Total	100%
Indicative Offer Timeline	
	Indicative Date
Bid/Offer Opening Date	18 Oct, 2023
Bid/Offer Closing Date	20 Oct, 2023
Finalization of the Basis of Allotment	27 Oct, 2023
Credit of shares	30 Oct, 2023
Listing Date	31 Oct, 2023
Use of Proceeds	
Particulars	Rs in Mn
Funding capex of City Gas Distribution	3,073
Payment of debt obligation	1,350
Manager HDFC Bank; BoB Capital Markets	
Registrar Link Intime India	

Saral Seth
VP—Institutional Equities
sarals@indsec.co.in
+91 22 61146139

Onkar Kelji
Research Analyst
onkark@indsec.co.in
+91 22 61146103

Deriving growth through expansion... **Subscribe**

Company Overview:

IRM Energy Ltd (IRMEL) is a City Gas Distribution (CGD) company, engaged in the business of supplying Piped Natural Gas (PNG) and Compressed Natural Gas (CNG) in the awarded geographical areas (GAs). They also undertake laying, building, operating and expanding the city or local natural gas distribution network.

The company's has presence in GAs of Banaskantha (Gujarat), Fatehgarh Sahib (Punjab), Diu & Gir Somnath (Union Territory of Daman and Diu/Gujarat), and Namakkal & Tiruchirappalli (Tamil Nadu).

IRMEL primarily distributes CNG for use in motor vehicles and PNG for use in domestic households as well as commercial and industrial units. The company supplies CNG through its 66 CNG stations network and PNG to 52,454 household, 269 commercial and 184 industrial customers.

The company has a business alliance with Shizuoka Gas Co. Ltd (4th largest gas Co. in Japan), wherein it benefits from the technical expertise and practices. The latter also holds equity stake in IRM Energy.

As on June 30, 2023, the company supplies gas through 2 company-owned-company-operated (COCO) stations, 36 dealer-owned-dealer-operated (DODO) stations, and 28 oil marketing company (OMC) stations.

IRMEL sources natural gas from Gol to supply to PNG to household and CNG to vehicles and private gas suppliers in the form of LNG and RLNG to be supplied to Industrial and commercial units.

Valuation and Outlook:

At the upper price band, the IPO is aggressively priced at a **PE of 29.8x** on TTM EPS (post-issue), vs **peers' average of 19x (TTM basis)**. However, the growth outlook in the new GA (Namakkal & Tiruchirappalli) coupled with strengthening balance sheet (repayment of debt) does offer us comfort in valuation. The company is developing requisite infrastructure in their GAs specially in Namakkal & Tiruchirappalli as these regions remains significantly underpenetrated. This is further supported by 19-20% CAGR in natural gas demand forecasted between FY22-30P owing to greater adoption of natural gas over fossil fuels in Industrial application. We also draw comfort on margins considering lower finance cost and future capex funded through internal accruals. The management has also guided that operating margins seems sustainable at 18% going forward. Thus we assign **"Subscribe"** rating to the stock.

IRM Energy Limited

IRM Energy Limited's key financial summary

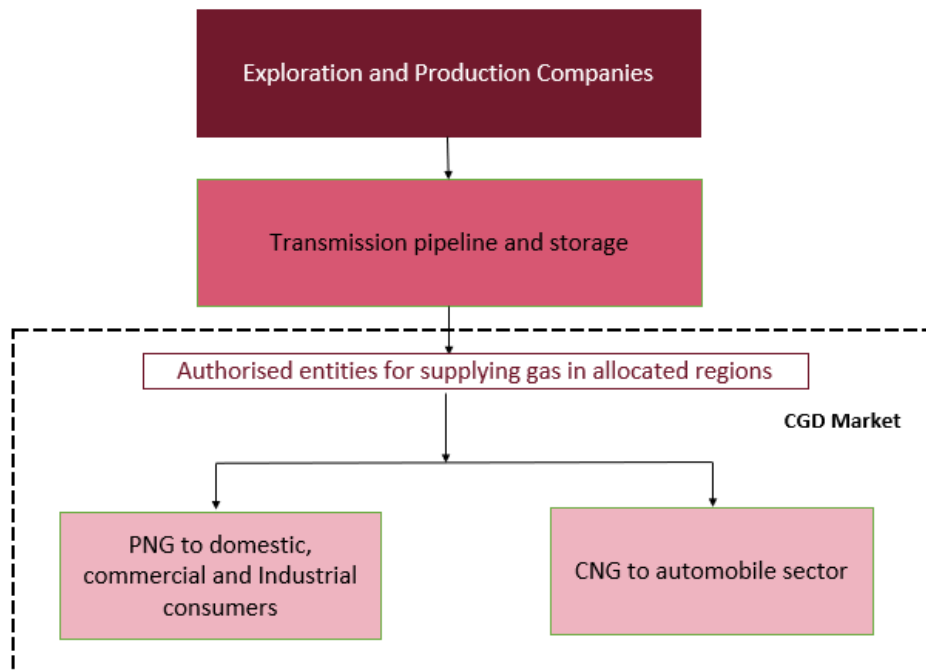
Financial summary (Rs. Mn)	FY21	FY22	FY23	Q1FY23	Q2FY24
Revenue	1,896	5,071	9,801	2,147	2,300
EBITDA	732	1,864	1,122	321	421
EBITDA margin (%)	38.6%	36.8%	11.5%	15.0%	18.3%
Adj. PAT	349	1,280	631	205	269
Adj. PAT margin (%)	18.4%	25.2%	6.4%	9.6%	11.7%
PE(Adj for issue)	59.4	16.2	32.8	25.2	19.3

Pre-issue and post-issue holding structure

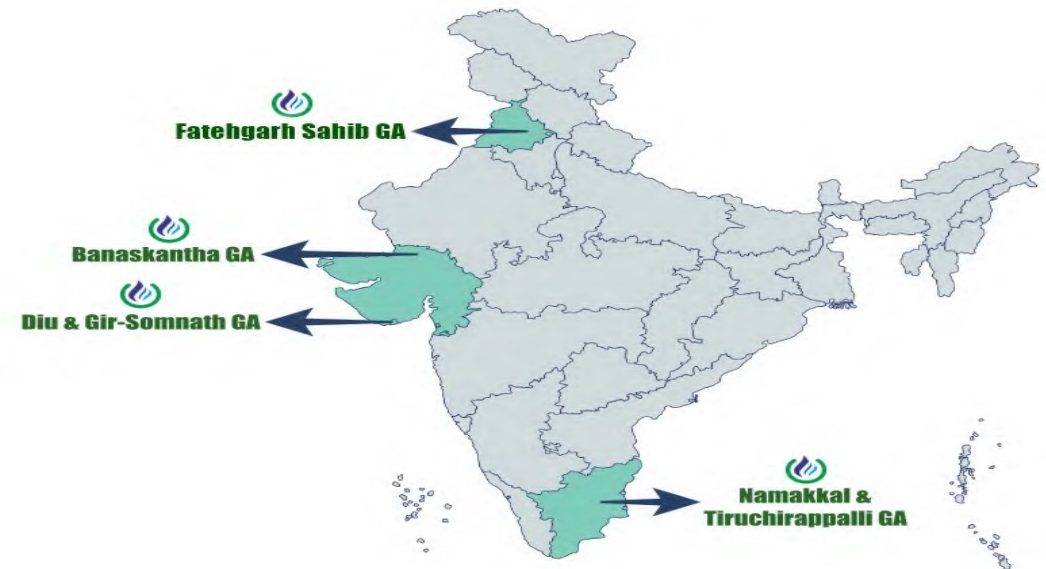
Shareholding pattern	Pre-issue	Post-issue*
	Holding (%)	Holding (%)
Promoter & Promoter Group	67.9	50.1
Public	32.1	49.9
Total	100.0	100.0

* At upper price band

CGD Market functioning



Company's Geographical Areas (GAs)



IRM Energy Limited

Key Risks:

- **Dependence on third party for supply of Natural gas:** As of June 30, 2023, IRM Energy procures 100% of natural gas from 7 suppliers. Any disruption in terms of delay, default in timely receipt of such natural gas could lead to failure in supply of natural gas to clients, affecting business, reputation, result of operations and cash flows.
- **Transportation of natural gas:** Natural gas is highly combustible and transportation of the same could subject the company to various risk like leakages, accidents fire and explosion amongst others. This could have an adverse impact on the business performance.
- **Debt Obligations:** The company's business operations are capital intensive which involves assuming substantial debt to carry out functioning of self and subsidiaries operation. Any delay or default in servicing debt by the company or its subsidiary could adversely affect its reputation and results of operations.
- **High Contingent Liabilities:** As on June 30, 2023, IRM Energy contingent liabilities of Rs 2,397mn represents ~52% of its total liability. The contingent liabilities includes Performance Bank Guarantee of Rs 1,581mn (16% of FY23 Rev) required to be issued in favor of PNGRB to carry out operations in awarded GAs and Corporate Guarantee of Rs 815mn (8% of FY23 Rev) issued in favor of Bank extending credit facilities to Joint Control Entities. Fully materialization of these liabilities could adversely impact business, financial conditions and results of operations.
- **Higher dependence on CNG and Industrial PNG:** The company's CNG and Industrial PNG supply operations account for 49.4% and 46.9% of total sales volume as of June 30, 2023. Disruption in these heavily reliant customer segment could materially impact revenue from operations, profitability and cash flows.
- **Delay in Licenses and approvals:** To conduct business, they are required to obtain multiple licenses, approvals, permits and consents. Government approvals and licenses are subject to various terms and conditions. Failure or delay to secure such approvals could lead to substantial cost in terms of application of such approvals and thereby business performance.

IRM Energy Limited

Competitive Strengths:

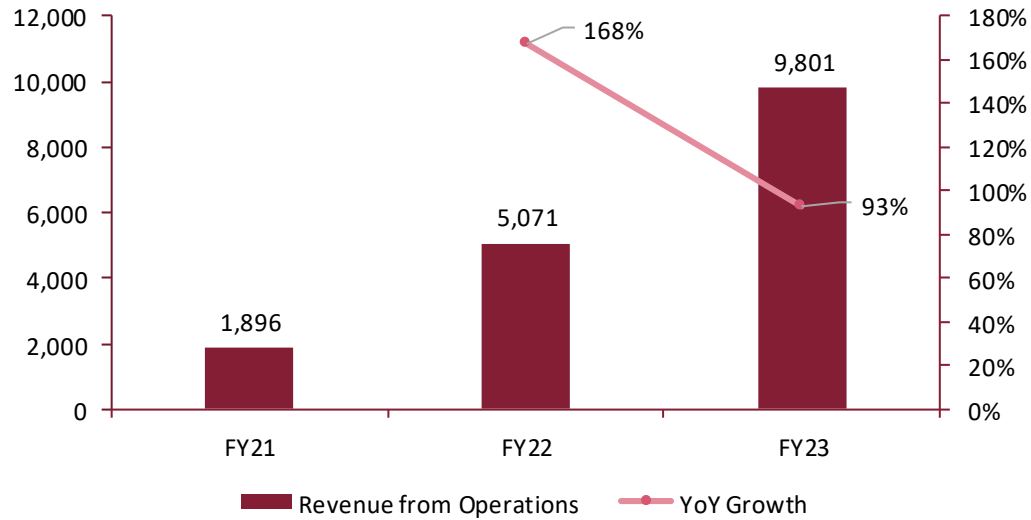
- **Exclusivity in CNG and PNG supply in the awarded Gas:** They are the sole distributor of CNG and PNG in their GAs for the period of exclusivity granted by Petroleum and Natural Gas Regulatory Board (PNGRB). Coupled with this they also have been granted network exclusivity right of 25 years for infrastructure creation like pipelines laying and distribution. This offers the company a monopoly like market to operate.
- **Diverse customer base:** Over the years, the company has developed strong and diverse customer base spanning across industrial, commercial and household customers. As on June 30, 2023, IRM energy supplies natural gas to 52,454 household, 269 commercial and 184 industrial customers. This reduces concentration risk and provides natural hedge against market instability.
- **Connectivity to gas pipelines and cost-effective gas sourcing arrangements:** IRM Energy's GAs are in close proximity to cross-country natural gas pipelines mitigating transportation cost. Also, the mid-long term Gas Sale and Purchase Agreements (GSPA) with gas suppliers enables sourcing at reasonable price. This strengthens the company to offer gas at competitive prices to its client.
- **Well developed CGD business in its Gas:** Over the years, the company have successfully built and operated CNG and PNG distribution business in Banaskantha, Fatehgarh Sahib, Diu & Gir Somnath and Namakkal & Tiruchirappalli. The strong in-house project management team, relationship with vendors, suppliers and contractors have enabled IRM to expand its network. This bodes well for future expansion and growth.

Business Strategies:

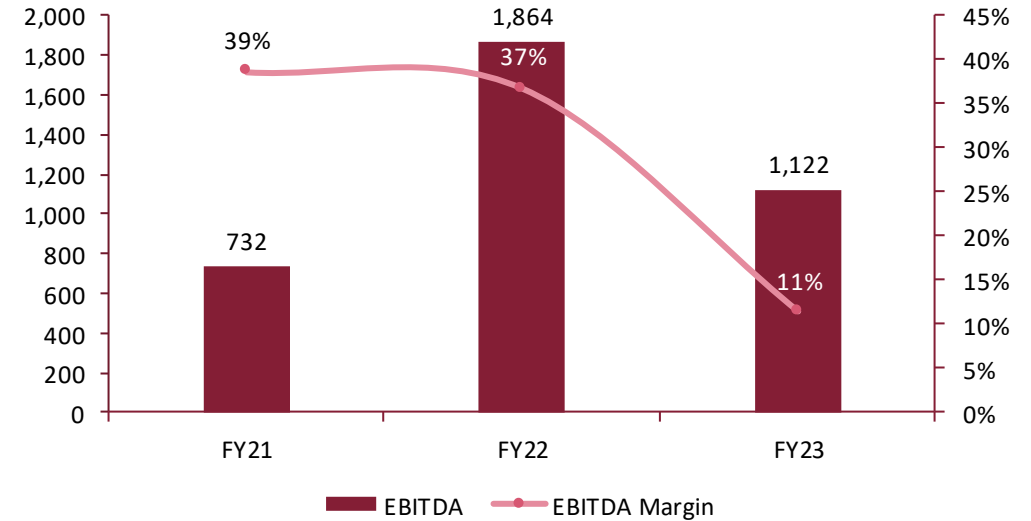
- **Expand presence in existing and newer Gas:** The company intends to strengthen distribution in its existing GAs. This involves setting up of LCNG station in the Namakkal & Tiruchirappalli District to deepen CNG penetration. Apart from this, they also seek to acquire licensed GAs from peer CGD company that offers optimistic demand outlook and geographical synergies to its existing operation. They have set a target to add 24,000 PNG domestic, 62 PNG commercial, 10 PNG industrial connections and 63 CNG retail outlets.
- **Expediting infrastructure in Namakkal & Tiruchirappalli district:** IRM Energy aims to establish key infrastructure to develop CGD network in the newly awarded Namakkal & Tiruchirappalli district in Tamil Nadu. The region being urban is highly populated district with substantial potential of residents converting to PNG customers.
- **Business integration for transition into a complete energy solution provider:** They intend to pursue a strategy of vertical integration in order to diversify and achieve higher business growth. To achieve this, the company has made strategic investments in Farm Gas (a biomass and waste to energy solution), Venuka Polymers (production of polyethylene (PE) pipelines) and Ni Hon Cylinders (to supply Type-1 cylinders for retro fitment of CNG cylinders) amongst others. Through this the company aims to reduce reliance on third party vendors and provide seamless and complete energy solutions.
- **Continues to focus on sourcing reliable and cost-effective gas:** They have in-place gas sourcing agreements with GAIL and RIL. In addition to this, they are evaluation opportunities with ShizGas to import LNG into, and wholesale R-LNG within India. Through this the company will not only source gas at competitive prices but will also tap growth opportunities in natural gas market in India.

IRM Energy Limited

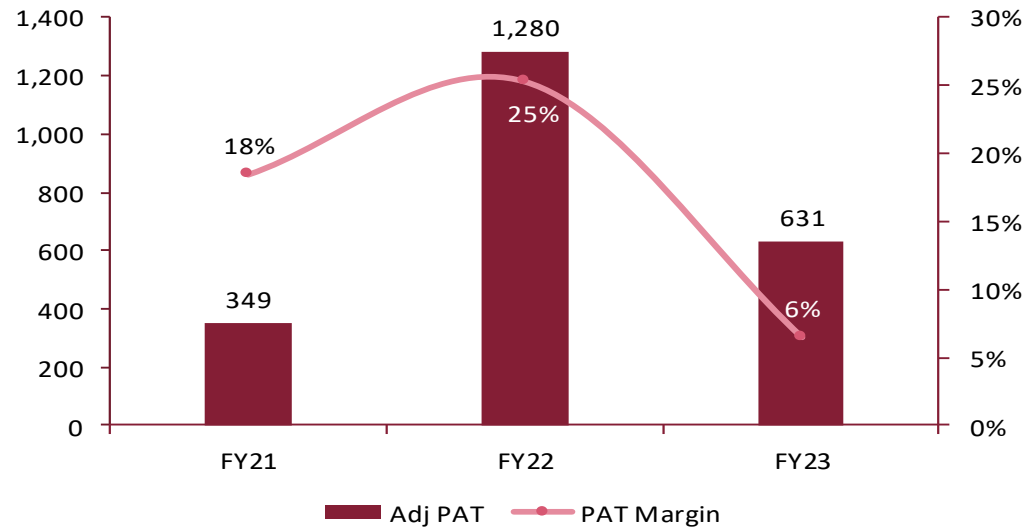
Revenue from operations (Rs. Mn)



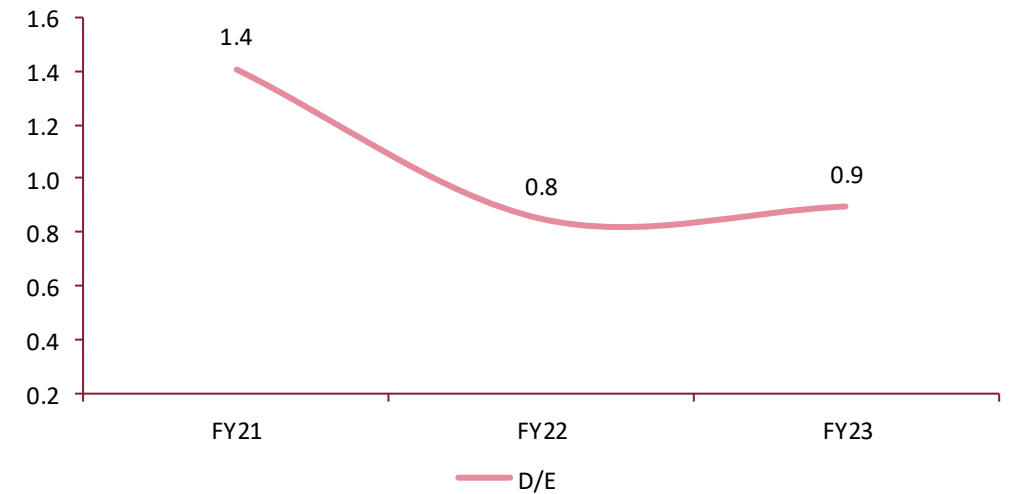
EBITDA (Rs. Mn) and OPM (%)



PAT (Rs. Mn) and PAT Margin (%)

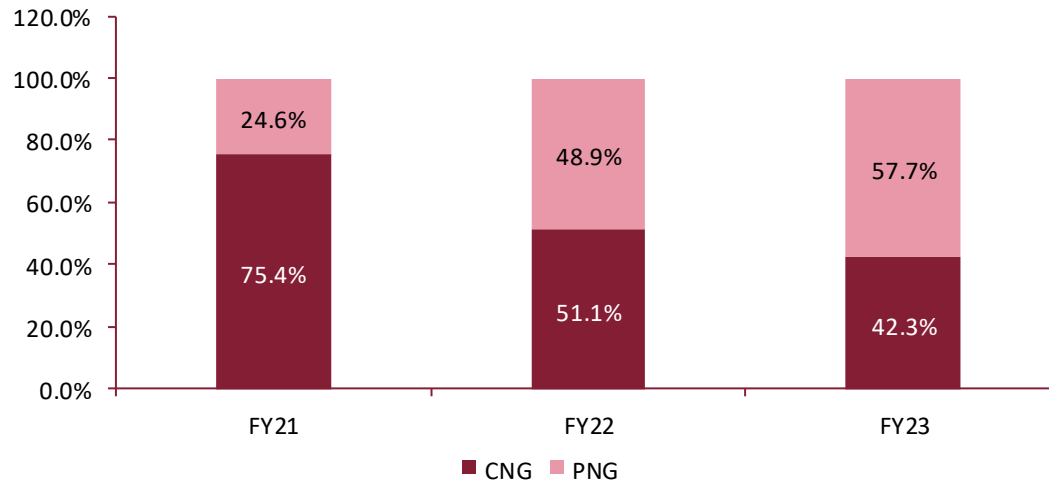


Debt to Equity

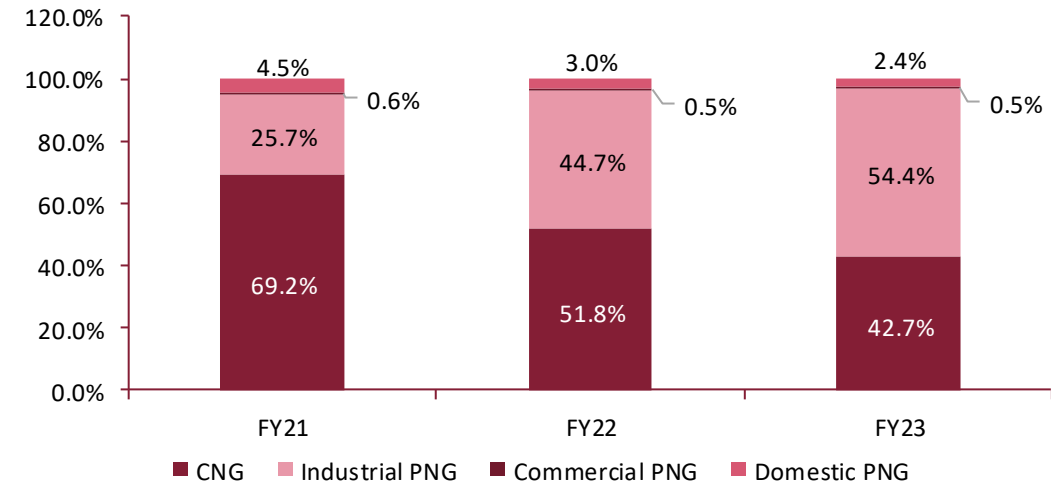


IRM Energy Limited

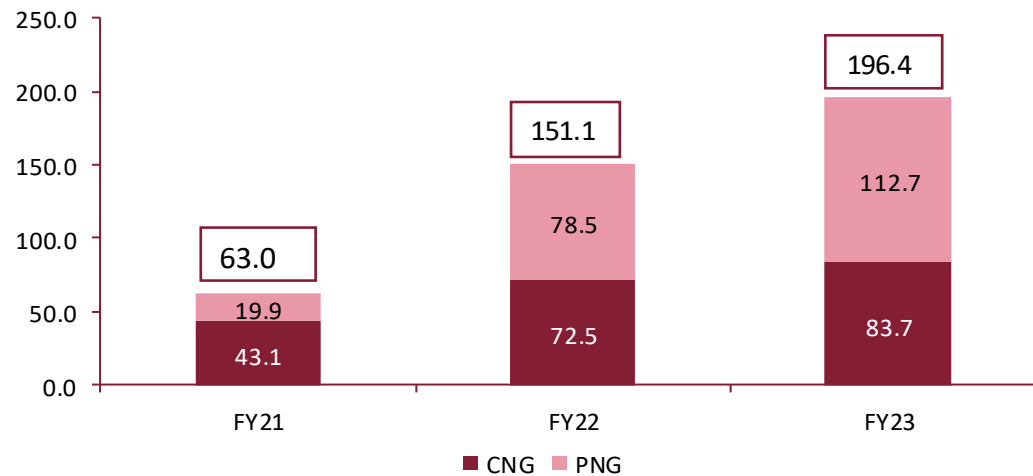
Revenue Contribution (%)



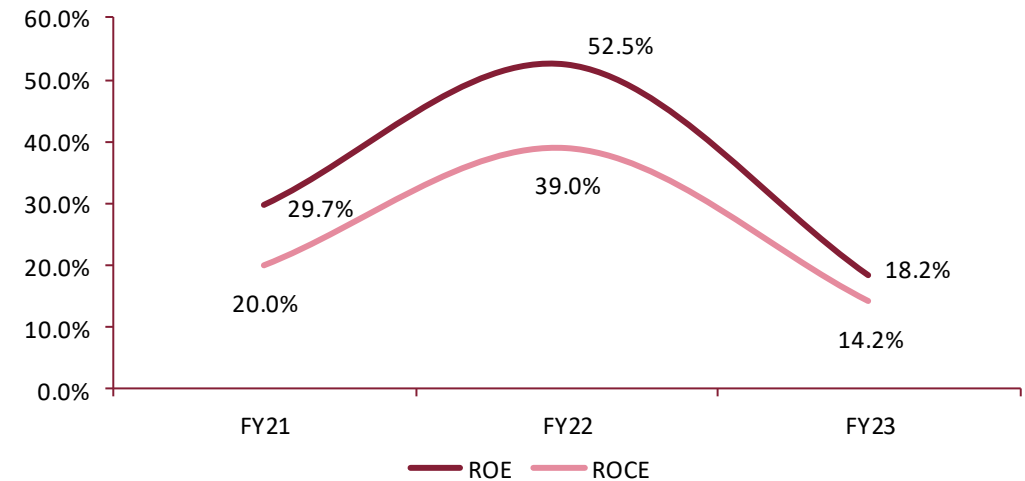
Client-wise Volume mix



Volumes in MMSCM

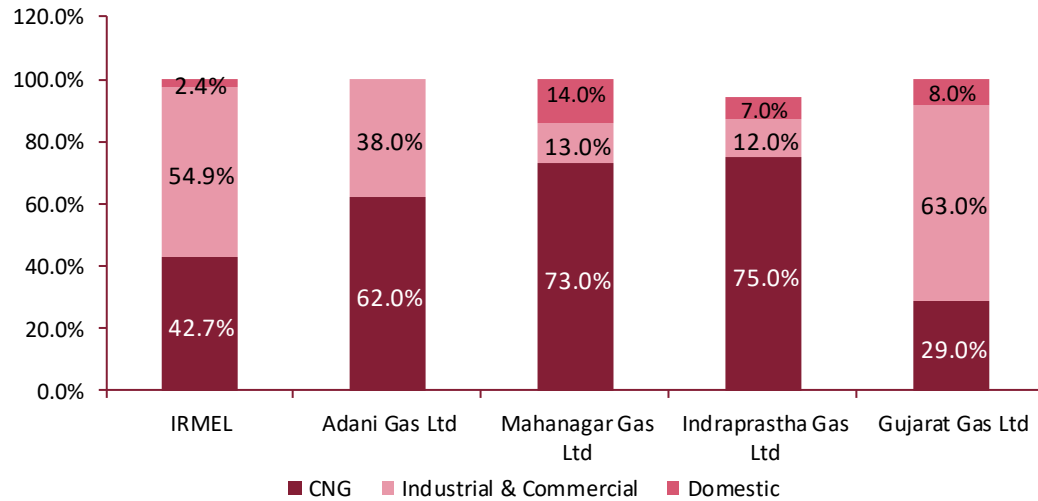


Return Ratios

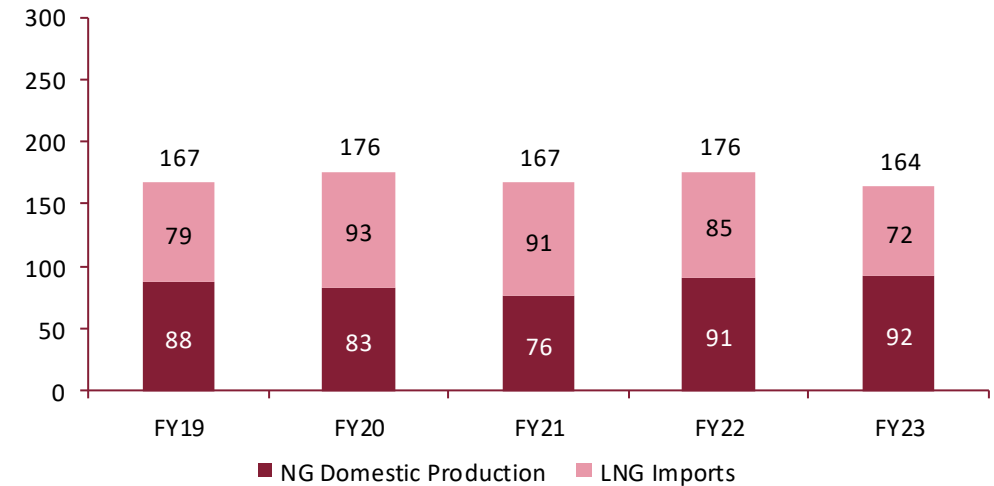


Industry Outlook

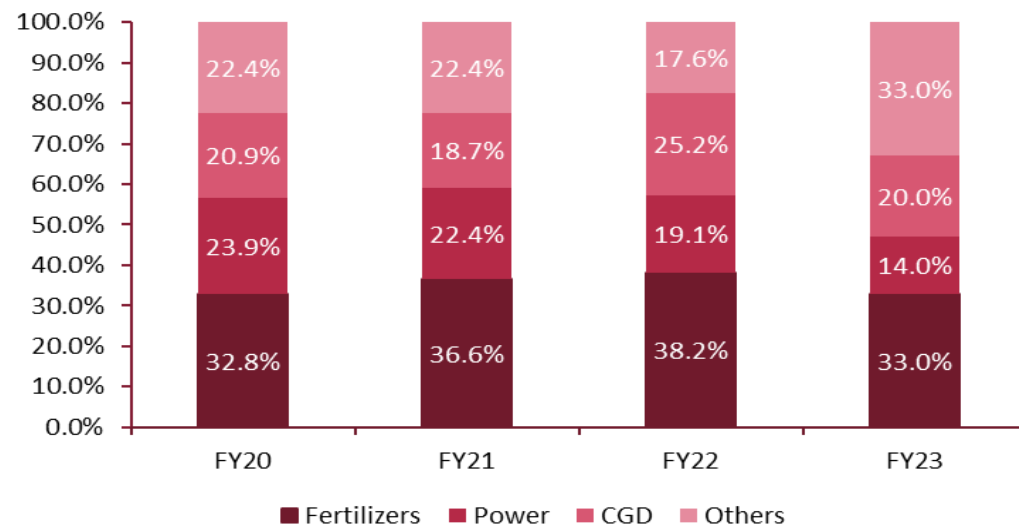
Volume Mix of Major CGD entities in FY23



Natural Gas Consumption in India (MMSCMD, FY19-23)

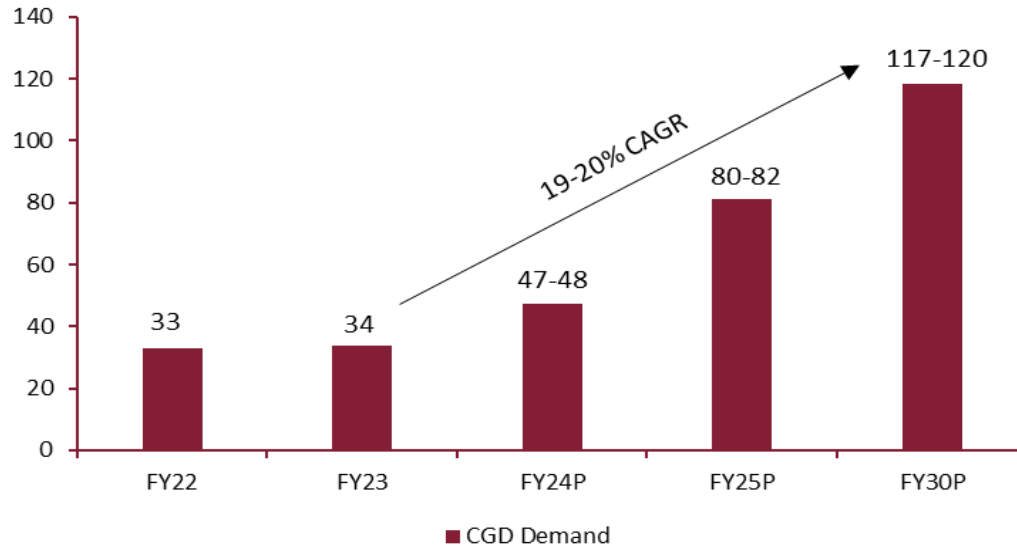


Domestic gas allocation development

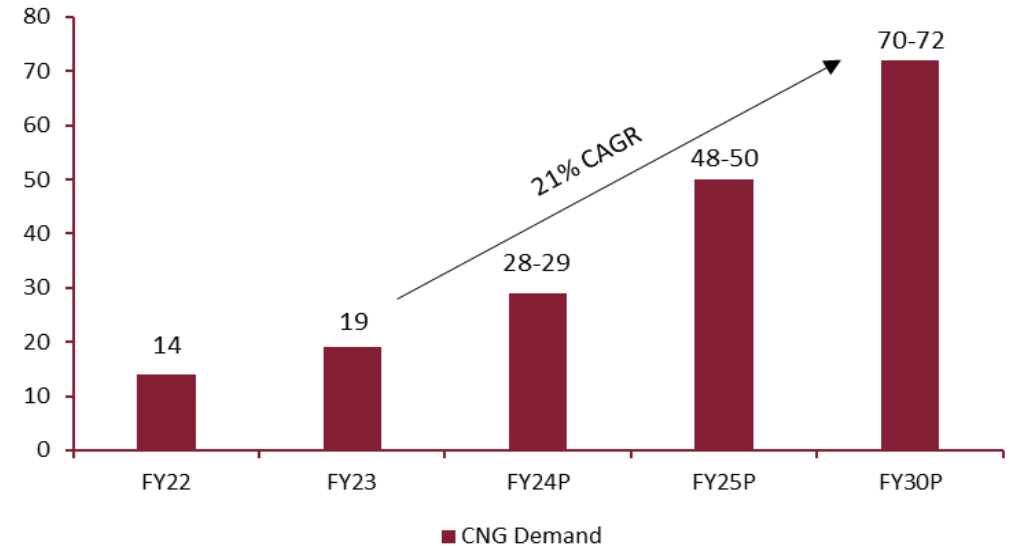


Industry Outlook

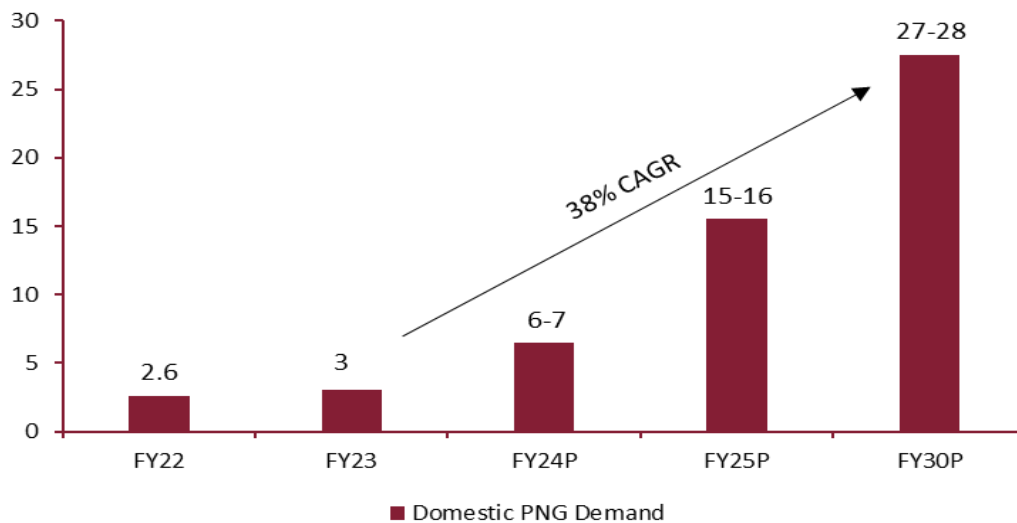
CGD - Overall Demand outlook (in MMSCMD)



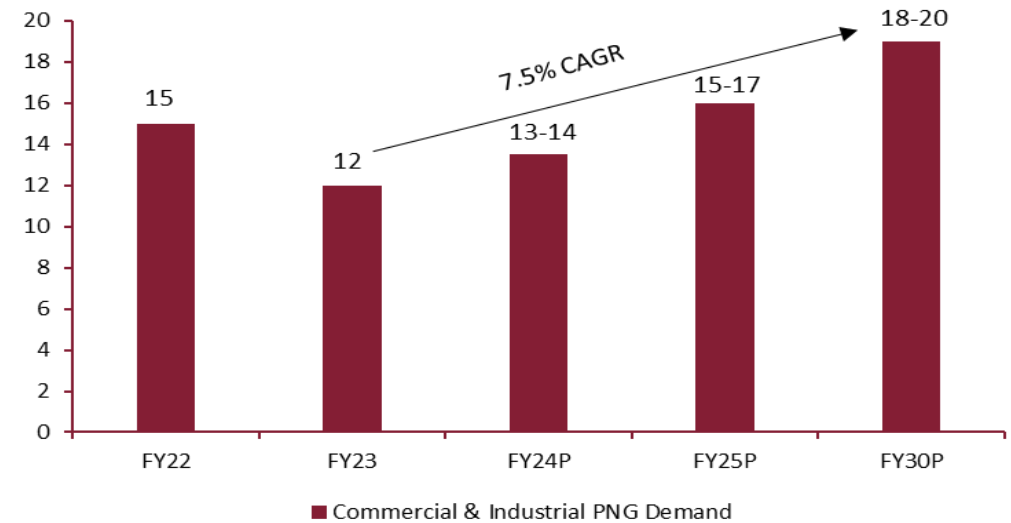
CNG Demand outlook (in MMSCMD)



Domestic PNG Demand outlook (in MMSCMD)



Industrial & Commercial PNG Demand outlook (in MMSCMD)



INDSEC Rating Distribution

BUY : Expected total return of over 15% within the next 12-18 months.

HOLD : Expected total return between 0% to 15% within the next 12-18 months.

SELL : Expected total return is negative within the next 12-18 months.

NEUTRAL: No investment opinion, stock under review.

Note: Considering the current pandemic situation, the duration for the price target may vary depending on how the macro scenario plays out. Therefore, the duration which has been mentioned as a period of 12-18 months for upside/downside target may be higher for certain companies.

DISCLOSURE

DISCLOSURE

BUSINESS ACTIVITIES:

Indsec Securities and Finance Limited (ISFL) is a corporate member of BSE (Equity, WDM segment), of NSEIL (Equity, WDM, Futures & Options and Currency Derivative segments) and has also secured membership of the MSEI Exchange (Currency Derivative Segment) vide registration No. INZ000236731. ISFL is an AMFI Registered Mutual Fund Advisor (MRMFA) vide Registration Number 9194. ISFL is also a Depository Participant of the National Securities Depository Limited (NSDL) and a SEBI registered Portfolio Manager. With this setup ISFL is in a position to offer all types of services in the securities industry.

Since inception company's focus has been on research. In view of its research capabilities ISFL focused mainly on institutional business and is today empaneled with most of the local financial institutions, insurance companies, banks and mutual funds. ISFL has grown from being a medium size broking outfit to become one of the largest capitalized Indian broking company offering the complete range of broking services.

ISFL was incorporated on 28th July 1993 and doesn't have any associates/ subsidiaries. ISFL is a registered Portfolio Manager under SEBI (Portfolio Managers) Regulations, 1993 vide registration No. INP000001892.

DISCIPLINARY HISTORY:

- No material penalties / directions have been issued by the SEBI under the securities laws, SEBI Act or Rules or Regulations made there under
- No penalties have been imposed for any economic offence by any authority.
- No material deficiencies in the systems and operations of the Company have been observed by any regulatory agency.
- There are no pending material litigations or legal proceedings, findings of inspections or investigations for which action has been taken or initiated by any regulatory authority against the Company or its Directors, principal officers or employees or any person directly or indirectly connected with the Company.

DECLARATION:

- ISFL/Research Analysts or their associates or their relatives do not have any financial interest in the subject company (ies);
- ISFL/Research Analysts or their associates or their relatives do not have actual or beneficial ownership of 1 % or more in the subject company (ies);
- Directors may have actual or beneficial ownership of 1 % or more in the subject company (ies);
- ISFL/Research Analysts or their associates or their relatives do not have any material conflict of interest in the subject company(ies) at the time of publication of this document;
- ISFL has not received any compensation from the subject company (ies) in the past twelve months;
- ISFL has not managed or co-managed public offering of securities for the subject company (ies) in the past twelve months;
- ISFL has not received any compensation for investment banking or merchant banking or brokerage services or any other service from the subject company (ies) in the past twelve months;
- ISFL has not received any compensation or other benefits from the subject company (ies) or third party in connection with this document;
- None of the research analysts have served as an officer, director or employee of the subject company (ies);
- ISFL has not been engaged in the market making activity for the subject company (ies);

DISCLOSURE

GENERAL TERMS AND CONDITION/ DISCLAIMERS:

This document has been issued by ISFL and is for informational purposes only and is not intended as an offer or solicitation for the purchase or sale of security.

This document has been prepared and issued on the basis of publicly available information, internally developed data and other sources believed to be reliable. However, we do not guarantee its accuracy and the information may be incomplete and condensed. Note however that, we have taken meticulous care to ensure that the facts stated are accurate and opinions given are fair and reasonable, neither the analyst nor any other employee of our company is in any way responsible for its contents. The Company's research department has received assistance from the subject company (ies) referred to in this document including, but not limited to, discussions with management of the subject company (ies). All opinions, projections and estimates constitute the judgment of the author as of the date of this document and these, including any other information contained in this document, are subject to change without notice. Prices and availability of financial instruments also are subject to change without notice. While we would endeavor to update the information herein on reasonable basis, we are under no obligation to update or keep the information current. Also, there may be regulatory, compliance, or other reasons that may prevent us from doing so.

Securities recommended in this document are subject to investment risks, including the possible loss of the principal amount invested. Any decision to purchase/sale securities mentioned in this document must take into account existing public information on such security or any registered prospectus. The appropriateness of a particular investment, decision or strategy will depend on an investor's individual circumstances and objectives. The securities, instruments, or strategies discussed in this document may not be suitable for all investors, and certain investors may not be eligible to purchase or participate in some or all of them. Each recipient of this document should make such investigations as it deems necessary to arrive at an independent evaluation of an investment in the securities of companies referred to in this document (including the merits and risks involved).

This document is not directed or intended for distribution to, or use by, any person or entity who is a citizen or resident of or located in any locality, state, country or other jurisdiction, where such distribution, publication, availability or use would be contrary to law, regulation or which would subject the company to any registration or licensing requirement within such jurisdiction. Further, this document is not directed or intended for distribution to the US taxpayers covered under US Foreign Account Tax Compliance Act (FATCA) provisions. The securities described herein may or may not be eligible for sale in all jurisdictions or to certain category of investors. Persons in whose possession this document may come are required to inform themselves of and to observe such restriction

This is just a suggestion and the company will not be responsible for any profit or loss arising out of the decision taken by the reader of this document. Any comments or statements made herein are those of the analyst and do not necessarily reflect those of the company. No matter contained in this document may be reproduced or copied without the consent of the company. Any unauthorized use, duplication, redistribution or disclosure is prohibited by law and will result in prosecution. The information contained in this document is intended solely for the recipient and may not be further distributed by the recipient. The Company accepts no liability whatsoever for the actions of third parties.

The research analyst(s) of this document certifies that all of the views expressed in this document accurately reflect their personal views about those issuer(s) or securities. **Analyst's holding in the stocks mentioned in the Report:-NIL**