IRM Energy Limited

17-Oct-23

Subscribe – Long Term

Kuber Chauhan
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Issue Details

Issue Details	
Issue Size (Value in ₹ million, Upper Band)	5,454
Fresh Issue (No. of Shares in Lakhs)	108
Bid/Issue opens on	18-Oct-23
Bid/Issue closes on	20-Oct-23
Face Value	Rs. 10
Price Band	480-505
Minimum Lot	29

Objects of the Issue

- **Fresh issue: ₹ 5,454 million**
  Funding capital expenditure requirements for development of the City Gas Distribution network in the Geographical Areas of Namakkal and Tiruchirappalli (Tamil Nadu) in FY24-27.
  Prepayment or repayment of all or a portion of certain outstanding borrowings availed by the company.
  General corporate purposes.

Book Running Lead Managers
HDFC Bank Limited
BoB Capital Markets Limited
Registrar to the Offer
Link Intime India Private Limited

Capital Structure (₹ million)	Aggregate Value
Authorized share capital	500.0
Subscribed paid up capital (Pre-Offer)	302.6
Paid up capital (post-Offer)	410.6

Share Holding Pattern %	Pre-Issue	Post Issue
Promoters & Promoter group	67.94	50.07
Public – Others	32.06	49.93
Total	**100**	**100**

Financials

Particulars (₹ In million)	FY23	FY22	FY21
Revenue from operations	**10,391**	**5,461**	**2,118**
Operating expenses	9,352	3,767	1,515
EBITDA	**1,039**	**1,694**	**603**
Other Income	60	31	7
Depreciation	209	150	120
EBIT	**890**	**1,574**	**491**
Interest	146	51	30
PBT	744	1,524	461
Tax	180	388	110
PAT	**564**	**1,136**	**351**
Ratios	**FY23**	**FY22**	**FY21**
EBITDAM	10.0%	31.0%	28.5%
PATM	5.4%	20.8%	16.6%
Sales growth	90.3%	157.8%	NM

Company Description

IRM Energy Limited was incorporated on December 1, 2015. Co-promoted by Cadila Pharmaceuticals, IRMEL is a City Gas Distribution ("CGD") company in India, with operations at Banaskantha (Gujarat), Fatehgarh Sahib (Punjab), Diu & Gir Somnath (Union Territory of Daman and Diu/Gujarat), and Namakkal & Tiruchirappalli (Tamil Nadu), engaged in the business of laying, building, operating, and expanding the city or local natural gas distribution network. They develop natural gas distribution projects in the Geographical Areas ("GAs") allotted to them for industrial, commercial, domestic and automobile customers. The company has successfully built a customer distribution network for PNG and CNG.
The company supply natural gas to 2 primary set of customer segments:
CNG (Compressed Natural Gas): Their customers include operators of public transport vehicles such as taxis, auto-rickshaws, and private vehicles such as cars, buses, light goods vehicles, and heavy goods vehicles.
PNG (Piped Natural Gas): The PNG customers are broadly classified into 3 segments, which are, industrial PNG (small, medium and large-sized enterprises), commercial PNG (such as hotels, restaurants, bakeries, hostels and community halls) and domestic PNG (predominantly using PNG as cooking gas).
The company commenced their operations in July 2017, pursuant to the receipt of authorizations for the GAs awarded for Banaskantha and Fatehgarh Sahib, in the 6th round of bidding conducted by the Petroleum and Natural Gas Regulatory Board ("PNGRB") in July 2016.
The Company has positioned themselves as the provider of one of the safest, cleanest and most cost-effective fuels for households, commercial establishments and industrial units as well as for fuel requirements in transport segment.
Due to the Company's competitive gas price and optimized operational expenditure, they are in a position to offer gas to their industrial PNG customers at a viable price in the market and enable the industrial PNG customers to switch from other alternate fuels (coal and furnace oils) to natural gas

As on June 30, 2023, it had 52,454 domestic customers, 269 commercial customers and 184 industrial customers. Thus, the company has established its creditability in terms of efficient operational management, stakeholder management and supply-chain risk management. After receiving authorisation for Diu and Gir Somnath GA in Gujarat in the 9th round and Namakkal and Tiruchirappalli districts in the 11th round, the company expanded its presence from 2 to 4 GAs.

Valuation & Outlook

Their successful track record of the company in building and operating distribution systems and their diverse customer portfolio are strong points. Additionally, the company's strong parentage and experienced leadership, along with their emphasis on technology adoption, bolster their growth potential. Furthermore, their strategic acquisition of GAs with connectivity to gas pipelines and a consistent financial performance offer a stable foundation for expansion.

At the upper price band company is valued at P/E of 33x with a market cap of ₹20,735 million post issue of equity shares and return on net worth of 18.2%. Compared with competitive fuels, they provide a more reliable and environmentally friendly alternative fuel to all their customer segments, and hence have been able to tap potential customer segments in the respective Gas.

On the valuation front, we believe that the company is fairly priced. Thus, we recommend an "**Subscribe – Long Term**" rating to the IPO.

Company's Operations

IRM Energy Limited ("IRMEL") is a City Gas Distribution ("CGD") company in India, with operations at Banaskantha (Gujarat), Fatehgarh Sahib (Punjab), Diu & Gir Somnath (Union Territory of Daman and Diu/Gujarat), and Namakkal & Tiruchirappalli (Tamil Nadu), engaged in the business of laying, building, operating, and expanding the city or local natural gas distribution network. They develop natural gas distribution projects in the Geographical Areas ("GAs") allotted to them for industrial, commercial, domestic and automobile customers.

IRMEL focuses on meeting the energy needs of customers in their GAs through their pipelines and CNG station network at a competitive price, while maintaining high safety standards.

The company supply natural gas to 2 primary set of customer segments::

CNG (Compressed Natural Gas): Their customers include operators of public transport vehicles such as taxis, auto-rickshaws, and private vehicles such as cars, buses, light goods vehicles, and heavy goods vehicles.

PNG (Piped Natural Gas): The PNG customers are broadly classified into 3 segments, which are, industrial PNG (small, medium and large-sized enterprises), commercial PNG (such as hotels, restaurants, bakeries, hostels and community halls) and domestic PNG (predominantly using PNG as cooking gas).

They have positioned themselves as the provider of one of the safest, cleanest, and most cost-effective fuels for households, commercial establishments, and industrial units as well as for fuel requirements in transport segment. They distribute CNG for use in motor vehicles and PNG for use by domestic households as well as for commercial and industrial units. They were recognized as the 'City Gas Distribution - Growing Company of the Year 2020' by Federation of Indian Petroleum Industries ("FIPI"). Due to their competitive gas price and optimized operational expenditure, they can offer gas to their PNG industrial customers at a viable price in the market and enable the PNG industrial customers to switch from other alternate fuels (coal and furnace oils) to natural gas. Compared with competitive fuels, IRMEL provides a more reliable and environment-friendly alternative fuel to all their customer segments, and hence have been able to tap potential customer segments in the respective GAs. Further, they are committed to health and safety and have established safety management systems which ensures safe, reliable, and uninterrupted distribution of natural gas to their customers, with a focus on systemic minimization of health and safety risks.

The company commenced their operations in July 2017, pursuant to the receipt of authorizations for the GAs awarded for Banaskantha and Fatehgarh Sahib, in the 6th round of bidding conducted by the Petroleum and Natural Gas Regulatory Board ("PNGRB") in July 2016.

In July 2016, in the 6th round of bidding, they received authorization to lay, build, operate and expand the city or local natural gas network with a minimum work permit ("MWP") to create an infrastructure of 1,800 inch kms gas pipeline (consisting of medium density polyethene ("MDPE") pipelines and steel pipelines) and 28,021 PNG domestic connections in Banaskantha; and 650 inch kms gas pipeline (consisting of MDPE pipelines and steel pipelines), and 5,905 PNG domestic connections in Fatehgarh Sahib. Thereafter, they received the authorization for the GA of Diu & Gir Somnath in the 9th round of bidding conducted in September 2018, for creating the infrastructure of 188-inch kms gas pipeline (consisting of steel pipelines), 91,000 PNG domestic connections and 35 CNG stations in Diu & Gir Somnath.

They are strengthening their roots in their existing authorized GAs. More recently, they have received the authorization for the GA of Namakkal & Tiruchirappalli in the 11th round of bidding conducted by PNGRB in January 2022 for creating the infrastructure of 1,450-inch kms gas pipeline (consisting of steel pipelines), 17,74,000 PNG domestic connections and 290 CNG stations in Namakkal & Tiruchirappalli.

The PNGRB grants IRMEL the authorization to operate in a GA, along with an exemption from being under the purview of a 'common carrier' or 'contact carrier' for the transmission of natural gas within their GAs. Exemption from the purview of a 'common carrier' or 'contact carrier' allows them exclusivity to operate in their GA and install their pipelines for supply of natural gas. This exemption provides them with a 'marketing exclusivity' for transmission of natural gas, for a limited period prescribed by the PNGRB, within each of their GAs.

Company's supply network consisted of:

	As at June'30		As at Mar'31		
Particulars	2023	2022	2023	2022	2021
Medium Density Polyethylene ("MDPE") pipelines	3,210	2,507	3,000	2,380	1,851
Steel Pipelines	688	582	665	574	492
Total of Supply Network	**3,898**	**3,098**	**3,665**	**2,954**	**2,343**

IRMEL served Industrial Customers, Commercial Customers and Domestic Customers as:

	As at June'30		As at Mar'31		
Particulars	2023	2022	2023	2022	2021
Industrial Customers	184	134	186	96	59
Commercial Customers	269	194	248	179	125
Domestic Customers	25,454	37,677	48,172	35,725	25,626

IRMEL has established a network of CNG filling stations owned and operated by the Company ("COCO Stations"), CNG stations owned and operated by dealers ("DODO Stations") and CNG stations owned and operated by oil marketing companies ("OMC Stations").

	As at June'30		As at Mar'31		
Particulars	2023	2022	2023	2022	2021
COCO stations	184	134	186	96	59
DODO stations	269	194	248	179	125
OMC stations	25,454	37,677	48,172	35,725	25,626
Total of CNG Filling Stations	66	53	61	52	44
In aggregate IRMEL had:					
CNG stations dispensing points across all GAs	262	202	238	205	170

Their natural gas sourcing strategy aims to reduce the impact of price volatility and follow a calibrated approach in pricing to ensure growth in sales volume as well as maintaining healthy margins. It includes index linkages, gas procurement from high pressure high temperature fields under mid to long term tenure and reliance on a diversified portfolio of gas contracts, helping them in efficient input gas cost management.

Their mid to long-term gas sale and purchase agreements ("GSPAs") with gas suppliers such as GAIL and RIL enable them to source gas at a reasonable cost. Company's gas procurement helps them mitigate the effect of the volatility in gas availability and pricing. They have also entered into certain gas transportation agreements ("GTAs") for transportation of natural gas from their suppliers pursuant to their GSPAs. Further, they have subscribed to a proprietary membership from Indian Gas Exchange ("IGX") in August 2022, through which they source natural gas on a need basis for their short-term requirements. Pursuant to the IGX membership, they get access to the natural gas free market, where prices are discovered by a free exchange mechanism.

Company's revenues from distribution of CNG and PNG vary for each of their GAs. While distribution of CNG is predominant in the Banaskantha and Diu & Gir Somnath GAs, the Fatehgarh Sahib GA focuses on supply of PNG. The supply of industrial PNG in the Fatehgarh Sahib gained an impetus pursuant to the NGT Order dated July 10, 2019, which enlisted Mandi Gobindgarh in the Fatehgarh Sahib GA as a pollution causing industrial cluster, thereby facilitating a shift from non-renewable pollution causing energy sources, towards consumption of PNG in the industrial cluster.

Strengths:

- **Successful development and operation of CGD business**

The company has successfully built and operated their CNG and PNG distribution system in the GAs awarded to them, and also set up their supplementary network of pipelines and CNG stations. They have developed strong in-house project management capabilities, complemented by robust operation and maintenance processes. Their relationship with vendors, suppliers and contractors has enabled them to expand their network in a timely and cost-efficient manner.

- **Technology adoption and digital initiatives for efficient and optimal operations**

IRMEL has laid an optimal capacity steel pipeline network from the cross-country pipeline available in all their GAs, to cater to both CNG and PNG demands in the respective GAs. They have implemented Radio Frequency Identification ("RFID") Writing, Detection and Annunciation System, which aids in digitally identifying the hydrotesting due date of CNG cylinders installed on-board vehicles and helps in reducing the probability of fatal incidents at CNG stations. They have developed a web-based application for capturing geo-tagged points and gas assets and their attributes in real time. Further, pursuant to their association with ShizGas, ShizGas's technical expertise and good practices as an energy provider in Japan has added value to their business operations.

- **Exclusivity in CNG and PNG supply in the awarded Gas**

IRMEL is the sole distributor of CNG and PNG in the GAs awarded to them, for the period of exclusivity granted pursuant to the PNGRB authorizations. They have marketing exclusivity until June 2023 for the Banaskantha GA, until September 2023 for the Fatehgarh Sahib GA, until September 2028 for the Diu & Gir Somnath GA, and until March 2030 for Namakkal & Tiruchirappalli GA, recently acquired in the 11th round of bidding. They have also been granted network exclusivity rights of 25 years for infrastructure creation for all their Gas.

- **Technology adoption and digital initiatives for efficient and optimal operations**

IRMEL has laid an optimal capacity steel pipeline network from the cross-country pipeline available in all their GAs, to cater to both CNG and PNG demands in the respective GAs. They have implemented Radio Frequency Identification ("RFID") Writing, Detection and Annunciation System, which aids in digitally identifying the hydrotesting due date of CNG cylinders installed on-board vehicles and helps in reducing the probability of fatal incidents at CNG stations. They have developed a web-based application for capturing geo-tagged points and gas assets and their attributes in real time. Further, pursuant to their association with ShizGas, ShizGas's technical expertise and good practices as an energy provider in Japan has added value to their business operations.

- **Connectivity to gas pipelines and establishing cost-effective gas sourcing arrangements**

The company has strategically acquired GAs with connectivity to cross-country natural gas pipelines within the GA boundary, which reduces the cost of transportation. Their mid to long-term GSPAs with gas suppliers such as GAIL and RIL enable them to source gas at reasonable pricing as well as seamless supply of gas to their downstream CGD networks.

Key Strategies:

- **Technology adoption to increase operational efficiency and enhance customer value**

IRMEL is the pioneer in implementing technology (SCADA) for the unmanned operation of CNG compressors and Dispensers. They have implemented methodologies such as SCADA, GIS and AMR System, etc., which help in the improvement of efficiency and accuracy of the systems. Pursuant to their association with ShizGas, they intend to implement good practices related to natural gas distribution, system engineering, operation and maintenance, and energy saving and CO2 reduction, and share know-how in relation to LNG trailer and satellite tanks.

- **Expand the presence in existing and newer GAs through an improved captive distribution channel**

The company works towards distribution and sale of CNG through their DODO Stations and COCO Stations, since it is cost saving when compared to the OMC Stations. Moreover, the DODO Stations and COCO Stations include the 'IRM Energy' branding to reflect the Company's corporate identity, thereby strengthening the brand. For the PNG domestic segment, they intend to install pre-paid meters. They also seek to acquire licensed GAs from peer CGD entities, based on the demand outlook and geographic synergies to their existing operations. Over a period of the next 3 fiscals, they intend to add 24,000 PNG domestic connections, 62 PNG commercial connections, 10 PNG industrial connections and 63 CNG retail outlets.

- **Infrastructure roll-out for development and operation of the new licensed GA of Namakkal & Tiruchirappalli, Tamil Nadu**

Namakkal & Tiruchirappalli being urban and highly populated district, there is a great potential of residents converting to PNG in both districts. The geographic area has a large urban population, which provides an excellent opportunity for IRMEL to convert prospective customers from other alternative fuels such as LPG to natural gas. This GA also has a large urban population which provides excellent opportunity to the Company to convert prospective customers to natural gas to alternative fuel such as LPG (in both PNG and CNG segments).

- **Expand the presence in existing and newer GAs through an improved captive distribution channel**

The company works towards distribution and sale of CNG through their DODO Stations and COCO Stations, since it is cost saving when compared to the OMC Stations. Moreover, the DODO Stations and COCO Stations include the 'IRM Energy' branding to reflect the Company's corporate identity, thereby strengthening the brand. For the PNG domestic segment, they intend to install pre-paid meters. They also seek to acquire licensed GAs from peer CGD entities, based on the demand outlook and geographic synergies to their existing operations. Over a period of the next 3 fiscals, they intend to add 24,000 PNG domestic connections, 62 PNG commercial connections, 10 PNG industrial connections and 63 CNG retail outlets.

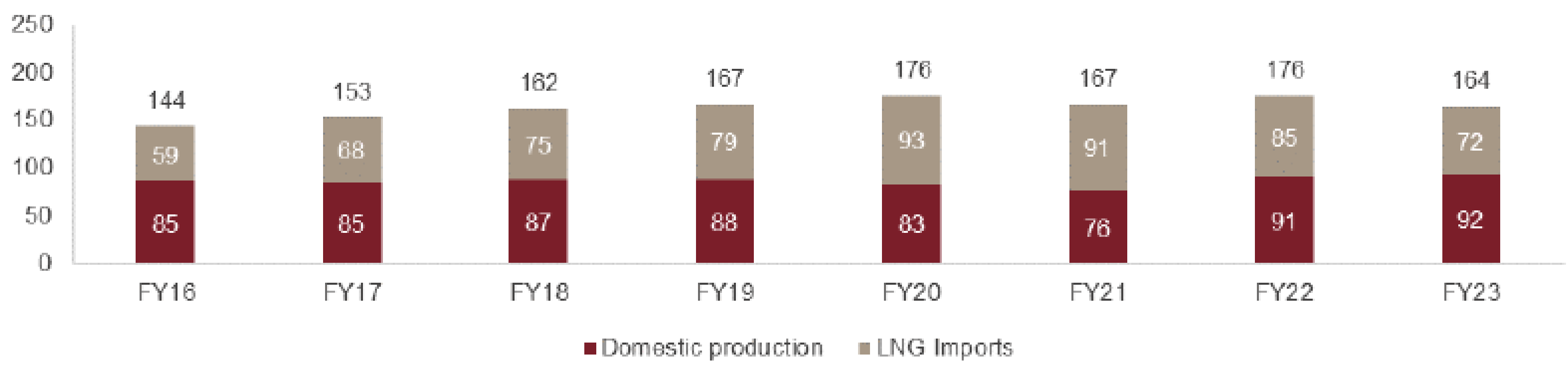
- **Continue to focus on sourcing reliable and cost-effective gas from leading Gas Suppliers**

The company has a strategic gas sourcing policy in place, which encompasses index linkages, gas procurement from high pressure high temperature fields, reliance on diversified portfolio of gas contracts, and enables them in efficient cost management. Further, they intend to explore gas sourcing opportunities from ShizGas, for sourcing of gas from outside of India. The are evaluating the opportunities with ShizGas to import LNG into, and wholesale R-LNG, within India through bilateral contracts and on gas exchange platform.

Industry Snapshot

Natural gas market in india

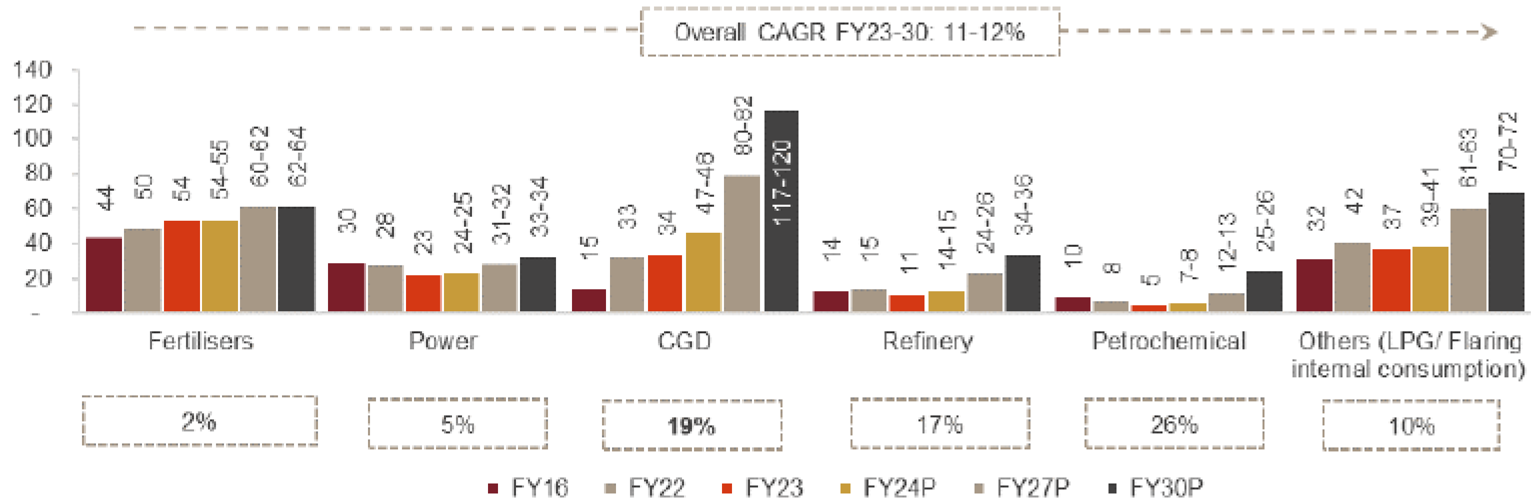
Natural gas consumption in India clocked a compound annual growth rate (CAGR) of 3.8% between fiscals 2016 and 2020, rising to ~176 mmscmd in fiscal 2020. However, it dipped 5% in fiscal 2021 due to Covid-19 related challenges such as constrained transportation and industrial activities.
Demand rose again ~4.8% in fiscal 2022. Growth was driven by higher offtake from end-use industries as economic and industrial activity and personal mobility gained traction. Segments such as CGD saw healthy growth. However, demand from the power segment declined as higher LNG prices affected the load factor (PLF) of gas-based power plants. In fiscal 2023, demand from natural gas declined by ~6%. The decline in demand was attributable owing to steep rise in prices and constrained supplies under long term LNG contracts. The demand remained subdued from power, refinery and petrochemicals sector as these sectors are dependent on imported gas pushed the demand downwards. . The gas demand in fiscal 2024 is expected to rebound by 12-13% due to a mix of factors such as a favourable government policy for the CGD sector, a moderation in the natural gas price, and an expected increase in the production of domestic natural gas.



Note: Sum of net production (available for consumption) and LNG imports
Source: Ministry of Petroleum and Natural Gas (MoPNG), Petroleum Planning & Analysis Cell (PPAC)

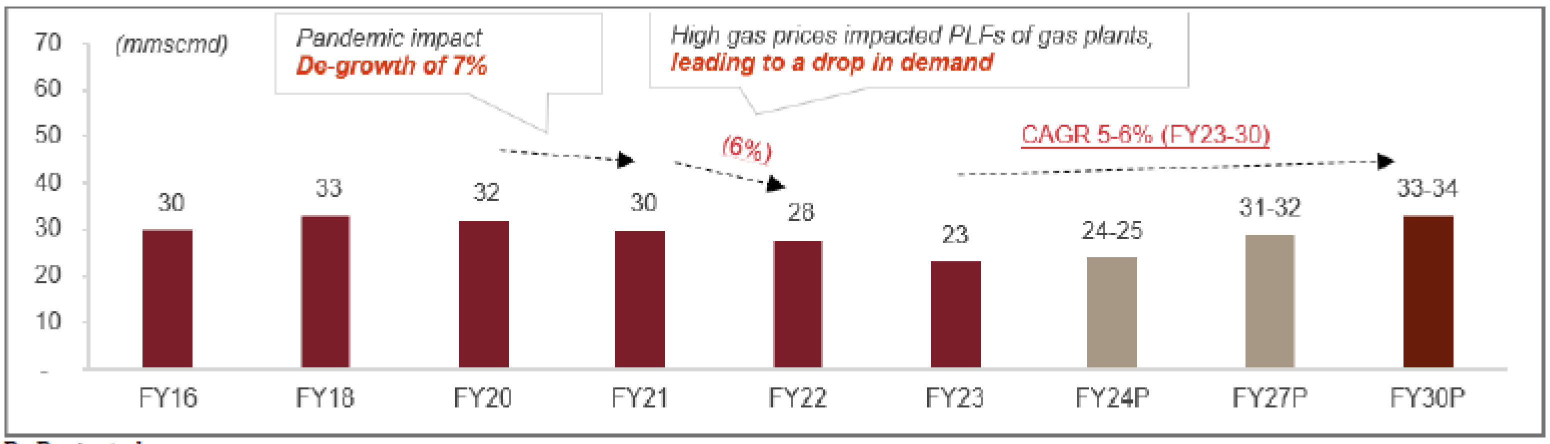
Demand by end-user industries

The fertiliser, CGD and power sectors accounted for ~67% of the total gas consumption of ~164 mmscmd in fiscal 2023. Fertilisers had the maximum share of 33%. CRISIL MI&A Consulting expects demand for natural gas to increase at 11-12% CAGR to 340-350 mmscmdbetween fiscals 2023 and 2030. We expect the CGD network and fertiliser units to fuel demand because of improved domestic gas supply and governmental policy/financial support.



Power

Demand from power sector is highly price sensitive. This has become more pronounced with declining domestic gas production, coupled with lack of priority for the sector in domestic gas allocation. The sector's dependency on imported gas (re-gasified LNG, or RLNG) is also on the rise. The share of RLNG in power sector increased from 5% in fiscal 2016 to 15% in fiscal 2023.

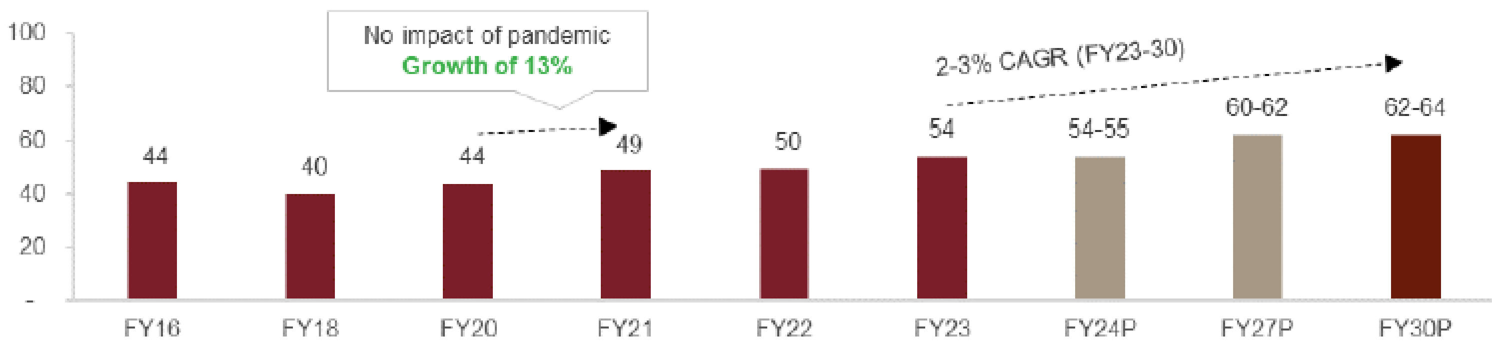


P: Projected
Source: MoPNG, PPAC, CRISIL MI&A Consulting

Natural gas demand fell in fiscals 2021 and 2022 when consumption dropped. Demand is expected to log 5% CAGR between fiscals 2023 and 2030. PLF of gas-based power plants is expected to increase marginally to ~15-17% by fiscal 2028 from low levels of 13% in fiscal 2023. Dependence on RLNG is expected to continue, given the power sector comes third after CGD and fertilisers in terms of priority for domestic gas allocation.

Fertilisers

This sector is the largest and most sustainable driver of natural gas demand in India. Currently, there are 32 units producing agriculture grade urea, with a capacity of 25.5 million tonne (MT). Raw materials required for urea manufacturing are carbon dioxide and ammonia. Ammonia is produced from natural gas or LNG. Natural gas forms ~70-80% of the cost for urea production.

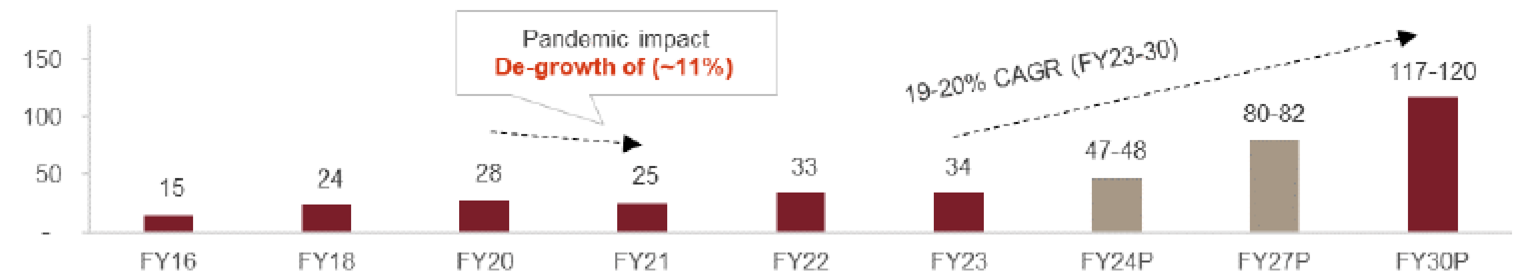


P: Projected
Note: mmscmd (million metric standard cubic meter per day)
Source: MoPNG, PPAC, CRISIL MI&A Consulting

In fiscal 2023, demand from fertilisers segment is has grown at a healthy pace of 7-9%, driven by a rise in urea production led by revival of two natural gas-based urea plants with a total capacity of 2.6 million tons per annum and the ramping up of Ramagundam and Gorakhpur urea plants. Moreover, expectation of normal monsoon leading to good crop output and higher urea production, will also support growth. The government is also trying to revive sick urea units in Sindri, Gorakhpur, Talcher and Barauni over the next five years. The Jagdishpur-Haldia pipeline has already reached Barauni and Gorakhpur and is expected to reach Sindri this fiscal. CRISIL MI&A Consulting forecasts natural gas demand from the fertiliser sector to increase to 62-64 mmscmd in fiscal 2030 from ~54 mmscmd in fiscal 2023, at 2-3% CAGR.

CGD

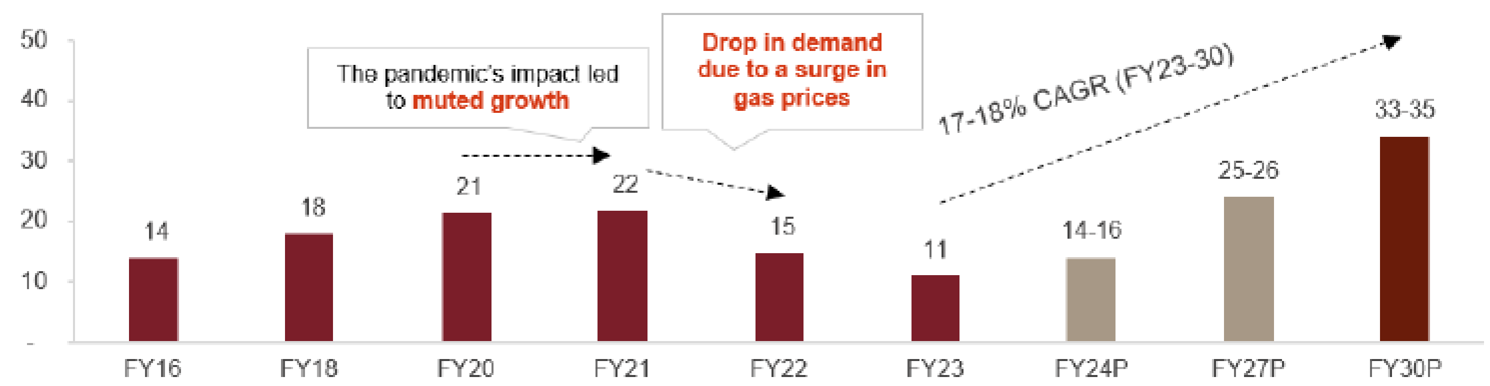
CGD delivered muted demand increase ~1-3% in FY23. CRISIL MI&A Consulting expects natural gas demand from the CGD sector to log 19-20% CAGR between fiscals 2023 and 2030, growing to 1117-120 mmscmd. Demand from each sub-segment, including CNG and PNG (domestic and industrial), is likely to grow at a healthy pace over the forecast period, with the addition of new cities in the gas network. Increase in penetration is expected to be a key demand driver for the PNG segment. Further, the pace of development of the CGD network would be another key determinant of growth, going forward.



P: Projected
Source: MoPNG, PPAC, CRISIL MI&A Consulting

Rising demand in the CGD segment has led to greater dependence on both domestic gas and imported gas. Demand from the CGD segment (domestic and transport) is expected to be majorly met by domestic gas, as it comes first in the priority list for allocation. As these segments are expected to form ~70% of the overall CGD demand in fiscal 2030, the remaining, i.e., industrial, and commercial demand for CGD (~30% of overall demand) will be met through RLNG in fiscal 2030. Major factors that would drive growth in CGD volumes are expanding geographical coverage and improving cost competitiveness of gas. Assured domestic gas supply would aid competitiveness and drive gas demand for CNG and domestic PNG. While regulatory restrictions and growing awareness of cleaner fuel are expected to aid in fuel conversion in industrial segmen

Refineries

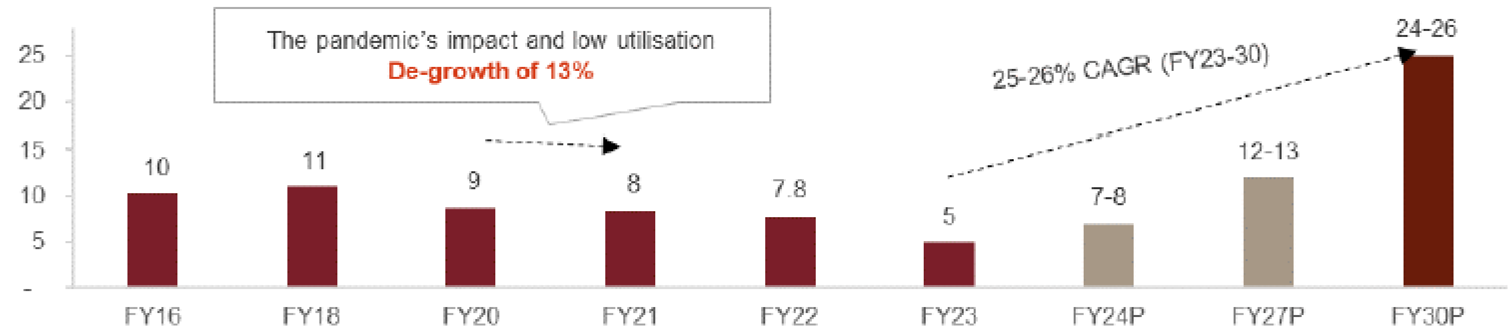


P: Projected
Source: MoPNG, PPAC, CRISIL MI&A Consulting

CRISIL MI&A Consulting expects gas demand to grow at a CAGR of 17-18% during fiscals 2023 and 2030. Natural gas competes with naphtha in hydrogen plants and liquid fuels (fuel oil and LNG) for power and heat generation. We expect natural gas consumption by refineries to increase with new LNG import terminals, better pipeline infrastructure and last-mile connectivity to refineries. Going forward, CRISIL expects refineries such as Haldia and Paradip to be connected to gas pipeline infrastructure after commissioning of the regasification terminal in Dhamra. The gas consumption is declined by 25-30% in fiscal 2023 due to impact from high international gas price.

Petrochemicals

The petrochemical sector is one of the fastest growing sectors primarily because of increasing use of plastics, which is also the major demand driver for the sector. A strong demand profile indicates robust gas demand potential from the sector. However, the sector does not receive any priority allocation of domestic gas production and hence primarily relies on LNG. CRISIL MI&A Consulting expects demand for natural gas from the petrochemical sector to increase 25-26% between fiscals 2023 and 2030, because of capacity addition at HMEL, Bhatinda (a dual-feed cracker with ethylene capacity, which is expected to come online by the end of fiscal 2023), and HPCL, Barmer (dual-feed capacity expected to be commissioned in fiscal 2025) during the forecast period.



P: Projected
Source: MoPNG, PPAC, CRISIL MI&A Consulting

Over the next five years, capacity additions in petrochemicals and methanol by Assam Petro-Chemicals would support demand for natural gas from petrochemicals. In fiscal 2023, gas consumption is declined 25-40% as higher gas prices will reduce gas competitiveness vis-à-vis naphtha, thereby restricting any steep rise in gas demand from the petrochemical segment. Since refineries come under non-priority sectors for domestic gas allocation, we believe gas demand from this sector will be entirely met through imports by fiscal 2030.

- **Accounting ratios** **(in mn)**

Particulars	FY 2023	FY 2022	FY 2021
Revenue from Operations	1,039	546	211
Growth in revenue from operations (%)	90.2%	158%	-
EBITDA	118.9	200.9	72.9
EBITDA Margin (%)	12.1	39.6	38.5
PBT	74.4	152.3	46.0
PAT	63.1	128.0	34.8
PAT Margin (%)	6.1	23.4	16.5
ROE (%)	18.2	52.5	29.7

- **Comparison with listed entity**

Name of the company	Latest FY	Face value	P/E	EPS (Basic) (₹)	EPS (Diluted) (₹)	RONW (%)	NAV per equity share (₹)
IRM Energy Ltd	Consolidated	10	33.2*	15.4	15.4	18.2	114.9
Listed peers							
Gujarat Gas Ltd	Consolidated	2	21.5	22.2	22.2	21.7	102.3
Indraprastha Gas Ltd	Consolidated	2	23.3	23.4	23.4	20.6	113.3
Mahanagar Gas Ltd	Standalone	10	11.6	79.9	79.9	19.1	418.3
Adani Total Gas Ltd	Consolidated	1	118.1	4.9	4.9	18.6	26.7

Note: 1) P/E Ratio has been computed based on the closing market price of equity shares on NSE on Oct 17, 2023.
2) * P/E of company is calculated on EPS of FY23 and post issue no. of equity shares issued.

Key Risks

- Transporting natural gas is hazardous and could result in accidents, which could adversely affect its reputation, business, financial condition, results of operations and cash flows.
- The company requires various licenses and approvals for undertaking its businesses and the failure to obtain or retain such licenses or approvals in a timely manner, or at all, may adversely affect its operations.
- Its CNG and industrial PNG supply operations account for 49.43 % and 46.86 % of its total operations (in terms of volume) for the three months ended June 30, 2023. They are heavily reliant on its CNG and industrial PNG supply operations and any decrease in the sales, may have an adverse effect on the business, operation, financial condition and cash flows of the Company.
- Cadila Pharmaceuticals Limited, one of its Promoters, has provided corporate guarantees to third parties for the loans availed by the Company. In the event company defaults on any of the loans availed, its Promoters will be liable for the repayment obligations.
- They typically require 15-18 months to generate revenue in its GAs. Any further delay in realizing revenue may affect its projections, results of operations and cash flows.

Valuation

Their successful track record of the company in building and operating distribution systems and their diverse customer portfolio are strong points. Additionally, the company's strong parentage and experienced leadership, along with their emphasis on technology adoption, bolster their growth potential. Furthermore, their strategic acquisition of GAs with connectivity to gas pipelines and a consistent financial performance offer a stable foundation for expansion.

At the upper price band company is valued at P/E of 33x with a market cap of ₹20,735 million post issue of equity shares and return on net worth of 18.2%. Compared with competitive fuels, they provide a more reliable and environmentally friendly alternative fuel to all their customer segments, and hence have been able to tap potential customer segments in the respective Gas.

On the valuation front, we believe that the company is fairly priced. Thus, we recommend an "**Subscribe – Long Term**" rating to the IPO.

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