

**The Issue**

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

\*At Upper Price Band

**Issue Break-Up**

Reservation for	% of Issue
QIB	50%
NII	15%
Retail	35%
<b>Total</b>	<b>100%</b>

**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

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### *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 GoI 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

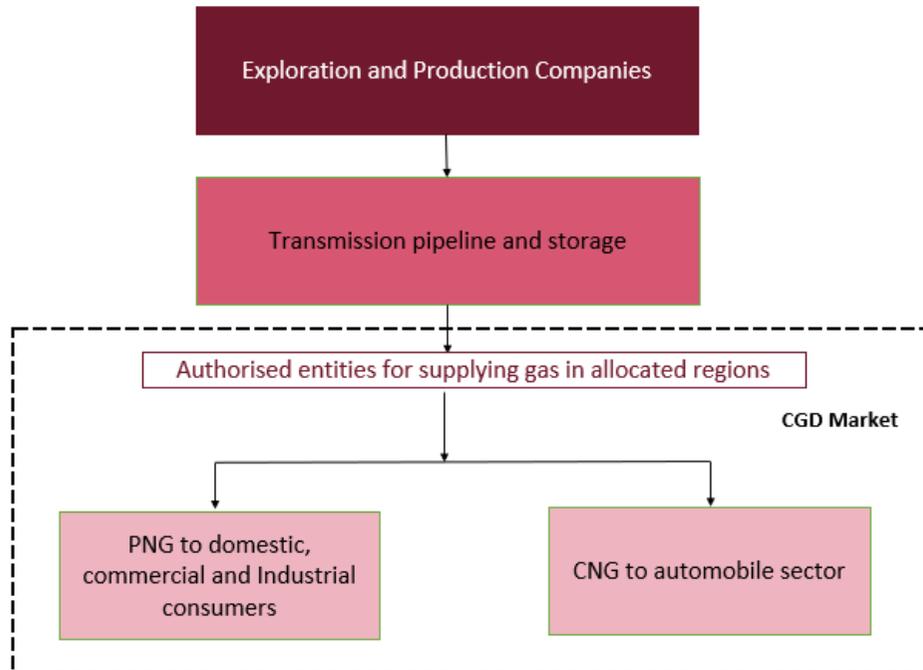
Financial summary (Rs. Mn)	FY21	FY22	FY23	Q1FY23	Q2FY24
Revenue	1,896	5,071	9,801	2,147	2,300
EBITDA	732	1,864	1,122	321	421
<i>EBITDA margin (%)</i>	<i>38.6%</i>	<i>36.8%</i>	<i>11.5%</i>	<i>15.0%</i>	<i>18.3%</i>
Adj. PAT	349	1,280	631	205	269
<i>Adj. PAT margin (%)</i>	<i>18.4%</i>	<i>25.2%</i>	<i>6.4%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

## Pre-issue and post-issue holding structure

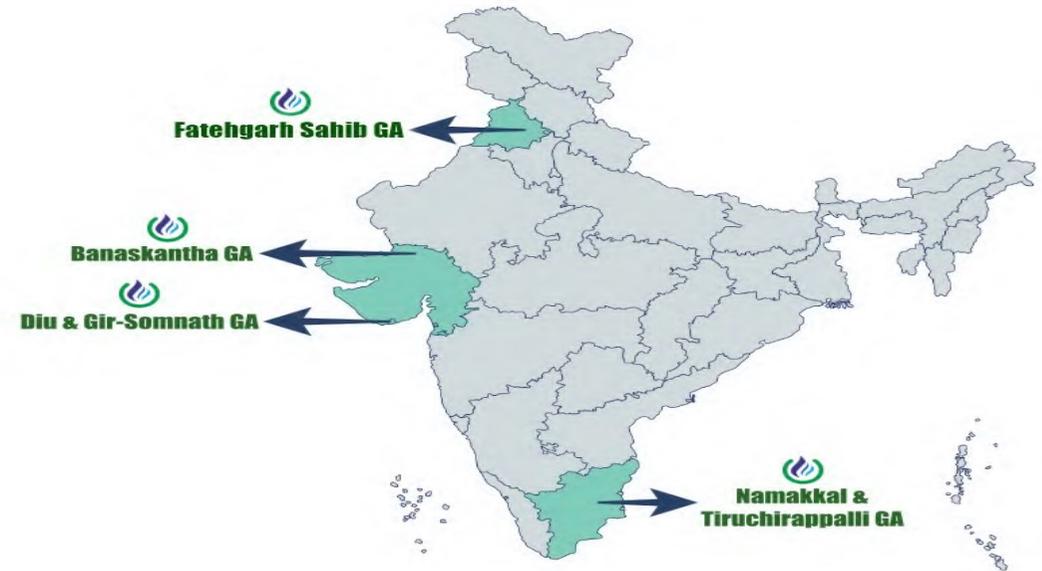
Shareholding pattern	Pre-issue	Post-issue*
	Holding (%)	Holding (%)
Promoter & Promoter Group	67.9	50.1
Public	32.1	49.9
Total	100.0	100.0

\* At upper price band

## CGD Market functioning



## Company's Geographical Areas (GAs)



**Key Risks:**

- **Dependance 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 dependance 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:

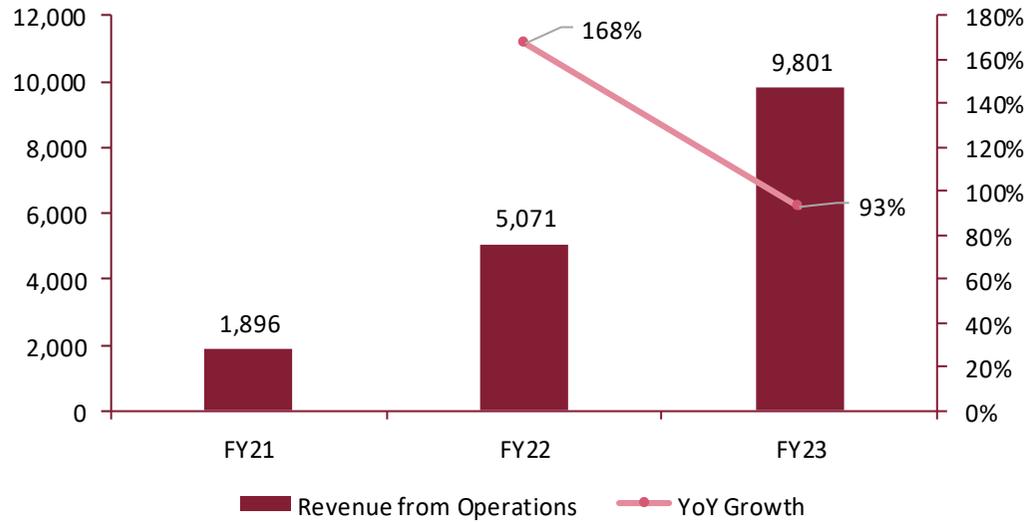
- **Exclusivity in CNG and PNG supply in the awarded Gas:** They are the sole distributor of CNG and PNG in their GAs for the period of exclusivity granted by Petroleum and Natural Gas Regulatory Board (PNGRB). Coupled with this they also have been granted network exclusivity right of 25 years for infrastructure 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:

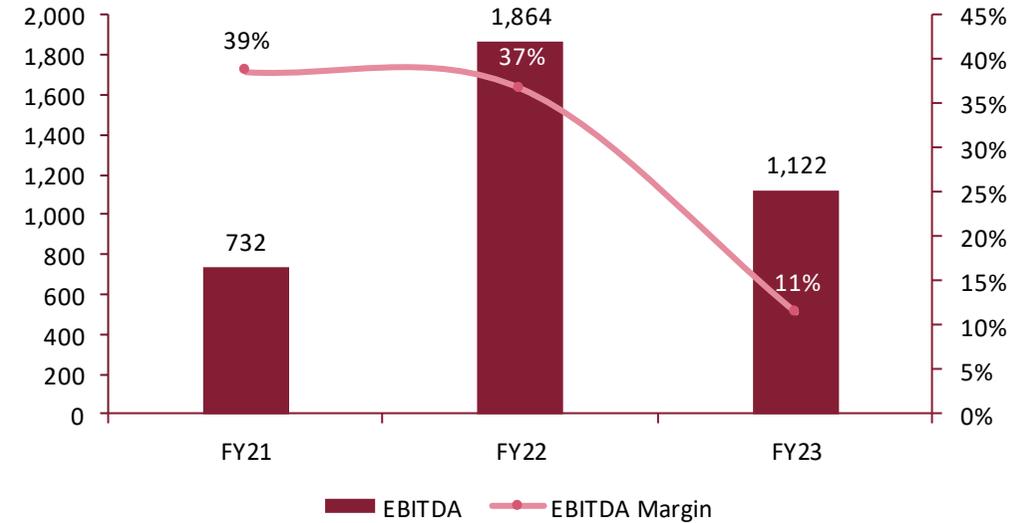
- **Expand presence in existing and newer Gas:** The company intends to strengthen distribution in its existing GAs. This involves setting up of LCNG station in the Namakkal & Tiruchirappalli District to deepen CNG penetration. Apart from this, they also seek to acquire licensed GAs from peer CGD company 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

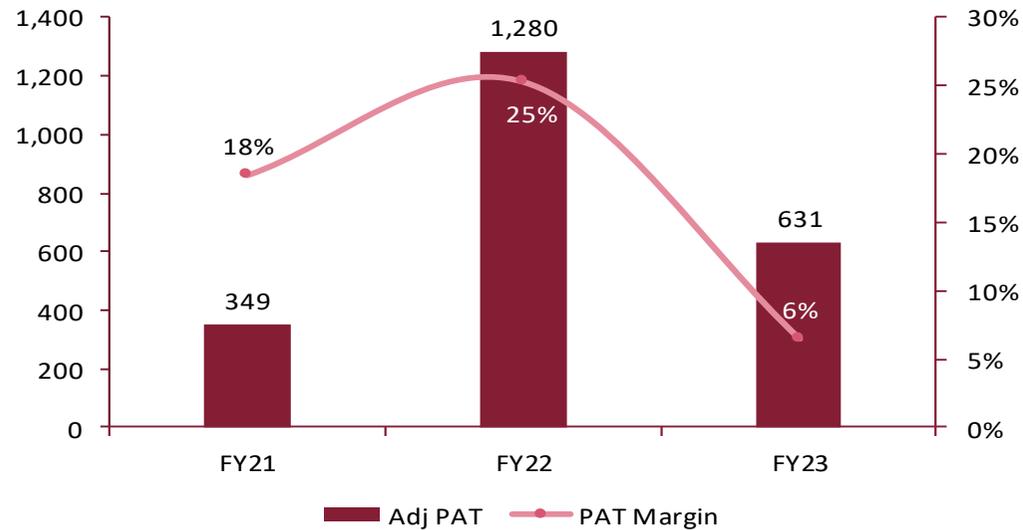
### Revenue from operations (Rs. Mn)



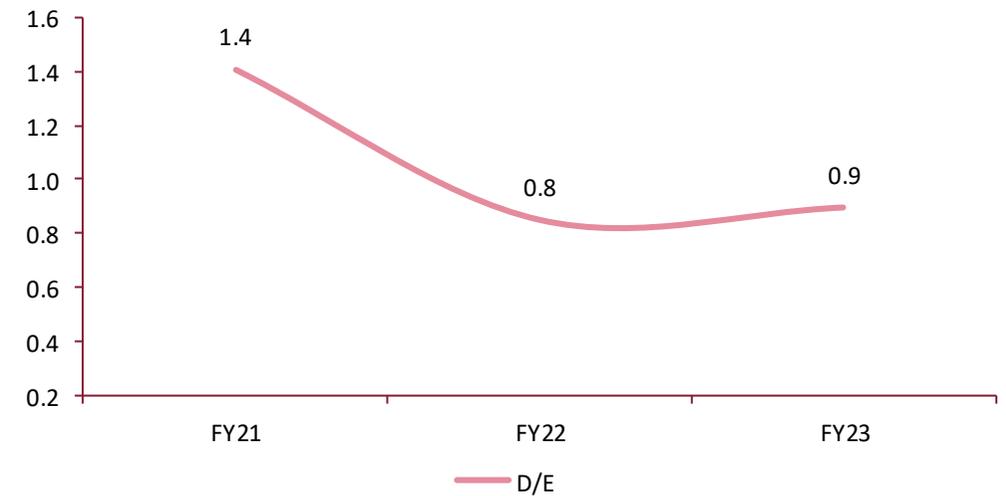
### EBITDA (Rs. Mn) and OPM (%)



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

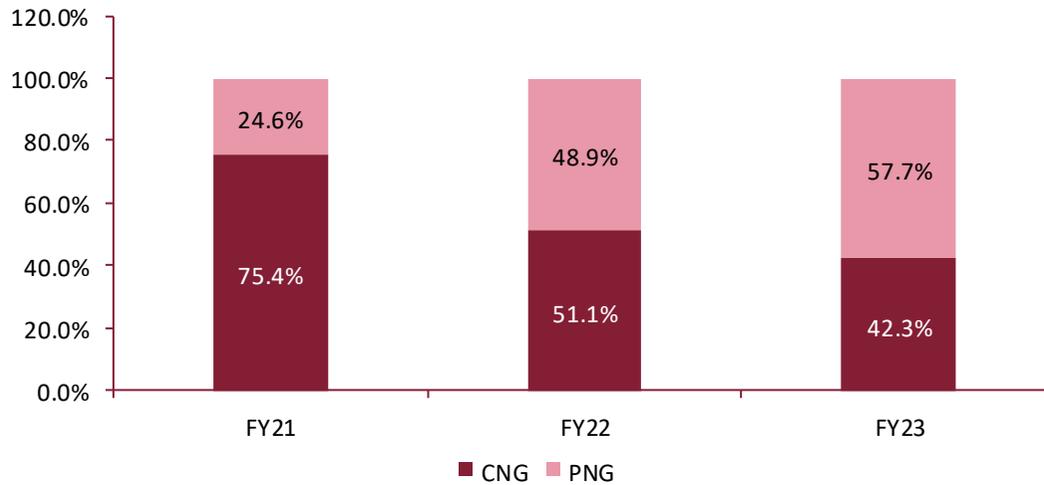


### Debt to Equity

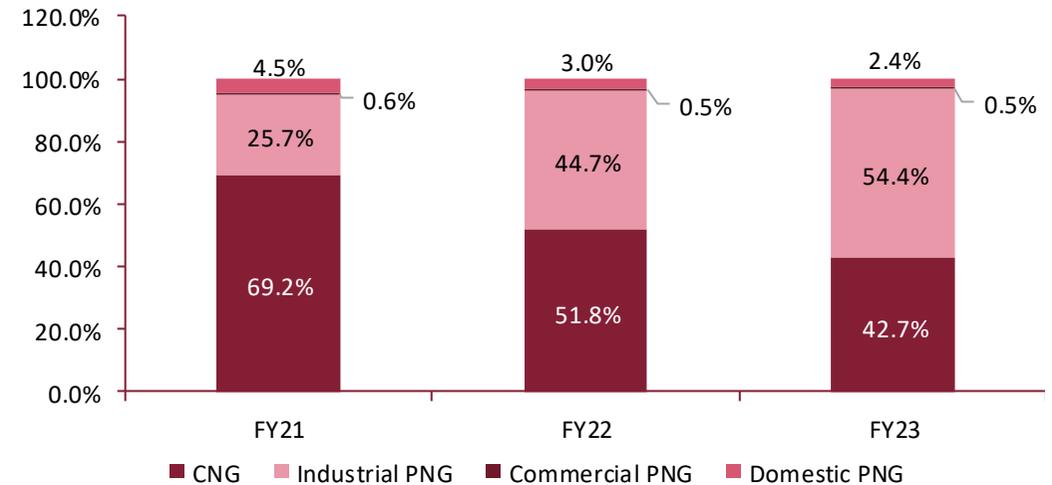


# IRM Energy Limited

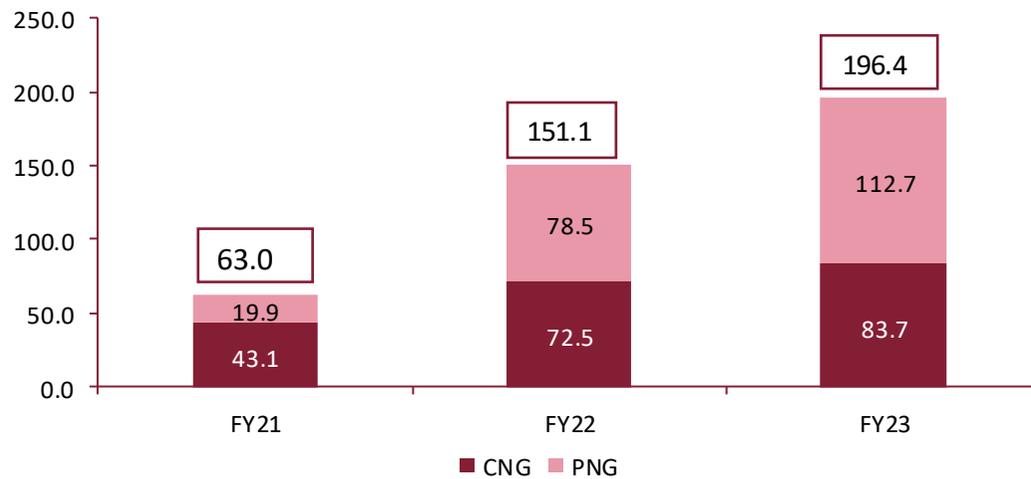
### Revenue Contribution (%)



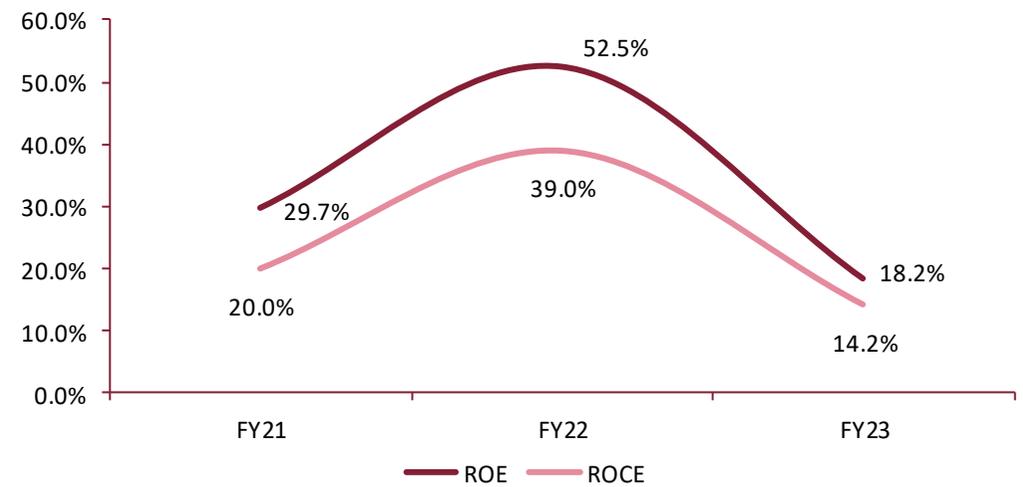
### Client-wise Volume mix



### Volumes in MMSCM

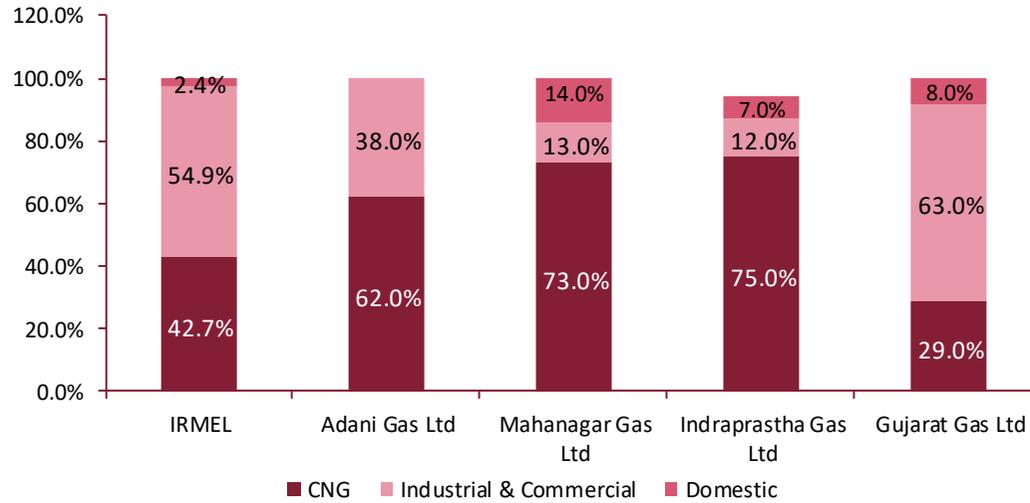


### Return Ratios

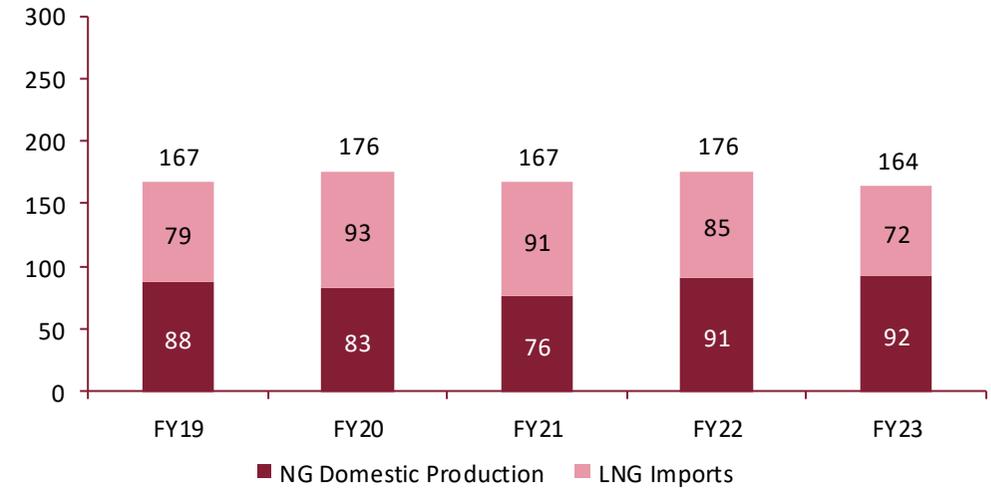


# Industry Outlook

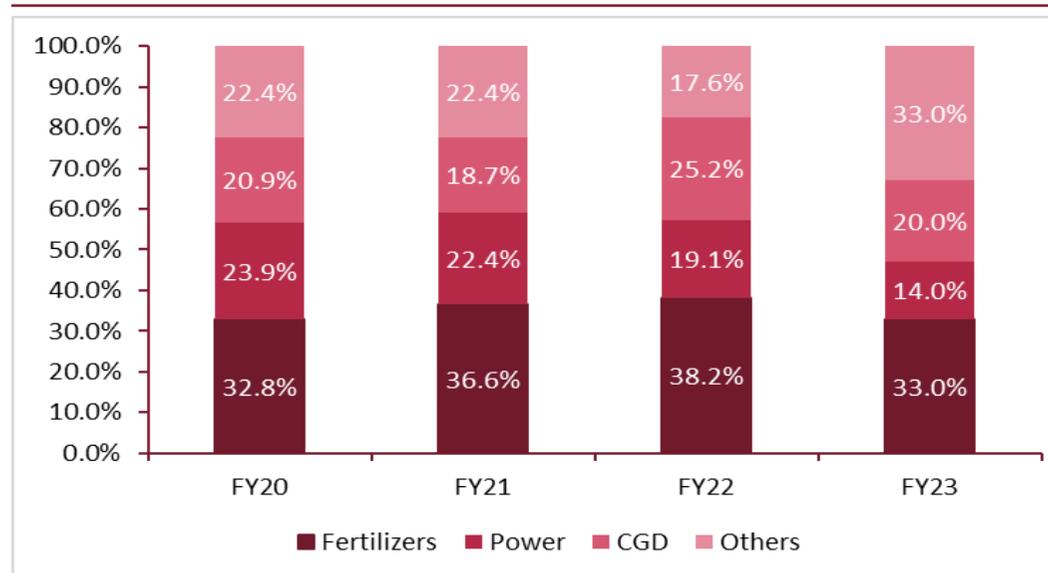
### Volume Mix of Major CGD entities in FY23



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

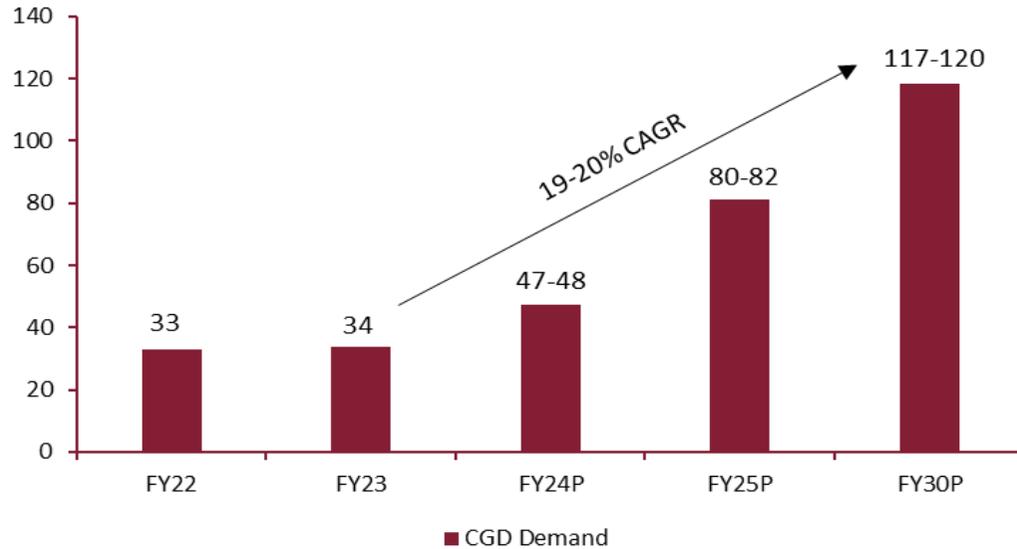


### Domestic gas allocation development

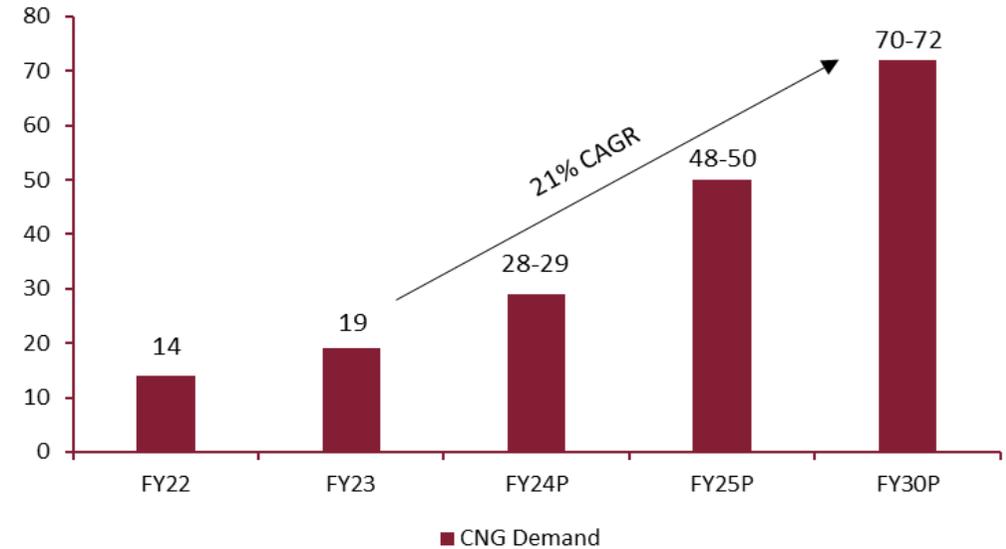


# Industry Outlook

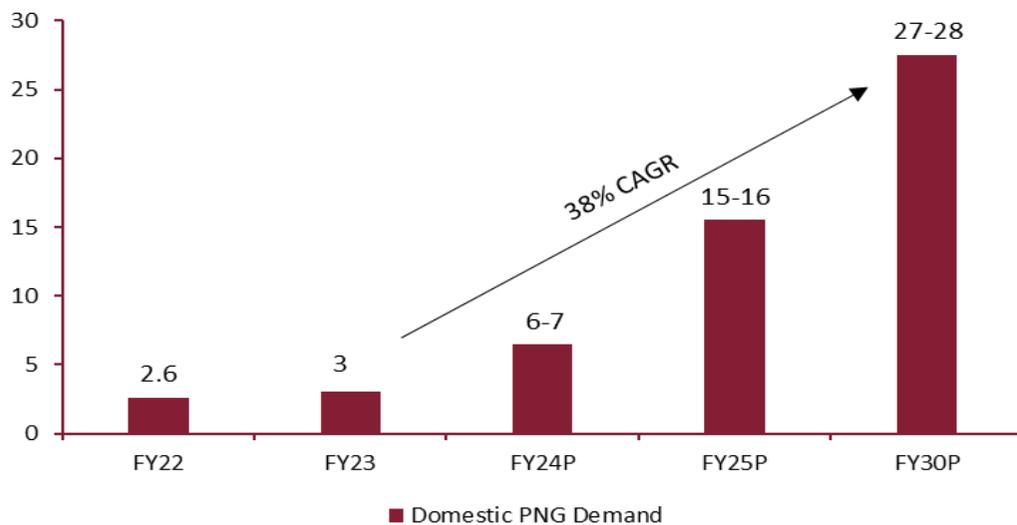
### CGD - Overall Demand outlook (in MMSCMD)



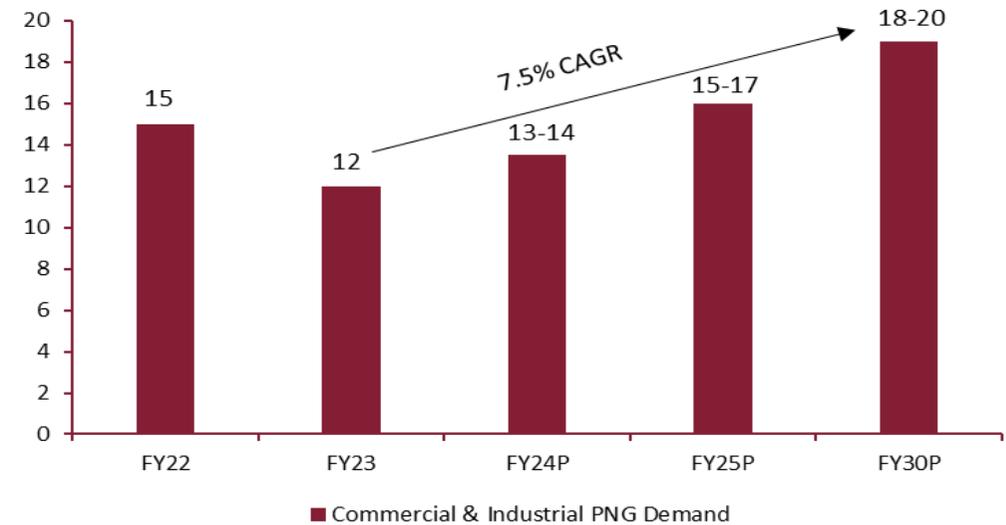
### CNG Demand outlook (in MMSCMD)



### 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.

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