

IRM Energy Ltd.

Gas | India

IPO | 17 October 2023

Transition into a complete energy solution provider

SUBSCRIBE 

About the Company

IRM Energy Ltd. (IEL) 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. IEL develops natural gas distribution projects in the geographical areas ("GAs") allotted to us for industrial, commercial, domestic and automobile customers. It has positioned itself 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 the transport segment. (Source: CRISIL Report). As of June 30, 2023, IEL had 184 Industrial customers, 269 Commercial customers, and 52454 Domestic customers. On the said date, IEL had 66 CNG filling stations in its GAs.

Strong parentage and partnership with Japanese company Shizgas

IEL is backed by the strong parentage of Cadila Pharmaceuticals Limited which has a legacy of over three decades in the domestic pharmaceutical industry and holds 49.50% of its equity shares. IEL has partnership with Shizuoka Gas Co. Ltd, (the fourth largest gas company in Japan by NG sales volume in 2021) & has vast experience in the CGD sector. ShizGas's technical expertise and good practices as an energy provider in Japan is adding value to business operations of IRM energy.

Sustained improvement in demand

The natural gas demand from the CGD sector is expected to be 19-20% CAGR between FY22 to FY30, growing to 117-120 mmscmd. Demand from each sub-segment, including compressed and piped natural gas (domestic and industrial), is likely to grow at a healthy pace over the forecast period, with the expansion in the gas network to more cities. Increase in penetration is expected to be a key demand driver for the PNG and CNG segment. The share of natural gas in India's primary energy mix is at 6.5% currently, targeting 15% by FY30 and is still way below the global average share of 24%, in the global energy use.

Value chain integration

IEL also intend to make a transition towards being an energy company and implement its proposed renewable (solar) energy projects envisaged for sale of renewable power to reputed industrial, commercial customers and green hydrogen generating/producing companies through long term power purchase agreements through its various subsidiaries started over the last 2 years.

Financials in Brief

On the financial front, the company reported a turnover of Rs213 Crs, Rs549 Crs and Rs1045 Crs for FY21, FY22 and FY23 respectively, on a consolidated basis. It posted net profit of Rs 35 Crs, Rs128 Crs and Rs 63 Crs respectively for the aforementioned period, while the company's top-line continued to grow, registering a CAGR of ~76% over FY21-23, its bottom line reported a lower growth in CAGR of 34.5% for the same period with decline in net margins. It has reported an average EPS of Rs. 25.7 and an average RoNW of 33.5% for the last 3 years.

Our View

IRM key GA is lucrative and underpenetrated with strong volume growth expected to reach 1.51 mmscmd from the current FY23 volume of 0.54 mmscmd. The government's focus on transition to a gas-based economy, development of the natural gas grid connecting the major demand and supply centers in India and increasing the natural gas share in the energy mix to 15% by FY2030 from 6.3% in FY23 will keep the structural story intact. IRM's diverse customer portfolio and distribution network of CNG and PNG and strong relationships through collaborative efforts to a diverse customer base including industrial, commercial and domestic customers ensures efficient and optimal business mix going ahead. **The consistent growth in volumes of its key GA, new business from Tamil Nadu which is a key market going forward we recommend a SUBSCRIBE to the issue for the long term.**

IPO Details

| | |
|-------------------------------------|---------------------|
| Price Band (Rs) | 480-505 |
| Face Value (Rs) | 10 |
| Issue Open/Closing Date | 18-Oct-23/20-Oct-23 |
| Fresh Issues (Crs) | 545.5 |
| OFS (Crs) | - |
| Total Issue (Crs) | 545.5 |
| Minimum Bid Qty. (Nos) | 29 |
| QIB / HNI / Retail | 50%/35%/15% |
| Implied Market Cap (Rs Crs)* | 2,074 |

*At higher band

Object of the Issue

- ▶ Funding for CGD networks in Tamil Nadu
- ▶ Repayment of certain borrowings
- ▶ General Corporate purposes

Strengths

- ▶ Exclusivity in CNG and PNG supply in the awarded Gas
- ▶ Diverse customer portfolio and distribution network of CNG and PNG:
- ▶ Strong parentage, experienced board and management team.
- ▶ Strong financial performance with consistent growth and profitability

Key Risk

- ▶ Dependent on third parties for sourcing and transportation of natural gas and long gestation period.
- ▶ Breakdown in network infrastructure and Changes in government regulations with respect to allocation of gas regions

| Shareholding (%) | Pre-Issue | Post-Issue |
|------------------|-----------|------------|
| Promoters | 67.9 | 50.1 |
| Others | 32.1 | 49.9 |

Key Financials

| (Rs Crs) | FY21 | FY22 | FY23 |
|-------------------|------|------|-------|
| Volume (mmscmd) | 63 | 151 | 196 |
| Revenue | 213 | 549 | 1,045 |
| EBITDA | 73 | 201 | 119 |
| EBITDA Margin (%) | 34.3 | 36.6 | 11.4 |
| PAT | 35 | 128 | 63 |
| PAT Margin (%) | 16.4 | 23.3 | 6.0 |
| EPS (Rs) | 12.4 | 43.8 | 20.9 |
| RocE (%) | 20.0 | 39.0 | 14.2 |
| RoE (%) | 29.7 | 52.5 | 18.2 |
| Net Worth | 118 | 244 | 346 |
| Gross Debt | 163 | 203 | 304 |

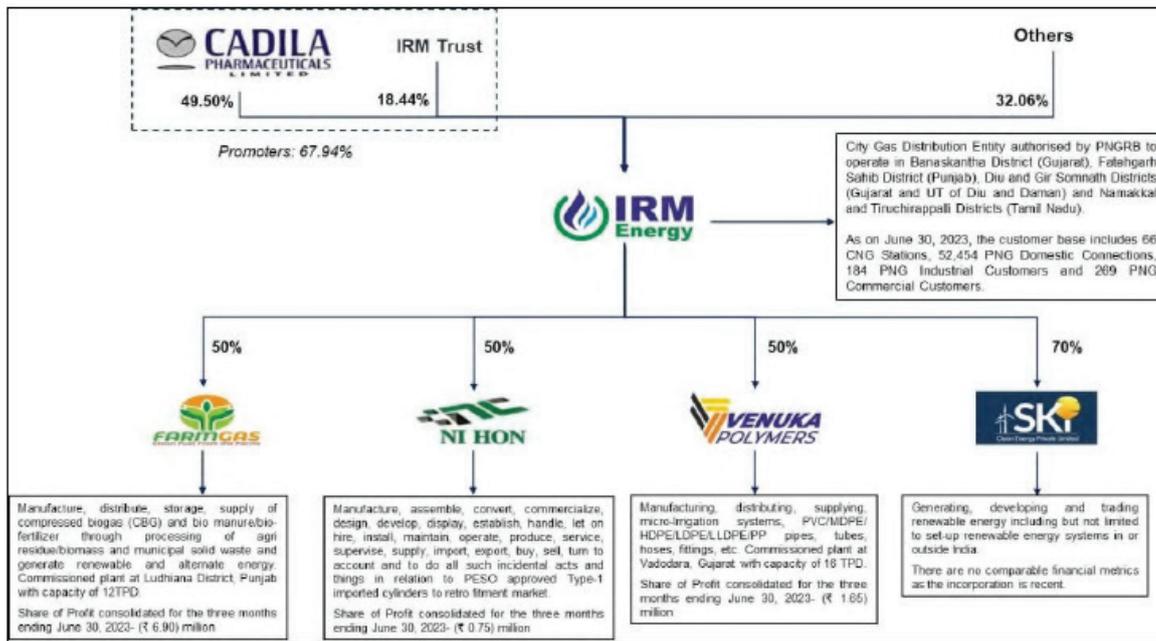
Source: RHP

Senior Research Analyst:
Vikas Jain

Contact : (022) 41681371

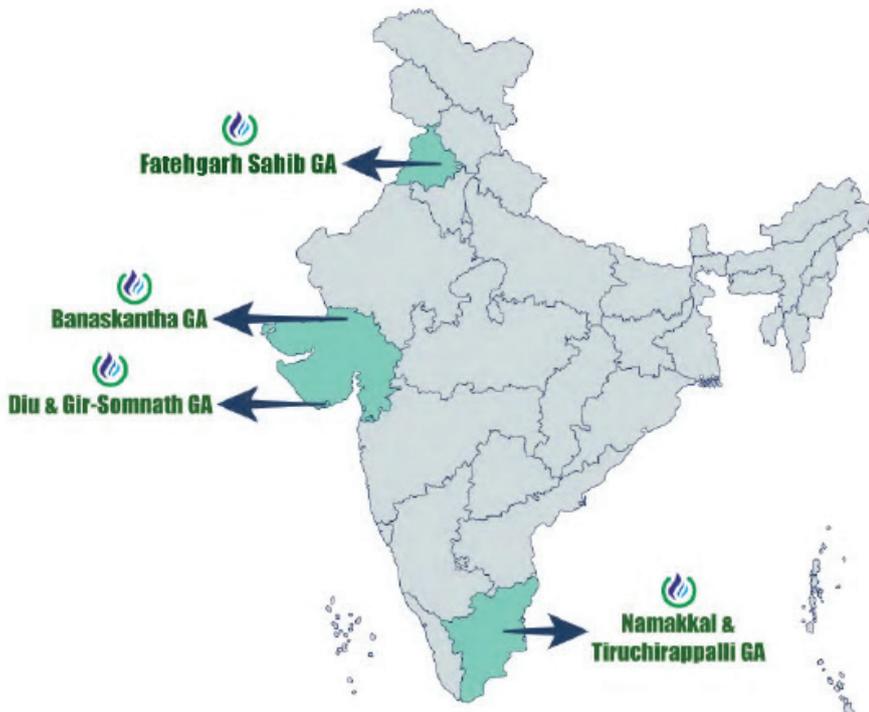
Email : vikas.i.jain@relianceada.com

Exhibit 1: Overview



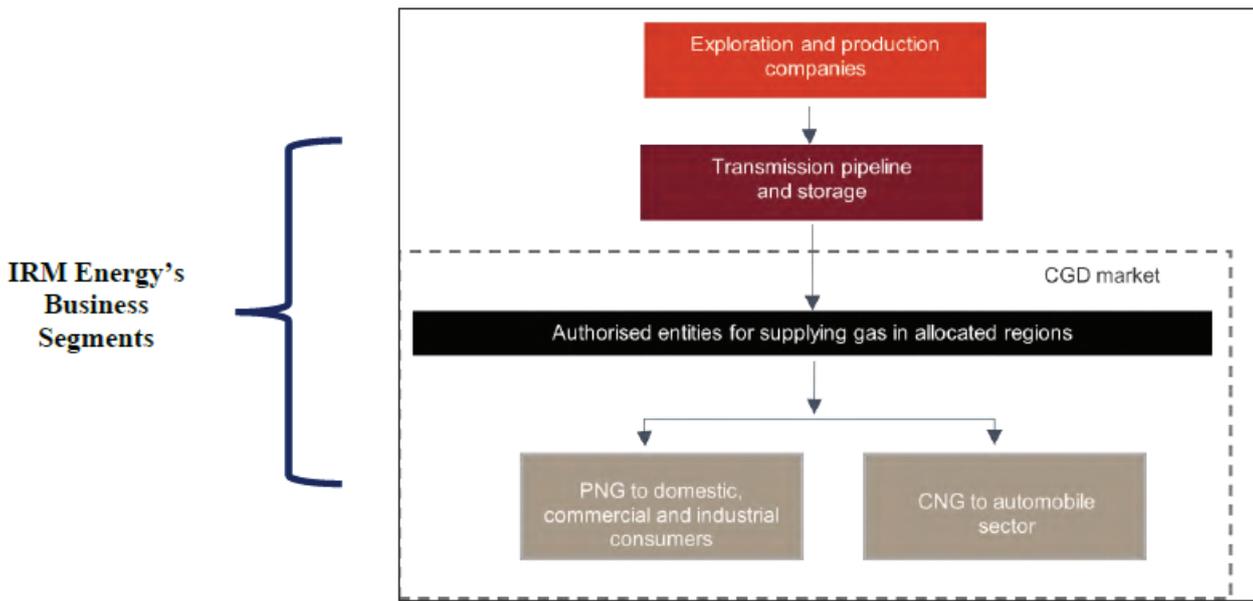
Source: RHP

Exhibit 2: The Indian national map below depicts our GAs situated in districts of Banaskantha, Fatehgarh Sahib, Diu & Gir Somnath and Namakkal & Tiruchirappalli:



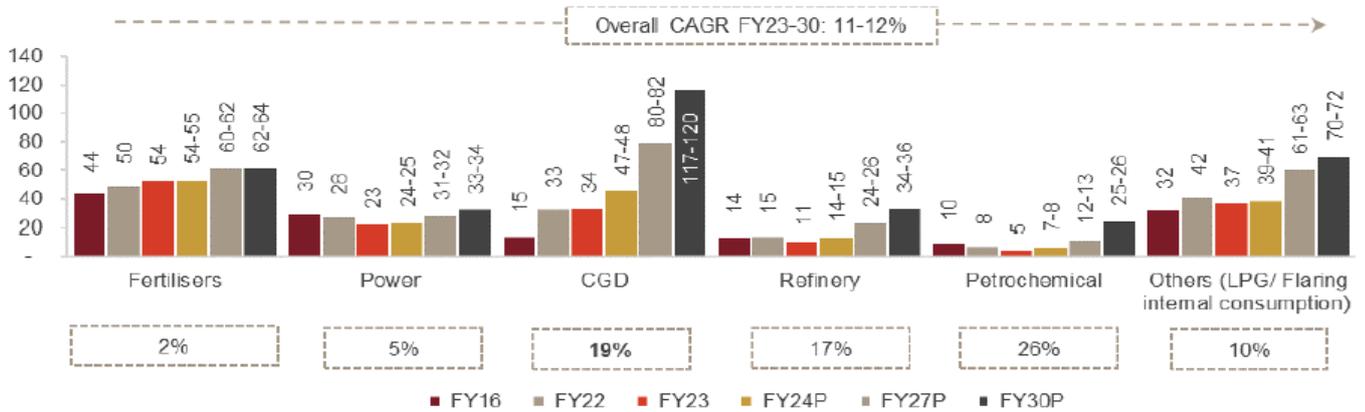
Source: RHP

Exhibit 3: We supply natural gas to two primary set of customer segments. Our customer segments are as set out below:



Source: RHP

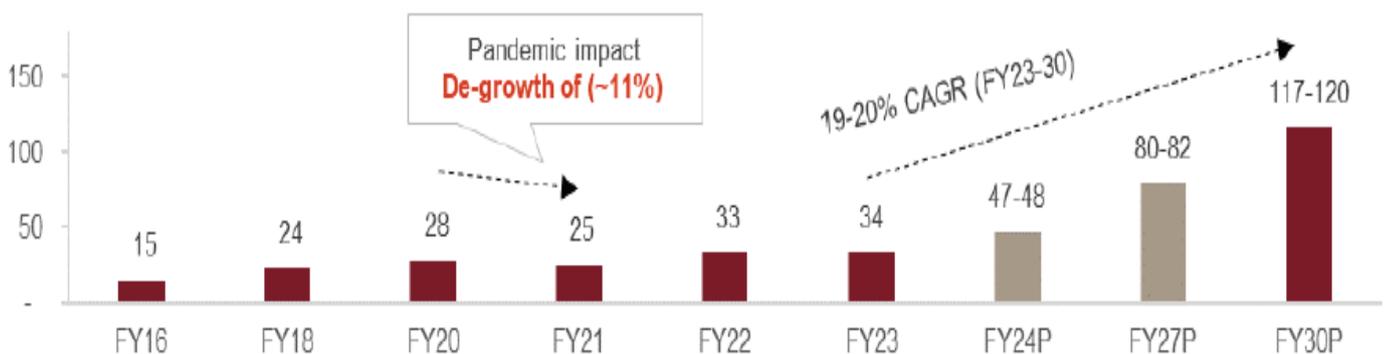
Exhibit 4: Sector-wise natural gas demand outlook, FY23-30 (mmscmd)



P: Projected

Source: RHP

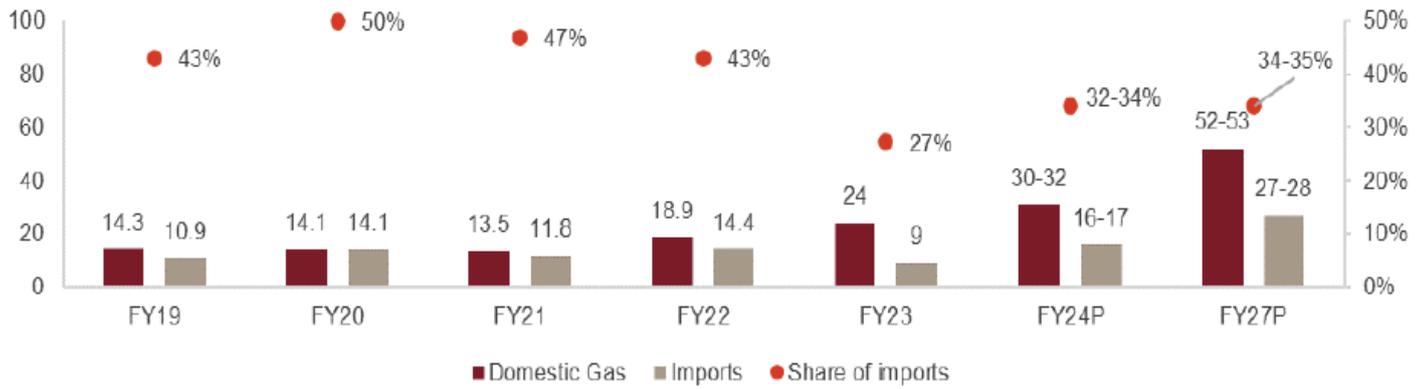
Exhibit 5: CGD - natural gas demand outlook, FY23-30 (mmscmd)



P: Projected

Source: RHP, MoPNG, PPAC, CRISIL MI&A Consulting

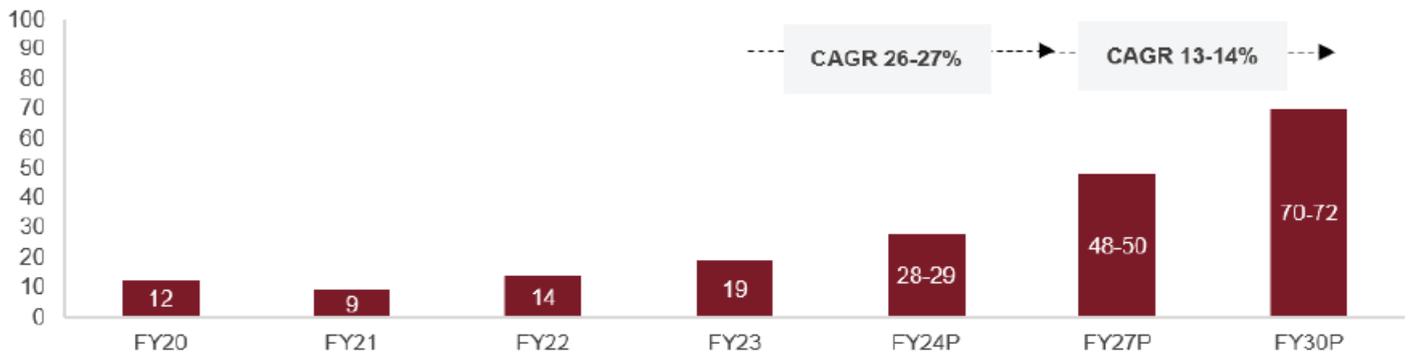
Exhibit 6: Share of domestic gas vs imported gas in CGD, FY23-30 (mmscmd)



P: Projected

Source: RHP, MoPNG, PPAC, CRISIL MI&A Consulting

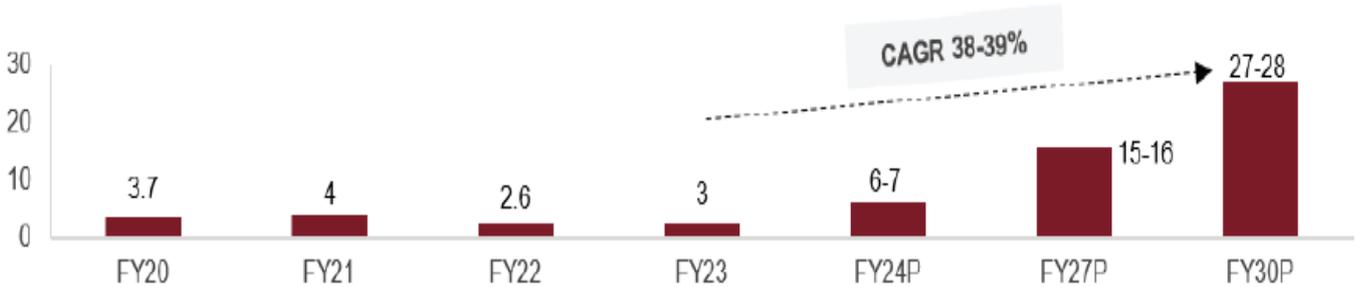
Exhibit 7: Outlook on CNG demand (mmscmd)



P: Projected

Source: RHP, CRISIL MI&A Consulting

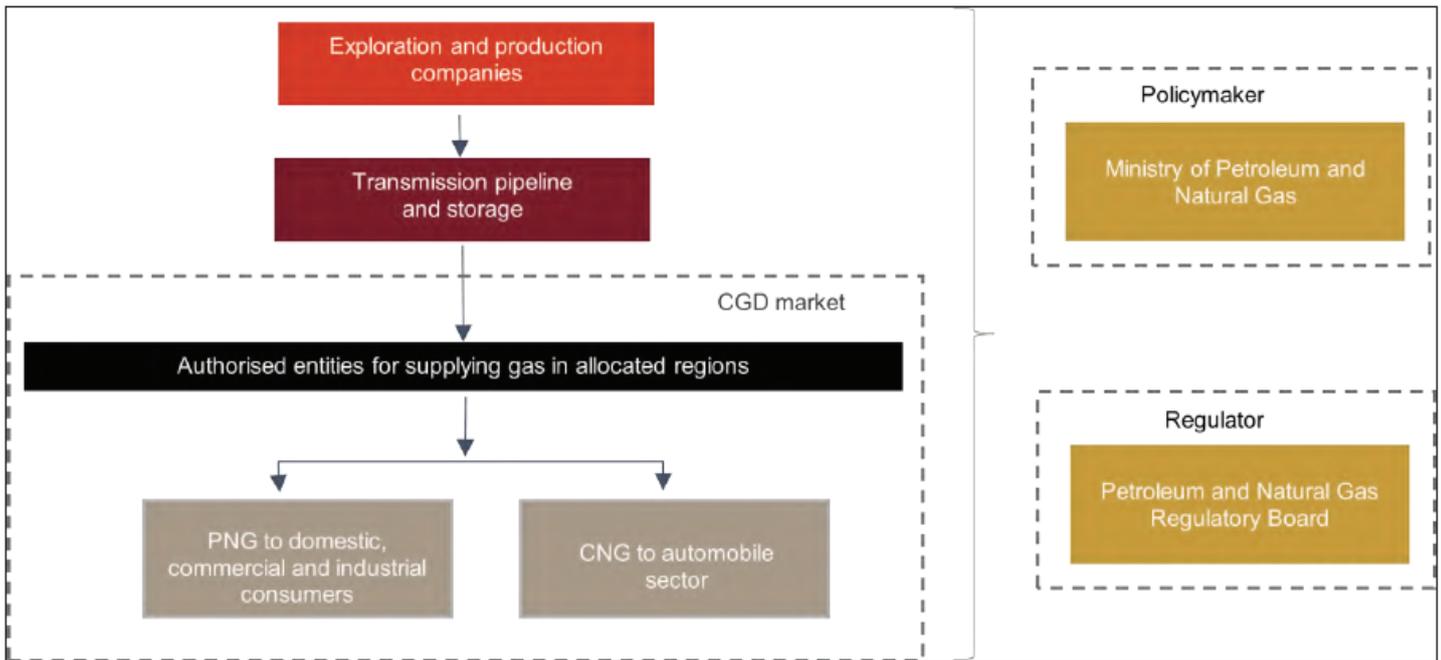
Exhibit 8: Outlook on domestic PNG demand (mmscmd)



P: Projected

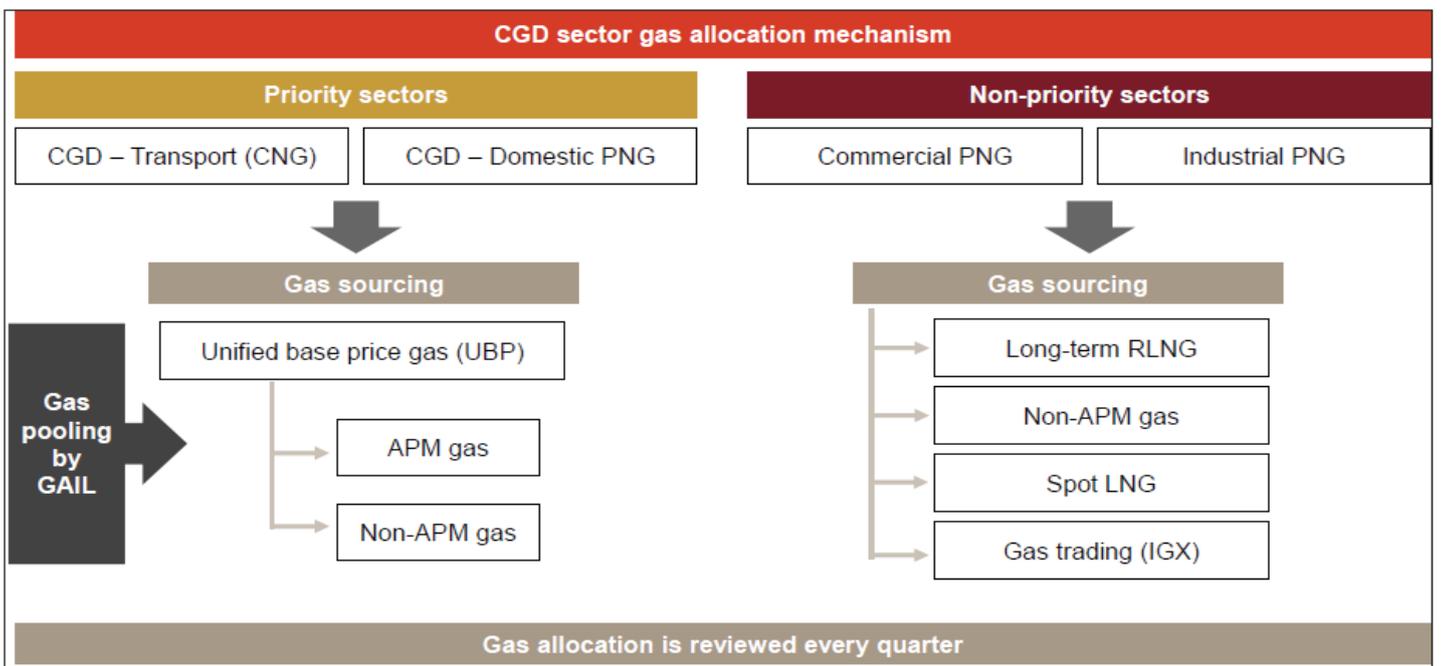
Source: RHP, CRISIL MI&A Consulting

Exhibit 9: CGD market structure



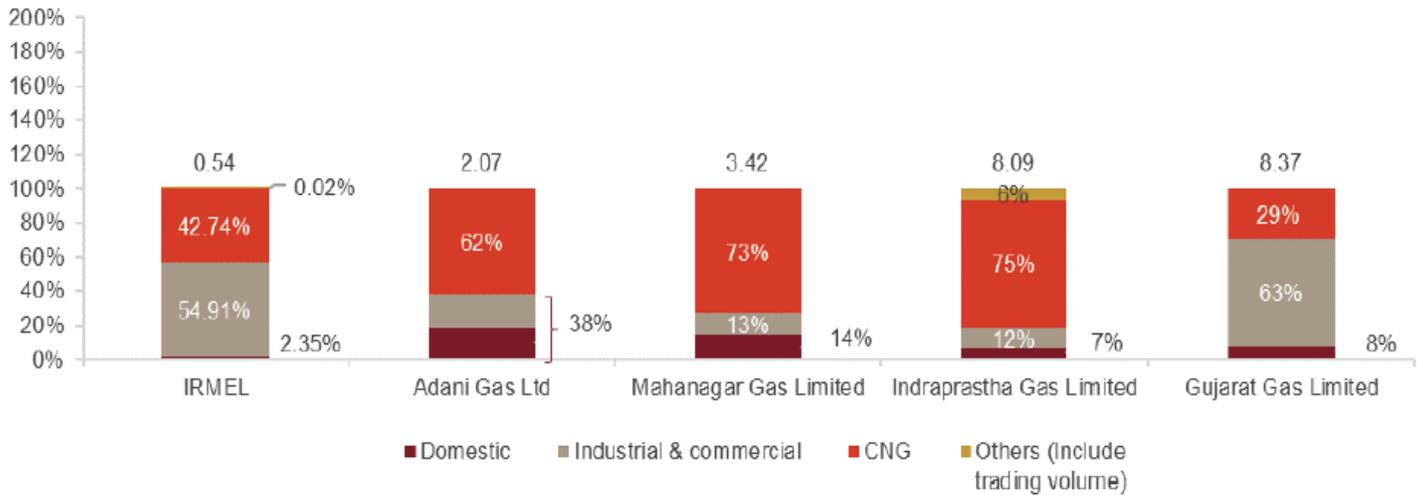
Source: RHP, PNGRB, CRISIL MI&A Consulting

Exhibit 10: CGD sector gas allocation (priority with CGD sector)



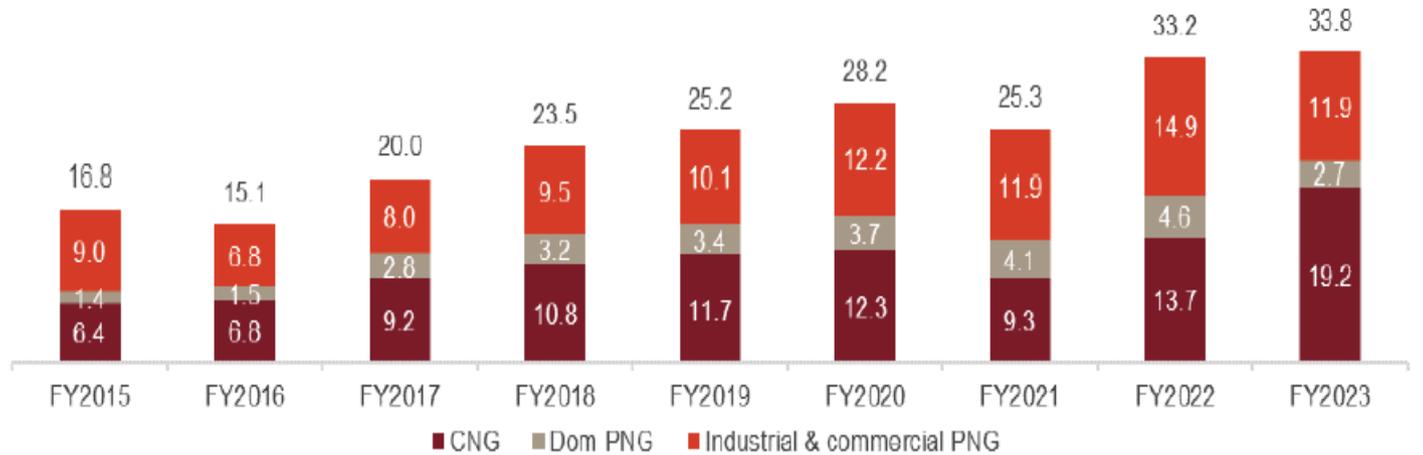
Source: RHP, PNGRB, CRISIL MI&A Consulting

Exhibit 11: Sales mix of major CGD players in FY23 (mmcmd)



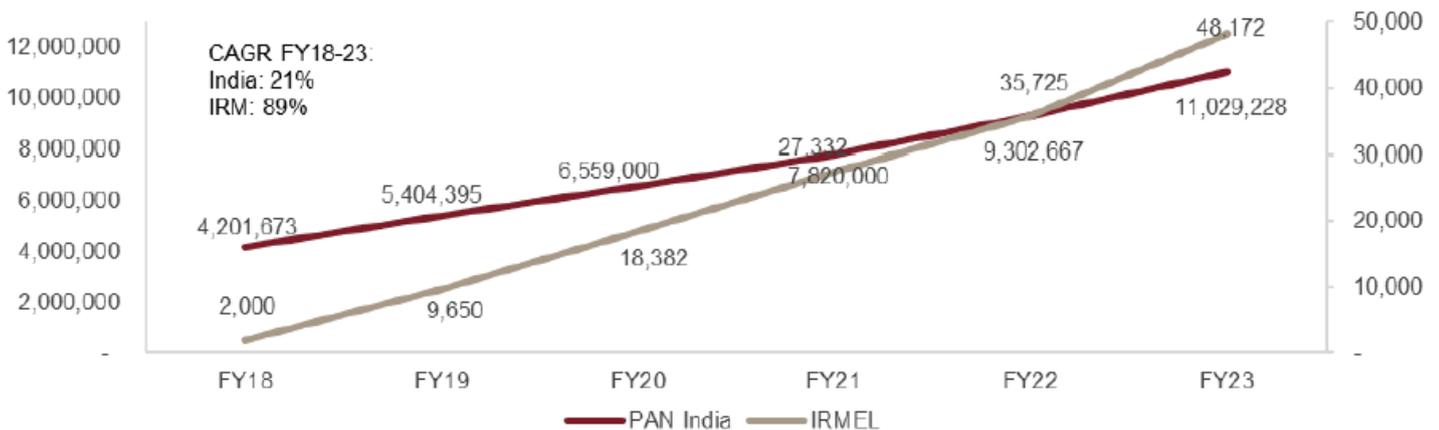
Source: CRHP, company annual reports

Exhibit 12: CGD demand, FY15-23 (mmcmd)



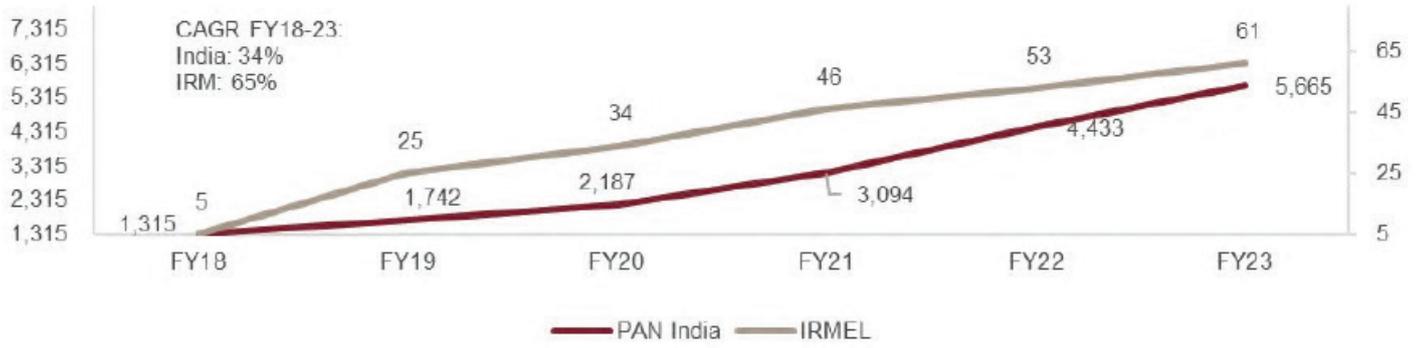
Source: RHP, Company annual reports, CRISIL MI&A Consulting

Exhibit 13: Domestic PNG connection growth of IRMEL vs pan-India average



Source: RHP, IRMEL company report, PNGRB

Exhibit 14: CNG stations growth of IRMEL vs pan- India average



Source: RHP, IRMEL company report, PNGRB

Disclaimer:

Reliance Securities Limited (RSL), the broking arm of Reliance Capital is one of the India's leading retail broking houses. Reliance Capital is amongst India's leading and most valuable financial services companies in the private sector. Reliance Capital has interests in asset management and mutual funds, life and general insurance, commercial finance, equities and commodities broking, wealth management services, distribution of financial products, private equity, asset reconstruction, proprietary investments and other activities in financial services. The list of associates of RSL is available on the website www.reliancecapital.co.in. RSL is registered as a Research Analyst under SEBI (Research Analyst) Regulations, 2014

General Disclaimers: This Research Report (hereinafter called 'Report') is prepared and distributed by RSL for information purposes only. The recommendations, if any, made herein are expression of views and/or opinions and should not be deemed or construed to be neither advice for the purpose of purchase or sale of any security, derivatives or any other security through RSL nor any solicitation or offering of any investment /trading opportunity on behalf of the issuer(s) of the respective security(ies) referred to herein. These information / opinions / views are not meant to serve as a professional investment guide for the readers. No action is solicited based upon the information provided herein. Recipients of this Report should rely on information/data arising out of their own investigations. Readers are advised to seek independent professional advice and arrive at an informed trading/investment decision before executing any trades or making any investments. This Report has been prepared on the basis of publicly available information, internally developed data and other sources believed by RSL to be reliable. RSL or its directors, employees, affiliates or representatives do not assume any responsibility for, or warrant the accuracy, completeness, adequacy and reliability of such information / opinions / views. While due care has been taken to ensure that the disclosures and opinions given are fair and reasonable, none of the directors, employees, affiliates or representatives of RSL shall be liable for any direct, indirect, special, incidental, consequential, punitive or exemplary damages, including lost profits arising in any way whatsoever from the information / opinions / views contained in this Report.

Risks: Trading and investment in securities are subject to market risks. There are no assurances or guarantees that the objectives of any of trading / investment in securities will be achieved. The trades/ investments referred to herein may not be suitable to all categories of traders/investors. The names of securities mentioned herein do not in any manner indicate their prospects or returns. The value of securities referred to herein may be adversely affected by the performance or otherwise of the respective issuer companies, changes in the market conditions, micro and macro factors and forces affecting capital markets like interest rate risk, credit risk, liquidity risk and reinvestment risk. Derivative products may also be affected by various risks including but not limited to counter party risk, market risk, valuation risk, liquidity risk and other risks. Besides the price of the underlying asset, volatility, tenor and interest rates may affect the pricing of derivatives.

Disclaimers in respect of jurisdiction: The possession, circulation and/or distribution of this Report may be restricted or regulated in certain jurisdictions by appropriate laws. No action has been or will be taken by RSL in any jurisdiction (other than India), where any action for such purpose(s) is required. Accordingly, this Report shall not be possessed, circulated and/or distributed in any such country or jurisdiction unless such action is in compliance with all applicable laws and regulations of such country or jurisdiction. RSL requires such recipient to inform himself about and to observe any restrictions at his own expense, without any liability to RSL. Any dispute arising out of this Report shall be subject to the exclusive jurisdiction of the Courts in India.

Disclosure of Interest: The research analysts who have prepared this Report hereby certify that the views /opinions expressed in this Report are their personal independent views/opinions in respect of the securities and their respective issuers. None of RSL, research analysts, or their relatives had any known direct /indirect material conflict of interest including any long/short position(s) in any specific security on which views/opinions have been made in this Report, during its preparation. RSL's Associates may have other potential/material conflict of interest with respect to any recommendation and related information and opinions at the time of publication of research report. RSL, its Associates, the research analysts, or their relatives might have financial interest in the issuer company(ies) of the said securities. RSL or its Associates may have received a compensation from the said issuer company(ies) in last 12 months for the brokerage or non brokerage services. RSL, its Associates, the research analysts or their relatives have not received any compensation or other benefits directly or indirectly from the said issuer company(ies) or any third party in last 12 months in any respect whatsoever for preparation of this report.

The research analysts has served as an officer, director or employee of the said issuer company(ies)?: No

RSL, its Associates, the research analysts or their relatives holds ownership of 1% or more, in respect of the said issuer company(ies).?: No

Copyright: The copyright in this Report belongs exclusively to RSL. This Report shall only be read by those persons to whom it has been delivered. No reprinting, reproduction, copying, distribution of this Report in any manner whatsoever, in whole or in part, is permitted without the prior express written consent of RSL.

RSL's activities were neither suspended nor have defaulted with any stock exchange with whom RSL is registered. Further, there does not exist any material adverse order/judgments/strictures assessed by any regulatory, government or public authority or agency or any law enforcing agency in last three years. Further, there does not exist any material enquiry of whatsoever nature instituted or pending against RSL as on the date of this Report.

Important These disclaimers, risks and other disclosures must be read in conjunction with the information / opinions / views of which they form part of.

RSL CIN: U65990MH2005PLC154052. SEBI registration no. (Stock Broker: INZ000172433, Depository Participants: CDSL IN-DP-257-2016 IN-DP-NSDL-363-2013, Research Analyst: INH000002384); AMFI ARN No.29889.