



SMC Ranking
 ★ ★ ☆ ☆ ☆ (2/5)

Issue Highlights

Industry	Energy
Fresh Issue (Shares)	10,800,000
Net Offer to the Public	10,800,000
Issue Size (Rs. Cr.)	518-545
Price Band (Rs.)	480-505
Employee Discount	Rs 48 per share
Offer Date	18-Oct-23
Close Date	20-Oct-23
Face Value	10
Lot Size	29

Issue Composition

Issue Composition	In shares
Total Issue for Sale	10,800,000
QIB	5,400,000
NIB	1,620,000
Retail	3,780,000

Shareholding Pattern (%)

Particulars	Pre-issue	Post-issue
Promoters & promoters group	67.94%	50.07%
QIB	32.06%	36.78%
NIB	0.00%	3.95%
Retail	0.00%	9.21%
Total	100.00%	100.00%

*calculated on the upper price band

Objects of the Issue

The company proposes to utilize the Net Proceeds from the Issue towards funding the following objects:

Funding capital expenditure requirements for the development of the City Gas Distribution network in the Geographical Areas 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; and

General corporate purposes.

Book Running Lead Manager

- HDFC Bank Limited
- BOB Capital Markets Limited

Name of the registrar

- Link Intime India Private Limited

About the company

Incorporated in 2015, IRM Energy Limited is a gas distribution company. The company is involved in developing, operating, and expanding of local natural gas distribution network. IRM Energy is a value-driven energy enterprise serving industrial, commercial, domestic, and automobile customers. The company has marked its presence in Banaskantha District in the state of Gujarat, Fatehgarh Sahib in the state of Punjab, and Diu & Gir-Somnath in the Union Territory of Daman & Diu and the state of Gujarat. The company is fulfilling the natural gas requirements of 48172 domestic clients, 179 industrial units, and 248 commercial clients. The company has received an award of City Gas Distribution- Growing Company of the Year 2020 from the Federation of Indian Petroleum Industries. As of September 2022, the company has 216 CNG gas stations across its operating geographical areas.

Strength

Exclusivity in CNG and PNG supply in the awarded Gas: The company has exclusive rights to supply CNG and PNG in the geographical areas awarded to them by PNGRB, providing a competitive advantage. The company has also been granted network exclusivity rights of 25 years for infrastructure creation for all its GAs, including laying down of pipelines and CNG distribution network within its GAs pursuant to the authorization received.

Successful development and operation of CGD business: The company has successfully built and operated its CNG and PNG distribution system in the GAs awarded to it, and also set up its supplementary network of pipelines and CNG stations. The company believes that it has developed strong in-house project management capabilities, complemented by robust operation and maintenance processes. It believes that its relationship with vendors, suppliers and contractors has enabled it to expand its network in a timely and cost-efficient manner.

Diverse customer portfolio and distribution network of CNG and PNG: The company believes that it has established strong relationships through collaborative efforts to a diverse customer base including industrial, commercial and domestic customers. It provides competitive offerings while maintaining a customer-centric approach and making continuous efforts to upgrade its services, by leveraging technology across all its customer operations. It has successfully established a distribution network of CNG and PNG to customers.

Technology adoption and digital initiatives: The company focuses on implementing the latest technology and digital solutions to improve efficiency and reduce operational costs. This includes SCADA systems, RFID technology, and AMR. The company has taken series of digital initiatives such as digital payment solutions, spot billings, using GIS for planning, network design, asset integrity, incident/third party activity/emergency communication support, preventive maintenance planning, gas reconciliation and reporting and 24x7 customer support.

Connectivity to gas pipelines and establishing cost-effective gas sourcing arrangements: The company strategically acquires GAs with connectivity to cross-country natural gas pipelines, reducing transportation costs and enabling cost-effective gas sourcing. Due to its competitive gas price and optimized operational expenditure, the company is in a position to offer gas to its 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.

‘Strong financial performance: The company has a consistent track record of growth in volumes, revenues, and profits, supported by healthy operating efficiency and favorable regulations. This financial stability can support future expansion and growth. Its volume of supplied natural gas decreased (i) from 46.93 MMSCM for the three months ended June 30, 2022 to 45.69 MMSCM for the three months ended June 30, 2023; and (ii) increased from 63 MMSCM for Fiscal 2021 to 196.43 MMSCM for Fiscal 2023, at a CAGR of 76.58%. Its net revenue from operations (net of excise duty) increased (i) from Rs. 214.66 crore for the three months ended June 30, 2022 to Rs. 230.00 Crore for the three months ended June 30, 2023, at a CAGR of 7.17 %; and (ii) from Rs. 189.56 Crore for Fiscal 2021 to Rs. 980.00 Crore for Fiscal 2023, at a CAGR of 127.38%. Its ROCE amounted to 4.93% (not annualized), 5.95% (not annualized), 14.19%, 39.01% and 19.98% as at June 30, 2023 and June 30, 2022, and as at March 31, 2023, 2022 and 2021, respectively.

Strategy

Expand its presence in existing and newer GAs through an improved captive distribution channel: As a part its strategy, it works towards distribution and sale of CNG through its 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. Going forward, its COCO Stations and DODO Stations may also be used as energy retailers with no restriction on utilizing the same outlets for other new generation fuels like CNG, biofuel, LNG, EV charging and battery swap. For the PNG domestic segment, it intends to install pre-paid meters so that the customers pay for their consumptions, in advance, without any monthly fixed charges in case of no consumption for any particular billing period. This will help save in terms of marketing cost of billing and collection, and negate any risk of default by customers, thereby improving cash flow. For the PNG commercial segment, it intends to install Automated Meter Reading (“AMR”) system for all customers which will help it monitor their consumption pattern on real time basis and reduce the time and efforts spent on billings.

Infrastructure roll-out for development and operation of the new licensed GA of Namakkal & Tiruchirappalli, Tamil Nadu: It intends to establish the key infrastructure for expediting the development of CGD network in the newly awarded GA of Namakkal & Tiruchirappalli districts in Tamil Nadu. Namakkal & Tiruchirappalli being urban and highly populated district, there is a great potential of residents converting to PNG in both districts.

Technology adoption to increase operational efficiency and enhance customer value: The company is the pioneer in implementing technology (SCADA) for the unmanned operation of the CNG compressors and dispensers. It has implemented methodologies such as SCADA, GIS and AMR System, etc., which help in improvement of efficiency and accuracy of the systems, thereby leading to savings in operational costs. It intends to continue investing in such endeavours. In pursuit of this endeavour, it aims to continue to reinforce its innovation capabilities by focusing on technology adoption. For instance, pursuant to its association with ShizGas, ShizGas and the Company shall both nominate their employees to participate in a ‘joint technical committee’, so as to evaluate methodologies and good practices that can be implemented by it to further improve its business efficiency. It believes that ShizGas’s technical expertise and good practices as an energy provider in Japan will add value to its business operations.

Business integration for transition into a complete energy solution provider: It intends to pursue a strategy of vertical integration in order to diversify and achieve higher business growth. It believes this strategy will enable it to maximize its revenue, through business integration by way of investments in complementary businesses. To further this strategy, it has invested in Farm Gas Private Limited, a biomass and waste to energy solution company with a vision to convert biomass as well as municipal solid waste to compressed biogas (CBG) and bio-fertilizer, on December 9, 2019, which aims to provide cost-effective and economically viable renewable energy through waste and biomass management. Further, its investment in ‘Farm Gas’ provides it with the strategic advantage of the availability of alternate gas sources apart from trading and sourcing agreements; and also enables it to venture into GAs wherein other CGD companies have marketing exclusivity.

Continue to focus on sourcing reliable and cost-effective gas from leading Gas Suppliers: It 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 it in efficient cost management. It will continue to monitor the cost of natural gas and endeavour to source natural gas in the most cost-effective manner from various vendors. It has also entered into mid to long-term gas sourcing agreements with GAIL and RIL. Further, it intends to explore gas sourcing opportunities from ShizGas, for sourcing of gas from outside of India. It is evaluating the opportunities with ShizGas to import LNG into, and wholesale R-LNG, within India through bilateral contracts and on gas exchange platform. It believes that this will not only help it to source R-LNG at competitive price, but also will open up new growth opportunities to tap the natural gas market in India. As a business strategy, the Company also trades volume of natural gas, either under bilateral contracts or through the gas exchange.

Risk factor

- The Company is dependent on third parties for sourcing and transportation of natural gas.
- 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 would require 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.
- The company typically requires 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.

Peer comparison

Co_Name	Total Income	PAT	EPS	P/E	P/BV	BV	FV	Price	Mcap
Mahanagar Gas	6382.32	973.25	98.53	11.52	2.71	418.54	10	1134.60	11207.33
Indraprastha Gas	14358.99	1680.40	24.01	20.02	4.24	113.30	2	480.65	33645.54
Adani Total Gas	4391.90	558.34	5.08	117.17	22.26	26.74	1	595.20	65460.70
Gujarat Gas	15370.83	1362.43	19.79	21.48	4.16	102.09	2	425.15	29266.91
IRM Energy Limited**	1039.14	56.45	13.75	36.74	2.33	217.20	10	505.00	2073.51

*Peer companies financials are TTM based.

**As on FY23

Valuation

Considering the P/E valuation, on the upper end of the price band of Rs.505, the stock is priced at pre issue P/E of 27.07x on FY23 EPS of Rs.18.65. Post issue, the stock is priced at a P/E of 36.74x on its EPS of Rs.13.75. Looking at the P/B ratio at Rs.505, pre issue, book value of Rs. 114.48 of P/Bvx 4.41x. Post issue, book value of Rs. 217.20 of P/Bvx 2.33x.

Considering the P/E valuation, on the lower end of the price band of Rs.480, the stock is priced at pre issue P/E of 25.73x on FY23 EPS of Rs.18.65. Post issue, the stock is priced at a P/E of 34.92x on its EPS of Rs.13.75. Looking at the P/B ratio at Rs.480, pre issue, book value of Rs. 114.48 of P/Bvx 4.19x. Post issue, book value of Rs. 217.20 of P/Bvx 2.21x.

Industry Outlook

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. Natural gas demand from the CGD sector to log 19-20% CAGR between Fiscals 2023 and 2030, growing to 117-120 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.

Outlook

Their successful track record in building and operating distribution systems and their diverse customer portfolio are strong points. Furthermore, their strategic acquisition of GAs with connectivity to gas pipelines and a consistent financial performance offer a stable foundation for expansion. However, the company's dependence on third-party suppliers for natural gas and transportation exposes it to supply chain disruptions. Heavy reliance on CNG and industrial PNG operations means that a downturn in these segments could adversely affect their overall business.

An Indicative timetable in respect of the Issue is set out below:

EVENT	INDICATIVE DATE (On or about)
BID/ISSUE OPENS ON	18-October-23
BID/ISSUE CLOSES ON	20-October-23
Finalisation of Basis of Allotment with the Designated Stock Exchange	27-October-23
Initiation of refunds (if any, for Anchor Investors)/unblocking of funds from ASBA Account	27-October-23
Credit of Equity Shares to demat accounts of Allottees	30-October-23
Commencement of trading of the Equity Shares on the Stock Exchanges	31-October-23

Annexure

Consolidated Financials

Profit & Loss

Rs. in Cr.

Particulars	Period ended 30-Jun-23 (6 Months)	Period ended 31-Mar-23 (12 Months)	Period ended 31-Mar-22 (12 Months)
Revenue from operations	245.25	1039.14	546.14
Total expenditure	203.18	926.90	359.71
Operating Profit	42.07	112.24	186.43
OPM%	17.15	10.80	34.14
Other Income	3.38	5.97	3.05
PBDIT	45.45	118.20	189.48
Depreciation	5.77	20.90	15.04
PBIT	39.68	97.31	174.44
Interest	6.04	22.90	22.08
Profit before tax	33.64	74.40	152.36
Tax	5.81	17.96	38.80
Profit & Loss before Share of Post-acquisition Profit of Associate	27.84	56.45	113.56

Balance sheet is on next page

Balance Sheet

Rs. in Cr.

Particulars	As on 30-Jun-23	As on 31-Mar-23	As on 31-Mar-22
Non-current assets			
Property, plant and equipment	387.60	361.02	284.82
Capital work-in-progress	99.19	91.09	52.28
Intangible assets	3.16	3.37	2.65
Right -Of- Use Assets	19.03	16.24	12.94
Intangible Under Development	0.14	0.00	0.19
Financial Assets			
Investments	31.45	32.38	25.69
Loans	7.70	7.66	7.74
Other Financial asset	13.09	11.00	18.25
Other Non-Current Assets	37.97	40.41	8.83
Income Tax Assets	2.14	4.23	0.00
Total non-current assets	601.47	567.39	413.40
Current assets			
Inventories	5.52	1.93	1.72
Financial Assets			
Investments	64.89	54.33	10.28
Trade Receivables	39.81	38.62	22.71
Cash and Cash Equivalents	21.45	21.88	59.15
Bank Balances other than (ii) above	82.22	76.61	40.56
Other Financial Assets	5.26	3.79	2.58
Other Current Assets	17.61	28.37	4.42
Total current assets	236.74	225.51	141.41
Total Assets	838.21	792.90	554.80
Non-current liabilities			
Financial liabilities			
Borrowings	269.18	282.20	186.76
Lease Liabilities	17.64	15.07	10.82
Trades Payables	0.00	0.00	0.00
Other Financial Assets	36.71	27.37	19.52
Provisions	1.60	1.37	0.94
Deferred Tax liabilities (Net)	19.00	18.52	14.71
Total non-current liabilities	344.13	344.53	232.75
Current liabilities			
Financial Liabilities			
Borrowings	52.06	21.64	15.83
Lease Liabilities	0.85	0.85	0.89
Trades Payable - MSME	0.06	0.19	0.24
Trade Payables - other than MSME	29.49	30.97	24.85
Other financial Liabilities	31.25	46.15	21.92
Provisions	0.06	0.06	0.04
Other Current Liabilities	6.98	2.09	6.14
Current tax Liabilities (Net)	0.00	0.00	8.43
Total current liabilities	120.75	101.95	78.33
Total	464.88	446.48	311.08
NET Worth	373.33	346.43	243.72
Net worth represented by:			
Equity Share Capital	30.26	30.26	29.37
Other Equity	343.07	316.16	214.35
Net Worth	373.33	346.42	243.72

RANKING METHODOLOGY

WEAK	★
NEUTRAL	★★
FAIR	★★★
GOOD	★★★★
EXCELLENT	★★★★★

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