

NOT RATED**IRM ENERGY**

| Oil & Gas

| 16 February 2024

Management meet takeaways: Volume growth potential

- Potential to double volumes to close to 1mmscmd in FY25 and grow to 1.5mmscmd in FY27, as per management
- EBITDA revived 29% YoY in 9MFY24 with higher margins; acceleration in CNG volumes has largely offset setback in Punjab (FS) market
- Management sees mid-term drivers from return of FS industrial volumes, ramp-up of new GA, and sustained traction in existing areas

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We met IRM Energy's (IRMEL, Not Rated) CEO Karan Kaushal and CFO Harshal Anjaria. Key meeting takeaways:

Early-stage CGD player: IRMEL has the potential to expand natural gas volumes from 0.5mmscmd in FY23 to close to 1mmscmd by FY25 and 1.5mmscmd by FY27, as per management.

Diversified business: Relative to peers, IRMEL covers diverse geographical areas (GA), with exposure to three states across the north, south and west. Further, it has a balanced exposure to the industrial/commercial and CNG/household segments.

Sharp recovery over 9MFY24: The company has posted a 29% YoY recovery in EBITDA over 9MFY24, supported by a better margin of Rs 8.8/scm (from Rs 6.6/scm in 9MFY23), despite a setback at the Fatehgarh Sahib (FS) GA in Punjab that led to a 7% YoY drop in blended volumes. IRMEL has been largely able to offset the decline in volumes at FS by way of stronger CNG volume growth in Q3FY24.

Medium-term growth drivers: Management believes key volume growth drivers include: (a) potential recovery in FS volumes by 0.2mmscmd in a relatively short time should the green tribunal reimpose its ban on pollutant fuels used by industries in Guru Gobind Singh Mandi, (b) ramp-up of operations in new GA, Namakkal and Trichy (NT), which has the potential to add 0.1mmscmd by end-FY25, (c) continuing double-digit CNG growth in older GAs.

Peer comparison: IRMEL's 9MFY24 net income has risen 51% YoY vs. +97%/+22%/ -36% YoY for MAHGL/IGL/GUJGA.

Ticker/Price	IRMENERG IN/Rs 564
Market cap	US\$ 282.0mn
Free float	50%
3M ADV	US\$ 2.1mn
52wk high/low	Rs 615/Rs 435
Promoter/FPI/DII	50%/0%/31%

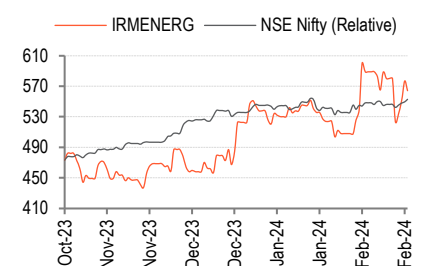
Source: NSE | Price as of 16 Feb 2024

Key financials

Y/E 31 Mar	FY21A	FY22A	FY23A
Total revenue (Rs mn)	1,896	5,071	9,801
EBITDA (Rs mn)	732	1,864	1,123
Adj. net profit (Rs mn)	351	1,136	565
Adj. EPS (Rs)	12.5	38.9	18.9
Consensus EPS (Rs)	12.5	38.9	18.9
Adj. ROAE (%)	36.5	65.4	20.4
Adj. P/E (x)	45.2	14.5	29.8
EV/EBITDA (x)	32.5	13.1	21.6
Adj. EPS growth (%)	44.8	212.0	(51.3)

Source: Company, Bloomberg, BOBCAPS Research

Stock performance



Source: NSE



Management meeting takeaways

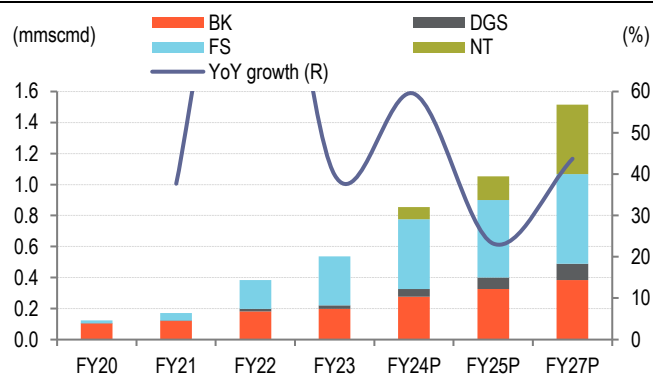
We recently met IRMEL’s CEO Karan Kaushal and CFO Harshal Anjaria, besides hosting corporate meetings with investors. We present the key takeaways from these interactions in our report.

Early stage CGD player

IRMEL has the potential to expand volumes from 0.5mmscmd in FY23 to close to 1mmscmd by FY25 and 1.5mmscmd by FY27, as per management who cited projections by Crisil in its ‘City gas distribution market assessment report, 18 Sep 2023’. This Crisil report was prepared for IRMEL and published in the latter’s red herring prospectus (RHP) in Oct’23.

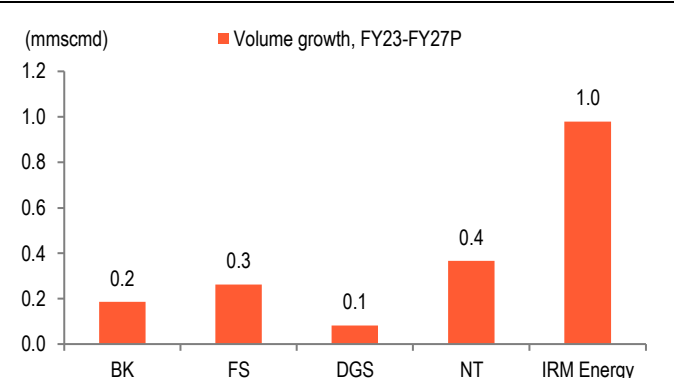
- Crisil had forecast an FY23-FY27 volume CAGR of 18%/16%/47% across the company’s GAs of Banas Kantha (BK)/Fatehgarh Sahib (FS) /Diu, Gir and Somnath (DGS), with a 77% CAGR for the Namakkal and Trichy (NT) GA over the FY24-FY27 period.
- In terms of volume additions, the forecast implies 0.2mmscmd, 0.3mmscmd, 0.1mmscmd and 0.4mmscmd from BK, FS, DGS and NT respectively through to FY27. This adds up to 1mmscmd of potential growth for IRMEL during FY23-FY27 over the base of 0.5mmscmd in FY23.

Fig 1 – Volumes can potentially grow to 1mmscmd by FY25P and 1.5mmscmd by FY27P...



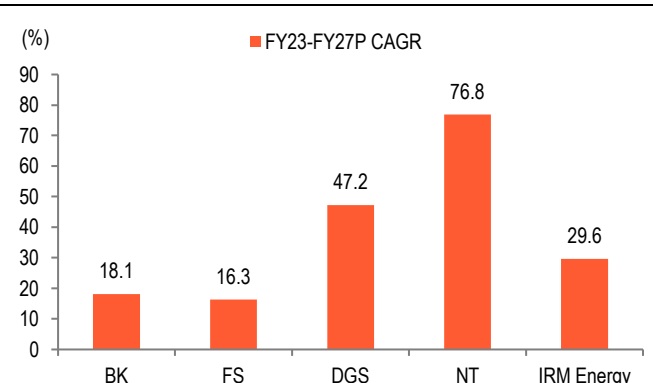
Source: IRMEL, RHP

Fig 2 – ...with growth contributions of 1mmscmd from all four GAs by FY27P



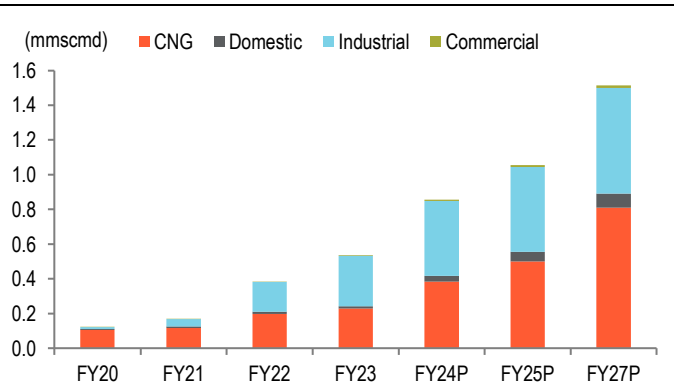
Source: IRMEL, RHP | Note: For NT growth is from FY24P to FY27P

Fig 3 – Potential volume CAGR of 30% over FY23-FY27P, as per Crisil

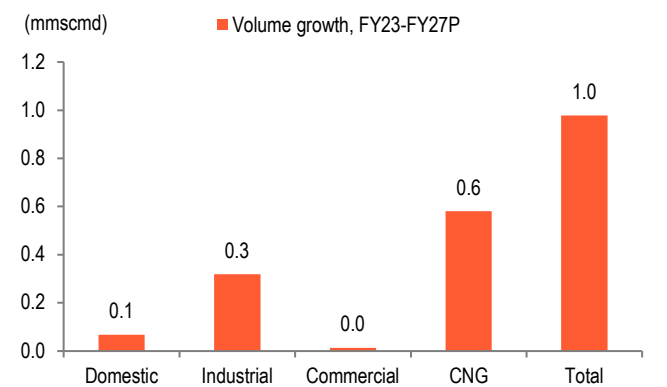


Source: IRMEL, RHP | Note: For NT, growth is over FY24P-FY27P

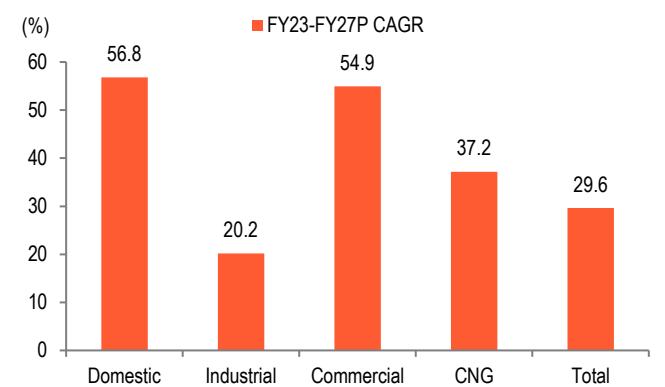
Fig 4 – Balanced exposure to CNG and Industrial segments



Source: IRMEL, RHP

Fig 5 – CNG and industrial segments likely to be key drivers of growth


Source: IRMEL, RHP | Note: For NT, growth is over FY24P-FY27P

Fig 6 – Strong segmental growth rate owing to lower base


Source: IRMEL, RHP | Note: For NT, growth is over FY24P-FY27P

9MFY24 developments

Sharp EBITDA recovery over 9MFY24

IRMEL has posted a 29% YoY recovery in EBITDA over 9MFY24, supported by a better margin of Rs 8.8/scm (from Rs 6.6/scm in FY23), despite a setback at FS that led to a 7% YoY drop in blended volumes (ex-trading).

- The company was able to offset a 27% YoY (or 0.08mmscmd) decline in 9M industrial volumes at FS via a 17% (or 0.04mmscmd) uptick in CNG volumes.
- Improvement in operational performance has aided 51% YoY growth in 9MFY24 net income to Rs 803mn.

Unit EBITDA margin has recovered

As with peers in the city gas distribution (CGD) sector, IRMEL has posted a recovery in unit EBITDA margin to Rs 8.8/scm (+34% YoY) over 9MFY24. However, the margin has reduced to Rs 8.4/scm in Q3FY24 from Rs 9.1/scm in H1FY24 as the company used expensive HPHT (high pressure high temperature) gas to bridge the shortfall in APM (administered price mechanism) gas. The allocation of APM gas to the company has reduced from 89% of its priority sector basket a quarter ago to 73% by end-Q3 due to technical production troubles at ONGC. Despite the reduction, the Q3 margin remains healthy at Rs 8.4/scm.

CNG volumes surprised positively relative to Crisil forecasts

The company's CNG volumes grew 31% YoY in Q3 and 17% in 9MFY24. The past three quarters have seen a pickup with a sequential growth run-rate of 7-8%, broad-based across the company's operational GAs, with BK growing at 32% YoY, FS at 10% and DGS at 23% in Q3. Growth was supported by an improvement in consumer sentiment as CNG prices became more affordable after new APM gas pricing was implemented in the country effective Apr'23 and the company launched incentive schemes to drive CNG usage.

IRMEL has been offering incentives of Rs 5,000 and Rs 7,500 worth of free CNG for a new CNG car and light commercial vehicle (LCV) respectively during H2CY23. Per the

company, more than 1,000 cars and 250 LCVs have used this incentive scheme over the past 4-5 months. After developing significant momentum, IRMEL has withdrawn the incentives from Jan'24 for all categories of vehicles except heavy goods carriers.

FS volumes hit by policy relaxation

Steel rolling units in FS had transitioned to natural gas in the wake of the 2020 National Green Tribunal (NGT) order banning pollutant fuels in several geographical areas, including Guru Gobind Singh Mandi. This shift helped IRMEL ramp up natural gas volumes from FS to 0.32mmscmd in Q2FY23 by connecting 134 industrial units. However, volumes have subsequently dropped by 0.12mmscmd over the past five quarters as 60-65 units resumed coal usage following interim policy relaxation by the state government.

The NGT is currently conducting a hearing on the implementation status of its ban in specific industries. Per management, a clear direction from the tribunal to adhere to its original 2020 order to stop the use of polluting fuels could enable FS to add 0.2mmscmd of natural gas volumes in a relatively short time.

The company believes close to 60-65 industries could return should a favourable order materialise, which had aggregate demand of 0.11mmscmd prior to the shift. IRMEL indicated that volumes could grow even further as it connects another 80 industries with aggregate demand of 0.17mmscmd who have registered with it for a connection.

Early ramp-up in NT

IRMEL has commissioned critical infrastructure in the new NT GA, such as a mother station & city gas station in Trichy, and LCNG (liquefied compressed natural gas) station in Namakkal, to make natural gas available within the GA, besides rolling out 10 CNG stations in ~18 months since the start of operations. The company noted initial traction with the ramp-up of natural gas usage to 7.5kscm/d and indicated that it has seen the addition of ~120 cars, ~30 LCVs and ~25 auto rickshaws. Management is looking to ramp up volumes to 15kscm/d by the end of FY24 and to 100kscm/d by the end of FY25.

IRMEL aims to commission another 10 CNG stations to reach a cumulative network of 20 stations by the end of FY24 and 43-47 stations by end-FY25. To accelerate the shift to natural gas, the company has started offering incentives of Rs 20,000 to an LPG auto to cover a significant part of the initial retrofit cost of Rs 25,000. It is also laying a pipeline network to connect an industrial area in Trichy's SIPCOT (State Industry Promotion Corporation of Tamil Nadu) and aims to commission the first phase in Q4FY24, which should enable it to access the city's industrial cluster.

Well covered by gas purchase contracts

IRMEL is well covered for its gas purchase needs and did not need to buy any spot volumes even during Q3FY24 to substitute for the reduced allocation of APM gas. The company is currently trading in marginal surplus. It has tied up volumes from the RIL/BO consortium, GAIL and India Gas Solutions on a medium-term basis and will be further bidding for gas at upcoming auctions.

Capex plan

The company has incurred capital expenditure of Rs 0.4bn in Q3 and Rs 1.4bn over 9MFY24. Over the next three years, it aims to incur capex of Rs 3.1bn toward accelerated network development in its new GA of NT and Rs 1.2bn-1.4bn in its three older GAs of BK, DGS and FS as per network needs.

Leverage on balance sheet

IRMEL has outstanding gross debt of Rs 1.8bn after having repaid Rs 1.35bn from its net issue proceeds of Rs 5bn (listed in Oct'23).

Fig 7 – Quarterly EBITDA recovered 29% YoY over 9MFY24

(Rs mn)	Q3FY24	Q3FY23	YoY (%)	Q2FY24	QoQ (%)	9MFY24	9MFY23	YoY (%)
Net sales	2,261	2,661	(15.0)	2,201	2.7	6,763	7,369	(8.2)
Raw material consumed	1,635	2,085	(21.6)	1,574	3.9	4,886	5,756	(15.1)
% of sales	72.3	78.4	-	71.5	-	72.3	78.1	-
Other expenditure	203	207	(2.2)	207	(2.2)	614	637	(3.6)
% of sales	9.0	7.8	-	9.4	-	9.1	8.6	-
EBITDA	423	369	14.8	420	0.9	1,263	977	29.3
EBITDA (Rs/scm)	8.4	7.3	15.4	8.9	(5.6)	8.8	6.6	33.6
EBITDA margin (%)	18.7	13.9	-	19.1	-	18.7	13.3	-
Depreciation and amortisation	73	54	33.4	60	20.0	191	153	25.0
Interest	70	62	13.0	52	34.6	182	176	3.5
Other income	71	17	315.8	35	103.0	140	45	213.7
Profit before tax	352	270	30.7	343	2.8	1,030	693	48.6
Provision for tax	108	70	54.0	62	75.6	228	162	40.1
-effective tax rate (%)	30.7	26.0	-	18.0	-	22.1	23.4	-
PAT (reported)	244	199	22.5	281	(13.1)	803	531	51.2
Reported EPS (Rs)	6.3	6.6	(4.7)	9.3	(31.9)	24.3	17.9	35.9

Source: Company, BOBCAPS Research

Fig 8 – Decline in FS industrial volumes largely offset by acceleration in CNG growth

(mmscm)	Q3FY24	Q3FY23	YoY (%)	Q2FY24	QoQ (%)	9MFY24	9MFY23	YoY (%)
CNG	27	20	30.7	24	8.9	74	63	17.4
PNG	24	30	(21.9)	23	4.2	69	85	(18.4)
Industrial/Commercial	18	29	(36.5)	19	(5.9)	59	81	(27.3)
Domestic	2	1	49.9	1	39.1	4	3	29.6
Trading	4	0	841.0	2	77.3	6	0	1,442.1
Total volume (mmscm)	50	51	(0.7)	47	6.7	143	148	(3.2)
Total volume (mmscmd)	0.55	0.55	(0.7)	0.51	6.7	0.52	0.54	(3.2)
Total volume excl trading (mmscm)	47	50	(7.1)	45	3.5	137	148	(7.0)
Total volume excl trading (mmscmd)	0.51	0.55	(7.1)	0.49	3.5	0.50	0.54	(7.0)

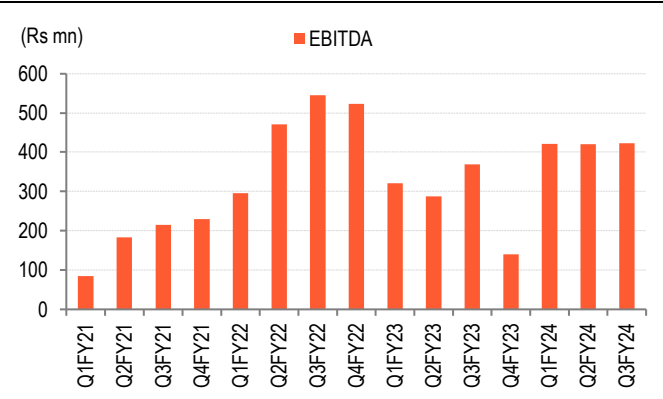
Source: Company, BOBCAPS Research

Fig 9 – 34% recovery in unit EBITDA margin over 9MFY24 has supported EBITDA recovery this year

(Rs/scm)	Q3FY24	Q3FY23	YoY (%)	Q2FY24	QoQ (%)	9MFY24	9MFY23	YoY (%)
CNG realisation	45.1	36.8	22.6	48.6	(7.3)	47.2	49.8	(5.2)
Average realisation	45.0	52.5	(14.4)	46.7	(3.7)	47.3	49.8	(5.2)
Gas purchase cost	32.5	41.2	(21.0)	33.4	(2.6)	34.1	38.9	(12.3)
Gross spread	12.4	11.4	9.5	13.3	(6.4)	13.1	10.9	20.2
Other operating costs	4.0	4.1	(1.0)	4.4	(7.9)	4.3	4.3	(0.4)
EBITDA	8.4	7.3	15.4	8.9	(5.6)	8.8	6.6	33.6

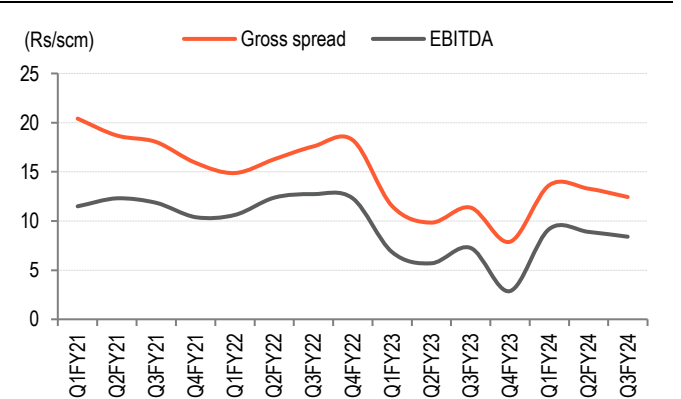
Source: Company, BOBCAPS Research

Fig 10 – EBITDA has recovered from lows of FY23...



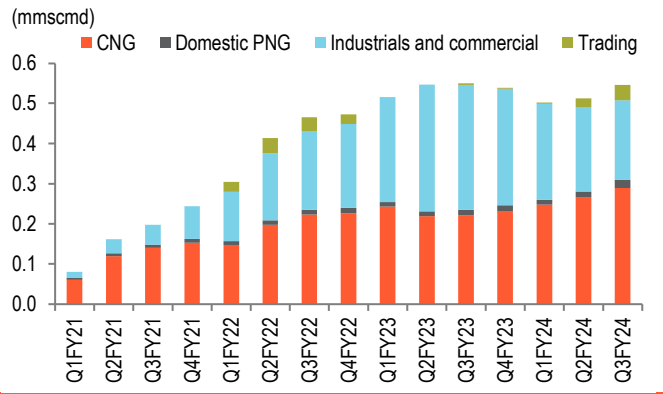
Source: Company, BOBCAPS Research

Fig 11 – ...after stabilisation of gas purchase costs for priority sector, leading to recovery in EBITDA margin



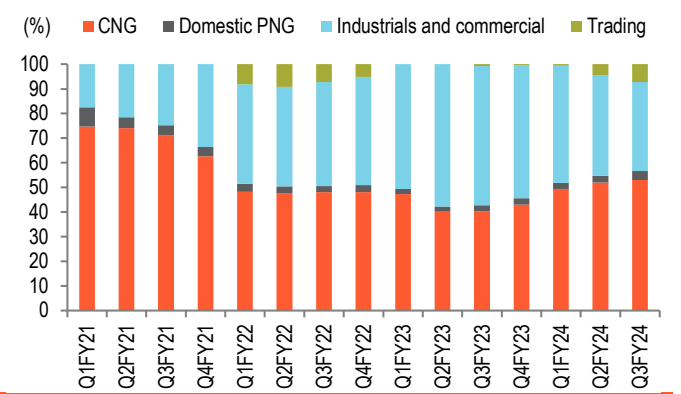
Source: Company, BOBCAPS Research

Fig 12 – Acceleration in CNG volume growth has helped absorb loss of FS industrial volumes



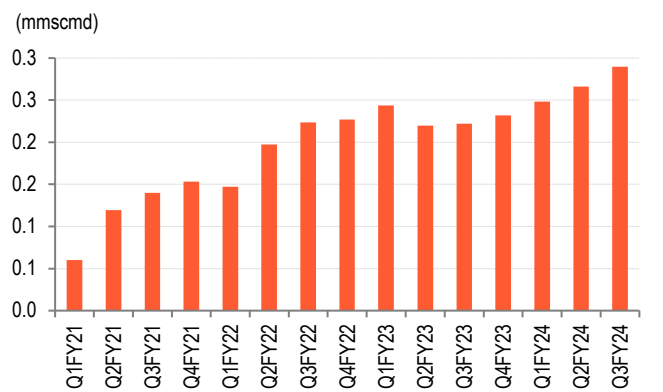
Source: Company, BOBCAPS Research

Fig 13 – Volume mix - balanced exposure to industry and CNG



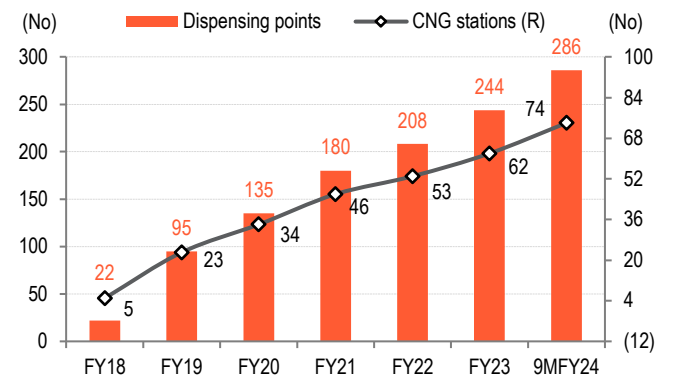
Source: Company, BOBCAPS Research

Fig 14 – CNG volumes have grown at 31% YoY in Q3 and 17% YoY in 9MFY24



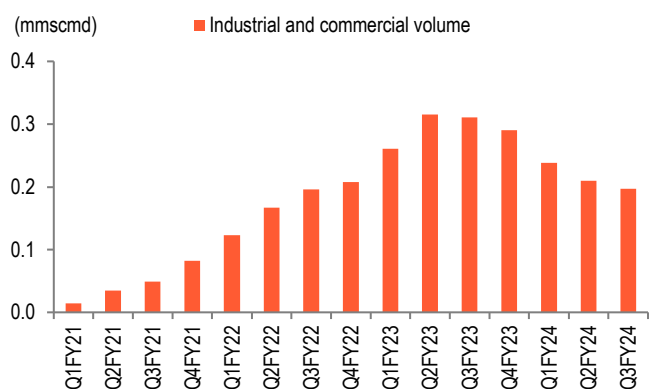
Source: Company, BOBCAPS Research

Fig 15 – CNG network being widened



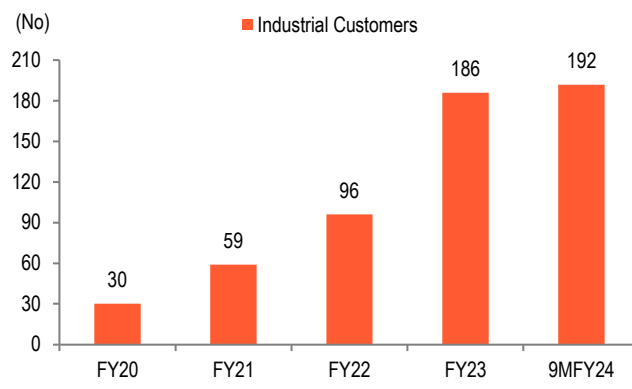
Source: Company, BOBCAPS Research

Fig 16 – Industrial volumes have fallen due to temporary relaxation of pollutant fuel ban in FS



Source: Company, BOBCAPS Research

Fig 17 – Pace of industrial customer additions has slowed while NGT is reviewing the status of the ban



Source: Company, BOBCAPS Research

Comparison with peers

IRMEL's 9MFY24 net income has risen 51% YoY vs. +97%/+22%/-37% YoY for MAHGL/IGL/GUJGA.

Fig 18 – 9MFY24 performance: IRMEL vs. peers

Peers	Ticker	EBITDA (Rs mn)			PAT (Rs mn)			EPS (Rs/sh)		
		9MFY24	9MFY23	YoY (%)	9MFY24	9MFY23	YoY (%)	9MFY24	9MFY23	YoY (%)
IRM Energy	IRMENERG	1,263	977	29.3	803	531	51.2	24.3	17.9	35.9
Mahanagar Gas	MAHGL	14,488	7,945	82.4	10,241	5,212	96.5	103.7	52.8	96.5
Indraprastha Gas	IGL	18,635	15,735	18.4	13,653	11,153	22.4	19.5	15.9	22.4
Gujarat Gas	GUJGA	12,853	18,317	(29.8)	7,332	11,563	(36.6)	10.7	16.8	(36.6)

Source: Company, BOBCAPS Research

Financials

Income Statement

Y/E 31 Mar (Rs mn)	FY20A	FY21A	FY22A	FY23A
Total revenue	1,476	1,896	5,071	9,801
EBITDA	497	732	1,864	1,123
Depreciation	(92)	(120)	(150)	(209)
EBIT	405	612	1,714	914
Net interest inc./(exp.)	(97)	(159)	(221)	(229)
Other inc./(exp.)	5	7	31	60
Exceptional items	0	0	0	0
EBT	313	461	1,524	744
Income taxes	(102)	(110)	(388)	(180)
Extraordinary items	0	0	0	0
Min. int./Inc. from assoc.	0	0	0	0
Reported net profit	211	351	1,136	565
Adjustments	0	0	0	0
Adjusted net profit	211	351	1,136	565

Balance Sheet

Y/E 31 Mar (Rs mn)	FY20A	FY21A	FY22A	FY23A
Accounts payables	72	101	251	312
Other current liabilities	348	370	677	915
Provisions	4	7	10	14
Debt funds	1,449	1,634	2,026	3,038
Other liabilities	74	94	147	185
Equity capital	271	290	294	303
Reserves & surplus	476	889	2,001	2,953
Shareholders' fund	748	1,179	2,295	3,256
Total liab. and equities	2,695	3,384	5,406	7,720
Cash and cash eq.	190	414	997	985
Accounts receivables	42	112	227	386
Inventories	7	8	17	19
Other current assets	185	167	418	912
Investments	2	78	218	658
Net fixed assets	1,953	2,379	2,978	3,773
CWIP	290	197	523	911
Intangible assets	26	28	28	34
Deferred tax assets, net	0	0	0	42
Other assets	0	0	0	0
Total assets	2,695	3,384	5,406	7,720

Cash Flows

Y/E 31 Mar (Rs mn)	FY20A	FY21A	FY22A	FY23A
Cash flow from operations	385	481	1,389	391
Capital expenditures	(833)	(452)	(1,070)	(1,388)
Change in investments	(2)	(76)	(140)	(441)
Other investing cash flows	0	0	0	0
Cash flow from investing	(835)	(528)	(1,210)	(1,828)
Equities issued/Others	56	19	4	9
Debt raised/repaid	263	184	392	1,012
Interest expenses	0	0	0	0
Dividends paid	(3)	0	0	0
Other financing cash flows	176	68	8	404
Cash flow from financing	492	271	404	1,425
Chg in cash & cash eq.	42	224	583	(12)
Closing cash & cash eq.	190	414	997	985

Per Share

Y/E 31 Mar (Rs)	FY20A	FY21A	FY22A	FY23A
Reported EPS	8.6	12.5	38.9	18.9
Adjusted EPS	8.6	12.5	38.9	18.9
Dividend per share	0.1	0.0	0.0	0.0
Book value per share	30.5	41.9	78.7	109.2

Valuations Ratios

Y/E 31 Mar (x)	FY20A	FY21A	FY22A	FY23A
EV/Sales	15.7	12.6	4.8	2.5
EV/EBITDA	46.6	32.5	13.1	21.6
Adjusted P/E	65.5	45.2	14.5	29.8
P/BV	18.5	13.5	7.2	5.2

DuPont Analysis

Y/E 31 Mar (%)	FY20A	FY21A	FY22A	FY23A
Tax burden (Net profit/PBT)	67.3	76.2	74.5	75.9
Interest burden (PBT/EBIT)	77.3	75.3	88.9	81.5
EBIT margin (EBIT/Revenue)	27.5	32.3	33.8	9.3
Asset turnover (Rev./Avg TA)	65.5	62.4	115.4	149.3
Leverage (Avg TA/Avg Equity)	4.2	3.2	2.5	2.4
Adjusted ROAE	38.9	36.5	65.4	20.4

Ratio Analysis

Y/E 31 Mar	FY20A	FY21A	FY22A	FY23A
YoY growth (%)				
Revenue	98.7	28.5	167.5	93.3
EBITDA	131.8	47.3	154.7	(39.8)
Adjusted EPS	63.4	44.8	212.0	(51.3)
Profitability & Return ratios (%)				
EBITDA margin	33.7	38.6	36.8	11.5
EBIT margin	27.5	32.3	33.8	9.3
Adjusted profit margin	14.3	18.5	22.4	5.8
Adjusted ROAE	38.9	36.5	65.4	20.4
ROCE	14.7	18.6	35.8	13.1
Working capital days (days)				
Receivables	9	15	12	11
Inventory	2	4	2	1
Payables	22	27	20	12
Ratios (x)				
Gross asset turnover	0.9	0.8	1.7	2.5
Current ratio	1.0	1.3	1.5	1.6
Net interest coverage ratio	4.2	3.9	7.8	4.0
Adjusted debt/equity	1.7	1.0	0.4	0.6

Source: Company, BOBCAPS Research | Note: TA = Total Assets

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Investments in securities market are subject to market risks. Read all the related documents carefully before investing.
 Registration granted by SEBI and certification from NISM in no way guarantee performance of the intermediary or provide any assurance of returns to investors.

Recommendation scale: Recommendations and Absolute returns (%) over 12 months

BUY – Expected return >+15%

HOLD – Expected return from -6% to +15%

SELL – Expected return <-6%

Note: Recommendation structure changed with effect from 21 June 2021

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