COMPANY UPDATE

NOT RATED

IRM ENERGY | Oil & Gas | 17 August 2024

Management meet takeaways: Focus on volume continues

- **Q1 EBITDA recovered 34% sequentially on recovery in EBITDA margin, but still 28% lower YoY on higher opex**
- **The company is successfully developing CNG momentum across its GAs, however, return of the FS industrial volume is progressing slowly**
- **Focus on volume growth to continue with fast-track infrastructure and incentive schemes, which will also aid margin recovery**

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Q1 results show recovery: Q1 EBITDA at Rs 303mn recovered 34% QoQ but remained 28% lower YoY impacted by higher opex.

Strong CNG momentum: The company clocked 7% QoQ growth in CNG volumes in kg terms (although 3% in scm terms due to use of higher calorific value gas) and 18% YoY growth even in scm terms in Q1. The company is seeing high traction across most of its geographic areas (GAs).

NT GA developing traction: The company is seeing good traction in the new NT GA with 60% QoQ growth in volumes, entry into the commercial vehicle space with the addition of 10 buses, six large LCVs (10t), 20 small LCVs (1t) and strong momentum in 3-wheelers and 4-wheelers, with ~550-600 vehicles in each.

Slow recovery in FS Industrial volume: With directions from the NGT and notices from PPCB, Q1 volumes recovered 6% QoQ. While volume recovered to 0.23mmscmd in July from a low point of 0.17mmscmd, it is still below the previous peak of 0.32mmscmd in Sep'22. The company sees full potential at 0.42mmscmd.

Volume prospects still strong: IRMENERG's management aims to focus on volume growth and looking to reach 1mmscmd in volume by FY26 with success in regaining volumes at the FS GA or latest by FY27 even without its recovery.

Margin recovery: EBITDA margin recovered Rs 1.5/scm QoQ to Rs 6.2/scm. Management is in discussions with its promoters to rationalise licence fees, which could further improve margin by up to Rs 0.9/scm. While opex has increased with the ramp-up of new CNG stations in the NT GA and high proportion of daughter-booster CNG stations, it will fall as volume ramps-up in the NT GA.

Management transition underway: After the Chairman and CEO's departures, the board reconstituted all its committees and is looking to fill the CEO post in Q2. There is no change to the rest of the management team (CFO, COO and Marketing Head). Badri Narayan Mahapatra, sector expert on the board, will resume his active role.

Ticker/Price	IRMENERG IN/Rs 409
Market cap	US$ 199.8mn
Free float	50%
3M ADV	US$ 0.8mn
52wk high/low	Rs 641/Rs 404
Promoter/FPI/DII	50%/0%/11%

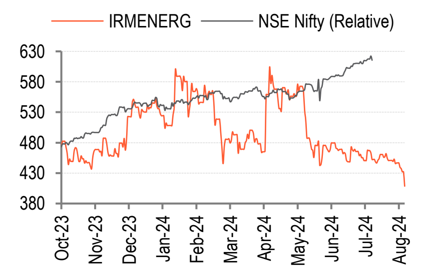
Source: NSE | Price as of 16 Aug 2024

Key financials

Y/E 31 Mar	FY22A	FY23A	FY24A
Total revenue (Rs mn)	5,071	9,801	8,905
EBITDA (Rs mn)	1,864	1,123	1,489
Adj. net profit (Rs mn)	1,136	565	915
Adj. EPS (Rs)	38.9	18.9	30.7
Adj. ROAE (%)	65.4	20.4	14.7
Adj. P/E (x)	10.5	21.6	13.3
EV/EBITDA (x)	9.7	15.9	12.3
Adj. EPS growth (%)	212	(51.3)	62

Source: Company, Bloomberg, BOBCAPS Research

Stock performance



Source: NSE

Q1 review

IRM Energy (IRMENERG, Not Rated) is an early stage city gas distribution (CGD) player with operations across four geographic areas – Banas Kantha (BK), Diu-Gir-Somnath (DGS), Fatehgarh Sahib (FS) and Namakkal and Trichy (NT). We interacted with IRM Energy's CFO Harshal Anjaria and its COO Prashant Sagar. We sum up the key takeaways of the meeting.

The Q1 result marks a recovery from a low point in Q4 with EBITDA at Rs 303mn increasing 34% sequentially, although still 28% lower YoY.

- **Q1 EBITDA was up** sequentially, mainly driven by margin improvement of 31% and healthy volume growth of 3% QoQ to 0.53mmscmd.
- **Q1 EBITDA remains lower YoY** with margin 32% lower YoY and a modest 5% YoY volume growth.

CNG volume growth continues to surprise on upside

CNG volume was up 7% QoQ in kg terms reflecting strong continuing momentum. However, apparent volumes in scm terms show a relatively modest 3% QoQ growth, which is the result of use of higher calorific value from Barmer, which translates into a lower volume. YoY growth momentum remains strong even in scm terms at 18% YoY. IRM Energy has seen good traction in vehicle additions across all its GAs except the FS GA, which was impacted by farmer protests.

Namakkal and Trichy GA developing initial traction

Volume ramp-up: The NT GA volumes ramped up from 8,000scm/d to 12,000scm/d (equivalent to 8,600kg/d) in Q1FY25, primarily driven by growth in CNG volumes.

FY25-26 targets: IRM Energy is targeting to triple its volume to 25,000kg/d by the end of FY25 and looking to ramp-up total volume further to 0.15mmscmd by the end of FY26. Management sees potential to ramp-up further to 0.5mmscmd over the next four years.

CNG Vehicles traction: The company was able to add 570 3-wheelers (470 new, 100 retrofit) backed by successful auto incentive. The company had successfully made in-roads into the commercial vehicle segment at an early stage of development. During Q1, the company added ten buses (six new, four retrofit), six 10T-LCVs (five new, one retrofit), 20 1T-LCVs and 570 4-wheelers (400 new, 170 retrofit).

CNG marketing schemes: The company's first incentive scheme running up to the first fortnight of May was quite successful in garnering traction. The company aims to relaunch the scheme from 16 Aug, with a lower incentive of Rs 16k per auto vs Rs 20k in the last scheme.

Infrastructure ramp-up: The company had set up 20 CNG stations till the end of Jul and is planning to add another three in Aug. IRM Energy has seen interest from the first private player to set up a DODO (dealer-owned dealer-operated) station, which indicates recognition of upcoming potential in a new GA by an intermediary. After setting up the initial network with the oil marketing companies (OMCs), the company is planning to set up the first COCO (company-owned company-operated) station in Trichy.

Industrial and commercial volume: The company has commissioned the first piped natural gas (PNG) commercial connection in Trichy. The company is engaging with BHEL to develop the first large anchor industrial customer in Trichy.

FS GA still facing slower return of industrial volume

Slowly recovering: The FS GA has seen a modest 6% sequential recovery in industrial volume after the Punjab Pollution Control Board (PPCB) issued notices to around 24 industrial units. The company added five new industrial customers in Q1 and has seen two customers return to the use of natural gas instead of coal.

While the FS GA volumes picked up to 0.23mmscmd in Jul'23 from a low of 0.17mmscmd after some industrial consumers switched to using coal, it is still 0.1mmscmd below the previous peak of 0.32mmscmd in Sep'22.

Next trigger: The company has lowered industrial gas price to Rs 40.5/scm from Rs 43/scm to make it more attractive for industrial users. Responding to industry demand to stabilise prices, the company has offered a fixed price formula for H2CY24 and another formula for H1CY25.

The company needs additional directions from the National Green Tribunal (NGT) as well as stronger implementation by the PPCB to realise full potential volumes. The next hearing by the NGT is set for the end of October.

Potential: If the NGT's ban on polluting fuel is fully implemented, natural gas usage could ramp up to 0.42mmscmd as per the estimates of the company's management. The plan for a textile and pharma park could increase potential further. The company mentions the first textile customer constructing its unit in the new textile park.

Margin recovered partially

Underlying Q1 EBITDA margin recovered to Rs 7.2/scm excluding licence fees of Rs 45mn charged by the promoter, translating to Rs 0.9/scm. The management team is in discussions with the promoters about rationalising the licence fees.

Reported Q1 EBITDA margin at Rs 6.3/scm after provision for licence fees to the promoter. The margin was up Rs 1.5/scm QoQ with the Rs 1.1/scm improvement in realisation driven mainly by the increase in CNG realistion and Rs 0.3/scm reduction in opex amid stable gas purchase cost. Q1 margin compares with Rs 7.6/scm clocked in FY24.

Elevated opex impacting margin. Operating costs (opex) have increased sharply by Rs 2.5/scm YoY to Rs 6.9/scm despite a Rs 0.3/scm reduction from a quarter ago. The increase is driven by provision for licence fee payments, marketing promotion incentive schemes and the start of new CNG stations in the NT GA, having initial low volumes and high number of daughter booster/ daughter CNG stations in the CNG network.

Lower APM gas allocation also impacting margin: The Administered Pricing Mechanism (APM) gas allocation for the CNG segment was 64% due to the typical impact of lag in allocation revision for companies with high volume growth as against allocation for household segment at 105% of demand. The company has been largely using high-pressure, high-temperature (HPHT) gas to bridge the shortfall in all areas except the NT GA. Due to the absence of connectivity to the national grid network, the company has been using RLNG (Regasified LNG) to bridge the shortfall.

Management transition

Old leaders have moved out: Maheshwar Sahu relinquished his position as Chairman and Director of the Board as of 2 Aug. Karan Kaushal also resigned as CEO.

Current board composition: The board is now composed of three non-independent directors and three independent directors. While Dr Rajiv Indravadan Modi and Amitabh Banerjee represent the promoters, Badri Narayan Mahapatra represents Enertech Distribution and will again be taking up an active role in guiding company management by leveraging his sectoral expertise. The board will also consider seeking the help of more experts from the sector depending on its need.

CEO position to be filled over next quarter: The board has reconstituted the committee and the company has indicated that the CEO position is likely to be filled over the next quarter.

Rest of management team continues: The rest of the management team, involved in the company's operations from the start, remains. This includes Harshal Anjaria as CFO, Prashant Sagar as COO and Raghuvir Solanki as EVP Commercial and sanctioning. The new CEO position is yet to be announced.

Other updates

Capex: The company is targeting a capex of Rs 2bn in FY25 with a significant ramp up in capex spend to Rs 1.3bn in the NT GA. The FY25 target compares with a spend of Rs 1.8bn in FY24.

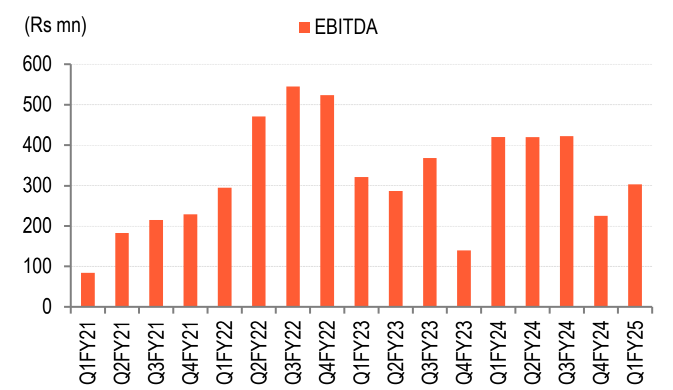
JVs: The collective loss of all four JVs stands at Rs 0.6mn. Farm Gas is still under loss with stabilisation under way. Renuka Polymer has been in profit for two quarters now.

Fig 1 – Quarterly performance

(Rs mn)	Q1FY25	Q1FY24	YoY (%)	Q4FY24	QoQ (%)	FY24
Net sales	2,254	2,300	(2.0)	2,142	5.2	8,905
EBITDA	**303**	**421**	**(27.9)**	**226**	**34.2**	**1,489**
EBITDA (Rs/scm)	**6.3**	**9.2**	**(31.5)**	**4.8**	**30.6**	**7.6**
Depreciation and amortisation	82	58	41.8	74	10.5	265
Interest	51	60	(15.5)	85	(40.0)	267
Other income	94	34	178.8	98	(3.7)	238
Profit before tax	265	336	(21.3)	165	60.7	1,195
Provision for tax	77	58	32.6	52	46.7	280
-effective tax rate (%)	29.1	17.3		31.9		23.4
PAT (reported)	**188**	**278**	**(32.6)**	**112**	**67.2**	**915**
Volumes (mmscm)						
CNG	27	23	18.4	26	2.5	100
PNG	21	23	(7.6)	21	3.0	111
Industrial/Commercial	20	22	(9.9)	19	4.6	78
Domestic	2	1	27.3	2	(12.4)	7
Total volume (mmscm)	48	46	5.2	47	2.7	195
Total volume (mmscmd)	0.53	0.50	5.2	0.51	2.7	0.53
Total volume excl trading (mmscm)	**48**	**46**	**5.2**	**47**	**2.7**	**190**
Total volume excl trading (mmscmd)	**0.53**	**0.50**	**5.2**	**0.51**	**2.7**	**0.52**
Per unit (Rs/scm)						
Average realisation	46.9	50.3	(6.9)	45.8	2.4	45.6
Gas purchase cost	33.7	36.7	(8.2)	33.7	(0.2)	33.1
Gross Spread	**13.2**	**13.6**	**(3.3)**	**12.0**	**9.6**	**12.5**
Other operating costs	6.9	4.4	55.1	7.2	(4.5)	4.9
EBITDA	**6.3**	**9.2**	**(31.5)**	**4.8**	**30.6**	**7.6**

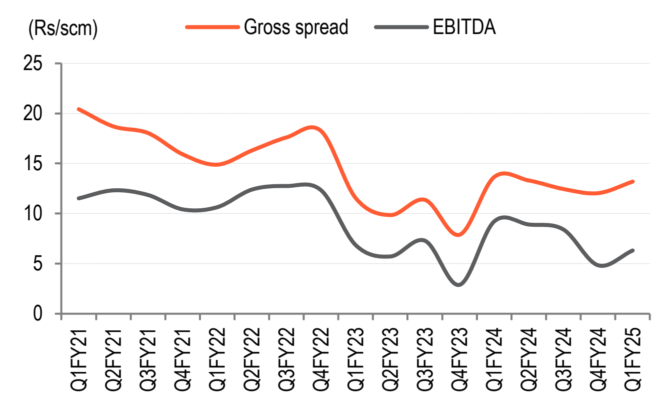
Source: Company, BOBCAPS Research

Fig 2 – EBITDA recovered partially over Q1



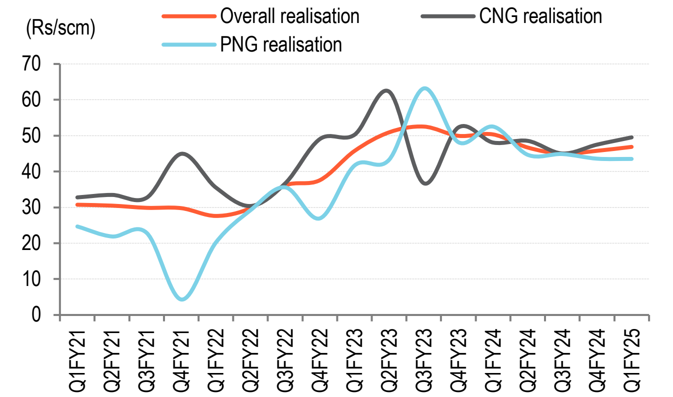
Source: Company, BOBCAPS Research

Fig 3 – EBITDA margin impacted by higher opex



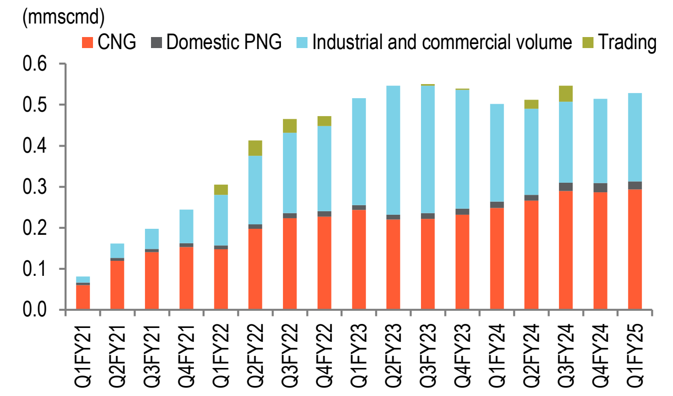
Source: Company, BOBCAPS Research

Fig 4 – Uptick in realisation



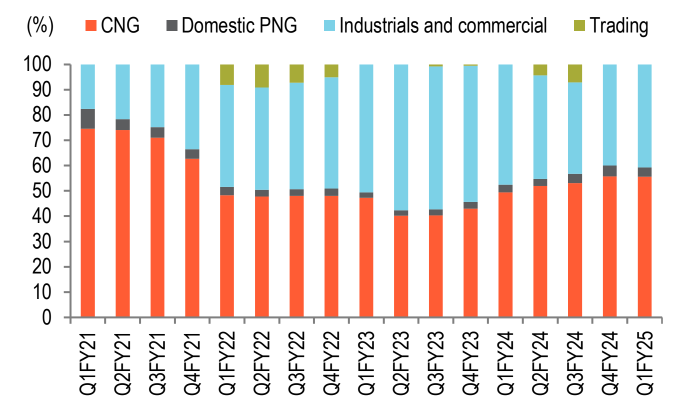
Source: Company, BOBCAPS Research

Fig 5 – Strong CNG volume growth offset by slow recovery in industrial volumes



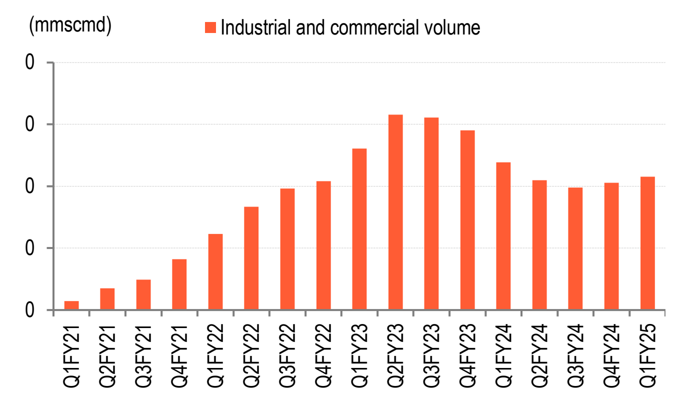
Source: Company, BOBCAPS Research

Fig 6 – Volume mix



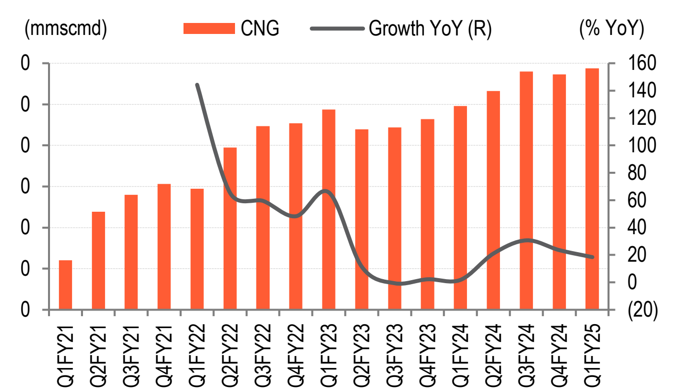
Source: Company, BOBCAPS Research

Fig 7 – Industrial and commercial volume slowly recovering the loss in the FS GA



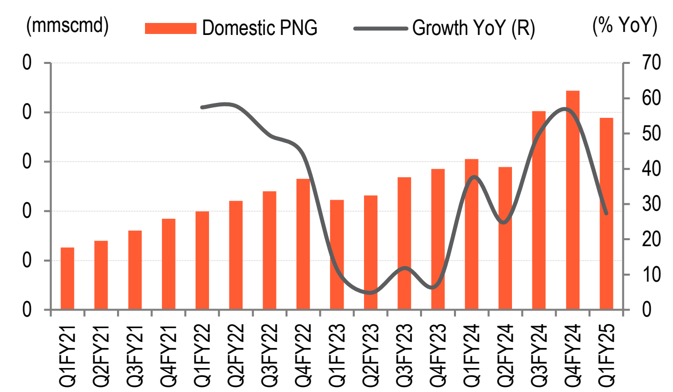
Source: Company, BOBCAPS Research

Fig 8 – Strong CNG volume momentum continues



Source: Company, BOBCAPS Research

Fig 9 – Domestic PNG growth tapered off from the high



Source: Company, BOBCAPS Research

Comparison with peers

IRM Energy is an early stage CGD play delivering high growth in CNG volumes, although its overall volumes are impacted by the switch-out of industrial volumes to alternate fuel, coal in violation of the NGT's order.

The company's margins are lower than mature players with a focus on the fast-track development of infrastructure in new GAs and promotion schemes to incentivise volume growth.

Fig 10 – IRM Energy: Comparison with peers

	Q1FY24	Q2FY24	Q3FY24	Q4FY24	Q1FY25	YoY (%)	QoQ (%)
EBITDA (Rs mn)							
IRM Energy	421	420	422	226	303	(27.9)	34.2
GUJGA	3,880	4,966	4,007	5,911	5,356	38.1	(9.4)
IGL	6,424	6,569	5,582	5,226	5,819	(9.4)	11.3
MAHGL	5,213	4,789	4,487	3,938	4,185	(19.7)	6.3
ATGL	2,477	2,794	2,880	2,887	2,963	19.7	2.7
Total volume (mmscmd)							
IRM Energy	0.5	0.5	0.5	0.5	0.5	5.2	2.7
GUJGA	9.2	9.3	9.2	9.7	11.0	19.1	13.3
IGL	8.2	8.3	8.5	8.7	8.6	5.3	(1.0)
MAHGL	3.4	3.6	3.7	3.8	3.9	13.1	2.1
ATGL	2.2	2.3	2.4	2.5	2.5	16.2	(0.9)
CNG volume (mmscmd)							
IRM Energy	0.2	0.3	0.3	0.3	0.3	18.4	2.5
GUJGA	2.6	2.6	2.8	2.9	3.0	14.2	3.1
IGL	6.2	6.2	6.3	6.4	6.5	4.7	1.3
MAHGL	2.5	2.6	2.6	2.7	2.8	11.7	4.0
ATGL	1.4	1.5	1.6	1.6	1.7	19.5	2.7
PNG volume (mmscmd)							
IRM Energy	0.2	0.3	0.3	0.3	0.3	18.4	2.5
GUJGA	2.6	2.6	2.8	2.9	3.0	14.2	3.1
IGL	6.2	6.2	6.3	6.4	6.5	4.7	1.3
MAHGL	2.5	2.6	2.6	2.7	2.8	11.7	4.0
ATGL	0.8	0.8	0.9	0.9	0.8	10.0	(7.2)
Domestic PNG volume (mmscmd)							
IRM Energy	0.02	0.01	0.02	0.02	0.02	27.3	(12.4)
IGL	0.6	0.6	0.6	0.7	0.7	16.0	(6.8)
GUJGA	1	1	1	1	1	3.3	(27.1)
MAHGL	0.5	0.5	0.5	0.6	0.5	10.5	(2.8)
Industrial and Commercial PNG volume (mmscmd)							
IRM Energy	0.2	0.2	0.2	0.2	0.2	(9.9)	4.6
GUJGA	0.1	0.1	0.1	0.2	0.1	0.0	(13.3)
IGL	1.0	1.0	1.0	1.1	1.0	5.6	(11.2)
MAHGL	0.4	0.5	0.5	0.6	0.5	23.8	(2.1)

	Q1FY24	Q2FY24	Q3FY24	Q4FY24	Q1FY25	YoY (%)	QoQ (%)
Realisation (Rs/scm)							
IRM Energy	50.3	46.7	45.0	45.8	46.9	(6.9)	2.4
GUJGA	45.1	44.8	46.6	46.9	44.5	(1.2)	(5.0)
IGL	45.7	45.3	45.5	45.3	44.8	(1.9)	(1.1)
MAHGL	49.5	47.8	46.5	45.6	45.3	(8.6)	(0.6)
ATGL	53.3	51.9	51.6	50.3	49.7	(6.7)	(1.1)
Gas cost (Rs/scm)							
IRM Energy	36.7	33.4	32.5	33.7	33.7	(8.2)	(0.2)
GUJGA	36.9	35.6	38.2	36.1	35.9	(2.6)	(0.6)
IGL	31.3	31.2	32.6	32.1	31.6	0.9	(1.8)
MAHGL	27.2	27.3	27.3	27.7	27.3	0.5	(1.2)
ATGL	36.0	32.8	32.9	30.4	30.9	(14.3)	1.5
Gross spread (Rs/scm)							
IRM Energy	13.6	13.3	12.5	12.0	13.2	(3.3)	9.6
GUJGA	8.2	9.2	8.4	10.8	8.6	5.3	(19.9)
IGL	14.4	14.1	12.9	13.1	13.2	(8.1)	0.5
MAHGL	22.3	20.4	19.1	17.9	17.9	(19.7)	0.3
ATGL	17.3	19.1	18.7	19.9	18.9	9.0	(5.0)
Opex (Rs/scm)							
IRM Energy	4.4	4.4	4.1	7.2	6.9	55.1	(4.5)
GUJGA	3.6	3.4	3.6	4.1	3.3	(8.4)	(19.7)
IGL	5.8	5.5	5.7	6.6	5.8	0.8	(11.4)
MAHGL	5.6	5.9	5.8	6.4	6.0	8.5	(6.5)
ATGL	4.8	5.9	5.9	7.4	6.0	24.9	(19.5)
EBITDA (Rs/scm)							
IRM Energy	9.2	8.9	8.4	4.8	6.3	(31.5)	30.6
GUJGA	4.6	5.8	4.8	6.7	5.4	15.9	(20.0)
IGL	8.6	8.6	7.2	6.6	7.4	(14.0)	12.5
MAHGL	16.8	14.6	13.3	11.5	11.9	(29.0)	4.1
ATGL	12.5	13.2	12.9	12.4	12.9	3.0	3.5

Source: Company, BOBCAPS Research, GUJGA: Gujarat Gas, IGL: Indraprastha Gas, MAHGL: Mahanagar Gas, ATGL: Adani Total Gas

Financials

Income Statement

Y/E 31 Mar (Rs mn)	FY20A	FY21A	FY22A	FY23A	FY24A
Total revenue	**1,476**	**1,896**	**5,071**	**9,801**	**8,905**
EBITDA	497	732	1,864	1,123	1,489
Depreciation	(92)	(120)	(150)	(209)	(265)
EBIT	405	612	1,714	914	1,224
Net interest inc./(exp.)	(97)	(159)	(221)	(229)	(267)
Other inc./(exp.)	5	7	31	60	238
Exceptional items	0	0	0	0	0
EBT	313	461	1,524	744	1,195
Income taxes	(102)	(110)	(388)	(180)	(280)
Extraordinary items	0	0	0	0	0
Min. int./Inc. from assoc.	0	0	0	0	0
Reported net profit	**211**	**351**	**1,136**	**565**	**915**
Adjustments	0	0	0	0	0
Adjusted net profit	**211**	**351**	**1,136**	**565**	**915**

Balance Sheet

Y/E 31 Mar (Rs mn)	FY20A	FY21A	FY22A	FY23A	FY24A
Accounts payables	72	101	251	312	293
Other current liabilities	348	370	677	915	1,007
Provisions	4	7	10	14	20
Debt funds	1,449	1,634	2,026	3,038	2,105
Other liabilities	74	94	147	185	224
Equity capital	271	290	294	303	411
Reserves & surplus	476	889	2,001	2,953	8,757
Shareholders' fund	748	1,179	2,295	3,256	9,167
Total liab. and equities	**2,695**	**3,384**	**5,406**	**7,720**	**12,816**
Cash and cash eq.	190	414	997	985	4,878
Accounts receivables	42	112	227	386	368
Inventories	7	8	17	19	43
Other current assets	185	167	418	912	797
Investments	2	78	218	658	269
Net fixed assets	1,953	2,379	2,978	3,773	5,542
CWIP	290	197	523	911	868
Intangible assets	26	28	28	34	32
Deferred tax assets, net	0	0	0	42	20
Other assets	0	0	0	0	0
Total assets	**2,695**	**3,384**	**5,406**	**7,720**	**12,816**

Cash Flows

Y/E 31 Mar (Rs mn)	FY20A	FY21A	FY22A	FY23A	FY24A
Cash flow from operations	**385**	**481**	**1,389**	**391**	**953**
Capital expenditures	(833)	(452)	(1,070)	(1,388)	(1,725)
Change in investments	(2)	(76)	(140)	(441)	390
Other investing cash flows	0	0	0	0	0
Cash flow from investing	**(835)**	**(528)**	**(1,210)**	**(1,828)**	**(1,335)**
Equities issued/Others	56	19	4	9	108
Debt raised/repaid	263	184	392	1,012	(933)
Interest expenses	0	0	0	0	0
Dividends paid	(3)	0	0	0	0
Other financing cash flows	162	68	8	404	5,149
Cash flow from financing	**478**	**271**	**404**	**1,425**	**4,324**
Chg in cash & cash eq.	**28**	**224**	**583**	**(12)**	**3,942**
Closing cash & cash eq.	**176**	**414**	**997**	**985**	**4,927**

Per Share

Y/E 31 Mar (Rs)	FY20A	FY21A	FY22A	FY23A	FY24A
Reported EPS	8.6	12.5	38.9	18.9	30.7
Adjusted EPS	8.6	12.5	38.9	18.9	30.7
Dividend per share	0.0	0.0	0.0	0.0	0.0
Book value per share	30.5	41.9	78.7	109.2	307.4

Valuations Ratios

Y/E 31 Mar (x)	FY20A	FY21A	FY22A	FY23A	FY24A
EV/Sales	11.4	9.2	3.6	1.8	2.1
EV/EBITDA	33.7	23.8	9.7	15.9	12.3
Adjusted P/E	47.4	32.7	10.5	21.6	13.3
P/BV	13.4	9.8	5.2	3.7	1.3

DuPont Analysis

Y/E 31 Mar (%)	FY20A	FY21A	FY22A	FY23A	FY24A
Tax burden (Net profit/PBT)	67.3	76.2	74.5	75.9	76.6
Interest burden (PBT/EBIT)	77.3	75.3	88.9	81.5	97.6
EBIT margin (EBIT/Revenue)	27.5	32.3	33.8	9.3	13.7
Asset turnover (Rev./Avg TA)	65.5	62.4	115.4	149.3	86.7
Leverage (Avg TA/Avg Equity)	4.2	3.2	2.5	2.4	1.7
Adjusted ROAE	38.9	36.5	65.4	20.4	14.7

Ratio Analysis

Y/E 31 Mar	FY20A	FY21A	FY22A	FY23A	FY24A
YoY growth (%)					
Revenue	98.7	28.5	167.5	93.3	(9.1)
EBITDA	131.8	47.3	154.7	(39.8)	32.6
Adjusted EPS	63.4	44.8	212.0	(51.3)	62.0
Profitability & Return ratios (%)					
EBITDA margin	33.7	38.6	36.8	11.5	16.7
EBIT margin	27.5	32.3	33.8	9.3	13.7
Adjusted profit margin	14.3	18.5	22.4	5.8	10.3
Adjusted ROAE	38.9	36.5	65.4	20.4	14.7
ROCE	14.7	18.6	35.8	13.1	10.7
Working capital days (days)					
Receivables	9	15	12	11	15
Inventory	2	4	2	1	2
Payables	22	27	20	12	15
Ratios (x)					
Gross asset turnover	0.9	0.8	1.7	2.5	1.7
Current ratio	1.0	1.3	1.5	1.6	2.7
Net interest coverage ratio	4.2	3.9	7.8	4.0	4.6
Adjusted debt/equity	1.7	1.0	0.4	0.6	(0.3)

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

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