

IRM Energy Ltd

18-10-2023 TO 20-10-2023

Industry: CNG/PNG Supplier

Price Band: ₹ 480 - 505

Recommendation: Subscribe for Long term

Post Implied Market Cap: ₹ 1,970 – 2,072Cr

## Key Data

Issue Size (₹ Cr)	544
Fresh	544
OFs	-
No of shares	1,08,00,000
Face Value (₹ /share)	10
Bid Lot	29

## Introduction

IRM Energy Limited (IRMEL) is an emerging Indian City Gas Distribution (CGD) company co-promoted by Cadila Pharmaceuticals. IRMEL operates in various regions across India, including Gujarat, Punjab, Daman and Diu, and Tamil Nadu. The company engaged in the business of laying, building, operating, and expanding the city or local natural gas distribution network for industrial, commercial, domestic, and automobile customers. IRMEL focuses on meeting the energy needs of customers in their GAs through their pipelines and CNG station network at a competitive price, while maintaining high safety standards. As of June 30, 2023, IRMEL has a strong customer base with 52,454 domestic customers, 269 commercial customers, and 184 industrial customers, showcasing effective operational and stakeholder management.

## Investment Rationales

- Exclusivity in CNG and PNG supply in the awarded Geographical Areas GAs:** The Company holds exclusive distribution rights for CNG and PNG in specific GAs as authorized by PNGRB. This exclusivity grants them a competitive advantage and market control until defined periods - June 2023 for Banaskantha (extension of 2 Yrs), September 2023 for Fatehgarh Sahib (extension of 2 Yrs), September 2028 for Diu & Gir Somnath, and March 2030 for Namakkal & Tiruchirappalli GAs (acquired in the 11th bidding round). Additionally, IRMEL possesses a 25-year network exclusivity for infrastructure development across all their gas operations.
- Expand the presence in existing and newer GAs through an improved captive distribution channel:** IRMEL strategically focuses on cost-effective distribution and sale of CNG through DODO (Dealer Owned & Dealer Operated) Stations and COCO (Company Owned, Company Operated) Stations, aiming to reduce operational expenses compared to OMC Stations while strengthening their corporate brand identity. In the PNG domestic segment, the company plans to enhance efficiency by implementing pre-paid meters. Furthermore, IRMEL eyes for acquiring licensed GAs from peer CGD entities, aligning with demand forecasts and complementing existing operations geographically. Over the next three fiscal years, the company plans substantial expansion, targeting the addition of 24,000 PNG domestic connections, 62 PNG commercial connections, 10 PNG industrial connections, and 63 CNG retail outlets.
- Strong parentage, and strong execution team:** IRMEL is backed by the strong parentage of an Indian multinational entity, Cadila Pharma, which has a legacy of over 3 decades in the domestic pharmaceutical industry. Currently, Cadila Pharma holds 49.50% of the Equity Shares. Their experienced board of directors are equipped with varied experience for strategic guidance and insights for growth in operations. They are led by a qualified, experienced, and reliable senior management team who have been associated with the company since its incorporation with vast prior experience.
- Business integration for transition into a complete energy solution provider:** IRMEL is pursuing vertical integration to diversify and drive business growth. They've invested in Farm Gas for biomass and waste to energy solutions, Venuka Polymers for polyethylene pipelines, and Ni Hon Cylinders for CNG cylinder supply. IRMEL aims to transition into an energy company by venturing into renewable energy projects, particularly solar energy through their subsidiary SKI-Clean Energy Pvt Ltd. These strategic investments and ventures can enhance IRMEL's market presence and potential for future growth, making them an appealing prospect for investors in the energy sector.
- Strategic business alliance with Shizuoka Gas Co. Ltd (ShizGas):** IRMEL has strategically partnered with Shizuoka Gas Co. Ltd (ShizGas), a major gas company in Japan. ShizGas has made equity investments in IRMEL, presenting synergistic business opportunities. They're exploring importing and wholesaling R-LNG to India through bilateral contracts, enhancing competitiveness and market growth in India's natural gas sector. ShizGas contributes expertise in industrial burner technology, benefiting IRMEL's industrial customers. Company plans to leverage ShizGas technical knowledge for seamless transitions to natural gas, especially in the new GA of Namakkal and Tiruchirappalli, optimizing natural gas consumption. This strategic alliance enhances IRMEL's position and appeals to potential investors seeking opportunities in the energy market.

## Indicative Timetable

Activity	On or about
Finalisation of Basis of Allotment	26-10-2023
Refunds/Unblocking ASBA Fund	27-10-2023
Credit of equity shares to DP A/c	30-10-2023
Trading commences	31-10-2023

## Shareholding (No. of shares)

Pre-Issue	3,02,59,677
Post Issue (Lower price band)	4,10,59,677
Post Issue (Higher price band)	4,10,59,677

## Shareholding Pattern

### Promoters – Cadila Pharma

Pre Issue	49.50%
Post Issue	36.48%

### Promoters - Others:

Pre Issue	18.44%
Post Issue	13.59%

### Public - Shizuoka Gas Co Ltd:

Pre Issue	2.94%
Post Issue	2.17%

### Public - Others:

Pre Issue	29.12%
Post Issue	47.76%

## Issue Breakup

QIB	50%
NIB	15%
Retail	35%

## Risk

- 1) Dependent on licenses and approvals from multiple regulatory authority.
- 2) Prices fixed under the Pricing Guidelines of Ministry of Petroleum and Natural Gas.
- 3) Existing GAs could be open to access for others.
- 4) Delay in new Gas allocation and bidding.

## Mview

We believe IRM Energy IPO gives investors an opportunity to invest in one of the growing and emerging player in city gas distribution segment in its GAs. Being backed by Cadila Pharmaceuticals Ltd, a well-established Indian multinational entity in the domestic pharmaceutical industry provides a solid foundation to overcome various entry barriers. We think with the exclusivity distribution rights for CNG and PNG in specific GAs gives competitive edge and market control to IRMEL. We also believe the IRMEL expansion plan in newer/existing GAs with diverse customer portfolio and improved distribution channels demonstrate towards the reduce in operational expenses and would offer competitive services by taking on technological advancements across customer operations. We see IRMEL's vertical integration strategy with diversification into renewable energy projects and strategic investments in biomass, pipelines, and CNG cylinders highlight a forward-looking approach towards becoming a comprehensive energy solutions provider. By looking at the financials, the company has shown a strong growth in FY 22 and FY 23 in Revenue growth at 157%/90%. On Valuation parse at upper price band of ₹ 505/-, the issue is asking for a Market Cap of ₹ 2072 Cr. Based on annualized FY24 earnings and fully diluted post-IPO paid-up capital, IRMEL is asking price a P/E of 19.27x on the consolidated basis which seems the valuations are fully priced when compared to peers which are trading in the range of ~19-22x. Given the growing trend of industries transition from coal to natural gas, IRMEL with a strong market presence, strategic alliances, robust financial and a well-defined growth strategy is self-confident to gain the substantial benefit from shift, we recommend investors "SUBSCRIBE" to IRMEL IPO offer with a long term perspective.

## Other Details:

BRLMs: HDFC Bank, BOB Capital Markets

Registrar: Link Intime India Pvt Ltd.

Listing: BSE & NSE

## Research Analyst

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## BASIC FINANCIAL DETAILS

Particulars ₹ (in Crs)	As at Jun'30,		As at Mar' 31,		
	2023 (03)	2022 (03)	2023	2022	2021
Equity Share Capital	30.26	29.37	30.26	29.37	29
Reserve as stated	343.07	234.90	316.16	214.35	88.61
Net worth as stated	373.33	264.27	346.42	243.72	117.60
Revenue from Operations	245.25	230.27	1,039.14	546.14	211.81
Revenue Growth (%)	6.51%		90.27%	157.84%	
EBITDA	41.14	34.69	118.94	200.90	72.97
EBITDA Margin (%)	17.88%	16.16%	12.14%	39.61%	38.49%
Profit Before Tax	33.64	23.27	74.4	152.36	46.09
Net Profit for the period	26.91	20.54	63.15	128.03	34.89
Net Profit Margin (%)	10.97%	8.92%	6.08%	23.44%	16.47%
EPS (₹)	8.89	7	20.93	43.88	12.39
RONW %	7.21%	7.77%	18.23%	52.53%	29.67%
NAV (₹)	123.38	89.98	114.48	82.98	40.55
ROE (%)	7.21%	7.77%	18.23%	52.53%	29.67%

Source: Company RHP

## COMPARISON WITH INDUSTRY LISTED PEERS ₹ (in Cr)

Companies	Consolidated/ Standalone	Mcap (in Cr)	FV	Revenue from operation FY 2023 (in Cr)	EPS	NAV	P/E	RONW
IRM Energy Ltd	Consolidated (Annualised FY 2024)	2,072	10	980.99	26.21	216.4	19.27x	18.23%
Gujarat Gas Ltd	Consolidated	29,236	2	16,759.40	22.2	102.09	21.61x	21.75%
Indraprastha Gas Ltd	Consolidated	33,646	2	14,145.85	23.42	113.3	19.68x	20.67%
Mahanagar Gas Ltd	Standalone	11,201	10	6,299.28	79.98	418.53	11.45x	19.11%
Adani Total Gas Ltd	Consolidated	65,461	1	4,378.19	4.97	26.74	122.65x	18.58%

Date as on 13th October 2023, Cline Mcap, PE, calculated as on 13-10-2023

IRM Energy Ltd, revenue EPS/PE, NAV calculated on annualised basis post money



# MSEARCH

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### **Msearch's Recommendation (Absolute Performance)**

**Buy: > 20% within the next 12 Months**

**Accumulate: 5% to 20% within the next 12 Months**

**Sell : < -20% within the next 12 Months**

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