



**IPO Report**

11<sup>th</sup> Oct'23

**Snapshot**

IRM Energy 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. Company develop natural gas distribution projects in the geographical areas (“GAs”) allotted to company for industrial, commercial, domestic and automobile customers.

**VALUATION**

Company is bringing the issue at price band of Rs 480-505 per share at p/e multiple of 19x on post issue FY23 basis. Company has Exclusivity in CNG and PNG supply in the awarded GAs .Also company has diverse customer portfolio and distribution network of CNG and PNG with Strong parentage, experienced board and management team and strong execution team . Company shown strong financial performance and consistent growth and profitability supported by healthy operating efficiency and favorable regulations. Hence, looking after all , we recommend “Subscribe” on issue.

<b>Price Band (Rs./Share)</b>	<b>480-505</b>
<b>Opening date of the issue</b>	<b>18<sup>th</sup> Oct '2023</b>
<b>Closing Date of the issue</b>	<b>20<sup>th</sup> Oct '2023</b>
<b>No of shares pre issue</b>	30,259,677 Eq Shares
<b>Issue Size</b>	Rs 517-544 Cr
<b>Issue Size</b>	10800000 Equity Shares
<b>Fresh Issue</b>	10800000 Equity Shares
<b>Face Value (Rs/ share)</b>	Rs 10/share
<b>Bid Lot</b>	29
<b>Employee Discount</b>	Rs 48/share

**BIDDING DETAILS**

<b>QIBs (Including Anchor)</b>	50% of the offer (Approx 5292000 Eq Shares)
<b>Non-Institutional</b>	15% of the offer ( Approx 1587600 Eq Shares)
<b>Retail</b>	35 % of the offer ( Approx 3704400 Eq Shares)
<b>Employee</b>	216000 Eq Shares
<b>Lead managers</b>	HDFC Bank Ltd, BOB Capital Markets Ltd
<b>Registrar to the issue</b>	Link Intime India Pvt Ltd

**WHAT WE LIKE**

***Strong parentage, experienced board and management team and strong execution team***

Company is backed by the strong parentage of an Indian multinational entity, Cadila Pharmaceuticals Limited (“Cadila Pharma”). Cadila Pharma holds 49.50% of company’s Equity Shares. The strategic and financial support provided by Cadila Pharma, with their experience, spanning across three decades in domestic pharmaceutical industry has significantly helped company to overcome certain entry barriers such as requirement of large investments, among others.

***Strong financial performance with consistent growth and profitability supported by healthy operating efficiency and favourable regulations***

Company have a consistent track record of growth in volumes, revenues and profits. Company’s 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%. Company’s net revenue from operations (net of excise duty) increased from ₹ 1,895.65 million for Fiscal 2021 to ₹ 9,800.89 million for Fiscal 2023, at a CAGR of 127.38%. Company’s ROCE amounted to 4.93% (not annualized), 206 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.

***Exclusivity in CNG and PNG supply in the awarded GAs***

Company is the sole distributor of CNG and PNG in the GAs awarded , for the period of exclusivity granted pursuant to the PNGRB authorizations. Company have marketing exclusivity until September 2028 for the Diu & Gir Somnath GA, and until March 2030 for Namakkal & Tiruchirappalli GA, acquired in the eleventh round of bidding. Marketing exclusivity for the Banaskantha GA and Fatehgarh Sahib GA expired in June 2023 and September 2023 respectively.



## COMPANY BACKGROUND

CNG (Compressed Natural Gas): Company's customers include operators of public transport vehicles such as taxis, auto-rickshaws, and private vehicles such as cars, buses, light goods vehicles and heavy goods vehicles.

PNG (Piped Natural Gas): Company's PNG customers are broadly classified into three segments, which are, industrial PNG (small, medium and large-sized enterprises), commercial PNG (such as hotels, restaurants, bakeries, hostels and community halls) and domestic PNG (predominantly using PNG as cooking gas).

Company have 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 transport segment. Company was recognized as the 'City Gas Distribution - Growing Company of the Year 2020' by Federation of Indian Petroleum Industries ("FIPI"). Company distribute CNG for use in motor vehicles and PNG for use by domestic households as well as for commercial and industrial units. Due to its competitive gas price and optimized operational expenditure, 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. Compared with competitive fuels, company provide a more reliable and environment-friendly alternative fuel to all its customer segments, and hence have been able to tap potential customer segments in the respective GAs. Further, company is committed to health and safety and have established safety management systems which ensures safe, reliable and uninterrupted distribution of natural gas to its customers, with a focus on systemic minimization of health and safety risks

Company commenced its operations in July 2017, pursuant to the receipt of authorizations for the GAs awarded for Banaskantha and Fatehgarh Sahib, in the sixth round of bidding conducted by the Petroleum and Natural Gas Regulatory Board ("PNGRB") in July 2016. In July 2016, in the sixth round of bidding, company received authorization to lay, build, operate and expand the city or local natural gas network with a minimum work permit ("MWP") to create an infrastructure of 1,800 inch kms gas pipeline (consisting of medium density polyethylene ("MDPE") pipelines and steel pipelines) and 28,021 PNG domestic connections in Banaskantha; and 650 inch kms gas pipeline (consisting of MDPE pipelines and steel pipelines), and 5,905 PNG domestic connections in Fatehgarh Sahib. Thereafter, company received the authorization for the GA of Diu & Gir Somnath in the ninth round of bidding conducted in September 2018, for creating the infrastructure of 188 inch kms gas pipeline (consisting of steel pipelines), 91,000 PNG domestic connections and 35 CNG stations in Diu & Gir Somnath. Company is strengthening its roots in its existing authorized GAs. Company have received the authorization for the GA of Namakkal & Tiruchirappalli in the eleventh round of bidding conducted by PNGRB in January 2022 for creating the infrastructure of 1,450 inch kms gas pipeline (consisting of steel pipelines), 17,74,000 PNG domestic connections and 290 CNG stations in Namakkal & Tiruchirappalli. The PNGRB grants company the authorization to operate in a GA, along with an exemption from being under purview of a 'common carrier' or 'contact carrier' for the transmission of natural gas within its GAs. Exemption from the purview of a 'common carrier' or 'contact carrier' allows company exclusivity to operate in its GA and install its pipelines for supply of natural gas. This exemption provides company with a 'marketing exclusivity' for transmission of natural gas, for a limited period prescribed by the PNGRB, within each of company's GAs



**INVESTMENT RATIONALE**

<p><i>Successful development and operation of CGD business</i></p>	<p>Company have 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. Company have developed strong in-house project management capabilities, complemented by robust operation and maintenance processes. Company’s relationship with vendors, suppliers and contractors has enabled it to expand its network in a timely and cost-efficient manner. Further, company is also committed to health and safety and have implemented safety management systems to ensure the safe, reliable and uninterrupted distribution of natural gas. Governance monitoring through internal processes and systems, coupled with management team helps company achieve operational efficiencies. Company have also established a well-rounded project management infrastructure for seamless and cost-efficient distribution of natural gas in all its GAs.</p>
<p><i>Diverse customer portfolio and distribution network of CNG and PNG</i></p>	<p>Company have established strong relationships through collaborative efforts to a diverse customer base including industrial, commercial and domestic customers. Company provide competitive offerings while maintaining a customer-centric approach and making continuous efforts to upgrade its services, by leveraging technology across all its customer operations. Company have successfully established a distribution network of CNG and PNG to customers. Company’s dynamic business model ensures that company is abreast of the changing needs of its customers, with a focus on innovation and technology adaptation. Company’s customer base across various industries and at varied geographies reduces its dependence on any one industry or location and also provides a natural hedge against market instability in a particular industry or location. Further, strong emphasis of the Government on the expansion of the CGD network across the country will result in a favourable demand outlook among company’s customers.</p>
<p><i>Technology adoption and digital initiatives for efficient and optimal operations</i></p>	<p>Company have laid an optimal capacity steel pipeline network from the cross-country pipeline available in all its GAs, to cater to both CNG and PNG demands in the respective GAs. Company is focused on implementing the latest engineering practices in its business. For instance, company have implemented supervisory control and data acquisition (“SCADA”) at all operational CNG stations, to establish automation at the CNG stations. Company have implemented Radio Frequency Identification (“RFID”) Writing, Detection and Annunciation System, which aids in digitally identifying the hydrotesting due date of CNG cylinders installed on-board vehicles and helps in reducing the probability of fatal incidents at CNG stations. Company have developed a web-based application for capturing geo-tagged points and gas assets and their attributes in real time including an incident report module. For the fast adoption of PNG in steel re-rolling mills in Mandi Gobindgarh, Fatehgarh Sahib, company awarded the technology study assignment to Punjab State Council for Science and Technology, for setting up three model steel re-rolling plants of small, medium and large sizes running on PNG for identification of optimal burners, recuperators and automation to increase the fuel efficiency and reduce per ton fuel cost. Automatic Meter Reading (“AMR”) and EVC cum Data Loggers have been implemented for all industrial customers and District Regulating System (“DRS”) helping in the monitoring of the consumption logs, hourly flow and other critical parameters through a GSM network to the Master Control Room.</p>



## OBJECTS OF OFFER

Company proposes to utilise the Net Proceeds from the Issue towards funding the following objects:

1. Funding capital expenditure requirements for development of the City Gas Distribution network in the Geographical Areas of Namakkal and Tiruchirappalli (Tamil Nadu) in Fiscal 2024 (from December 1, 2023 to March 31, 2024), Fiscal 2025, Fiscal 2026 and Fiscal 2027 (from April 1, 2026 to September 30, 2026);
2. Prepayment or repayment of all or a portion of certain outstanding borrowings availed by Company; and
3. General corporate purposes.

## RISKS

Company is dependent on third parties for sourcing and transportation of natural gas. As of June 30, 2023, company procured natural gas from seven suppliers which constituted 100.00% of company's total quantity purchased. Any disruption in the receipt of such natural gas from these third parties, or delay or default in timely transportation of the natural gas could lead to a disruption or failure in the supply of natural gas by company, which could adversely affect company's business, reputation, results of operations and cash flows.

Source:RHP

## INDUSTRY OVERVIEW

### OVERVIEW OF THE INDIAN CGD MARKET

Demand for natural gas is expected to rise in the future, propelled by environmental concerns, implementation of gas exchange and support from domestic energy companies to grow infrastructure. In 2009, Indian gas regulator PNGRB started authorising entities for laying, operating, and expanding CGD infrastructure for supplying gas to end-users in identified authorised GAs. To date, the PNGRB has granted authorisation to entities for developing CGD infrastructure in ~295 geographical areas through 12 rounds (including 11A) of auctions under competitive bidding. Over the years, private and public player participation has increased CGD coverage to 632 districts. Most of the northern and western states, and some parts along the coastal southern and eastern regions of the country have been covered under CGD infrastructure. CGD market structure The upstream sector, comprising oil and gas companies, explores gas from the country's available reserves. In the midstream and downstream sectors, domestic gas and imported LNG are available for fertiliser industries, power plants, refineries, petrochemical plants, and CGD networks in the gaseous form through natural gas pipelines. Gas pipeline infrastructure is an economical and safe mode of transporting natural gas by connecting gas sources to gas-consuming markets. The gas pipeline grid determines the gas market structure and its development. Therefore, an interconnected national gas grid will ensure adequate availability and equitable distribution of natural gas in India. Authorised CGD entities are permitted to sell domestic/imported gas directly.

### Policy for gas allocation favours the CGD sector

The domestic piped natural gas (D-PNG) and CNG segments have received precedence in domestic gas allocation within the CGD sector from the government to support the development of CGD network. For the CNG and D-PNG segments of the CGD sector, the government has taken initiatives to increase the supply of domestic gas. Effective August 2022, all CGDs receive pooled gas to meet the demand for priority sectors (D-PNG and CNG) at a uniform price. Volume to be received by CGD will remain subject to quantity available and allocation to GAIL. Pooled gas is a mix of sources such as APM gas, non-APM gas and RLNG, which is imported. With CGD (domestic and transport) given the topmost priority in the government's allocation of domestic gas, dependence on RLNG in the CGD segment is largely driven by commercial and industrial demand.

### Regulatory scenario in India

Midstream and downstream natural gas activities, including storage, transportation, distribution, marketing, and sale of natural gas, are regulated by the PNGRB. PNGRB authorises the areas that are categorised as GAs to an entity to lay, build, operate or expand the CGD network as per the PNGRB (Authorizing Entities to Lay, Build, Operate or Expand City or Local Natural Gas Distribution Networks) Regulations, 2008. The CGD sector has four distinct sub segments: CNG, predominantly used as auto fuel, and PNG, used in the domestic, commercial, and industrial segments. Since the commencement of CGD bidding rounds in 2008, several regulatory changes have been made in the CGD sector, improving investor confidence, and driving competition enabling development of CGD infrastructure in the country.

### Major CGD regulations

Over the past few years, the PNGRB has taken several measures to drive investments in the CGD segment. Amendment of the bidding criteria for obtaining licences to supply natural gas in cities is a significant step.



## INDUSTRY OVERVIEW

### **Bidding criteria**

The amended regulations, effective November 2018, place higher emphasis on infrastructure creation in the assigned geographical area, providing 80% weightage to domestic piped gas connections and number of CNG stations to be commissioned within the minimum work programme (MWP) period (eight years from the authorisation date). The remaining 20% weightage is given to the tariff proposed for city gas and CNG compression.

### **MWP**

Till the fourth round of CGD auctions, there was no emphasis on MWP. However, from the fifth to eighth CGD auction rounds, the PNGRB introduced MWP, which laid out performance targets for successful bidders over five years from authorisation to complete specified targets of PNG connections and laying of steel pipeline network in awarded GAs. In the ninth and tenth rounds, the PNGRB included CNG connections target under MWP, and the targets were laid out for eight years from the authorisation date. It lays greater emphasis on infrastructure creation, giving it 80% weightage, compared with 0% applicable till the eighth CGD bidding round. The amended regulations also provide adequate checks through prescribed MWP targets for each year for all three measurable segments — steel pipeline length, CNG stations and domestic connections. The successful bidder will be required to achieve the year-wise work programme within eight contract years.

### **Penalty for not meeting performance targets**

As per the norms of the sixth bidding round, if the CGD company fails to achieve its MWP target despite being notified by the regulator, and in case of failure to take remedial action after being allowed reasonable time, the regulator has a right to encash the PBG (performance bond guarantee) of the entity equal to the percentage shortfall in meeting targets of inch-km and/or domestic connections under Regulation 16 of the PNGRB Regulations, 2008. From the ninth bidding round onwards, the PNGRB has defined penalties for players who do not meet targets set for PNG, CNG connections, and inch km steel pipeline infrastructure under the MWP. The amended regulation has a provision for a pre-determined penalty to be levied on players within three months from the end of each contract year if the physical performance target provided by the player is not achieved at the end of one contract year. The regulator will impose a penalty of Rs 750 for shortfall in each piped gas connection, Rs 150,000 for not meeting the target of laying every inch km of pipeline and Rs 20 lakh for each CNG station not installed.

### **Performance bond**

The performance bond has been linked to the awarded GA's population. The bond is valid for three years initially and would be renewed subsequently after every three years until the period of authorisation. The performance bank guarantee amount would be reduced to 40% of the initial value if the successful bidder manages to achieve 100% of the work programme targets.

### **Exclusivity for city or local natural gas distribution network**

– With a view to facilitating the development of a planned and integrated CGD network, the PNGRB grants an authorised entity exclusivity for laying, expanding, and operating the CGD network in a given geographical area, for a maximum period of 25 years from the date of grant of authorisation of the CGD network. At the end of the project's economic life, further extension of the exclusivity period can be considered by the PNGRB for a block of 10 years depending on the satisfactory compliance of service obligations and quality of service norms. The exclusivity allowed will be terminated, either for the entire authorised area or part thereof, in case the entity either refuses or fails to lay, build, or expand the CGD network to meet natural gas demand requirements

– Exclusivity from providing access to the CGD network on a common carrier or contract carrier basis (exclusive marketing rights for CGD), has also been increased from five to eight years from the date of authorisation for construction of the CGD network to incentivise participation of more players and provide greater stability to CGD operators. If the entity achieves the work programme in each of the eight contract years in a timely manner, the exclusivity period will be extended by two years. If the entity can achieve the work programme at the end of the eighth contract year on a cumulative basis and not yearly basis, then the exclusivity period would be extended by one year

– To protect consumer interest and enable competition in the CGD market after the end of the exclusivity period in some regions, the PNGRB notified Guiding Principles for Declaring City or Local Natural Gas Distribution Networks as Common Carrier or Contract Carrier Regulations in September 2020, which provide guiding principles and procedures for declaring the CGD network of an authorised area as a common carrier or contract carrier, allowing access to the network after expiry of the marketing exclusivity period

### **CGD network development**

Looking to increase the share of gas in overall energy mix, the government had auctioned total 67 GAs in 11th and 11A CGD bidding rounds. After completion of the 11A CGD bidding round, 295 geographic areas (GAs) covering about 98% of the population and 88% of the total geographical area of the country, spread over around 630 districts in 28 states and UTs, have been covered under the CGD network





**Consolidated Financials**

(Rs in MN)

Financials	FY21	FY22	FY23	Q1FY24
Total Revenue (A)	2118.09	5461.43	10391.35	2452.47
Total Expenditure (B)	1386	3597.14	9268.97	2031.81
EBIDTA	732.09	1864.29	1122.38	420.66
EBIDTA Margin	34.56	34.14	10.80	17.15
Other Income	7.33	30.50	59.65	33.82
Depreciation	120.00	150.41	208.98	57.66
EBIT	619.42	1744.38	973.05	396.82
Interest	158.55	220.75	229.03	60.40
PBT	460.87	1523.63	744.02	336.42
Tax	109.61	388.04	179.57	58.06
PAT	351.26	1135.59	564.45	278.36
Share of profit in Associates	-2.37	144.69	66.91	-9.31
PAT	348.89	1280.28	631.36	269.05
NPM	16.47	23.44	6.08	10.97
ROE %	29.67	52.53	18.23	7.21
EPS	12.39	43.88	20.93	8.89
Eq Cap	289.99	293.70	302.60	302.60
Net Worth	1,176.04	2,437.20	3,464.23	3,733.25

**Peer Comparison**

Company Name	Face value	P/E	Revenue from operations (Rs in Mn)	EPS	NAV	ROE %
<i>IRM Energy Limited</i>	<i>10</i>		<i>9800.89</i>	<i>20.93</i>	<i>114.48</i>	<i>18.23</i>
<b>Peers</b>						
Gujarat Gas Limited	2	18.69	167594.00	22.20	102.09	21.75
Indraprastha Gas Limited	2	19.21	141458.50	23.42	113.30	20.67
Mahanagar Gas Limited	10	12.64	62992.80	79.98	418.53	19.11
Adani Total Gas Limited	1	125.18	43781.90	4.97	26.74	18.58

(Source: RHP)



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