

Initiating Coverage

— IRM Energy —



IRM Energy

Riding on infrastructure rollout

IRM Energy (IRM) is a city gas distribution (CGD) company, with operations in Banaskantha (Gujarat), Fatehgarh Sahib (Punjab), Diu & Gir Somnath (Union Territory of Daman and Diu/Gujarat), and Namakkal & Tiruchirappalli or N&T (Tamil Nadu). Despite challenges within the CGD sector, the company has demonstrated an impressive ~78% CAGR volume growth from FY21 to FY23, accompanied by robust margins. With operations commencing in N&T, we expect a strong ~42% CAGR volume growth from FY24-26E and robust per-unit EBITDA margins of ~INR 9.3/9.2/9 per scm for FY24/25/26E, resulting in an expected EBITDA/PAT growth of ~39/44% CAGR from FY24-26E. The stock is currently trading at an attractive valuation of 10.1x FY25E EPS. We initiate coverage on IRM with a BUY rating and a DCF-based TP of INR 580/sh.

- **Focus on volume growth:** IRM has expanded its CGD network aggressively investing in a capex spend of ~INR 2.9bn over the last three years. We expect IRM to maintain its proactive CGD network expansion, which should support our projected ~42% CAGR volume growth from FY24-26E. This growth would be fueled by (i) an anticipated rise in the number of CNG vehicles due to favourable economics and rapid expansion of the CNG retail network and (ii) increased demand from industrial consumers in Mandi Gobindgarh in Fatehgarh Sahib and N&T in Tamil Nadu. Our volume estimates stand at 0.55/0.84/1.1mscmd for FY24/25/26E.
- **Expect margin improvement:** In FY23, IRM's per unit EBITDA margin declined to INR 5.7/scm, marking a ~54% YoY decrease attributed to high input gas cost. However, we expect the per-unit EBITDA margins to improve to INR 9.3/9.2/9 per scm in FY24/25/26E, owing to a decline in Administered Pricing Mechanism (APM) gas prices and favourable and adequate gas sourcing agreements. Given that IRM mainly serves industrial and commercial demand through high-pressure high-temperature (HPHT) gas, we believe the decline in HPHT gas prices will also enhance the company's margin. Additionally, the anticipated increase in the share of high-margin CNG segment volume to ~60% by FY31 from ~43% at present should also support margin expansion.
- **N&T to drive growth:** The commencement of operations in N&T GA is poised to spearhead the company's next leg of growth. The company has earmarked a capex plan of INR 3.9bn for establishing 24,000 domestic connections, 62 commercial connections, 10 industrial connections, 65 CNG stations and 38.6 km of steel pipelines by Sep 2026. Given the company's commitment to expansion and the strategic location of the GA with connectivity to five national and seven state highways, we expect the high-margin CNG segment's contribution to increase to ~50% by FY26 and ~61% by FY34.
- **DCF-based valuation:** Our target price of INR 580/sh is based on Mar-25E free cash flow (WACC 14.6%, terminal growth rate 1%). Currently trading at 10.1x Mar-25E EPS, the stock presents an attractive valuation.

Financial summary

(INR mn)	FY22	FY23	FY24E	FY25E	FY26E
Net Sales	5,071	9,801	9,750	15,567	21,203
EBITDA	1,864	1,122	1,856	2,833	3,610
APAT	1,280	631	1,168	1,863	2,409
AEPS (INR)	42.3	20.9	28.5	45.4	58.7
P/E (x)	10.9	22.0	16.2	10.1	7.8
EV/EBITDA(x)	10.6	18.2	8.9	5.8	4.3
RoE (%)	70.9	21.4	17.7	17.6	19.0

Source: Company, HSIE Research

BUY

CMP (as on 7 Dec 2023) INR 460

Target Price INR 580

NIFTY 20,901

KEY CHANGES	OLD	NEW
Rating	-	BUY
Price Target	-	INR 580
	FY24E	FY25E
EPS %	-	-

KEY STOCK DATA

Bloomberg code	IRMENERG IN
No. of Shares (mn)	41
MCap (INR bn) / (\$ mn)	19/230
6m avg traded value (INR mn)	-
52 Week high / low	INR 497/435

STOCK PERFORMANCE (%)

	3M	6M	12M
Absolute (%)	-	-	-
Relative (%)	-	-	-

SHAREHOLDING PATTERN (%)

	23 Oct-23
Promoters	50.07
FIs & Local MFs	11.77
FPIs	1.28
Public & Others	36.88
Pledged Shares	0.0

Source : BSE

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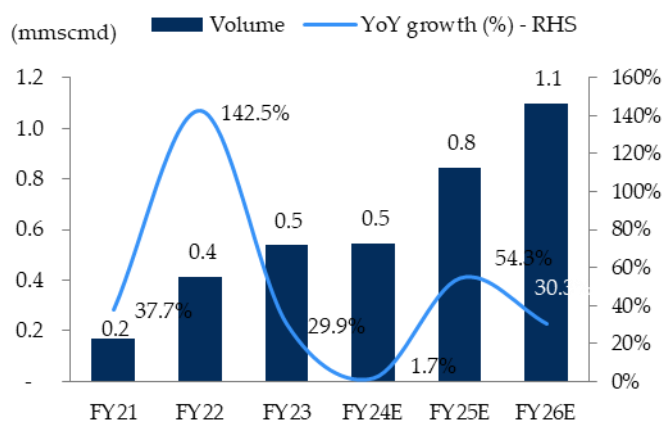
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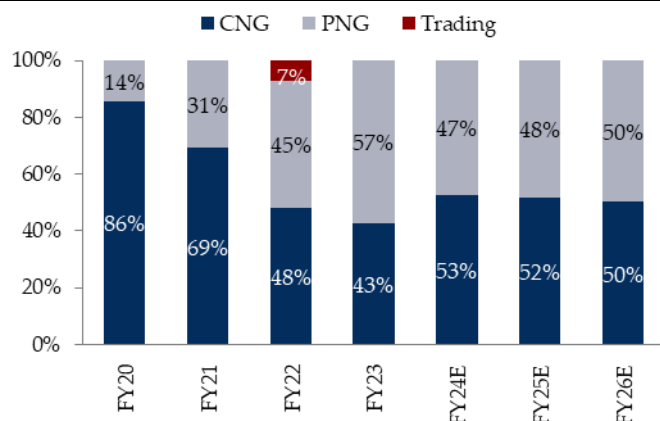
Focus charts

Exhibit 1: Volume to grow at ~42% CAGR over FY24-26E



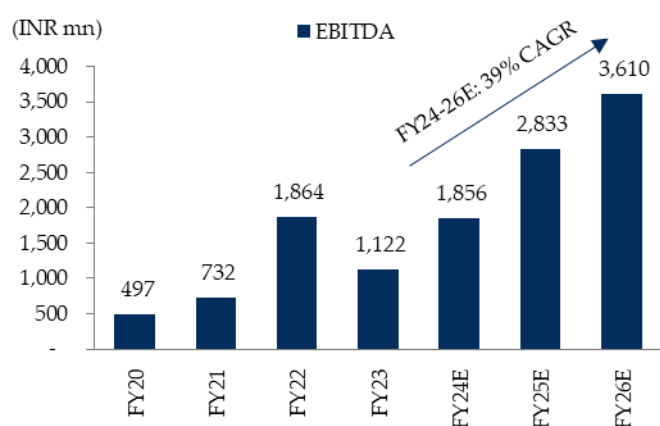
Source: Company, HSIE Research

Exhibit 3: We expect CNG contribution to increase in overall volume mix



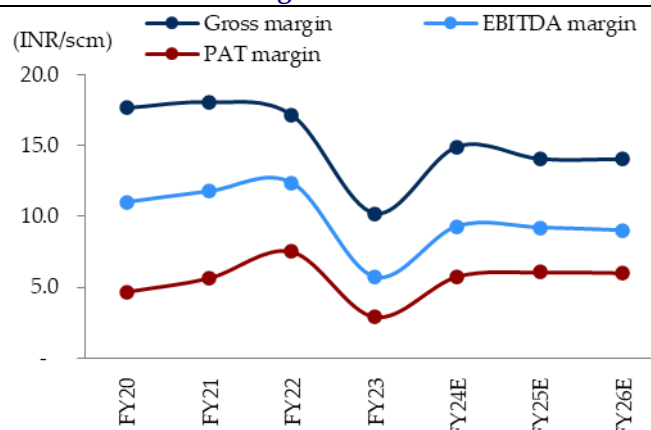
Source: Company, HSIE Research

Exhibit 5: EBITDA CAGR at 39% over FY24-26E...



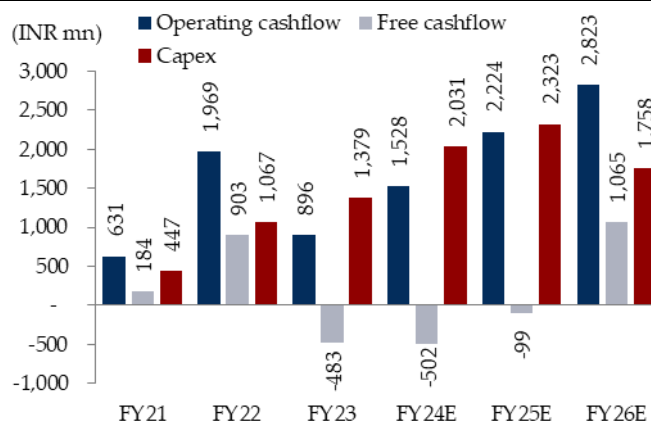
Source: Company, HSIE Research

Exhibit 2: Per-unit margins to remain robust



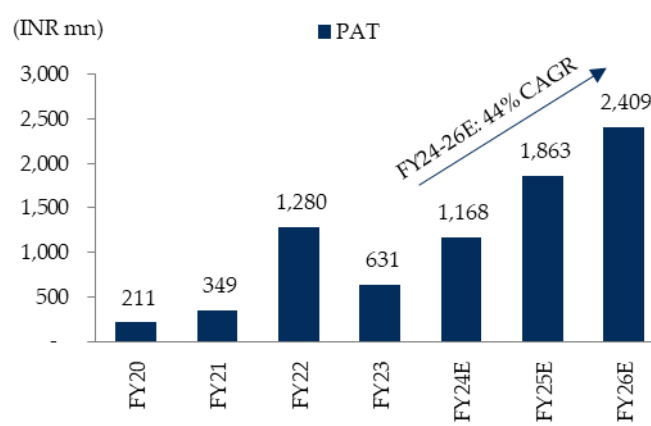
Source: Company, HSIE Research

Exhibit 4: Strong operating cash flows to fund capex beyond FY25E



Source: Company, HSIE Research

Exhibit 6: ...while PAT CAGR may be at 45%



Source: Company, HSIE Research

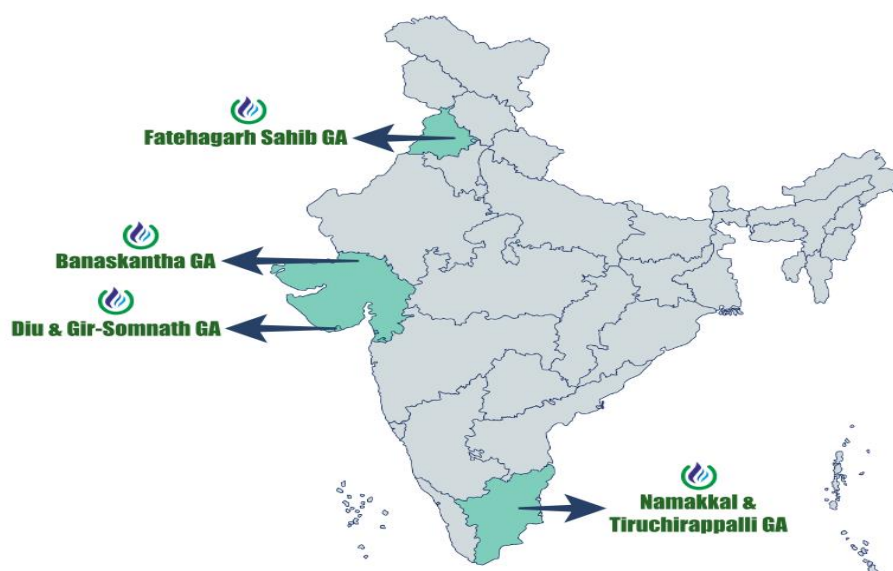
About the company

Poised for growth

IRM is a CGD company, with operations in Banaskantha (Gujarat), Fatehgarh Sahib (Punjab), Diu & Gir Somnath (Union Territory of Daman and Diu/Gujarat), and N&T (Tamil Nadu). It is engaged in the business of laying, building, operating and expanding the city or local natural gas distribution network.

IRM commenced its operations in July 2017, following the receipt of authorisations for the GAs awarded in the sixth round of bidding by the Petroleum and Natural Gas Regulatory Board (PNGRB) for Banaskantha and Fatehgarh Sahib in July 2016. Thereafter, the company received the authorisation for the GA of Diu & Gir Somnath in the ninth round of bidding held in Sept 2018. More recently, the company received the authorisation for the GA of Namakkal & Tiruchirappalli in the eleventh round of bidding conducted by PNGRB in Jan 2022.

Exhibit 7: IRM operates in four GAs



Source: RHP, HSIE Research

IRM distributes natural gas extensively through its CGD network and holds authorisation as a distributor of compressed natural gas (CNG) and piped natural gas (PNG) within their authorised areas. We expect strong volume growth in IRM's GAs, driven by (i) an anticipated rise in the number of CNG vehicles due to favourable economics and rapid expansion of the CNG retail network; (ii) the potential expansion of households within their operational zones; and (iii) the presence of industrial clusters in Mandi Gobindgarh (Fatehgarh Sahib) and N&T (Tamil Nadu).

Exhibit 8: Snapshot of the GAs

Particulars	Banaskantha	Diu and Gir Somnath	Fatehgarh Sahib	Namakkal and Tiruchirappalli
Date of Authorization	July 1, 2016	September 25, 2018	July 5, 2016	March 15, 2022
Area (sq. km)	12,703	3,786	1,146	7929 (Second Largest amongst all GAs)
Population (as per Census 2011)	31,20,506	12,69,551	5,99,814	44,48,891 (Largest amongst all GAs)
No. of Households (as per Census 2011)	Urban - 81,793 and Rural - 478,438 Total: 560,231	Urban - 66,553 and Rural - 1,60,351 Total: 226,904	Urban - 39,103 and Rural - 78,997 Total: 118,100	Urban - 533,423 and Rural - 640,492 Total: 1,173,915 (Largest amongst all GAs)
Registered vehicles excluding two wheelers (as of June 30, 2023)	2,30,519	41,880	52,178	381924 (Largest amongst all GAs)
Highways	NH 27, SH 54	NH 51, NH 8E	NH44, NH95	NH44, NH 45, NH81, NH210, NH227 and NH 67 (Highest connectivity to highways amongst all GAs)
Pipeline connectivity	GSPL pipeline network	GSPL pipeline network	Dadri-Bawana-Nangal pipeline	Ennore Tuticorin pipeline
Pipeline status	Completed	Completed	Completed	Partially operational. Operating length of 165.82 km. Authorised length - 1,431 km, under construction - 1,265.18 km. Expected completion by FY24.
Volume (scmd) - FY23:	1,97,056	22,411	3,16,958	-

Source: RHP, HSIE Research

Banaskantha

The geographical area caters to the CNG demand originating from ~58,136 CNG vehicles (as of 30 June 2023). Given the strategic location of the GA along with the presence of a robust CNG network in the state, the GA has witnessed steady growth in CNG demand. This is expected to continue as more vehicles are expected to adopt CNG in the GA. The bulk of the demand (~90% for FY23) in the GA is from the CNG transport segment and floating traffic because of the strategic location of the GA. Considering the augmentation in the CNG station network along with the push from the OEM/retrofitment segment, CNG demand is expected to continue to grow over the next few years.

- IRM has successfully surpassed the MWP targets for both parameters. It has already laid 2,262 inch-km of the pipeline, exceeding the fourth contract year target of 1,800 inch-km. Likewise, the MWP target for domestic households has been met, converting 44,041 households against the target of 28,021 households within the same period.

Opportunities:

- Floating demand from neighboring GAs
- Upcoming Indian Air Force base at Deesa
- Western dedicated freight corridor

Fatehgarh Sahib

In Fatehgarh Sahib GA, the predominant demand for natural gas is industrial, accounting for ~90% of FY23 volume. On October 20, 2020, the National Green Tribunal (NGT) addressed the issue of polluting activities in Mandi Gobindgarh, located in Fatehgarh Sahib district, under the matter of O.A. (original application) number (924/2019). The NGT issued directives for the relocation of steel rolling mills and similar industries to switch from coal to PNG, instructing the Punjab Pollution Control Board (PPCB) to ensure compliance. In cases of non-compliance, the directive stipulated the closure of non-compliant units until compliance is achieved.

The rising pollution levels prompted the Punjab government to emphasise the need to switch to clean fuels for industrial applications, specifically advocating for a quick transition to clean fuels such as PNG. This proactive initiative bodes well for the company as it facilitates easier conversions.

Fatehgarh Sahib GA is a major commercial and industrial hub and has considerable transit traffic leading to potential CNG demand. The main towns of the district are Sirhind, Bassi Pathana, Amloh, Khamano and Mandi Gobindgarh. Mandi Gobindgarh is also known as the steel town of India. The GA has good CNG potential, especially in the heavy commercial vehicle segment, as NH 44 is passing through Fatehgarh Sahib district, which caters to the vehicle movement between Delhi and Jammu. The company has commissioned a pipeline to Sirhind city and started giving PNG domestic and commercial connections in Sirhind town of Fatehgarh Sahib district.

- 444 industries are operating while IRM has already converted 184 industries to natural gas, which were running on coal, furnace oil and coal gasifiers. Out of 184 industries connected in Fatehgarh Sahib, over 100 are steel re-rolling mills. Apart from this, the company has more than 65 registrations from industrial customers that are yet to be connected (work is under execution at different stages). The company has already achieved its MWP target for the parameter inch-km pipeline and PNG domestic connectivity as of 30 June 2023.

Opportunities:

- NGT order: Industries to switch to PNG
- Mandi Gobindgarh has more than 400 industries
- Upcoming pharma and textile park to drive PNG volume

Diu and Gir Somnath

CNG sales in Diu and Gir Somnath are estimated to grow due to the preference for CNG among cars and auto owners and CNG usage in heavy commercial vehicles and boats. Good demand potential is envisaged in commercial and residential segments in the GA. In the industrial segment, locations such as Veraval and Kodinar are also expected to contribute to growth in industrial gas demand. An LNG port is currently under construction in Chhara, which will ensure gas security as well as increase traffic and other prospects. The company has also successfully converted one boat (fishing) in the coastal area to CNG. There are more than 8,000 boats in the GA that can add huge demand potential.

- To optimise the project capex and improve natural gas reach within the geographical area, the company has set up an L-CNG station in Veraval, through which it caters to the demand of nearby areas without laying steel pipelines.
- The company met its MWP yearly targets for the inch-km pipeline and CNG stations in September 2022 but fell short of the D-PNG yearly MWP target. The PNGRB has extended the MWP period by another two years for all CGD entities as it has declared force majeure due to the pandemic's impact. As a result, the MWP expiry date for the Diu and Gir Somnath GA has been extended until 30 September 2028, from 24 September 2026.

Opportunities:

- The upcoming Chhara LNG terminal will reduce the transportation cost of LNG
- Tourist attraction centre to drive floating demand

Namakkal and Tiruchirappalli

Allocated in the 11th PNGRB bidding round in March 2022, N&T GA has a large urban population, which provides an excellent opportunity for IRM to convert prospective customers from other alternative fuels such as LPG to natural gas. For commercial and domestic segments, the GA can be very prospective, as Tiruchirappalli is an urban market housing significant residential and commercial demand centres. Considering the large number of national and state highways connecting the districts of the GA with the major districts of Tamil Nadu and Karnataka, CNG demand potential is estimated to be robust.

The company has been planning its network and other infrastructure to cater to the gradually increasing demand. It has acquired land for the construction of two City Gate Stations around Tiruchirappalli. Additionally, it has entered into a long-term lease for land near Namakkal to set up an LCNG cum LNG dispensing station cum mother station on Salem Namakkal highway NH 44, which has heavy traffic.

Opportunities:

- Manufacturing hub of engineering goods industries
- The fourth largest city of the state
- Six industrial estates, one industrial complex

Exhibit 9: SWOT analysis of GA's:

	Strengths	Weaknesses	Opportunities	Threats
Banaskantha	<p>Situated on the Delhi-Mumbai Expressway and has large-scale industries. This GA is Second largest by area and fifth largest by population in Gujarat.</p> <p>Highly developed CNG ecosystem in Gujarat.</p>	<p>85% rural demographic; there may be a slower penetration of PNG in rural clusters</p>	<p>Potential CNG demand from floating vehicles due to notable tourist destinations</p> <p>The Indian Air Force is coming up with one of the biggest air bases in Deesa</p> <p>The Western Dedicated Freight Corridor (WDFC) to pass through Banaskantha</p>	<p>Once the marketing exclusivity period ends, other CGD entities may enter the GA. Moreover, the PNGRB regulations for common carrier or contract carrier mandates only 20% of the capacity allocation for the new players</p>
Fatehgarh Sahib	<p>In the GA, there are several industries, such as steel-rolling mills, many of which have switched to natural gas from coal and FO in order to comply with the NGT order</p> <p>Excellent road network, which supports the growth of the CNG segment</p>	<p>Limited presence of commercial establishments may have an impact on addressing the natural gas demand from the commercial segment</p>	<p>The NGT has enforced a blanket ban on the usage of polluting fuels in the industrial segment, quickening the adaptation of natural gas</p> <p>As per the Punjab Bureau of Investment promotion (PBIP), a pharma industrial park is to be established at Wazirabad. The Punjab government also proposes to set up a textile park in the coming years.</p>	<p>After the marketing exclusivity period, rivals may enter the market. The PNGRB regulations for common carrier or contract carrier mandates only 20% of the capacity allocation for the new players</p> <p>The use of alternative fuels such as propane poses a threat.</p>

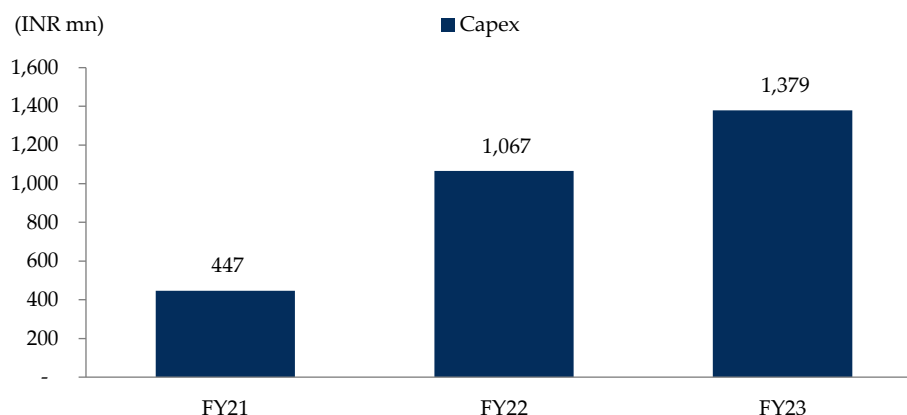
	Strengths	Weaknesses	Opportunities	Threats
Diu & Gir Somnath	<p>Gir Wildlife Sanctuary, Somnath temple and beaches of Diu draw tourist crowds. These places witness round-the-year floating traffic, which will support natural gas demand</p>	Limited presence of large and medium sized industries	Upcoming Chhara LNG terminal will have an added advantage as proximity to the LNG terminal will reduce the transportation cost of LNG from the terminal to the GA	After the marketing exclusivity period, rivals may enter the market. The PNGRB regulations for common carrier or contract carrier mandates only 20% of the capacity allocation for the new players
Namakkal & Tiruchirappalli	<p>The GA is located at the centre of Tamil Nadu and has excellent road connectivity. It is connected via five national and seven state highways</p> <p>Presence of medium and small-scale industries (manufacturing hub of engineering goods industries)</p>	The total land area is 7,929 square kilometres, with the majority of the population concentrated in a few pockets and the rest spread out, necessitating more infrastructure rollout for complete coverage	<p>Availability of cross-country pipeline passing through the GA for hook-up of gas sourcing</p> <p>Trichy is known as the transportation hub of Tamil Nadu having well developed transport infrastructure</p>	After the marketing exclusivity period, rivals may enter the market. The PNGRB regulations for common carrier or contract carrier mandates only 20% of the capacity allocation for the new players

Source: RHP, HSIE Research

Infrastructure rollout to drive volume growth

IRM's volumes grew from 0.17mmscmd in FY21 to 0.54mmscmd in FY23, implying a strong ~78% CAGR volume growth over FY21-23. This was supported by an aggressive rollout of the CGD network, incurring a total capex of INR 2.9bn over the last three years in all of their three GAs.

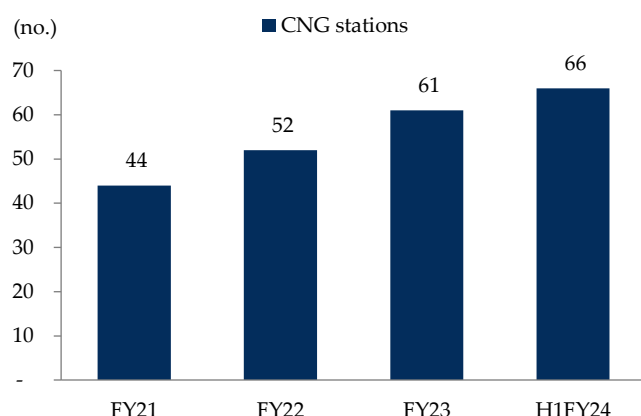
Exhibit 10: ~INR 3bn capex incurred over the last 3 years



Source: Company, HSIE Research

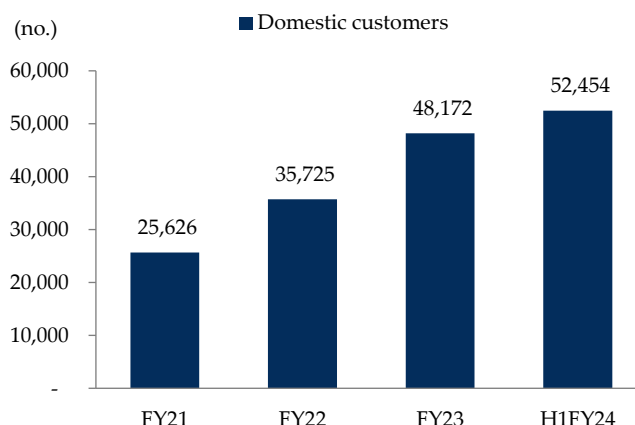
Given the capex spend, as of H1FY24, the company had established 52,454 domestic household connections, 184 industrial customers, 269 commercial customers and set up 66 CNG stations.

Exhibit 11: CNG stations



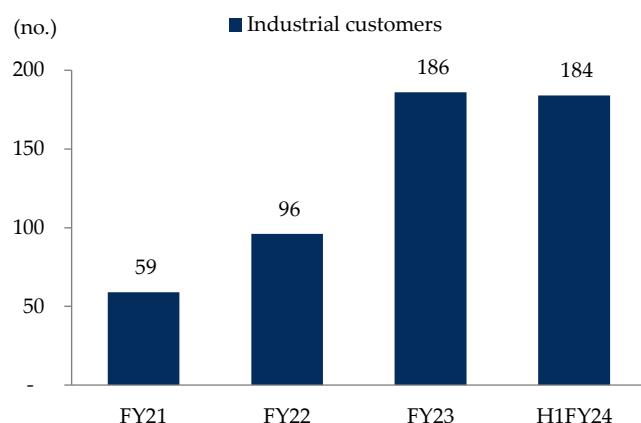
Source: Company, HSIE Research

Exhibit 12: Domestic connections



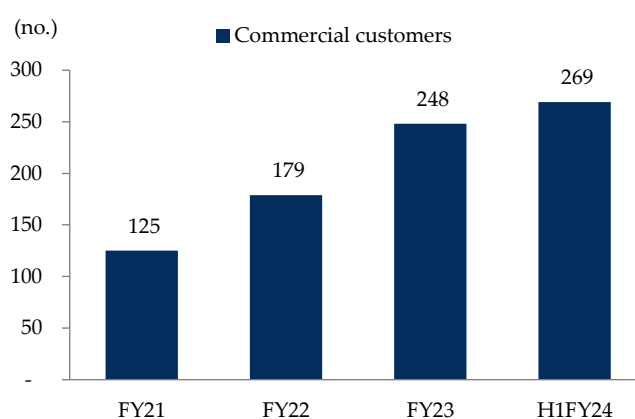
Source: Company, HSIE Research

Exhibit 13: Industrial customers



Source: Company, HSIE Research

Exhibit 14: Commercial customers



Source: Company, HSIE Research

N&T to drive volume growth

With the operations recently commencing in N&T GA, we estimate the next leg of growth to be largely contributed by the expansion of the CGD network in N&T. N&T GA has a large urban population, which provides an opportunity for IRM to convert prospective customers from other alternative fuels such as LPG to natural gas. For commercial and domestic segments, the GA can be very prospective, as Tiruchirappalli is an urban market with significant residential and commercial demand potential. Additionally, considering the large number of national and state highways connecting the districts of the GA with the major districts of Tamil Nadu and Karnataka, CNG demand potential is estimated to be robust.

The company plans to aggressively expand its CGD network in N&T GA and intends to establish 24,000 domestic connections, 62 commercial connections, 10 industrial connections, 65 CNG stations and 38.6 km of steel pipelines by Sept 2026, which will require a total estimated capex of INR 3.9bn. Of this total estimated capex, the company plans to meet INR 3.1bn through IPO proceeds.

Given the company's expansion targets and the strategic location of the GA with the connectivity to five national and seven state highways, we expect CNG volumes to grow to 0.29/0.44/0.55mmcmd for FY24/25/26E, at a CAGR of 38% over FY24-26E.

Fatehgarh Sahib—near-term volume growth driver

In Fatehgarh Sahib GA, demand for natural gas is primarily industrial (~90% of FY23). In Oct 2020, the NGT, while considering the issue of polluting activities in Mandi Gobindgarh, located in Fatehgarh Sahib district, had issued directives for shifting steel rolling mills and all similarly placed industries from coal to PNG and directed the PPCB to ensure that if such shifting does not take place, the non-compliant units shall be closed till compliance. However, with the rise in input gas cost, the Punjab government provided a temporary relief to the industrial units for usage of coal till 31 December 2023. The industrial cluster has made representations to the government to further extend this relief. However, given the rise in pollution in the state, we believe the stricter implementation of the NGT order could be put in place in the upcoming NGT hearing scheduled in the next few days.

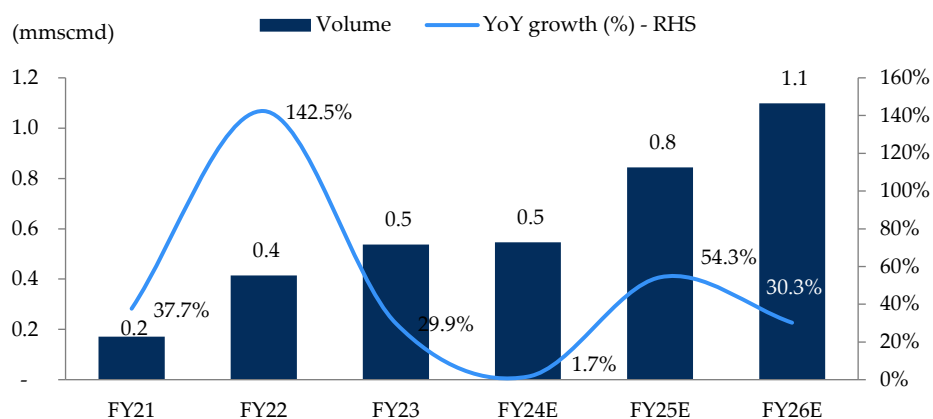
We believe this will be beneficial for the company which could see a shift from coal to gas. Additionally, we expect industrial demand to increase in N&T GA because of upcoming industrial clusters. For instance, the Punjab Small Industries and Export Corporation (PSIEC) has acquired 133 acres of land in Wazirabad village of Fatehgarh Sahib district to set up a greenfield pharma park. The Punjab government plans to set up mega a textile park as well in the near term in Fatehgarh Sahib under the PM Mitra scheme.

We have factored in a decline in PNG volumes in FY24, owing to the shift of customers from natural gas to coal due to the interim relief provided by the state government. However, post the deadline of the interim relief, we expect the industrial volumes to improve as the NGT order in Fatehgarh Sahib is strictly implemented, which should see a jump in near-term volumes for the company and potential from new connectivity to aid volume growth over the next 3-5 years.

Therefore, given the fundamentals for volume growth in place, we estimate IRM's overall volume to grow to 0.5/0.8/1.1mmcmd for FY24/25/26E, implying a CAGR of ~42% over FY24-26E.

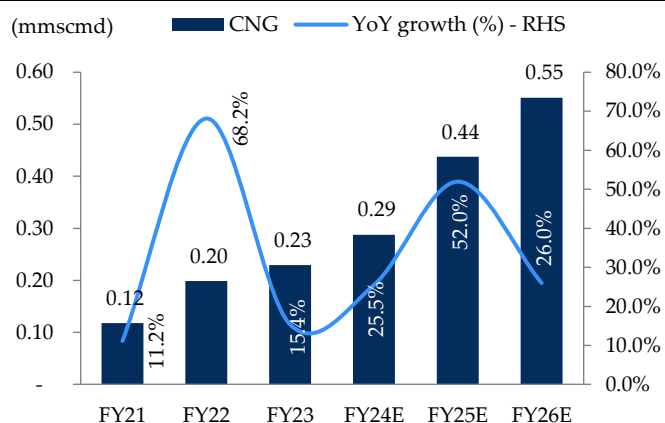
~42% CAGR volume growth over
FY24-26E

Exhibit 15: Volume to grow at ~42% CAGR over FY24-26E



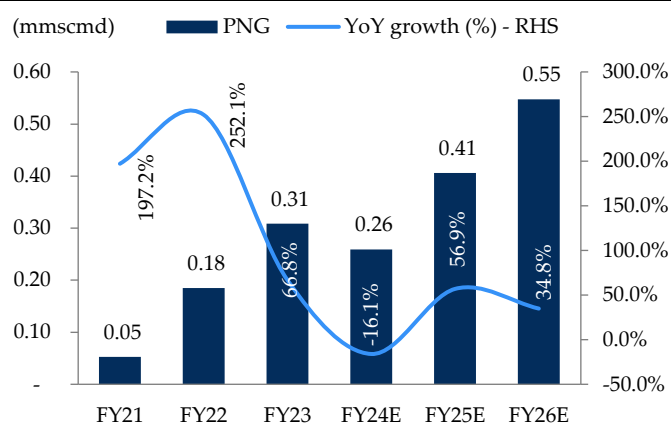
Source: Company, HSIE Research

Exhibit 16: CNG volume growth



Source: Company, HSIE Research

Exhibit 17: PNG volume growth



Source: Company, HSIE Research

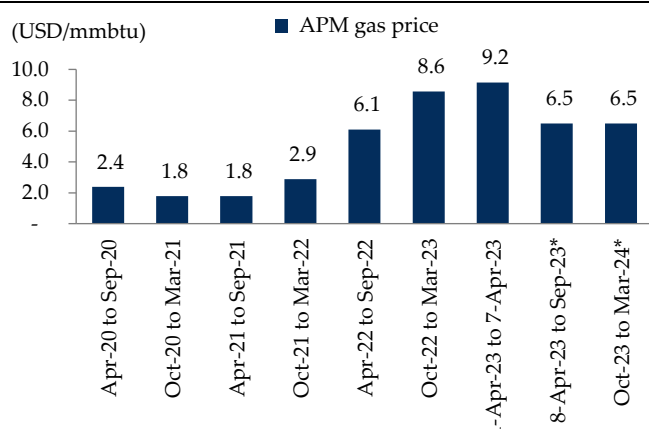
Margins to remain robust

We estimate IRM's margins will improve from the lows of INR 5.7/scm seen in FY23 owing to (1) the implementation of the Kirit Parikh Committee recommendation, (2) decline in HPHT gas prices for October to March 2024 period, (3) priority allocation of HPHT gas to the CNG and DPNG segments, (4) favourable gas sourcing mix, and (5) rising share of high-margin CNG volumes in the total volume mix.

As the majority of their industrial and commercial gas requirements are met through HPHT gas, we expect the decline in HPHT gas for the period October to March 2024 to also aid margin expansion.

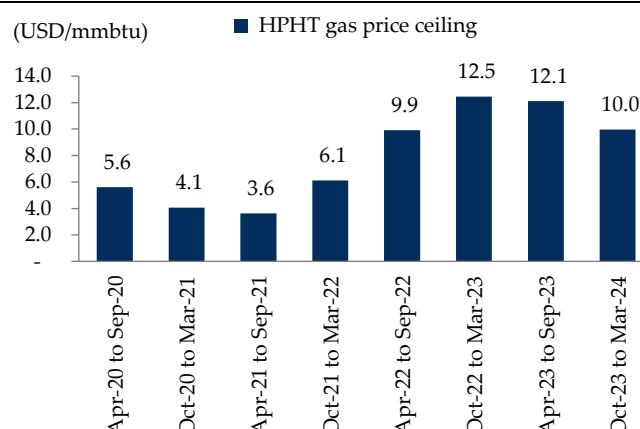
Additionally, the company has strategically acquired GAs with connectivity to cross-country natural gas pipelines within the GA boundary, which reduces the cost of transportation, and should also support margin improvement. For instance, GAIL's Dadri-Bawana Nangal gas pipeline passes through Fatehgarh Sahib, whereas the Gujarat State Petronet Limited (GSPL) gas pipeline passes through Banaskantha and Diu & Gir Somnath, and the Indian Oil Corporation Limited's Ennore Tuticorin pipeline passes through N&T GA.

Exhibit 18: APM gas prices declined post implementation of the Kirit Parikh Committee recommendations



Source: PPAC, HSIE Research | *Note: As per the Kirit Parikh committee recommendation

Exhibit 19: HPHT gas price ceiling declined for H2FY24



Source: PPAC, HSIE Research

Gas sourcing remains adequate

Apart from the cheaper domestic APM gas allocation and the priority allocation of the HPHT gas priced at USD 9.96/mmbtu for the CNG and DPNG segments, IRM, for its industrial and commercial segment, has entered mid to long-term contracts with a cumulative volume of 348,012scmd with gas suppliers such as GAIL and RIL. The majority of the contracted gas is from the HPHT fields and it is utilised for their industrial and commercial requirements. This has reduced their dependency on spot LNG helping them mitigate the effect of the volatility in gas availability and pricing. Given the current APM gas allocation and contracted gas, we believe the company's gas sourcing remains adequate for FY24. We believe the company will bid for more HPHT gas in the upcoming auctions in FY25, which should take care of their gas requirements over the next 2-3 years.

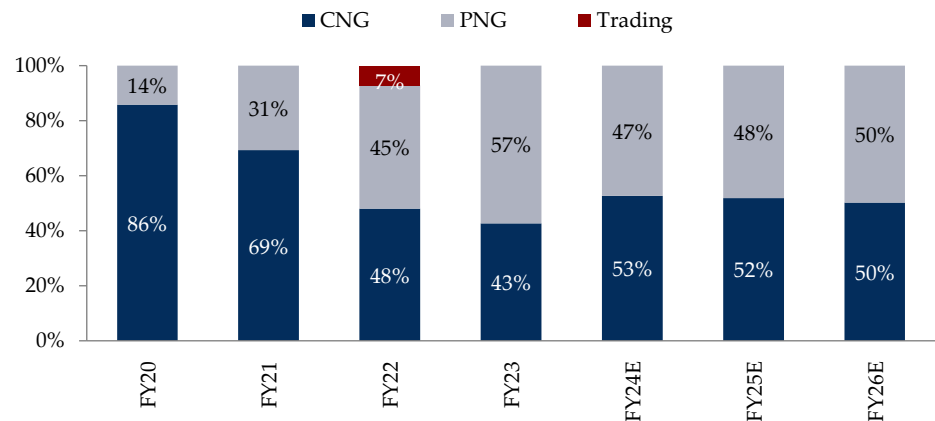
Further, the company has also subscribed to a proprietary membership from the Indian Gas Exchange (IGX) in August 2022, through which it sources natural gas for short-term requirements.

Rising share of CNG to support margin expansion too

In FY23, IRM's CNG segment constituted 43% of total volumes, while the remaining 57% was attributed to the PNG segment. With operations kicking off at N&T, an important transportation hub, we expect volume growth to come from the high-margin CNG segment, which should elevate the contribution from the CNG segment to 50% by FY26 and ~61% by FY34, resulting in an overall enhancement of the company's margin profile.

Exhibit 20: We expect CNG contribution to increase in overall volume mix

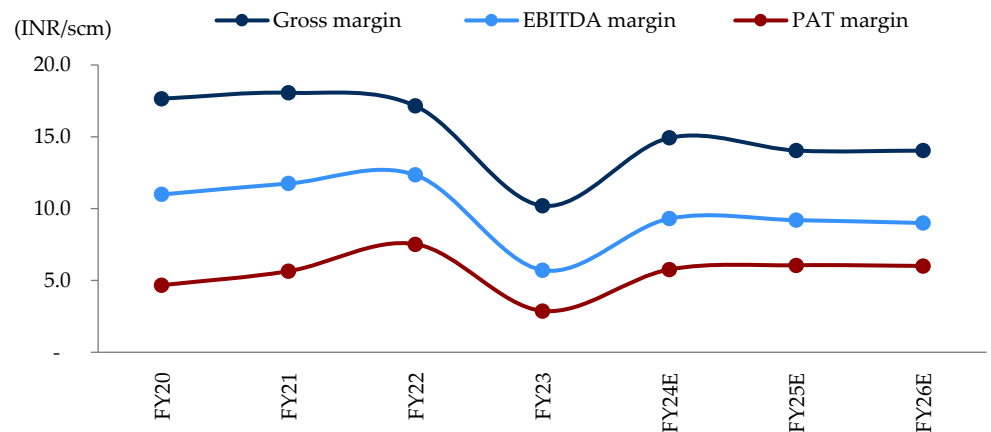
CNG share to go up to 50% by FY26 from 43% in FY23



Source: Company, HSIE Research

Therefore, we expect IRM's per-unit EBITDA margins to improve from INR 5.7/scm in FY23 to INR 9.3/9.2/9 per scm in FY24/25/26E.

Exhibit 21: Per-unit margins to remain robust



Source: Company, HSIE Research

Financials: profitability to improve

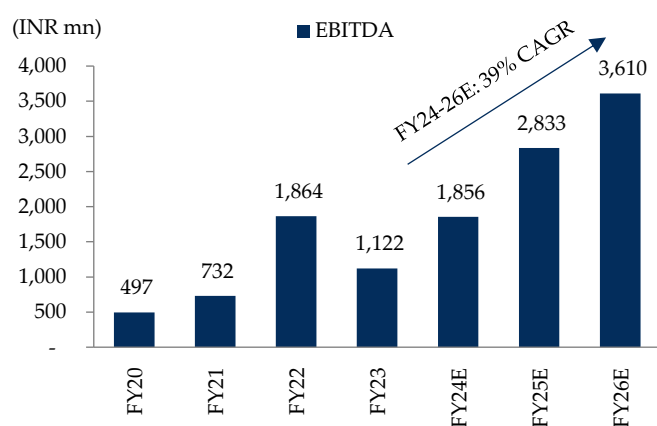
Anticipating a substantial volume surge at a ~42% CAGR from FY24 to FY26 and solid per-unit margins of INR 9.3/9.2/9 per scm for FY24/25/26E, we project robust EBITDA and PAT growth rates of 39% and 44% CAGR over the FY24-26E period.

Exhibit 22: Key metrics

(INR mn)	FY21	FY22	FY23	FY24E	FY25E	FY26E
Volumes (mmscmd)	0.17	0.41	0.54	0.55	0.84	1.10
Revenue	1,896	5,071	9,801	9,750	15,567	21,203
EBITDA	732	1,864	1,122	1,856	2,833	3,610
EBITDA (INR/scm)	11.8	12.3	5.7	9.3	9.2	9.0
PAT	349	1,280	631	1,168	1,863	2,409
EPS (INR/sh)	11.5	42.3	20.9	28.5	45.4	58.7
RoE (%)	36.3	70.9	21.4	17.7	17.6	19.0

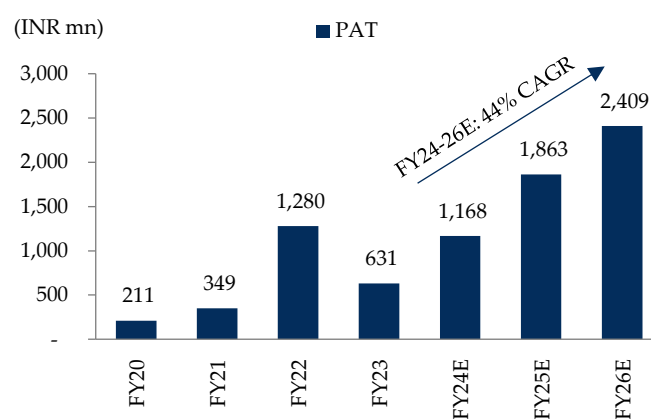
Source: Company, HSIE Research

Exhibit 23: EBITDA CAGR at 39% over FY24-26E...



Source: Company, HSIE Research

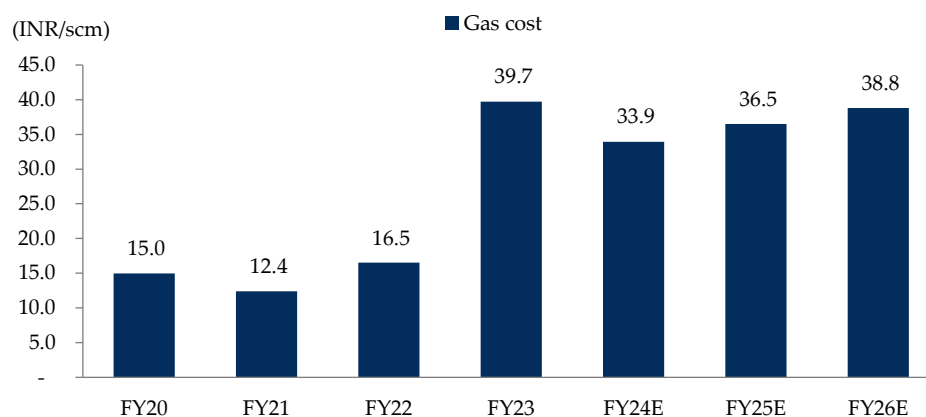
Exhibit 24: ...while PAT CAGR may be at 44%



Source: Company, HSIE Research

IRM's gas cost rose sharply to INR 39.7/scm in FY23 with a sharp increase in APM gas cost. However, with the implementation of the Kirit Parikh Committee recommendations, we estimate the gas cost to decline to INR 33.9/scm in FY24. However, we expect the gas cost to increase to INR 36.5/38.8 per scm for FY25/26 due to a decline in domestic APM gas allocation as IRM's volume grows.

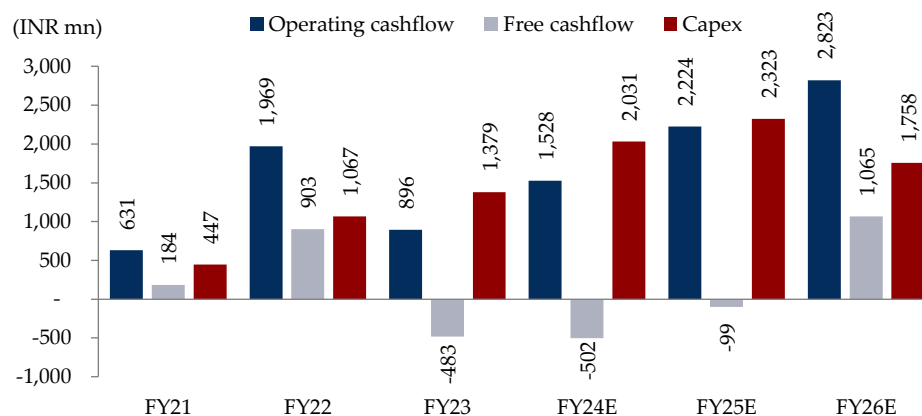
Exhibit 25: Gas cost has come off from its peak in FY23



Source: Company, HSIE Research

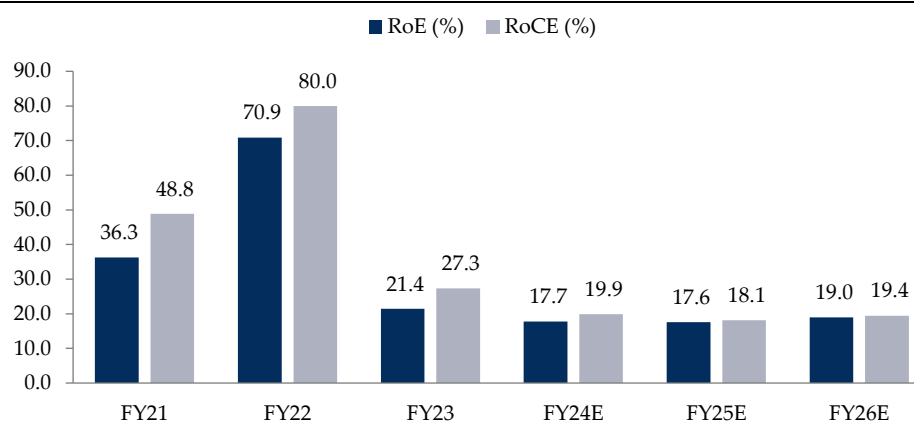
We expect IRM to generate strong operating cash flows as profitability increases. We expect the company to largely focus on the expansion of the network in N&T for an estimated capex of INR 2/2.3/1.8bn over FY24/25/26E. Our estimates suggest the capex beyond FY25 would be largely funded from internal accruals.

Exhibit 26: Strong operating cash flows to fund capex beyond FY25E



Source: Company, HSIE Research

Exhibit 27: Return ratios remain steady



Source: Company, HSIE Research

Valuation attractive: initiate coverage with a BUY

Even though the company faced headwinds in FY23 owing to elevated input gas costs, we are optimistic about its prospects. Its focus on volume growth, supported by a strong infrastructure rollout, gas sourcing mix, strategic location of their GAs, and alignment with favourable government policies, positions it for strong volume and earnings growth.

Initiating coverage on IRM with a BUY rating, our DCF-based target price stands at INR 580/sh. Our TP is based on Mar-25E free cash flow (WACC 14.6%, terminal growth rate 1%). Currently, IRM is trading at 10.1x FY25E EPS, 1.6x P/Bv, and 5.8x EV/EBITDA.

Exhibit 28: Gas companies' valuation summary

Company	MCap (INR bn)		RECO	CMP (INR)	TP (INR)	P/E (x)		P/BV (x)		ROE (%)		EV/EBITDA (x)	
						FY25E	FY26E	FY25E	FY26E	FY25E	FY26E	FY25E	FY26E
IGL	286	BUY		408	500	12.7	11.3	2.5	2.1	21.3	20.2	8.5	7.1
GGL	305	ADD		443	453	22.5	17.4	3.5	3.1	16.4	18.7	13.2	10.1
MGL	115	BUY		1,167	1,255	10.0	9.5	2.1	1.8	22.4	20.7	5.3	4.8
IRM	19	BUY		460	580	10.1	7.8	1.6	1.4	17.6	19.0	5.8	4.3

Source: NSE, HSIE Research

Exhibit 29: Target price and earnings sensitivity

	Target Price (INR/sh)	Target Price (% chg)	EPS (INR/sh)			Chg in EPS (%)		
			FY24E	FY25E	FY26E	FY24E	FY25E	FY26E
HSIE	580	-	28.5	45.4	58.7	-	-	-
INR 1/scm change in EBITDA/scm	481	-17.1%	24.8	39.8	51.4	-12.8%	-12.4%	-12.5%
0.05mmcmd change in volume	554	-4.5%	25.4	42.3	55.6	-10.7%	-6.8%	-5.2%

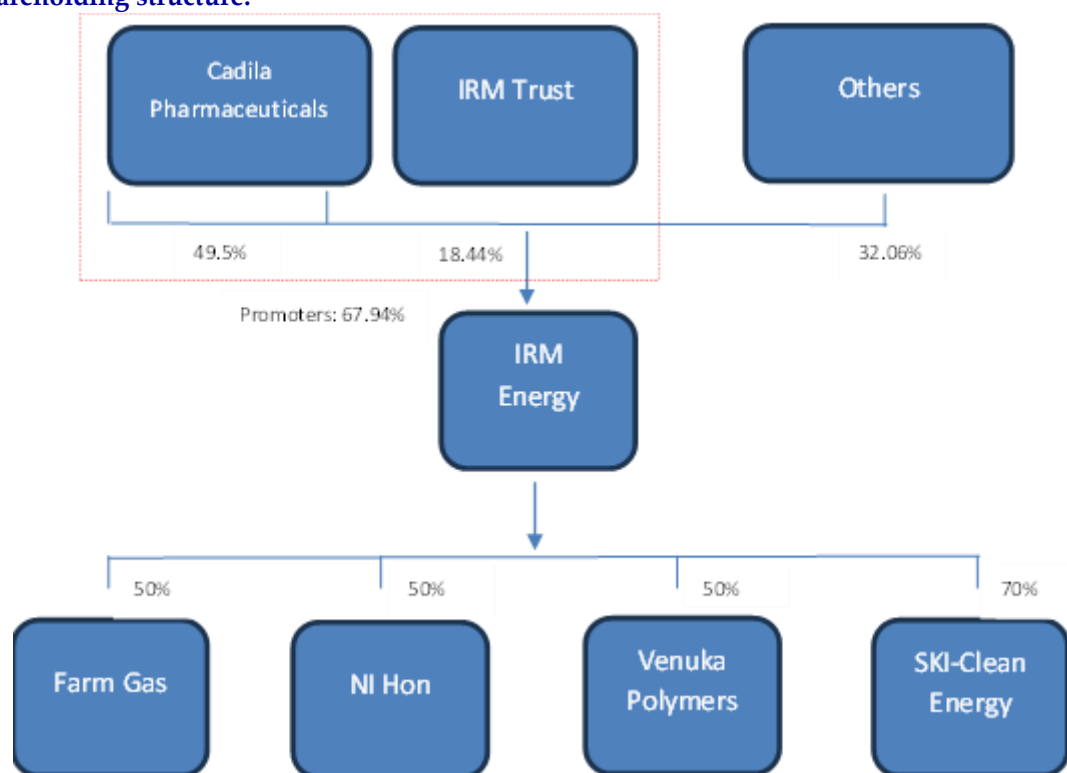
Source: HSIE Research

Exhibit 30: Key management personnel

Name	Designation	Background
Maheswar Sahu	Chairman and Non-Executive Director	Retired IAS Officer. Served the Govt. of India and Govt. of Gujarat in various capacities for more than three decades before retiring as Additional Chief Secretary to Govt. of India Over 33 years of active involvement in govt. departments handling various profiles and PSU management Independent Director on the Board of various listed companies
Dr. Rajiv Indravadan Modi	Promoter and Non-Executive Director	Chairman and MD of Cadila Pharmaceuticals Ltd. Chairman of Board of Governors of IIT Guwahati Chairperson of the Board of Governors of IIT Gandhinagar, Gujarat and member of the Board of Governors of the Academy of Scientific and Innovative Research More than thirty years of experience as an industrialist in the pharmaceuticals industry
Karan Kaushal	Chief Executive Officer	Over 15 years of experience in the field of General Management, Strategy, Business Development and Project Management Work Ex: Kalpataru Power Transmission Ltd., Isolux Corsan India Engineering & Construction Pvt. Ltd., KEC International Ltd. and Scope T&M Pvt. Ltd.
Harshal Anjaria	Chief Financial Officer	Over 13 years of experience in the field of finance and accounts Work Ex: Gujarat State Petronet Ltd., ONGC Petro additions Ltd., Lanco Babandh Power Ltd., Polyplex Resins Sanayi Ve Ticaret and Sumilon Eco Pet.
Amitabha Banerjee	Non-Executive Director	42 years of experience in finance and accounts Currently associated with Cadila Pharmaceuticals Ltd.
Badri Narayan Mahapatra	Non-Executive Director	MD of Sanguine Management Service Pvt. Ltd. and also on the Board of Directors of Enertech Distribution Management Pvt. Ltd. Over 22 years of experience with 7 years of experience in personnel and administration and 15 years of experience in entrepreneurship
Chikmagalur Kalasheety Gopal	Non-Executive Independent Director	Over 35 years of experience in banking, at various levels Retired as General Manager at Corporation Bank (now merged with Union Bank of India)
Anand Mohan Tiwari	Non-Executive Independent Director	Retired IAS Officer Experience in the Petro Chemical Industry by serving as the MD of Gujarat Narmada Valley Fertilizer Company, Gujarat Alkalies & Chemicals, and Gujarat State Fertilizer & Chemicals Ltd. Served for 15 years in the social sector
Geeta Amit Goradia	Non-Executive Independent Director	Chairperson of the FICCI Gujarat State Counsel for the year 2022 The first woman President for Federation of Gujarat Industries (FGI) (Apr'10 to Mar'13) MD of Jewel Consumer Care Pvt. Ltd. Over 21 years of experience in entrepreneurship
Rabindra Nath Nayak	Non-Executive Independent Director	Over 25 years of experience in the power sector Previously associated as Chairman and MD of Power Grid Corporation of India Ltd.

Source: RHP, HSIE Research

Exhibit 31: Shareholding structure:



Source: RHP, HSIE Research

Farm Gas: Manufacture, distribute, storage, supply of compressed biogas (CBG) and manure/bio-fertilizer through processing of agro residue/biomass and municipal solid waste and generate renewable and alternate energy. Commissioned plant at Ludhiana District, Punjab with capacity of 12TPD.

Ni Hon: Manufacture, assemble, convert, commercialize, design, develop, display, establish, handle, let on hire, install, maintain, operate, produce, service, supervise, supply, import, export, buy, sell, turn to account and to do all such incidental acts and things in relation to PESO approved Type-1 imported cylinders to retro fitment market.

Venuka Polymers: Manufacturing, distributing, supplying, micro-irrigation systems, PVC/MDPE/HDPE/LDPE/LLDPE/PP pipes, tubes, hoses, fittings, etc. Commissioned plant at Vadodara, Gujarat with capacity of 16TPD.

SKI-Clean Energy: Generating, developing and trading renewable energy including but not limited to set-up renewable energy systems in or outside India.

INCOME STATEMENT

(INR mn)	FY21	FY22	FY23	FY24E	FY25E	FY26E
Revenues	1,896	5,071	9,801	9,750	15,567	21,203
Growth %	28.5	167.5	93.3	(0.5)	59.7	36.2
Raw Material	771	2,482	7,798	6,773	11,243	15,573
Employee Cost	41	72	91	114	136	163
Other Expenses	352	653	790	1,008	1,355	1,856
EBITDA	732	1,864	1,122	1,856	2,833	3,610
EBITDA Margin (%)	38.6	36.8	11.5	19.0	18.2	17.0
EBITDA Growth %	47.3	154.7	(39.8)	65.3	52.7	27.4
Depreciation	120	150	209	297	380	451
EBIT	612	1,714	913	1,559	2,453	3,159
Other Income	7	31	60	163	112	141
Interest	159	221	229	187	75	82
PBT	461	1,524	744	1,534	2,489	3,218
Tax	110	388	180	386	626	810
RPAT	351	1,136	564	1,148	1,862	2,408
EO (Loss) / Profit (Net Of Tax)	-	-	-	-	-	-
APAT	351	1,136	564	1,148	1,862	2,408
Share from JV's/associates	-2	145	67	20	1	1
Consolidated APAT	349	1,280	631	1,168	1,863	2,409
Consolidated APAT Growth (%)	65.6	267.0	(50.7)	85.0	59.5	29.3
AEPS	11.5	42.3	20.9	28.5	45.4	58.7
AEPS Growth %	65.6	267.0	(50.7)	36.4	59.5	29.3

Source: Company, HSIE Research

BALANCE SHEET

(INR mn)	FY21	FY22	FY23	FY24E	FY25E	FY26E
SOURCES OF FUNDS						
Share Capital	290	294	303	411	411	411
Reserves And Surplus	886	2,144	3,162	9,298	11,115	13,463
Total Equity	1,176	2,437	3,464	9,708	11,525	13,874
Long-term Debt	1,582	1,868	2,822	949	461	1,163
Short-term Debt	52	158	216	152	107	75
Total Debt	1,634	2,026	3,038	1,101	568	1,239
Deferred Tax Liability	94	147	185	223	262	300
Other long term liabilities	193	303	424	452	482	515
Long-term Provision	7	9	14	14	14	14
TOTAL SOURCES OF FUNDS	3,103	4,923	7,126	11,498	12,851	15,941
APPLICATION OF FUNDS						
Net Block	2,406	3,004	3,806	5,522	7,446	8,734
Capital WIP	197	523	911	929	948	967
Intangible assets	2	2	-	-	-	-
LT Loans And Advances	-	-	-	-	-	-
Total Non-current Investments	199	605	915	1,515	1,515	1,515
Inventories	8	17	19	17	28	39
Debtors	112	227	386	384	613	836
ST investments	14	103	543	543	543	543
Cash and Cash Equivalents	414	997	985	2,997	2,355	4,089
Other Current Assets	30	70	364	364	364	364
Total Current Assets	577	1,414	2,297	4,305	3,903	5,870
Creditors	101	251	312	271	449	622
Other Current Liabilities & Provisions	177	374	492	501	511	521
Total Current Liabilities	278	625	803	772	960	1,143
Net Current Assets	300	789	1,494	3,533	2,943	4,726
TOTAL APPLICATION OF FUNDS	3,103	4,923	7,126	11,498	12,851	15,941

Source: Company, HSIE Research

CASH FLOW STATEMENT

(INR mn)	FY21	FY22	FY23	FY24E	FY25E	FY26E
Reported PBT	461	1,524	744	1,534	2,489	3,218
Non-operating & EO Items	(10)	114	7	(143)	(111)	(140)
Interest Expenses	159	221	229	187	75	82
Depreciation	120	150	209	297	380	451
Working Capital Change	(83)	182	(277)	(27)	(52)	(50)
Tax Paid	(110)	(388)	(180)	(386)	(626)	(810)
OPERATING CASH FLOW (a)	537	1,803	733	1,463	2,156	2,751
Capex	(456)	(1,074)	(1,397)	(2,031)	(2,323)	(1,758)
Free Cash Flow (FCF)	81	729	(664)	(568)	(167)	994
Investments	(64)	(495)	(750)	(600)	-	-
Non-operating Income	7	31	60	163	112	141
INVESTING CASH FLOW (b)	(512)	(1,539)	(2,087)	(2,468)	(2,211)	(1,617)
Debt Issuance/(Repaid)	184	392	1,012	(1,938)	(533)	670
Interest Expenses	(159)	(221)	(229)	(187)	(75)	(82)
FCFE	107	901	119	(2,693)	(775)	1,582
Share Capital Issuance	19	4	9	108	-	-
Dividend	-	-	(15)	(29)	(47)	(60)
Others	155	143	565	5,063	68	71
FINANCING CASH FLOW (c)	199	319	1,342	3,017	(586)	600
NET CASH FLOW (a+b+c)	224	583	(12)	2,012	(642)	1,734
Closing Cash & Equivalents	414	997	985	2,997	2,355	4,089

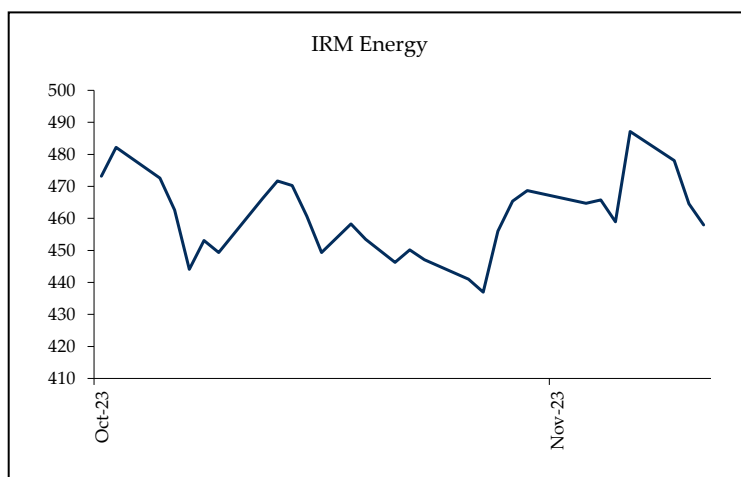
Source: Company, HSIE Research

KEY RATIOS

	FY21	FY22	FY23	FY24E	FY25E	FY26E
PROFITABILITY %						
EBITDA Margin	38.6	36.8	11.5	19.0	18.2	17.0
EBIT Margin	32.3	33.8	9.3	16.0	15.8	14.9
APAT Margin	18.4	25.2	6.4	12.0	12.0	11.4
RoE	36.3	70.9	21.4	17.7	17.6	19.0
RoIC	19.1	39.3	14.7	17.2	20.5	22.2
RoCE	48.8	80.0	27.3	19.9	18.1	19.4
EFFICIENCY						
Tax Rate %	23.8	25.5	24.1	25.2	25.2	25.2
Fixed Asset Turnover (x)	0.8	1.7	2.6	1.9	2.1	2.3
Inventory (days)	4	3	1	1	1	1
Debtors (days)	22	16	14	14	14	14
Other Current Assets (days)	6	5	14	14	9	6
Payables (days)	19	18	12	10	11	11
Other Current Liab & Provns (days)	34	27	18	19	12	9
Cash Conversion Cycle (days)	(22)	(21)	(1)	0	1	2
Net Debt/EBITDA (x)	1.6	0.5	1.3	(1.3)	(0.8)	(0.9)
Net D/E	1.0	0.4	0.4	(0.3)	(0.2)	(0.2)
Interest Coverage	0.3	0.1	0.3	0.1	0.0	0.0
PER SHARE DATA (Rs)						
EPS	11.5	42.3	20.9	28.5	45.4	58.7
CEPS	14.5	46.0	26.0	35.7	54.6	69.7
Dividend	-	-	0.4	0.7	1.1	1.5
Book Value	28.6	59.4	84.4	236.4	280.7	337.9
VALUATION						
P/E (x)	39.9	10.9	22.0	16.2	10.1	7.8
P/Cash EPS (x)	31.8	10.0	17.7	12.9	8.4	6.6
P/BV (x)	16.1	7.7	5.5	1.9	1.6	1.4
EV/EBITDA (x)	27.4	10.6	18.2	8.9	5.8	4.3
EV/Revenue (x)	10.6	3.9	2.1	1.7	1.1	0.7
Dividend Yield (%)	-	-	0.1	0.2	0.2	0.3
OCF/EV (%)	2.7	9.1	3.6	8.9	13.0	17.8
FCFF/EV (%)	0.4	3.7	(3.3)	(3.5)	(1.0)	6.4
FCFE/M Cap (%)	0.6	4.8	0.6	(14.3)	(4.1)	8.4

Source: Company, HSIE Research

1 Yr Price history



Rating Criteria

BUY: >+15% return potential
 ADD: +5% to +15% return potential
 REDUCE: -10% to +5% return potential
 SELL: >10% Downside return potential

Disclosure:

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