

IPO Note

October 17 2023

IRM Energy Limited





Issue Snapshot:

Issue Open: October 18 – October 20, 2023

Price Band: Rs. 480 – 505 (Employee Discount of Rs 48 per share)

*Issue Size: 10,800,000 eq sh (including employee reservation of 216,000 eq sh)

Reservation for:

QIB	upto	50% eq sh
Non-Institutional	atleast	15% eq sh
((including 1/3 rd for applications between Rs.2 lakhs to Rs.10 lakhs))		
Retail	atleast	35% eq sh

Face Value: Rs 10

Book value: Rs 123.38 (June 30, 2023)

Bid size: - 29 equity shares and in multiples thereof

100% Book built Issue

Capital Structure:

Pre Issue Equity:	Rs.	30.26 cr
*Post issue Equity:	Rs.	41.06 cr

Listing: BSE & NSE

Book Running Lead Managers: HDFC Bank Limited, BOB Capital Markets Limited

Sponsor Bank: Kotak Mahindra Bank Ltd & HDFC Bank Ltd

Registrar to issue: Link Intime India Private Limited

Shareholding Pattern

Shareholding Pattern	Pre issue %	Post issue %
Promoter and Promoter Group	67.94	50.07
Public & Employees	32.06	49.93
Total	100.0	100.0

*=assuming issue subscribed at higher band
Source for this Note: RHP

Background & Operations:

IRM Energy Limited (IRM) 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. It develops natural gas distribution projects in the geographical areas (GAs) allotted to it for industrial, commercial, domestic and automobile customers. It supplies natural gas to two primary set of customer segments.

CNG (Compressed Natural Gas): Its 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): 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).

IRM has 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. It distributes 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, it 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, it provides 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, it is committed to health and safety and has 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.

IRM's mid to long-term gas sale and purchase agreements (GSPAs) with gas suppliers such as GAIL and RIL enable it to source gas at a reasonable cost. Its Company's gas procurement strategy helps it mitigate the effect of the volatility in gas availability and pricing. It has also entered into certain gas transportation agreements (GTAs) for transportation of natural gas from its suppliers pursuant to its GSPAs. Further, it has subscribed to a proprietary membership from Indian Gas Exchange (IGX) in August 2022, through which it sources natural gas on a need basis for its short-term requirements. Pursuant to the IGX membership, IRM get access to the natural gas free market, where prices are discovered by a free exchange mechanism. It was the first CGD entity to undertake a transaction (through a trading partner) on the Indian Gas Exchange to source RLNG. (Source: CRISIL Report). Its revenues from distribution of CNG and PNG vary for each of its GAs. While distribution of CNG is predominant in the Banaskantha and Diu & Gir Somnath GAs, the Fatehgarh Sahib GA focuses on supply of PNG. The supply of industrial PNG in the Fatehgarh Sahib gained an impetus pursuant to the NGT Order dated July 10, 2019, which enlisted Mandi Gobindgarh in the Fatehgarh Sahib GA as a pollution causing industrial cluster, thereby facilitating a shift from non-renewable pollution causing energy sources, towards consumption of PNG in the industrial cluster

IRM has established credibility in terms of efficient operational management, stakeholder's management and supply chain risk management in its existing GAs, as there are significant entry barriers such as marketing and infrastructure exclusivity granted pursuant to the PNGRB authorizations for the respective GAs and requirement of large investments to establish a natural gas distribution network for competitors to enter into its area of operations post the expiry of marketing and infrastructure exclusivity. The Company



sees growth potential in and around the GAs it operates in, due to the (i) expected growth in the number of CNG equipped vehicles due to the cost effectiveness of CNG as a fuel over other fuels; (ii) potential growth in the number of households in its areas of operation; and (iii) presence of industrial clusters in Mandi Gobindgarh (Fatehgarh Sahib) and in Namakkal & Tiruchirappalli (Tamil Nadu).

Objects of Issue:

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

- 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);
- Prepayment or repayment of all or a portion of certain outstanding borrowings availed by the Company; and
- General corporate purposes

Further, IRM expects to receive the benefits of listing the Equity Shares on the Stock Exchanges, including, to enhance its brand image and visibility amongst its existing and potential customers and creation of a public market for its Equity Shares in India.

Utilisation of Net Proceeds

The Net Proceeds are proposed to be utilised in the following manner:

Particulars (In Rs million)	Amount
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);	3,072.62
Prepayment or repayment of all or a portion of certain outstanding borrowings availed by the Company	1,350.00
General corporate purposes	*
Total	*

Competitive Strengths

Exclusivity in CNG and PNG supply in the awarded Gas: IRM is the sole distributor of CNG and PNG in the GAs awarded to it, for the period of exclusivity granted pursuant to the PNGRB authorizations. It has 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. It has also been granted network exclusivity rights of 25 years for infrastructure creation for all its GAs, including laying down of pipelines and CNG distribution network within its GAs pursuant to the authorization received.

Successful development and operation of CGD business: IRM has 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. It has developed strong in-house project management capabilities, complemented by robust operation and maintenance processes. Its relationship with vendors, suppliers and contractors has enabled it to expand its network in a timely and cost-efficient manner. Further, it is also committed to health and safety and has implemented safety management systems to ensure the safe, reliable and uninterrupted distribution of natural gas. Governance monitoring through internal processes and systems, coupled with its management team helps it achieve operational efficiencies. It has also established a well-rounded project management infrastructure for seamless and cost-efficient distribution of natural gas in all its GAs.

Diverse customer portfolio and distribution network of CNG and PNG: IRM has established strong relationships through collaborative efforts to a diverse customer base including industrial, commercial and domestic customers. It provides competitive offerings while maintaining a customer-centric approach and making continuous efforts to upgrade its services, by leveraging technology across all its customer operations. It has successfully established a distribution network of CNG and PNG to customers. Its dynamic business model ensures that it is abreast of the changing needs of its customers, with a focus on innovation and technology adaptation. IRM'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, the strong emphasis of the Government on the expansion of the CGD network across the country will result in a favorable demand outlook among its customers.

Strong parentage, experienced board and management team and strong execution team: IRM is backed by the strong parentage of an Indian multinational entity, Cadila Pharmaceuticals Limited (Cadila Pharma), which has a legacy of over three decades in the domestic pharmaceutical industry. The strategic and financial support provided by Cadila Pharma, with their experience, spanning across three decades in domestic pharmaceutical industry has significantly helped it to overcome certain entry barriers such as requirement of large



investments, among others. Its experienced board of directors are equipped with varied experience for strategic guidance and insights for growth in operations. It is led by a qualified, experienced, and reliable senior management team who have been associated with the Company since its incorporation with vast prior experience, including in the natural gas and petroleum industry, and experience in project management and establishing natural gas distribution networks. It is supported by a strong and technically sound execution team with a focus on quality as well as expansion of the Company's footprint.

Technology adoption and digital initiatives for efficient and optimal operations: IRM has 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. It is focused on implementing the latest engineering practices in its business. It has also signed a MoU with Mindra EV Private Limited on August 24, 2022 for setting up an EV charging infrastructure at DODO Stations and COCO Stations for a period of five years. This enables to further its vision of transitioning towards becoming an energy oriented company. IRM has taken series of digital initiatives such as digital payment solutions, spot billings, using GIS for planning, network design, asset integrity, incident/third party activity/emergency communication support, preventive maintenance planning, gas reconciliation and reporting and 24x7 customer support.

Connectivity to gas pipelines and establishing cost-effective gas sourcing arrangements: IRM has strategically acquired GAs with connectivity to cross-country natural gas pipelines within the GA boundary, which reduces the cost of transportation. Its mid to long-term GSPAs with gas suppliers such as GAIL and RIL enable it to source gas at reasonable pricing as well as seamless supply of gas to its downstream CGD networks. Its mid to long-term GSPAs with gas suppliers such as GAIL and RIL enable it to source gas at reasonable pricing as well as seamless supply of gas to its downstream CGD networks. Due to the Company's competitive gas price and optimized operational expenditure, it 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.

Strong financial performance with consistent growth and profitability supported by healthy operating efficiency and favourable regulations: IRM has a consistent track record of growth in volumes, revenues and profits. It has grown its revenue over the years, supported by healthy year-on-year growth in volume, driven by infrastructure augmentation as well as increased penetration in the Banaskantha and Fatehgarh Sahib GAs. Ban by the National Green Tribunal (NGT) on the usage of polluting fuels, primarily in the Mandi Gobindgarh, Fatehgarh Sahib has spurred overall growth in volumes from the industrial segment. On account of this, its industrial customers have grown from 56 to 170 from Fiscal 2021 to Fiscal 2023. The Company's strong financial position and healthy operating efficiency coupled with favourable regulations provides it with the financial flexibility to expand its network in its existing markets and expand to new markets in India.

Business Strategy:

Expand presence in existing and newer GAs through an improved captive distribution channel: As a part IRM's strategy, it works towards distribution and sale of CNG through its DODO Stations and COCO Stations, since it is cost saving when compared to the OMC Stations. Moreover, the DODO Stations and COCO Stations include the 'IRM Energy' branding to reflect the Company's corporate identity, thereby strengthening the brand. Going forward, its COCO Stations and DODO Stations may also be used as energy retailers with no restriction on utilizing the same outlets for other new generation fuels like CNG, biofuel, LNG, EV charging and battery swap. For the PNG domestic segment, it intends to install pre-paid meters so that the customers pay for their consumptions, in advance, without any monthly fixed charges in case of no consumption for any particular billing period. This will help IRM to save in terms of marketing cost of billing and collection, and negate any risk of default by customers, thereby improving cash flow. It intends to install Automated Meter Reading (AMR) system for all customers which will help it monitor their consumption pattern on real time basis and reduce the time and efforts spent on billings.

Further, to save on the transportation cost the company has set up an LCNG station at Veraval city, in the Diu and Gir Somnath GA. Additionally, the Company intends to setup LCNG station in the new GA of Namakkal & Tiruchirappalli District which will help in faster penetration of CNG and optimisation of operations. IRM also seeks to acquire licensed GAs from peer CGD entities, based on the demand outlook and geographic synergies to its existing operations. Over a period of the next three Fiscals, it intends to add 24,000 PNG domestic connections, 62 PNG commercial connections, 10 PNG industrial connections and 63 CNG retail outlets.

Infrastructure roll-out for development and operation of the new licensed GA of Namakkal & Tiruchirappalli, Tamil Nadu: IRM intends to establish the key infrastructure for expediting the development of CGD network in the newly awarded GA of Namakkal & Tiruchirappalli districts in Tamil Nadu. Namakkal & Tiruchirappalli being urban and highly populated district, there is a great potential of residents converting to PNG in both districts. The geographic area has a large urban population, which provides an excellent opportunity for IRMEL to convert prospective customers from other alternative fuels such as LPG to natural gas. This GA also has a large urban population which provides excellent opportunity to the Company to convert prospective customers to natural gas to alternative fuel such as LPG (in both PNG and CNG segments). For industrial PNG customers, IRM plans to enable the switch from alternate fuel to natural gas.



Technology adoption to increase operational efficiency and enhance customer value: IRM is the pioneer in implementing technology (SCADA) for the unmanned operation of the CNG compressors and dispensers. It has implemented methodologies such as SCADA, GIS and AMR System, etc., which help in improvement of efficiency and accuracy of the systems, thereby leading to savings in operational costs. It intends to continue investing in such endeavours. In pursuit of this endeavour, it aims to continue to reinforce its innovation capabilities by focusing on technology adoption. Pursuant to IRM's association with ShizGas, it intends to implement good practices related to natural gas distribution, system engineering, operation and maintenance, and energy saving and CO₂ reduction, and share know-how in relation to LNG trailer and satellite tanks. It also intends to benefit from ShizGas's experience in industrial connection conversions.

Business integration for transition into a complete energy solution provider: IRM intends to pursue a strategy of vertical integration in order to diversify and achieve higher business growth. This strategy will enable it to maximize its revenue, through business integration by way of investments in complementary businesses. To further this strategy, it has invested in Farm Gas Private Limited, a biomass and waste to energy solution company with a vision to convert biomass as well as municipal solid waste to compressed biogas (CBG) and bio-fertilizer, on December 9, 2019, which aims to provide cost-effective and economically viable renewable energy through waste and biomass management. Further, IRM's investment in 'Farm Gas' provides it with the strategic advantage of the availability of alternate gas sources apart from trading and sourcing agreements; and also enables it to venture into GAs wherein other CGD companies have marketing exclusivity. Further, through Farm Gas, it intends to undertake renewable clean energy projects including but not limited to CBG/Bio-CNG space (from feedstock ranging from municipal waste to various agro-residues), and production of bio-enriched organic fertilizer, packed with macro and micro-nutrients to replenish Indian soil with organic contents. This will help improve the soil health over time with the principal of regenerative agriculture and improve the soil fertility yield. IRM also intend to make a transition towards being an energy company and implement its proposed renewable (solar) energy projects envisaged for sale of renewable power to long- term industrial, commercial customers and green hydrogen generating/producing companies through long term power purchase agreements through its subsidiary, SKI-Clean Energy Private Limited

Continue to focus on sourcing reliable and cost-effective gas from leading Gas Suppliers: IRM has a strategic gas sourcing policy in place, which encompasses index linkages, gas procurement from high pressure, high temperature fields, reliance on diversified portfolio of gas contracts, and enables it in efficient cost management. It will continue to monitor the cost of natural gas and endeavour to source natural gas in the most cost-effective manner from various vendors. IRM has also entered into mid to long-term gas sourcing agreements with GAIL and RIL. Further, it intends to explore gas sourcing opportunities from ShizGas, for sourcing of gas from outside of India. It is evaluating the opportunities with ShizGas to import LNG into, and wholesale R-LNG, within India through bilateral contracts and on gas exchange platform. As a business strategy, IRM also trades volume of natural gas, either under bilateral contracts or through the gas exchange. This business activity is carried only on a case to case basis whenever there is a volume available under the gas contract tied up by the Company, and the Company gains depending on the input cost and the selling price.

PNGRB Bidding and Authorization Process: IRM is required to obtain authorization from the PNGRB to operate its business within a particular GA. The PNGRB authorizes entities for laying, building, operating or expanding city gas distribution networks under Regulation 5 of the PNGRB (Authorizing Entities to Lay, Build, Operate or Expand City Gas or Local Natural Gas Distribution Networks) Regulations, 2008, the PNGRB (Authorizing Entities to Lay, Build, Operate or Expand Natural Gas Pipelines) Regulations, 2008 & the PNGRB (Authorizing Entities to Lay, Build, Operate or Expand Petroleum and Petroleum Products Pipelines) Regulations, 2010.

Industry:

Government Focus On Transition to A Gas-Based Economy

Target to raise natural gas share in energy mix to 15% by 2030

India is not only third-largest energy consumer in the world after China and the US but also one of the fastest growing energy consumers among its peers. Moreover, India has annually been reiterating its commitment to bring down carbon emissions as pledged at the Paris Agreement. The share of natural gas in India's primary energy mix has increased from 6.3% in 2020 to 6.5% currently. This is still way below the global average share of 24%, in the global energy use.

Development of National Gas Grid

The Indian government has been consistently taking steps to develop natural gas infrastructure across the country. As of June 30, 2023, the country had 23,478 km of natural gas pipelines in operation. It also plans to develop a vibrant gas market across the country through 12,037 km of additional pipelines, to complete the National Gas Grid (NGG). Development of the NGG would connect all the major demand and supply centres in India. In addition, the government is taking various measures to promote use and distributorship of liquefied natural gas (LNG) through establishment/capacity enhancements of LNG terminals and regasification. It aims to create regasification capacity of 70 mmtpa (million metric ton per annum) by 2030 and 100 mmtpa by 2040.



Policy measures

Since 2014, the government has taken various steps through policy interventions and monetary support to promote use of natural gas in midstream and downstream sectors and maximise the coverage of natural gas among the country’s population. Some of these measures are outlined below:

Upstream sector

- Introduction of new domestic natural gas pricing guidelines in 2014 to market link price of domestic natural gas to international gas prices
- Introduction of hydrocarbon exploration and licensing policy (HELP)/open acreage licensing policy (OLAP) replacing new exploration licensing policy (NELP). The NELP policy was aimed at enhancing transparency and reducing administrative discretion.
- Marketing freedom including pricing freedom for gas procured from discoveries in high pressure high temperature (HPHT), deep water, and ultra-deep water in 2016, subject to ceiling price based on landed alternative fuel
- Pricing and marketing freedom to producers of natural gas from coal seams (coal bed methane) in 2017

Midstream sector

- The government has identified the requirement for development of additional pipeline networks to complete the gas grid. The Petroleum and Natural Gas Regulatory Board (PNGRB) has authorised pipelines, which are at various stages of execution
- Formation of a joint venture (JV) company, viz., Indradhanush Gas Grid Ltd, to develop Northeast India Gas Grid (~1,656 km) in a phased manner at an estimated cost of Rs 9,265 crore.

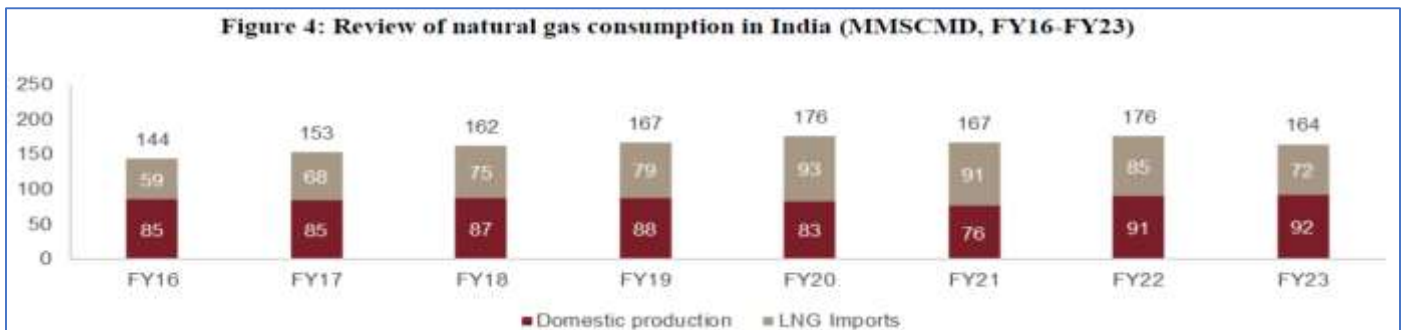
Downstream sector

- After the completion of 11 and 11A CGD bidding rounds by PNGRB, the CGD network should potentially cover 98% of population and 88% of geographical area of the country including smart cities situated within the GAs.
- The government has given priority in allocation of domestic gas (the cheapest gas available in country) for supply to households in the form of piped natural gas (PNG - domestic) and transport segment in the form of compressed natural gas (CNG - transport) across the country.

Overview of and Outlook On Natural Gas Market in India

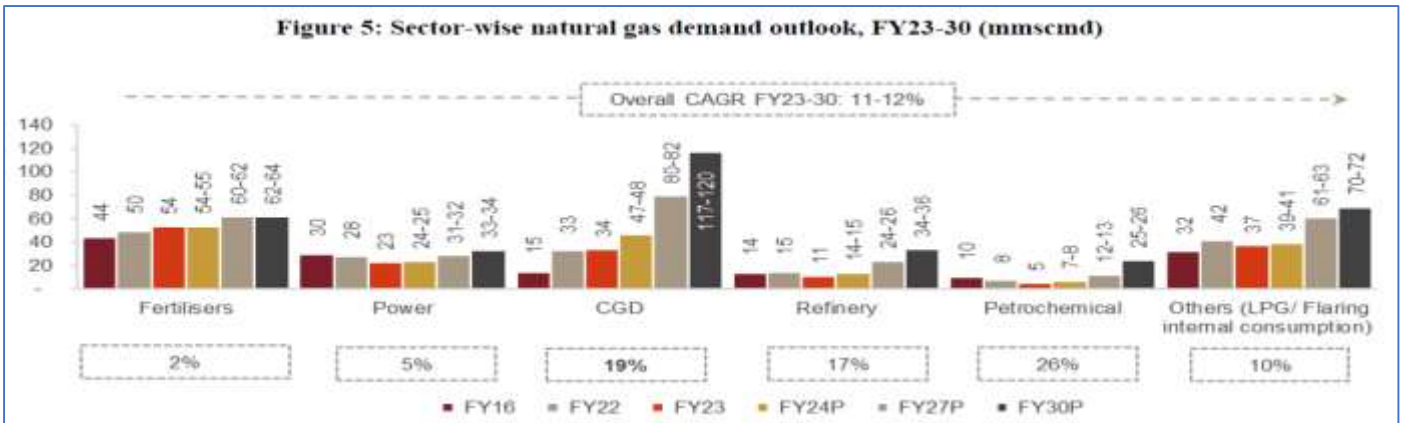
Natural gas consumption in India clocked a compound annual growth rate (CAGR) of 3.8% between fiscals 2016 and 2020, rising to ~176 mmscmd in fiscal 2020. However, it dipped 5% in fiscal 2021 due to Covid-19 related challenges such as constrained transportation and industrial activities.

Demand rose again ~4.8% in fiscal 2022. Growth was driven by higher offtake from end-use industries as economic and industrial activity and personal mobility gained traction. Segments such as CGD saw healthy growth. However, demand from the power segment declined as higher LNG prices affected the load factor (PLF) of gas-based power plants. In fiscal 2023, demand from natural gas declined by ~6%. The decline in demand was attributable owing to steep rise in prices and constrained supplies under long term LNG contracts. The demand remained subdued from power, refinery and petrochemicals sector as these sectors are dependent on imported gas pushed the demand downwards. . The gas demand in fiscal 2024 is expected to rebound by 12-13% due to a mix of factors such as a favourable government policy for the CGD sector, a moderation in the natural gas price, and an expected increase in the production of domestic natural gas.



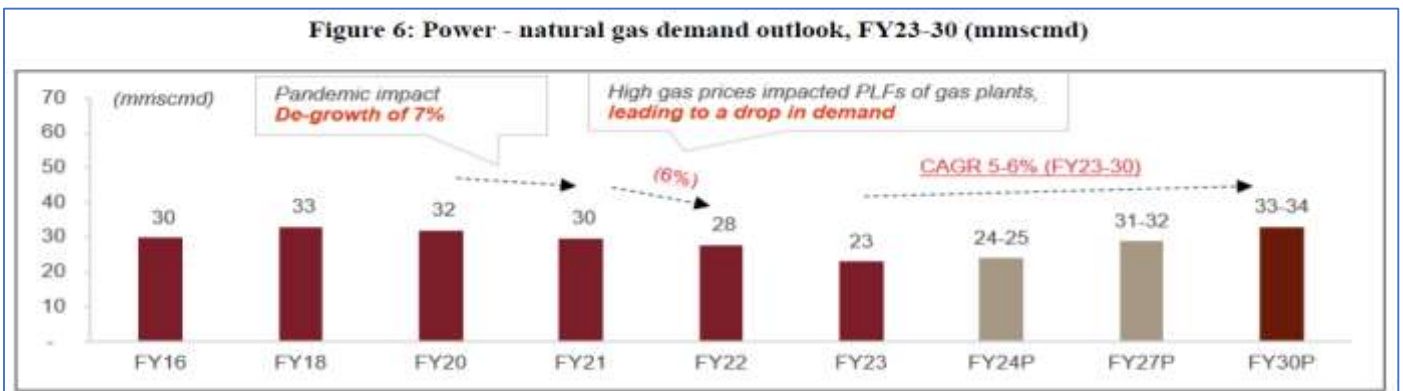
Demand by end-user industries

The fertiliser, CGD and power sectors accounted for ~67% of the total gas consumption of ~164 mmscmd in fiscal 2023. Fertilisers had the maximum share of 33%. CRISIL MI&A Consulting expects demand for natural gas to increase at 11-12% CAGR to 340-350 mmscmd between fiscals 2023 and 2030. It is expected the CGD network and fertiliser units to fuel demand because of improved domestic gas supply and governmental policy/financial support.



Power

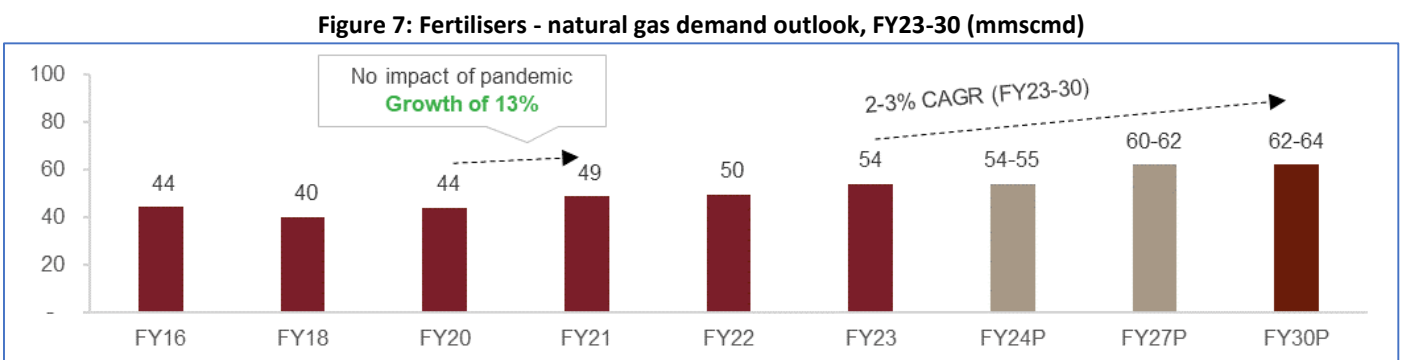
Demand from power sector is highly price sensitive. This has become more pronounced with declining domestic gas production, coupled with lack of priority for the sector in domestic gas allocation. The sector's dependency on imported gas (re-gasified LNG, or RLNG) is also on the rise. The share of RLNG in power sector increased from 5% in fiscal 2016 to 15% in fiscal 2023.



Natural gas demand fell in fiscals 2021 and 2022 when consumption dropped. Demand is expected to log 5% CAGR between fiscals 2023 and 2030. PLF of gas-based power plants is expected to increase marginally to ~15-17% by fiscal 2028 from low levels of 13% in fiscal 2023. Dependence on RLNG is expected to continue, given the power sector comes third after CGD and fertilisers in terms of priority for domestic gas allocation.

Fertilisers

This sector is the largest and most sustainable driver of natural gas demand in India. Currently, there are 32 units producing agriculture grade urea, with a capacity of 25.5 million tonne (MT). Raw materials required for urea manufacturing are carbon dioxide and ammonia. Ammonia is produced from natural gas or LNG. Natural gas forms ~70-80% of the cost for urea production.



In fiscal 2023, demand from fertilisers segment is has grown at a healthy pace of 7-9%, driven by a rise in urea production led by revival of two natural gas-based urea plants with a total capacity of 2.6 million tons per annum and the ramping up of Ramagundam and Gorakhpur urea plants. Moreover, expectation of normal monsoon leading to good crop output and higher urea production, will also



support growth. The government is also trying to revive sick urea units in Sindri, Gorakhpur, Talcher and Barauni over the next five years. The Jagdishpur-Haldia pipeline has already reached Barauni and Gorakhpur and is expected to reach Sindri this fiscal. CRISIL MI&A Consulting forecasts natural gas demand from the fertiliser sector to increase to 62-64 mmscmd in fiscal 2030 from ~54 mmscmd in fiscal 2023, at 2-3% CAGR.

CGD

CGD delivered muted demand increase ~1-3% in FY23. CRISIL MI&A Consulting expects natural gas demand from the CGD sector to log 19-20% CAGR between fiscals 2023 and 2030, growing to 1117-120 mmscmd. Demand from each sub-segment, including CNG and PNG (domestic and industrial), is likely to grow at a healthy pace over the forecast period, with the addition CGD.

CGD delivered muted demand increase ~1-3% in FY23. CRISIL MI&A Consulting expects natural gas demand from the CGD sector to log 19-20% CAGR between fiscals 2023 and 2030, growing to 1117-120 mmscmd. Demand from each sub-segment, including CNG and PNG (domestic and industrial), is likely to grow at a healthy pace over the forecast period, with the addition of new cities in the gas network. Increase in penetration is expected to be a key demand driver for the PNG segment. Further, the pace of development of the CGD network would be another key determinant of growth, going forward. Rising demand in the CGD segment has led to greater dependence on both domestic gas and imported gas. Demand from the CGD segment (domestic and transport) is expected to be majorly met by domestic gas, as it comes first in the priority list for allocation. As these segments are expected to form ~70% of the overall CGD demand in fiscal 2030, the remaining, i.e., industrial, and commercial demand for CGD (~30% of overall demand) will be met through RLNG in fiscal 2030. Major factors that would drive growth in CGD volumes are expanding geographical coverage and improving cost competitiveness of gas. Assured domestic gas supply would aid competitiveness and drive gas demand for CNG and domestic PNG. While regulatory restrictions and growing awareness of cleaner fuel are expected to aid in fuel conversion in industrial segment.

The CNG segment is expected to register a healthy CAGR of 26-27% between fiscals 2023 and 2027, driven by cost competitiveness of CNG vis-à-vis petrol. As CNG directly competes with petrol in the vehicle segment, conversion from petrol to CNG would continue during the forecast period, given the cost advantage. CNG stations has increased at a healthy y-o-y growth of 32% between fiscals 2022 and 2023, supporting faster adoption of CNG vehicles across various segments with OEM's launching CNG vehicles to address the demand. CNG adoption in three-wheelers surge from 26% in fiscal 2022 to 29% in fiscal 2023. CNG adoption in light commercial vehicles (LCVs) is increased by 14% in fiscal 2023 from 5% in fiscal 2021.

Total household PNG connections are expected to surge from ~78.2 lakh as of fiscal 2021 to 190-200 lakh by fiscal 2026 due to increasing CGD penetration in newer areas and the government's push to increase gas consumption. This number will further multiply with the CGD network covering Andhra Pradesh, Tamil Nadu, Telangana, West Bengal, etc, between fiscals 2025 and 2030. Moreover, consumption per connection should increase due to rising disposable income and economic growth. Consequently, demand from the domestic segment is projected to log a 38-39% CAGR between fiscals 2023 and 2030. CRISIL MI&A Consulting expects industrial PNG demand to clock an 7-8% CAGR between fiscals 2023 and 2027, with demand stabilising at a 6-7% CAGR between fiscals 2027 and 2030. Newer geographical areas (GAs) will have a lower share in industrial demand over the long term, as the major industrial regions, such as Gujarat, Maharashtra, and Delhi, have already shifted to PNG. However, long-term demand growth from the commercial segment could remain healthy.

Gas supply and infrastructure

Domestic natural gas reserves

India's total proven reserves of natural gas were estimated at 1,139 billion cubic meters (bcm) as of fiscal 2022, with 53% located in offshore gas fields. Moreover, natural gas discoveries have been made by Reliance Industries Ltd. (RIL), ONGC and Gujarat State Petroleum Corporation Ltd (GSPC) in the offshore Krishna-Godavari (KG) basin area of Andhra Pradesh. Onshore reserves are primarily located in Rajasthan and the north-eastern states of Assam, Nagaland, Arunachal Pradesh, and Tripura.

Gas production review

After the commencement of RIL's KG-D6 basin in April 2009, domestic natural gas production got a boost. However, with the closure of wells due to sand and water ingress, production from the basin has declined over the past few years. Consequently, domestic natural gas production fell to 92 mmscmd in fiscal 2015 from 130 mmscmd in fiscal 2012. Natural gas production has remained under pressure for 4-5 years, especially after a dramatic decline in production from the KG-D6 basin.

Domestic production declined marginally by ~1% fiscal 2023 to 94.4 mmscmd as production stood at similar levels wherein. CRISIL M&A Consulting believes domestic natural gas production has bottomed out and would increase from fiscal 2024 onwards owing to production commencement from fields of ONGC and RIL.



Outlook on domestic gas production

Domestic natural gas production is expected to rise 5-7% to 94-119 mmscmd during the forecast period of fiscals 2023 to 2027 driven by new production from the Daman and KG fields of ONGC and deep-water fields of ONGC and RIL on the eastern offshore. This will include production from the KG basin from Vashistha, KG-D5, R-cluster and satellite fields (a part of KG D6 field). The government's steps to attract investments and improve production through the new gas-pricing mechanism are expected to expedite the development of new fields. The mechanism provides pricing freedom for gas produced from HPHT deep-water and ultra-deep-water areas. New discoveries are expected in KG basin post fiscal 2027 from RIL (UDW1 block under exploration), as well as ONGC (Clusters 1 & 3 of 98 DWN/2 block). Despite new discoveries, production will stagnate post fiscal 2027 as existing fields peak and start declining in terms of output.

Classification of gas production based on the current allocation mix

Currently, domestic production primarily comes from pre-NELP fields i.e., onshore fields owned by ONGC and Oil India Ltd (OIL) which were awarded before the implementation of NELP. These fields have matured and hence are under consistent decline. Other gas producing fields are offshore fields owned by private players including HPHT fields. The government introduced new initiatives to incentivise operations in the domestic natural gas sector. The major reform includes the shift from NELP to HELP in 2017.

Existing gas transmission pipelines and LNG terminals

Gas transmission pipelines

As of March 2023, the Petroleum & Natural Gas Regulatory Board (PNGRB) authorised a natural gas pipeline network of approximately 33,592 km across the country. Out of this, a network of 23,173 km including spur lines is operational and a total of 12,206 km is under various stages of construction and expected to be commissioned by fiscal 2026. GAIL is the leading player, accounting for >60% of the total pipeline infrastructure. Other leading network players include Gujarat State Petronet Ltd (GSPL), and Pipeline Infrastructure Ltd (PIL).

A majority of the GAs are either connected or proposed to be connected to the major front pipeline. Out of 295 GAs, the transmission pipeline passes through 258 because these GAs are located in hilly areas, such as Rajasthan, Uttarakhand, and Himanchal Pradesh, and are expected to be supplied via a virtual pipeline.

LNG terminals

The supply of LNG is dependent on LNG terminals since India relies heavily on imports to cover its natural gas needs, and this situation is anticipated to continue in the future. India has presently seven operational LNG import facilities (including Dhamra terminal which became operational in April 2023, FY24) with a combined regasification capacity of 47.7 MTPA.

Investment Outlook Through Fiscal 2030

Investment in downstream natural gas transmission pipelines, LNG terminals and CGD projects remained subdued up to fiscal 2017 due to falling domestic gas production and surging LNG prices. However, investments started picking up from fiscal 2018 because of the government's push for infrastructure development and cleaner fuel. CRISIL expects investments in downstream gas infrastructure to improve in the medium term, with government initiatives for cleaner fuel leading to investment opportunities in the sector, visible in the recent CGD bid rounds, development in the gas trunk pipelines and new regasification capacities (planned and under-construction). Further, in line with the government's vision to increase gas share in the energy mix from the current ~6.5% to 15% by 2030, it is expected the government's thrust on developing a gas infrastructure only to intensify.

Increasing competition in the CGD segment will attract ~70% of total investments expected in the gas value chain. The major players in the midstream segment of the oil and gas value chain are exploring opportunities to i) access new revenue streams, and ii) mitigate these market risks by establishing a presence in the CGD market segment through joint ventures or by partnering with global players with advanced technology, to facilitate the development of CGD projects won in auction rounds. Participation of foreign players in CGD auctions signifies strong market potential and is expected to drive investments in the sector.

Key Concerns

- IRM is dependent on third parties for sourcing and transportation of natural gas.
- Transporting natural gas is hazardous and could result in accidents, which could adversely affect the reputation, business, financial condition, results of operations and cash flows.
- Cadila Pharmaceuticals Limited, one of its Promoters, has provided corporate guarantees to third parties for the loans availed by the Company. In the event IRM defaults on any of the loans availed, its Promoters will be liable for the repayment obligations.



- IRM's CNG and industrial PNG supply operations account for 49.43 % and 46.86 % of its total operations (in terms of volume) for the three months ended June 30, 2023. It is heavily reliant on its CNG and industrial PNG supply operations and any decrease in the sales, may have an adverse effect on the business, operation, financial condition and cash flows of the Company.
- IRM may not receive sufficient funds pursuant to the Issue for utilization of Net Proceeds towards deployment of the Objects of the Issue.
- The Company requires various licenses and approvals for undertaking its businesses and the failure to obtain or retain such licenses or approvals in a timely manner, or at all, may adversely affect its operations.
- IRM typically require 15-18 months to generate revenue in its GAs. Any further delay in realizing revenue may affect its projections, results of operations and cash flows.
- Any breakdown in the network infrastructure through which IRM sources and supplies natural gas could adversely affect the business, reputation, results of operations and cash flows.
- IRM may be subject to risks associated with delays in construction and commissioning of its existing and new gas distribution pipelines, including any delay in meeting its MWP targets.
- An inability to comply with repayment and other covenants in the financing agreements could adversely affect the business, financial condition, cash flows and credit rating.
- Any delays in commissioning new CNG filling stations could adversely affect the business, prospects, results of operation and cash flows.
- IRM is dependent on Government policies for allocation of natural gas and cost of gas supplied for its CNG and domestic PNG customers. Any reduction in allocation of natural gas or any increase in the cost of gas could adversely affect the business, reputation, operations and cash flows.
- IRM city gas distribution network can only be set up in areas where it receives authorization to operate from the PNGRB, accordingly, its operations are restricted to defined geographical boundaries and the natural gas requirements in these regions may be affected by various factors outside its control, which may adversely affect the business operations, profitability and cash flows.
- IRM is subject to fluctuations in certain of its key performance indicators. In the event IRM's business operations are adversely affected by market conditions, its key performance indicators will also get adversely affected.
- CNG business is dependent on OMCs and third-party dealers for the operation of CNG filling stations. Any conflict with such OMCs or third-party dealers could adversely affect the business, results of operations and cash flows.
- Eleven of IRM's premises including its registered and corporate office, branch offices and its customer care centers are not owned by it and it has only lease rights over such premises.
- IRM may face competition post marketing exclusivity from various existing players which operate in the same industry as the Company, which may have an adverse effect on the business, operation, financial condition and cash flows of the Company.
- IRM has certain outstanding litigation against it, an adverse outcome of which may adversely affect the business, reputation and results of operations.
- IRM's insurance coverage may not be adequate to cover all losses or liabilities that it may incur in its business and operations.
- The COVID-19 pandemic, or a similar public health threat, could adversely affect the business, financial condition, and results of operations.
- The price of natural gas supplied depends on the cost of material consumed and certain external factors. A significant increase in the cost of material consumed or in these external factors will result in an increase in the price of gas supplied.



- IRM's existing GAs could be open to access for others, following the end of infrastructure and marketing exclusivity as prescribed under the PNGRB authorizations, post which period it would no longer be the sole distributor in these regions, resulting in a potential loss of customers and decrease in its profit margins.
- IRM will be required to do capital expenditure for infrastructure rollout over a substantial period of time. The cost of input materials may significantly go up in this time frame.
- Expansion of business is primarily dependent on GAs awarded by governmental authorities. If IRM is unable to enter new markets, or if there is any adverse change in the policies of the Government, its growth prospects will be adversely affected.
- Advancements in alternate sources of energy or the existence of cost-effective alternative fuels could adversely affect the business, results of operations and cash flows.
- While gas supply is benchmarked to global indexes in USD, the revenues of the Company are in INR. Accordingly, its cash flow is indirectly exposed to currency rate fluctuations.
- IRM may not be successful in technological adoptions, which may lead to an adverse effect on its reputation, business, results of operations and cash flows.
- IRM tracks certain operational metrics with internal systems and tools. Certain of its operational metrics are subject to inherent challenges in measurement which may adversely affect the business and reputation.
- Company's failure to manage growth effectively may adversely impact its business, prospects, financial condition and results of operations.
- If IRM is unable to establish and maintain effective internal controls and compliance system, its business and reputation could be adversely affected.
- Any downgrade in its credit ratings could increase borrowing costs, affect its ability to obtain financing, and adversely affect the business, results of operations, cash flows and financial condition.
- Disproportionate increases of re-instatement charges may adversely affect the profitability.
- Financial instability in the global or Indian financial markets could adversely affect the results of operations and financial condition and may cause the price of its Equity Shares to decline.
- If inflation rises in India, increased costs may result in a decline in profits.
- Ability to raise foreign capital may be constrained by Indian law.
- A slowdown in economic growth in India could cause business to suffer.
- Customers may engage in certain transactions in or with countries or persons that are subject to USA and other sanctions.
- Fluctuation in the exchange rate between the Indian Rupee and foreign currencies may have an adverse effect on the value of its Equity Shares, independent of its operating results.
- Investors may be subject to Indian taxes arising out of capital gains on the sale of the Equity Shares.



Profit & Loss

Particulars (Rs in million)	Q1FY24	FY23	FY22	FY21
Revenue from operations	2452.5	10391.4	5461.4	2118.1
Other Income	33.8	59.7	30.5	7.3
Total Income	2486.3	10451.0	5491.9	2125.4
Total Expenditure	2031.8	9269.0	3597.1	1386.0
Purchases of stock-in-trade of natural gas	1710.7	7795.3	2492.3	770.9
Changes in inventories of finished goods, work- in-progress and stock-in-trade	-33.8	2.5	-10.0	-0.2
Excise Duty on Sale of Compressed Natural Gas	152.1	590.5	390.0	222.4
Employee Benefits Expenses	28.8	90.8	71.6	41.1
Other Expenses	174.0	789.9	653.3	351.8
PBIDT	454.5	1182.0	1894.8	739.4
Interest	60.4	229.0	220.8	158.6
PBDT	394.1	953.0	1674.0	580.9
Depreciation and amortization	57.7	209.0	150.4	120.0
PBT	336.4	744.0	1523.6	460.9
Share of Profit/(loss) of Joint Control Entities	-9.3	66.9	144.7	-2.4
Tax (incl. DT & FBT)	58.1	179.6	388.0	109.6
Current tax	53.2	141.3	334.5	89.9
Deferred tax (credit)/charge	4.8	38.3	53.5	19.7
PAT	269.1	631.4	1280.3	348.9
EPS (Rs.)	8.9	20.9	43.9	12.4
Face Value	10	10	10	10
OPM (%)	17.2	10.8	34.1	34.6
PATM (%)	11.0	6.1	23.4	16.5

Balance Sheet

Particulars (Rs in million) As at	Q1FY24	FY23	FY22	FY21
Non-current assets				
Property, plant and equipment	3,876.0	3,610.2	2,848.2	2,308.0
Capital work-in-progress	991.9	910.9	522.8	197.0
Right of use assets	190.3	162.4	129.4	71.5
Intangible assets	31.6	33.7	26.5	26.5
Intangibles under development	1.4	0.0	1.9	1.9
Financial assets				
<i>Investments</i>	314.5	323.8	256.9	61.4
<i>Loans</i>	76.97	76.62	77.42	0.00
Other Financial Assets	130.88	110.04	182.5	43.3
Income Tax Assets (net)	21.4	42.3	0.0	31.9
Other non-current assets	379.7	404.1	88.3	63.4
Total non-current assets	6,014.7	5,673.9	4,134.0	2,804.8
Current assets				
Inventories	55.2	19.3	17.2	8.1
Financial assets				
<i>Investments</i>	648.9	543.3	102.8	13.8
<i>Trade receivables</i>	398.1	386.2	227.1	111.9
<i>Cash and cash equivalents</i>	214.5	218.8	591.5	257.5
<i>Bank balances other than cash and cash equivalents</i>	822.2	766.1	405.6	156.7
Other financial assets	52.6	37.9	25.8	5.1
Other current assets	176.1	283.7	44.2	23.4
Total current assets	2,367.4	2,255.1	1,414.1	576.4
Total assets	8,382.1	7,929.0	5,548.0	3,381.1
EQUITY & LIABILITIES				
Equity				
Equity share capital	302.6	302.6	293.7	290.0
Non-Controlling interests	0.0	0.0	0.0	0.0
Other equity	3,430.7	3,161.6	2,143.5	886.1
Total equity	3,733.3	3,464.3	2,437.2	1,176.0
Liabilities				
Non-current Liabilities				



Financial Liabilities				
<i>Borrowings</i>	2,691.8	2,822.0	1,867.6	1,581.8
<i>Lease liabilities</i>	176.4	150.7	108.2	50.0
<i>Other financial liabilities</i>	367.1	273.7	195.2	143.1
Provisions	16.0	13.7	9.4	7.0
Deferred tax liabilities (net)	190.0	185.2	147.1	93.6
Total non-current liabilities	3,441.3	3,445.3	2,327.5	1,875.5
Current liabilities				
Financial liabilities				
<i>Borrowings</i>	520.6	216.4	158.3	51.7
<i>Lease liabilities</i>	8.5	8.5	8.9	6.2
<i>Trade payables</i>				
<i>Due to micro and small enterprises</i>	0.6	1.9	2.4	11.2
<i>Due to creditors other than micro and small enterprises</i>	294.9	309.7	248.5	89.4
Other financial liabilities	312.5	461.5	219.2	141.2
Other current liabilities	69.8	20.9	61.4	29.7
Provisions	0.6	0.6	0.4	0.1
Current tax liabilities (net)	0.0	0.0	84.3	0.0
Total current liabilities	1,207.5	1,019.5	783.3	329.6
Total liabilities	4,648.8	4,464.8	3,110.8	2,205.1
Total equity and liabilities	8,382.1	7,929.0	5,548.0	3,381.1

Source: RHP



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