

# IRM Energy

## Outlook remains robust

Our BUY recommendation on IRM Energy (IRM) with a target price of INR 665/sh is premised on (1) a ~40% CAGR volume growth over FY24-26E and (2) robust margins. In Q3FY24, EBITDA stood at INR 422mn (+15% YoY, +1% QoQ), broadly in line, while consolidated PAT totalled INR 238mn (+20% YoY, -9% QoQ), below our estimates due to higher-than-expected depreciation and interest costs, partially offset by higher other income. Volume at 0.55mmscmd (-1% YoY, +7% QoQ) surpassed our estimate.

- Volume:** IRM's volume at 0.55mmscmd (-1% YoY, +7% QoQ) came in above our estimate. CNG volume stood at 0.29mmscmd (+31% YoY +9% QoQ), domestic PNG segment volume was at 0.02mmscmd, (+50% YoY, +39% QoQ), and industrial and commercial segment volume was at 0.2mmscmd (-37% YoY, -6% QoQ). Trading volume came in at 0.04mmscmd (+9x YoY, +77% QoQ). We expect IRM to maintain its CGD network expansion, which should support our projected ~40% CAGR volume growth from FY24-26E owing to (i) an anticipated rise in the number of CNG vehicles due to favourable economics and rapid expansion of the CNG retail network and (ii) expectation of an increased demand from industrial consumers in Mandi Gobindgarh in Fatehgarh Sahib and Namakkal and Tiruchirappalli (N&T) in Tamil Nadu. Our volume estimates for FY24/25/26E stand at 0.53/0.80/1.03mmscmd.
- Resilient margins despite APM shortfall:** The gross spread, at INR 12.4/scm, improved by INR 3/scm YoY; however, it declined INR 0.85/scm QoQ owing to INR 1.7/scm QoQ decline in realisation to INR 45/scm compared to only INR 0.9/scm QoQ decline in gas cost at INR 32.5/scm. We also note that despite a decline in the allocation of Administered Pricing Mechanism gas to CNG and DPNG segments in November and December 2023, IRM's gas cost decreased QoQ due to its favourable gas sourcing mix. EBITDA/scm came in at INR 8.4/scm (+15% YoY, -6% QoQ), below our estimate; however, it was supported by lower opex of INR 4.1/scm (-1% YoY, -8% QoQ). Given higher pricing power and a favourable gas sourcing mix, we factor EBITDA margins of INR 8.8/9.2/9 per scm for FY24/25/26E.
- Key highlights:** (1) IRM prepaid borrowings of INR 1.35bn, so outstanding borrowings declined to INR 1.8bn from INR 3.3bn at the end of Q2FY24 (-45% QoQ). (2) It achieved the highest-ever quarterly average CNG volume of 0.29mmscmd in Q3. (3) In 9MFY24, the company added 12,305 domestic household connections, 52 commercial customers, six industrial customers and 12 CNG stations (of which seven stations were added in N&T GA).
- Change in estimates:** We cut our FY24/25/26 EPS estimates by 9.7/4.3/6.1% to INR 25.7/43.4/55.1, factoring in lower volume and EBITDA margin (considering the 9M performance). While we reduce our medium-term volume growth, we marginally increase our long-term per unit EBITDA margin estimate and increase terminal growth to 2% (from 1% earlier), delivering a revised target price of INR 665/sh.
- DCF-based valuation:** Our target price of INR 665/sh is based on Mar-25E free cash flow (WACC 13.3%, terminal growth rate 2%). The stock is currently trading at 13.4x Mar-25E EPS.

### BUY

CMP (as on 09 Feb 2024) INR 580

Target Price INR 665

NIFTY 21,783

KEY CHANGES	OLD	NEW
Rating	BUY	BUY
Price Target	INR 580	INR 665
	FY24E	FY25E
EPS %	-9.7%	-4.3%

#### KEY STOCK DATA

Bloomberg code	IRMENERG IN
No. of Shares (mn)	41
MCap (INR bn) / (\$ mn)	24/291
6m avg traded value (INR mn)	-
52 Week high / low	INR 615/435

#### STOCK PERFORMANCE (%)

	3M	6M	12M
Absolute (%)	26.0	-	-
Relative (%)	15.5	-	-

#### SHAREHOLDING PATTERN (%)

	23 Oct-23	Dec-23
Promoters	50.07	50.07
FIs & Local MFs	11.77	12.64
FPIs	1.28	0.50
Public & Others	36.88	36.78
Pledged Shares	0.0	0.0

Source : BSE

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### Consolidated financial summary

YE March (INR mn)	Q3 FY24	Q2 FY24	QoQ (%)	Q3 FY23	YoY (%)	FY22	FY23	FY24E	FY25E	FY26E
Revenue	2,261	2,201	2.7	2,661	(15.0)	5,071	9,801	9,023	14,124	19,263
EBITDA	422	420	0.7	368	14.7	1,864	1,122	1,684	2,702	3,372
APAT	238	260	(8.6)	198	19.8	1,280	631	1,054	1,783	2,261
AEPS (INR)	5.8	6.3	(8.6)	4.8	19.8	31.2	15.4	25.7	43.4	55.1
P/E (x)						18.6	37.7	22.6	13.4	10.5
EV / EBITDA (x)						13.3	22.6	12.8	8.0	6.2
RoE (%)						70.9	21.4	16.1	17.0	18.2

Source: Company, HSIE Research

### Quarterly standalone financial snapshot

(INR mn)	Q3FY24	Q2FY24	QoQ (%)	Q3FY23	YoY (%)
<b>Net Sales</b>	<b>2,261</b>	<b>2,201</b>	<b>2.7</b>	<b>2,661</b>	<b>-15.0</b>
Raw material and Traded Goods	1,635	1,574	3.9	2,085	-21.6
Employee Expenses	34	27	25.7	28	21.9
Other Operating Expenses	170	180	-5.9	180	-5.6
<b>EBITDA</b>	<b>422</b>	<b>420</b>	<b>0.7</b>	<b>368</b>	<b>14.7</b>
Depreciation	73	60	20.0	54	33.4
<b>EBIT</b>	<b>350</b>	<b>359</b>	<b>-2.6</b>	<b>314</b>	<b>11.4</b>
Other Income (incl EO)	71	35	103.0	17	315.8
Interest	70	52	34.7	62	13.0
<b>PBT</b>	<b>351</b>	<b>342</b>	<b>2.6</b>	<b>269</b>	<b>30.4</b>
Provision for tax	108	62	75.6	70	54.0
Standalone PAT	243	281	-13.4	199	22.1
Share of Profit/(loss) of JV/Associate	-6	-21	73.0	-1	-617.9
<b>Consol PAT</b>	<b>238</b>	<b>260</b>	<b>-8.6</b>	<b>198</b>	<b>19.8</b>
Standalone EPS (Rs)	5.9	6.8	-13.4	4.9	22.1
<b>Consol EPS (Rs)</b>	<b>5.8</b>	<b>6.3</b>	<b>-8.6</b>	<b>4.8</b>	<b>19.8</b>

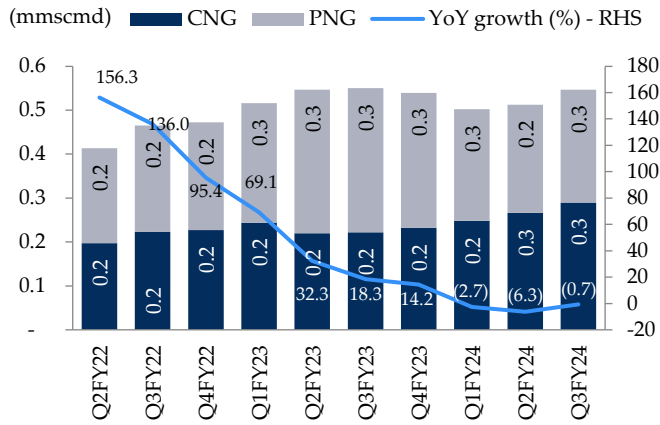
Source: Company, HSIE Research

### Quarterly operational snapshot

	Q3FY24	Q2FY24	QoQ (%)	Q3FY23	YoY (%)
<b>Total Volume (mmscmd)</b>	<b>0.55</b>	<b>0.51</b>	<b>6.7</b>	<b>0.55</b>	<b>-0.7</b>
CNG	0.29	0.27	8.9	0.22	30.7
PNG	0.26	0.25	4.2	0.33	-21.9
Domestic PNG	0.02	0.01	39.1	0.01	50.4
Ind+Comm PNG	0.20	0.21	-5.9	0.31	-36.5
Trading	0.04	0.02	77.3	0.00	847.4
<b>Margins (INR/scm)</b>	<b>Q3FY24</b>	<b>Q2FY24</b>	<b>QoQ (%)</b>	<b>Q3FY23</b>	<b>YoY (%)</b>
Realisation	45.0	46.7	(3.7)	52.5	(14)
Gross Spread	12.4	13.3	(6.4)	11.4	9
Opex	4.1	4.4	(8.0)	4.1	(1)
EBITDA Spreads	8.4	8.9	(5.6)	7.3	15
PAT	4.8	6.0	(18.8)	3.9	23
RM	32.5	33.4	(2.6)	41.2	(21)

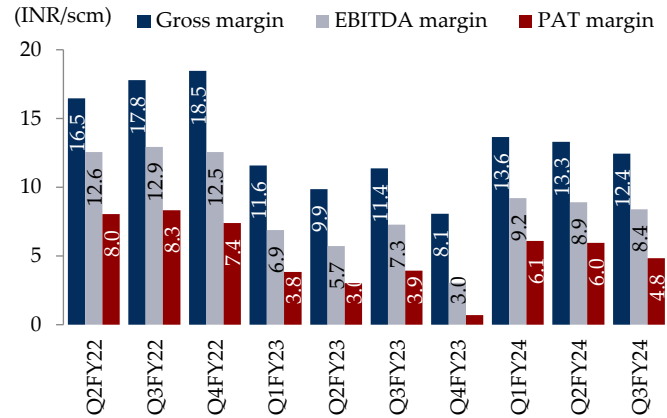
Source: Company, HSIE Research

**Historical volume trend**



Source: Company, HSIE Research

**Historical margin trend**



Source: Company, HSIE Research

**Change in estimates**

	FY24E			FY25E			FY26E		
	Old	New	Ch%	Old	New	Ch%	Old	New	Ch%
EBITDA (INR mn)	1,856	1,684	(9.3)	2,833	2,702	(4.6)	3,610	3,372	(6.6)
AEPS (INR/sh)	28.5	25.7	(9.7)	45.4	43.4	(4.3)	58.7	55.1	(6.1)

Source: Company, HSIE Research

**Key metrics**

(INR mn)	FY22	FY23	FY24E	FY25E	FY26E
Volumes (mmscmd)	0.41	0.54	0.53	0.80	1.03
Revenue	5,071	9,801	9,023	14,124	19,263
EBITDA	1,864	1,122	1,684	2,702	3,372
EBITDA (INR/scm)	12.3	5.7	8.8	9.2	9.0
PAT	1,280	631	1,054	1,783	2,261
EPS (INR/sh)	31.2	15.4	25.7	43.4	55.1
RoE (%)	70.9	21.4	16.1	17.0	18.2

Source: Company, HSIE Research

**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	308	BUY	440	490	14.4	13.0	2.7	2.3	20.5	19.3	9.9	8.4
GGL	401	ADD	583	453	29.6	22.9	4.6	4.0	16.4	18.7	17.5	13.6
MGL	146	BUY	1,474	1,550	11.5	10.7	2.6	2.3	24.1	22.6	6.6	5.8
IRM	24	BUY	580	665	13.4	10.5	2.1	1.8	17.0	18.2	8.0	6.2

Source: NSE, HSIE Research

**INCOME STATEMENT**

(INR mn)	FY21	FY22	FY23	FY24E	FY25E	FY26E
<b>Revenues</b>	<b>1,896</b>	<b>5,071</b>	<b>9,801</b>	<b>9,023</b>	<b>14,124</b>	<b>19,263</b>
<i>Growth %</i>	28.5	167.5	93.3	(7.9)	56.5	36.4
Raw Material	771	2,482	7,798	6,510	10,336	14,384
Employee Cost	41	72	91	120	144	173
Other Expenses	352	653	790	709	942	1,334
<b>EBITDA</b>	<b>732</b>	<b>1,864</b>	<b>1,122</b>	<b>1,684</b>	<b>2,702</b>	<b>3,372</b>
<i>EBITDA Margin (%)</i>	<b>38.6</b>	<b>36.8</b>	<b>11.5</b>	<b>18.7</b>	<b>19.1</b>	<b>17.5</b>
<i>EBITDA Growth %</i>	47.3	154.7	(39.8)	50.0	60.5	24.8
Depreciation	120	150	209	264	369	423
<b>EBIT</b>	<b>612</b>	<b>1,714</b>	<b>913</b>	<b>1,420</b>	<b>2,333</b>	<b>2,949</b>
Other Income	7	31	60	190	112	141
Interest	159	221	229	228	75	81
<b>PBT</b>	<b>461</b>	<b>1,524</b>	<b>744</b>	<b>1,382</b>	<b>2,369</b>	<b>3,008</b>
Tax	110	388	180	348	596	757
<b>RPAT</b>	<b>351</b>	<b>1,136</b>	<b>564</b>	<b>1,034</b>	<b>1,773</b>	<b>2,251</b>
EO (Loss) / Profit (Net Of Tax)						
<b>APAT</b>	<b>351</b>	<b>1,136</b>	<b>564</b>	<b>1,034</b>	<b>1,773</b>	<b>2,251</b>
Share from JV's/associates	-2	145	67	20	10	10
<b>Consolidated APAT</b>	<b>349</b>	<b>1,280</b>	<b>631</b>	<b>1,054</b>	<b>1,783</b>	<b>2,261</b>
<i>Consolidated APAT Growth (%)</i>	65.6	267.0	(50.7)	67.0	69.1	26.8
<b>AEPS</b>	<b>8.5</b>	<b>31.2</b>	<b>15.4</b>	<b>25.7</b>	<b>43.4</b>	<b>55.1</b>
<i>AEPS Growth %</i>	65.6	267.0	(50.7)	67.0	69.1	26.8

Source: Company, HSIE Research

**BALANCE SHEET**

(INR mn)	FY21	FY22	FY23	FY24E	FY25E	FY26E
<b>SOURCES OF FUNDS</b>						
Share Capital	290	294	303	411	411	411
Reserves And Surplus	886	2,144	3,162	9,187	10,925	13,130
<b>Total Equity</b>	<b>1,176</b>	<b>2,437</b>	<b>3,464</b>	<b>9,597</b>	<b>11,336</b>	<b>13,540</b>
Long-term Debt	1,582	1,868	2,822	949	461	1,163
Short-term Debt	52	158	216	152	107	75
<b>Total Debt</b>	<b>1,634</b>	<b>2,026</b>	<b>3,038</b>	<b>1,101</b>	<b>568</b>	<b>1,239</b>
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
<b>TOTAL SOURCES OF FUNDS</b>	<b>3,103</b>	<b>4,923</b>	<b>7,126</b>	<b>11,387</b>	<b>12,661</b>	<b>15,607</b>
<b>APPLICATION OF FUNDS</b>						
Net Block	2,406	3,004	3,806	5,555	7,491	8,806
Capital WIP	197	523	911	929	948	967
Intangible assets	2	2	-	-	-	-
LT Loans And Advances	-	-	-	-	-	-
<b>Total Non-current Investments</b>	<b>199</b>	<b>605</b>	<b>915</b>	<b>1,515</b>	<b>1,515</b>	<b>1,515</b>
Inventories	8	17	19	16	26	36
Debtors	112	227	386	356	557	759
ST investments	14	103	543	543	543	543
Cash and Cash Equivalents	414	997	985	2,871	2,143	3,714
Other Current Assets	30	70	364	364	364	364
<b>Total Current Assets</b>	<b>577</b>	<b>1,414</b>	<b>2,297</b>	<b>4,150</b>	<b>3,633</b>	<b>5,416</b>
Creditors	101	251	312	260	413	575
Other Current Liabilities & Provisions	177	374	492	501	511	521
<b>Total Current Liabilities</b>	<b>278</b>	<b>625</b>	<b>803</b>	<b>761</b>	<b>924</b>	<b>1,096</b>
<b>Net Current Assets</b>	<b>300</b>	<b>789</b>	<b>1,494</b>	<b>3,388</b>	<b>2,709</b>	<b>4,320</b>
<b>TOTAL APPLICATION OF FUNDS</b>	<b>3,103</b>	<b>4,923</b>	<b>7,126</b>	<b>11,387</b>	<b>12,661</b>	<b>15,607</b>

Source: Company, HSIE Research

**CASH FLOW STATEMENT**

(INR mn)	FY21	FY22	FY23	FY24E	FY25E	FY26E
Reported PBT	461	1,524	744	1,382	2,369	3,008
Non-operating & EO Items	(10)	114	7	(170)	(102)	(131)
Interest Expenses	159	221	229	228	75	81
Depreciation	120	150	209	264	369	423
Working Capital Change	(83)	182	(277)	(8)	(48)	(41)
Tax Paid	(110)	(388)	(180)	(348)	(596)	(757)
<b>OPERATING CASH FLOW ( a )</b>	<b>537</b>	<b>1,803</b>	<b>733</b>	<b>1,348</b>	<b>2,068</b>	<b>2,584</b>
Capex	(456)	(1,074)	(1,397)	(2,031)	(2,323)	(1,758)
Free Cash Flow (FCF)	81	729	(664)	(683)	(256)	826
Investments	(64)	(495)	(750)	(600)	-	-
Non-operating Income	7	31	60	190	112	141
<b>INVESTING CASH FLOW ( b )</b>	<b>(512)</b>	<b>(1,539)</b>	<b>(2,087)</b>	<b>(2,441)</b>	<b>(2,211)</b>	<b>(1,617)</b>
Debt Issuance/(Repaid)	184	392	1,012	(1,938)	(533)	670
Interest Expenses	(159)	(221)	(229)	(228)	(75)	(81)
FCFE	107	901	119	(2,848)	(863)	1,415
Share Capital Issuance	19	4	9	108	-	-
Dividend	-	-	(21)	(26)	(45)	(57)
Others	155	143	571	5,063	68	71
<b>FINANCING CASH FLOW ( c )</b>	<b>199</b>	<b>319</b>	<b>1,342</b>	<b>2,979</b>	<b>(584)</b>	<b>604</b>
<b>NET CASH FLOW (a+b+c)</b>	<b>224</b>	<b>583</b>	<b>(12)</b>	<b>1,886</b>	<b>(728)</b>	<b>1,571</b>
<b>Closing Cash &amp; Equivalents</b>	<b>414</b>	<b>997</b>	<b>985</b>	<b>2,871</b>	<b>2,143</b>	<b>3,714</b>

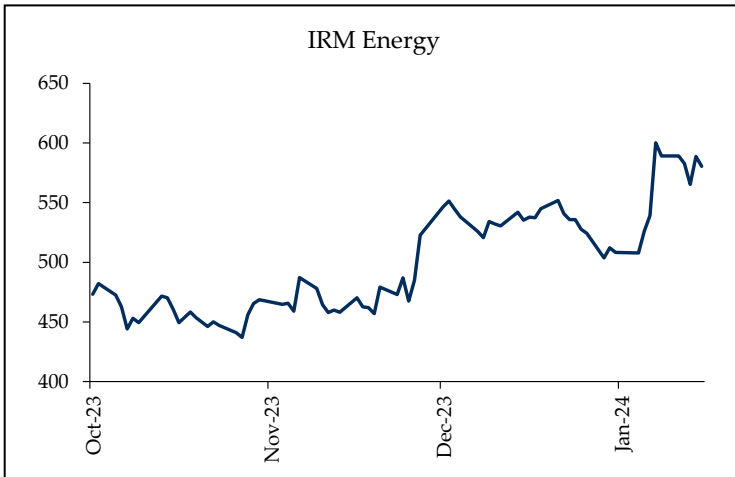
Source: Company, HSIE Research

**KEY RATIOS**

	FY21	FY22	FY23	FY24E	FY25E	FY26E
<b>PROFITABILITY %</b>						
EBITDA Margin	38.6	36.8	11.5	18.7	19.1	17.5
EBIT Margin	32.3	33.8	9.3	15.7	16.5	15.3
APAT Margin	18.4	25.2	6.4	11.7	12.6	11.7
RoE	36.3	70.9	21.4	16.1	17.0	18.2
RoIC	19.1	39.3	14.7	15.7	19.5	20.7
RoCE	48.8	80.0	27.3	18.8	17.6	18.7
<b>EFFICIENCY</b>						
Tax Rate %	23.8	25.5	24.1	25.2	25.2	25.2
Fixed Asset Turnover (x)	0.8	1.7	2.6	1.7	1.9	2.0
Inventory (days)	4	3	1	1	1	1
Debtors (days)	22	16	14	14	14	14
Other Current Assets (days)	6	5	14	15	9	7
Payables (days)	19	18	12	11	11	11
Other Current Liab & Provns (days)	34	27	18	20	13	10
Cash Conversion Cycle (days)	(22)	(21)	(1)	(1)	1	1
Net Debt/EBITDA (x)	1.6	0.5	1.3	(1.4)	(0.8)	(0.9)
Net D/E	1.0	0.4	0.4	(0.2)	(0.2)	(0.2)
Interest Coverage	0.3	0.1	0.3	0.2	0.0	0.0
<b>PER SHARE DATA (Rs)</b>						
EPS	8.5	31.2	15.4	25.7	43.4	55.1
CEPS	11.4	34.8	20.5	32.1	52.4	65.4
Dividend	-	-	0.5	0.6	1.1	1.4
Book Value	28.6	59.4	84.4	233.7	276.1	329.8
<b>VALUATION</b>						
P/E (x)	68.3	18.6	37.7	22.6	13.4	10.5
P/Cash EPS (x)	50.8	16.7	28.4	18.1	11.1	8.9
P/BV (x)	20.3	9.8	6.9	2.5	2.1	1.8
EV/EBITDA (x)	34.2	13.3	22.6	12.8	8.0	6.2
EV/Revenue (x)	13.2	4.9	2.6	2.4	1.5	1.1
Dividend Yield (%)	-	-	0.1	0.1	0.2	0.2
OCF/EV (%)	2.1	7.3	2.9	6.3	9.5	12.4
FCFF/EV (%)	0.3	2.9	(2.6)	(3.2)	(1.2)	4.0
FCFE/M Cap (%)	0.4	3.8	0.5	(12.0)	(3.6)	5.9

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:**

We, **Harshad Katkar, MBA, Nilesh Ghuge, MMS, Akshay Mane, PGDM & Prasad Vadnere, MSC** authors and the names subscribed to this report, hereby certify that all of the views expressed in this research report accurately reflect our views about the subject issuer(s) or securities. SEBI conducted the inspection and based on their observations have issued advise/warning. The said observations have been complied with. We also certify that no part of our compensation was, is, or will be directly or indirectly related to the specific recommendation(s) or view(s) in this report. Research Analyst or his/her relative or HDFC Securities Ltd. does not have any financial interest in the subject company. Also Research Analyst or his relative or HDFC Securities Ltd. or its Associate may have beneficial ownership of 1% or more in the subject company at the end of the month immediately preceding the date of publication of the Research Report. Further Research Analyst or his relative or HDFC Securities Ltd. or its associate does have/does not have any material conflict of interest.

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