

IRM Energy

Earnings impacted by higher opex

Our BUY recommendation on IRM Energy (IRM) with a target price of INR 630/sh is premised on (1) a ~35% CAGR volume growth over FY24-26E and (2) robust margins in the long term. In Q4FY24, EBITDA stood at INR 226mn (+53% YoY, -46% QoQ), and consolidated PAT stood at INR 90mn (+2.2x YoY, -62% QoQ), coming in below our estimates due to higher-than-expected other expenses, interest cost and provisioning of license fees, partially offset by higher-than-expected other income. Volume at 0.51mmscmd (-5% YoY, -6% QoQ) came in line with our estimates.

- **Volume:** IRM's volume at 0.51mmscmd (-5% YoY, -6% QoQ) came in line with our estimate. CNG volume stood at 0.29mmscmd (+23% YoY -1% QoQ), domestic PNG segment volume was at 0.02mmscmd, (+56% YoY, +10% QoQ), and industrial and commercial segment volume was at 0.21mmscmd (-29% YoY, +4% 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 FY25/26E stand at 0.74/0.95msmcmd.
- **Higher opex impacts margins:** The gross spread, at INR 12/scm, improved by ~INR 4/scm YoY; however, it declined INR 0.4/scm QoQ, mainly owing to INR 1.2/scm QoQ increase in gas cost to INR 33.7/scm (-20% YoY, +4% QoQ). Realisation stood at INR 45.8/scm (-9% YoY, +2% QoQ). Other expenses came in higher at INR 7.2/scm (+44% YoY, +78% QoQ). The opex was higher due to (a) infrastructure expansion in N&T where the majority of their CNG stations are offline stations; we expect this opex to come down, albeit gradually as volumes pick up and (b) payment of license fee. Resultant, EBITDA/scm came in lower at INR 4.8/scm (+58% YoY, -42% QoQ), below our estimate. Accordingly, to factor in the impact of higher opex in the near term and payment of license fees to the promoters, we have moderated our EBITDA margin assumption to INR 7.5/8 per scm for FY25/26E.
- **License fee—a negative surprise:** Q4 opex was higher on account of the company making a provision for a license fee of INR 42.9mn. This license fee, which was waived off until 31 Dec-2023, is paid to the promoter for usage of the tradename "IRM". This negative surprise had an impact of INR 0.9/scm on the overall per unit EBITDA margin during the quarter.
- **Key highlights:** (1) IRM witnessed an improvement in industrial/commercial volumes by 4% QoQ. (2) During Q4, IRM added 6,021 domestic customers, 40 commercial customers and 3 industrial customers; added 8 CNG stations. (3) The company has commissioned 15 CNG stations in N&T. (4) The company did not participate in the Rights Issue in Farm Gas and Venuka Polymers, resulting in IRM's stake in Farm Gas and Venuka Polymers reducing to 37.5% and 33.33% respectively; thus, their status changed from Joint Controlled Entities to Associates.
- **Change in estimates:** We cut our FY25/26E EPS estimates by 31/22% to INR 30.1/43 to factor in moderation in volume growth and lower EBITDA margin due to the impact of higher opex and payment of license fees to the promoter, delivering a revised target price of INR 630/sh.
- **DCF-based valuation:** Our target price of INR 630/sh is based on Mar-26E free cash flow (WACC 13.7%, terminal growth rate 2%). The stock is currently trading at 12.5x Mar-26E EPS.

BUY

CMP (as on 22 May 2024)	INR 535
Target Price	INR 630
NIFTY	22,598

KEY CHANGES	OLD	NEW
Rating	BUY	BUY
Price Target	INR 665	INR 630
EPS %	FY25E -30.6%	FY26E -21.9%

KEY STOCK DATA

Bloomberg code	IRMENERG IN
No. of Shares (mn)	41
MCap (INR bn) / (\$ mn)	22/263
6m avg traded value (INR mn)	159
52 Week high / low	INR 641/435

STOCK PERFORMANCE (%)

	3M	6M	12M
Absolute (%)	(2.2)	17.1	-
Relative (%)	(3.7)	4.7	-

SHAREHOLDING PATTERN (%)

	Dec-23	Mar-24
Promoters	50.07	50.07
FIs & Local MFs	12.64	12.87
FPIs	0.50	1.08
Public & Others	36.78	35.98
Pledged Shares	0.0	0.0

Source : BSE

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Consolidated financial summary

YE March (INR mn)	Q4 FY24	Q3 FY24	QoQ (%)	Q4 FY23	YoY (%)	FY22	FY23	FY24P	FY25E	FY26E
Revenue	2,142	2,261	(5.2)	2,434	(12.0)	5,071	9,801	8,905	12,938	17,896
EBITDA	226	422	(46.5)	148	52.7	1,864	1,122	1,489	2,030	2,761
APAT	90	238	(62.2)	40	121.9	1,280	631	857	1,238	1,765
AEPS (INR)	2.2	5.8	(62.2)	1.0	121.9	31.2	15.4	20.9	30.1	43.0
P/E (x)						17.3	35.0	25.8	17.8	12.5
EV / EBITDA (x)						12.3	21.0	12.9	9.8	7.1
RoE (%)						70.9	21.4	13.4	12.5	15.6

Source: Company, HSIE Research

Quarterly standalone financial snapshot

(INR mn)	Q4FY24	Q3FY24	QoQ (%)	Q4FY23	YoY (%)
Net Sales	2,142	2,261	-5.2	2,434	-12.0
Raw material and Traded Goods	1,579	1,635	-3.4	2,042	-22.7
Employee Expenses	34	34	0.9	23	46.6
Other Operating Expenses	303	170	78.6	220	37.5
EBITDA	226	422	-46.5	148	52.7
Depreciation	74	73	2.0	56	31.2
EBIT	152	350	-56.5	92	65.9
Other Income (incl EO)	98	71	37.3	13	660.2
Interest	85	70	22.1	53	59.3
PBT	165	351	-53.1	51	222.6
Provision for tax	53	108	-51.4	17	207.2
Standalone PAT	112	243	-53.8	34	230.3
Share of Profit/(loss) of JV/Associate	-23	-6	-303.6	6	-450.8
Consol PAT	90	238	-62.2	40	121.9
Standalone EPS (Rs)	2.7	5.9	-53.8	0.8	230.3
Consol EPS (Rs)	2.2	5.8	-62.2	1.0	121.9

Source: Company, HSIE Research

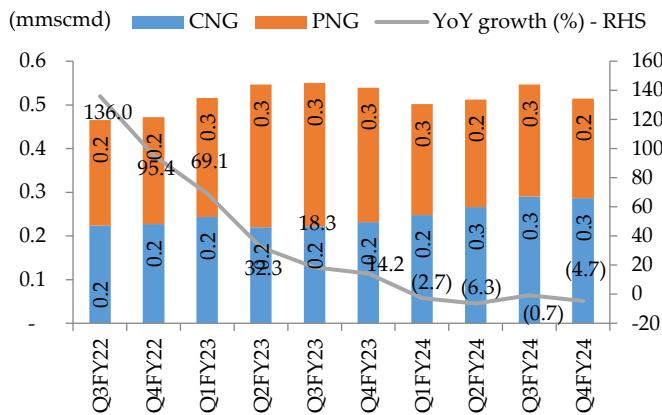
Quarterly operational snapshot

	Q4FY24	Q3FY24	QoQ (%)	Q4FY23	YoY (%)
Total Volume (mmscmd)	0.51	0.55	-5.9	0.54	-4.7
CNG	0.29	0.29	-1.2	0.23	23.5
PNG	0.23	0.26	-11.3	0.31	-25.9
Domestic PNG	0.02	0.02	10.4	0.01	55.7
Ind+Comm PNG	0.21	0.20	4.1	0.29	-29.2
Trading	-	0.04	-100.0	0.00	-100.0

Margins (INR/scm)	Q4FY24	Q3FY24	QoQ (%)	Q4FY23	YoY (%)
Realisation	45.8	45.0	1.8	50.1	(9)
Gross Spread	12.0	12.4	(3.3)	8.1	49
Opex	7.2	4.1	78.0	5.0	44
EBITDA Spreads	4.8	8.4	(42.5)	3.0	58
PAT	2.4	4.8	(50.4)	0.7	243
RM	33.7	32.5	3.8	42.1	(20)

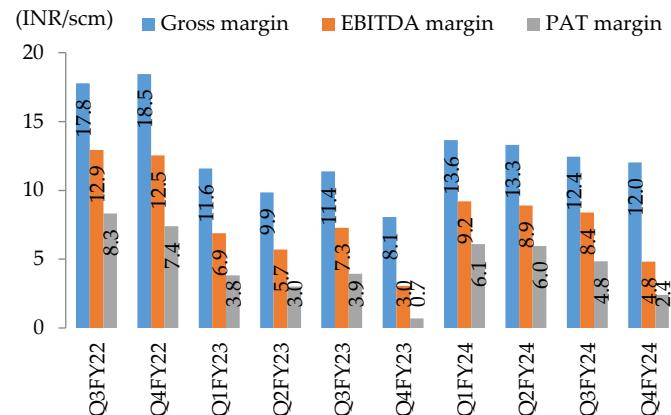
Source: Company, HSIE Research

Historical volume trend



Source: Company, HSIE Research

Historical margin trend



Source: Company, HSIE Research

Change in estimates

	FY25E			FY26E		
	Old	New	Ch%	Old	New	Ch%
EBITDA (INR mn)	2,702	2,030	(24.9)	3,372	2,761	(18.1)
AEPS (INR/sh)	43.4	30.1	(30.6)	55.1	43.0	(21.9)

Source: Company, HSIE Research

Key metrics

(INR mn)	FY22	FY23	FY24P	FY25E	FY26E
Volumes (mmscmd)	0.41	0.54	0.52	0.74	0.95
Revenue	5,071	9,801	8,905	12,938	17,896
EBITDA	1,864	1,122	1,489	2,030	2,761
EBITDA (INR/scm)	12.3	5.7	7.8	7.5	8.0
PAT	1,280	631	857	1,238	1,765
EPS (INR/sh)	31.2	15.4	20.9	30.1	43.0
RoE (%)	70.9	21.4	13.4	12.5	15.6

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	309	BUY	441	520	15.6	13.8	12.6	11.1	16.1	16.0	2.7	2.4
GGL	386	ADD	561	580	26.9	21.0	4.5	3.9	17.6	20.0	16.1	12.4
MGL	128	BUY	1,298	1,570	10.9	10.6	2.2	1.9	21.3	19.6	6.7	6.1
IRM	22	BUY	538	630	17.8	12.5	2.1	1.8	12.5	15.6	9.8	7.1

Source: NSE, HSIE Research

INCOME STATEMENT

(INR mn)	FY21	FY22	FY23	FY24P	FY25E	FY26E
Revenues	1,896	5,071	9,801	8,905	12,938	17,896
<i>Growth %</i>	28.5	167.5	93.3	(9.1)	45.3	38.3
Raw Material	771	2,482	7,798	6,465	9,588	13,389
Employee Cost	41	72	91	124	149	178
Other Expenses	352	653	790	828	1,170	1,568
EBITDA	732	1,864	1,122	1,489	2,030	2,761
<i>EBITDA Margin (%)</i>	38.6	36.8	11.5	16.7	15.7	15.4
<i>EBITDA Growth %</i>	47.3	154.7	(39.8)	32.6	36.4	36.0
Depreciation	120	150	209	265	369	423
EBIT	612	1,714	913	1,224	1,661	2,338
Other Income	7	31	60	238	126	133
Interest	159	221	229	267	146	125
PBT	461	1,524	744	1,195	1,641	2,345
Tax	110	388	180	280	413	590
RPAT	351	1,136	564	915	1,228	1,755
<i>EO (Loss) / Profit (Net Of Tax)</i>						
APAT	351	1,136	564	915	1,228	1,755
Share from JV's/associates	-2	145	67	-58	10	10
Consolidated APAT	349	1,280	631	857	1,238	1,765
<i>Consolidated APAT Growth (%)</i>	65.6	267.0	(50.7)	35.7	44.5	42.6
AEPS	8.5	31.2	15.4	20.9	30.1	43.0
<i>AEPS Growth %</i>	65.6	267.0	(50.7)	35.7	44.5	42.6

Source: Company, HSIE Research

BALANCE SHEET

(INR mn)	FY21	FY22	FY23	FY24P	FY25E	FY26E
SOURCES OF FUNDS						
Share Capital	290	294	303	411	411	411
Reserves And Surplus	886	2,144	3,162	8,907	10,056	11,694
Total Equity	1,176	2,437	3,464	9,318	10,466	12,105
Long-term Debt	1,582	1,868	2,822	1,132	461	1,163
Short-term Debt	52	158	216	973	682	478
Total Debt	1,634	2,026	3,038	2,105	1,143	1,641
Deferred Tax Liability	94	147	185	224	312	400
Other long term liabilities	193	303	424	582	622	667
Long-term Provision	7	9	14	19	19	19
TOTAL SOURCES OF FUNDS	3,103	4,923	7,126	12,248	12,563	14,831
APPLICATION OF FUNDS						
Net Block	2,406	3,004	3,806	5,574	7,511	8,828
Capital WIP	197	523	911	868	885	903
Intangible assets	2	2	-	-	-	-
LT Loans And Advances	-	-	-	-	-	-
Total Non-current Investments	199	605	915	733	733	733
Inventories	8	17	19	43	63	89
Debtors	112	227	386	368	535	740
ST investments	14	103	543	153	153	153
Cash and Cash Equivalents	414	997	985	4,878	3,201	4,085
Other Current Assets	30	70	364	350	350	350
Total Current Assets	577	1,414	2,297	5,792	4,302	5,416
Creditors	101	251	312	293	434	606
Other Current Liabilities & Provisions	177	374	492	425	433	442
Total Current Liabilities	278	625	803	718	868	1,048
Net Current Assets	300	789	1,494	5,073	3,434	4,368
TOTAL APPLICATION OF FUNDS	3,103	4,923	7,126	12,248	12,563	14,831

Source: Company, HSIE Research

CASH FLOW STATEMENT

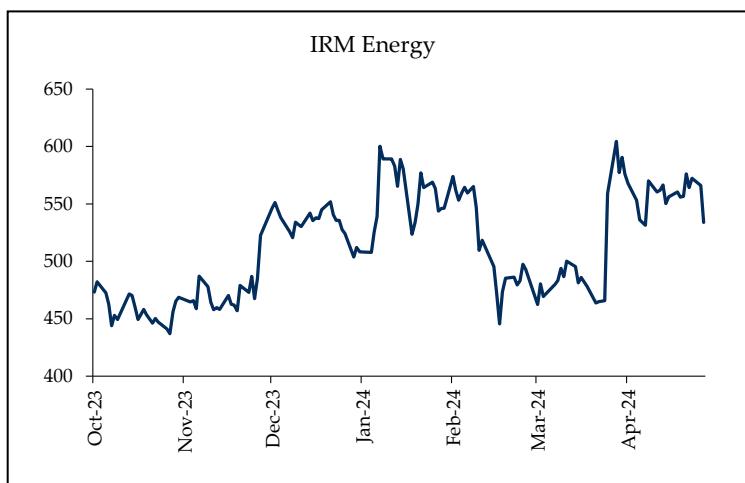
(INR mn)	FY21	FY22	FY23	FY24P	FY25E	FY26E
Reported PBT	461	1,524	744	1,195	1,641	2,345
Non-operating & EO Items	(10)	114	7	(296)	(116)	(123)
Interest Expenses	159	221	229	267	146	125
Depreciation	120	150	209	265	369	423
Working Capital Change	(83)	182	(277)	(76)	(38)	(50)
Tax Paid	(110)	(388)	(180)	(280)	(413)	(590)
OPERATING CASH FLOW (a)	537	1,803	733	1,074	1,589	2,131
Capex	(456)	(1,074)	(1,397)	(1,989)	(2,323)	(1,758)
<i>Free Cash Flow (FCF)</i>	81	729	(664)	(915)	(734)	373
Investments	(64)	(495)	(750)	572	-	-
Non-operating Income	7	31	60	238	126	133
INVESTING CASH FLOW (b)	(512)	(1,539)	(2,087)	(1,180)	(2,197)	(1,625)
Debt Issuance/(Repaid)	184	392	1,012	(933)	(962)	498
Interest Expenses	(159)	(221)	(229)	(267)	(146)	(125)
FCFE	107	901	119	(2,116)	(1,842)	746
Share Capital Issuance	19	4	9	108	-	-
Dividend	-	-	(21)	(62)	(89)	(127)
Others	155	143	571	5,152	128	132
FINANCING CASH FLOW (c)	199	319	1,342	3,998	(1,069)	378
NET CASH FLOW (a+b+c)	224	583	(12)	3,893	(1,677)	884
Closing Cash & Equivalents	414	997	985	4,878	3,201	4,085

Source: Company, HSIE Research

KEY RATIOS

	FY21	FY22	FY23	FY24P	FY25E	FY26E
PROFITABILITY %						
EBITDA Margin	38.6	36.8	11.5	16.7	15.7	15.4
EBIT Margin	32.3	33.8	9.3	13.7	12.8	13.1
APAT Margin	18.4	25.2	6.4	9.6	9.6	9.9
RoE	36.3	70.9	21.4	13.4	12.5	15.6
RoIC	19.1	39.3	14.7	14.6	15.1	17.7
RoCE	48.8	80.0	27.3	16.6	13.6	16.5
EFFICIENCY						
Tax Rate %	23.8	25.5	24.1	23.4	25.2	25.2
Fixed Asset Turnover (x)	0.8	1.7	2.6	1.7	1.8	1.9
Inventory (days)	4	3	1	2	2	2
Debtors (days)	22	16	14	15	15	15
Other Current Assets (days)	6	5	14	14	10	7
Payables (days)	19	18	12	12	12	12
Other Current Liab & Provs (days)	34	27	18	17	12	9
Cash Conversion Cycle (days)	(22)	(21)	(1)	2	3	3
Net Debt/EBITDA (x)	1.6	0.5	1.3	(2.0)	(1.1)	(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	0.2	0.1	0.1
PER SHARE DATA (Rs)						
EPS	8.5	31.2	15.4	20.9	30.1	43.0
CEPS	11.4	34.8	20.5	27.3	39.1	53.3
Dividend	-	-	0.5	1.5	2.2	3.1
Book Value	28.6	59.4	84.4	226.9	254.9	294.8
VALUATION						
P/E (x)	63.3	17.3	35.0	25.8	17.8	12.5
P/Cash EPS (x)	47.1	15.4	26.3	19.7	13.7	10.1
P/BV (x)	18.8	9.1	6.4	2.4	2.1	1.8
EV/EBITDA (x)	31.8	12.3	21.0	12.9	9.8	7.1
EV/Revenue (x)	12.3	4.5	2.4	2.2	1.5	1.1
Dividend Yield (%)	-	-	0.1	0.3	0.4	0.6
OCF/EV (%)	2.3	7.8	3.1	5.6	8.0	10.9
FCFF/EV (%)	0.3	3.2	(2.8)	(4.8)	(3.7)	1.9
FCFE/M Cap (%)	0.5	4.1	0.5	(9.6)	(8.3)	3.4

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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