

# IRM Energy

## CNG drives volume growth recovery

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 Q1FY25, EBITDA stood at INR 303mn (-28% YoY, +34% QoQ) and consolidated PAT stood at INR 187mn (-30.5%YoY, +108% QoQ), ahead of our estimates due to higher-than-expected realisation and other income, and lower-than-expected other expenses. Volume at 0.53mmscmd (+5% YoY, +3% QoQ) was in line with our estimates.

- Volume:** IRM's volume at 0.53mmscmd (+5% YoY, +3% QoQ) came in line with our estimate. CNG volume stood at 0.29mmscmd (+18% YoY +2.5% QoQ), domestic PNG segment volume was at 0.02mmscmd (+25.6% YoY, -12.4% QoQ), and industrial and commercial segment volume was at 0.22mmscmd (-10% YoY, +4.6% QoQ). We expect IRM to maintain its CGD network expansion, which should support our projected ~35% CAGR volume growth from FY24-26E. Our volume estimates for FY25/26E stand at 0.74/0.95mmscmd.
- Higher opex impacts margins:** The gross spread, at INR 13.2/scm, declined by ~INR 0.5/scm YoY, mainly due to the royalty/license fee provision; however, it improved INR 1.2/scm QoQ, mainly owing to INR 1.1/scm QoQ increase in realisation to INR 46.9/scm (-7% YoY, +2.4% QoQ). Gas cost stood at INR 33.7/scm (-8% YoY, -0.2% QoQ). Other expenses came in higher at INR 6.1/scm (+60% YoY, -6% QoQ). The opex was higher YoY due to (a) infrastructure expansion in N&T where a significant number of the CNG stations are offline—we expect this opex to come down, albeit gradually as volumes pick up and (b) provision for royalty/license fee of INR 45 mn. EBITDA margin at INR 6.3/scm (-31.5%YoY, +30.5%QoQ) was ahead of our estimate due to better realisation and lower other expenses. We factor the EBITDA margin assumption to INR 7.5/8 per scm for FY25/26E.
- 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 10x Mar-26E EPS.

### Consolidated financial summary

YE March (INR mn)	Q1 FY25	Q4 FY24	QoQ (%)	Q1 FY24	YoY (%)	FY22	FY23	FY24P	FY25E	FY26E
Revenue	2,254	2,142	5.2	2,300	(2.0)	5,071	9,801	8,905	12,941	17,900
EBITDA	303	226	34.1	421	(27.9)	1,864	1,123	1,489	2,030	2,761
APAT	187	90	108.3	269	(30.5)	1,280	632	857	1,241	1,770
AEPS (INR)	4.6	2.2	108.3	6.6	(30.5)	31.2	15.4	20.9	30.2	43.1
P/E (x)						13.9	28.1	20.7	14.1	9.9
EV / EBITDA(x)						10.0	17.1	10.0	7.6	5.4
RoE (%)						70.9	21.4	13.4	12.7	15.9

Source: Company, HSIE Research

## BUY

CMP (as on 14 Aug 2024)	INR 432
Target Price	INR 630
NIFTY	24,144

KEY CHANGES	OLD	NEW
Rating	BUY	BUY
Price Target	INR 630	INR 630
EPS %	FY25E +1.5%	FY26E +1.5%

### KEY STOCK DATA

Bloomberg code	IRMENERG IN
No. of Shares (mn)	41
MCap (INR bn) / (\$ mn)	18/211
6m avg traded value (INR mn)	98
52 Week high / low	INR 641/428

### STOCK PERFORMANCE (%)

	3M	6M	12M
Absolute (%)	(22.3)	(21.4)	-
Relative (%)	(30.5)	(31.6)	-

### SHAREHOLDING PATTERN (%)

	Mar-24	June-24
Promoters	50.07	50.07
FIs & Local MFs	12.87	11.17
FPIs	1.08	0.48
Public & Others	35.98	38.28
Pledged Shares	0.0	0.0

Source : BSE

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