Rating Rationale

February 20, 2024 | Mumbai

IRM Energy Limited

Ratings upgraded to 'CRISIL AA-/Stable/CRISIL A1+'

Rating Action

Total Bank Loan Facilities Rated	**Rs.700 Crore**
Long Term Rating	**CRISIL AA-/Stable (Upgraded from 'CRISIL A+/Stable')**
Short Term Rating	**CRISIL A1+ (Upgraded from 'CRISIL A1')**

Note: None of the Directors on CRISIL Ratings Limited's Board are members of rating committee and thus do not participate in discussion or assignment of any ratings. The Board of Directors also does not discuss any ratings at its meetings.
1 crore = 10 million
Refer to Annexure for Details of Instruments & Bank Facilities

Detailed Rationale

CRISIL Ratings has upgraded its ratings on the bank facilities of IRM Energy Limited (IRM Energy) to '**CRISIL AA-/Stable/CRISIL A1+**' from 'CRISIL A+/Stable/CRISIL A1'.

The upgrade reflects CRISIL Ratings' expectation that the business risk profile of the company will strengthen in the near term driven by increased capex in the new geographical area (GA) of Namakkal & Tiruchirappalli which is likely to result in sustained volume growth and higher cash accruals over the medium term. Further the debt protection metrics have also improved on back of deleveraging of balance sheet during the current fiscal. IRM Energy is net debt free as of December 2023 and is likely to remain so over the medium term.

During October 2023, IRM Energy successfully completed its initial public offering (IPO) comprising of fresh issuance of equity shares. It raised Rs 496.50 crores (net of issue related expenses). The proceeds have been partly utilised towards prepayment of existing term loans. A sum of Rs 307.26 crores out of the net IPO proceeds have been earmarked for funding the capital expenditure (capex) in Namakkal & Tiruchirappalli GA over FY24-27. This will result in minimal reliance on external debt to fund the capex plans over the medium term and lend stability to the debt metrics during capex phase.

The ratings continue to factor strong business model having a monopoly in the supply of compressed natural gas (CNG) and piped natural gas (PNG) in the authorised four GAs, that is, the Banaskantha and the Fatehgarh Sahib GAs awarded in the sixth round of bidding, the Diu & Gir-Somnath GA awarded in the ninth round and the Namakkal & Tiruchirappalli GA awarded in the eleventh round.

The ratings also factor in healthy operating performance, driven by infrastructure augmentation in the GAs leading to strong financial risk profile of the company. These strengths are partially offset by exposure to risk related to under-achievement of minimum works program (MWP) targets in the 3rd and 4th GA, project-related risks and input risks related to availability of gas as well as volatility in prices.

Analytical Approach

The consolidated business and financial risk profile of IRM Energy has been considered for analysis.

The JVs and associate have been moderately consolidated to the extent of any financial support required from the company.

Please refer Annexure - List of Entities Consolidated, which captures the list of entities considered and their analytical treatment of consolidation.

Key Rating Drivers & Detailed Description

Strengths:

- **Monopoly in CNG and PNG supply in the awarded Gas:** The company is the sole distributor of CNG and PNG in the authorised GAs. While marketing exclusivity rights for the Banaskantha GA and the Fatehgarh Sahib GA is over, the company has marketing exclusivity rights till September, 2028 for Diu and Gir-Somnath GA and till March, 2030 for Namakkal & Tiruchirappalli GA. IRM Energy has also been granted network exclusivity rights of 25 years in all the GAs for infrastructure creation, including laying down of pipelines and CNG distribution outlets, thus providing sufficient revenue visibility over the medium to long term.

CGD players enjoys monopoly in gas distribution in their respective GAs even after the end of market exclusivity since the network exclusivity provides them competitive edge over any new player who would need to depend upon the pipeline network of incumbent for distribution/transportation of gas.

- **Adequate operating performance:** The company has comfortably 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 first two GAs. While the operating margins were adversely impacted during fiscal 2023 due to rise in input gas prices which was not fully passed on to the customers, the same have partially recovered during the first nine months of current fiscal with moderation in gas prices. Further, volumes during the current fiscal have been impacted in the Fatehgarh Sahib GA owing to relaxation in ban imposed by the National Green Tribunal on the usage of polluting fuels viz. coal. The trend is expected to reverse once the relaxation in ban is lifted and thus will be a monitorable event.

- **Strong financials and debt protections metrics:** IRM Energy's networth is expected to increase to over Rs 900 crores by fiscal 2024 from Rs 343 crore in fiscal 2023, primarily owing to the IPO proceeds. This has strengthened the balance sheet. Further, the company is net debt free at present versus a net debt position of Rs 142 crores as of fiscal 2023 as the IPO proceeds have been partly utilised to prepay some of the existing term loan taken for capex in Banaskantha and Fatehgarh Sahib GAs. This has significantly improved the debt protection metrics of the company with adjusted gearing and interest coverage of 0.2 times and 7.4 times, respectively, expected for fiscal 2024 versus 0.9 times and 5.45 times, respectively in fiscal 2023.

Weaknesses:

- **Exposure to project-related risks; partly mitigated by a strong financial risk profile and prudent funding of capex:** IRM Energy is expected to incur capex of around Rs 600 crore over fiscal 2025-27 primarily towards setting up the CGD network in the Namakkal & Tiruchirappalli GA and the Diu and Gir-Somnath GA. The company is expected to fund its capex through Rs 307.62 crores of cash balance earmarked for the same (raised through the IPO) and rest through internal accrual being generated during the period. Therefore, reliance on external debt is expected to be minimal.

  Company, however, remains exposed to project implementation risks including obtaining approvals from local and state government bodies for laying pipeline grids and setting up CNG dispensing stations; delays in obtaining approvals could delay the project implementation. The company has displayed a sufficient track record of timely and cost-efficient setting up of its network in the first two GAs. A similar achievement of timely execution with the minimum work programme targets for the other two GA within the approved budget cost would be a key monitorable. Company is also marginally exposed to demand related risk in the last two GAs.

- **Moderate risk in gas availability:** As per the Government directives announced in 2014, CGD companies were to be given a priority in terms of allocation of the cheaper domestic gas; for CNG and domestic PNG sales. However, considering the pace at which the CGD industry is growing, domestic APM gas is increasingly falling short to meet the entire requirements of CGD players and the companies are increasingly required to resort to the costlier non-APM domestic gas/imported R-LNG to suffice its gas requirements. While the new pricing mechanism of APM gas shall lend stability to APM prices, CGD players will be increasingly exposed to the volatility in prices of non-APM gas as well as its availability. IRM Energy's ability to pass on the price hikes to its end consumers while maintaining competitiveness versus alternate fuels will be a key monitorable.

Liquidity: Strong

IRM Energy's cash and cash equivalents stood at around Rs 500 crores as of December 2023 owing to the IPO proceeds. Annual cash accruals of more than Rs 100 crores will be sufficient to support the capex and debt obligation over the medium term. The company is expected to maintain cash balance of Rs 50-100 crore at all times and likely to remain net debt free.

Outlook: Stable

The operating and financial risk profile of the company should remain comfortable over the medium term, backed by healthy growth in volume and steady realisations.

Rating Sensitivity factors

Upward factors:

- Achievement of minimum work programme (MWP) targets before schedule
- Significant growth in the gas volume sold resulting in cash accrual of over Rs 300 crore per fiscal on a sustained basis

Downward factors:

- Significant delays in project execution, especially in PNG domestic connectivity for the GAs
- Larger-than-expected, debt-funded capex or acquisition resulting in debt/earnings before interest, taxes, depreciation and amortisation ratio exceeding 2 times on a sustained basis

About the Company

IRM Energy was incorporated in December 2015 to venture into the CGD business space. Dr Rajiv I Modi (trustee of the IRM Trust) owns a 99.99% equity interest in Cadila Pharmaceuticals Ltd (which holds a 36.48% equity stake in IRM Energy), so effectively, the promoter holds an equity stake of around 50% in the company. Around 23% stake is held by other strategic partners such as Enertech Distribution Management Pvt Ltd and Shizuoka Gas Co. Ltd.

The company has been granted exclusive rights for laying, building, operating and expanding a city or local natural gas distribution network in the authorised four GAs: the Banaskantha GA, the Fatehgarh Sahib GA, the Diu and Gir Somnath GA and the Namakkal & Tiruchirappalli GA. The network exclusivity rights for infrastructure creation, including laying down of pipelines and CNG distribution outlets, for these GAs would extend up to 25 years.

Key Financial Indicators (CRISIL Ratings adjusted figures - Consolidated)

Particulars	Unit	2023	2022
Revenue from operations	Rs crore	980	507
Profit after tax (PAT)	Rs crore	63	128
PAT margin	%	6.4	25.2
Adjusted debt/adjusted networth	Times	0.89	0.71
Interest coverage	Times	5.45	9.24

Any other information: Not Applicable

Note on complexity levels of the rated instrument:
CRISIL Ratings` complexity levels are assigned to various types of financial instruments and are included (where applicable) in the 'Annexure - Details of Instrument' in this Rating Rationale.

CRISIL Ratings will disclose complexity level for all securities - including those that are yet to be placed - based on available information. The complexity level for instruments may be updated, where required, in the rating rationale published subsequent to the issuance of the instrument when details on such features are available.

For more details on the CRISIL Ratings` complexity levels please visit www.crisilratings.com. Users may also call the Customer Service Helpdesk with queries on specific instruments.

Annexure - Details of Instrument(s)

ISIN	Name of the instrument	Date of Allotment	Coupon Rate (%)	Maturity Date	Issue size (Rs.Crore)	Complexity Level	Rating assigned with outlook
NA	Term Loan	NA	NA	31-Mar-2033	170.27	NA	CRISIL AA-/Stable
NA	Term Loan	NA	NA	30-Sep-2025	75	NA	CRISIL AA-/Stable
NA	Fund-Based Facilities	NA	NA	NA	20	NA	CRISIL A1+
NA	Non-Fund Based Limit	NA	NA	NA	368.12	NA	CRISIL A1+
NA	Proposed Fund-Based Bank Limits	NA	NA	NA	66.61	NA	CRISIL A1+

Annexure - List of Entities Consolidated

Names of Entities Consolidated	Extent of Consolidation	Rationale for Consolidation
SKI-Clean Energy Pvt Ltd	Full	Subsidiary
SAF Clean Energy Pvt Ltd	Moderate	Associate
Farm Gas Pvt Ltd	Moderate	Joint Venture
Venuka Polymers Pvt Ltd	Moderate	Joint Venture
Ni-Hon Cylinders Pvt Ltd	Moderate	Joint Venture

Annexure - Rating History for last 3 Years

	Current			2024 (History)		2023		2022		2021		Start of 2021
Instrument	Type	Outstanding Amount	Rating	Date	Rating	Date	Rating	Date	Rating	Date	Rating	Rating
Fund Based Facilities	ST/LT	331.88	CRISIL A1+ / CRISIL AA-/Stable		--		--	30-12-22	CRISIL A+/Stable / CRISIL A1	06-09-21	CRISIL A+/Stable / CRISIL A1	--

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Non-Fund Based Facilities	ST	368.12	CRISIL A1+		--		--	30-12-22	CRISIL A1	06-09-21	CRISIL A+/Stable / CRISIL A1	--
			--		--		--	05-12-22	CRISIL A+/Stable / CRISIL A1		--	--

All amounts are in Rs.Cr.

Annexure - Details of Bank Lenders & Facilities

Facility	Amount (Rs.Crore)	Name of Lender	Rating
Fund-Based Facilities	5	IndusInd Bank Limited	CRISIL A1+
Fund-Based Facilities	10	Union Bank of India	CRISIL A1+
Fund-Based Facilities	5	Kotak Mahindra Bank Limited	CRISIL A1+
Non-Fund Based Limit	40	IndusInd Bank Limited	CRISIL A1+
Non-Fund Based Limit	158.12	Bank of Baroda	CRISIL A1+
Non-Fund Based Limit	75	Union Bank of India	CRISIL A1+
Non-Fund Based Limit	10	Kotak Mahindra Bank Limited	CRISIL A1+
Non-Fund Based Limit	85	Bank of Baroda	CRISIL A1+
Proposed Fund-Based Bank Limits	66.61	Not Applicable	CRISIL A1+
Term Loan	36	Bank of Baroda	CRISIL AA-/Stable
Term Loan	70	Kotak Mahindra Bank Limited	CRISIL AA-/Stable
Term Loan	4.27	Union Bank of India	CRISIL AA-/Stable
Term Loan	75	HDFC Bank Limited	CRISIL AA-/Stable
Term Loan	60	Punjab National Bank	CRISIL AA-/Stable

Criteria Details

Links to related criteria
Rating criteria for manufaturing and service sector companies
CRISILs Bank Loan Ratings - process, scale and default recognition
Rating Criteria for Upstream Oil and Gas Sector
CRISILs Approach to Financial Ratios
CRISILs Criteria for rating short term debt
CRISILs Criteria for Consolidation

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