May 17, 2024

To,

National Stock Exchange of India Limited	BSE Limited
"Exchange Plaza" Bandra-Kurla Complex, Bandra (East) Mumbai – 400051 Scrip Symbol: IRMENERGY	Phiroze Jeejebhoy Towers Dalal Street Mumbai - 400 001 Scrip Code: 544004

Sub: Intimation under Regulation 30 of SEBI (Listing Obligations and Disclosure Requirements) Regulations, 2015 – Update on Credit Rating

Dear Sir/Madam,

Pursuant to Regulation 30 of the SEBI (Listing Obligations and Disclosure Requirements) Regulations, 2015 ("Listing Regulations") read with Schedule III of the Listing Regulations, we would like to inform you that India Ratings and Research Private Limited has upgraded the ratings on bank facilities of the Company to 'IND AA-' from 'IND A+'. The Outlook is Stable. The detailed rating actions are as follows:

Instrument Type	Size of Issue (INR million)	Rating/Outlook	Rating Action
Term loan	2452.7 (reduced from 3,910)	IND AA-/Stable	Upgraded
Fund-based working capital limits	150.00	IND AA-/Stable/IND A1+	Long-term rating upgraded; Short-term rating affirmed
Fund-based working capital limits	50.00	IND AA-/Stable/IND A1+	Assigned
Non-fund-based working capital limits	3,631.20	IND AA-/Stable/IND A1+	Long-term rating upgraded; Short-term rating affirmed
Non-fund-based working capital limits	50.00	IND AA-/Stable/IND A1+	Assigned
Proposed fund-based working capital limits*	308.80	IND AA-/Stable/IND A1+	Long-term rating upgraded; Short-term rating affirmed
Proposed fund-based working capital limits	357.3	IND AA-/Stable/IND A1+	Assigned

*Proposed fund-based working capital limits were earlier rated as proposed fund/non- fund-based working capital limits.

Rating rationale issued by India Ratings and Research Private Limited dated May 17, 2024 is enclosed herewith as ***Annexure-1***.

Kindly take the same on record.

Thanking you,

Yours sincerely,

For, IRM Energy Limited

Shikha Jain Digitally signed by Shikha Jain Date: 2024.05.17 16:46:09 +05'30'

Shikha Jain
Company Secretary &
Compliance Officer

India Ratings Upgrades IRM Energy's Bank Loans to 'IND AA-'/Stable; Rates Additional Loans

May 17, 2024 | Gas Transmission/Marketing

India Ratings and Research (Ind-Ra) has upgraded IRM Energy Limited's (IRM) bank facilities to 'IND AA-' from 'IND A+'. The Outlook is Stable. The detailed rating actions are as follows:

Details of Instruments

Instrument Type	Date of Issuance	Coupon Rate	Maturity Date	Size of Issue (million)	Rating/Outlook	Rating Action
Term loan	-	-	31 March 2032	INR2452.7 (reduced from INR3,910)	IND AA-/Stable	Upgraded
Fund-based working capital limits	-	-	-	INR150	IND AA-/Stable/IND A1+	Long-term rating upgraded; Short-term rating affirmed
Fund-based working capital limits	-	-	-	INR50	IND AA-/Stable/IND A1+	Assigned
Non-fund-based working capital limits	-	-	-	INR3,631.2	IND AA-/Stable/IND A1+	Long-term rating upgraded; Short-term rating affirmed
Non-fund-based working capital limits	-	-	-	INR50	IND AA-/Stable/IND A1+	Assigned
Proposed fund-based working capital limits*	-	-	-	INR308.8	IND AA-/Stable/IND A1+	Long-term rating upgraded; Short-term rating affirmed
Proposed fund-based working capital limits	-	-	-	INR357.3	IND AA-/Stable/IND A1+	Assigned

*Proposed fund-based working capital limits were earlier rated as proposed fund/non-fund-based working capital limits.

Analytical Approach

Ind-Ra continues to take a standalone view of IRM while factoring in the corporate guarantees provided to its joint ventures (JVs) while arriving at the ratings.

Detailed Rationale of the Rating Action

The upgrade reflects an improvement in IRM’s business and financial risk profile. IRM's financial profile has improved substantially led by deleveraging using the initial public offering (IPO) proceeds of INR4,965 million (net of issue related expenses) in 3QFY24 for the prepayment of term debt of around INR1,350 million, and INR3,073 million is being utilised for the upcoming capex in a new geographical area (GA). The company was net debt free at end-9MF24 and is likely to remain net debt free over the medium term, according to Ind-Ra. Furthermore, the business profile is likely to remain healthy, led by a steady expansion of infrastructure in Namakkal and Tiruchirappalli (NT) GA won in 11th city gas distribution bidding round, along with a continued ramp up in the older GAs amid continued economic viability of compressed natural gas (CNG) and domestic piped natural gas (D-PNG) compared to alternate fuels in the corresponding segments. The ratings also factor in the higher exposure of the company to the Industrial PNG segment in Fatehgarh Sahib (FS) GA, which remained volatile from a volume and EBITDA perspective over FY22-FY24; however, improvements are likely in FY25. Lastly, the company is exposed to the risk of penalty levies in case of missing minimum works programme (MWP) targets, which, so far, have not been implemented across the sector.

List of Key Rating Drivers

Strengths

- Significant improvement in credit metrics post IPO
- Recovery in EBITDA margins in 9MFY24, to remain stable over FY24-25
- Moderation in volume in 9MFY24, likely to pick up in FY25

Weaknesses

- Risk related to breach of MWP targets
- High dependency on regulatory landscape, though supportive of CGD
- Gas sourcing to become key determinant of success

Detailed Description of Key Rating Drivers

Significant Improvement in Credit Metrics post IPO: IRM's credit metrics have improved substantially led by deleveraging, using IPO proceeds of INR4,965 million (net of issue related expenses) in 3QFY24. The IPO proceeds have been utilised for the prepayment of term debt of around INR1,350 million, and INR3,073 million is being utilised for funding the capital expenditure (capex) in NT GA over FY24-FY27. Furthermore, Ind-Ra expects IRM to see an improvement in its cash generation over FY25-FY26, led by volume growth, stable EBITDA margins and a continued reduction in the operating expenditure in mature GAs. The annual EBITDA expectation over the next two years is likely to be INR2.1 billion-2.7 billion. Hence, with the IPO proceeds and cash accruals, the capex would be completely funded without any incremental debt over FY25-FY26. Ind-Ra expects the company to remain net debt free over the medium term.

IRM’s net leverage (including corporate guarantees issued) is likely to have been negative in FY24 (FY23: 2.5x; FY22: 0.9x), led by the debt reduction, an increase in the cash position and improved EBITDA. The interest coverage (operating EBITDA/interest expense) improved to 6.94x in 9MFY24 (FY23: 4.90x; FY22: 8.45x). Furthermore, the company’s return on equity declined to around 10% in FY24 (FY23: 17%; FY22: 47%) on account of a higher equity base post IPO, and is likely to improve to 13%-15% over the short-to-medium term.

Recovery in EBITDA Margins in 9MFY24, to Remain Stable over FY24-25: In 9MFY24, IRM’s EBITDA and EBITDA margins improved to INR1,263 million (FY23: INR1,123 million; FY22: INR1,864 million) and 19% (11%, 37%), respectively, owing to a higher share of CNG volume in the overall mix, lower input gas cost and better operational efficiency. The EBITDA/standard cubic meter (scm) improved to INR8.82/scm during 9MFY24 (FY23: INR5.73/scm; FY22: INR12.34/scm). Ind-Ra expects the EBITDA/scm to remain stable at INR8-10/scm over FY24-FY25, supported by the moderation in the input gas cost. The overall EBITDA would be further be supported by volume growth across GAs and segments.

Moderation in Volume in 9MFY24, Likely to Pick Up in FY25: IRM's sales volumes moderated to 143.11 million metric standard cubic metres (mmscm) in 9MFY24 (9MFY23: 147.89mmscm; FY23: 196.43mmscm; FY22: 151.06mmscm), with an average net realisation of INR47.26/scm (INR49.83/scm; INR49.90/scm; INR33.57/scm), leading to a revenue (net of excise duty) of INR6,763 million (INR7,369 million; INR9,801 million; INR5,071 million). The volumes growth moderated on account of a decrease in the piped natural gas-industrial consumers (I-PNG) on account of a relaxation of National Green Tribunal (NGT) ban in Fatehgarh Sahib GA; however, this was offset by healthy volume growth in the CNG segment. The CNG volumes increased to 268.1 thousand scmd in 9MFY24 (FY23: 229.3 thousand scmd; FY22: 198.7 thousand scmd) offsetting the fall in I-PNG volumes at 211.2 thousand scmd (291.8 thousand scmd; 171.4 thousand scmd). The share of the CNG segment in the company's overall sales volume increased to 52% (43%; 48%) followed by I-PNG segment at 41% (54%; 41%). Given the relatively higher exposure to I-PNG in the overall mix, the volumes could remain volatile over FY25, impacting the overall scale of operations. However, with the regasified liquified natural gas prices reducing and the adherence to NGT order likely to happen in FY25 in FS GA, as per management, Ind-Ra expects the volumes to pick up and reach 0.60-0.70 mmscm per day in FY25 (9MFY24: 0.52 mmscm per day; Ind-Ra's expectation for FY24: around 0.53 mmscm per day). There is a volume upside available from connecting a higher number of I-PNG customers in NT GA as well, given some large industries present in the GA.

For 9MFY24, the sales volumes contribution from Banaskantha, FS, Diu & Gir Somnath and NT GA stood at 45%, 46%, 5% and 0.5%, respectively. Ind-Ra expects the volume to pick up in FY25, given the steady expansion of infrastructure in the NT GA and the continued economic viability of CNG and PNG, compared to alternate fuels in the corresponding segments. Furthermore, in case of any clear direction to adhere to the NGT ban; the I-PNG volumes can quickly recover; this remains a key montiorable.

Risk Related to Breach of MWP Targets: IRM has completed the MWP for Banaskantha and Fatehgarh Sahib GAs. For NT GA, by the end of the MWP, IRM has to complete the laying of 1,450 inch-km of pipeline, connecting 17,74,000 D-PNG connections and constructing 290 CNG stations against which it had laid 133 inch-km pipeline and commenced seven CNG stations till December 2023. The start date for the NT GA has been revised to 1 April 2024 by Petroleum and Natural Gas Regulatory Board, in line with a delay in the commissioning of the designated pipeline. For Diu & Gir Somnath GA, by the end of the MWP, IRM has to complete the laying of 188 inch-km of pipeline, connecting 91,000 D-PNG connections and constructing 35 CNG stations against which it had laid 733 inch-km pipeline, created infrastructure for 4,700 domestic connections and commenced 13 CNG stations till December 2023. IRM is lagging behind the 25,025 D-PNG connections MWP target till December 2023. Although the regulator has not levied any penalties/bank guarantee encashments so far across the sector, any change in stance could impact the EBITDA generation assumed by Ind-Ra and would remain a key monitorable for the sector. However, Ind-Ra draws comfort from the execution capability of the company, as demonstrated in the operational ramp-up at BK and FS GAs.

High Dependency on Regulatory Landscape, though Supportive of CGD: The CGD entities benefit from the favourable business profile due to the market exclusivity for five-to-eight years and infrastructure exclusivity for 25 years in the respective GAs. They also benefit from regulatory support in the form of allocation of cheaper domestic natural gas to CNG and household-PNG connections, enabling them to earn a healthy return on invested capital, thus ensuring adequate availability of funds for growth. Post the implementation of the Kirit Parekh Committee, the domestic natural gas prices have also reduced to USD6.5/mmbtu, lower than the spot or RLNG rate, ensuring CGD developers get sufficient returns. Furthermore, the government's focus on greener fuels in both industrial and automotive segments has been increasing, aiding the faster adoption of PNG/CNG. However, any adverse development with respect to the pricing freedom and/or gas allocation could lead to a complete reassessment of the sector by Ind-Ra.

Gas Sourcing to Become Key Determinant of Success: CGD entities benefit from domestic gas allocation for CNG and D-PNG segments, while industrial/commercial PNG are serviced from RLNG. Given the shortfall in domestic gas production, the incremental demand for CNG and D-PNG segments is also likely to be met through RLNG. The CNG and D-PNG segments are being supplied with an RLNG mix of 10%-15%. A higher proportion of RLNG for CNG and D-PNG and greater sales to industrial-commercial PNG segments would necessitate the tying up of long-term RLNG at competitive rates. At end-April 2024, IRM had 290 thousand scmd tied up under short-medium term contracts at favourable pricing, which is adequate to cater to the current blending requirement and industrial PNG volumes; however, the company's ability to continue to tie up long-term high-pressure high temperature gas (HPHT)/RLNG would be a key determinant of its ability to serve customers at a competitive price.

Liquidity

Adequate: IRM had free cash and cash equivalents of INR528.3 million at end-9MFY24 (FYE23: INR218.7 million; FYE22: INR591 million). The un-utilised IPO proceeds have been parked in fixed deposits, the balance of which stood at INR4,246 million at end-9MFY24. The company also has access to INR200 million of fund-based limits, for which the average utilisation remained under 38% for the 12 months ended March 2024. IRM also has non-fund-based limits of INR2,100 million for providing bank guarantees to procure gas, which were utilised at around 68% for the 12 months ended March 2024. Apart from these limits, IRM has furnished performance bank guarantees to the Petroleum and Natural Gas Regulatory Board amounting to INR1,581 million for all GAs combined. The company's cash flow from operations remained healthy at INR600 million in 1HFY24 (FY23: INR324 million; FY22: INR1,110 million), and is likely to remain above INR1,200 million in FYE24. The company reported negative free cash flows of INR385 million in 1HFY24 (FY23: negative INR1,316 million; FY22: INR170 million) on account of capital expenditure of INR935 million (INR1,625 million; INR905 million). The company has capex plans of INR2,024 million and INR2,479 million in FY25 and FY26, respectively. Furthermore, the company has debt repayments of INR861 million and INR631 million in FY25 and FY26, respectively.

The working capital cycle was negative three days at FYE23 (FYE22: negative 10 days). IRM has plans to divest from businesses in bio-CNG fuel and medium-density polyethylene pipe manufacturing business to focus on the core CGD business. Moreover, IRM has provided a corporate guarantee of INR815.6 million for the debt and working capital facilities raised at its joint venture companies.

Rating Sensitivities

Positive: A sustained improvement in the operating profitability and higher-than-Ind-Ra-expected volume ramp up in existing and new GAs could be positive for the ratings.

Negative: Significant cost or time overruns in project execution, a sustained fall in the operating margins and/or any negative regulatory development and/or an unexpected debt-led capex, leading to the net leverage (including corporate guarantees issued) exceeding 1.5x on a sustained basis will lead to a negative rating action.

About the Company

Incorporated in December 2015, IRM is engaged in storing, supplying and distributing natural gas, as well as laying, operating and maintaining CGD networks. IRM began commercial operations in 1HFY18. IRM has a five-year district marketing exclusivity for BK and FS, eight-year for DGS and a 25-year infrastructure exclusivity for all GAs. IRMs has been held 50% by CPL and its related parties and 23% by other strategic partners.

KEY FINANCIAL INDICATORS

Particulars	**9MFY24**	**FY23**	**FY22**
Net revenue (INR million)	6,763	9,801	5,071
Operating EBITDA (INR million)	1,263	1,123	1,864
EBITDA Margin (%)	18.7	11.5	36.8
Gross interest coverage (x)	6.9	4.9	8.5
Net adjusted leverage (x)	-0.9*	2.5	0.9
Source: IRM, Ind-Ra *TTM basis			

Status of Non-Cooperation with previous rating agency

Not applicable

Rating History

Instrument Type	Rating Type	Rated Limits (million)	Current Ratings	Historical Rating/Outlook			
				22 September 2023	14 July 2023	29 April 2022	17 Sep 2021
Issuer rating	Long-term	-	-	WD	IND A+/Stable	IND A+/Stable	IND A+/Stable

Term loan	Long-term	INR2,452.7	IND AA-/Stable	-	IND A+/Stable	IND A+/Stable	IND A+/Stable
Fund-based working capital limit	Long-term/Short-term	INR866.1	IND AA-/Stable/IND A1+	-	IND A+/Stable/IND A1+	IND A+/Stable/IND A1+	IND A+/Stable/IND A1+
Non-fund-based working capital limit	Long-term/Short-term	INR3,681.2	IND AA-/Stable/IND A1+	-	IND A+/Stable/IND A1+	IND A+/Stable/IND A1+	IND A+/Stable/IND A1+

Bank wise Facilities Details

Click here to see the details

Complexity Level of the Instruments

Instrument Type	Complexity Indicator
Term loan	Low
Fund-based limits	Low
Non-fund-based limits	Low

For details on the complexity level of the instruments, please visit www.indiaratings.co.in/complexity-indicators.

APPLICABLE CRITERIA

Evaluating Corporate Governance

Short-Term Ratings Criteria for Non-Financial Corporates

Corporate Rating Methodology

The Rating Process

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About India Ratings and Research: India Ratings and Research (Ind-Ra) is committed to providing India's credit markets accurate, timely and prospective credit opinions. Built on a foundation of independent thinking, rigorous analytics, and an open and balanced approach towards credit research, Ind-Ra has grown rapidly during the past decade, gaining significant market presence in India's fixed income market.

Ind-Ra currently maintains coverage of corporate issuers, financial institutions (including banks and insurance companies), finance and leasing companies, managed funds, urban local bodies and project finance companies.

Headquartered in Mumbai, Ind-Ra has seven branch offices located in Ahmedabad, Bengaluru, Chennai, Delhi, Hyderabad, Kolkata and Pune. Ind-Ra is recognised by the Securities and Exchange Board of India, the Reserve Bank of India and National Housing Bank.

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