

INDIAN ENERGY EXCHANGE (IEX) | Power Exchange

LKP

IEX has witnessed a significant increase in the volume transacted through its Day ahead market (DAM) in the first nine months of FY21 with a volume growth of c.29%. Majority of the growth has been seen in the last four months to Dec'20 with a volume growth of c.58% year on year. The month of December'20 observed the highest ever monthly volume of 7,260 MU registering 52% YoY growth. Power demand in India has also picked up since the gradual unlocking sustained by revival of the industrial activities. According to the data published by the National Load Dispatch Center (NLDC), the national peak demand in December'20 saw 7% YoY increase while the energy consumption registered 5% YoY growth. IEX managed to grow at much higher pace in FY21 despite the Covid-19 disruption. The main reason for the increase in volumes through IEX was the power traded through their platforms offered the customer lowest possible rates suitable for their respective cost saving measures during the lockdown.

Q3 to be the Best in its History

IEX has seen the highest ever quarterly volumes in the company's history of 20,167 MU i.e. growth of c.62% YoY. The major reason was increase in volumes in DAM along with incremental volumes from the RTM and Green TAM segments. Since the launch, RTM has traded total of 5,703 MU and Green TAM has traded total 549 MU of cumulative electricity. In the month of December'20, IEX has also launched two new contracts – Green Daily Contracts and Green Weekly Contracts in the Green TAM segment.

We expect the company to generate revenue in the range of Rs. 80-90 crores in the Q3FY21 i.e. c.35-50% yoy growth with an expected PAT in the range of Rs. 50-58 crores.

Expected Transaction Fees Earned in Q3FY21

Quarterly volumes (in MUs)	Oct-20	Nov-20	Dec-20	Q3FY21E
DAM	5,501	4,860	5,606	15,967
TAM	219	245	436	900
RTM	814	894	1,129	2,837
Green Market	208	164	90	462
IEX Total Volume Transacted	6,743	6,164	7,260	20,167
% YOY Growth	76.10%	61.20%	52.30%	62.30%
Fees @4paisa/trade (in crs)	26.97	24.66	29.04	80.67

YE Mar	2017	2018	2019	2020	2021E	2022E	2023E
Total Sales (₹ Cr)	199	230	254	257	291	345	385
EBITDA Margins (%)	72.2%	80.2%	79.8%	78.6%	78.0%	79.4%	80.2%
PAT Margins (%)	57.2%	57.1%	65.0%	68.3%	63.7%	65.6%	67.5%
EPS (₹)	3.7	4.3	5.4	5.9	6.2	7.6	8.7
P/E (x)	51.9	44.7	35.7	33.1	31.4	25.7	22.3
P/BV (x)	21.2	20.8	15.9	15.0	12.0	9.7	8.0
EV/EBITDA (x)	40.2	31.3	28.7	28.7	24.9	20.0	17.2
ROE (%)	40.8%	46.4%	44.6%	45.3%	38.4%	37.8%	36.0%
ROCE (%)	61.8%	66.2%	58.1%	52.6%	47.1%	46.9%	45.1%

Rating	Buy
Current Market Price(₹)	220
12 M Price Target (₹)	244
Potential upside (%)	11

Stock Data

FV (₹)	1
Market Cap Full (₹ bn)	66
Market Cap Free Float (₹ bn)	66
52-Week High / Low (₹)	233 / 116
1 Year Avg. Dly Traded Volume (in lakh)	11
BSE Code / NSE Symbol	540750 / IEX
Bloomberg	IEX IN

Shareholding Pattern (%)

(%)	Sep-20	Jun-20	Mar-20	Dec-19
FPIs	30.23	31.25	31.99	30.53
MFs	18.22	14.80	12.34	7.56
AIF	5.46	7.29	7.17	7.05
Corporate	21.67	24.73	24.60	28.24
Others	24.42	21.93	23.90	26.62

Price Performance (%)

(%)	1M	3M	6M	1YR
IEX	2%	2%	17%	38%
NSE Nifty	7%	23%	34%	16%

* To date / current date : 5-January-2021

IEX vs Nifty 50



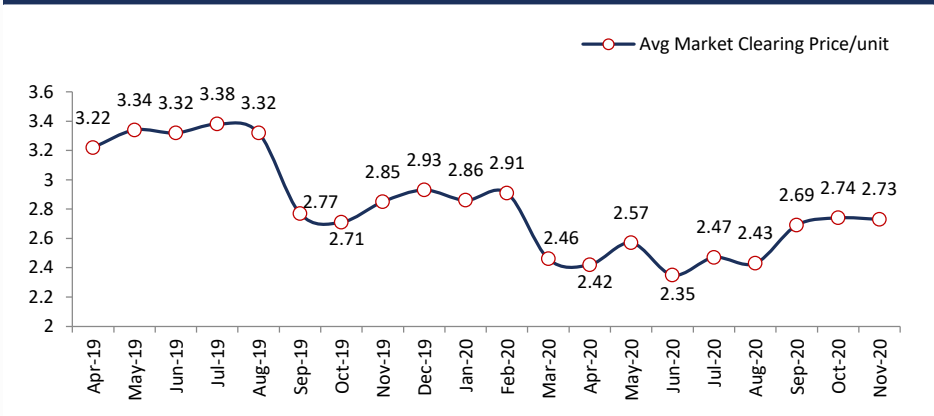
Pickup in Power Demand

Economic activity month on month is improving with revival in majority of the sectors barring few such as tourism, travel and hotel. The manufacturing activity has seen improvement quarter on quarter indicated by the rising PMI index of 56.4 in December'20. Also, the power generation has also grown yoy in the last two months of September and October 20 at 5% and 9% respectively. IEX has been able to significantly outperform the overall power generation growth in the last few months.

Gaining Market Share

IEX platform offers the lowest power tariff which helps them to attract large volume of trades. The lowest cost is possible due to many factors such as lower raw material costs, increase capacity resulting in high seller volumes and increase in volumes from renewable power generators among others. The power tariffs are reducing gradually in the spot market attracting the cash-strapped state electricity boards to spot market. There also seem to be a shift in the power procurement from the long term agreements to now short term cheaper electricity in spot market. The average market clearing price has also witnessed a decline from as high as Rs. 3.38/unit in July-19 to as low as Rs. 2.35/unit in June-20.

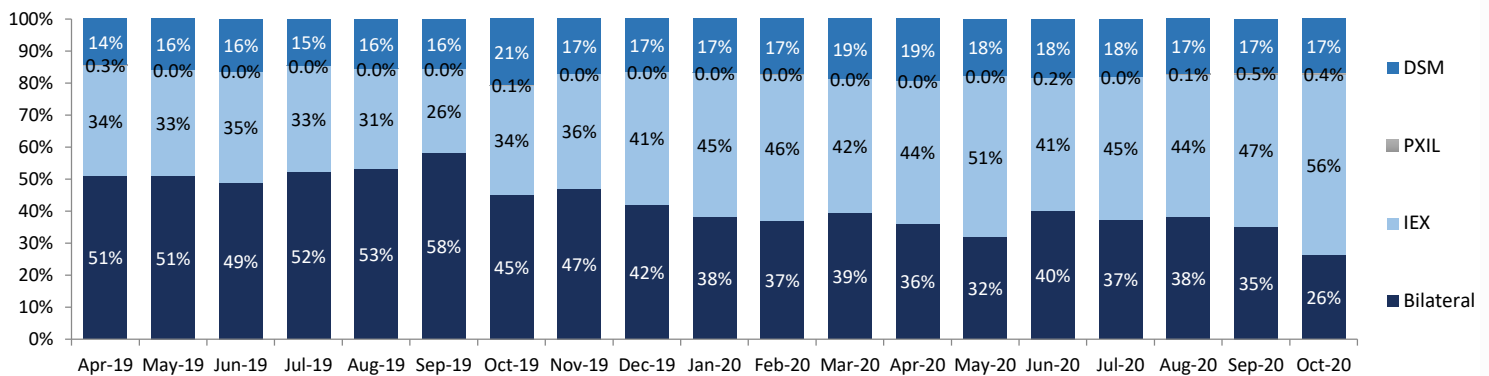
Avg Market Clearing Price/unit



Source: Company, LKP Research

With lower tariff, the volumes transacted through the power exchanges have significantly increased leading to higher market share.

Market Share in Short Term Power Market



Source: CERC, LKP Research

IGX Secures Authorization

Indian Gas Exchanges (IGX) a wholly owned subsidiary of IEX secures authorization from the Petroleum and Natural Gas Regulatory Board to operate as a Gas exchange for a period of 25 years. This reaffirms IGX's commitment to provide neutral, transparent price discovery platform and nurture gas markets in the country. The authorization from the board makes IGX India's first regulated gas exchange. IGX currently offers trade in five contracts namely: Daily Weekly, Weekday, Fortnightly and Monthly at three physical hubs at Hazira and Dahej in Gujarat and KG Basin in Andhra Pradesh. Since its launch on 15 June 2020, the platform has cumulatively traded 74,600 MMBTU. Through its robust value proposition such as transparency, flexibility, settlement, delivery facilitation and competitive price discovery, it aims to set competitive price benchmarks in the Indian gas market.

Income Statement

Particulars (₹ in Cr)	2017	2018	2019	2020	2021E	2022E	2023E
Total Revenue From Operations(Net)	198.7	230.4	254.1	257.1	290.7	344.9	385.2
% Growth		16.0%	10.3%	1.2%	13.1%	18.6%	11.7%
Expenses							
Employee Benefit Expenses	15.5	24.1	24.8	33.2	39.2	44.1	49.3
Other Expenses	39.7	21.5	26.4	21.7	24.6	26.9	27.0
Total Expenses	55.2	45.6	51.3	55.0	63.8	71.0	76.3
EBITDA	143.5	184.9	202.8	202.2	226.9	273.8	308.9
EBITDA Margin (%)	72.2%	80.2%	79.8%	78.6%	78.0%	79.4%	80.2%
Other Income	34.2	25.6	40.1	40.3	38.7	47.7	59.1
Depreciation and Amortization Expenses	3.4	10.3	10.4	15.2	16.3	17.2	18.2
EBIT	174.3	200.2	232.5	227.2	249.4	304.4	349.9
EBIT Margin (%)	87.7%	86.9%	91.5%	88.4%	85.8%	88.3%	90.8%
Finance Cost	0.4	0.2	0.7	1.6	1.8	2.1	2.3
Profit / (Loss) before exceptional items and tax	173.9	200.0	231.7	225.6	247.6	302.3	347.5
Exceptional Items	-	-	-	-	-	-	-
PBT	173.9	200.0	231.7	225.6	247.6	302.3	347.5
PBT Margin (%)	87.5%	86.8%	91.2%	87.7%	85.2%	87.6%	90.2%
Tax Expense	60.3	68.3	66.7	49.9	62.3	76.1	87.5
Current tax expense for current year	61.1	54.0	57.3	49.6	62.3	76.1	87.5
Deferred tax	-1.9	-1.2	9.8	0.2	-	-	-
Other Tax Adjustments	1.1	15.6	-0.4	0.2			
Profit / (Loss) for the year	113.6	131.7	165.0	175.7	185.3	226.2	260.1
PAT Margins %	57.2%	57.1%	65.0%	68.3%	63.7%	65.6%	67.5%

Financial Ratios

Particulars	2017	2018	2019	2020	2021E	2022E	2023E
Per Share Data (₹)							
EPS	3.74	4.34	5.44	5.87	6.19	7.55	8.68
Cash EPS	3.86	4.68	5.79	6.37	6.73	8.13	9.29
BV/Share	9.17	9.35	12.21	12.95	16.13	19.96	24.09
DPS	3.50	2.20	-	2.50	3.09	3.78	4.34
Payout (%)	93%	51%	0%	43%	50%	50%	50%
Growth Ratios (%)							
Sales Growth	13.5%	16.0%	10.3%	1.2%	13.1%	18.6%	11.7%
EBIDTA Growth	14.6%	28.9%	9.7%	-0.3%	12.2%	20.7%	12.8%
EBIT Growth	18.6%	14.9%	16.1%	-2.3%	9.8%	22.1%	15.0%
EBT Growth	18.6%	15.0%	15.9%	-2.6%	9.7%	22.1%	15.0%
PAT Growth	13.4%	15.9%	25.3%	6.5%	5.4%	22.1%	15.0%
Valuation Ratios (x)							
P/E	51.9	44.7	35.7	33.1	31.4	25.7	22.3
Cash P/E	50.4	41.5	33.6	30.5	28.9	23.9	20.9
EV/Sales	29.0	25.1	22.9	22.5	19.4	15.9	13.8
EV/EBITDA	40.2	31.3	28.7	28.7	24.9	20.0	17.2
P/B	21.2	20.8	15.9	15.0	12.0	9.7	8.0
Mcap/Sales	29.7	25.6	23.2	22.6	20.0	16.9	15.1
Operating Ratios							
Fixed Asset Turnover Ratio (x)	22.9	1.9	2.3	2.2	2.7	3.6	4.7
Asset Turnover Ratio (x)	0.36	0.40	0.36	0.39	0.37	0.36	0.34
Inventory Days	-	-	-	-	-	-	-
Trade Receivables Days	0.38	0.34	65.92	0.26	0.26	0.26	0.26
Trade Payables Days	316	134	192	109	105	100	100
Profitability Ratios (%)							
EBITDA Margin	72.2%	80.2%	79.8%	78.6%	78.0%	79.4%	80.2%
EBIT Margin	87.7%	86.9%	91.5%	88.4%	85.8%	88.3%	90.8%
EBT Margin	87.5%	86.8%	91.2%	87.7%	85.2%	87.6%	90.2%
PAT Margin	57.2%	57.1%	65.0%	68.3%	63.7%	65.6%	67.5%
Return Ratios (%)							
ROE	40.8%	46.4%	44.6%	45.3%	38.4%	37.8%	36.0%
ROCE	61.8%	66.2%	58.1%	52.6%	47.1%	46.9%	45.1%
Liquidity & Leverage Ratios (x)							
Current Ratio	1.6	1.4	1.3	1.5	1.8	2.1	2.4
Interest Coverage Ratio	414.9	883.6	316.6	145.1	140.9	144.9	149.2
Net Debt/Equity Ratio	-0.5	-0.4	-0.2	-0.1	-0.3	-0.6	-0.7
Financial Leverage	2.0	2.0	1.9	1.7	1.6	1.6	1.5

Balance Sheet

Particulars (₹ in Cr)	2017	2018	2019	2020	2021E	2022E	2023E
Equities And Liabilities							
Shareholders' funds							
Share capital	30.13	30.16	30.19	29.83	29.83	29.83	29.83
Reserves and surplus	248.09	253.56	340.08	358.12	453.26	567.95	691.89
	278.21	283.72	370.27	387.95	483.09	597.78	721.72
Non-current liabilities							
Other Financial Liabilities	1.19	1.28	1.72	13.61	15.39	18.26	20.39
Long term Provisions	2.27	2.63	3.65	5.71	6.45	7.66	8.55
Deffered Tax Liabilities (Net)	-	14.68	24.41	24.43	24.43	24.43	24.43
Other Longterm Liabilities	0.10	0.14	0.17	0.18	0.20	0.24	0.26
	3.56	18.73	29.95	43.93	46.47	50.58	53.63
Current liabilities							
Trade payables	171.94	84.63	133.83	76.57	83.64	94.49	105.52
Other Financial Liabilities	81.31	165.60	153.56	139.42	157.64	187.00	208.83
Short term Provisions	0.14	0.17	0.36	0.09	0.10	0.12	0.13
Current Tax Laibilities (Net)	4.36	5.23	2.73	2.65	2.65	2.65	2.65
Other current liabilities	14.44	16.19	14.88	16.66	18.83	22.34	24.95
	272.19	271.81	305.34	235.38	262.85	306.60	342.08
Total Equity & Liabilities	553.97	574.27	705.56	667.26	792.42	954.96	1,117.43
ASSETS							
Non-current assets							
Fixed assets							
Tangible assets	6.05	7.23	7.16	21.80	20.38	18.01	14.70
Capital work-in-progress	0.33	0.29	0.35	0.03	0.03	0.03	0.03
Intangible assets	2.30	111.76	104.21	97.18	87.33	77.48	67.63
Intangible assets under development	0.63	0.24	0.90	3.81	3.81	3.81	3.81
Financial Assets:							
Non-current investments	71.17	77.56	202.22	196.75	196.75	196.75	196.75
Long-term loans and advances	0.88	1.38	1.71	0.46	0.46	0.46	0.46
Other fiancial assets	25.83	-	-	2.03	2.29	2.72	3.03
Deffered Tax Assets (Net)	0.98	-	-	-	-	-	-
Non-current tax assets (net)	1.20	1.02	0.99	0.21	0.21	0.21	0.21
Other non-current assets	0.64	1.27	0.64	0.39	0.44	0.53	0.59
	110.00	200.74	318.18	322.65	311.69	299.99	287.21
Current assets							
Inventories					-	-	-
Investment	311.93	190.91	272.44	311.82	311.82	311.82	311.82
Financial Assets							
Trade receivables	0.21	0.22	45.89	0.19	0.21	0.25	0.28
Cash and Bank balances	81.64	53.10	50.82	12.86	28.58	52.18	36.96
Other Balances with Banks	46.81	61.26	16.80	14.78	134.78	284.78	474.78
Short-term loans and advances	0.04	0.03	0.03	2.08	2.08	2.08	2.08
Other financial assets	1.71	67.01	0.13	0.30	0.34	0.40	0.45
Other current assets	1.63	0.99	1.29	2.58	2.91	3.46	3.86
	443.96	373.52	387.39	344.60	480.72	654.97	830.23
Total Assets	553.97	574.27	705.56	667.26	792.42	954.96	1,117.43

Cash Flow

Particulars (₹ in Cr)	2017	2018	2019	2020	2021E	2022E	2023E
CASH FLOW FROM OPERATING ACTIVITIES							
Profit / (Loss) before Tax	173.85	200.00	231.75	225.62	247.60	302.27	347.53
Depreciation and Amortization	3.42	10.27	10.42	15.24	16.28	17.22	18.16
Interest	(7.92)	(5.45)	(2.90)	(0.30)	(6.45)	(15.13)	(26.28)
Other Operating Activities	(25.47)	(19.32)	(35.98)	(37.30)	-	-	-
Working capital changes	123.06	(2.50)	(5.43)	(28.19)	29.30	46.70	37.68
Income tax paid	(61.04)	(51.84)	(59.59)	(49.05)	(62.32)	(76.08)	(87.47)
NET CASH GENERATED BY OPERATING ACTIVITIES (A)	205.90	131.16	138.27	126.02	224.40	274.97	289.61
CASH FLOWS FROM INVESTING ACTIVITIES							
Capital Expenditure	(1.33)	(120.42)	(3.60)	(7.77)	(5.00)	(5.00)	(5.00)
Change in Investments	(35.32)	83.25	(66.17)	3.68	(120.00)	(150.00)	(190.00)
Other Investing Activities	15.44	3.75	7.64	1.57	8.22	17.23	28.63
NET CASH GENERATED / (USED) IN INVESTING ACTIVITIES (B)	(21.20)	(33.42)	(62.12)	(2.52)	(116.78)	(137.77)	(166.37)
CASH FLOW FROM FINANCING ACTIVITIES							
Interest paid	(0.13)	(0.05)	(0.04)	(0.84)	(1.77)	(2.10)	(2.35)
Dividend paid	(90.38)	(105.49)	(66.40)	(74.60)	(74.89)	(92.64)	(113.09)
Corporate dividend tax paid	(18.52)	(21.61)	(13.72)	(15.40)	(15.25)	(18.86)	(23.03)
Buyback				(69.00)			
Other Financial Activities	-	0.87	1.72	(1.61)	-	-	-
NET CASH GENERATED / (USED) IN FINANCING ACTIVITIES (C)	(109.04)	(126.27)	(78.44)	(161.45)	(91.91)	(113.60)	(138.47)
Net Change in Cash (A+B+C)	75.67	(28.54)	(2.29)	(37.96)	15.72	23.60	(15.23)
Cash & cash equivalents at the end of the year	81.64	53.10	50.82	12.86	28.58	52.18	36.96

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