

INDIAN ENERGY EXCHANGE (IEX) | Power Exchange

LKP

Stellar Q3 Performance

IEX reported record revenues this quarter on the back of increased transacted volumes on its platform. IEX revenues grew c.43% yoy to ₹85.23 crores as compared to ₹59.68 crores in Q3FY20. Volumes transacted this quarter has been the highest in the company's history at 20,175 MU, aided by increased volumes from new launches. IEX margins have also expanded this quarter on account of operating leverage coming into play. The company's EBITDA margin expanded by 288 bps YoY and 345 bps QoQ to 81.6% on consolidated basis. Power demand in India has also picked up since the gradual unlocking, sustained by revival of industrial activities. IEX managed to grow at a much higher pace in FY21 despite the Covid-19 disruption. The main reason for the increase in volumes was that the power traded through IEX platforms offered customers lowest possible rates suitable for cost saving measures during the lockdown. IEX has announced an interim dividend of ₹2.5 per equity share of face value of Re 1 in January 2021. Going forward, we expect the power traded on the IEX platform to grow exponentially with an increase in market share in terms of both short term and total power market. We maintain our BUY recommendation with an upward revision of price target to ₹298.

Highest Volume Transacted in IEX History

In Q3FY21, IEX registered a volume growth of c.62.3% with growth across all the product categories. The company transacted a total volume of 20,175 MU in this quarter comprising of volumes from DAM – 15,967 MU, TAM – 900 MU, RTM – 2837 MU and Green TAM – 462 MU. The company still enjoys a monopolistic environment in DAM, RTM & Green TAM markets although the TAM market is currently dominated by PXIL. 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. The company's revenue was in line with our estimates stated in our previous Company Update. The revenue earned from the transaction fees is around ₹81.03 crores and subscription & other related fees earned are stable at around ₹4.2 crores.

New Products Gaining Traction

IEX has launched the Real time market (RTM) and Green TAM in FY21 focusing on capturing the market share from the bilateral and the DSM markets. The company has seen a significant volume growth in both these product categories since its launch in May'20 and August'20 respectively. Cumulative volumes traded as on December'20 in the RTM and the Green TAM are around 5,706 MU and 549 MU respectively. With encouraging participation from distribution utilities, renewable generators and open access consumers, the green market has emerged as a key avenue for obligated entities to fulfill Renewable Purchase Obligation (RPO). Moreover, the utilities as well as the green generators are able to sell renewable power at competitive and viable prices.

YE Mar	2017	2018	2019	2020	2021E	2022E	2023E
Total Sales (₹ Cr)	199	230	254	257	324	371	414
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%	63.1%	65.1%	67.0%
EPS (INR)	3.7	4.3	5.4	5.9	6.8	8.1	9.2
P/E (x)	62.0	53.4	42.6	39.6	33.9	28.8	25.1
P/BV (x)	25.3	24.8	19.0	17.9	13.8	11.2	9.2
EV/EBITDA (x)	48.2	37.4	34.4	34.2	26.6	22.3	19.2
ROE (%)	40.8%	46.4%	44.6%	45.3%	40.7%	38.9%	36.8%
ROCE (%)	61.8%	66.2%	58.1%	52.6%	50.0%	48.2%	46.1%

Rating	Buy
Current Market Price (₹)	232
12 M Price Target (₹)	298
Potential upside (%)	28

Stock Data

FV (₹)	1
Market Cap Full (₹ bn)	70
Market Cap Free Float (₹ bn)	70
52-Week High / Low (₹)	253 / 116
2-Year High / Low (₹)	253 / 112
1 Year Avg. Dly Traded Volume (in lakh)	12
BSE Code / NSE Symbol	540750 / IEX
Bloomberg	IEX IN

Shareholding Pattern (%)

	Dec-20	Sep-20	Jun-20	Mar-20
FPIs	29.62	30.23	31.25	31.99
MFs	20.00	18.22	14.80	12.34
AIF	5.12	5.46	7.29	7.17
Corporate	24.34	21.67	24.73	24.60
Others	20.92	24.42	21.93	23.90

Source: BSE

IEX vs Nifty 50



Price Performance (%)

(%)	1M	3M	6M	1YR
IEX	9%	18%	33%	29%
Nifty 50	7%	21%	29%	19%

* To date / current date : January 22, 2021

Earlier Reports

5 Jan, 2021	Company Update
18 Jul, 2020	Initiating Coverage

Positive Policy and Regulatory Developments

The Ministry of Power introduced a draft proposal on December 04, 2020 enabling the distribution utilities to exit from the Power Purchase Agreement after completion of the term. This initiative will enable more buying by the utilities and sale of power by generators on the exchange. On December 22, 2020, Ministry of Power also notified Electricity (Rights of Consumers) Rules, 2020 as part of major reforms in the power sector. This was a significant step aimed at streamlining and enhancing the quality of electricity supply and services being provided to consumers across the country. The rules will also ensure consumers' right to round-the clock electricity supply. Amidst this development, the role of Power Exchange market has become more critical as it will allow distribution utilities to fulfill their power supply obligations and address demand-supply variations in an efficient and cost-competitive way.

Notable Developments in the IGX

Indian Gas Exchanges (IGX) a wholly owned subsidiary of IEX secures authorization from the Petroleum and Natural Gas Regulatory Board (PNGRB) to operate as a Gas exchange for a period of 25 years. This will reaffirm 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. IEX has also made a strategic stake sale of around 5% each to Adani Total Gas Ltd and Torrent Gas Pvt. Ltd. Also, the company is in contact with few more strategic partners for divestment of stake in IGX as per regulatory norms. The strategic partnership with key players will enable IGX to efficiently develop its foothold in the Indian Gas market.

Consolidated Quarterly Snapshot					
All fig in ₹ Crs	Q3FY21	Q2FY21	% qoq	Q3FY20	%yoy
Revenue from Operations	85.2	70.9	20.2%	59.7	42.8%
Employee Cost	10.4	11.7	-11.3%	7.9	
Other Expenses	5.3	3.8	39.8%	4.7	
EBIDTA	69.6	55.5	25.5%	47	48.0%
EBIDTA Margin %	81.6%	78.2%	345 Bps	78.8%	288 Bps
Other Income	10.9	7.8	39.4%	9.7	
Depreciation	4.2	4.3	-1.8%	4.1	
EBIT	76.3	59	29.3%	52.7	44.8%
EBIT Margin %	89.5%	83.2%	630 Bps	88.2%	123 Bps
Interest	0.5	0.5	2.2%	0	
EBT	75.7	58.5	29.5%	52.7	43.8%
Tax	17.6	14.1	24.5%	11	
PAT	58.1	44.3	31.1%	41.7	39.5%
PAT Margin %	68.2%	62.5%	570 Bps	69.9%	-164 Bps
EPS	1.94	1.48	31.1%	1.39	39.5%

Source: Company, LKP Research

Outlook & Valuation

India's spot power market is currently at a nascent stage as compared to other developed markets with only 6% of the total power generation. IEX is an integral part of the country's spot market growth trajectory with monopolistic business environment. The company has been busy launching multiple products in the market garnering more market share along with facilitating ease of transacting power through its platform. The success of the company is evident through the significant growth in the power volumes traded through its platforms over the last few quarters. Given the government focus on shifting the entire power transaction through exchange route, IEX would have tremendous growth opportunity. IEX's wholly owned subsidiary, IGX is also the first and only regulated gas exchange of India at the time when the government is aiming to increase the share of gas in the overall power market from current 6% to 15% in next few years. With robust growth prospects and healthy financials, we maintain our BUY recommendation with upward revision of price target to ₹298 using the DCF method.

DCF Model						
Particulars (₹ Crs)	2021E	2022E	2023E	2024E	2025E	Terminal Year
IEX Volumes (BUs)	76	82	92	105	117	
Transaction fees (2 paisa per side)	0.04	0.04	0.04	0.04	0.04	
Transaction Revenue (incl. REC)	304	349	391	443	493	
Annual Subscription fees	20.0	21.3	22.5	23.9	25.3	
Total Revenue	324	371	413	467	519	
EBIDTA	253	294	332	378	420	
Net income	205	241	277	320	362	
Depreciation	16.3	17.2	18.2	19.1	20.0	
Capital Expenditure	(5.0)	(5.0)	(5.0)	(5.0)	(5.0)	
Working capital investment	61	39	40	50	49	
Interest*(1-t)	1.5	1.7	1.9	2.1	2.4	
Free Cash Flow	279	294	332	386	428	9,416
Discounted cash flow	274	263	271	287	290	6,994

Sum of discounted cash flows-Firm value	8,378.3
Add: Cash and Investment	536.2
Equity Value	8,914.6
Shares outstanding (Crs)	29.96
Equity Price (₹)	298

Key Assumptions	
Particulars	%
WACC* (Beta @ 0.46)	9.8%
Long term Growth rate	5.0%

* No debt, therefore Cost of Equity = WACC

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	324.3	370.7	413.6
% Growth		16.0%	10.3%	1.2%	26.1%	14.3%	11.6%
Expenses							
Employee Benefit Expenses	15.5	24.1	24.8	33.2	43.8	47.4	52.9
Other Expenses	39.7	21.5	26.4	21.7	27.4	28.9	28.9
Total Expenses	55.2	45.6	51.3	55.0	71.2	76.4	81.9
EBITDA	143.5	184.9	202.8	202.2	253.1	294.3	331.7
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	275.6	324.9	372.7
EBIT Margin %	87.7%	86.9%	91.5%	88.4%	85.0%	87.6%	90.1%
Finance Cost	0.4	0.2	0.7	1.6	2.0	2.3	2.5
Profit / (Loss) before exceptional items and tax	173.9	200.0	231.7	225.6	273.6	322.6	370.1
PBT	173.9	200.0	231.7	225.6	273.6	322.6	370.1
PBT Margin %	87.5%	86.8%	91.2%	87.7%	84.4%	87.0%	89.5%
Tax Expense	60.3	68.3	66.7	49.9	68.9	81.2	93.2
Profit / (Loss) for the year	113.6	131.7	165.0	175.7	204.8	241.4	277.0
PAT Margins %	57.2%	57.1%	65.0%	68.3%	63.1%	65.1%	67.0%

Source: Company, LKP Research

Balance Sheet

Particulars (₹ in Cr)	2017	2018	2019	2020	2021E	2022E	2023E
Equities And Liabilities							
Shareholders' funds							
Share capital	30.1	30.2	30.2	29.8	29.8	29.8	29.8
Reserves and surplus	248.1	253.6	340.1	358.1	472.7	624.0	755.7
	278.2	283.7	370.3	388.0	502.6	653.8	785.5
Non-current liabilities							
Other Financial Liabilities	1.2	1.3	1.7	13.6	17.2	19.6	21.9
Long term Provisions	2.3	2.6	3.7	5.7	7.2	8.2	9.2
Deffered Tax Liabilities (Net)	-	14.7	24.4	24.4	24.4	24.4	24.4
Other Longterm Liabilities	0.10	0.14	0.17	0.18	0.22	0.25	0.28
	3.6	18.7	30.0	43.9	49.0	52.5	55.8
Current liabilities							
Trade payables	171.9	84.6	133.8	76.6	93.3	101.6	113.3
Other Financial Liabilities	81.3	165.6	153.6	139.4	175.9	201.0	224.2
Short term Provisions	0.1	0.2	0.4	0.1	0.1	0.1	0.1
Current Tax Laibilities (Net)	4.4	5.2	2.7	2.6	2.6	2.6	2.6
Other current liabilities	14.4	16.2	14.9	16.7	21.0	24.0	26.8
	272.2	271.8	305.3	235.4	292.9	329.3	367.1
Total	554.0	574.3	705.6	667.3	844.5	1,035.7	1,208.4
ASSETS							
Non-current assets							
Fixed assets							
Tangible assets	6.1	7.2	7.2	21.8	20.4	18.0	14.7
Capital work-in-progress	0.3	0.3	0.4	0.0	0.0	0.0	0.0
Intangible assets	2.3	111.8	104.2	97.2	87.3	77.5	67.6
Intangible assets under development	0.6	0.2	0.9	3.8	3.8	3.8	3.8
Financial Assets							
Non-current investments	71.2	77.6	202.2	196.7	196.7	196.7	196.7
Long-term loans and advances	0.9	1.4	1.7	0.5	0.5	0.5	0.5
Other fiancical assets	25.8	-	-	2.0	2.6	2.9	3.3
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	0.49	0.56	0.63
	110.0	200.7	318.2	322.7	312.0	300.2	287.5
Current assets							
Investment	311.9	190.9	272.4	311.8	311.8	311.8	311.8
Financial Assets							
Trade receivables	0.21	0.22	45.89	0.19	0.23	0.27	0.30
Cash and Bank balances	81.6	53.1	50.8	12.9	80.0	132.4	127.3
Other Balances with Banks	46.8	61.3	16.8	14.8	134.8	284.8	474.8
Short-term loans and advances	0.0	0.0	0.0	2.1	2.1	2.1	2.1
Other financial assets	1.7	67.0	0.1	0.3	0.4	0.4	0.5
Other current assets	1.6	1.0	1.3	2.6	3.3	3.7	4.1
	444.0	373.5	387.4	344.6	532.5	735.5	920.9
Total	554.0	574.3	705.6	667.3	844.5	1,035.7	1,208.4

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	273.62	322.60	370.14
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)	(6.25)	(14.97)	(26.11)
Other Operating Activities	(25.47)	(19.32)	(35.98)	(37.30)	-	-	-
Working capital changes	123.06	(2.50)	(5.43)	(28.19)	61.22	38.92	40.12
Income tax paid	(61.04)	(51.84)	(59.59)	(49.05)	(68.87)	(81.20)	(93.16)
NET CASH GENERATED BY OPERATING ACTIVITIES (A)	205.90	131.16	138.27	126.02	276.00	282.56	309.14
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)	(1.97)	(2.26)	(2.52)
Dividend paid	(90.38)	(105.49)	(66.40)	(74.60)	(74.89)	(74.89)	(120.70)
Corporate dividend tax paid	(18.52)	(21.61)	(13.72)	(15.40)	(15.25)	(15.25)	(24.57)
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)	(92.11)	(92.39)	(147.79)
Net Change in Cash (A+B+C)	75.67	(28.54)	(2.29)	(37.96)	67.11	52.40	(5.02)
Cash & cash equivalents at the end of the year	81.64	53.10	50.82	12.86	79.97	132.37	127.34

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