

INDIAN ENERGY EXCHANGE (IEX) | Power Exchange

LKP

IEX has surpassed its previous highs with a stellar volume growth of 92% in the month of March 21. The company has traded 8,249 MUs of power in this month as compared to 4,291 MUs in same period last year. The growth was mainly led by higher volumes in the Day ahead market (DAM) registering a growth of ~65% yoy followed by incremental volumes from Real time Market (RTM). IEX has ended the year with the highest ever yearly electricity volume of 73,941 MUs achieving 37% YoY growth despite the lockdowns in the first two quarters of this fiscal affecting the power demand. During the year, IEX has introduced several new products to better serve its customers such as RTM and various products under the Green Market which contributed around 14% to the total volume traded. IEX also has few more products in the pipeline which will further provide incremental volumes going forward. Also during the year, IEX's newly launched gas exchange IGX, has been able to secure strategic partnerships to provide a vibrant gas market platform for accelerating gas consumption in the country thereby helping towards achieving national sustainable energy aspirations. Currently with increase in Covid cases, few states have already announced stricter rules to curb the spread and IEX provides a better option to the distressed DISCOMs and other consumers in terms of lower prices resulting in cost competitiveness.

Record year for IEX

IEX has achieved the highest ever quarterly volumes in the history of its operations growing by 62% YoY. The company has transacted a total volume of 22,452 MUs in Q4FY21 ending FY21 with highest ever yearly volume of 73,941 MUs. The growth is on the back of higher volumes from the DAM growing by ~65% YoY and incremental volumes from the RTM and Green Market. The RTM and Green Market has transacted a cumulative volume of 9,468 MUs and 786 MUs respectively for the year ending March-21. IEX is expanding its product portfolio by constantly adding newer options for the customers to deal in. In the Green Market, the company has launched four contracts - Intra Day, Day-Ahead, Daily and Weekly in both the solar as well as the non-solar segments.

We expect IEX to generate revenues in the range of Rs. 90-95 crores in Q4FY21 i.e. c.35-40% yoy growth with an expected PAT in the range of Rs. 60-70 crores.

Expected Transaction Fees Earned in Q4FY21

Quarterly volumes (in MUs)	Jan-21	Feb-21	Mar-21	Q4FY21E
DAM	5,584	5,124	6,549	17,257
TAM	524	432	234	1,190
RTM	1,233	1,118	1,414	3,765
Green Market	92	94	51	237
IEX Total Volume Transacted	7,433	6,768	8,248	22,451
% YOY Growth	46.9%	49.9%	92.2%	61.9%
Fees @4paisa/trade (in crs)	29.73	27.07	32.99	89.80

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 (₹)	353
12 M Price Target (₹)	424
Potential upside (%)	20

Stock Data

FV (₹)	1
Market Cap Full (₹ bn)	106
Market Cap Free Float (₹ bn)	85
52-Week High / Low (₹)	135 / 393
2-Year High / Low (₹)	112 / 393
1 Year Avg. Dly Traded Volume (in lakh)	16
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	15%	59%	65%	162%
Nifty 50	-2%	4%	26%	82%

* To date / current date : April 6, 2021

Earlier Reports

22 Jan, 2021

18 Jul, 2020

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New Products Around the Corner

IEX is waiting to launch new products in the market which have been discussed a lot. These products offer a huge growth potential for the company in the near future catering to every type of power contract. IEX is soon launching products such as Long Duration Contracts (LDC), Cross border Trade and Derivatives.

First is the LDC offering delivery upto 365 days which the company is in the process of getting approval. This will ensure that going forward IEX is able to offer a bouquet of contracts -- fortnightly, monthly, quarterly and annual contracts to its customers.

Second is Cross Border Trade that has been pending for a long time. Since the company has connectivity with Nepal, Bangladesh and Bhutan where power surplus is available on either side, transaction through the exchange will start soon. A lot of work has already been done by the company and one final procedure is awaited from CEA, following which IEX would be able to start it.

Third and the most important thing is Derivatives. For IEX, the introduction of derivatives will be a game changer because today consumers have some reservation on participating in the spot market as they are prone to fluctuations in prices. Both industries and utilities look for some price certainty. Today, no option is available to them to hedge their position. Once the derivatives are in place, the trade would become similar to what happens globally, where exchanges are contributing more than 50 per cent of the total consumption. Once this happens the participants will also be able to realize the real potential of the exchange route.

Industry Updates

The power sector as a whole is going through transformation with various policies and changes in terms of renewable power generation, reducing older power plants, creating a single platform for power transaction, procurement of coal for short term contracts and option for DISCOMs to exit PPA among others. Some of these changes have already been implemented while some of them are under discussion which soon could come into force.

Recently, the government has issued directions to enable the DISCOMs to exit PPAs with old central utilities run stations. This will free up almost 20 GW of capacity which can be sold under the short and medium term contracts either through exchanges or bilateral trade. The choice is given to the DISCOMs to either continue or exit PPAs that have completed their 25 year term.

The government has recently issued letters to the CERC & POSOCO to launch the Day Ahead Market in the Green Market segment to enable the renewable power generators to sell their power directly on the exchange. Along with the launch, the government will also provide other benefits to the renewable generators such as waiver of transmission fees along with other benefits which are currently being available to long term renewable contracts.

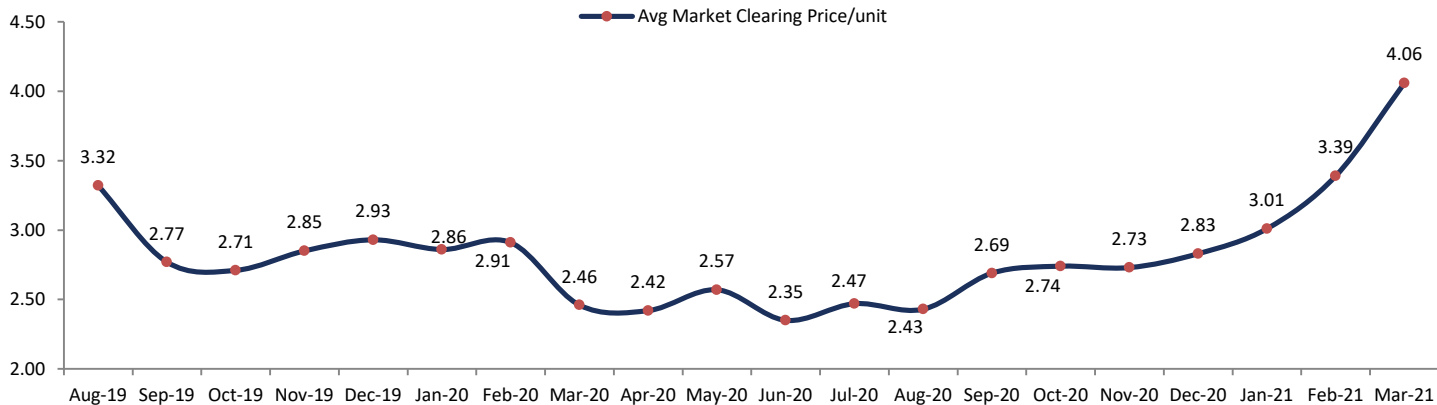
Update on IGX

Since our last update on IGX, the company has successfully entered into strategic alliances with leading players in the gas market. IEX has sold 46% stake in IGX in Q4FY21 of which 5% each is sold to Adani Total Gas, Torrent Gas, GAIL (India) Ltd & ONGC. Recently, the company sold 26% stake of IGX to National Stock Exchange of India Limited (NSE) through its wholly owned subsidiary NSE Investments Ltd. These strategic partnerships will enable IGX to provide a vibrant gas market platform for accelerating gas consumption in the country thereby helping towards achieving national sustainable energy aspirations.

Story in Charts

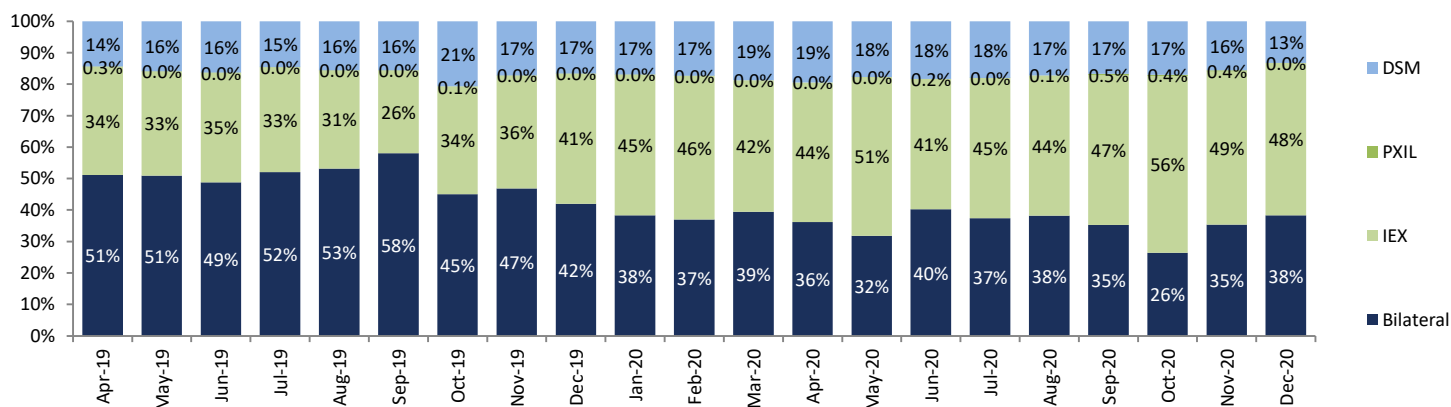
The increase in price is mainly due to the increase in demand for electricity in the last quarter due to revival of economic and commercial activities and sharp rise in temperature in the month of March 21

Avg Market Clearing Price/unit



Source: Company, LKP Research

Market Share in Short Term Power Market



Source: Company, LKP Research

Outlook & Valuation

IEX has grown significantly in the current quarter and the fiscal owing to new product launches and better demand for short term power. The company is set to move on to the next leg of growth in the coming years with further launch of new products and shift of volumes from long term PPAs to Exchanges for better price discovery.

We continue our BUY recommendation for IEX with an updated target price of Rs. 424 using the DCF method.

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
<i>% Growth</i>		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
<i>EBITDA Margin %</i>	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
<i>EBIT Margin %</i>	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
<i>PBT Margin %</i>	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
<i>PAT Margins %</i>	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 fiancial 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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