

# Indian Energy Exchange (INDEN)

CMP: ₹ 155

Target: ₹ 190 (22%)

Target Period: 12 months

BUY

July 26, 2022

## Silent quarter due to unfavourable macros...

**About the stock:** Indian Energy Exchange (IEX) is the premier electricity exchange in India, which facilitates trading of electricity.

- IEX commands a market share of ~90% in the power exchange market
- The company has a debt free balance sheet with cash & investments to the tune of ~ ₹340 crore

**Q1FY23 Results:** IEX reported decent Q1FY23 results.

- Revenue was up 8% YoY at ₹ 98.4 crore
- EBITDA in Q1FY23 was at ₹ 81 crore, up 8.2% YoY with margins at 82.4%
- Consequent PAT in Q1FY23 was at ₹ 69.1 crore, up 11.3% YoY

**What should investors do?** For the past year, IEX has remained richly valued given its clean balance sheet, but its monopoly might be challenged in future.

- We continue to remain positive and retain our **BUY** rating on the stock

**Target Price and Valuation:** We value IEX at ₹ 190 i.e. 40x P/E on FY24E EPS

**Key triggers for future price performance:**

- Introduction of longer duration delivery bases contracts in power exchanges
- Launch of Hindustan Power Exchange which will increase the competition and garner volumes in short to medium term due to promotional offers
- Launch of National Open Access Registry and Long duration contracts (up to 365 days) in the first half of CY23

**Alternate Stock Idea:** NTPC is India's largest power generation company with a total installed capacity of 69134 MW at the group level

- NTPC has 17% of total installed capacity in India with 23% generation share. BUY with target price of ₹ 190.



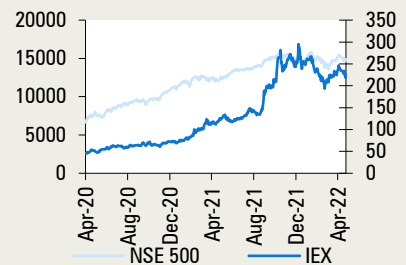
### Particulars

Particular	Amount
Market Capitalization	13,916
Total Debt (FY21) (₹ crore)	0
Cash and Inv (FY21) (₹ crore)	341
EV (FY21) (₹ crore)	13,683
52 week H/L (₹) (BSE)	318 /128
Equity capital (₹ crore)	89.8
Face value (₹)	1

### Shareholding pattern

	Sep-21	Dec-21	Mar-22	Jun-22
Promoters	-	-	-	-
FII	37.7%	31.0%	27.1%	20.8%
DII	23.1%	17.7%	19.5%	21.7%
Others	38.8%	51.3%	53.5%	57.6%

### Price Chart



### Recent event & key risks

- New product launches
- Key Risk:** (i) Power crisis and capped rates in spot market, (ii) Delay in MBED launch

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### Key Financial Summary

	FY20	FY21	FY22	5 Year CAGR (FY 17-22)	FY23E	FY24E	2 Year CAGR (FY22-24E)
Revenue (₹ crore)	257.1	317.9	431.0	11.9	501.6	612.5	19.2
EBITDA (₹ crore)	202.2	250.6	363.7	15.1	406.8	497.4	16.9
EBITDA margin	78.6	78.9	84.4		81.1	81.2	
Net Profit (₹ crore)	175.7	205.4	308.6	34.0	346.0	425.8	17.5
EPS (₹)	2.0	2.3	3.4		3.9	4.7	
P/E (x)	78.9	67.5	45.1		40.2	32.7	
EV/EBITDA (x)	68.5	54.5	37.6		33.8	27.0	
RoCE (%)	55.8	50.6	56.1		51.6	51.3	
RoE (%)	45.3	39.0	43.9		38.5	38.1	

Source: Company, ICICI Direct Research

## Key takeaways of recent quarter & conference call highlights

### Q1FY23 Results: Silent quarter due to unfavourable macros

- Revenue for the quarter came in at ₹ 98.4 crore, up 8% YoY and down 12.2% QoQ(vs IDirect estimate of ₹ 98.5 crore). Subdued numbers are due to CERC imposing a capping of ₹ 12 on all the segments of power exchanges that reduces the volumes on platform.
- IEX registered an EBIDTA margin of 82.4% vs 84.7% QoQ and 82.2% YoY, declining margins are due to negative operating leverage. Absolute EBIDTA came in at ₹ 81 crore, vs. ₹ 94.9 crore in last quarter (IDirect estimate of ₹ 80.8 crore)
- Employee cost declined 15.9% YoY and 30.4% QoQ to ₹ 8.1 crore. Other expenses were increased by 65.4% QoQ to ₹ 9.3 crore
- Tracking it's operating performance, IEX ended the quarter with a PAT of ₹ 69.1 crore vs (IDirect estimate of ₹ 70.2 crore) vs. ₹ 62.1 crore in Q1FY22 and ₹ 88.4 crore in Q4FY23. PAT was cushioned by other income of ₹15 crore.

### Q1FY23 Earnings Conference Call highlights

- During the quarter, electricity volumes on the Exchange grew by 10% YoY with 23.4 BU volumes traded versus 21.3 BU in Q1 FY'22. The volume comprised 20.64 BU in the conventional power market, 1.52 BU in the Green Market segment. Day Ahead Market traded 11.37 BUs, Real-Time Market traded 6.23 BUs, Green market traded 1.514 BUs and Term ahead market traded 3.119 and on the REC front, a total of 1197 lakhs certificate were traded.
- On 27th June 2022, IEX successfully launched the much-awaited Longer Duration Contracts up to 90 days on the Exchange which will help to bolster its presence in the short-term market.
- Hindustan Power Exchange also started its operations from 6 July and currently offer promotional offers in which they waiver full transaction fees for the first 21 days and thereafter will give 10-20% on standard fess for next 3 months.
- In FY22 IEX has a market share of 94.1% in DAM & TAM, 99.9% in RTM, 77.5% in Green Power, 72% in REC and 97%ESCerts.
- In Q1FY23 it has a market share of 85% and July that has increased up to 89%.
- The Exchange is now gearing to foray into new segments such as Ancillary Markets, Capacity Markets, and Gross Bidding Contracts, and is confident about commencing them at the earliest.
- Higher Other expenses are mainly due to CSR expending.
- New Product launches- Electricity derivatives will be launched in Q1FY23, that will also improve the liquidity of spot market. On MBED government has sent paper to CERC to draft rules but haven't received any response from their side, so it remains doubtful.
- Launched web based platform for easy access, easy bidding and seamless experience, also working on automated bidding system for DAM and Advance data analytics to eliminate human interference.
- Company intends to keep dividend payout ratio in range of 50-60%

### IGX

- On the gas market front, the Indian Gas Exchange (IGX) traded 4.7 million mmbtu in terms of cumulative volume. It has posted a PAT of ₹ 1.5 crore during the quarter.
- The total number of participants at the Gas Exchange has increased to 30 with the addition of four new members: OPAL, HPCL, SHELL and GSPC.
- IGX also received approval from PNGRB to commence domestic gas trading on its platform. This development will help IGX fulfill its commitment to increase the sell side liquidity, along with creating more opportunities for the sale of domestic gas and the discovery of a unique price.

**Exhibit 1: Variance Analysis**

Year	Q1FY23	Q1FY23E	Q1FY22	YoY (%)	Q4FY22	QoQ(%)	Comments
Income from Operation	98.4	98.5	91.0	8.0	112.1	(12.2)	Muted QoQ volumes due to CERC capping ₹ 12 on all products of power exchanges
Other Income	15.0	16.2	11.8	27.0	16.4	(8.0)	
Employee cost	8.0	11.8	9.5	(15.9)	11.5	(30.4)	
Other expenditure	9.3	5.9	6.7	40.2	5.6	65.4	
EBITDA	81.0	80.8	74.9	8.2	94.9	(14.7)	
EBITDA Margin (%)	82.4	82.1	82.2	14 bps	84.7	-233 bps	Lower margins due to higher other expenditure (CSR Spendings)
Depreciation	4.2	4.2	4.3	(1.8)	4.2	1.0	
Interest	0.5	0.5	0.5		0.5		
PBT	91.3	92.3	81.9	11.5	106.7	(14.4)	
Taxes	22.7	22.2	19.8	14.9	25.7	(11.5)	
PAT	69.1	70.2	62.1	11.3	88.4	(21.8)	

Source: Company, ICICI Direct Research

**Exhibit 2: Change in estimates**

	FY21	FY22E	FY23E			FY24E		
(₹ Crore)	Actual	Actual	Old	New	% Change	Old	New	% Change
Revenue	317.9	431.0	513.1	501.6	(2.3)	655.2	612.5	(7.0)
EBITDA	250.6	363.7	416.1	406.8	(2.3)	532.0	497.4	(7.0)
EBITDA Margin (%)	78.9	84.4	81.1	81.1	0 bps	81.2	81.2	0 bps
PAT	205.4	308.6	359.6	346.0	(3.9)	459.7	425.8	(8.0)
EPS (₹)	2.3	3.4	4.0	3.9	0.0	5.2	4.7	(9.6)

Source: ICICI Direct Research

## Financial Summary

Exhibit 3: Profit and loss statement ₹ crore

(₹ Crore)	FY21	FY22	FY23E	FY24E
Revenue	318	431	502	613
Growth YoY (%)		35.6%	16.4%	22.1%
Other Income	38	53	90	115
<b>Total Revenue</b>	<b>356</b>	<b>484</b>	<b>592</b>	<b>728</b>
Employee cost	44	42	54	62
Other Expenses	23	26	41	53
<b>Total expenditure</b>	<b>67</b>	<b>67</b>	<b>95</b>	<b>115</b>
EBITDA	251	364	407	497
Growth YoY (%)		45.1%	11.9%	22.3%
Interest	-	2	2	2
PBDT	289	415	496	611
Depreciation	17	17	28	36
Profit Before Tax	270	398	468	575
Tax	65	97	122	150
<b>PAT</b>	<b>205</b>	<b>309</b>	<b>346</b>	<b>426</b>
Growth YoY (%)		50.2%	12.1%	23.1%
EPS	2.3	3.4	3.9	4.7

Source: Company, ICICI Direct Research

Exhibit 4: Cash flow statement ₹ crore

(₹ Crore)	FY21	FY22	FY23E	FY24E
Profit after Tax	205.4	308.6	346.0	425.8
Depreciation	16.5	17.2	28.1	35.6
Interest	2.1	2.0	1.5	1.5
Other income	(38.4)	(53.4)	(90.4)	(115.1)
Prov for Taxation	65.0	96.6	121.6	149.6
Cash Flow before WC changes	250.6	371.1	406.8	497.4
Change in Working Capital	(161.7)	(35.8)	(263.8)	112.1
Taxes Paid	(62.5)	(101.3)	(121.6)	(149.6)
<b>Cashflow from Operations</b>	<b>26.5</b>	<b>233.9</b>	<b>21.5</b>	<b>459.9</b>
(Purchase)/Sale of Fixed Asset:	(21.8)	(3.9)	(47.8)	(30.0)
(Purchase)/Sale of Investments	79.7	12.0	-	-
Other Income	38.4	53.4	90.4	115.1
<b>Cashflow from Investing</b>	<b>96.2</b>	<b>61.5</b>	<b>42.5</b>	<b>85.1</b>
Issue/(Repayment of Debt)	-	-	-	-
Changes in Minority Interest	29.7	(29.7)	-	-
Changes in Network	7.3	(26.6)	-	-
Interest	(2.1)	(2.0)	(1.5)	(1.5)
Dividend paid	(74.6)	(104.7)	(149.6)	(209.5)
<b>Cashflow from Financing</b>	<b>(39.7)</b>	<b>(163.0)</b>	<b>(151.1)</b>	<b>(211.0)</b>
Changes in Cash	83.1	132.4	(87.1)	334.0
Opening Cash/Cash Equivalent	27.6	103.9	232.6	145.5
<b>Closing Cash/ Cash Equivalent</b>	<b>102.4</b>	<b>232.6</b>	<b>145.5</b>	<b>479.5</b>

Source: Company, ICICI Direct Research

Exhibit 5: Balance Sheet ₹ crore

(₹ Crore)	FY21	FY22	FY23E	FY24E
Share Capital	89.5	89.8	89.8	89.8
Reserves & Surplus	437	614	823	1,026.3
Networth	526	703	913	1,116.1
Minority Interest	29.7	29.7	-	-
Deferred Tax Liability	27.0	22.3	22.3	22.3
Other non-current liabilities	12.6	9.0	9.0	9.0
<b>Total Liabilities</b>	<b>595.4</b>	<b>764.4</b>	<b>944.6</b>	<b>1,147.4</b>
Gross Block	57	82	112	142.5
Acc: Depreciation	27	44	73	108.1
Net Block	25	20	40	34.3
Capital WIP	0	0	0	0.0
Investments	120	108	108	108.2
Inventory	-	-	-	-
Sundry debtors	3	87	0	0.4
Cash and bank balances	104	233	146	479.5
Other financial assets	601	1,145	1,145	1,165.3
Other current assets	29	8	11	12.9
<b>Total Current Assets</b>	<b>737</b>	<b>1,473</b>	<b>1,044</b>	<b>1,658.1</b>
CL& Prov.	390	961	613	747.8
<b>Net Current Assets</b>	<b>347</b>	<b>512</b>	<b>546</b>	<b>910.3</b>
<b>Total Assets</b>	<b>595.4</b>	<b>734.7</b>	<b>944.6</b>	<b>1,147.4</b>

Source: Company, ICICI Direct Research

Exhibit 6: Key ratios

(Year-end March)	FY21	FY22	FY23E	FY24E
<b>Per share data (₹)</b>				
EPS	2.3	3.4	3.9	4.7
Cash EPS	2.5	3.6	4.2	5.1
BV	5.9	7.8	10.0	12.4
DPS	0.8	1.2	1.7	2.3
Cash Per Share	0.3	0.5	0.8	1.2
<b>Operating Ratios (%)</b>				
EBITDA Margin	78.9	84.4	81.1	81.2
PBT / Net Sales	73.7	80.4	75.5	75.4
PAT Margin	64.6	71.6	69.0	69.5
Inventory days	-	-	-	-
Debtor days	3.7	74.0	0.3	0.3
Creditor days	438.8	807.6	440.0	440.0
<b>Return Ratios (%)</b>				
RoE	39.0	43.9	38.5	38.1
RoCE	50.6	56.1	51.6	51.3
RoIC	53.8	72.2	49.6	62.2
<b>Valuation Ratios (x)</b>				
P/E	67.5	45.1	40.2	39.9
EV / EBITDA	54.5	37.6	33.8	35.1
EV / Net Sales	42.9	31.7	27.5	21.9
Market Cap / Sales	43.6	32.3	27.7	22.7
Price to Book Value	26.4	19.8	15.5	12.5
<b>Solvency Ratios</b>				
Debt/EBITDA	-	-	-	-
Net Debt / Equity	-	-	-	-
Current Ratio	0.3	0.3	0.3	0.7
Quick Ratio	0.3	0.3	0.3	0.7

Source: Company, ICICI Direct Research

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Reduce: -15% to -5%;

Sell: <-15%



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