Indian Energy Exchange (INDEN)

ICICI direct Research

CMP: ₹ 136 | Target: ₹ 155 (14%) | Target Period: 12 months | **HOLD**

October 22, 2022

Result Update

Quiet 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 ~85-90% in the power exchange market
- The company has a debt free balance sheet with cash & investments to the tune of ~ ₹ 340 crore

Q2FY23 Results: IEX reported decent Q2FY23 results.

- Revenue was down 13.8% YoY at ₹ 95.2 crore
- EBITDA in Q2FY23 was at ₹ 78.9 crore, down 16.9% YoY, margins at 82.9%
- Consequent PAT in Q2FY23 was at ₹ 71.2 crore, down 8% YoY

What should investors do? For the past year, IEX remained richly valued given its clean balance sheet, but was unable to garner volumes due to unfavourable macros.

- We change our rating on the stock from BUY to **HOLD**

Target Price and Valuation: We value IEX at ₹ 155 i.e. 37x P/E on FY24E EPS.

Key triggers for future price performance:

- Introduction of longer duration delivery base contracts in power exchanges
- Launch of Hindustan Power Exchange, which will increase the competition and may negatively impact its volumes
- Launch of National Open Access Registry and derivatives contracts in H2FY23

Alternate Stock Idea: NTPC is India's largest power generation company with a total installed capacity of 70234 MW at the group level

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

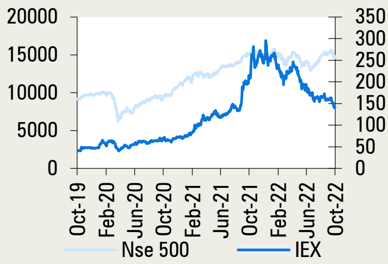
Particulars

Particular	Amount
Market Capitalization	12,030
Total Debt (FY21) (₹ crore)	0
Cash and Inv (FY21) (₹ crore)	341
EV (FY21) (₹ crore)	11,798
52 week H/L (₹) (BSE)	318 /128
Equity capital (₹ crore)	89.8
Face value (₹)	1

Shareholding pattern

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

Price Chart



Recent event & key risks

- New product launches
- **Key Risk:** (i) High coal prices and capped rates in spot market, (ii) Launch of high price market

Research Analyst

Chirag Shah
shah.chirag@icicisecurities.com

Yash Panwar
yash.panwar@icicisecurities.com

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	447.2	524.1	10.3
EBITDA (₹ crore)	202.2	250.6	363.7	15.1	362.7	432.4	9.0
EBITDA margin	78.6	78.9	84.4		81.1	82.5	
Net Profit (₹ crore)	175.7	205.4	308.6	34.0	306.4	364.7	8.7
EPS (₹)	2.0	2.3	3.4		3.4	4.1	
P/E (x)	68.2	58.4	39.0		39.3	33.0	
EV/EBITDA (x)	59.2	47.0	32.4		33.1	27.3	
RoCE (%)	55.8	50.6	56.1		49.5	50.5	
RoE (%)	45.3	39.0	43.9		36.9	37.6	

Source: Company, ICICI Direct Research

ICICI Securities – Retail Equity Research

Key takeaways of recent quarter & conference call highlights

Q2FY23 Results: Quiet quarter due to unfavourable macros

- Revenue for the quarter came in at ₹ 95.2 crore, down 13.8% YoY (vs. I-direct estimate of ₹ 97.1 crore). IEX' total volume for Q2FY23 was at 23117 MUs vs. 25856 MUs in same quarter last year and 23439 MUs in Q1FY23, de-growth of 10.5% YoY and 1.3% QoQ. Declining volumes were due to CERC imposing a capping of ₹ 12 on all segments of power exchanges
- IEX registered an EBIDTA margin of 82.9% vs. 82.4% QoQ. Absolute EBIDTA came in at ₹ 78.9 crore vs. ₹ 81 crore last quarter (I-direct estimate of ₹ 83.8 crore). The surprise came in from higher other expenses, which were at ₹ 7.5 crore vs. our expectation of ₹ 5.4 crore
- Tracking its operating performance, IEX ended the quarter with a PAT of ₹ 71.2 crore vs. I-direct estimate of ₹ 71.6 crore (₹ 69.1 crore in Q1FY23). Other income came in at ₹ 18.6 crore

Q2FY23 Earnings Conference Call highlights

- During the quarter, electricity volumes on the exchange de-grew 10.5% YoY with 23.1 BU volumes traded vs. 25.8 BU in Q1FY22. The volume comprised 19.7 BU in the conventional power market, 1.5 BU in the green market segment. On the REC front, total 19.14 lakh certificate were traded
- On June 27, 2022, IEX successfully launched the much-awaited longer duration contracts up to 90 days on the exchange but has failed to garner volumes due to high coal prices, which are forcing sellers to avoid long term contracts
- Improvement in coal production and higher inventory is expected to result in increase in sale by both discoms and independent power producers (IPPs). IPPs sale will provide round the clock supply resulting in better availability & lower prices in peak hours
- The government is aggressively working on introducing compliance carbon market in India and IEX is working closely with government agencies like BEE, major carbon exchanges, potential players in this space
- Temporary shift in volume is seen from DAM to DAC segment due to firm tie-up due to uncertainty of availability in peak hours and double charging of transmission charges in collective transactions but volumes are likely to shift to DAM/RTM with improvement in supply & implementation of sharing regulation
- Higher other expenses are mainly due to CSR expending
- Various government policy advocacy to enhance liquidity in the spot market. GNA regulation, sharing regulations, grid code, late payment surcharge rules and sale of non-requisitioned power on exchanges will help deepen the power markets
- Electricity consumption grew 3.8% in the last five years and is expected to further increase by 6% in the next eight years. An increase in demand will lead to an increase in volumes on the exchange

IGX

- On the gas market front, the Indian Gas Exchange (IGX) traded 5.9 million mmbtu in terms of cumulative volume. It posted PAT of ₹ 2.42 crore during the quarter
- Total number of participants at the gas exchange has increased to 31 with the addition of four new members: OPAL, HPCL, SHELL and GSPC
- The government's vision of increasing share of natural gas in total energy basket from ~6.3% to 15% by 2030 will increase gas consumption in the economy from current 160 MMSCMD to 500+ MMSCMD

Exhibit 1: Variance Analysis

Year	Q2FY23	Q2FY23E	Q2FY22	YoY (%)	Q1FY23	QoQ(%)	Comments
Income from Operation	95.2	97.1	110.4	(13.8)	98.4	(3.2)	Muted QoQ volumes due to CERC capping ₹ 12 on all products of power exchanges
Other Income	18.6	16.0	11.9	55.7	15.0	23.5	
Employee cost	8.8	7.9	10.7	(17.8)	8.0	9.9	
Other expenditure	7.5	5.4	4.6	60.8	9.3	(20.0)	
EBITDA	78.9	83.8	95.0	(16.9)	81.0	(2.6)	
EBITDA Margin (%)	82.9	86.3	86.1	-318 bps	82.4	55 bps	Lower margins YoY due to higher other expenditure
Depreciation	4.6	4.3	4.4	4.1	4.2	8.9	
Interest	0.5	0.5	0.5		0.5		
PBT	92.4	95.0	102.1	(9.5)	91.3	1.2	
Taxes	22.4	23.4	24.7	(9.5)	22.7	(1.6)	
PAT	71.2	71.6	77.4	(8.0)	69.1	3.0	

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	501.6	447.2	(12.2)	612.5	524.1	(16.9)
EBITDA	250.6	363.7	416.1	362.7	(14.7)	532.0	432.4	(23.0)
EBITDA Margin (%)	78.9	84.4	81.1	81.1	0 bps	81.2	82.5	130 bps
PAT	205.4	308.6	346.0	306.4	(12.9)	425.8	364.7	(16.7)
EPS (₹)	2.3	3.4	3.9	3.4	(14.3)	4.7	4.1	(15.7)

Source: ICICI Direct Research

Financial Summary

Exhibit 3: Profit and loss statement ₹ crore

(₹ Crore)	FY21	FY22	FY23E	FY24E
Revenue	318	431	447	524
Growth YoY (%)		*35.6%*	*3.7%*	*17.2%*
Other Income	38	53	81	98
Total Revenue	356	484	528	622
Employee cost	44	42	48	50
Other Expenses	23	26	37	42
Total expenditure	67	67	85	92
EBITDA	251	364	363	432
Growth YoY (%)		*45.1%*	*-0.3%*	*19.2%*
Interest	-	2	2	2
PBDT	289	415	442	529
Depreciation	17	17	28	36
Profit Before Tax	270	398	414	493
Tax	65	97	108	128
PAT	205	309	306	365
Growth YoY (%)		*50.2%*	*-0.7%*	*19.1%*
EPS	2.3	3.4	3.4	4.1

Source: Company, ICICI Direct Research

Exhibit 4: Cash flow statement ₹ crore

(₹ Crore)	FY21	FY22	FY23E	FY24E
Profit after Tax	205.4	308.6	315.4	373.9
Depreciation	16.5	17.2	28.1	35.6
Interest	2.1	2.0	1.5	1.5
Other income	(38.4)	(53.4)	(93.2)	(110.0)
Prov for Taxation	65.0	96.6	110.8	131.4
Cash Flow before WC changes	250.6	371.1	362.7	432.4
Change in Working Capital	(161.7)	(35.8)	(162.8)	64.5
Taxes Paid	(62.5)	(101.3)	(110.8)	(131.4)
Cashflow from Operations	26.5	233.9	89.0	365.5
(Purchase)/Sale of Fixed Assets	(21.8)	(3.9)	(47.8)	(30.0)
(Purchase)/Sale of Investments	79.7	12.0	-	-
Other Income	38.4	53.4	93.2	110.0
Cashflow from Investing	96.2	61.5	45.4	80.0
Issue/(Repayment of Debt)	-	-	-	-
Changes in Minority Interest	29.7	(29.7)	-	-
Changes in Networth	7.3	(26.6)	-	-
Interest	(2.1)	(2.0)	(1.5)	(1.5)
Dividend paid	(74.6)	(104.7)	(179.6)	(224.4)
Cashflow from Financing	(39.7)	(163.0)	(181.1)	(225.9)
			-	-
Changes in Cash	83.1	132.4	(46.7)	219.5
Opening Cash/Cash Equivalent	27.6	103.9	232.6	186.0
Closing Cash/ Cash Equivalent	102.4	232.6	186.0	405.5

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	898.9
Networth	526	703	913	988.7
Minority Interest	29.7	29.7	-	-
Deferred Tax Liability	27.0	22.3	22.3	22.3
Other non-current liabilites	12.6	9.0	9.0	9.0
Total Liabilities	595.4	764.4	944.6	1,020.0
		-	-	-
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	405.5
Other financial assets	601	1,145	1,145	1,165.3
Other current assets	29	8	9	11.0
Total Current Assets	737	1,473	1,044	1,582.1
CL& Prov.	390	961	713	799.2
Net Current Assets	347	512	546	782.9
Total Assets	595.4	734.7	944.6	1,020.0

Source: Company, ICICI Direct Research

Exhibit 6: Key ratios

(Year-end March)	FY21	FY22	FY23E	FY24E
Per share data (₹)				
EPS	2.3	3.4	3.5	4.2
Cash EPS	2.5	3.6	3.8	4.6
BV	5.9	7.8	9.3	11.0
DPS	0.8	1.2	2.0	2.5
Cash Per Share	0.3	0.5	0.8	1.2
Operating Ratios (%)				-
EBITDA Margin	78.9	84.4	81.1	82.5
PBT / Net Sales	73.7	80.4	74.8	75.7
PAT Margin	64.6	71.6	70.5	71.3
Inventory days	-	-	-	-
Debtor days	3.7	74.0	0.3	0.3
Creditor days	438.8	807.6	575.0	550.0
Return Ratios (%)				-
RoE	39.0	43.9	37.6	37.8
RoCE	50.6	56.1	50.4	50.8
RoIC	53.8	72.2	50.5	62.2
Valuation Ratios (x)				-
P/E	58.4	39.0	38.1	39.9
EV / EBITDA	47.0	32.4	32.7	35.1
EV / Net Sales	37.0	27.4	26.5	22.2
Market Cap / Sales	37.7	27.9	26.9	23.0
Price to Book Value	22.8	17.1	14.3	12.2
Solvency Ratios				
Debt/EBITDA	-	-	-	-
Net Debt / Equity	-	-	-	-
Current Ratio	0.3	0.3	0.3	0.5
Quick Ratio	0.3	0.3	0.3	0.5

Source: Company, ICICI Direct Research

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Buy: >15%

Hold: -5% to 15%;

Reduce: -15% to -5%;

Sell: <-15%

Pankaj Pandey | Head – Research | pankaj.pandey@icicisecurities.com

ICICI Direct Research Desk,
ICICI Securities Limited,
1st Floor, Akruti Trade Centre,
Road No 7, MIDC,
Andheri (East)
Mumbai – 400 093
research@icicidirect.com

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