

# Indian Energy Exchange (INDEN)

CMP: ₹ 139

Target: ₹ 136 (-1%)

Target Period: 12 months

HOLD

January 23, 2023

## Muted performance...

**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

**Q3FY23 Results:** IEX reported decent Q3FY23 results.

- For Q3FY23, IEX reported revenues of ₹ 100.3 crore vs. our estimate of ₹ 98.9 crore
- EBITDA for the quarter was at ₹ 83.3 crore vs. our estimate of ₹ 85 crore
- Consequent PAT in Q3FY23 was at ₹ 71.2 crore, down 12% YoY

**What should investors do?** IEX is a structural play on volumes shifting from the long term PPA market to the spot market. The company has been aggressive in launching new products regularly.

- We maintain our **HOLD** rating on the stock

**Target Price and Valuation:** We value IEX at ₹ 136 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



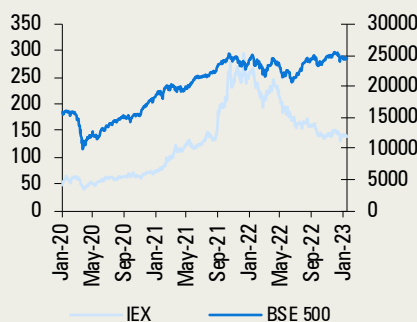
### Particulars

Particular	Amount
Market Capitalization	12,030
Total Debt (FY22) (₹ crore)	0
Cash and Inv (FY22) (₹ crore)	341
EV (FY21) (₹ crore)	11,798
52 week H/L (₹) (BSE)	318 /128
Equity capital (₹ crore)	89.8
Face value (₹)	1

### Shareholding pattern

	Mar-22	Jun-22	Sep-22	Dec-22
Promoters:	-	-	-	-
FII	27.1%	20.8%	15.8%	15.5%
DII	19.5%	21.7%	22.4%	21.7%
Others	53.5%	57.6%	61.5%	62.5%

### 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

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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	402.4	464.2	3.8
EBITDA (₹ crore)	202.2	250.6	363.7	15.1	326.3	383.0	2.6
EBITDA margin	78.6	78.9	84.4		81.1	82.5	
Net Profit (₹ crore)	175.7	205.4	308.6	34.0	282.4	327.8	3.1
EPS (₹)	2.0	2.3	3.4		3.1	3.7	
P/E (x)	68.2	58.4	39.0		42.6	36.7	
EV/EBITDA (x)	59.2	47.0	32.4		36.7	30.8	
RoCE (%)	55.8	50.6	56.1		47.9	49.2	
RoE (%)	45.3	39.0	43.9		35.7	36.6	

Source: Company, ICICI Direct Research

## Key takeaways of recent quarter & conference call highlights

### Q3FY23 Results: Quiet quarter due to unfavourable macros

- For Q3FY23, IEX reported revenues of ₹ 100.3 crore vs. our estimate of ₹ 98.9 crore, which is mostly in line with estimates. For 9MFY23, DAM constituted 52% of overall volumes traded while share of TAM and RTM were at 10% and 26%, respectively. Green market comprised 6% of the overall volume share. The company commanded 100% market share in the DAM and RTM market while the share in TAM market was at 55.2% share in Q3FY23. The total volumes for Q3FY23 was at 24.2 billion units, down 12% YoY and up 5% QoQ. On the gas exchange front, volumes were at 24.4 billion units, rise of 5.6x YoY. IEX registered an EBIDTA margin of 82.9% vs. 82.4% QoQ
- Standalone EBITDA for the quarter was at ₹ 83.3 crore vs. our estimate of ₹ 85 crore. EBITDA margin for the quarter was at 83.1%. The other expenses were higher than our estimates at ₹ 8.2 crore for Q3FY23
- Ensuing consolidated PAT for the quarter was at ₹ 71.2 crore, down ~12% YoY and lower than our estimate of ₹ 72.7 crore

### Q3FY23 Earnings Conference Call highlights

- During the quarter, electricity volumes on the exchange were at 23 BU. On the REC front, total 43 lakh certificate were traded and for FY23, the company expects a volume of 60 lakh on the REC front
- 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. The total opportunity is 50 billion units (BUs), which is currently traded on the DEEP portal. As per the management all three exchanges offer this product
- 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
- 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
- The company has floated a subsidiary named ICX for trading in the carbon credit markets. This initiative will take some time to gain traction as the company will launch this platform in mid 2023 and is still working on various modalities of the business
- As per the management, capping of prices by the regulator will stay for some more time and normalcy in supply side issues should get resolved by September 2023

### IGX

- On the gas market front, the Indian Gas Exchange (IGX) traded 24.4 million mmbtu in Q3FY23. It posted PAT of ₹ 12.76 crore during the quarter while for the 9MFY23 the same was at ₹ 16 crore
- Total number of participants at the gas exchange has increased by seven with the addition of members like Reliance Industries, Vedanta, etc during Q3FY23
- 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	Q3FY23	Q3FY23E	Q3FY22	YoY (%)	Q2FY23	QoQ(%)	Comments
Income from Operatic	100.3	98.9	117.5	(14.7)	97.1	3.3	Volumes dipped YoY on account of capping of prices
Other Income	17.1	18.0	13.2	29.0	17.1	0.0	
Employee cost	8.8	8.2	10.0	(12.0)	8.8	0.0	
Other expenditure	8.2	6.2	8.7	(6.1)	8.2	0.0	
EBITDA	83.3	83.8	95.0	(12.4)	83.3	0.0	
EBITDA Margin (%)	83.1	84.6	80.9	220 bps	85.8	-272 bps	Other expenditure was higher than estimates
Depreciation	4.9	5.0	4.4	11.5	4.9	0.0	
Interest	0.7	0.6	0.5		0.7		
PBT	94.8	96.9	107.1	(11.5)	94.8	0.0	
Taxes	23.6	24.2	26.4	(10.7)	23.6	0.0	
PAT	71.2	72.7	80.7	(11.8)	71.2	0.0	

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	447.2	402.4	(10.0)	524.1	464.2	(11.4)
EBITDA	250.6	363.7	362.7	326.3	(10.0)	432.1	383.0	(11.4)
EBITDA Margin (%)	78.9	84.4	81.1	81.1	0 bps	81.2	82.5	130 bps
PAT	205.4	308.6	306.0	282.4	(7.7)	364.7	327.8	(10.1)
EPS (₹)	2.3	3.4	3.4	3.1	(7.5)	4.1	3.7	(10.9)

Source: ICICI Direct Research

## Financial Summary

Exhibit 3: Profit and loss statement ₹ crore

(₹ Crore)	FY21	FY22	FY23E	FY24E
Revenue	318	431	402	464
Growth YoY (%)		35.6%	-6.7%	15.4%
Other Income	38	53	85	97
<b>Total Revenue</b>	<b>356</b>	<b>484</b>	<b>487</b>	<b>561</b>
Employee cost	44	42	43	44
Other Expenses	23	26	33	37
<b>Total expenditure</b>	<b>67</b>	<b>67</b>	<b>76</b>	<b>81</b>
EBITDA	251	364	326	383
Growth YoY (%)		45.1%	-10.3%	17.4%
Interest	-	2	2	2
PBDT	289	415	410	479
Depreciation	17	17	28	36
Profit Before Tax	270	398	382	443
Tax	65	97	99	115
<b>PAT</b>	<b>205</b>	<b>309</b>	<b>282</b>	<b>328</b>
Growth YoY (%)		50.2%	-8.5%	16.1%
EPS	2.3	3.4	3.1	3.7

Source: Company, ICICI Direct Research

Exhibit 4: Cash flow statement ₹ crore

(₹ Crore)	FY21	FY22	FY23E	FY24E
Profit after Tax	205.4	308.6	282.4	327.8
Depreciation	16.5	17.2	28.1	35.6
Interest	2.1	2.0	1.5	1.5
Other income	(38.4)	(53.4)	(85.0)	(97.1)
Prov for Taxation	65.0	96.6	99.2	115.2
Cash Flow before WC chanç	250.6	371.1	326.3	383.0
Change in Working Capital	(161.7)	(35.8)	(232.5)	45.2
Taxes Paid	(62.5)	(101.3)	(99.2)	(115.2)
<b>Cashflow from Operations</b>	<b>26.5</b>	<b>233.9</b>	<b>(5.4)</b>	<b>313.0</b>
(Purchase)/Sale of Fixed As:	(21.8)	(3.9)	(47.8)	(30.0)
(Purchase)/Sale of Investme	79.7	12.0	-	-
Other Income	38.4	53.4	85.0	97.1
<b>Cashflow from Investing</b>	<b>96.2</b>	<b>61.5</b>	<b>37.1</b>	<b>67.1</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)	(194.5)	(224.4)
<b>Cashflow from Financing</b>	<b>(39.7)</b>	<b>(163.0)</b>	<b>(196.0)</b>	<b>(225.9)</b>
Changes in Cash	83.1	132.4	(164.3)	154.2
Opening Cash/Cash Equivale	27.6	103.9	232.6	68.3
<b>Closing Cash/ Cash Equivale</b>	<b>102.4</b>	<b>232.6</b>	<b>68.3</b>	<b>222.6</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	804.9
Networth	526	703	913	894.7
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>926.0</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	0.3
Cash and bank balances	104	233	146	222.6
Other financial assets	601	1,145	1,145	1,165.3
Other current assets	29	8	8	9.7
<b>Total Current Assets</b>	<b>737</b>	<b>1,473</b>	<b>1,044</b>	<b>1,397.9</b>
CL& Prov.	390	961	642	709.0
Net Current Assets	347	512	546	689.0
<b>Total Assets</b>	<b>595.4</b>	<b>764.4</b>	<b>944.6</b>	<b>926.0</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	3.1	3.7
Cash EPS	2.5	3.6	3.5	4.0
BV	5.9	7.8	8.8	10.0
DPS	0.8	1.2	2.2	2.5
Cash Per Share	0.3	0.5	0.8	1.2
<b>Operating Ratios (%)</b>				
EBITDA Margin	78.9	84.4	81.1	82.5
PBT / Net Sales	73.7	80.4	74.1	74.8
PAT Margin	64.6	71.6	70.2	70.6
Inventory days	-	-	-	-
Debtor days	3.7	74.0	0.3	0.3
Creditor days	438.8	807.6	575.0	550.0
<b>Return Ratios (%)</b>				
RoE	39.0	43.9	35.7	36.6
RoCE	50.6	56.1	47.9	49.2
RoIC	53.8	72.2	40.7	62.2
<b>Valuation Ratios (x)</b>				
P/E	58.4	39.0	42.6	39.9
EV / EBITDA	47.0	32.4	36.7	35.1
EV / Net Sales	37.0	27.4	29.7	25.4
Market Cap / Sales	37.7	27.9	29.9	25.9
Price to Book Value	22.8	17.1	15.2	13.4
<b>Solvency Ratios</b>				
Debt/EBITDA	-	-	-	-
Net Debt / Equity	-	-	-	-
Current Ratio	0.3	0.3	0.1	0.3
Quick Ratio	0.3	0.3	0.1	0.3

Source: Company, ICICI Direct Research

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Sell: <-15%



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