

Indian Energy Exchange (INDEN)

CMP: ₹ 155

Target: ₹ 165 (6%)

Target Period: 12 months

HOLD

May 28, 2023

Recovery in volumes under way...

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

Q4FY23 Results: Lower expenses and high other income cushioned PAT.

- For Q4FY23, IEX reported revenue of ₹ 107 crore vs. our estimate of ₹ 104.2 crore
- EBITDA for the quarter was at ₹ 93.3 crore vs. our estimate of ₹ 85 crore
- Consequent PAT in Q4Y23 was at ₹ 82.9 crore, flat 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. However, currently recovery in volumes is under way and the intensity of recovery is what we would like to track before turning buyers again given entry valuations are still rich.

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

Target Price and Valuation: We value IEX at ₹ 165 i.e. 35x P/E on FY25E EPS.

Key triggers for future price performance:

- Arbitrage getting over between DAC and DAM to perk up volumes
- Lower electricity prices will provide fillip to other long duration products
- Increased green capacity will bring more volumes to power exchange

Alternate Stock Idea: NTPC is the largest power generation company with installed capacity of ~72 GW MW with strong focus on adding renewable energy.

- NTPC has 17% of total installed capacity in India with 23% generation share. BUY with a target price of ₹ 210



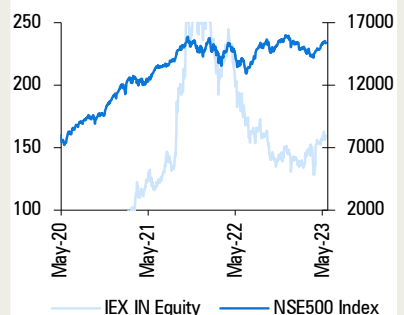
Particulars

Particular	Amount
Market Capitalization	13,916
Total Debt (FY23) (₹ crore)	0
Cash and Inv (FY23) (₹ crore)	341
EV (FY21) (₹ crore)	13,683
52 week H/L (₹) (BSE)	318 /128
Equity capital (₹ crore)	89.8
Face value (₹)	1

Shareholding pattern

	Jun-22	Sep-22	Dec-22	Mar-23
Promoters:	-	-	-	-
FII	20.8%	15.8%	15.5%	17.9%
DII	21.7%	22.4%	21.7%	21.5%
Others	57.6%	61.5%	62.5%	60.6%

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.chiraa@icicisecurities.com

Key Financial Summary

	FY21	FY22	FY23	5 Year CAGR (FY 17-22)	FY24E	FY25E	2 Year CAGR (FY23-25E)
Revenue (₹ crore)	317.9	431.0	400.9	11.9	473.5	517.8	13.7
EBITDA (₹ crore)	250.6	363.7	336.4	15.1	393.0	429.8	13.0
EBITDA margin	78.9	84.4	83.9		83.0	83.0	
Net Profit (₹ crore)	205.4	308.6	305.9	34.0	373.2	422.5	17.5
EPS (₹)	2.3	3.4	3.4		4.2	4.7	
P/E (x)	67.5	45.1	45.5		37.3	32.9	
EV/EBITDA (x)	54.5	37.6	40.6		34.5	31.5	
RoCE (%)	50.6	56.1	39.6		36.2	31.9	
RoE (%)	39.0	43.9	31.2		28.5	25.3	

Source: Company, ICICI Direct Research

Key takeaways of recent quarter & conference call highlights

Q4FY23 Results: Quiet quarter due to unfavourable macros

- As anticipated, IEX reported a stable quarter given the dip in power volumes traded on the exchanges on account of a regulatory cap put on prices of power and higher clearing prices on the exchange. However, lower employee and other expenses coupled with high other income led to PAT coming in higher than estimates
- For Q4FY23, IEX reported revenues of ₹ 107 crore vs. our estimate of ₹ 104 crore, mostly in line with estimates. Total volumes for Q4FY23 were at 26.1 billion units, down 6% YoY but up 5.3% QoQ
- EBITDA for the quarter was at ₹ 93.3 crore vs. our estimate of ₹ 85 crore. EBITDA margin for the quarter was at 87.1%. The key reason for beat in EBITDA was lower employee expenses at ₹ 9 crore vs. estimate of ₹ 11 crore whereas other expenses came in at ₹ 4.8 crore vs. estimate of ₹ 8.3 crore. Ensuing consolidated PAT for the quarter was at ₹ 82.9 crore vs. estimate of ₹ 74 crore on account of higher EBITDA and other income

Q4FY23 Earnings Conference Call highlights

- During the quarter, electricity volumes on the exchange were at 26 BUs. The company witnessed a decline of ~5% at 96.8 BUs for FY23 vs. 101.9 BUs for FY22. The company commands 100% share in DAM and RTM market
- 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 coal inventory as of March 2023 was 14 days vs. 11 days earlier while prices of imported coal and gas had reduced significantly, which will lead to lowering of clearing prices and higher volumes at exchanges
- 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 by August 2023 with improvement in supply & implementation of sharing regulation and will add incremental 1 BU in total to total volumes
- The company has floated a subsidiary in the name of 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
- The company in FY24 will focus more on increasing liquidity and volumes for new products launched in previous years and new product launches would be minimal in FY24
- Price discovery was high in long term contracts, which did not lead to volume. The same product is expected to deliver 5 BUs in volume in FY24
- Overall, the company witnessed 6% volume growth YoY in April and May 2023 combined

IGX

- On the gas market front, the Indian Gas Exchange (IGX) traded 29.1 million mmbtu in FY23. It posted PAT of ₹ 28 crore during FY23. OEX holds 47% stake in IGX. PAT for the same is consolidated at the PAT level as it is no longer a subsidiary of the company
- Total number of members at the gas exchange was at 40 with active clients at 190+ as of FY23
- 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	Q4FY23E	Q4FY24E	Q4FY22	YoY (%)	Q3FY23	QoQ(%)	Comments
Income from Operatic	107.0	104.2	112.1	(4.5)	100.3	6.7	Volumes dipped 6.7% YoY on account of capping of prices and high clearing prices of power
Other Income	22.5	18.5	16.4	37.7	17.1	31.9	
Employee cost	9.0	10.9	11.5	(21.7)	8.8	1.9	
Other expenditure	4.8	8.3	5.6	(15.7)	8.2	(41.6)	
EBITDA	93.3	93.3	98.8	(5.6)	78.9	18.1	
EBITDA Margin (%)	87.1	89.5	88.2	-103 bps	78.7	842 bps	Lower employee and other expenses led to EBITDA beat
Depreciation	4.9	4.5	4.2	18.1	4.9	(0.4)	
Interest	0.7	0.7	0.5		0.7		
PBT	110.2	98.2	106.7	3.3	94.8	16.2	
Taxes	27.3	24.6	25.7	6.2	23.6	15.7	
PAT	82.9	73.7	88.4	(6.3)	71.2	16.4	

Source: Company, ICICI Direct Research

Exhibit 2: Change in estimates

FY22	FY23	FY24E		% Change	Old	FY25E		
		Actual	Actual			Old	New	% Change
(₹ Crore)	Actual	Actual	Old	New	% Change	Old	New	% Change
Revenue	317.9	400.9	464.2	473.5	2.0		517.8	
EBITDA	250.6	336.4	383.0	393.0	2.6		429.8	
EBITDA Margin (%)	78.9	83.9	82.5	83.0	50 bps		83.0	
PAT	205.4	305.9	364.7	373.2	2.3		422.5	
EPS (₹)	2.3	3.4	3.7	4.2	12.3		4.7	

Source: ICICI Direct Research

Financial Summary

Exhibit 3: Profit and loss statement ₹ crore

(₹ Crore)	FY22	FY23	FY24E	FY25E
Revenue	431	401	474	518
Growth YoY (%)		-7.0%	18.1%	9.3%
Other Income	53	73	108	133
Total Revenue	484	474	581	651
Employee cost	42	35	43	47
Other Expenses	26	30	38	41
Total expenditure	67	64	81	88
EBITDA	364	336	393	430
Growth YoY (%)		-7.5%	16.8%	9.3%
Interest	-	2	3	3
PBDT	417	407	498	560
Depreciation	17	19	24	28
Profit Before Tax	398	389	475	532
Tax	97	96	119	133
PAT	309	306	373	423
Growth YoY (%)		-0.9%	22.0%	13.2%
EPS	3.4	3.4	4.2	4.7

Source: Company, ICICI Direct Research

Exhibit 4: Cash flow statement ₹ crore

(₹ Crore)	FY22	FY23	FY24E	FY25E
Profit after Tax	308.6	305.9	373.2	422.5
Depreciation	17.2	18.6	23.5	27.6
Interest	2.0	2.5	2.5	3.0
Other income	(53.4)	(73.2)	(107.6)	(133.2)
Prov for Taxation	96.6	95.9	118.7	133.1
Cash Flow before WC change	371.1	349.6	410.3	453.0
Change in Working Capital	(35.8)	(234.8)	(218.7)	(333.3)
Taxes Paid	(101.3)	(95.9)	(118.7)	(133.1)
Cashflow from Operations	233.9	18.9	73.0	(13.4)
(Purchase)/Sale of Fixed Assets	(3.9)	(47.8)	(30.0)	(30.0)
(Purchase)/Sale of Investments	12.0	-	-	-
Other Income	53.4	73.2	107.6	133.2
Cashflow from Investing	61.5	25.4	77.6	103.2
Issue/(Repayment of Debt)	-	-	-	-
Changes in Minority Interest	(29.7)	-	-	-
Changes in Networth	(71.5)	(0.0)	-	(0.0)
Interest	(2.0)	(2.5)	(2.5)	(3.0)
Dividend paid	(59.9)	(29.9)	(44.9)	(59.9)
Cashflow from Financing	(163.0)	(32.4)	(47.4)	(62.9)
Changes in Cash	132.4	11.9	103.1	26.9
Opening Cash/Cash Equivale	103.9	232.6	244.6	347.7
Closing Cash/ Cash Equivale	231.1	244.6	347.7	374.7

Source: Company, ICICI Direct Research

Exhibit 5: Balance Sheet ₹ crore

(₹ Crore)	FY22	FY23	FY24E	FY25E
Share Capital	89.8	89.8	89.8	89.8
Reserves & Surplus	614	890	823	1,580.6
Networth	703	979	913	1,670.4
Minority Interest	29.7	29.7	-	-
Deferred Tax Liability	22.3	22.3	22.3	22.3
Other non-current liabilities	9.0	9.0	9.0	9.0
Total Liabilities	764.4	1,040.4	944.6	1,701.6
Gross Block	82	112	142	172.5
Acc: Depreciation	44	63	87	114.1
Net Block	20	49	56	58.4
Capital WIP	0	0	0	0.0
Investments	108	108	108	108.2
Inventory	-	-	-	-
Sundry debtors	87	0	0	0.4
Cash and bank balances	233	245	146	374.7
Other financial assets	1,145	1,145	1,445	1,845.3
Other current assets	8	8	10	10.9
Total Current Assets	1,473	1,399	1,044	2,231.2
CL& Prov.	961	640	723	790.6
Net Current Assets	512	758	546	1,440.6
Total Assets	764.4	1,040.4	944.6	1,701.6

Source: Company, ICICI Direct Research

Exhibit 6: Key ratios

(Year-end March)	FY22	FY23	FY24E	FY25E
Per share data (₹)				
EPS	3.4	3.4	4.2	4.7
Cash EPS	3.6	3.6	4.4	5.0
BV	7.8	10.9	14.6	18.6
DPS	0.7	0.3	0.5	0.7
Cash Per Share	0.5	0.7	1.0	1.3
Operating Ratios (%)				
EBITDA Margin	84.4	83.9	83.0	83.0
PBT / Net Sales	80.4	79.3	78.0	77.7
PAT Margin	71.6	76.3	78.8	81.6
Inventory days	-	-	-	-
Debtor days	74.0	0.3	0.3	0.3
Creditor days	807.6	575.0	550.0	550.0
Return Ratios (%)				
RoE	43.9	31.2	28.5	25.3
RoCE	56.1	39.6	36.2	31.9
RoIC	72.2	42.7	38.1	62.2
Valuation Ratios (x)				
P/E	45.1	45.5	37.3	39.9
EV / EBITDA	37.6	40.6	34.5	35.1
EV / Net Sales	31.7	34.1	28.7	26.2
Market Cap / Sales	32.3	34.7	29.4	26.9
Price to Book Value	19.8	14.2	10.6	8.3
Solvency Ratios				
Debt/EBITDA	-	-	-	-
Net Debt / Equity	-	-	-	-
Current Ratio	0.3	0.4	0.5	0.5
Quick Ratio	0.3	0.4	0.5	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,
Third Floor, Brillanto House,
Road No 13, MIDC,
Andheri (East)
Mumbai – 400 093
research@icicidirect.com**

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Name of the Compliance officer (Research Analyst): Mr. Anoop Goyal

Contact number: 022-40701000 E-mail Address: complianceofficer@icicisecurities.com

For any queries or grievances: Mr. Prabodh Avadhoot Email address: headservicequality@icicidirect.com Contact Number: 18601231122

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