

Key risks to investing in I-direct Instinct

- It is a quick pitch note, which captures the essence of an idea in brief
- Instinct idea may be based on management interaction or some immediate triggers that may have a positive impact on the future of the company
- Target price is based on forward estimates, which will be published along with Detailed Coverage Report or Nano Nivesh report as the case may be
- The intent is to capture price action by coming out with a gist, which may or may not be an interim report between management interaction and publication of the final report
- The fair value of I-direct Instinct stocks is subject to expected growth potential in the future. Though due diligence has been done to a fair extent, the actualisation of growth still has a degree of uncertainty attached to it. Customers are advised to allocate a small proportion of their investible income to these stocks and diversify well

Indian Energy Exchange (INDEN)

CMP: ₹ 340

Target: ₹ 430 (27%)

Target Period: 12 months

March 16, 2021

Growth levers in place for IEX ...

IEX, the premier electricity exchange of India is a proxy play for India's short term power market which is still at a nascent stage (10% of total market), albeit with an enormous potential. New product launches such as RTM (Real Time Markets) will enable discoms to manage their power demand-supply variation more effectively while also providing generators to sell their un-requisitioned capacity. Going ahead, we expect share of IEX in the short term market to increase further with a decline in bilateral transactions. We believe, IEX's virtual monopoly in the segment, India's overcapacity in power and lower short term market rates are some of the key catalyst that would usher higher volumes on the exchange. Furthermore, the Indian Gas Exchange which is currently a seed in the pot also provides an embedded option value.

Immense opportunity for growth

Electricity generation in India has increased from 767 BU in FY10 to 1383 BU in FY20. During FY20, out of the total electricity produced in India, the short term market comprised of 10% (~5% exchanges, ~6% Bilateral & DSM) whereas balance 90% of generation was mainly procured by discoms via long term PPAs. On the contrary, power markets in developed economies are in the range of 30%-80% of total power demand vs 5% in India and hence there is large opportunity for the short term market in India. Transactions at exchanges between FY15-20 grew at a CAGR of 14% vs 7% in short term market indicating growing share of power exchanges. Further, it is expected that 41 GW of capacity is likely to phase out by 2027 giving power exchanges an incremental opportunity of ~ 100 BU

New product launches & regulatory changes boding well

IEX launched two new segments during lockdown in FY21 viz. RTM (Real Time Market) & GTAM (Green Term Ahead Market) which combined posted a volume of 8.8 BUs. RTM could be the next big volume gainer for IEX given it bodes well for discoms and generators with excess capacity. Hence, we build in 25% & 20% volume increase in FY22E & FY23E respectively for RTM. Further proposed regulatory changes such as privatisation of Discoms, enabling of discoms to exit PPAs post completion of 25 years are expected increase participation from discoms and hence bode well for IEX. We expect IEX to post 20% volumes CAGR between FY21E & FY23E and reach 103.8 BU

Low spot prices improving discom participation ...

Weighted average price at IEX in FY20 was ₹ 3.15 per unit which was much lower than the price in Bilateral market at ₹ 4.42 per unit. Historically, the buy/sell bid ratio on the exchange indicates that the market always had more sellers and hence prices at the exchange have been relatively lower. This provides an arbitrage opportunity for the discoms with high cost PPAs. On the other side, having excess capacity aids to keep the prices down on the exchange.

Valuation & Outlook

Debt free balance sheet, ample cash reserves, a huge opportunity pie, necessary technology & new product launches to gain market share makes IEX an attractive play for the theme of shifting to short term power market. Though trading at a premium valuation of 40x FY23E EPS, we believe IEX is still a good BUY given its high growth trajectory. We initiate coverage on IEX with a BUY rating valuing the company at 45x FY23E EPS with a target price of ₹ 430 per share.

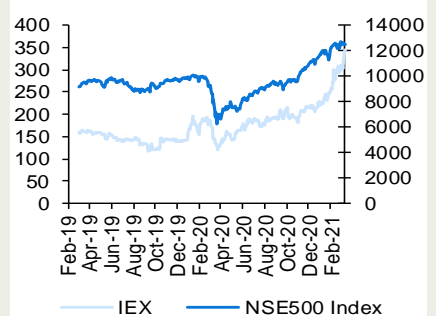
BUY



Particulars

Particular	Amount
Market Capitalization	10,185
Total Debt (FY 20) (₹crore)	0
Cash and Inv (FY 20) (₹crore)	227
EV (FY 20) (₹crore)	10,157
52 week H/L (₹ (BSE))	361 / 112
Equity capital (₹crore)	29.8
Face value (₹)	1

Price Performance



Key Risk

- Regulatory cap on transaction fees
- Implementation of price coupling

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Exhibit 1: Financial Summary

P&L (₹crore)	FY19	FY20	FY21E	FY22E	FY23E
Sales	254.1	257.1	307.6	370.0	441.9
EBIDTA	202.8	202.2	239.9	288.6	344.7
EBIDTA (% margin)	80%	79%	78%	78%	78%
PAT	165.0	175.7	195.0	237.7	287.1
EPS	5.5	5.9	6.5	7.9	9.6
Balance Sheet (₹crore)					
Equity	30.2	29.8	29.8	29.8	29.8
Net worth	370.3	388.0	508.4	596.9	734.8
Debt	-	-	-	-	-
Debt Equity (x)	-	-	-	-	-
Return Ratios					
RoE	44.6	45.3	38.4	39.8	39.1
RoCE	61.9	55.8	51.6	53.8	53.1
Valuation					
P/E	62.2	58.0	52.2	42.9	35.5
EV/EBIDTA	49.9	50.2	41.8	34.3	28.2
EV/Sales	39.8	39.5	32.6	26.8	22.0

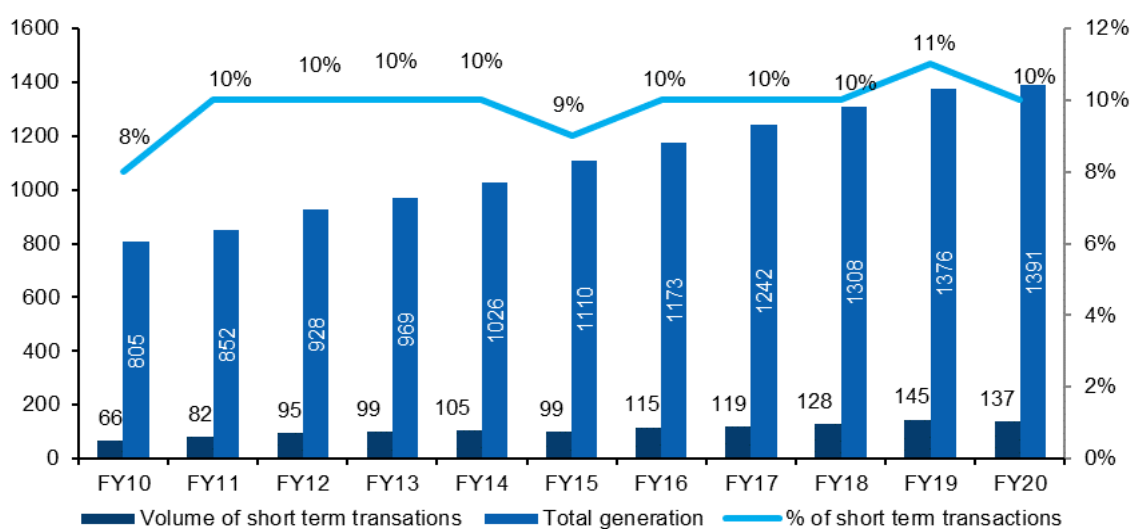
Source: Company, ICICI Direct Research

Exhibit 2: Market scenario over the years

Year	IEX				PXIL		Total Exchange	Gross generation	Total Short term market	Share of exchange	Share of Traders
	Total Short term	Traders	DAM	TAM	DAM	TAM					
FY09		21.9	2.6		0.2		2.8	747		0%	3%
FY10	66	26.7	6.2	0.1	0.9	0.0	7.2	805	8%	1%	3%
FY11	82	27.7	11.8	0.9	1.7	1.1	15.5	852	10%	2%	3%
FY12	95	35.8	13.8	0.6	1.0	0.1	15.5	928	10%	2%	4%
FY13	99	36.1	22.4	0.5	0.7	0.0	23.5	969	10%	2%	4%
FY14	105	35.1	28.9	0.3	1.1	0.3	30.7	1026	10%	3%	3%
FY15	99	34.6	28.1	0.2	0.3	0.7	29.4	1110	9%	3%	3%
FY16	115	35.4	34.0	0.3	0.1	0.6	35.0	1173	10%	3%	3%
FY17	119	33.5	39.8	0.7	0.3	0.4	41.1	1242	10%	3%	3%
FY18	128	38.9	44.8	1.4	0.7	0.8	47.7	1308	10%	4%	3%
FY19	145	47.3	50.1	2.1	0.1	1.3	53.5	1376	11%	4%	3%
FY20	137	30.0	49.1	4.8	0.1	2.5	56.5	1391	10%	4%	2%

Source: CERC Annual Report, ICICI Direct Research

Exhibit 3: Total generation vs Short term transactions



Source: CERC Annual Report, ICICI Direct Research

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Buy: >15%

Hold: -5% to 15%;

Reduce: -15% to -5%;

Sell: <-15%



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