

10<sup>th</sup> September 2020

CMP – ₹188.65/-

View – Positive

## About IEX

IEX is the first and largest energy exchange in India providing a nationwide, automated trading platform for physical delivery of Electricity, Renewable Energy Certificates and Energy Saving Certificates. The exchange platform enables- **Efficient Price Discovery > Settlement > Delivery.**

## Important Statistics

<b>M.Cap (₹ Cr)</b>	5,705.05
<b>52 Week H/L (₹)</b>	203.40/111.05
<b>NSE Code</b>	IEX
<b>BSE Code</b>	540750

## Fast Facts

1. Commenced operations in 2008
2. 53.8 billion units of electricity traded in fiscal year FY20 with volume growth of 3.3% YoY
3. 8.4% YoY growth in IEX's electricity traded volume YTD Aug'20
4. Average daily trade 6000+ MW
5. Widely held by Institution

Source: Annual Report

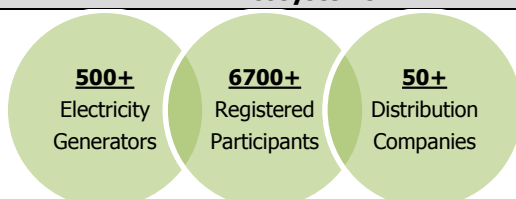
## Financials

(₹ Cr)			
Particulars	FY18	FY19	FY20
Revenue	230	254	257
Other Income	25	40	42
Total Revenue	255	294	299
Operating Expenses	46	51	55
EBITDA	210	243	244
EBITDA Margin %	82%	83%	82%
PBT	200	232	226
Tax	68	67	50
PAT	132	165	176
EPS	4.46	5.47	5.90

## Why we like IEX?

1. Growing share in short term market
2. New product launches to increase volume and penetrate further
3. Transmission capacity improvement in last 5 years to favour trading in exchanges
4. Monopoly in the power exchange market
5. Unlocking opportunity in Gas Exchange
6. Robust Financials

## IEX Ecosystems



Source: Annual Report FY20

## Shareholding pattern (%) June'20

Mutual Fund	14.86%
AIF	7.32%
FPI	31.37%
Other DII	11.72%
Non Institutions	34.73%

## Products Offering

<b>Day Ahead Market (DAM)</b>	Delivery for next day Priced Discovery: Closed, Double-sided Auction
<b>Term-Ahead Market (TAM)</b>	Trading of Contracts other than DAM Duration upto 11 days Intraday, Daily & Weekly, Day Ahead Contingency Contracts
<b>Real-Time Market</b>	Delivery after 1 hour of auction Priced Discovery: Closed, Double-sided Auction
<b>Renewable Energy Certificates</b>	Sellers: RE generators not under feed in tariffs Buyers: Obligated entities; 1 MWh=1 REC
<b>Energy Saving Certificates</b>	Certificates created under Perform Achieve Trade (PAT) scheme of Ministry of Power Industry unable to reduce power consumption- Buy Energy Saving Certificates

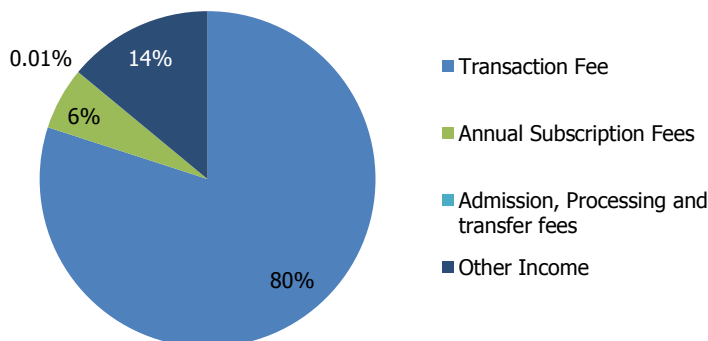
Source: IEX Investor Presentation

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### Revenue Source- FY20



#### Transaction Fee (~80%)

Per unit transaction (4 paisa )  
Volume based business

#### Membership Charges (~6%)

Annual Membership Fee

#### Other Income (~14%)

Interest Income, Fair Value Gain on Sale of Investments

**Investment forms ~77% of Total Assets**

Source: IEX Investor Presentation

### Investment Rationale

### Growing Share of Short Term Markets

Long Term (90%)	Short Term (10%)		
1,370 BU (incl REN)			
Upto 25 years	OTC: Intraday to 1 year	Exchanges: Intraday – 11 days	Real Time
1,233 BU	58.1 BU (-12.7% YoY) Volume Degrowth	56.5 BU (5.5% YoY) Volume Growth	22.6 BU (-10% YoY) Volume Degrowth
90.0%	4.20%	4.10%	1.70%
Long Term PPA	Bilateral & Banking Transactions	Exchanges (Only up to 11 days) <ul style="list-style-type: none"><li>○ Daily</li><li>○ Weekly</li><li>○ Day Ahead Market</li></ul>	Deviation settlement / Unscheduled Interchange

Source: IEX Investor Presentation, Annual Report

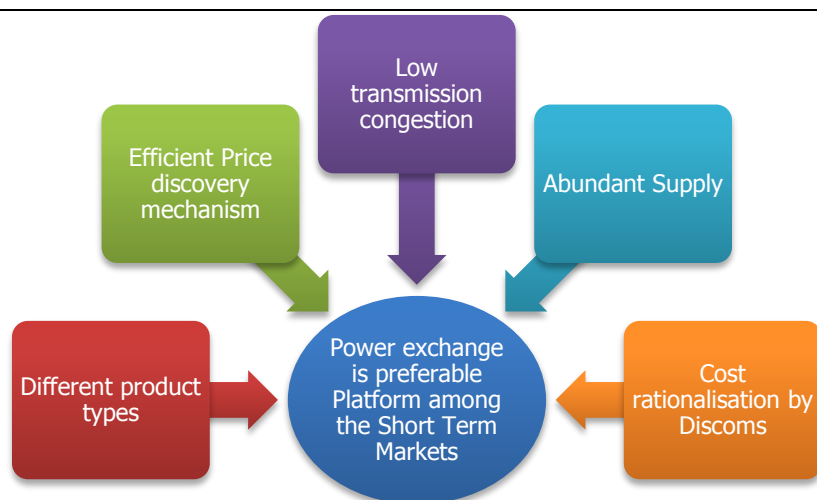
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The above table clearly depicts long term contracts dominate the power market to meet the overall power requirements.

However, if you see the below table it indicates short term markets have become attractive over last decade with its share increasing from 6.10% in FY09 to 10% in FY20.



Particulars	FY09	Feb'20
<b>Long Term</b>	<b>93.90%</b>	<b>90%</b>
<b>Short Term</b>	<b>6.10%</b>	<b>10%</b>
<i>Exchanges</i>	<i>0.40%</i>	<i>4.10%</i>
<i>Bilateral &amp; Banking Transactions</i>	<i>3.70%</i>	<i>4.30%</i>
<i>Unscheduled Interchange</i>	<i>2.10%</i>	<i>1.60%</i>

Source: CERC, IEX

#### Newly launched Products in last few months

IEX over the last decade has increased its market share from 0.4% in FY09 to 4.10% in FY20. By introducing new products it has the opportunity to tap into balance 60% of short term market.

**Real Time Markets (RTM)** – RTM trading started recently from 1st June, 2020, the company received overwhelming response from its customers and witnessed volume of 515 MU in the first month comprising 10% of the total volume traded on IEX during the month.

IEX is aiming to capture market share from DSM which is currently 22.6 BU market by introducing RTM product. RTM has accomplished cumulative trade of 2157 MU in the first three months. ***With 242 customers participating in August month, RTM continues to see adequate availability of power with sell bids volume at about 2.5x of buy bids.***

RTM has been of immense significance for the utilities and industries in managing real time power demand-supply variations in the most efficient and competitive manner.

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**Longer Duration Contracts (LDC)** – LDC (to be launched soon) will try to capture market share from Banking and Bilateral category which is 58.1 BU market. ***IEX was losing out to bilateral trades as the maximum tenure of its product was 11 days as compared to < 1 year for later. LDC will enable big shift from bilateral trades to power exchange.*** LDC is expected to be launched soon as decade old dispute on jurisdiction between SEBI and CERC is resolved.

**Green Term Ahead Markets** – Products for market participants to trade in renewable energy on pan-India basis in transparent, flexible, competitive and efficient manner.

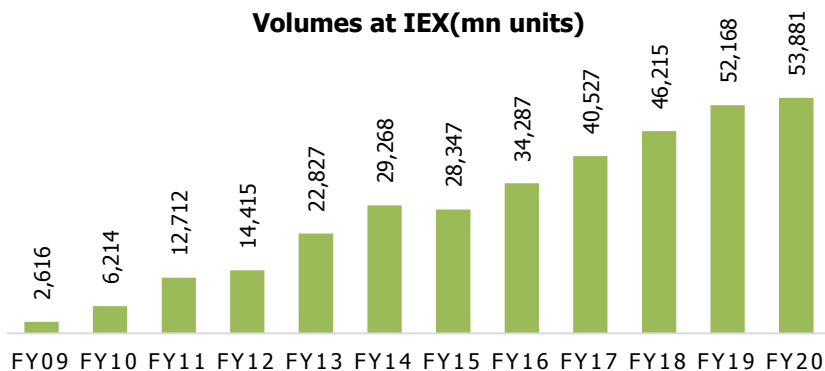
**The proposed power traded through Green** – TAM would be accounted towards meeting the RPO obligations of participants.

The trading in the Green TAM commenced on August 21, 2020 with trading in Intraday and day-ahead contracts while trading in daily and weekly contracts to commence soon. The market has witnessed an encouraging response since launch and has registered trade of 3 MU in the first 11 days.

**Cross Border Trade (to be launched)** – India has signed MOU with Bhutan, Bangladesh, Nepal, Myanmar to improve power connectivity with these neighboring countries for cross border trade of electricity.

The designated authority has issued the draft procedure for approval, post finalization of the procedure neighboring countries will be able to participate in the trading platform of power exchanges.

Volumes at IEX(mn units)



Source: IEX

***IEX has grown its volume at ~24%/~14%/~10% for 10/5/3 year CAGR respectively. The above mentioned newly launched products or to be launched will help IEX to increase volumes going ahead and penetrate further in the short term market.***

### Efficient Price Discovery Mechanism

IEX commenced operations with 58 participants which has now increased to 6700+ participants which includes distribution companies, electricity generators, industries, renewable energy generators & obligated entities, energy saving certificates entities.

***The continuous rise in participants have enabled the exchange to attract more volumes which has enabled it to efficient price discovery mechanism.***

The volume effect as well as higher participants has played its part well with IEX DAM avg market clearing price at ₹2.43 per unit registered 27% YoY decline in Aug'20 yielding significant savings.

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View – **Positive****Low Transmission Congestion**

With the addition of 5700 MW Inter-regional transmission capacity to existing capacity of ~99k MW, the loss of trade volume at Exchanges has further reduced to <1% vs. 10% in FY15.

This enhanced transmission capacity is expected to increase the reliability of the market and allow unrestricted short term transactions through power exchanges

Source: IEX AR FY19, FY20

**Cost Rationalisation by Discoms**

Capacity in Power Market has exceeded the demand over past three years which is reflected in below diagram.

Excess capacity has resulted in low prices on the power exchanges which has attracted discoms to procure more from exchange to optimize their costs.

IEX has seen increase in volumes for YTD Aug'20 by ~8.4% to 25,679 MN units from 23,683 MN units the same period last year.

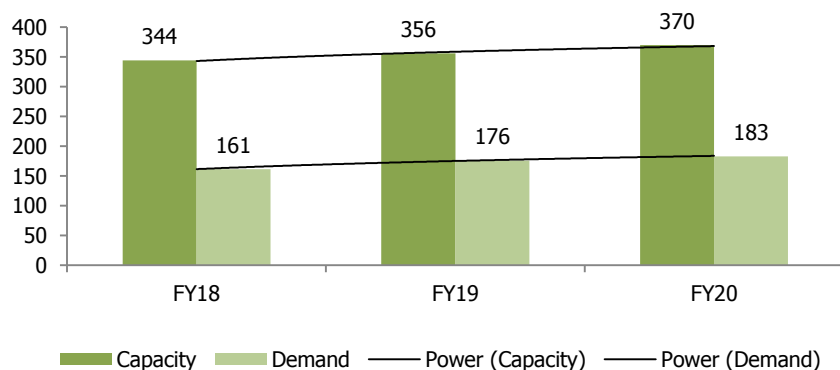
**Below are comments from major Discoms during Covid-19 lockdown**

*"Power utilities turn to cheaper exchange power as prices crash" – Live Mint – May 28, 2020*

*"We've been doing this for 6-7 months at APTransco, and we managed to save ₹500 crore in FY20. We were well placed to maximise this benefit when spot prices fell on the exchange during the lockdown in March and April. We saved ₹56 crore and ₹132 crore in those two months. We were able to buy power for as low as ₹1.8 a unit at one point."*

*"Maharashtra discoms turn to energy exchanges, shun costly PPAs" – PTI – April 12, 2020*

*"We are increasingly buying power from exchanges, which is cheaper than PPA tariffs," an official from state utility Mahavitaran*



Source: IEX Investor Presentation

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View – **Positive****Unlocking Opportunity in Gas Exchange**

The company launched on 15th June 2020 is India's first automated national-level trading platform for physical delivery of natural gas from designated hubs.

The company plans to capture 2-3% share in spot market volume. In the first month of launch, the company has onboarded 12 members and 350+ clients covering all gas consuming sectors.

The platform traded a total of 9600 MMBTU of gas within the first 15 days of launch.

- Domestic Production- Fully Contracted
- LNG Imports- 50% Fully Contracted
- *Balance 50% LNG Imports- Spot Market which is the target market for IEX.*

**Key Risks**

- Capping of transaction fees
- Increased Competition Intensity
- Proposed new exchange to the trading floor

**View**

Going forward, IEX is hopeful that contribution of new products, scaling up of gas trading and few other initiatives like entry into overseas market and introduction of long duration contracts should enable long runway for growth. Moreover even in the current environment disrupted by Covid-19, it has seen a volume growth of ~8.4% YTD Aug'20.

Valuations also looks reasonable in the light of compelling business model with consistent cash generation, high return on capital, sector opportunity and asset light business.

**We have a POSITIVE view on this stock.**



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**Disclosure of Interest Statement Indian Energy Exchange Ltd. (IEX) as on September 10<sup>th</sup>, 2020**

Name of the Security	Indian Energy Exchange Ltd. (IEX)
Name of the analyst	Harshil Gandhi
Analysts' ownership of any stock related to the information contained	NIL
Financial Interest	
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Analyst's Relative : Yes / No	No
Analyst's Associate/Firm : Yes/No	No
Conflict of Interest	No
Receipt of Compensation	No
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