15th February 2023 | CMP – ₹133.40/- | View – **Book Profits**

Q3FY23 Result Snapshot

- IEX volume de-grew 13% YoY in Q3FY23.
- Supply side constraints continue to limit e-auction volumes in the near term.
- Consequently, e-auction premium on prices continued to remain elevated at 242%.
- Trading of domestic gas on exchanges lead to a significant uptick in IGX's numbers.

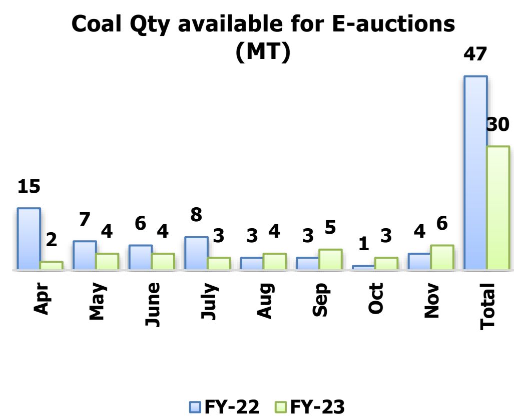
Important Statistics

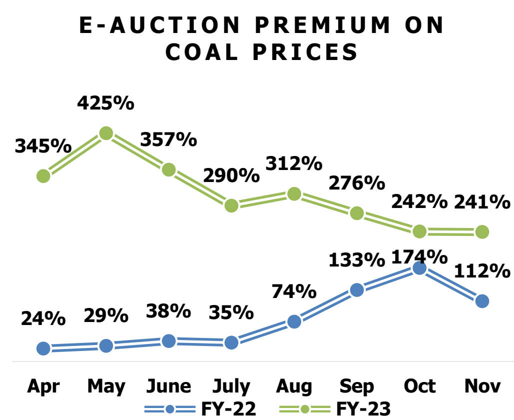
M.CAP (₹ bn)	~₹120bn
52 Week H/L (₹)	251.50 /129.25
NSE Code	IEX
BSE Code	540750

Shareholding Pattern(%)	Dec'22
Promoter Holding	-
FII	15.49
DII	21.74
Public	62.48
Others	0.29

Key takeaways from Q3FY23 result

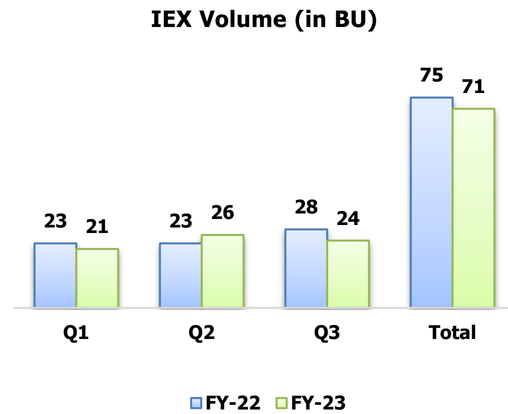
- **Supply side Constraints**
  - During Q3FY23, total coal production in the country increased 8.7% YoY to 225MT, of which 184MT was dispatched to the power sector. However, a large part of the coal continued to be allocated towards long term PPA schemes to ensure that state governments are able to fulfill their power demands through their power plants. Thus, increasing coal inventory at these power plants to 13 days of consumption.
  - With a large amount of coal meant for the power sector being allocated towards long term PPAs during the fiscal, the amount of coal available for distribution via e-auctions was muted.
  - We believe this trend to continue as the onset of the summer season in March will cause a jump in the demand for electricity. Consequently, a large part of the coal supply will likely be diverted to PPAs, leaving a limited supply of coal for e-auctions.
- **Increase in Premium Prices for e-auction coal**
  - Market forces such as the demand and supply of coal in the e-auction market play a key role in determining the premium charged on the price of coal traded via e-auctions.
  - The average premium on coal prices stood at 35% in FY-22. However, given the limited amount of coal available for e-auctions in this fiscal, the premium charged on the price of coal rose significantly.
  - In the previous quarter, the average premium charged on coal prices stood at 293%. While this has trended downward to a rate of 242% in Q3FY23, it continues to be a far cry from the 35% premium witnessed during FY-22.

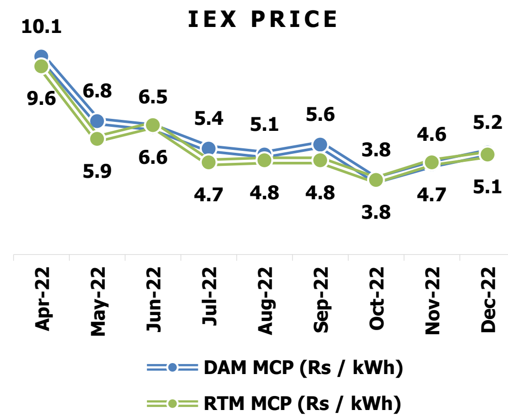




Impact on IEX

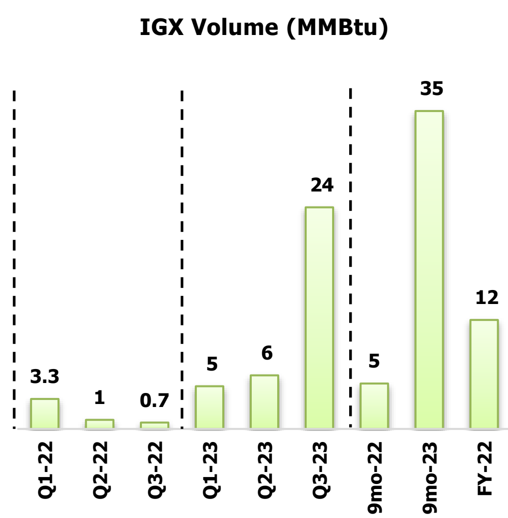
- IEX is an energy marketplace, providing an automated trading platform for the physical delivery of electricity, renewables, and certificates. Its customer base includes power gencos, Discoms and Open Access customers.
- The underlying premium on coal prices and the amount of coal available for e-auctions are key factors in the trading of thermal energy – a segment that forms the majority of trades on the platform.
- The limited supply of coal for e-auctions has thus negatively impacted the volume of transactions occurring on the exchange in this fiscal. In Q3-23, the total traded volume on IEX de-grew by 13% YoY to 24BU compared to a volume of 28BU in Q3FY22. On a 9-month basis, the volume de-grew to 71BU in this fiscal, vs. a volume of 75BU witnessed during the same time last year.
- Discoms and Gencos purchase power from exchanges, such as IEX, for 2 reasons – the first is to make up for any energy deficit in the state / region. This is price insensitive as the priority is to make up for the deficit power and ensure timely supply to the end consumer. The second reason is to optimize the high-cost power generated by Gencos with low-cost power available through Exchanges.
- As offices and the economy returned to normal post COVID, the 9 months of FY-23 witnessed a significant, 10%, jump in the demand for electricity. The 242% premium in e-auction coal prices lead to the average clearing price in IEX's DAM (Day-ahead market) and RTM (Real-Time market) staying elevated at ₹4.56 during the quarter. While the DAM price in Q3FY23 was 16% lower than the ₹5.40 price witnessed in the preceding quarter, it was too high to provide any optimization potential for Discoms and open-access customers. Hence, the buy side on IEX was largely limited to Discoms and Gencos looking to bridge their deficit-power needs.





IGX

- With the government of India permitting trading of domestic gas on exchanges, subject to a ceiling price, IGX witnessed strong growth in gas volumes during the 9-mo FY23 period. This increase was largely driven by gas sold from the fields of Reliance and ONGC.
- IGX's revenue thus grew over 500% to ₹27cr in 9mo FY-23 vs. ₹5cr last year, with ₹18cr being generated in Q3FY23 itself. Similarly, IGX's PAT of ₹16cr in 9mo FY-23 was largely on the back of the ₹12cr PAT made in Q3FY23.
- High LNG prices in the international market have limited the number of LNG related transactions on the exchange. Once LNG prices moderate, the management is confident of seeing an increase in such trades on the exchange.
- The management is confident of witnessing transactions to the tune of ~48-50 MMBtu occurring in full year FY-23E. With only 1-1.5% of the country's gas-demand flowing through the exchange and a significant number of private sector gas fields being developed, IGX has a long runway for growth.



View

- Supply side challenges continue to impact e-auction prices of coal and consequently, the exchange's transaction volume.
- The 242% premium on coal prices continues to be a barrier for discoms and open access customers looking to optimize their power costs through energy exchanges.
- IEX is optimistic on volume growth in the mid to long term due to various policy and regulatory interventions along with new product launches, but the near term outlook appears to be subdued owing to the limited supply of coal for e-auctions.
- While Q4FY23E may see some improvement in volume, we expect that this will be short-lived.
- The on-set of summer, which witnesses a significant boost in the demand for electricity, will again limit the supply of coal for e-auctions thereby exacerbating the low-supply, high-premium situation for IEX and limiting topline growth.
- **Given the challenging environment and the limited topline growth in the near term, we recommend investors to book profits at the current levels.**

Quarterly Performance

(₹ Cr)

Particulars	Q3FY23	Q3FY22	9MFY23	9MFY22	FY22	9M23 YoY	Q3FY23 YoY	Q3FY23 QoQ
Electricity Volume (BU)	23	24	66	71	96	-6%	-2%	8%
REC + ESCERT Volume (BU)	1	4	4	4	6	2%	-71%	-37%
Total Traded Volume (BU)	**24**	**28**	**71**	**75**	**102**	**-6%**	**-13%**	**5%**
Revenue from Operations (net)	**100**	**118**	**294**	**319**	**431**	**-8%**	**-15%**	**5%**
Employees exp	9	10	26	30	42	-15%	-12%	0%
Operating Expenditure	**17**	**19**	**51**	**50**	**67**	1%	-9%	4%
EBITDA	**83**	**99**	**243**	**269**	**364**	-9%	-16%	6%
% Margin	83%	84%	83%	84%	84%	-2%	-1%	0%
Depreciation & Amortization	5	4	14	13	17	5%	11%	8%
Other Income	17	13	51	37	53	37%	29%	-8%
EBIT	**95**	**108**	**280**	**293**	**400**	-4%	-11%	3%
% Margin	95%	92%	95%	92%	93%	4%	4%	-3%
Interest Expense	1	0	2	2	2	14%	34%	28%
Profit / (Loss) from JV / Assoc	6	-	8	-	1	N/A	N/A	428%
PBT	**101**	**107**	**286**	**291**	**399**	-2%	-6%	8%
Tax Expense	**24**	**26**	**69**	**71**	**97**	**-3%**	**-11%**	**5%**
Tax Rate (%)	23%	25%	24%	24%	24%	-1%	-5%	-2%
PAT	**77**	**81**	**218**	**220**	**303**	-1%	-4%	8%
% Margin	77%	69%	74%	69%	70%	7%	12%	3%
EPS (Rep)	0.86	0.90	2.43	2.46	3.39	-1%	-4%	8%

Source: Company Filing, Way2wealth Research

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Disclosure of Interest Statement Indian Energy Exchange Ltd. (IEX) as on February 15, 2023

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