

23rd October 2020

CMP – ₹196.20/-

View – Positive

Q2 Performance

IEX saw a marginal increase in revenue growth of ~5% on account of an increase in volumes (~13% YoY), however revenue saw a hit to the tune of ~12-13% on account of no trading in REC during the quarter owing to stay order from Honourable Appellate Tribunal for Electricity (APTEL). This affected the total volume growth including REC which saw 3.8% YoY growth during Q2FY21.

Other Income saw a decline of 31% YoY on account of lower interest rate as well as no MTM benefit in absence of rate cut during the quarter.

Employee expenses saw a steep increase of ~40% YoY on account of fresh hiring for the new products launched during the quarter as well as increments.

The reduction in PAT was mainly on account of a decline in the corporate tax rate in Q2FY20 resulting in a tax benefit of ₹3.7cr in the same quarter last year.

Important Statistics

M.Cap (₹ Cr)	5,817.39
52 Week H/L (₹)	219.05/111.05
NSE Code	IEX
BSE Code	540750

Shareholding pattern (%)	Sep'20
FII/FPI	30.3%
DII	59.9%
Others	9.8%

Key Concall Highlights**1. Gas Exchange**

The company sees a huge opportunity in gas trading in the next couple of quarters on account of key enablers in place or likely to be in place:

- On the regulatory front, PNGRB issued the final Gas Exchange Regulations on September 28, 2020 which will help in developing the market and accelerating trade.
- Policy on Gas Transport Tariff being drafted by the regulator.
- Short Term Market comprises ~15-20% of overall gas market and company expects incremental demand to be met under spot market.

On account of new regulations, members of IGX (Fully owned Gas Subsidiary) can have maximum 5% stake in gas exchanges. Earlier GAIL was interested in picking up 26% stake in IGX, however due to new regulations, it can pick up maximum 5% stake.

The company is in discussion with few strategic investors for selling a stake in IGX.

2. Volumes

The day-ahead market on the exchange continued to see robust volumes on the sell side leading to decline in power prices by 20% to ₹2.53 per unit.

The Green-Term ahead market witnessed encouraging response and saw a cumulative volume of 75.01 MU during the quarter.

The Real Time Market also saw robust volumes and traded 2,350 MU in Q2FY21. On cumulative basis, the market crossed the milestone of 3BU on 6th October, 2020

The company is continuously attempting to shift volume from DSM category to RTM as well as launch new products to increase the addressable market to 70-75% under short term category.

The company has witnessed good volume growth in the month of October'2020. It has also seen its market share increase in Short term category from 35-40% to 50% at the end of Sep'20.

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3. Long Duration Contract

The Exchange has filed a petition for the launch of Long Duration Contracts (LDC) in Central Electricity Regulatory Commission (CERC) and is awaiting commencement of proceedings and approval in the matter from the regulator.

4. Opportunity

- a) Incremental demand in power being met via exchanges because of lower prices on exchanges.
- b) Phasing of old power plants would result in shift in volumes to exchanges
- c) Discoms not signing new PPAs and hence volumes being shifted to short term category.

5. Risks

The company operates in the power trading sector, where decline in demand could impact growth. The volatility could also impact margins and profitability.

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 ~13% in Q2FY21.

IEX is a good long term play considering its monopoly position, compelling business model and opportunities in the power trading sector.

We have a POSITIVE view on this stock.

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Financial Highlights

	(₹ Cr)				
	Q2FY21	Q1FY21	QoQ%	Q2FY20	YoY%
Electricity Volume (MU)	16,486	14,880	11%	14,560	13%
REC Volume (in '000)		697		1,320	
Revenue	71	68	4%	67	5%
Other Income	8	13	-41%	11	-31%
Total Revenue	79	81	-3%	79	0%
Operating Expenses	15	20	-22%	14	9%
EBITDA	63	61	3%	65	-2%
EBITDA Margin %	80%	76%	6%	82%	-2%
Dep	4	4	-4%	3	27%
Fin Cost	1	1	-6%	1	-2%
PBT	58	56	4%	61	-4%
Tax	14	14	-1%	12	19%
PAT	44	42	5%	49	-9%
EPS	1.49	1.41	6%	5.90	-75%

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Disclosure of Interest Statement Indian Energy Exchange Ltd. (IEX) as on October 23rd, 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	
Analyst :	No
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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