

23rd August, 2024

Analyst - Sushil Kr Jaiswal

Recommendation	CMP (₹)	Target (₹)	Upside Potential (%)	Time Horizon
Buy	191	250	28.4%	9 – 12 months

Indian Energy Exchange (IEX) is India's leading technology-driven electricity marketplace which was established in 2008 and publicly listed in 2017. The company is headquartered in Noida, Uttar Pradesh and they provide a transparent and automated platform for the trading of electricity, renewable energy and certificates which facilitates efficient market operations. The exchange is regulated by the Central Electricity Regulatory Commission (CERC) and has achieved a dominant market share of 83% in FY'24 with a consistent volume growth compounded annual growth rate of approximately 30% since its inception. IEX plays a pivotal role in the Indian energy sector by promoting renewable energy integration and supporting sustainability initiatives through innovative products like the Green Real-Time Market. With over 7,900 registered participants, including commercial entities, generators and distribution companies, IEX is committed to enhancing energy accessibility and efficiency and driving the transition towards a sustainable energy future in India.

Stock Details	
Sector:	Power Generation/Distribution
FV (₹):	1
Total Market Cap (₹):	17405
52-Week High/Low (₹):	200.90/121.35
Sensex/Nifty (₹):	81,053/24,811
BSE Code/NSE Symbol:	540750/IEX

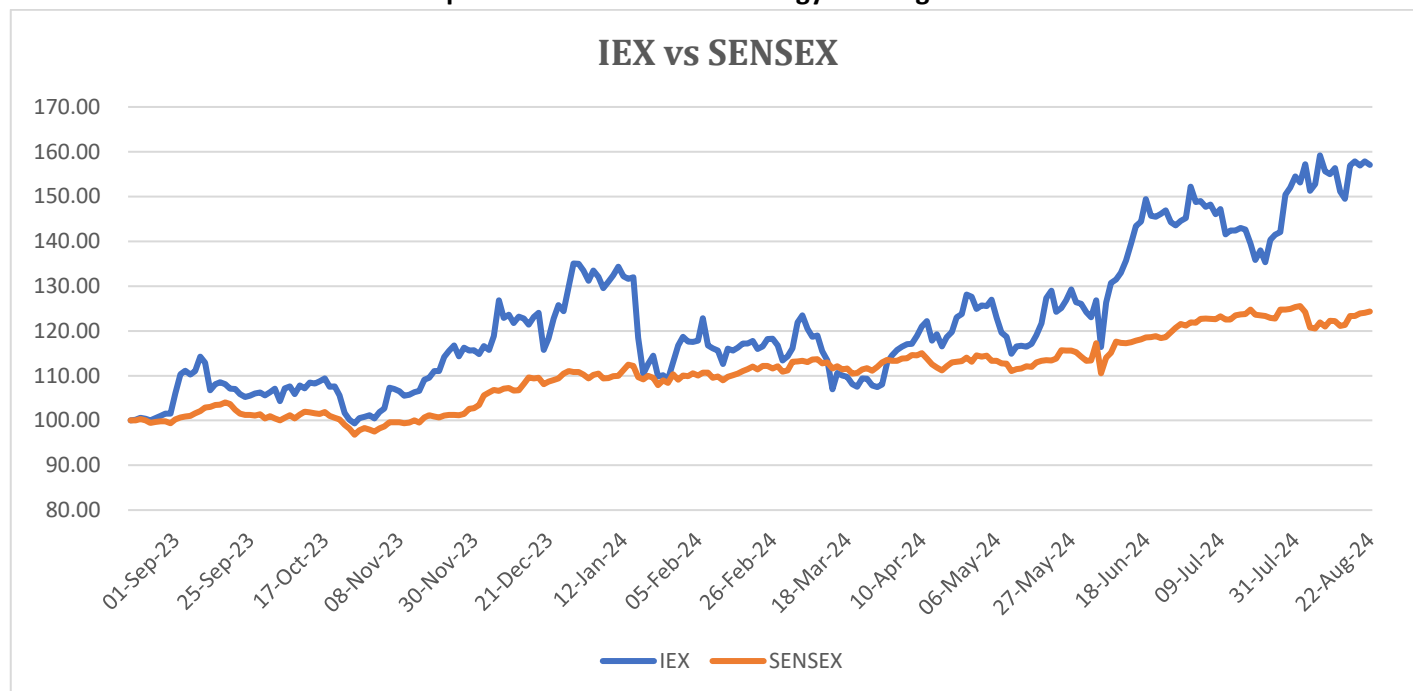
Shareholding Pattern				
	Sep-23	Dec-23	Mar-24	Jun-24
FII s	14.12%	13.37%	10.89%	11.66%
DII s	22.61%	26.34%	27.24%	31.24%
Public	62.98%	60.01%	61.57%	56.82%
Others	0.28%	0.28%	0.28%	0.28%

Price Performance				
	1M	3M	6M	12M
IEX	13.79%	47.92%	34.76%	56.79%
SENSEX	0.68%	9.21%	10.79%	24.28%

Key Financials (Cons)	FY21	FY22	FY23	FY24	4Y CAGR %
Net Sales	317.85	431.04	400.85	449.15	12.22%
EBITDA (Excl OI)	250.63	363.66	336.37	376.86	14.56%
EBITDA Margin (%)	78.85%	84.37%	83.91%	83.90%	
Profit After Tax	205.43	308.64	305.89	350.78	19.52%
PAT Margin (%)	64.63%	71.60%	76.30%	78.09%	
Earnings Per Share (Rs)	6.9	3.44	3.43	3.93	
Book Value	17.24	7.67	8.78	10.72	
Div Per Share (Rs)	4	2	1	2.5	
Dividend Yield (%)	1.2	0.89	0.78	1.86	
ROE (%)	45.96	51.28	41.56	40.34	
ROCE (%)	59.62	66.23	53.81	52.95	

Valuation Ratio (Consolidated)	Latest (TTM)	10 Year Median
P/E	47.11	39.54
P/BV	16.68	15.18
EV/EBITDA	34.35	29.01
Market Cap/Sales	37.33	29.90

Price comparison between Indian Energy Exchange Ltd vs Sensex



Q1FY25 Con-Call Highlights:

Financial Performance:

- In the first quarter of FY25, IEX recorded a total trading volume of 30.4 billion units, which represents a growth of 20.8% year-on-year.
- The company's revenue grew by 21% year-on-year increasing from ₹127 crores to ₹154 crores.
- PAT increased by 27% rising from ₹75.8 crores in Q1 FY24 to ₹96.4 crores in Q1 FY25.
- IEX maintains a robust dividend payout ratio of around 50% of total profit with the ratio being approximately 64% last year and currently around 65%.
- As of June 30, the company had around 15.5 lakh shareholders.
- Despite the increase in operating revenue, IEX has maintained significant control over costs with operating expenses remaining flat at around 12% which is much lower compared to revenue growth.
- There has been a significant growth in the EPS of the company increasing by 21%, reflecting the overall financial health and performance.

Growth Drivers:

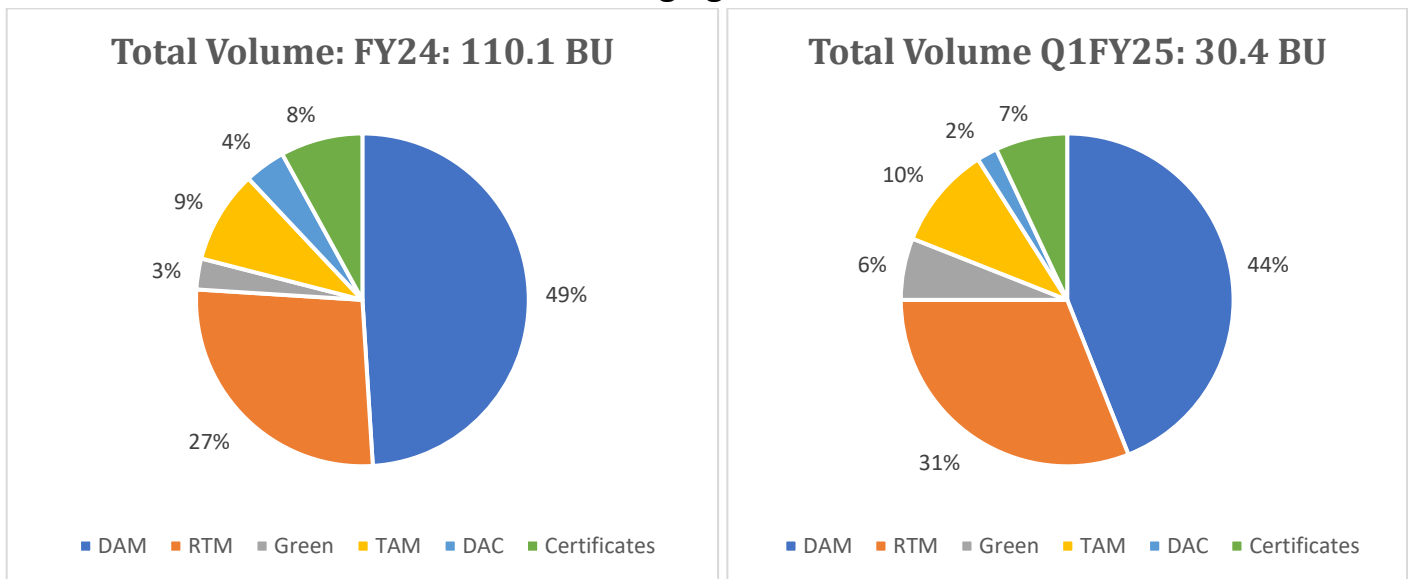
- **Increase in Power Consumption:**
 - India is poised for high GDP growth which will drive electricity demand.
 - Sectors like industrialization, electrification (EVs, rooftop solar) and data centres are expected to contribute significantly to increased electricity consumption.

- Consumer demand is expected to grow with improved last-mile connectivity and 24x7 power availability.
- The power demand projection for FY 2023-2030 shows a strong correlation between exchange volume and power demand.
- **New Products & Regulatory Developments:**
 - Introduction of new trading options such as Term-Ahead Market (TAM) trading up to 11 months and Green Real-Time Market (RTM) will increase exchange volumes.
 - LPSC (Late Payment Surcharge) Rules mandating generators to offer unrequisioned power on exchanges are expected to boost supply and reduce costs.
 - The Renewable Energy Certificate (REC) market is being streamlined with fungibility introduced and stricter penalties for non-compliance which is expected to enhance trading volumes.
- **Market Deepening:**
 - Short, medium and long-term market-based reforms such as ancillary services, demand response and integrated resource planning are expected to deepen the electricity market and increase market participation.
- **Energy Transition:**
 - The energy sector's future will see a significant shift towards renewable energy (RE) with market models like Contracts for Difference (CD) and Virtual Power Purchase Agreements (VPPA) supporting this transition.
 - India's energy market is expected to evolve similarly to European markets where market-based models have successfully integrated high levels of RE.
- **Diversity in Demand/Supply Patterns:**
 - Regional diversity in power consumption and generation creates opportunities for the exchange particularly during peak demand periods or when renewable generation is high.
 - Seasonal and geographical variations in demand and supply further support the exchange's role in balancing the market.
- **Increasing Sell-Side Liquidity:**
 - Measures to increase domestic coal production, reduce import costs and improve PLFs (Plant Load Factors) are expected to enhance sell-side liquidity on the exchange.
 - Upcoming capacities in both conventional and renewable energy are expected to increase market participation and trading volumes.
- **Diversification:**
 - IEX is diversifying its offerings by launching platforms for natural gas trading, carbon credits and potentially a coal exchange.
 - These new ventures are expected to provide additional revenue streams and increase overall market participation.

Guidance by the Management:

- The management highlighted that electricity demand is expected to continue growing, driven by economic activities, upcoming elections, and seasonal factors like hot weather.
- A 11% growth in electricity demand was noted during the first quarter, with a peak demand of 250 gigawatts.
- The Ministry of Power is working on adding thermal capacity, with 28 gigawatts under construction. They expect 15 gigawatts to be commissioned within the year, and an additional 50 gigawatts planned over the next six to seven years.
- Ongoing regulatory initiatives, including the implementation of the Grid Code and revised Transmission Charge Sharing Regulations, are expected to positively impact trading volumes.
- IEX is awaiting approval from the CERC for long-duration contracts, which could enhance trading opportunities and market participation.
- The management expressed confidence in maintaining robust financial performance, expecting continued growth in trading volumes and revenue, supported by high power demand and substantial sell availability.
- They emphasized their commitment to maintaining control over operating costs, which are expected to remain flat relative to revenue growth, thereby supporting profitability.

IEX Changing Product Mix

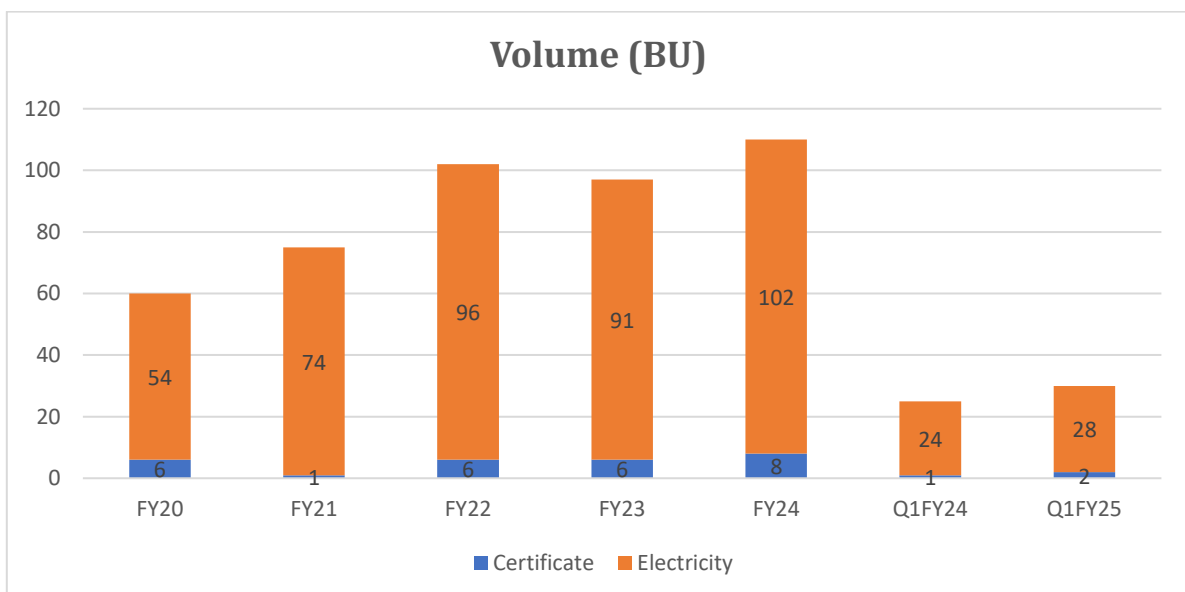


Investment Rational:

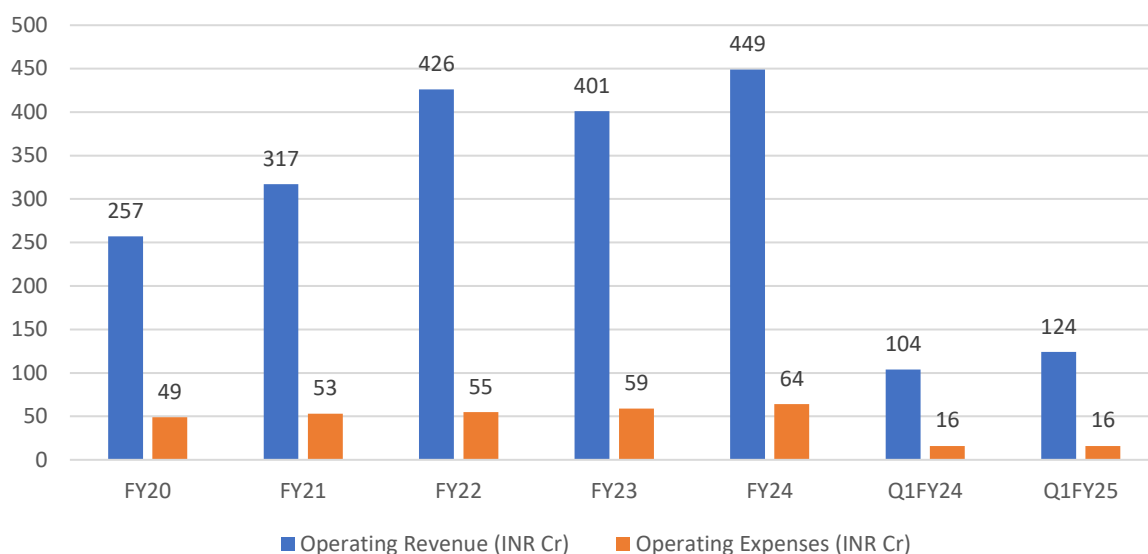
- Indian Energy Exchange (IEX) is recognized as India's premier technology-led electricity marketplace which provides a transparent and automated platform for trading electricity, renewables, and certificates which enhances market efficiency and accessibility for all participants
- The demand for electricity in India is projected to increase significantly that is driven by high GDP growth and the electrification of various sectors including electric vehicles, rooftop solar installation, and other energy-intensive applications that leads in creating a robust growth opportunity for IEX.
- The regulatory landscape is also becoming increasingly supportive of market development with new policies such as the LPSC Rules that require generators to offer un-requisitioned power on exchanges, thereby expanding the market for IEX and enhancing its operational scope.

- The introduction of innovative market products such as the Green Real-Time Market (RTM) allows IEX to cater to the growing demand for renewable energy and aligns them with sustainability goals among obligated customers which further solidifies its market position.
- The potential for REC fungibility and the removal of floor prices for RECs enhance trading opportunities within the market making IEX a pivotal player in the renewable energy sector and facilitating greater participation from various stakeholders.
- IEX has maintained a dominant market share of 83% in FY'24 with a consistent volume growth CAGR of approximately 30% since its inception which underscores its competitive advantage and operational efficiency in the electricity trading space.
- The ample availability of fuels at reasonable prices, along with the addition of new capacity, both conventional and renewable ensures that IEX can effectively meet the growing demand for electricity that positions them favourably for future growth.
- IEX's ongoing commitment to innovation and technology combined with its established ecosystem of over 7,900 registered participants positions themselves for sustained growth and profitability in the dynamic and evolving energy market landscape.
- IEX is actively pursuing strategic partnerships and future plans which includes initiatives in hydrogen trading and cross-border natural gas trading that will further diversify its offerings and enhance its market presence.
- With a diverse participant base that includes over 4,900 commercial and industrial entities, 200+ ESCert entities, and 800+ generators, IEX has built a robust ecosystem that supports its operations and fosters a competitive trading environment.

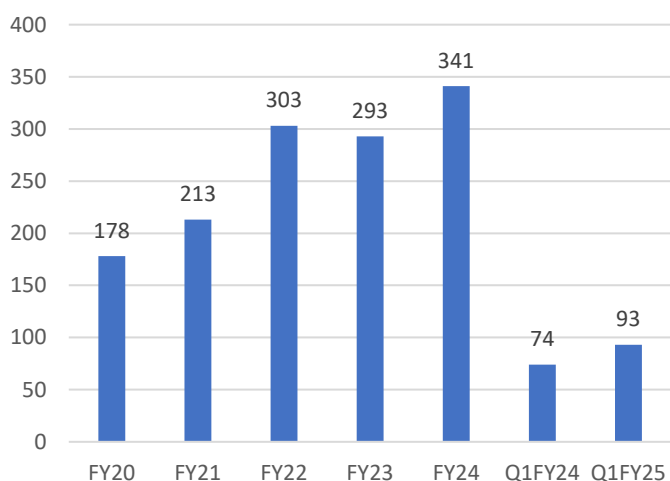
Performance Highlights:



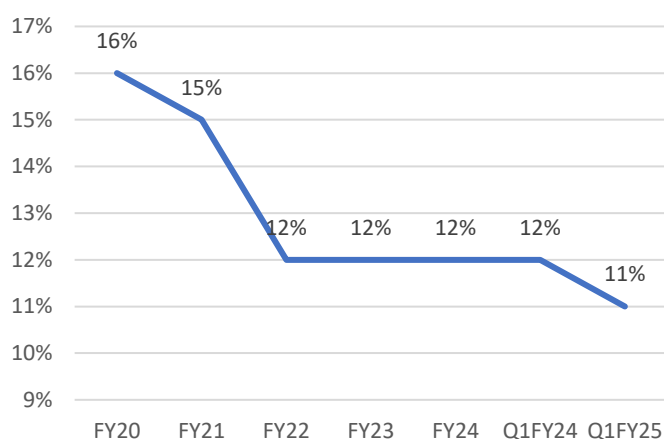
Operating Revenue vs Operating Expenses (INR Cr)



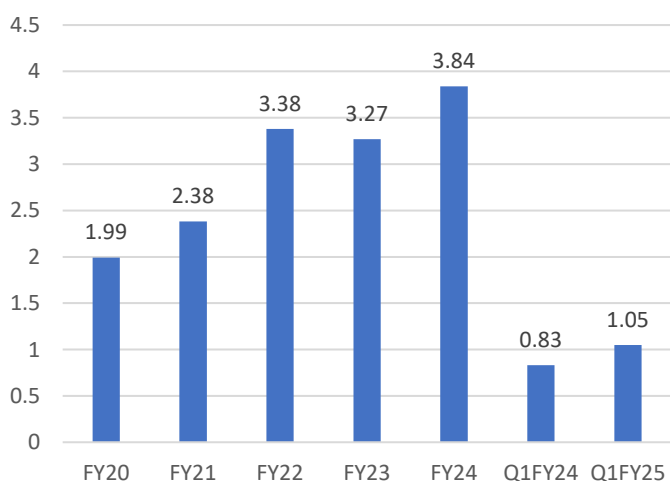
PAT (INR Cr)



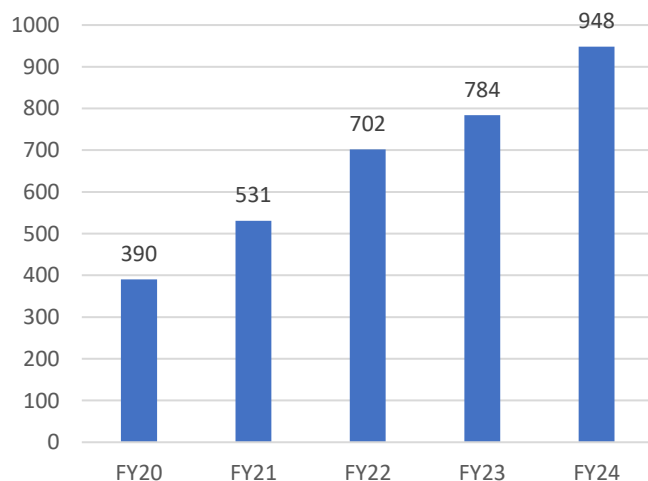
Operating Expenses % to Total Revenue



EPS (INR)



Net Worth (INR Cr)



Income Statement

(In Cr.)

Income Statement (In Cr.)	FY20	FY21	FY22	FY23	FY24
Revenue	297	356	484	474	551
COGS	1	1	1	1	1
Gross Profit	296	355	483	473	550
SG&A	36	48	44	37	41
EBITDA	260	307	439	436	509
Other Income	-0	-0	7	13	11
Other Expenses	18	17	22	27	30
Depreciation & Amortization	15	17	17	19	20
EBIT	227	273	407	404	469
Interest	2	2	2	2	3
EBT	226	270	405	402	466
Taxes	50	65	97	96	115
PAT	176	205	309	306	351

Balance Sheet

(In Cr.)

Balance Sheet (In Cr.)	FY20	FY21	FY22	FY23	FY24
ASSETS					
Cash And Equivalents	13	46	224	63	157
Short Term Investments	13	56	303	162	242
Trading Asset Securities	312	537	616	325	535
Total Cash & ST Investments	337	638	1,144	549	933
Accounts Receivable	0	3	87	7	86
Other Receivables	-	0	1	0	0
Notes Receivable	2	-	-	-	-
Total Receivables	2	3	88	7	87
Prepaid Exp.	1	1	2	2	3
Other Current Assets	4	94	240	213	161
Total Current Assets	345	737	1,473	772	1,184
Gross Property, Plant & Equipment	32	39	39	51	52
Accumulated Depreciation	-11	-14	-19	-25	-32
Net Property, Plant & Equipment	22	25	20	25	20
Long-term Investments	135	114	106	429	297
Other Intangibles	101	103	95	89	85
Loans Receivable Long-Term	0	-	-	-	-
Deferred Tax Assets, LT	-	3	-	0	0
Deferred Charges, LT	0	-	-	-	-
Other Long-Term Assets	64	3	2	139	188
Total Assets	667	985	1,696	1,453	1,774
LIABILITIES					
Accounts Payable	77	166	635	402	563
Accrued Exp.	10	17	20	15	15
Curr. Port. of Leases	2	2	2	4	4
Curr. Income Taxes Payable	3	4	3	6	7
Unearned Revenue, Current	9	7	8	9	10
Other Current Liabilities	135	186	285	175	152
Total Current Liabilities	235	382	954	610	751
Long-Term Leases	12	10	8	10	6
Unearned Revenue, Non-Current	0	1	0	1	2
Pension & Other Post-Retire. Benefits	3	4	4	4	5
Def. Tax Liability, Non-Curr.	24	27	22	22	31
Other Non-Current Liabilities	4	5	5	6	6
Total Liabilities	279	429	993	654	801
Common Stock	30	30	90	89	89
Additional Paid in Capital	-	-	-	-	-
Retained Earnings	349	484	599	693	866
Treasury Stock	-	-	-	-	-
Comprehensive Inc. and Other	9	12	14	17	17
Total Common Equity	388	526	703	799	972
Minority Interest	-	30	-	-	-
Total Equity	388	556	703	799	972
Total Liabilities and Equity	667	985	1,696	1,453	1,774

Cash Flow Statement

(In Cr.)

Cash Flow Statement (In Cr.)	FY20	FY21	FY22	FY23	FY24
Cash flow from Operating Activities					
Net Income	176	206	309	306	351
Adjustments	-22	-19	-35	-59	-79
Operating Profit before Working Capital Changes	154	187	274	246	272
Change in Working Capital	-28	120	489	-269	26
Cash flow from Operating Activities	126	306	762	-23	298
Cash flow from investing activities	-3	-196	-448	70	-25
Cash flow from financing activities	-161	-77	-136	-215	-183
Net Change in Cash during the year	-38	33	178	-167	91

View:

Indian Energy Exchange Limited has established itself as a dominant player in the electricity marketplace holding an impressive market share of 83% in FY24. The company has shown consistent volume growth with a CAGR of 30%. Their strong market position is supported by the introduction of innovative trading options like Green Real-Time Market and the Term-Ahead Market which caters to the growing demand for renewable energy and enhancing trading volumes. Moreover, the regulatory landscape is also increasingly supportive with the new policies being introduced which are helping the company to expand market opportunities. They are committed to sustainability and their strategic initiatives have demonstrated robust growth along the years. With the increasing electricity demand, IEX is well-positioned for sustained growth which makes it an attractive investment opportunity. Thus, we expect the stock to reach a target price of Rs.250 in a span of 9-12 months' time horizon.

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