

Indian Energy Exchange (INDEN)

CMP: ₹ 764

Target: ₹ 910 (19%)

Target Period: 12 months

BUY

October 22, 2021

Sturdy revenues backed by high EBITDA margins...

About the stock: Indian Energy Exchange (IEX) is the premier electricity exchange in India, which facilitates trading of electricity.

- IEX commands a market share of ~95% in the power exchange market
- The company has a debt free balance sheet with cash & investments to the tune of ~ ₹ 700 crore

Q2FY22 Results: IEX reported robust Q2FY22 results.

- Revenue was up 55.6% YoY and 21.3% QoQ at ₹ 110.4 crore
- EBITDA in Q2FY22 was at ₹ 95 crore, up 71.4% YoY with margins at 86.1%
- Consequent PAT in Q2FY22 was at ₹ 77.4 crore, up 74.6% YoY & 24.6% QoQ

What should investors do? For the past year, IEX has remained richly valued given its clean balance sheet, near monopoly and bright future prospects.

- We continue to remain positive and retain our BUY rating on the stock

Target Price and Valuation: We value IEX at ₹ 910 i.e. 57x P/E on FY24E EPS

Key triggers for future price performance:

- With resolution of a spat between CERC and Sebi, electricity can now be traded as other commodities with forward contracts, derivatives on exchanges
- This settlement will open the gates for introduction of longer duration delivery bases contracts in power exchanges and IEX will be a beneficiary
- Shift of power buying pattern from power purchase agreements (PPAs) to short term market catalysed by MBED
- In first year GTAM traded was 2744 MU, which is expected to grow in future

Alternate Stock Idea: Apart from IEX, in our capital goods & power coverage we also like Siemens.

- It offers a play on industrial automation, digital industries and smart infra coupled with focus on green energy
- BUY with target price of ₹ 2,550



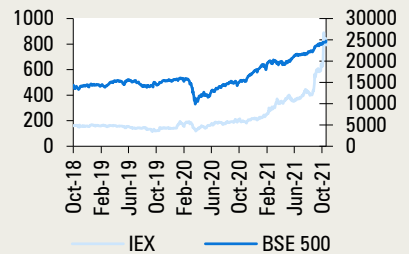
Particulars

Particular	Amount
Market Capitalization	22,916
Total Debt (FY21) (₹ crore)	0
Cash and Inv (FY21) (₹ crore)	224
EV (FY21) (₹ crore)	22,692
52 week H/L (₹) (BSE)	956 /181
Equity capital (₹ crore)	29.8
Face value (₹)	1

Shareholding pattern

	Dec-20	Mar-21	Jun-21	Sep-21
Promoters	-	-	-	-
FII	29.6%	36.8%	36.7%	37.7%
DII	36.6%	27.9%	25.5%	23.1%
Others	33.8%	35.3%	37.8%	38.8%

Price Chart



Recent event & key risks

- Resolution of spat between Sebi and CERC
- Key Risk:** (i) Market coupling, (ii) Inability to garner volumes in new launches

Research Analyst

Chirag Shah
shah.chirag@icicisecurities.com

Key Financial Summary

	FY20	FY21	4 Year CAGR (FY 17-21)	FY22E	FY23E	FY24E	3 Year CAGR (FY21-24E)
Revenue (₹ crore)	257.1	317.9	11.9	402.0	535.0	712.0	30.8
EBITDA (₹ crore)	202.2	250.6	15.1	325.6	433.9	578.1	32.1
EBITDA margin	78.6	78.9		81.0	81.1	81.2	
Net Profit (₹ crore)	175.7	205.4	34.0	273.7	362.8	480.1	32.7
EPS (₹)	5.9	6.9		9.1	12.1	16.0	
P/E (x)	130.4	111.6		83.7	63.2	47.7	
EV/EBITDA (x)	113.2	90.5		69.7	52.0	38.6	
RoCE (%)	55.8	50.6		56.0	67.6	79.4	
RoE (%)	45.3	39.0		42.1	50.8	59.5	

Source: Company, ICICI Direct Research

Key takeaways of recent quarter & conference call highlights

Q1FY22 Results: Robust performance

- Revenue for the quarter came in at ₹ 110.4 crore (I-direct estimate of ₹ 106.4 crore), up 55.6% YoY, 21.1% QoQ. On a QoQ basis, total volumes leaped 21.1%
- IEX registered an EBIDTA margin of 86.1% vs. 82.2% QoQ, which is highest ever in the company's history. Absolute EBIDTA came in at ₹ 95 crore vs. ₹ 74.9 crore in the last quarter (I-direct estimate of ₹ 88.5 crore)
- The company saw strong volumes in August and September whereas July witnessed a slight dip led by the second wave. Total volume traded were 25976 MUs
- Ensuing PAT came in at ₹ 77.4 crore (I-direct estimate of ₹ 56.9 crore), up 74.6% YoY & 24.6% QoQ. Tax rate for the quarter was at 24.2%

Q1FY22 Earnings Conference Call highlights

- With the dispute between CREC and Sebi getting settled, IEX is all set to launch long term contracts and MCX is set to launch derivatives of electricity whose physical settlement will only be carried out on IEX. Launch of derivatives will add stability to electricity prices. The company is all set with technological support and is waiting for authorities to approve so that they can launch the products
- Large part of bilateral contracts will move to long term contracts, which will add volumes to IEX
- Electricity demand is expected to increase at 9% CAGR in next three years
- RTAM is fastest growing segment with 125% increase YoY and traded 5.3 billion units (BUs) in FY22, DTAM traded 17.3 BUs in Q2FY22, which is 20% higher QoQ. TAM traded 1.5 BUs in this quarter up 14% QoQ. Since the launch of GTAM, it has traded a volume of 3.5 BUs, with 1.7 BUs coming in Q2FY22
- In MBED phase 1, platform will play the same role as it is now (price discovery and settlement) and after that regulatory will analyse if any modification is required or not
- With total capacity of 41 GW set to be phase out by 2027, it will provide the exchange with an opportunity of 100 BUs. Draft of NEP indicates the commitment of the government to deepen power markets by increasing share of spot markets to 25% by the year 2024.
- Deviation settlement mechanisms and related matter regulations, 2021, linking the DSM charges to the time block-wise price discovered on the exchange
- Indian Gas Exchange (IGX) has until now transacted 10 lakh MMBT of gas through its exchange. This volume is increasing every month. IGX is charging ₹ 4 per MMBTU but due to high prices of LNG, the company which is scheduled to reach breakeven in Q4FY22 has rescheduled to Q2FY23. The company is very bullish on gas market growth
- Other expenses were low due to cost optimisation during Covid times as CSR expenses were low, cash balance will be used for diversification opportunity

Exhibit 1: Variance Analysis

Year	Q2FY22	Q2FY22E	Q2FY21	YoY (%)	Q1FY22	QoQ(%)	Comments
Income from Operation	110.4	106.4	70.9	55.6	91.0	21.3	Strong power demand & decent traction in volumes in August & September
Other Income	11.9	12.8	7.8	53.0	11.8	0.6	
Employee cost	10.7	10.9	11.7	(8.5)	9.5	12.4	
Other expenditure	4.6	7.0	3.8	23.1	6.7	(30.3)	
EBITDA	95.0	88.5	55.5	71.4	74.9	27.0	
EBITDA Margin (%)	86.1	83.2	78.2	790 bps	82.2	387 bps	Lower Employee costs and other expenses improved margins
Depreciation	4.4	4.4	4.3	2.9	4.3	2.7	
Interest	0.5	0.1	0.5		0.5		
PBT	102.1	96.9	58.5	74.6	81.9	24.7	
Taxes	24.7	25.2	14.1	74.8	19.8	25.0	
PAT	77.4	71.7	44.3	74.6	62.1	24.6	

Source: Company, ICICI Direct Research

Exhibit 2: Change in estimates

(₹ Crore)	FY21		FY22E		FY23E			FY24E		
	Actual	Old	New	% Change	Old	New	% Change	Old	New	% Change
Revenue	317.9	371.0	402.0	7.7	535.0	535.0	0.0	712.0	712.0	0.0
EBITDA	250.6	289.4	325.6	11.1	417.3	433.9	3.8	555.4	578.1	3.9
EBITDA Margin (%)	78.9	78.0	81.0	300 bps	78.0	81.1	310 bps	78.0	81.2	320 bps
PAT	205.4	243.4	273.7	11.1	359.2	362.8	1.0	471.1	480.1	1.9
EPS (₹)	6.9	8.1	9.1	11.3	12.0	12.1	1.0	15.7	16.0	1.9

Source: ICICI Direct Research

Financial Summary

Exhibit 3: Profit and loss statement				
	₹ crore			
(₹ Crore)	FY21	FY22E	FY23E	FY24E
Revenue	318	402	535	712
<i>Growth YoY (%)</i>		26.5%	33.1%	33.1%
Other Income	38	66	86	108
Total Revenue	356	468	621	820
Employee cost	44	48	57	72
Other Expenses	23	28	44	62
Total expenditure	67	76	101	-
EBITDA	251	326	434	578
<i>Growth YoY (%)</i>		29.9%	33.2%	33.2%
Interest	-	2	2	2
PBDT	289	390	518	684
Depreciation	17	21	28	36
Profit Before Tax	270	370	490	649
Tax	65	96	127	169
PAT	205	274	363	480
<i>Growth YoY (%)</i>		33.2%	32.6%	32.3%
EPS	6.9	9.2	12.2	16.1

Source: Company, ICICI Direct Research

Exhibit 4: Cash flow statement				
	₹ crore			
(₹ Crore)	FY21	FY22E	FY23E	FY24E
Profit after Tax	205.4	273.7	362.8	480.1
Depreciation	16.5	20.6	28.1	35.6
Interest	2.1	1.5	1.5	1.5
Other income	(38.4)	(66.3)	(85.9)	(107.8)
Prov for Taxation	65.0	96.2	127.5	168.7
Cash Flow before WC changes	250.6	325.6	433.9	578.1
Change in Working Capital	(161.7)	(10.1)	99.7	139.0
Taxes Paid	(62.5)	(96.2)	(127.5)	(168.7)
Cashflow from Operations	26.5	219.4	406.1	548.5
(Purchase)/Sale of Fixed Assets	(21.8)	(30.6)	(30.0)	(30.0)
(Purchase)/Sale of Investments	79.7	-	-	-
Other Income	38.4	66.3	85.9	107.8
Cashflow from Investing	96.2	35.7	55.9	77.8
Issue/(Repayment of Debt)	-	-	-	-
Changes in Minority Interest	29.7	-	-	-
Changes in Networth	7.4	-	-	-
Interest	(2.1)	(1.5)	(1.5)	(1.5)
Dividend paid	(74.6)	(149.3)	(298.5)	(388.1)
Cashflow from Financing	(39.6)	(150.8)	(300.0)	(389.6)
Changes in Cash	83.1	104.3	162.0	236.7
Opening Cash/Cash Equivalent	27.6	103.9	208.2	370.2
Closing Cash/ Cash Equivalent	102.4	208.2	370.2	606.9

Source: Company, ICICI Direct Research

Exhibit 5: Balance Sheet				
	₹ crore			
(₹ Crore)	FY21	FY22E	FY23E	FY24E
Share Capital	29.9	29.9	29.9	30
Reserves & Surplus	496	621	685	777
Networth	526	651	715	807
Minority Interest	29.7	29.7	29.7	29.7
Deferred Tax Liability	27.0	27.0	27.0	27
Other non-current liabilities	12.6	12.6	12.6	13
Total Liabilities	595.4	719.8	784.1	876
Gross Block	57	82	112	142
Acc: Depreciation	27	48	76	112
Net Block	25	35	37	31
Capital WIP	0	0	0	0
Investments	120	120	120	120
Inventory	-	-	-	-
Sundry debtors	3	0	0	1
Cash and bank balances	104	208	370	607
Other financial assets	601	621	641	661
Other current assets	29	8	11	15
Total Current Assets	737	838	1,023	1,283
CL& Prov.	390	376	499	662
Net Current Assets	347	462	524	622
Total Assets	595.4	719.8	784.1	876

Source: Company, ICICI Direct Research

Exhibit 6: Key ratios				
(Year-end March)	FY21	FY22E	FY23E	FY24E
Per share data (₹)				
EPS	6.9	9.1	12.1	16.0
Cash EPS	7.4	9.8	13.0	17.2
BV	17.6	21.7	23.9	26.9
DPS	2.5	5.0	10.0	13.0
Cash Per Share	0.9	1.6	2.5	3.7
Operating Ratios (%)				
EBITDA Margin	78.9	81.0	81.1	81.2
PBT / Net Sales	73.7	75.9	75.8	76.2
PAT Margin	64.6	68.1	67.8	67.4
Inventory days	-	-	-	-
Debtor days	3.7	0.3	0.3	0.3
Creditor days	438.8	334.0	334.0	334.0
Return Ratios (%)				
RoE	39.0	42.1	50.8	59.5
RoCE	50.6	56.0	67.6	79.4
RoIC	53.8	67.0	113.6	255.2
Valuation Ratios (x)				
P/E	111.6	83.7	63.2	47.7
EV / EBITDA	90.5	69.7	52.0	38.6
EV / Net Sales	71.4	56.5	42.1	31.3
Market Cap / Sales	72.1	57.0	42.8	32.2
Price to Book Value	43.6	35.2	32.1	28.4
Solvency Ratios				
Debt/EBITDA	-	-	-	-
Net Debt / Equity	-	-	-	-
Current Ratio	0.3	0.6	0.8	0.9
Quick Ratio	0.3	0.6	0.8	0.9

Source: Company, ICICI Direct Research

RATING RATIONALE

ICICI Direct endeavours to provide objective opinions and recommendations. ICICI Direct assigns ratings to its stocks according to their notional target price vs. current market price and then categorizes them as Buy, Hold, Reduce and Sell. The performance horizon is two years unless specified and the notional target price is defined as the analysts' valuation for a stock

Buy: >15%

Hold: -5% to 15%;

Reduce: -15% to -5%;

Sell: <-15%



Pankaj Pandey

Head – Research

pankaj.pandey@icicisecurities.com

**ICICI Direct Research Desk,
ICICI Securities Limited,
1st Floor, Akruiti Trade Centre,
Road No 7, MIDC,
Andheri (East)
Mumbai – 400 093
research@icicidirect.com**

ANALYST CERTIFICATION

I/We, Chirag Shah, PGDBM, Research Analysts, authors and the names subscribed to this report, hereby certify that all of the views expressed in this research report accurately reflect our views about the subject issuer(s) or securities. We also certify that no part of our compensation was, is, or will be directly or indirectly related to the specific recommendation(s) or view(s) in this report. It is also confirmed that above mentioned Analysts of this report have not received any compensation from the companies mentioned in the report in the preceding twelve months and do not serve as an officer, director or employee of the companies mentioned in the report.

Terms & conditions and other disclosures:

ICICI Securities Limited (ICICI Securities) is a full-service, integrated investment banking and is, inter alia, engaged in the business of stock brokering and distribution of financial products.

ICICI Securities is Sebi registered stock broker, merchant banker, investment adviser, portfolio manager and Research Analyst. ICICI Securities is registered with Insurance Regulatory Development Authority of India Limited (IRDAI) as a composite corporate agent and with PFRDA as a Point of Presence. ICICI Securities Limited Research Analyst SEBI Registration Number – INH00000990. ICICI Securities Limited SEBI Registration is INZ000183631 for stock broker. ICICI Securities is a subsidiary of ICICI Bank which is India's largest private sector bank and has its various subsidiaries engaged in businesses of housing finance, asset management, life insurance, general insurance, venture capital fund management, etc. ("associates"), the details in respect of which are available on www.icicibank.com.

ICICI Securities is one of the leading merchant bankers/ underwriters of securities and participate in virtually all securities trading markets in India. We and our associates might have investment banking and other business relationship with a significant percentage of companies covered by our Investment Research Department. ICICI Securities and its analysts, persons reporting to analysts and their relatives are generally prohibited from maintaining a financial interest in the securities or derivatives of any companies that the analysts cover.

Recommendation in reports based on technical and derivative analysis centre on studying charts of a stock's price movement, outstanding positions, trading volume etc. as opposed to focusing on a company's fundamentals and, as such, may not match with the recommendation in fundamental reports. Investors may visit icicidirect.com to view the Fundamental and Technical Research Reports.

Our proprietary trading and investment businesses may make investment decisions that are inconsistent with the recommendations expressed herein.

ICICI Securities Limited has two independent equity research groups: Institutional Research and Retail Research. This report has been prepared by the Retail Research. The views and opinions expressed in this document may or may not match or may be contrary with the views, estimates, rating, and target price of the Institutional Research.

The information and opinions in this report have been prepared by ICICI Securities and are subject to change without any notice. The report and information contained herein is strictly confidential and meant solely for the selected recipient and may not be altered in any way, transmitted to, copied or distributed, in part or in whole, to any other person or to the media or reproduced in any form, without prior written consent of ICICI Securities. While we would endeavour to update the information herein on a reasonable basis, ICICI Securities is under no obligation to update or keep the information current. Also, there may be regulatory, compliance or other reasons that may prevent ICICI Securities from doing so. Non-rated securities indicate that rating on a particular security has been suspended temporarily and such suspension is in compliance with applicable regulations and/or ICICI Securities policies, in circumstances where ICICI Securities might be acting in an advisory capacity to this company, or in certain other circumstances.

This report is based on information obtained from public sources and sources believed to be reliable, but no independent verification has been made nor is its accuracy or completeness guaranteed. This report and information herein is solely for informational purpose and shall not be used or considered as an offer document or solicitation of offer to buy or sell or subscribe for securities or other financial instruments. Though disseminated to all the customers simultaneously, not all customers may receive this report at the same time. ICICI Securities will not treat recipients as customers by virtue of their receiving this report. Nothing in this report constitutes investment, legal, accounting and tax advice or a representation that any investment or strategy is suitable or appropriate to your specific circumstances. The securities discussed and opinions expressed in this report may not be suitable for all investors, who must make their own investment decisions, based on their own investment objectives, financial positions and needs of specific recipient. This may not be taken in substitution for the exercise of independent judgment by any recipient. The recipient should independently evaluate the investment risks. The value and return on investment may vary because of changes in interest rates, foreign exchange rates or any other reason. ICICI Securities accepts no liabilities whatsoever for any loss or damage of any kind arising out of the use of this report. Past performance is not necessarily a guide to future performance. Investors are advised to see Risk Disclosure Document to understand the risks associated before investing in the securities markets. Actual results may differ materially from those set forth in projections. Forward-looking statements are not predictions and may be subject to change without notice.

ICICI Securities or its associates might have managed or co-managed public offering of securities for the subject company or might have been mandated by the subject company for any other assignment in the past twelve months.

ICICI Securities or its associates might have received any compensation from the companies mentioned in the report during the period preceding twelve months from the date of this report for services in respect of managing or co-managing public offerings, corporate finance, investment banking or merchant banking, brokerage services or other advisory service in a merger or specific transaction.

ICICI Securities encourages independence in research report preparation and strives to minimize conflict in preparation of research report. ICICI Securities or its associates or its analysts did not receive any compensation or other benefits from the companies mentioned in the report or third party in connection with preparation of the research report. Accordingly, neither ICICI Securities nor Research Analysts and their relatives have any material conflict of interest at the time of publication of this report.

Compensation of our Research Analysts is not based on any specific merchant banking, investment banking or brokerage service transactions.

ICICI Securities or its subsidiaries collectively or Research Analysts or their relatives do not own 1% or more of the equity securities of the Company mentioned in the report as of the last day of the month preceding the publication of the research report.

Since associates of ICICI Securities and ICICI Securities as a entity are engaged in various financial service businesses, they might have financial interests or beneficial ownership in various companies including the subject company/companies mentioned in this report.

ICICI Securities may have issued other reports that are inconsistent with and reach different conclusion from the information presented in this report.

Neither the Research Analysts nor ICICI Securities have been engaged in market making activity for the companies mentioned in the report.

We submit that no material disciplinary action has been taken on ICICI Securities by any Regulatory Authority impacting Equity Research Analysis activities.

This report is not directed or intended for distribution to, or use by, any person or entity who is a citizen or resident of or located in any locality, state, country or other jurisdiction, where such distribution, publication, availability or use would be contrary to law, regulation or which would subject ICICI Securities and affiliates to any registration or licensing requirement within such jurisdiction. The securities described herein may or may not be eligible for sale in all jurisdictions or to certain category of investors. Persons in whose possession this document may come are required to inform themselves of and to observe such restriction.