

Indian Energy Exchange (INDEN)

CMP: ₹ 240

Target: ₹ 305 (27%)

Target Period: 12 months

BUY

January 25, 2022

Robust 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

Q3FY22 Results: IEX reported robust Q3FY22 results.

- Revenue was up 37.9% YoY, 6.5% QoQ at ₹ 117.5 crore
- EBITDA in Q3FY22 was at ₹ 98.8 crore, up 4% QoQ with margins at 84.1%
- Consequent PAT in Q3FY22 was at ₹ 80.6 crore, up 4.1% QoQ & 38.6% YoY

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 ₹ 305 i.e. 57x P/E on FY24E EPS

Key triggers for future price performance:

- Resumption of REC trading with effect from November 24 after a gap of 16 months after an order from APTEL
- Introduction of longer duration delivery bases contracts in power exchanges
- Shift of power buying pattern from power purchase agreements (PPAs) to short term market catalysed by MBED

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 a target price of ₹ 2,550



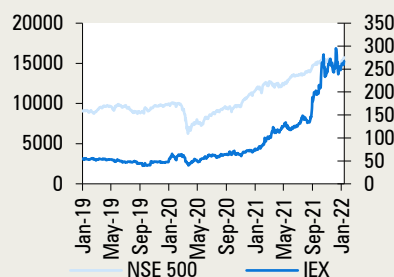
Particulars

| Particular | Amount |
|-------------------------------|---------|
| Market Capitalization | 21,390 |
| Total Debt (FY21) (₹ crore) | 0 |
| Cash and Inv (FY21) (₹ crore) | 224 |
| EV (FY21) (₹ crore) | 21,166 |
| 52 week H/L (₹) (BSE) | 318 /67 |
| Equity capital (₹ crore) | 89.5 |
| Face value (₹) | 1 |

Shareholding pattern

| | Mar-21 | Jun-21 | Sep-21 | Dec-21 |
|-----------|--------|--------|--------|--------|
| Promoters | - | - | - | - |
| FII | 36.8% | 36.7% | 37.7% | 31.0% |
| DII | 27.9% | 25.5% | 23.1% | 17.7% |
| Others | 35.3% | 37.8% | 38.8% | 51.3% |

Price Chart



Recent event & key risks

- Resumption of REC trading
- Key Risk:** (i) Market coupling, (ii) Inability to garner volumes in new launches

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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 | 432.4 | 534.4 | 712.8 | 30.9 |
| EBITDA (₹ crore) | 202.2 | 250.6 | 15.1 | 350.2 | 433.4 | 578.8 | 32.2 |
| EBITDA margin | 78.6 | 78.9 | | 81.0 | 81.1 | 81.2 | |
| Net Profit (₹ crore) | 175.7 | 205.4 | 34.0 | 294.7 | 363.8 | 482.2 | 32.9 |
| EPS (₹) | 2.0 | 2.3 | | 3.3 | 4.1 | 5.4 | |
| P/E (x) | 121.7 | 104.1 | | 72.6 | 58.8 | 44.4 | |
| EV/EBITDA (x) | 105.7 | 84.4 | | 60.3 | 48.5 | 35.9 | |
| RoCE (%) | 55.8 | 50.6 | | 58.4 | 65.8 | 77.4 | |
| RoE (%) | 45.3 | 39.0 | | 43.9 | 49.3 | 58.0 | |

Key takeaways of recent quarter & conference call highlights

Q3FY22 Results: Sturdy performance

- Revenue for the quarter came in at ₹ 117.5 crore, up 37.9% YoY (vs. I-direct estimate of ₹ 116.2 crore)
- IEX' total volume for Q3FY22 was at 27676 MUs vs. 25856 MUs QoQ and 20116 MUs YoY. Rise in volumes was due to resumption of REC trading coupled with rising power demand attracted many buyers and sellers to make transaction through exchange, which led to total volume growth of 7.1% QoQ and 37.24% YoY
- IEX registered an EBIDTA margin of 84.1% vs. 86.1% QoQ (declining EBIDTA margin is due to higher other expenses). Absolute EBIDTA came in at ₹ 98.8 crore, vs. ₹ 95 crore in last quarter (I-direct estimate of ₹ 99.2 crore). The surprise came in from higher other expenses, which were at ₹ 8.7 crore vs. our expectation of ₹ 5.9 crore
- Tracking its operating performance, IEX ended the quarter with a PAT of ₹ 80.6 crore vs. I-direct estimate of ₹ 80.5 crore against ₹ 77.4 crore in Q2FY22. Other income came in at ₹ 13.2 crore

Q3FY22 Earnings Conference Call highlights

- Real-time market traded 4.8 BUs, green market traded 1.2 Bus while on the REC front, a total of 38.28 lakh certificates, and a total of 2.86 lakh energy saving certificates traded during the quarter. Top 10 buyers bought 58% of electricity while top 10 sellers sold around 56% of electricity
- In the first three quarters, the company has seen growth of 17% in electricity traded through platform with RTM's volume increased 70% and DAM's volume increased 4.5% YoY
- Impact of Covid-19 on new variant is very little as there are very few restrictions and that can be seen in electricity demand in Q3FY22, which is higher by 5.3% YoY. Renewable power is 151 GW and is almost 38% of total installed capacity and is on track to reach 500 GW by 2030
- Energy saving certificates and REC received great traction from customers. Due to backlog of last 18 months we can see REC volumes reaching 10 million in the coming financial year (5-6 million RECs are issued in a year)
- New product launches - Electricity derivatives will be launched in Q4FY22. That will also improve the liquidity of spot market. On the gross bidding front IEX has applied to CRC for regulatory approval and after that acceptance from market players and shareholders will be done this product will be launched in this calendar year. On MBED, the government has sent paper to CRC to draft rules and after that it will also be launched
- From January 1, cross border trading has been started with Bhutan and with Nepal trading is since April 2021 while IEX is working with Bangladesh also to establish cross border trading
- Higher other expenses are due to bonus issue and spend on CSR activities

IGX

- Indian Gas Exchange (IGX) witnessed volumes of 3.6 MMBTU in Q3FY22 and 5 MMBTU in the first three quarter of the financial year. Apart from that, IGX has reached breakeven in Q3FY22. IGX will work on government plan to reach 15% energy utilisation by natural gas
- IEX currently holds 47% stake in IGX after the recent deal between IEX and IOCL. IGX is now an associate company of IEX
- As of now, the company has no further plans of selling more stake in IGX. Their main aim was to bring in a strategic investor which they have accomplished

Exhibit 1: Variance Analysis

| Year | Q3FY22 | Q3FY22E | Q3FY21 | YoY (%) | Q2FY22 | QoQ(%) | Comments |
|-----------------------|--------|---------|--------|---------|--------|----------|---|
| Income from Operation | 117.5 | 116.2 | 85.2 | 37.9 | 110.4 | 6.5 | Strong power demand & resumption of REC trading |
| Other Income | 13.2 | 12.1 | 10.9 | 21.9 | 11.9 | 11.0 | |
| Employee cost | 10.0 | 11.2 | 10.4 | (3.2) | 10.7 | (6.2) | |
| Other expenditure | 8.7 | 5.9 | 5.3 | 64.8 | 4.6 | 87.1 | |
| EBITDA | 98.8 | 99.2 | 69.6 | 42.0 | 95.0 | 4.0 | |
| EBITDA Margin (%) | 84.1 | 85.3 | 81.6 | 242 bps | 86.1 | -203 bps | Lower margins due to higher other expenditure |
| Depreciation | 4.4 | 4.6 | 4.2 | 5.4 | 4.4 | 0.7 | |
| Interest | 0.5 | 0.5 | 0.5 | | 0.5 | | |
| PBT | 107.1 | 106.2 | 75.7 | 41.5 | 102.1 | 4.9 | |
| Taxes | 26.4 | 25.7 | 17.6 | 50.1 | 24.7 | 6.8 | |
| PAT | 80.6 | 80.5 | 58.1 | 38.6 | 77.4 | 4.1 | |

Source: Company, ICICI Direct Research

Exhibit 2: Change in estimates

| | FY21 | | FY22E | | FY23E | | | FY24E | | |
|-------------------|--------|-------|-------|----------|-------|-------|----------|-------|-------|----------|
| | Actual | Old | New | % Change | Old | New | % Change | Old | New | % Change |
| (₹ Crore) | | | | | | | | | | |
| Revenue | 317.9 | 402.6 | 432.4 | 6.9 | 534.4 | 534.4 | 0.0 | 712.8 | 712.8 | 0.0 |
| EBITDA | 250.6 | 326.1 | 350.2 | 6.9 | 433.4 | 433.4 | 0.0 | 578.8 | 578.8 | 0.0 |
| EBITDA Margin (%) | 78.9 | 81.0 | 81.0 | 0 bps | 81.1 | 81.1 | 0 bps | 81.2 | 81.2 | 0 bps |
| PAT | 205.4 | 274.1 | 294.7 | 7.0 | 362.4 | 363.8 | 0.4 | 480.7 | 482.2 | 0.3 |
| EPS (₹) | 2.3 | 3.1 | 3.3 | 7.0 | 4.0 | 4.1 | 0.4 | 5.4 | 5.4 | 0.3 |

Source: ICICI Direct Research

Financial Summary

Exhibit 3: Profit and loss statement ₹ crore

| (₹ Crore) | FY21 | FY22E | FY23E | FY24E |
|-------------------|------|-------|-------|-------|
| Revenue | 318 | 432 | 534 | 713 |
| Growth YoY (%) | | 36.0% | 23.6% | 33.4% |
| Other Income | 38 | 70 | 88 | 110 |
| Total Revenue | 356 | 503 | 622 | 823 |
| Employee cost | 44 | 52 | 57 | 72 |
| Other Expenses | 23 | 30 | 44 | 62 |
| Total expenditure | 67 | 82 | 101 | - |
| EBITDA | 251 | 350 | 433 | 579 |
| Growth YoY (%) | | 39.7% | 23.7% | 33.6% |
| Interest | - | 2 | 2 | 2 |
| PBDT | 289 | 419 | 520 | 687 |
| Depreciation | 17 | 21 | 28 | 36 |
| Profit Before Tax | 270 | 398 | 492 | 652 |
| Tax | 65 | 104 | 128 | 169 |
| PAT | 205 | 295 | 364 | 482 |
| Growth YoY (%) | | 43.5% | 23.4% | 32.6% |
| EPS | 2.3 | 3.3 | 4.1 | 5.4 |

Source: Company, ICICI Direct Research

Exhibit 4: Cash flow statement ₹ crore

| (₹ Crore) | FY21 | FY22E | FY23E | FY24E |
|--------------------------------|---------|---------|---------|---------|
| Profit after Tax | 205.4 | 294.7 | 363.8 | 482.2 |
| Depreciation | 16.5 | 20.6 | 28.1 | 35.6 |
| Interest | 2.1 | 1.5 | 1.5 | 1.5 |
| Other income | (38.4) | (70.2) | (87.8) | (109.9) |
| Prov for Taxation | 65.0 | 103.6 | 127.8 | 169.4 |
| Cash Flow before WC changes | 250.6 | 350.2 | 433.4 | 578.8 |
| Change in Working Capital | (161.7) | 17.0 | 72.0 | 140.3 |
| Taxes Paid | (62.5) | (103.6) | (127.8) | (169.4) |
| Cashflow from Operations | 26.5 | 263.7 | 377.6 | 549.7 |
| (Purchase)/Sale of Fixed Asset | (21.8) | (30.6) | (30.0) | (30.0) |
| (Purchase)/Sale of Investments | 79.7 | - | - | - |
| Other Income | 38.4 | 70.2 | 87.8 | 109.9 |
| Cashflow from Investing | 96.2 | 39.6 | 57.8 | 79.9 |
| Issue/(Repayment of Debt) | - | - | - | - |
| Changes in Minority Interest | 29.7 | - | - | - |
| Changes in Networth | 7.3 | - | - | - |
| Interest | (2.1) | (1.5) | (1.5) | (1.5) |
| Dividend paid | (74.6) | (149.2) | (298.3) | (387.8) |
| Cashflow from Financing | (39.7) | (150.7) | (299.8) | (389.3) |
| Changes in Cash | 83.1 | 152.6 | 135.5 | 240.3 |
| Opening Cash/Cash Equivalent | 27.6 | 103.9 | 256.4 | 392.0 |
| Closing Cash/ Cash Equivalent | 102.4 | 256.4 | 392.0 | 632.3 |

Source: Company, ICICI Direct Research

Exhibit 5: Balance Sheet ₹ crore

| (₹ Crore) | FY21 | FY22E | FY23E | FY24E |
|-------------------------------|-------|-------|-------|---------|
| Share Capital | 89.5 | 89.5 | 89.5 | 89.5 |
| Reserves & Surplus | 437 | 582 | 648 | 742.0 |
| Networth | 526 | 672 | 737 | 831.5 |
| Minority Interest | 29.7 | 29.7 | 29.7 | 29.7 |
| Deferred Tax Liability | 27.0 | 27.0 | 27.0 | 27.0 |
| Other non-current liabilities | 12.6 | 12.6 | 12.6 | 12.6 |
| Total Liabilities | 595.4 | 741.0 | 806.4 | 900.8 |
| Gross Block | 57 | 82 | 112 | 142.5 |
| Acc: Depreciation | 27 | 48 | 76 | 111.5 |
| Net Block | 25 | 35 | 37 | 30.9 |
| Capital WIP | 0 | 0 | 0 | 0.2 |
| Investments | 120 | 120 | 120 | 120.2 |
| Inventory | - | - | - | - |
| Sundry debtors | 3 | 0 | 0 | 0.5 |
| Cash and bank balances | 104 | 256 | 392 | 632.3 |
| Other financial assets | 601 | 621 | 641 | 660.9 |
| Other current assets | 29 | 9 | 11 | 15.0 |
| Total Current Assets | 737 | 887 | 1,044 | 1,308.7 |
| CL& Prov. | 390 | 404 | 498 | 662.4 |
| Net Current Assets | 347 | 483 | 546 | 646.2 |
| Total Assets | 595.4 | 741.0 | 806.4 | 900.8 |

Source: Company, ICICI Direct Research

Exhibit 6: Key ratios

| (Year-end March) | FY21 | FY22E | FY23E | FY24E |
|-----------------------------|-------|-------|-------|-------|
| Per share data (₹) | | | | |
| EPS | 2.3 | 3.3 | 4.1 | 5.4 |
| Cash EPS | 2.5 | 3.5 | 4.4 | 5.8 |
| BV | 5.9 | 7.5 | 8.2 | 9.3 |
| DPS | 0.8 | 1.7 | 3.3 | 4.3 |
| Cash Per Share | 0.3 | 0.5 | 0.8 | 1.2 |
| Operating Ratios (%) | | | | |
| EBITDA Margin | 78.9 | 81.0 | 81.1 | 81.2 |
| PBT / Net Sales | 73.7 | 76.2 | 75.8 | 76.2 |
| PAT Margin | 64.6 | 68.2 | 68.1 | 67.6 |
| 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 | 43.9 | 49.3 | 58.0 |
| RoCE | 50.6 | 58.4 | 65.8 | 77.4 |
| RoIC | 53.8 | 77.0 | 113.3 | 256.5 |
| Valuation Ratios (x) | | | | |
| P/E | 104.1 | 72.6 | 58.8 | 44.4 |
| EV / EBITDA | 84.4 | 60.3 | 48.5 | 35.9 |
| EV / Net Sales | 66.6 | 48.9 | 39.3 | 29.1 |
| Market Cap / Sales | 67.3 | 49.5 | 40.0 | 30.0 |
| Price to Book Value | 40.7 | 31.8 | 29.0 | 25.7 |
| Solvency Ratios | | | | |
| Debt/EBITDA | - | - | - | - |
| Net Debt / Equity | - | - | - | - |
| Current Ratio | 0.3 | 0.7 | 0.8 | 1.0 |
| Quick Ratio | 0.3 | 0.7 | 0.8 | 1.0 |

Source: Company, ICICI Direct Research

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Hold: -5% to 15%;

Reduce: -15% to -5%;

Sell: <-15%



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