

# Indian Energy Exchange (INDEN)

CMP: ₹ 214

Target: ₹ 285 (33%)

Target Period: 12 months

April 29, 2022

BUY

## 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

**Q4FY22 Results:** IEX reported robust Q4FY22 results.

- Revenue was up 19.5% YoY at ₹ 112.1 crore
- EBITDA in Q4FY22 was at ₹ 94.9 crore, up 22.6% YoY with margins at 84.7%
- Consequent PAT in Q4FY22 was at ₹ 88.6 crore, up 9.7% QoQ & 45.3% 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 ₹ 285 i.e. 55x P/E on FY24E EPS

**Key triggers for future price performance:**

- Introduction of longer duration delivery bases contracts in power exchanges
- Bhutan commencing trading in DAM, commencing of trade in hydropower contracts in GTAM
- Launch of National Open Access Registry and Long duration contracts (up to 365 days) in the first half of CY23

**Alternate Stock Idea:** NTPC is India's largest power generation company with a total installed capacity of 66885 MW at the group level

- NTPC has 17% of total installed capacity in India with 23% generation share
- BUY with target price of ₹ 190



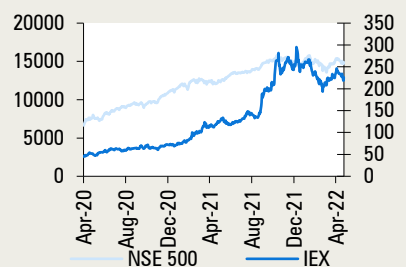
### Particulars

Particular	Amount
Market Capitalization	19,213
Total Debt (FY22) (₹ crore)	0
Cash and Inv (FY22) (₹ crore)	341
EV (FY22) (₹ crore)	18,980
52 week H/L (₹) (BSE)	318 /114
Equity capital (₹ crore)	89.8
Face value (₹)	1

### Shareholding pattern

	Jun-21	Sep-21	Dec-21	Mar-22
Promoters	-	-	-	-
FII	36.7%	37.7%	31.0%	27.1%
DII	25.5%	23.1%	17.7%	19.5%
Others	37.8%	38.8%	51.3%	53.5%

### Price Chart



### Recent event & key risks

- Bangladesh set to join the platform
- Key Risk:** (i) Power crisis and capped rates in spot market, (ii) Delay in MBED launch

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### Key Financial Summary

	FY20	FY21	4 Year CAGR (FY 17-21)	FY22	FY23E	FY24E	3 Year CAGR (FY21-24E)
Revenue (₹ crore)	257.1	317.9	11.9	431.0	513.1	655.2	27.3
EBITDA (₹ crore)	202.2	250.6	15.1	363.7	416.1	532.0	28.5
EBITDA margin	78.6	78.9		84.4	81.1	81.2	
Net Profit (₹ crore)	175.7	205.4	34.0	308.6	359.6	459.7	30.8
EPS (₹)	2.0	2.3		3.4	4.0	5.2	
P/E (x)	109.0	93.2		62.3	53.4	41.8	
EV/EBITDA (x)	94.6	75.5		52.2	45.6	34.9	
RoCE (%)	55.8	50.6		56.1	52.8	53.1	
RoE (%)	45.3	39.0		43.9	39.4	39.5	

Source: Company, ICICI Direct Research

## Key takeaways of recent quarter & conference call highlights

### Q4FY22 Results: Sturdy performance

- Revenue for the quarter came in at ₹ 112.1 crore, up 19.5% YoY (vs. I-direct estimate of ₹ 114.1 crore). IEX's total volume for Q4FY22 stands at 27016 MUs vs. 27676 MUs QoQ and 22451 MUs YoY, rise in the volumes is due to resumption of REC trading coupled with, Bhutan commencing trading in DAM, commencing of trade in hydropower contracts in GTAM, which led to total volume growth of 20.33% YoY
- IEX registered an EBIDTA margin of 84.7% vs 82.6% QoQ (increasing EBITDA margin is due to lower other expenses), Absolute EBIDTA came in at ₹ 94.9 crore, vs. ₹ 98.8 crore in last quarter (I-direct estimate of ₹ 94.7 crore)
- Tracking its operating performance, IEX ended the quarter with a PAT of ₹ 88.4 crore vs (I-direct estimate of ₹ 78.4 crore) vs. ₹ 80.6 crore in Q3FY22. Surprise in PAT is due to gains on sale of subsidiary. Other income came in at ₹ 16.4 crore

### Q4FY22 Earnings Conference Call highlights

- Day Ahead Market traded 16.75 BUs, Real-Time Market traded 5.125 BUs, Green market traded 1.125 BUs, and on the REC front, a total of 2.249 BUs are traded
- Impact of third Covid 19 wave is very little, as there are very little restrictions and that can be seen in electricity demand in Q4 FY22 which is higher by 2.8 % YoY. Renewable power is 151 GW and is almost 38% of total installed capacity and is on track to reach 500 GW by 2030
- Current electricity shortage and capped spot prices can limit the volumes traded on IEX but it is a temporary phase and things are expected to get better by second quarter. This will have a negative impact on Q1FY23 volumes and thus we have reduced our volumes estimates from 29.5 BUs to 27.1 BUs for Q1FY23
- Launched web based platform for easy access, easy bidding and seamless experience, also working on automated bidding system for DAM and Advance data analytics to eliminate human interference
- New Product launches- Electricity derivatives will be launched in Q1FY23, that will also improve the liquidity of spot market. On gross bidding front IEX has applied to CERC for regulatory approval and after that acceptance from market players and shareholders will be done this product will be launched 2023. ON MBED government has sent paper to CERC to draft rules but haven't received any response from their side, so it remains doubtful. National Open Access Registry will also be launched in first half of CY23. Long duration contracts (up to 365 days) is also in pipeline it has a market size of 55-60 BUs. CRC approved of trade in hydropower contracts in GTAM
- Delay in launch of LCD as regulatory is working on understanding new product its implication and outcomes, orders are expected to be released this quarter
- Apart from Nepal and Bhutan, Bangladesh has also agreed to join IEX platform for sell and purchase of electricity
- Company intends to keep dividend payout ratio in range of 50-60%

### IGX

- IGX has a volume of 7 mmbtu in Q4FY22 and 12 mmbtu in FY22 and compared to 2 mmbtu in FY21. Apart from that IGX has reached breakeven in Q4FY22 and posted a net profit of ₹ 1.8 crore. IGX will work on government plan to reach 15% energy utilization by natural gas
- IEX currently holds 47% stake in IGX after recent deal between IEX and IOCL and IGX is now an associate company of IEX

**Exhibit 1: Variance Analysis**

Year	Q4FY22	Q4FY22E	Q4FY21	YoY (%)	Q3FY22	QoQ(%)	Comments
Income from Operation	112.1	114.1	93.8	19.5	117.5	(4.6)	Strong power demand & resumption of REC trading
Other Income	16.4	14.2	6.5	151.1	13.2	23.6	
Employee cost	11.5	10.8	11.9	(3.1)	10.0	14.6	
Other expenditure	5.6	8.6	4.5	25.5	8.7	(35.0)	
EBITDA	94.9	94.7	77.5	22.6	98.8	(3.9)	
EBITDA Margin (%)	84.7	83.0	82.6	214 bps	84.1	63 bps	Higher margins due to lower other expenditure
Depreciation	4.2	4.5	3.6	14.7	4.4	(6.0)	
Interest	0.5	0.5	0.5		0.5		
PBT	106.7	103.9	79.9	33.6	107.1	(0.4)	
Taxes	25.7	25.6	19.0	35.2	26.4	(2.7)	
PAT	88.4	78.4	60.9	45.3	80.7	9.5	

Source: Company, ICICI Direct Research

**Exhibit 2: Change in estimates**

(₹ Crore)	FY21	FY22E	FY23E			FY24E		
	Actual	Actual	Old	New	% Change	Old	New	% Change
Revenue	317.9	431.0	534.4	513.1	(4.1)	712.8	655.2	(8.8)
EBITDA	250.6	363.7	433.4	416.1	(4.1)	578.8	532.0	(8.8)
EBITDA Margin (%)	78.9	84.4	81.1	81.1	0 bps	81.2	81.2	0 bps
PAT	205.4	308.6	363.8	359.6	(1.1)	482.2	459.7	(4.9)
EPS (₹)	2.3	3.4	4.1	4.0	0.0	5.4	5.2	(3.6)

Source: ICICI Direct Research

## Financial Summary

Exhibit 3: Profit and loss statement ₹ crore

(₹ Crore)	FY21	FY22	FY23E	FY24E
Revenue	318	431	513	655
Growth YoY (%)		35.6%	19.0%	27.7%
Other Income	38	53	99	126
Total Revenue	356	484	613	782
Employee cost	44	42	55	66
Other Expenses	23	26	42	57
Total expenditure	67	67	97	123
EBITDA	251	364	416	532
Growth YoY (%)		45.1%	14.4%	27.8%
Interest	-	2	2	2
PBDT	289	415	514	657
Depreciation	17	17	28	36
Profit Before Tax	270	398	486	621
Tax	65	97	126	162
PAT	205	309	360	460
Growth YoY (%)		50.2%	16.5%	27.8%
EPS	2.3	3.4	4.0	5.2

Source: Company, ICICI Direct Research

Exhibit 4: Cash flow statement ₹ crore

(₹ Crore)	FY21	FY22	FY23E	FY24E
Profit after Tax	205.4	405.2	359.6	459.7
Depreciation	16.5	17.5	28.1	35.6
Interest	2.1	0.2	1.5	1.5
Other income	(38.4)	(53.4)	(99.5)	(126.3)
Prov for Taxation	65.0	96.6	126.4	161.5
Cash Flow before WC changes	250.6	377.0	416.1	532.0
Change in Working Capital	(161.7)	488.5	(167.0)	107.8
Taxes Paid	(62.5)	(103.3)	(126.4)	(161.5)
Cashflow from Operations	26.5	762.3	122.8	478.2
(Purchase)/Sale of Fixed Asset:	(21.8)	(11.1)	(47.8)	(30.0)
(Purchase)/Sale of Investments	79.7	(491.1)	-	-
Other Income	38.4	53.4	99.5	126.3
Cashflow from Investing	96.2	(448.8)	51.7	96.3
Issue/(Repayment of Debt)	-	(2.4)	-	-
Changes in Minority Interest	29.7	2.5	-	-
Changes in Network	7.3	3.2	-	-
Interest	(2.1)	(1.1)	(1.5)	(1.5)
Dividend paid	(74.6)	(134.5)	(149.6)	(209.5)
Cashflow from Financing	(39.7)	(132.3)	(151.1)	(211.0)
Changes in Cash	83.1	181.2	23.3	363.6
Opening Cash/Cash Equivalent	27.6	46.0	232.6	255.9
Closing Cash/ Cash Equivalent	102.4	227.3	255.9	619.5

Source: Company, ICICI Direct Research

Exhibit 5: Balance Sheet ₹ crore

(₹ Crore)	FY21	FY22	FY23E	FY24E
Share Capital	89.5	89.8	89.8	89.8
Reserves & Surplus	437	614	823	1,073.9
Networth	526	703	913	1,163.6
Minority Interest	29.7	29.7	-	-
Deferred Tax Liability	27.0	22.3	22.3	22.3
Other non-current liabilities	12.6	9.0	9.0	9.0
Total Liabilities	595.4	764.4	944.6	1,194.9
Gross Block	57	82	112	142.5
Acc: Depreciation	27	44	73	108.1
Net Block	25	20	40	34.3
Capital WIP	0	0	0	0.0
Investments	120	108	108	108.2
Inventory	-	-	-	-
Sundry debtors	3	87	0	0.5
Cash and bank balances	104	233	392	619.5
Other financial assets	601	1,145	1,165	1,185.3
Other current assets	29	8	11	13.8
Total Current Assets	737	1,473	1,044	1,819.0
CL& Prov.	390	961	478	609.0
Net Current Assets	347	512	546	1,210.1
Total Assets	595.4	734.7	944.6	1,194.9

Source: Company, ICICI Direct Research

Exhibit 6: Key ratios

(Year-end March)	FY21	FY22	FY23E	FY24E
<b>Per share data (₹)</b>				
EPS	2.3	3.4	4.1	5.2
Cash EPS	2.5	3.6	4.2	5.5
BV	5.9	7.8	10.2	13.0
DPS	0.8	1.2	1.7	2.3
Cash Per Share	0.3	0.5	0.8	1.2
<b>Operating Ratios (%)</b>				
EBITDA Margin	78.9	84.4	81.1	81.2
PBT / Net Sales	73.7	80.4	75.6	75.8
PAT Margin	64.6	71.6	70.1	70.2
Inventory days	-	-	-	-
Debtor days	3.7	74.0	0.3	0.3
Creditor days	438.8	807.6	334.0	334.0
<b>Return Ratios (%)</b>				
RoE	39.0	43.9	39.4	39.5
RoCE	50.6	56.1	52.8	53.1
RoIC	53.8	72.2	58.2	62.2
<b>Valuation Ratios (x)</b>				
P/E	93.2	62.3	53.4	39.9
EV / EBITDA	75.5	52.2	45.6	35.1
EV / Net Sales	59.6	44.0	36.9	28.4
Market Cap / Sales	60.3	44.6	37.4	29.3
Price to Book Value	36.4	27.3	21.0	16.5
<b>Solvency Ratios</b>				
Debt/EBITDA	-	-	-	-
Net Debt / Equity	-	-	-	-
Current Ratio	0.3	0.3	0.6	1.0
Quick Ratio	0.3	0.3	0.6	1.0

Source: Company, ICICI Direct Research

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Buy: >15%

Hold: -5% to 15%;

Reduce: -15% to -5%;

Sell: <-15%



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