

Indian Energy Exchange Limited

17th May 2024

Uncertainty related to market coupling prevails

During Q4 FY24, Indian Energy Exchange Ltd. (IEX) experienced a strong revenue growth of ~13% on a YoY basis, accompanied by a volume increase of ~15%. EBITDA margin witnessed a slight decline of ~80 Bps on a YoY basis, primarily attributed to higher other expenses. The Day-Ahead price for Q4 FY24 has remained stable ~5.1/unit on a QoQ basis, leading to a surge in the trading of electricity on the platform. The management anticipates a favorable outlook with improving coal availability (20 days) and easing sell-side liquidity constraints. As a result, the Company is optimistic about achieving a double-digit volume growth on a YoY basis for FY25E.

Update on market coupling

Market coupling in India is progressing with a shadow pilot to test its feasibility. The pilot will include three coupling methods: coupling of the Real-Time Market (RTM) segments across the three power exchanges, coupling of the RTM and Security Constrained Economic Dispatch (SCED) segments, and coupling of the Day-Ahead Market (DAM) of the three power exchanges. As per the management, it will take a couple of years time span if in case market coupling is to be implemented.

View and Valuation

Despite improving business prospects, there remains an element of uncertainty related to market coupling, which could significantly impact the business's fundamentals if it occurs. Due to this, we maintain our view on IEX as 'UNDER REVIEW'.

UNDER REVIEW

CMP Rs. 148

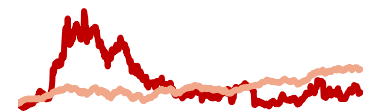
Company Data

Bloomberg Code	IEX IN
MCAP (Rs. Mn)	1,33,452
O/S Shares (Mn)	892
52w High/Low	173 / 116
Face Value (in Rs.)	1
Liquidity (3M) (Rs. Mn)	1,363

Shareholding Pattern %

	Mar 24	Dec 23	Sep 23
Promoters	0.0	0.0	0.0
FIIIs	10.9	13.4	14.1
DIIIs	27.3	26.3	22.6
Non-Institutional	61.9	60.3	63.2

IEX vs Nifty



May, 21 May, 22 May, 23 May, 24
— IEX — NIFTY

Source: Keynote Capitals Ltd.

Key Financial Data

(Rs Mn)	FY23	FY24	FY25E
Revenue	4,009	4,492	5,015
EBITDA	3,364	3,769	4,202
Net Profit	3,059	3,508	3,958
Total Assets	14,534	17,737	18,602
ROCE (%)	41%	41%	37%
ROE (%)	41%	40%	37%

Source: Company, Keynote Capitals Ltd.

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Q4 FY24 Result Update

Result Highlights (Rs. Mn)

Particulars	Q4 FY24	Q4 FY23	Change % (Y-o-Y)	Q3 FY24	Change % (Q-o-Q)	FY24	FY23	Change % (Y-o-Y)
Total Volume (BU)	30.1	26.1	15.3%	28.3	6.4%	110.0	96.8	13.6%
Revenue from operations	1,213	1,070	13.3%	1,153	5.2%	4,492	4,009	12.1%
Employee Cost	103	90	14.5%	93	10.6%	390	346	12.6%
Other Operating Expense	64	49	31.0%	72	-11.0%	333	298	11.6%
EBITDA	1,046	931	12.3%	988	5.9%	3,769	3,364	12.0%
EBITDA %	86.2%	87.0%	-80 Bps	85.7%	55 Bps	83.9%	83.9%	-1 Bps
Depreciation	52	49	6.4%	52	0.7%	205	186	10.1%
EBIT	994	882	12.6%	936	6.2%	3,564	3,178	12.2%
EBIT %	81.9%	82.4%	-52 Bps	81.2%	74 Bps	79.3%	79.3%	7 Bps
Finance Cost	7	7	-1.2%	7	0.7%	28	25	15.4%
Other Income	280	226	24.1%	259	8.0%	1,017	732	38.8%
Exceptional items (+/(-))	0	0		0		0	0	
PBT	1,266	1,101	15.1%	1,188	6.6%	4,553	3,886	17.2%
Tax	320	273	17.5%	305	5.1%	1,154	959	20.2%
Share of Associates	21	55	-62.4%	35	-40.1%	109	133	-17.8%
PAT	967	883	9.5%	918	5.3%	3,508	3,059	14.7%
EPS	1.1	1.0	10.1%	1.0	5.8%	3.9	3.4	15.2%

Source: Company, Keynote Capitals Ltd.

Standalone Revenue Split

Particulars	Q4 FY24	Q4 FY23	Change % (Y-o-Y)	Q3 FY24	Change % (Q-o-Q)	FY24	FY23	Change % (Y-o-Y)
Total Standalone Revenue	1,493	1,296	15.2%	1,412	5.7%	5,509	4,741	16.2%
Transaction Fees	1166	1021	14.2%	1,100	6.0%	4,292	3,812	12.6%
Admission and Annual Fees	47	49	-4.1%	53	-11.2%	199	197	1.0%
Other Income	280	226	24.1%	259	8.0%	1,017	732	38.8%
Transaction Fees	78%	79%	-100 Bps	78%	10 Bps	78%	80%	-249 Bps
Admission and Annual Fees	3%	4%	-100 Bps	4%	-75 Bps	4%	4%	-54 Bps
Other Income	19%	17%	159 Bps	18%	65 Bps	18%	15%	301 Bps

Note: these are approximate numbers based on revenue contribution given by the Company

Source: Company, Keynote Capitals Ltd.

Q4 FY24 Conference Call Takeaways

General Highlights

- Imported coal prices are down to \$56.6/ton in Q4 FY24 from \$77/ton on a YoY basis.
- Coal inventory as on 31st March 2024 stands at ~ 20 days; higher by ~6 days compared to 31st March 2023.

Products

- Post implementation of GNA on 1st Oct 2023, there is a significant shift in volumes from the DAC market to the DAM. Within DAC, in H2 FY24, the Company did a volume of 690 MUs compared with ~ 4.2 BUs in H1 FY24, witnessing a decline of 84%.
- Due to a significant decrease in REC prices, demand is expected to surge.
- Total addressable market for LDC contracts would be 40 BU units.
- Market share in RTM: 99.9%, DAC: 50%, TAM: 55%, LDC: 50%, REC: 70% and overall market share stands at 83% as of Q4 FY24.

IGX

- Total traded volumes for FY24 stands at 41 Mn MMBTU compared to 51.2 Mn MMBTU in FY23.
- Fertilizer manufacturers are allowed to buy domestic gas through IGX as a pilot test.
- DGH Empanelment – Domestic Producers can now auction their gas through IGX Platform.
- MoU signed between IGX & ACME for developing Hydrogen Market.

Management guidance

- Gradually, exchange market share in the short-term market will keep on increasing.
- The government expected the short-term market to become 25% of the total market compared to the current size of 15%, which means the exchange market share would increase to ~16% from current levels of 8% by 2030.
- Due to elections, many bilateral transactions took place in the month of April and May 2024.

Financial Statement Analysis

Income Statement

Y/E Mar, Rs. Mn	FY22	FY23	FY24	FY25E	FY26E
Net Sales	4,310	4,009	4,492	5,015	5,617
Growth %		-7%	12%	12%	12%
Raw Material Expenses	0	0	0	0	0
Employee Expenses	418	346	390	441	494
Other Expenses	256	298	333	372	416
EBITDA	3,637	3,364	3,769	4,202	4,706
Growth %		-8%	12%	11%	12%
Margin%	84%	84%	84%	84%	84%
Depreciation	172	186	205	211	227
EBIT	3,464	3,178	3,564	3,990	4,479
Growth %		-8%	12%	12%	12%
Margin%	80%	79%	79%	80%	80%
Interest Paid	20	25	28	25	25
Other Income & exceptional	593	732	1,017	1,120	1,240
PBT	4,038	3,886	4,553	5,085	5,693
Tax	966	959	1,154	1,256	1,406
PAT	3,072	2,926	3,399	3,829	4,287
Others (Minorities, Associates)	8	133	109	129	152
Net Profit	3,080	3,059	3,508	3,958	4,439
Growth %		-1%	15%	13%	12%
Shares (Mn)	898.7	891.7	891.7	891.7	891.7
EPS	3.4	3.4	3.9	4.4	5.0

Cash Flow Statement

Y/E Mar, Rs. Mn	FY22	FY23	FY24	FY25E	FY26E
Pre-tax profit	4,038	3,886	4,553	5,085	5,693
Adjustments	-282	-624	-772	-883	-987
Change in Working Capital	4,885	-2,690	265	-351	-369
Total Tax Paid	-1,033	-930	-1,061	-1,256	-1,406
Cash flow from operating Activities	7,609	-359	2,985	2,595	2,931
Net Capital Expenditure	-111	-87	-146	-150	-169
Change in investments	-4,477	1,000	-327	0	0
Other investing activities	103	78	228	1,125	1,246
Cash flow from investing activities	-4,484	991	-245	975	1,078
Equity raised / (repaid)	0	-1210	0	0	0
Debt raised / (repaid)	0	0	0	0	0
Dividend (incl. tax)	-1,345	-897	-1,780	-1,979	-2,219
Other financing activities	-12	-15	-52	-25	-25
Cash flow from financing activities	-1,358	-2,122	-1,832	-2,004	-2,245
Net Change in cash	1,767	-1,490	909	1,566	1,764

Valuation Ratios

Y/E Mar, Rs. Mn	FY22	FY23	FY24	FY25E	FY26E
Per Share Data					
EPS	3	3	4	4	5
Growth %		0%	15%	13%	12%
Book Value Per Share	8	9	11	13	16
Return Ratios					
Return on Assets (%)	23%	19%	22%	22%	22%
Return on Equity (%)	50%	41%	40%	37%	35%
Return on Capital Employed (%)	49%	41%	41%	37%	35%
Turnover Ratios					
Asset Turnover (x)	0.3	0.3	0.3	0.3	0.3
Sales / Gross Block (x)	2.5	2.2	2.3	2.4	2.5
Liquidity Ratios					
Current Ratio (x)	1.5	1.3	1.6	2.0	2.2
Interest Coverage Ratio (x)	202.4	159.2	163.6	201.7	225.7
Total Debt to Equity	0.0	0.0	0.0	0.0	0.0
Net Debt to Equity	-0.3	-0.1	-0.2	-0.3	-0.4
Valuation					
PE (x)	65.2	42.4	37.0	32.8	29.2
Earnings Yield (%)	2%	2%	3%	3%	3%
Price to Sales (x)	46.8	32.4	28.9	25.9	23.1
Price to Book (x)	28.7	16.2	13.4	11.1	9.3
EV/EBITDA (x)	54.9	37.9	33.8	30.3	27.1
EV/Sales (x)	46.3	31.8	28.4	25.4	22.7

Balance Sheet

Y/E Mar, Rs. Mn	FY22	FY23	FY24	FY25E	FY26E
Cash, Cash equivalents & Bank	2,326	646	1,866	3,431	5,194
Current Investments	11,420	6,895	8,625	8,625	8,625
Debtors	874	70	863	100	1,011
Inventory	0	0	0	0	0
Short Term Loans & Advances	88	82	0	0	0
Other Current Assets	24	23	483	483	483
Total Current Assets	14,732	7,717	11,836	12,639	15,313
Net Block & CWIP	1,099	1,127	1,008	947	888
Long Term Investments	1,061	5,294	4,687	4,811	4,957
Other Non-current Assets	70	397	205	205	205
Total Assets	16,962	14,534	17,737	18,602	21,363
Creditors	6,352	4,024	5,627	4,513	5,055
Provision	39	65	3	3	3
Short Term Borrowings	0	0	0	0	0
Other Current Liabilities	3,147	2,015	1,884	1,884	1,884
Total Current Liabilities	9,537	6,104	7,514	6,400	6,942
Long Term Debt	0	0	0	0	0
Deferred Tax Liabilities	223	220	307	307	307
Other Long Term Liabilities	168	219	194	194	194
Total Non Current Liabilities	391	438	501	501	501
Paid-up Capital	898	891	891	891	891
Reserves & Surplus	6,136	7,100	8,831	10,810	13,029
Shareholders' Equity	7,034	7,991	9,722	11,701	13,920
Non Controlling Interest	0	0	0	0	0
Total Equity & Liabilities	16,962	14,534	17,737	18,602	21,363

Source: Company, Keynote Capitals Ltd. estimates

KEYNOTE Rating History

Date	Rating	Market price at Recommendation	Upside/Downside
9 th May 2023	BUY	160	+13.5%
29 th May 2023	BUY	155	+19.8%
12 th June 2023	UNDER REVIEW	125	-
31 st July 2023	UNDER REVIEW	123	-
3 rd November 2023	UNDER REVIEW	133	-
29 th January 2024	UNDER REVIEW	139	-
17 th May 2024	UNDER REVIEW	148	-

Rating Methodology

Rating	Criteria
BUY	Expected positive return of > 10% over 1-year horizon
NEUTRAL	Expected positive return of > 0% to < 10% over 1-year horizon
REDUCE	Expected return of < 0% to -10% over 1-year horizon
SELL	Expected to fall by >10% over 1-year horizon
NOT RATED (NR)/UNDER REVIEW (UR)/COVERAGE SUSPENDED (CS)	Not covered by Keynote Capitals Ltd/Rating & Fair value under Review/Keynote Capitals Ltd has suspended coverage

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