

Indian Energy Exchange Q1FY21

Financial Results & Highlights

IEX is the first and largest energy exchange in India providing a nationwide, automated trading platform for physical delivery of electricity, Renewable Energy Certificates, and Energy Saving Certificates. The exchange platform enables efficient price discovery and increases the accessibility and transparency of the power market in India while also enhancing the speed and efficiency of trade execution. In August 2016, the Exchange received ISO Certifications for quality management, Information security management, and environment management. The Exchange is now a publicly listed company with NSE and BSE. IEX is approved and regulated by the Central Electricity Regulatory Commission (CERC) and has been operating since 27 June 2008.

Standalone Financials (In Crs)					
	Q1FY21	Q1FY20	YoY %	Q4FY20	QoQ %
Sales	81	70	15.71%	79	2.53%
PBT	58	55	5.45%	59	-1.69%
PAT	43	40	7.50%	47	-8.51%
Consolidated Financials (In Crs)					
	Q1FY21	Q1FY20	YoY %	Q4FY20	QoQ %
Sales	81	70	15.71%	80	1.25%
PBT	56	55	1.82%	58	-3.45%
PAT	42	40	5.00%	46	-8.70%

Detailed Results:

1. On a standalone basis, PAT was up 7.5% YoY while revenue for the quarter was up 16% YoY largely on account of the increase in overall volumes.
2. Q1 saw an increase of 14.5% YoY in exchange volumes despite overall energy consumption declining 16% YoY.
3. Exchange power prices were down 26% YoY which yielded significant savings for distribution utilities and Industries.
4. Consumption started rising towards June which saw rise 28.7% MoM.
5. The newly launched real-time electricity market commenced on 31st May 2020 and now accounts for 10% of total volumes.
6. The Indian Gas Exchange commenced operations on June 15, 2020 and traded a total of 9600 MMBTU of gas within the first 15 days of launch.

Investor Conference Call Highlights:

1. Renewable capacity in the domestic space grew 10% YoY while thermal production contracted 23% in the same period.
2. The company made a contribution of Rs 5 Cr to COVID CARES fund and had a tax liability of Rs 2.6 Cr. Without these non-recurring items, PAT growth would be at 18% YoY.

3. On July 10th Ministry of Power released an office memorandum that should facilitate the introduction of long-duration power contracts. The longer-duration, delivery-based forward contracts, and derivative contracts are expected to alter the way power is procured in our country because you get a hedge over a long period of time.
4. The company hopes to launch long-duration power contracts in Q3.
5. The management is clearly seeing the need for derivative at this stage because the dependence of Discoms in the stock market is increasing.
6. The company is going to launch the forward market in the IEX platform while it is looking at other options for the pure financial product where the company may need to float a new company to operate it.
7. The management has stated that derivative volumes are higher than spot volumes everywhere around the world and this should also be the case here.
8. The company is expecting the market size for the forward & futures combined to be around 20 billion units.
9. IGX is currently owned 100% by IEX and GAIL has issued an expression of interest to invest 26%. There are also other proposals and inquiries from big gas players in the works currently.
10. The company wants to maintain a majority shareholding of at least 51% in IGX at the end.
11. There is indeed a regulation that states that a neutral player should hold 15% at most. The company is reviewing the situation and looking to talk to the regulator regarding this.
12. The management has maintained a neutral stance on the issue of power coupling which was included as a provision in the draft of PMR 2020.
13. The management has stated that the transaction margin cannot be changed easily and needs approval from CERC to be changed in any direction.
14. The long duration derivative contracts will be under SEBI and the company is looking to collaborate with the exchange in India to make this new company to launch energy derivatives. The company will also be formed such that all delivery happens on IEX.
15. The management has stated that cash-settled electricity futures will also be available and these can also be converted to electricity on the spot.
16. Currently, the company has a weekly contract as the longest contract. With the launch of the longer duration contracts, the company will be looking to offer monthly, quarterly, and annual contracts.
17. The intraday market has been cannibalized by the RTM market. Around 80-90% of volumes have shifted.
18. The REC fee in Q1 was at Rs 4.35 Cr.
19. TAM volumes accounted for less than 5% of total volumes.
20. The management expects that every buyer would want to play in the whole basket to figure out what is the optimum procurement program for themselves.
21. The management has stated that if the 3 functions of the price coupling operator, the exchanges & clearing, and settlement mechanism need to separate, then the company can easily do so.

Analyst's View:

IEX is the first and largest energy exchange in India providing a nationwide, automated trading platform for physical delivery of electricity, Renewable Energy Certificates, and Energy Saving Certificates. It has a very asset-light business model and a strong Balance Sheet. In the last several years it has done well by constantly adding new products and improving offerings for the participants on its platform. With the share of renewable energy rising in total energy consumption, the future of IEX looks very exciting. However, it seems that competition in this sector is also increasing at a rapid pace. It remains to be seen how the whole COVID episode plays out to understand its impact on IEX. However, the company seems to have the financial muscle to tide over the disruption of COVID. It is still very early days in the power exchange market. However, as on the date, IEX looks like a pivotal player in this industry.

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