

Indian Energy Exchange Q4FY21

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)								
	Q4FY21	Q4FY20	YoY %	Q3FY21	QoQ %	FY21	FY20	YoY%
Sales	102	79	29.11%	96	6.25%	357	297	20.20%
PBT	84	59	42.37%	78	7.69%	282	228	23.68%
PAT	64	47	36.17%	60	6.67%	213	178	19.66%
Consolidated Financials (In Crs)								
	Q4FY21	Q4FY20	YoY %	Q3FY21	QoQ %	FY21	FY20	YoY%
Sales	100	80	25.00%	96	4.17%	356	297	19.87%
PBT	80	58	38%	76	5.26%	270	226	19.47%
PAT	61	46	33%	58	5.17%	205	176	16.48%

Detailed Results:

1. On a consolidated basis, PAT was up 33% YoY while revenue for the quarter was also up 25% YoY.
2. FY21 saw an increase of 37.3% YoY in electricity exchange volumes. Q4 saw 62.1% YoY growth in electricity volumes.
3. Digital transformation and new market segments – RTM and GTAM, were the key growth drivers for Company in FY21.
4. Total installed power capacity in India grew 3.3% YoY to 382 GW. The renewable capacity saw 9% YoY growth with cumulative capacity to 94 GW in FY21.
5. The REC trading remains halted in the quarter due to a stay order from APTEL (Appellate Tribunal for Electricity).
6. The day-ahead market saw an average market clearing price of Rs 2.82 per unit in Q4 which was 6% down YoY.
7. The real-time electricity market traded 3,766 MU in Q4 & 9,468 MU YTD.
8. There was a 39.5% YoY growth in open access volumes.
9. The green market cumulatively traded 785 MU during the year till date.
10. The company retained its market shares of 92% in DAM+TAM, 99.9% in RTM, & 99.9% in GTAM markets.
11. Share of exchanges in total electricity consumption has risen to 6.1% in FY21 from 4% last year. Share of exchanges in short term market has risen to 54% in FY21 from 41% last year.

Investor Conference Call Highlights:

1. In Feb 2021, the CEA laid down the procedure for approval and facilitation of cross-border trade of electricity. IEX has already started the commencement of the cross-border electricity trade on exchange with Nepal as of 17th April 2021.
2. The company expects to start electricity trading with Bhutan & Bangladesh soon.
3. It is also working to introduce longer-duration delivery contracts up to 365 days in both electricity and green markets.
4. The latest date given by APTEL on the hearing for REC is July 14th.
5. The management expects it to start no earlier than Q2.
6. The company was looking to launch trading in Energy Saving Certificates or ESCerts market in Q3FY21 but was delayed due to the pandemic. It is now expected to commence in Q2FY22.
7. The company is also expecting the launch of the LDC product to be in Q2 or Q3 in the year ahead. It has all the tech ready and is only waiting on regulatory approval to go ahead here. The company expects trade volumes of 25-30 BU from this forward contract platform each year.
8. The RTM accounts for 13% of total volumes in FY21. It has risen to 17-17.5% in Q4. IEX is seeing increased participation coming from almost all the segments, which includes distribution utilities as well as open access consumers. Thus, the management expects this rising trend for RTM to continue to maybe 20-25% in the next few quarters.
9. The company has already applied for Green day-ahead market contracts, but it doesn't expect CERC to pass approval on this before the end of June. Thus, this product is also expected to be launched in Q2.
10. The main market gains in RTM are from the DSM market where there are high penalties to overdrawing requirements and thus any pending or extra requirements are serviced by the exchange at a much lower price. To make up for the lost opportunity in DSM, the captive plant also has to come to the RTM, thus deepening the shift.
11. The management states that the company wants to endeavour that 50% of the profit should be distributed in the form of dividends. But it has not given out any dividends in Q4 due to the uncertainty from COVID-19.
12. The company is sitting on a cash pile of Rs 600 Cr.
13. The GTAM market is expected to gain momentum going ahead as the summer season brings in additional generation from wind which is largely present in H1 and from more sellers joining in.
14. All green generators are under some PPA. Most of them are small generators so the PPA in question is of smaller duration. IEX has over 10 such generators on the platform already. The company is not only targeting generators but also distribution companies that may have surplus green capacity.
15. The cross-border trade has seen volumes go up to 5% of DAM. The volumes remain low here since the only mechanism allowed currently is spot market of fewer than 7 days. Anything greater than 7 days comes under bilateral contracts which is not under the exchange mechanism.
16. The company is also expecting the RTM market to become the option for discoms as an immediate answer to demand-supply gaps that used to result in load shedding. Thus load shedding can become less frequent as discoms participate more in the RTM.
17. The main use of the day-ahead market is to meet the deficit for discoms. The management believes that once the discoms see that they can service most of their requirements from the day-ahead market, they will come to it automatically to optimize their power costs.
18. The management has stated that it will not divest any more of the pending 30% in IGX any time soon since it has 4 years to do so, and will only do so after deciding on the premium.

19. The management states that it welcomes the formation and approval for the new exchange in the power sector as it should increase adoption of power exchanges and should be ultimately good for the expansion of the sector.
20. The company launched an automated bidding option for the customers through the API. This was required as with the launch of RTM, the customers had to bid 48 times in a day. This auto bidding option has been adopted well by customers such that some large members have close to 60%, 70% of the cleared volume in the real-time market placed using this mechanism.
21. Most of the tech initiatives by the company revolve around automation of the process to speed up customer response time and enhance customer experience. It has also provided customers with a web-based platform to provide a bidding option for all products and a mobile platform for the same. Both platforms are expected to enhance customer convenience and help gather data on customer behaviour and preferences.

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. The company continues its growth march with another good quarter with volume growth of 62% YoY and sales & profit growth of 25% & 33% YoY. It has also divested 47% of IGX till date and brought on NSE as a marquee investor in Q4. IEX continues to see increased participation from discoms in the exchange given the flexibility and competitive pricing as compared to bilateral contracts. It also expects the GTAM to gather additional momentum due to the additional capacity expected to be generated by wind generators in the summer season. It remains to be seen how the policies and regulations will evolve in the power sector and how IEX will fare with the addition of a new rival exchange in this space. It is still very early days in the power exchange market. However, as of date, IEX looks like a pivotal player in this industry.

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