

Indian Energy Exchange Q3FY21

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)								
	Q3FY21	Q3FY20	YoY %	Q2FY21	QoQ %	9MFY21	9MFY20	YoY%
Sales	96	69	39.13%	79	21.52%	256	218	17.43%
PBT	78	53	47.17%	62	25.81%	198	169	17.16%
PAT	60	42	42.86%	47	27.66%	150	131	14.50%
Consolidated Financials (In Crs)								
	Q3FY21	Q3FY20	YoY %	Q2FY21	QoQ %	9MFY21	9MFY20	YoY%
Sales	96	69	39.13%	79	21.52%	256	218	17.43%
PBT	76	53	43.40%	58	31.03%	191	168	13.69%
PAT	58	42	38.10%	44	31.82%	145	130	11.54%

Detailed Results:

1. On a consolidated basis, PAT was up 38% YoY while revenue for the quarter was also up 39% YoY.
2. Q3 saw an increase of 61.8% YoY in electricity exchange volumes.
3. Indian Gas Exchange secures PNGRB authorisation to become India's first delivery-based Gas Exchange. Adani Total Gas & Torrent Gas become the first strategic investors in IGX by acquiring 5% stake each.
4. The REC trading remains halted in the quarter due to a stay order from APTEL (Appellate Tribunal for Electricity).
5. The day-ahead market saw good volumes growth of 43% YoY. The market witnessed an average market clearing price of Rs 2.76 per unit in Q3.
6. Total volumes including REC rose 48.2% YoY.
7. There was a 39.5% YoY growth in open access volumes.
8. The Real-time electricity registered an all-time high monthly volume of 1129 MU in December.
9. The green market cumulatively traded 473 MU during the quarter.
10. The company announced an interim dividend of Rs 2.5 per share.

Investor Conference Call Highlights:

1. IEX successfully introduced 2 new contracts (daily and weekly) in the green market.

2. It also signed a licensing agreement with MCX to launch electricity derivatives in the market using IEX price as a clearing.
3. The national energy consumption increased 7% YoY in Q3.
4. As on 31st December 2020, the installed power capacity in India was at 375 GW with a growth of 1.8% YoY. The renewable capacity grew 6% YoY.
5. On Dec 4th 2020, the Ministry of Power introduced a draft proposal to enable distribution utilities to exit from the power purchase agreements after completion of the term of the PPA. This initiative will enable more buying by the utilities and sale of power by the generators on the exchange platform.
6. The REC market used to have transactions of around Rs 80-90 Lacs a year for IEX.
7. The management has clarified that IEX is only looking for strategic partners to invest in IGX at the moment.
8. The increase in the open access volume is 14% YoY in Q3 and it formed 24% of total volumes in the quarter. Majority of the open access is traded through day ahead market only.
9. The remaining 76% volumes are all from distribution companies.
10. Although there is an opportunity for monetizing of software that IEX owns, the management has stated that IEX will not be doing so as the best way to make money with the software is to maintain it as the USP of the exchange.
11. The electricity derivative by MCX is still pending approval from regulators. These derivatives will be physically settled on IEX platform and financially settled using IEX price.
12. The main business development activity for IEX is to create awareness about the platform and values that it provides energy at.
13. In the green market, the sellers are mainly distribution companies, distribution companies of Telangana and Karnataka. As the demand in these discoms is rising the volumes to be sold is coming down. The green market clearing price is between Rs 3.5-4.
14. Annuals fees collected in Q3 was at Rs 4.2 Cr which was flat QoQ. This is because the number of participants is not increasing but the volumes are. Top 10 DISCOMs contribute almost about 75% to 80% of the total buy.
15. IEX is looking to maintain a significant stake in IGX within permissible levels and will bring it down to 25% in the next 5 years.
16. Participation in exchange is increasing mainly due to the flexibility and the competitive pricing offered as compared to bilateral traders contracts which have fixed terms for price and quantum.
17. The main hurdles in the growth in adoption of the gas exchange are the absence of a uniform tax system for gas which is not under GST, gas transportation tariffs and almost no spare capacity in active LNG terminals.
18. The company is seeing more and more states making power available as open access as it contributes to ease of doing business and thus IEX is seeing more states doing so to promote industrial activity in their territories.
19. The company has filed a petition with CRC for long duration contracts and is waiting for the result. In the case of cross border activities, it will be dependent on whether the Govt of India will approve to do so with neighbouring countries.
20. The top 3 states for open access are Gujarat, Tamil Nadu and Telangana. In many states, the breakeven rate for open access is around Rs 2.8-3.4 depending on various charges like cross-subsidy surcharge, transmission charges, billing charges, etc.
21. The management has stated that there is scope for volumes rise in states like Andhra Pradesh, Maharashtra and Gujarat as there may be power plants here which have variable costs higher

than exchange clearing price and thus there is an opportunity for cost savings here. On the other hand, such opportunities are low in states like Chhattisgarh, Orissa, West Bengal where the variable costs are very low due to plants located near RM sources.

22. The company has kept transaction charges constant for the last 8 years at INR 0.02 from the buyer and INR 0.02 from the seller.
23. The company will be looking to do a lot of marketing awareness with the participants to bring enough liquidity in long-duration contracts and GDAM when they are launched. Once these products reach sufficient liquidity and the market evolves, the company will look to develop new products.

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 has seen a good quarter with its highest ever volumes traded on the platform and sales & profit growth of 39% YoY. It has also gotten approval for IGX and has already gotten strategic partners like Adani Total Gas and Torrent Gas to invest 5% each in it. IEX is also seeing increased participation from discoms in the exchange given the flexibility and competitive pricing as compared to bilateral contracts. It remains to be seen how the policies and regulations will evolve in the power sector and how the issues capping the gas sector in India will be resolved in the future. 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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