



5 MINUTE STOCK IDEA

BY SMART SYNC INVESTMENT ADVISORY SERVICES

INDIAN ENERGY EXCHANGE

WHAT WE LIKE

IMMENSE GROWTH POTENTIAL

The power market in India is expected to grow a lot in the future due to a variety of factors such as **rapid urbanization, 100% household electrification under SAUBHAGYA scheme, etc.**

With this rising demand, power exchanges like IEX are becoming increasingly important because:

1. Exchange provides **flexibility to purchase power as per requirement** throughout the year.
2. Prices at Exchange are **always lower** than Bilateral contracts.
3. **No new long-term PPAs were signed** in the last 5 years in thermal power.
4. Draft proposal to **enable DISCOMs to exit from PPA** after completion of 25 years which will increase supply side liquidity.
5. Exchanges account for **only 5% of total power trade in India vs 30-80%** in developed markets.

FACTS & FIGURES

- **Automated, open and transparent platform for physical delivery of electricity.**
- **Revenues & Volumes have grown @ 25% CAGR** while PAT, EBITDA & EPS have grown @ **27-28% CAGR** in last 10 years.
- India's leading power exchange, **Mkt Share: 97%**.
- **Average daily trade: 7000+ MW (Q3FY21)**
- **Record day volume : 308 MU's (12,900 MW)**
- **Customer base: 4000+ Industries|55 Discoms (all)|100+ ESCert Entities|500+ Generators|1500+ RE Generators & Obligated entities.**

INDIAN GAS EXCHANGE

IGX is India's first automated national level Gas Exchange and is promoted by IEX. It has many gas industry players like Adani Total Gas (5%), ONGC (5%), GAIL (5%), Torrent Gas (5%) and NSE (26%) as investors. IGX has big growth potential due to the the Govt vision of increasing share of Natural Gas in total energy basket from 6% to 15% by 2030. Although the valuation at which IEX has sold off stakes to others may not reflect its growth potential, it seems like a small price to pay to align with gas industry majors and PSUs & gain a near-monopoly.

STRONG BALANCE SHEET

Strong debt free balance sheet size of 788 Cr. Out of which, **645 Cr (82%)** comprises of Investments, Cash & equivalent; which ensures IEX has sufficient capital ready at hand to explore new markets/opportunities & stay ahead of competition. **~50% of earnings in last 5 years** was distributed to shareholders through dividends and buybacks.

WHAT WE DON'T LIKE

GOVERNMENT REGULATIONS

Power Exchanges are regulated by the guidelines of CERC such as Power Market Regulations 2010, Inter-State OA regulations and Procedure for scheduling of Collective transactions issued by POSOCO, etc.

Government may take decisions keeping in mind the welfare of the country at large which might lead to unfavorable economics for IEX.

For example, 'market coupling', if introduced can **dent the market dominance of IEX**. Market coupling means a uniform market clearing price for buyers and sellers in all exchanges operating in the country which will be dictated by the govt.

AS MARKET GROWS, COMPETITION WILL GROW AS WELL

Given the unit economics at the moment, power exchange industry should attract more competitors for IEX. PTC in collaboration with ICICI Bank and BSE have declared earlier that they would enter into this business and are awaiting regulatory approval to do so. **However, we at SSIAS however believe that any competition at this stage would further add to the growth momentum of this market.**

DECLINING FINANCIAL HEALTH OF GENCOS & DISCOMS

In order to flourish as a long lasting power exchange platform, IEX would wish for GENCOS and DISCOMs to prosper. **However, given the deteriorating financial health of these entities there is a big risk and uncertainty regarding future growth.** Bankruptcy of any big DISCOM or GENCOM player will disrupt the demand-supply parity of the market.

VOLUMES HAVE A LONG WAY TO GO

As mentioned earlier, **only 5% of total power market trades in the exchange market.** Network effects kick in when more and more users are there on the network. **IEX must keep working on increasing the number of users and volumes of trade to enhance the value of IEX.** For that to happen a combination of many factors have to fall in place such as:

- **Favorable government policies**
- **Sustained demand and robust supply chain maintained**
- **IEX manage to keep its cost low**

For More details: <https://smartsyncservices.com/indian-energy-exchange/>

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