



# 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 with lower prices vs Bilateral contracts.
2. **No new long-term PPAs were signed** in the last 5 years in thermal power.
3. Favorable regulations coming out to promote penetration of electricity markets in India.
4. Exchanges account for **only 6% of total power trade in India vs 30-80% in developed markets.**

#### FACTS & FIGURES

- Nation wide, automated and transparent trading platform for physical delivery of electricity, renewables & certificates
- Commenced operations in 2008; CERC regulated
- Publicly listed company (NSE and BSE)
- ISO 9001:2015, ISO 27001:2013, ISO 14001:2015
- Market Leader: ~95% (DAM & RTM >99%)
- Electricity volume CAGR 32% since 2008



IEX has a strong **debt-free balance sheet of over 1181 Cr.** Out of which, **1021 Cr (86.4%)** comprises of Investments, Cash & equivalent; **which ensures IEX has sufficient capital ready** at hand to explore new markets/opportunities & stay ahead of the competition. **It also has the mandate to give >50% of earnings in the form of dividends to shareholders.**

#### 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 Govt vision of increasing the share of Natural Gas in the total energy basket from 6% to 15% by 2030.**

The business unit has already seen **volumes grow from 3.3 Lac MMBTU in Q1FY22 to 36 Lac MMBTU in Q3FY22** & has also become break-even in just over 1 year of operations.

#### RESUMPTION OF REC AND ESCERTS

The Renewable Energy Certificates and Energy Saving Certificates have **both resumed trading.** These 2 segments were responsible for **20% of the 37% YoY growth in volumes in Q3** & are expected to generate a lot of momentum in the future.

### 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.

The Govt 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' and the MBED proposal, if introduced can dent the **market dominance of IEX.** But the company is implementing contingency plans to deal with the impact of this development. Whether it will be successful or not only time will tell.

#### AS THE MARKET GROWS, COMPETITION WILL GROW AS WELL

Given the unit economics at the moment, the power exchange industry should attract more competitors for IEX. It already has a rival in PXIL and a new rival called Pranurja Energy Solutions has been formed which is backed by PTC and BSE. Given the high dependence on technology for these platforms, the power trading sector is **also open to technological disruption.**

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

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.** The Bankruptcy of any big electricity supplier will disrupt the demand-supply parity of the market.

#### VOLUMES HAVE A LONG WAY TO GO

As mentioned earlier, **only 6% 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

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