



5 MINUTE STOCK IDEA

BY SMART SYNC INVESTMENT ADVISORY SERVICES

INDIAN ENERGY EXCHANGE (IEX)

WHAT WE LIKE

INDIA'S PREMIER TECH-LED ENERGY MARKET PLACE

- > Nation wide, automated and transparent trading platform for physical delivery of electricity, renewables & certificates
- > Commenced operations in 2008; CERC regulated
- > Publicly listed company – 2017 (NSE and BSE)
- > ISO 9001:2015, ISO 27001:2013, ISO 14001:2015
- > **DAM & RTM Market Share : 99.9%**
- > **Overall Market Share incl DAM, TAM, RTM, Green Market FY22: 94.2%**
- > Electricity volume CAGR 33% since 2008
- > FY 23 electricity volume: 66.3 BU

Facts & Figures

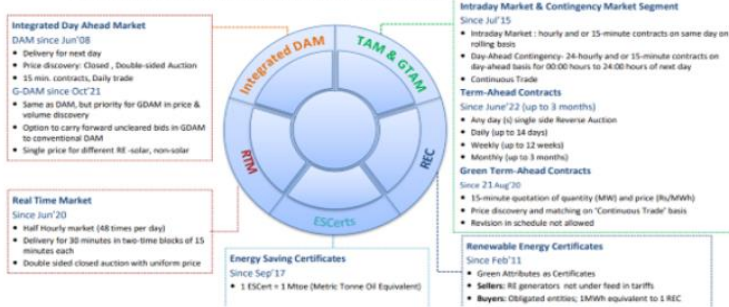
Debt-free (DER= 0.02)
 Liquid Balance Sheet (87% of the BS in cash & inv)
 Last 5 yr Sales CAGR: **16%**
 Last 5 Yr Profit CAGR: **24%**
 Last 5 Yr Stock CAGR: **21%**
 Last 10 Yr Avg ROE: **45%**
 Negative Working Capital
 >50% of Profits declared as dividends every year

Robust Ecosystem		
7,300+ Registered participants	4,400+ Commercial & Industries	1,500+ RE Generators & Obligated Entities
600+ Generators	55+ Discoms (all)	100+ ESCert Entities
33% Volume Growth CAGR since 2008	99% Market Share in DAM	100% Market Share in RTM

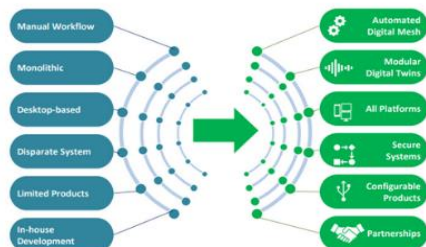
WIN-WIN: IEX BENEFITS THE WHOLE VALUE CHAIN

- Assets don't lie idle, hence ROI increases for GENCOs
- Fast payment mechanism Vis-a-Vis delay in case of going through the DISCOM route
- Transparent price discovery
- No lock-in, more flexibility for industrial consumers

DIVERSIFIED MARKET SEGMENTS



TRANSITIONING TOWARDS A FUTURISTIC TECH ARCHITECTURE



TRANSITIONING TOWARDS A FUTURISTIC TECH ARCHITECTURE

- Scale up of Recent launches: RT (June'20), GTAM (Aug'20), GDAM (Oct'21), Cross border (April'21), TAM upto 3 months in June'22
- New Product Pipelines: HP-DAM and Ancillary Market, Derivatives, Capacity Market, RE capacity, etc
- New Platforms: IGX (2020), ICX (2022), Coal Exchange (coming soon)

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 government may take decisions keeping in mind the welfare of the country at large which might lead to unfavorable economics for IEX.
- For example, the current method of charging per unit may be replaced by charging a fixed fee per transaction if the govt wants so.

IEX IS A HONEY JAR ATTRACTING BEES

HPX—promoted by PTC India, Bombay Stock Exchange, and ICICI Bank—has reached the milestone of **one billion units** of power traded within six months of its launch. It has overtaken PXIL to become the **2nd largest** exchange. DAC has been its hit product and in the next point you can read about the shift of DAM to DAC

DAM TO DAC SHIFT: TEMPORARY OR PERMANENT

Satyanarayan Goal: See, the reason for some volume shifting from DAM market to the Day-Ahead Contingency market is that in the Day-Ahead Market, buyers, and sellers both have to pay their transmission charges. Whereas in the Day-Ahead Contingency market, it is only either buyer or seller paying the transmission charges. So there is double charging of transmission charges in the Day-Ahead Market and there is arbitrage of almost about 30 – 40p available in the Day-Ahead Contingency Market. So some of the participants do transactions in the Day-Ahead Contingency Market to take advantage of that.

As per the Q2FY23 call, the lost volumes were supposed to resume from Jan 2023. In Q3, it has been postponed to April 2023. A key monitorable risk.

And our share in the Day-Ahead Market in the second quarter was almost about more than 50%. But as I told you in the past also that GNA is going to get implemented from 1st of January. And under the GNA, all these anomalies will be corrected and there will be a single charge where only buyers will have to pay the transmission charges. There is no transmission charges applicable for sellers.

In fact, for the Day-Ahead Market and the RTM market, the provisions are more favorable for these markets. I'm sure whatever transactions are presently happening in the Day-Ahead Contingency Market, they all will shift to the DAM market and this anomaly will get corrected.

VOLUMES STILL HAVE A LONG WAY TO GO

Only 7.7% of total Indian power 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:

- Favorable government policies
- Vibrant demand and supply chain maintained
- IEX manages to keep its cost low

We at SSS note that in FY23 the exchange market has barely grown due to war, inflation & coal shortages.

VALUATION IS A JIGSAW PUZZLE



In the last 3 year, IEX's valuation has been all over the place. From 15 times earnings at the bottom to 100 times earnings at the top and 40 times earnings today. As an exchange business and future growth potential, 40 times is not very expensive, but does it have a margin of safety, is difficult to fathom.

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