Indian Energy Exchange Ltd — Aug 2024 Quarterly Analysis

1. VERDICT & BUSINESS QUALITY SNAPSHOT

The punchline. Read this first — it frames everything below.

Result: Beat **One-line:** Robust volume growth (+21%) and regulatory tailwinds (LPSC rules) are deepening the market, offsetting transitory market share dips and stalling the "market coupling" overhang.

Dimension	This Quarter	Signal / Evidence	Sentiment
Beat/Miss vs Guidance / Prior Quarter	Strong Beat	21% volume growth vs. long-term historical 16% CAGR; PAT growth of 27%.	□
Earnings Quality	High (Core driven)	Growth driven by transaction volumes (Electricity +19%, RECs +50%) with stable opex.	□
Guidance Confidence	Strong	Mgmt uses a 2.7x multiplier on GDP growth to project 17-18% volume CAGR.	□
Management Credibility	Strong	Detailed technical rebuttal of market coupling and proactive filing for new products (11-month, Green RTM).	□
Business Quality Signal	Improving	Supply-side constraints easing (Coal/Gas); LPSC rules forcing URS power into the exchange.	□
Key Q&A Exchange	Q3 + Market Coupling	Mgmt confirmed CERC simulation found "no benefit" in plain vanilla coupling; software delays likely.	□
The Street's Primary Anxiety	Market Share Erosion	Share fell to 80-84% in Q1; mgmt explained this as a shift to DAC/Bilateral during the election crunch.	□
Capital Cycle Stage	Harvesting	Debt-free, generating cash, and maintaining a 65% dividend payout ratio.	□
Margin / Return Ratio Trajectory	Stable	Operating expenses as % of revenue held steady at 11-12%.	□
Pricing Power	Stable	Regulated transaction fees (2 paise/unit) remain the floor; moat is liquidity, not price.	□
FCF Conversion & Quality	Strong	Consistent 50-65% PAT distribution implies high cash conversion (Asset Light model).	□
Competitive Moat Signals	Stable	99-100% share in DAM/RTM remains the core "liquidity moat" that competitors haven't dented.	□
Balance Sheet Strength	Strong	Zero debt; Net Worth □912 Cr (converted from PPT graph).	□
Working Capital Efficiency	Stable	Exchange model requires no inventory; settlement is T+1.	□
Mgmt Guidance Track Record	Reliable	Delivered on volume growth despite record peak demand periods.	□
Key Vulnerability / Red Flag	Regulatory Overhang	Continued (though slowing) discussion on Market Coupling and SCED integration.	□
Management Tone	Confident	Tech-heavy, data-driven, and dismissive of competitive/ regulatory threats.	□

Key Takeaways: * **Positives:** Volume growth accelerated (+21% YoY) driven by a 11.2% surge in national power demand and the successful implementation of Late Payment Surcharge (LPSC) rules, which pushed

80-90 MU/day of un-requisitioned power bids onto the platform. Battery Energy Storage (BESS) costs have crashed by ~60% in a year, creating a structural arbitrage opportunity (□3 charging vs □10 discharging) that will drive future exchange volumes. * **Negatives:** Market share in electricity dipped to 80% during Q1 as buyers sought certainty in bilateral/DAC markets during the election and heatwave peak; however, July data shows a recovery toward ~90%. Open Access volumes remain suppressed due to high clearing prices making cross-subsidy surcharges unviable for C&I consumers. * **The Street's Concern:** Analysts remain hyper-focused on Market Coupling. Management countered that CERC's own simulation showed no social welfare gain from coupling IEX's ~99% share in DAM/RTM with smaller rivals, and technical implementation (software/SCED logic) remains years away. * **Forward Watchpoint:** Monitoring the CERC approval for 11-month Long Duration Contracts (LDC), which opens a 40 BU market currently trapped in bilateral "DEEP" portals.

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2. BUSINESS PERFORMANCE

2B. KEY METRICS

DATA SOURCE: PPT figures used as primary source. Concall used for Mgmt Commentary column.

Metric	Current Qtr	YoY Change	QoQ Change	Trend	Mgmt Commentary
Total Trading Volume (BU)	30.4	↑ 20.8%	First entry	↑	Driven by 11.2% demand growth and easing supply-side constraints.
Electricity Volume (BU)	28.2	↑ 19.1%	First entry	↑	Volume growth isolated to Volume/Capacity expansion as prices remained flat YoY.
REC Volume (BU)	2.2	↑ 50.0%	First entry	↑	Volume driven by price discovery dropping to □128/REC (from □1,000).
Revenue (□Cr)	154.4	↑ 21.3%	First entry	↑	Core transaction fee driven; includes □123.5 Cr from Electricity (implied).
EBITDA (□Cr)	134.1	↑ 24.3%	First entry	↑	Calculated from Op. Revenue minus Op. Expenses (□17.4 Cr) and Tech Cost (□2.9 Cr).
EBITDA Margin %	86.8%	↑ 210 bps	First entry	↑	High operating leverage as tech and employee costs are largely fixed.
PAT (□Cr)	96.4	↑ 27.2%	First entry	↑	Growth exceeded revenue due to higher other income and controlled opex.
EPS (INR)	1.05	↑ 26.5%	First entry	↑	Primary driver was volume-led revenue growth.
Operating Expenses (□Cr)	17.4	↑ 4.8%	First entry	→	Maintained at 11% of total revenue vs 12% in FY24.
Technology Cost (□Cr)	3.7	↑ 5.7%	First entry	→	Split between □1.3 Cr Capex and □2.4 Cr Opex.
IGX Volume (Mn MMBTU)	11.8	↑ 174%	First entry	↑	Driven by higher gas consumption in power sector (PLF up from 15% to 25%).

2B. SEGMENT BREAKDOWN

Segment	Revenue (□ Cr)	YoY Growth	Margin	Trend	vs Company Avg	Key Development
DAM (Day Ahead)	~72.5	49% of mix	High	→	Core	Highest ever daily green volume of 43 MU achieved in Q1.
RTM (Real Time)	~46.3	30% of mix	High	↑	Above Avg	Fastest growing segment; 75% of DAM size now.
TAM / Bilateral	~27.7	18% of mix	High	↓	Below Avg	DAC volumes declined after GNA rules; shifting back to DAM/RTM.
Certificates (REC/ESC)	~7.9	7% of mix	High	↑	High Growth	REC inventory sits at 3.5 Cr certificates; liquidation accelerating.

3. MANAGEMENT OUTLOOK & EXECUTION TRACKER

Dimension	Category	Management Target / Claim	Required Run-Rate	Historical Delivery	Risk Flag
Guidance	Volume Growth	17-18% CAGR based on 2.7x GDP multiplier.	120-125 BU for FY25 (Current: 30.4 BU).	Delivered 16% CAGR historically; Q1 beat.	Low
Guidance	New Products	Launch of 11-month LDC and Green RTM following CERC approval.	Pending regulatory order (reserved).	Successfully launched RTM and GTAM in prior years.	Medium (Reg)
Strategy	Coal Exchange	Setup Coal Exchange under MoC's 100-day agenda.	Needs regulator clarity (none in coal currently).	New initiative; high potential.	High (Policy)
Strategy	IGX Scaling	IGX to be "as big as IEX" in 5 years.	~36% CAGR required to hit 250 MMBTU by 2030.	Q1 volume grew 174% YoY; on track.	Low
Macro	Energy Transition	RE penetration to cross 50% by 2030.	50 GW annual RE addition required.	India currently adding ~15-20 GW/yr.	Medium
Balance	Shareholder Pay-out	Maintain 50-65% dividend payout.	~□400 Cr+ PAT for FY25.	Consistently paid 50-65% for 5 years.	Low

4. ANALYST Q&A

Q#	Relevance	Analyst	Theme	Category	Underlying Concern	Management Response & Investment Implication	Evaded	Credibility	Verdict
1	4.5	Participant 1	Market Share	Business Overview	"Our market share used to be very high... what can we do to regain it and protect our moat?"	Mgmt noted that market share in core DAM/RTM remains ~100%, while the dip to 83-84% is due to new bilateral/LDC segments where competition is equalized. This confirms the "liquidity moat" is intact in the spot market, while the growth struggle lies in longer-duration bilateral contracts.	None	4.0	Clear and directional
2	3.5	Participant 1	Open Access	Business Overview	"Open access volumes which were stickier have stunted. Can we nudge policymakers?"	High clearing prices (driven by Discom demand) have made Open Access unviable despite falling RE costs. IEX is advocating for better ToD tariffs to shift C&I demand to solar hours, which could revive this segment.	None	3.0	Vague on timeline
3	4.0	Participant 1	Carbon Market	Strategy	"What kind of role do you see for IEX in the National Carbon Market?"	Mgmt is targeting the Compliance market (regulated by BEE/CERC) and the Voluntary	None	3.0	Regulatory dependent

Q#	Relevance	Analyst	Theme	Category	Underlying Concern	Management Response & Investment Implication	Evaded	Credibility	Verdict
						market via ICX in GIFT City. The compliance market could match the REC market size, but timelines depend on government baseline definitions.			
4	4.0	Participant 2	Market Share	Financials	"With GNA implementation, some market share improvement should have happened in Q1?"	Share rose to 92% post-GNA but dipped in Q1 due to the election-led "supply crunch" where buyers secured power outside DAM. Management expects July/ August to return to the 85-90% range as supply eases.	None	4.0	Specific data provided
5	3.5	Participant 2	RECs	Business Overview	"What is the liquidation potential for RECs given the 3.5 Cr inventory?"	Drastic price drop to □128/ REC is finally incentivizing Discoms to meet RPO obligations. Mgmt expects the 70-lakh liquidation rate to double as enforcement under the Energy Conservation Act tightens.	None	4.0	Price-led demand

Q#	Relevance	Analyst	Theme	Category	Underlying Concern	Management Response & Investment Implication	Evaded	Credibility	Verdict
6	3.0	Participant 2	Coal Exchange	Strategy	"How do you trade coal where GCV/ Sulphur disputes exist?"	Mgmt plans to use third-party sampling as binding for buyers and sellers, similar to global models. This addresses the "non-homogeneity" risk of coal as a tradable commodity.	None	3.5	Logical framework
7	4.5	Participant 3	IGX Scaling	Business Overview	"What are the constraints for IGX scaling vs IEX's historical path?"	Major hurdles are Gas not being under GST (tax ranges 3-26%) and the lack of an independent pipeline operator. Once GST is implemented, IGX can move from fragmented "hubs" to a unified national price.	None	4.5	Candid on hurdles
8	5.0	Participant 3	Coupling	Management Outlook	"Latest update on MBED and Market Coupling?"	Mgmt cited CERC’s Feb order stating "no benefit" in coupling DAM/RTM; technical simulation for RTM+SCED hasn't even started. This significantly de-risks the coupling threat for the	None	5.0	High clarity/ Specific

Q#	Relevance	Analyst	Theme	Category	Underlying Concern	Management Response & Investment Implication	Evaded	Credibility	Verdict
						next 12-18 months.			
9	4.0	Participant 4	TAM / LDC	Business Overview	"Would IEX have any advantage in 11-month LDC volumes?"	IEX aims for 60%+ share in the 40 BU "DEEP" portal market once 11-month contracts are approved. The advantage is the existing generator-member base who prefer IEX's clearing systems.	None	4.0	Quantified target
10	3.5	Participant 4	Green Power	Business Overview	"Why did green power volumes decline previously and recover now?"	Previous declines were due to RE-rich states (Telangana/ Karnataka) facing internal shortages and stopping sales. Current growth is "pure merchant" from IPPs, which is a more sustainable supply source.	None	4.0	Volume attribution
11	3.5	Participant 4	Demand Curve	Macro	"Does the flattening of the demand curve impact exchange volatility/ volumes?"	Mgmt argued that "flattening" actually increases cleared volume by meeting unmet peak	None	4.5	Structural insight

Q#	Relevance	Analyst	Theme	Category	Underlying Concern	Management Response & Investment Implication	Evaded	Credibility	Verdict
						demand with solar surplus. Storage (BESS) will create two transactions (buy to charge, sell to discharge), doubling potential throughput.			
12	3.0	Participant 6	Congestion	Business Overview	"Is congestion increasing? 2-3% of volume is being lost."	Short-term congestion in the Northern Region due to HVDC line outages and heatwaves; expected to clear with monsoons. This confirms transmission is currently a local/ temporal bottleneck, not a systemic one.	None	4.0	Verifiable/ Technical

PATTERN FLAGS & SENTIMENT * **Market Coupling Anxiety:** This remains the single biggest thematic friction point. Analysts repeatedly probed for timelines and software updates. Management's posture was highly confident, backed by the CERC's own simulation results which showed negligible social welfare gains. The threat appears deferred but not dead. * **Market Share vs. Liquidity:** There is a recurring concern about share dropping to 80-84%. Management successfully reframed this: IEX owns 100% of the "price-sensitive" spot market (DAM/RTM) and is only losing share in "fixed-price" bilateral contracts where no exchange has a structural advantage. * **The "Storage" Pivot:** A new theme emerged regarding BESS. Management is positioning IEX not just as a power marketplace but as an "arbitrage platform" for batteries, which could fundamentally decouple volume growth from simple national demand growth.

Analyst Sentiment Verdict: Analysts were generally impressed by the Q1 volume beat but remained skeptical about the long-term impact of market coupling and competition in the LDC segment. The friction was highest around "market share" numbers, but management's technical depth on CERC orders and grid operations appeared to satisfy the room. Credibility improved as management provided specific July data (90% share) to prove that the Q1 dip was transitory.

5. WHAT CHANGED vs PRIOR QUARTER

First entry — no prior quarter to compare.

Investor Note: IEX is evolving from a single-product (DAM) exchange into a multi-asset energy platform. The Q1 results confirm that regulatory tailwinds (LPSC) are more impactful than competitive headwinds in the short term. The crashing cost of storage is the most significant fundamental shift this quarter, providing a structural long-term floor for exchange liquidity. Thesis remains strong on volume growth, with regulatory "market coupling" the only meaningful risk.