# Indian Energy Exchange Ltd — Jun 2022 Quarterly Analysis

## 1. VERDICT & BUSINESS QUALITY SNAPSHOT

**Result:** Inline (Operational) / Beat (Resilience) **One-line:** IEX is navigating an "unprecedented" supply-side squeeze (coal/heatwave) that briefly broke its growth streak in April, but the recovery in May and the proactive "Gross Bidding" pivot reinforce the thesis that liquidity-led network effects are the ultimate hedge against market volatility.

| Dimension | This Quarter | Signal / Evidence | Sentiment |
|---|---|---|---|
| Beat/Miss vs Guidance / Prior Quarter | Inline | Volume dip in April (-1%) offset by strong May recovery (+20% YoY). | □ |
| Earnings Quality | High (Core driven) | Revenue remains 100% transaction-fee linked; no reliance on one-offs. | □ |
| Guidance Confidence | Neutral | Volume growth is currently a function of coal availability rather than platform demand. | □ |
| Management Credibility | Strong | Transparent about April volume dip; proactive on proposing "Gross Bidding" to CERC. | □ |
| Business Quality Signal | Stable | 90% market share in DAM/RTM maintained despite entry of 3rd exchange (HPX). | □ |
| Key Q&A Exchange | Q# 1.5 + Fees | Confirmation that exchange caps are □0.04 vs 0.07 for traders; approval is procedural. | □ |
| The Street's Primary Anxiety | Competitive Threat | Concerns over HPX (BSE/ICICI/PTC); Mgmt argues liquidity is "non-replicable." | □ |
| Capital Cycle Stage | Harvesting | Asset-light; 50%+ profit distribution policy maintained. | □ |
| Margin / Return Ratio Trajectory | Stable | High operating leverage remains; marginal cost of new volumes is near zero. | □ |
| Pricing Power | Stable | Locked at 2p/side; no room for increase but no pressure for decrease. | □ |
| FCF Conversion & Quality | Strong | Standard T+2 settlement; asset-light model preserves cash. | □ |
| Competitive Moat Signals | Stable | Network effect held steady despite price caps and supply volatility. | □ |
| Balance Sheet Strength | Strong | Zero debt; cash-rich enough to fund new initiatives within 2 quarters. | □ |
| Working Capital Efficiency | Stable | No buildup of receivables; settlement remains robust. | □ |
| Mgmt Guidance Track Record | Reliable | Consistent delivery on IGX breakeven; accurate on RE market growth. | □ |
| Key Vulnerability / Red Flag | Regulatory Overhang | CERC approval timelines for LDCs and Gross Bidding remain the bottleneck. | □ |
| Management Tone | Resilient | Candid about supply issues but bullish on structural RE transition. | □ |

**Sentiment: □Positive**

**Key Takeaways (Positives & Negatives): - Positives:** The worst of the supply-side coal crisis (March-April) appears to be over, with May volumes rebounding to +20% YoY. IEX is successfully defending its 90% market share in core segments (DAM/RTM) against new entrants. The inclusion of domestic gas in IGX is a major milestone for gas market depth. **- Negatives:** Growth is currently tethered to "Coal India's ramp-up" and railway logistics rather than internal execution. The mandated price cap of ₹12, while temporary, limits the platform's price discovery role during extreme deficits. **- Street Concern:** Analysts are worried that mandated MBED (Market Based Economic Dispatch) is stalling. Management's "Gross Bidding" proposal is a critical strategic pivot—it offers a voluntary alternative that achieves efficiency without forcing DISCOMs to change their billing cycles. **- Watchpoint:** The final CERC order on "Long Duration Contracts" (LDCs) is the primary re-rating trigger. If IEX can move beyond 11-day contracts into 3-month/1-year buckets, it captures a massive slice of the 86% long-term PPA market.

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## 2. BUSINESS PERFORMANCE

### 2A. KEY METRICS

DATA SOURCE: PPT not available — all numbers sourced from concall transcript.

| Metric | Current Qtr | YoY Change | QoQ Change | Trend | Mgmt Commentary |
|---|---|---|---|---|---|
| Total Volume Growth (%) | +7.5% (May) | ↑ | ↓ | → | April was -1% due to coal shortage; May recovered to +20% YoY. |
| DAM/RTM Market Share | 90% | → | → | → | Maintains dominance despite competition from PXIL and upcoming HPX. |
| RTM Volume Mix (%) | 22-23% | ↑ | ↑ | ↑ | RTM becoming a "prominent market" for DISCOMs for real-time balancing. |
| Transaction Fee (₹/unit) | 0.04 | → | → | → | Charging ₹0.02/side; within CERC ceiling of ₹0.04. |
| IGX Volume Status | Recovering | ↓ | ↓ | ↓ | Dip in volume as prices hit $41/MMBtu; now stabilizing as prices hit $25. |
| Participation Base | 7,000+ | ↑ | → | ↑ | Comprises generators, DISCOMs, and open-access consumers. |
| Domestic Coal Dependency | 90% | → | → | → | India's energy mix remains heavily coal-dependent for now. |
| RE 2030 Target (GW) | 500 | → | → | → | Structural driver for exchange as RE needs central clearing. |

### 2B. SEGMENT BREAKDOWN

| Segment | Market Share | Volume Trend | Key Development |
|---|---|---|---|
| **DAM (Day Ahead)** | 90% | ↔ Stable | Impacted by coal shortage but remains the primary price discovery pool. |
| **RTM (Real Time)** | 90%+ | ↑ Growing | Now 23% of total volume; critical for intermittent RE integration. |
| **TAM (Term Ahead)** | 60-70% | ↑ Volatile | Saw a surge when DAM/RTM were capped; now stabilized as caps apply to TAM too. |
| **Green Market** | High | ↑ Growing | GDAM/GTAM are the primary growth vehicles for "merchant" RE capacity. |
| **IGX (Gas)** | 100% | ↔ Recovering | Domestic gas now allowed; first transaction completed in late May. |

## 3. MANAGEMENT OUTLOOK & EXECUTION TRACKER

| Dimension | Category | Management Target / Claim | Required Run-Rate / Mathematical Feasibility | Historical Delivery | Risk Flag |
|---|---|---|---|---|---|
| Guidance | Volume | Return to 20%+ growth after April's supply-led dip. | Needs sustained coal stocks and 7-8% India demand growth. | **Delivered**: May volume hit +20% YoY. | Low |
| Guidance | Product Launch | Launch of LDCs (Long Duration Contracts) shortly. | Pending CERC final order post stakeholder consultation. | **Delayed**: Pending for 2 quarters. | Medium |
| Strategy | Competition | Liquidity is "sticky"; 1 price is better than 2. | Must maintain >80% share to prevent price fragmentation. | **Delivered**: Held 90% share vs PXIL. | Low |
| Strategy | IGX | Scale gas volumes via domestic gas inclusion. | Success depends on domestic gas allocations to the exchange. | **On Track**: First trade done. | Low |
| Macro | Regulatory | Implementation of "Gross Bidding" mechanism. | Requires CERC approval of filed petition (expected <1 year). | **New**: Strategic move to bypass MBED delays. | Medium |

## 4. ANALYST Q&A

| Q# | Relevance | Analyst / Firm | Theme | Category | Underlying Concern | Management Response & Investment Implication | Evaded | Credibility | Verdict |
|---|---|---|---|---|---|---|---|---|---|
| 1.1 | 4.5 | Unidentified | Supply Constraints | Business Overview | "How does the supply constraint look like now compared to the first time in 2015?" | Management noted that the current coal shortage started in mid-March due to an unprecedented heatwave and high input costs, but May volumes have already rebounded to 20%+ YoY growth. This indicates that the volume dip was an external supply shock rather than a structural loss of demand for the exchange. | None | 4.0 | Rebound confirmed |
| 1.2 | 4.0 | Unidentified | Optimization | Business Overview | "Can you walk us through the optimization and cheaper pricing mechanism?" | Management explained that DISCOMs replace expensive long-term energy charges (e.g., □4) with cheaper exchange power (e.g., □3) while still paying the fixed capacity charge to the generator. This "replacement" strategy is a core volume driver that remains viable whenever market prices are below marginal | None | 5.0 | Core thesis valid |

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|---|---|---|---|---|---|---|---|---|---|
| | | | | | | generation costs. | | | |
| 1.3 | 4.0 | Unidentified | Coal Logistics | Macro | "Why did Coal India slow its production and why are producers not planning ahead?" | Management attributed the slowdown to the two-year narrative that coal was being phased out, leading to lower investment and only 5% production growth targets. The subsequent 8% demand surge created a gap that will take ~1 year to resolve via inventory rebuilding and 10-30% mandated blending of imported coal. | None | 3.0 | Structural macro lag |
| 1.4 | 4.5 | Unidentified | Competition | Management Commentary | "How do you see the entry of HPX (promoted by PTC, BSE, ICICI) impacting the business?" | Management argued that in electricity exchanges, liquidity is the ultimate moat because "two prices are not accepted" by the market, and IEX's 7,000+ participant network is difficult to replicate. This reinforces the network effect thesis, where liquidity naturally aggregates at the market leader. | None | 4.0 | Moat defense |

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|---|---|---|---|---|---|---|---|---|---|
| 1.5 | 4.0 | Unidentified | Transaction Fees | Financials | "Is there any threat to transaction fees going forward or any risk of a forced reduction?" | Management clarified that the 2021 regulations provide a □0.04 ceiling (□0.02 per side) for exchanges, while traders get □0.07, and IEX is seeking procedural approval for its current rates. There is no intention to increase or decrease fees, and the entry of competitors makes a mandated cut unlikely as it would kill smaller exchanges. | None | 5.0 | Pricing floor secure |
| 1.6 | 3.5 | Unidentified | IGX Outlook | Business Overview | "What is the way forward for IGX given high prices?" | Management highlighted that while high international prices ($41/ MMBtu) hit volumes, the recent inclusion of domestic gas on the platform is a game-changer, with the first trade already executed. This diversification reduces reliance on volatile imported LNG and opens a new recurring revenue stream. | None | 4.5 | Gas pivot key |

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|---|---|---|---|---|---|---|---|---|---|
| 1.7 | 4.0 | Unidentified | MBED/ Gross Bidding | Management Commentary | "What is the status of MBED and what does it mean for you?" | Management admitted that full MBED implementation will take time due to regulatory/ state hurdles and has proposed "Gross Bidding" as a voluntary alternative that allows DISCOMs to optimize PPA power. If approved within the year, this could bridge the gap to full market-based dispatch and significantly boost volumes. | None | 4.0 | Strategic pivot |

**PATTERN FLAGS & SENTIMENT - The "Coal Cycle" Anxiety:** Multiple questions focused on why IEX couldn't prevent the April volume dip. Management was firm that this was a national logistics and policy issue (Coal India underestimating demand). The resolution is now in the hands of the government (railway rake priority and imported coal blending), with the "worst behind us" as of May. - **The Competitive Moat:** Analysts repeatedly prodded on HPX. Management's defense—"One Price, One Market"—is a classic liquidity moat argument. They are betting that even with BSE/PTC's backing, generators will not risk "unsold power" by moving to a less liquid platform. - **Regulatory Pivot (MBED to Gross Bidding):** Management has stopped waiting for the government's MBED "big bang" and is pushing "Gross Bidding." This is a sophisticated move to allow states to participate voluntarily, solving the settlement/billing friction that has stalled MBED.

**Analyst Sentiment Verdict:** Analysts appeared cautiously optimistic. While frustrated by the April volume contraction, they were reassured by the 20% growth in May. Management's transparency regarding the coal crisis and their proactive regulatory filings (LDC, Gross Bidding, Fee Approvals) suggests they are in "offensive mode" despite the macro headwinds.

## 5. WHAT CHANGED vs PRIOR QUARTER

| What Changed | Prior Quarter (Q3 FY22 Summary) | This Quarter (May 2022 Update) | Direction |
|---|---|---|---|
| **MBED Timeline** | April 1, 2022 (Expected) | "Unlikely" / Delayed indefinitely | ↓ |
| **Volume Growth** | +37% YoY | -1% (April) to +20% (May) | ↓ |
| **Price Caps** | □20 (Initial) | □12 (Mandated through June 30) | ↓ |
| **IGX Product Mix** | Imported LNG only | Domestic Gas transactions allowed | ↑ |
| **Coal Stocks** | Monitoring "shortages" | Acute shortage realized; 10-30% blending mandated | ↓ |
| **MBED Strategy** | Waiting for CERC rules | Proposing voluntary "Gross Bidding" alternative | ↑ |
| **Transaction Fee Status** | Applying for approval | Petition filed; 2-3 month timeline for order | → |

**Investor Note:** The thesis hasn't changed, but the "speed of execution" is currently limited by the national coal supply chain. The structural drivers—RE integration and the shift from long-term PPAs to short-term markets—remain robust. The stock is a play on India's energy logistics normalizing over the next 12 months.STOP HERE.