# Indian Energy Exchange Ltd — Oct 2022 Quarterly Analysis

## 1. VERDICT & BUSINESS QUALITY SNAPSHOT

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

**Result:** Inline on Volumes / Beat on PAT **One-line:** The structural thesis remains intact, but the business is navigating a transient "supply-side bottleneck" where high fuel costs have temporarily suppressed the "optimization" and "open access" demand that usually drives IEX's high-margin volume growth.

| Dimension | This Quarter | Signal / Evidence | Sentiment |
| --- | --- | --- | --- |
| Beat/Miss vs Guidance / Prior Quarter | PAT Beat | PAT of □71.2 Cr beat the prior quarter's □69.1 Cr despite flat revenue, aided by IGX growth and treasury income. | □ |
| Earnings Quality | High (Core driven) | 80% of revenue from transaction fees; IGX (subsidiary) now contributes meaningful bottom-line growth. | □ |
| Guidance Confidence | Neutral | Management remains confident in a H2 recovery but it is entirely dependent on coal logistics and international gas prices. | □ |
| Management Credibility | Strong | Successfully launched Longer Duration Contracts (LDC) up to 90 days; IGX profitability is scaling as promised. | □ |
| Business Quality Signal | Stable | Liquidity moat in DAM/RTM remains impenetrable (99%+ share) despite a three-exchange market. | □ |
| Key Q&A Exchange | Q# 1, 3, 5 — Competition | Management confirmed the "arbitrage" helping competitors in DAC will vanish with GNA implementation on Jan 1, 2023. | □ |
| The Street's Primary Anxiety | Market Share Erosion | Analysts pressed on the shift to DAC (Contingency) and HPX's entry; Mgmt dismissed this as a transient transmission-pricing anomaly. | □ |
| Capital Cycle Stage | Harvesting / Adjacency Expansion | High cash generation used to seed IGX and explore Carbon/ Coal exchanges. | □ |
| Margin Trajectory | Stable | Standalone PAT margin remains superior at 61.6%; Consolidated margins benefitting from IGX turnaround. | □ |
| Pricing Power | Stable | Maintaining □0.02/unit fee despite competitors' promotional waivers; refusing to participate in a "race to the bottom." | □ |
| FCF Conversion & Quality | Strong | CFO remains high due to "settlement float" as high clearing prices (□5.40/unit) require larger participant deposits. | □ |
| Competitive Moat Signals | Stable | RTM (Real-Time Market) continues to grow (30% CAGR potential) and remains a 100% IEX monopoly. | □ |
| Balance Sheet Strength | Strong | Zero debt; cash and investments provide a massive buffer for M&A or new exchange licenses. | □ |
| Working Capital Efficiency | Improving | Automated bidding (APIs) and NOAR integration reducing manual friction for large participants. | □ |
| Mgmt Guidance Track Record | Reliable | Delivered on LDC product expansion; IGX reached □2.42 Cr PAT (111% QoQ growth). | □ |
| Key Vulnerability / Red Flag | Fuel Supply | High e-auction coal premiums (293% above notified) are a direct cap on sell-side liquidity. | □ |
| Management Tone | Confident | Dismissive of competition; focused on the "GNA" regulatory fix and carbon market optionality. | □ |

**Key Takeaways (Positives & Negatives):** * **Positives:** The Indian Gas Exchange (IGX) is no longer a "venture" but a contributor, with PAT doubling QoQ to □2.42 Cr. The upcoming GNA (General Network Access) implementation on Jan 1, 2023, is a major catalyst as it removes the double-charging of transmission in collective segments, effectively killing the arbitrage that allowed the Day-Ahead Contingency (DAC) market to bleed volumes from IEX's core DAM. * **Negatives:** Supply-side constraints are severe. E-auction coal volumes are down 63% YoY, forcing merchant generators off-grid. This has pushed exchange prices to □5.40/unit (vs □4.14 YoY), pricing out industrial "Open Access" buyers and preventing Discoms from "optimizing" (replacing costly PPA power with cheaper exchange power). * **Street Concern:** Analysts are hyper-focused on the 10-15%

market share loss in the DAC segment. Management's response—that this is purely a transmission-cost game and they will not cut fees to chase it—is a signal that they prioritize the integrity of their platform's liquidity moat over temporary volume share. * **Watchpoint:** Implementation of the High Price Day-Ahead Market (HP-DAM). If launched in Dec/Jan, this will allow high-cost generators (gas/imported coal) to bid above the □12 cap, potentially unlocking significant sell-side liquidity during peak winter demand.

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## 2. BUSINESS PERFORMANCE

### 2A. KEY METRICS

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

| Metric | Current Qtr (Q2FY23) | YoY Change | QoQ Change | Trend | Mgmt Commentary |
|---|---|---|---|---|---|
| Electricity Volume (BU) | 21.2 | ↓ 18.4% | ↓ 4.3% | ↓ | Volume hit by coal shortage; sell bids < buy bids. |
| Certificates Volume (BU) | 1.9 | ↑ New | ↑ 59.9% | ↑ | REC volumes recovered; high base last year was zero. |
| Total Volume (BU) | 23.1 | ↓ 11.0% | ↓ 1.0% | → | Flat QoQ; YoY hit by extreme energy crisis. |
| Revenue (□Cr) | 113.8 | ↓ 7.0% | ↑ 0.3% | → | Flat QoQ; Transaction fees 80% of standalone mix. |
| EBITDA (□Cr) | 97.6 | ↓ 8.8% | ↑ 1.5% | → | Operating leverage remains intact; IGX contributing. |
| EBITDA Margin % | 85.7% | ↓ 180 bps | ↑ 100 bps | ↑ | Consolidated margin; standalone remains higher. |
| PAT (□Cr) | 71.2 | ↓ 8.0% | ↑ 3.0% | ↑ | PAT growth > Revenue growth due to IGX turnaround. |
| ROCE (%) | Not in doc | - | - | → | Asset-light business model remains high return. |
| Cash Flow (OCF) | Not in doc | - | - | ↑ | Boosted by high clearing price float/ deposits. |
| Net Debt / (Cash) (□Cr) | (1,247)* | ↑ YoY | ↑ QoQ | ↑ | *From Prior Context; includes settlement funds. |
| Interest Coverage | Not in doc | - | - | → | Debt-free; interest coverage is not a concern. |
| Working Capital | Float-driven | - | - | ↑ | Management noted higher other income from treasury. |

### 2B. SEGMENT BREAKDOWN

| Segment | Volume (BU) | YoY Growth | IEX MS% | Trend | vs Co. Avg | Key Development |
|---|---|---|---|---|---|---|
| DAM (Conventional) | 11.2 | ↓ 43% | 99.5% | ↓ | Lagging | Prices at ₹5.40 priced out optimization buyers. |
| RTM | 6.6 | ↑ 24% | 100.0% | ↑ | Leading | Driven by RE variability; zero competition here. |
| TAM (DAC) | 4.2 | ↑ 162% | 49.1% | ↑ | Leading | Competition (HPX/PXIL) took 51% of this segment. |
| Green Market | 1.6 | ↑ 62% | 91.8% | ↑ | Leading | GDAM/GTAM seeing strong RPO-led traction. |
| IGX (Gas) | 5.9m MMBtu | ↑ 501% | Subsidiary | ↑ | Leading | Profitable (₹2.42 Cr PAT); 5.9m MMBtu traded. |

## 3. MANAGEMENT OUTLOOK & EXECUTION TRACKER

| Dimension | Category | Management Target / Claim | Required Run-Rate | Historical Delivery | Risk Flag |
|---|---|---|---|---|---|
| Guidance | New Products | Launch HP-DAM and Ancillary Markets by Dec-Jan. | Within 3 months | LDCs launched as promised in Q1/Q2. | CERC final approval timing. |
| Guidance | Carbon Market | Launch India's first Carbon Exchange; feasibility study done. | Post-Amendment | Appointed consultant; strategy in place. | Policy finalization delay. |
| Guidance | IGX Growth | Government vision to increase Gas in energy basket to 15%. | Needs 3x infra | IGX reached breakeven and turned profit. | Global LNG price volatility. |
| Strategy | Competition | Reclaim DAC volume after GNA implementation (Jan 1). | Jan 2023 | 99%+ share in DAM/ RTM defended. | GNA delay by NLDC/CERC. |
| Macro | Coal Supply | H2 coal production typically 60% of annual total. | 1.2 Bn Tonne target | Domestic production up 10% YoY. | Logistics/Rake availability. |
| Policy | GNA | Implementation will remove transmission arbitrage for DAC. | Jan 1, 2023 | CERC notified; NLDC software in works. | Operational glitches. |

## 4. ANALYST Q&A

| Q# | Rel. | Analyst / Firm | Theme Cluster | Category | Underlying Concern | Management Response & Investment Implication | Evaded / Not Addressed | Cred | Verdict |
|---|---|---|---|---|---|---|---|---|---|
| 1 | 5.0 | Mohit Kumar, DAM Capital | Volume Outlook | Mgmt Outlook | Where do you see we might end up in FY '23? | Management indicated they expect to achieve at least the volumes of H2 last year as coal supply improves in the winter. This implies a volume-weighted recovery in Q3/ Q4, but makes the full-year double-digit growth target a stretch. | Specific FY23 BU target | 3.0 | Seasonal Recovery Bet |
| 2 | 4.0 | Mohit Kumar, DAM Capital | New Products | Mgmt Outlook | Timelines for derivatives and tying up with other exchanges. | Management confirmed they are working with SEBI-regulated exchanges (NSE/ MCX) to launch power derivatives by Dec-Jan. Derivatives are critical as they provide the hedging signals needed to scale the "Longer Duration Contracts" (LDC) segment. | Specific partner names | 3.5 | Derivative Pivot |
| 3 | 5.0 | Aniket Mittal, SBI MF | Competition | Business Overview | Reason for shift in volume from DAM to Day Ahead Contingency (DAC). | Management explained that DAC allows an arbitrage where only one party pays transmission charges, unlike the double-charging in DAM. This confirms that IEX's share loss is a structural transmission-pricing issue, not a service failure, which GNA will resolve. | None | 5.0 | Arbitrage Identified |

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|---|---|---|---|---|---|---|---|---|---|
| 4 | 4.5 | Aniket Mittal, SBI MF | Market Dynamics | Business Overview | Why are RTM prices lower than DAM? | Management stated sellers place marginal-cost bids in RTM when they aren't cleared in DAM, making RTM the market of "last resort." This price hierarchy encourages participants to wait for RTM, potentially cannibalizing DAM volumes in the short term. | None | 4.0 | Pricing Hierarchy |
| 5 | 5.0 | Sumit Kishore, Axis Capital | Demand | Business Overview | At what price level do we really see industrial demand coming back? | Management identified □3.25 to □3.50 as the "magic number" where Discoms shut high-cost plants and industrial Open Access becomes viable. Current prices at □3.85 (Oct) suggest IEX is close to a demand breakout point if supply continues easing. | None | 5.0 | Demand Trigger Price |
| 6 | 4.0 | Sumit Kishore, Axis Capital | GNA Timing | Policy | Will GNA definitely get implemented from 1st of January? | Management expressed 100% confidence in the Jan 1 timeline based on discussions with CERC and NLDC. The implementation is the single biggest catalyst for reclaiming the 10-15% volume lost to bilateral/ contingency trades. | None | 4.5 | Regulatory Catalyst |
| 7 | 3.5 | Sumit Kishore, | Rebates | Financials | Why did revenue | Management clarified they | Specific rebate □Cr | 4.0 | Ecosystem Support |

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|---|---|---|---|---|---|---|---|---|---|
| | | Axis Capital | | | decline more than volume (13% vs 11%)? | gave rebates in the REC segment and concessions to trading members to support liquidity during high-price periods. This highlights a proactive defense of the ecosystem even at the cost of short-term take-rates. | | | |
| 8 | 3.5 | Devansh Nigotia, SIMPL | Carbon Market | Mgmt Outlook | Will IEX be the only one who will be able to trade carbon credits? | Management noted that while CERC will regulate the mandatory market for all exchanges, IEX is also exploring the "voluntary" market for multinational buyers. This adds a "blue ocean" opportunity separate from the regulated power exchange competition. | Exclusivity status | 3.0 | Carbon Optionality |
| 9 | 4.0 | Milind Karmarkar, Dalal & Broacha | Long-term PPAs | Strategy | Thought process on PPAs being abolished and volumes moving to exchanges. | Management reaffirmed the 25-year exit rule for Discoms but noted most IPP PPAs are only 14-15 years old. This moderates the "explosive growth" expectation, shifting the focus to demand growth (7% CAGR) rather than PPA cannibalization. | None | 4.0 | Reality Check |
| 10 | 3.0 | Milind Karmarkar, | Competition | Strategy | What about the | Management dismissed the | None | 4.0 | Moat Defense |

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|---|---|---|---|---|---|---|---|---|---|
| | | Dalal & Broacha | | | competition from the new exchanges? | impact, pointing out that one competitor has been there 14 years and the third just started, with no material impact on IEX's dominant share. This reinforces management's "Liquidity-is-King" stance. | | | |

**PATTERN FLAGS & SENTIMENT** * **The "Arbitrage" Anxiety:** Analysts were worried about the 162% surge in DAC (Contingency) volumes and IEX's low share (49%) in that segment. Management successfully reframed this not as a loss of competitive edge, but as a "regulatory loophole" (transmission charging) that will be closed by GNA in Jan 2023. This posture was highly confident and appeared to satisfy the room. * **Fuel Price as the "Hard Ceiling":** There is a clear pattern of questions linking exchange volumes to coal availability. Management was blunt: prices above □4.00 kill the "replacement" market. This concern remains live and will resurface in Q3; management's credibility is now hitched to the domestic coal production ramp-up. * **IGX Validation:** For the first time, IGX was discussed as a profitable contributor rather than a cash-burn startup. This turnaround has improved management's credibility regarding their "Exchange 3.0" diversification strategy.

**Analyst Sentiment Verdict:** Analysts were skeptical about near-term volume growth due to the fuel crisis but relieved by the clarity on GNA as a "competition-killer." The friction regarding market share loss in DAC was largely neutralized by the regulatory explanation. Management credibility remains high due to the IGX turnaround and the successful launch of LDCs.

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## 5. WHAT CHANGED vs PRIOR QUARTER

| What Changed | Prior Quarter (Q1FY23) | This Quarter (Q2FY23) | Direction |
|---|---|---|---|
| **IGX Profitability** | □1.15 Cr PAT | □2.42 Cr PAT | ↑ |
| **Market Clearing Price** | □7.76 / unit (Peak crisis) | □5.40 / unit (Easing) | ↑ (Improving) |
| **Product Portfolio** | LDC awaited | LDC launched (up to 3 months) | ↑ |
| **DAC Market Share** | ~85-89% (Overall) | 49% (Segment specific) | ↓ |
| **Transmission Reform** | GNA discussed | Jan 1 Implementation date set | ↑ |
| **Competition** | HPX just launched | 3-Exchange market operational | ↓ |
| **Employee Expenses** | Integrated standalone | Standardized after IGX deconsol. | → |
| **Other Income** | Normal treasury | Spike (Treasury + Interest) | ↑ |

**INVESTOR NOTES:** * **CFO-to-PAT Divergence:** OCF continues to be robustly supported by the "Settlement Float." High power prices require participants to keep higher margins/deposits with the exchange, which IEX invests in high-yield treasury instruments. This makes IEX a "High-Beta play on Power Prices" via treasury income, even when volumes are suppressed. * **The "GNA" Pivot:** Investors should watch Jan 1, 2023, as a hard binary trigger. If GNA is implemented, DAC volumes should migrate back to DAM, and IEX's consolidated market share should revert to 95%+. * **LDC Adoption Gap:** While LDC (Longer Duration Contracts) are launched, actual trades are zero/low because generators are quoting □5.70+ due to coal uncertainty. The product is ready, but the "market" for it won't open until fuel prices normalize.

STOP HERE.