Indian Energy Exchange Ltd — Sep 2022 Quarterly Analysis

1. VERDICT & BUSINESS QUALITY SNAPSHOT

Result: Inline (Volume growth tempered by macro headwinds) **One-line:** The long-term structural thesis remains robust despite temporary volume suppression in the "optimization" segment due to the global energy crisis and high domestic clearing prices.

Dimension	This Quarter	Signal / Evidence	Sentiment
Beat/Miss vs Guidance	Inline	Revenue growth of ~10% YoY (Q1FY23) reflects resilient RTM volumes offsetting DAM weakness.	□
Earnings Quality	High (Core driven)	85%+ EBITDA margins sustained; negative working capital cycle inherent to exchange model.	□
Guidance Confidence	Neutral	Management targets 20% CAGR but admits near-term volumes depend on coal inventory recovery.	□
Management Credibility	Strong	Successfully launched Long Duration Contracts (LDC) and delivered IGX breakeven as promised.	□
Business Quality Signal	Stable	Dominant 99%+ share in DAM/RTM; market share loss in TAM is regulatory/transitory, not structural.	□
Key Q&A Exchange	Q3 + Market Share	Mgmt clarified TAM share loss is due to transmission charge anomalies, not the new competitor (HPX).	□
The Street's Primary Anxiety	Competition & Coupling	Concern over HPX entry and market coupling; Mgmt response: "Liquidity attracts liquidity."	□
Capital Cycle Stage	Harvesting / Expansion	Cash cow electricity business funding expansion into Gas (IGX), Carbon, and Coal markets.	□
Margin / Return Ratio Trajectory	Stable	EBITDA margins maintained in the 85-87% range despite higher tech spend.	□
Pricing Power	Stable	Transaction fee of 2 paise/unit remains the industry standard; no downward pressure yet.	□
FCF Conversion & Quality	Strong	Asset-light; high dividend payout (59% of PAT in FY22) sustained.	□
Competitive Moat Signals	Stable	Network effect in DAM/RTM remains the primary moat; RTM API integration deepening ties with IPPs.	□
Balance Sheet Strength	Strong	Zero debt; □650 Cr free cash available as of June 30, 2022.	□
Working Capital Efficiency	Improving	NOAR (National Open Access Registry) integration automating the scheduling-to-settlement flow.	□
Mgmt Guidance Track Record	Reliable	Consistent delivery on product launches (RTM, Green, LDC, Cross-border).	□
Key Vulnerability / Red Flag	Regulatory Risk	Uncertainty around "Market Coupling" remains the single largest tail-risk for the valuation multiple.	□
Management Tone	Confident	Bullish on "Energy Transition" and "Merchant RE" as long-term volume drivers.	□

Sentiment: □Positive | □Negative | □Neutral

Key Takeaways (Positives & Negatives): * **Positives:** The business has proved resilient in a "worst-case" coal supply scenario. While "Optimization" volumes (Discoms replacing costly power) vanished due to high clearing prices (□6.76/kWh vs □2.82/kWh), "Deficit" buying and RTM grew, proving the exchange is a critical infrastructure. IGX reaching breakeven de-risks the diversification strategy. * **Negatives:** Market share in the TAM (Term Ahead) segment dropped to 43% (Jul-Aug '22) as participants shifted to DAC (Day Ahead Contingency) to avoid transmission charges—a loop-hole IEX needs the GNA (General Network Access) regulation to close. High coal prices ($322 HBA index) have crushed Open Access volume (-58%). * **Forward Watchpoint:** Implementation of GNA and the finalization of "Sharing of Inter-State Transmission Charges" regulations by Oct-Nov 2022. These are the catalysts required to migrate volumes back from bilateral/DAC to IEX's core DAM platform.

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2. BUSINESS PERFORMANCE

2A. KEY METRICS

DATA SOURCE: PPT figures primary. Concall used for commentary.

Metric	Current Qtr (Q1FY23)	YoY Change	QoQ Change	Trend	Mgmt Commentary
Volume (BU)	23.4 (PPT)	↓ 3.7%	↓ 5.6%	↓	Driven by supply-side constraints; high coal costs impacted sell-side liquidity.
Revenue (□Cr)	113.4 (PPT)	↑ 10.2%	↓ 11.7%	↑	Growth driven by higher clearing prices/value despite lower BU.
EBITDA (□Cr)	96.4 (PPT)	↑ 10.8%	↓ 13.4%	↑	Stable margins; operating leverage partially offset by tech opex.
EBITDA Margin %	85.0%	↑ 40 bps	↓ 170 bps	→	High margin sustained despite □10 Cr opex on tech/manpower.
PAT (□Cr)	69.1 (PPT)	↑ 11.3%	↓ 21.8%	↑	Growth slowed by macro; includes share from IGX/associates.
ROCE (%)	Not in doc	First entry	First entry	→	Asset-light business; typically 50%+.
Cash Flow (OCF) (□Cr)	Not in doc	First entry	First entry	→	Negative WC cycle means OCF usually > PAT.
Net Debt / (Cash) (□Cr)	(650.0)	↑ 18.2%	→	→	Cash pile grew; □90 Cr earmarked for final dividend.
Interest Coverage	N/A	N/A	N/A	→	Debt-free entity.
Avg DAM Price (□/kWh)	6.76	↑ 140%	↓ 18%	↓	Peaked in Apr (□10); softening towards □5.41 in Aug '22.

2B. SEGMENT BREAKDOWN

Segment	Vol (Q1FY23 BU)	YoY Growth	Market Share	Trend	vs Co. Avg	Key Development
DAM	11.2	↓ 20%+	99.4%	↓	Lagging	Impacted by high prices killing optimization bids.
RTM	6.5	↑ 41%	100%	↑	Leading	40% of sell-side now via automated API bidding.
Green (GDAM/ GTAM)	1.5	↑ 300%+	89%	↑	Leading	Driven by Merchant RE; SECI study shows 18-20% IRR.
TAM	4.2	↑ 100%	43%	↑	Lagging	Share loss due to DAC/transmission charge avoidance.
IGX (Gas)	0.85 (MMBtu)	↑ New	N/A	↑	N/A	First domestic gas trades commenced May '22.

3. MANAGEMENT OUTLOOK & EXECUTION TRACKER

Dimension	Category	Management Target / Claim	Required Run-Rate	Historical Delivery	Risk Flag
Guidance	Volume Growth	20% CAGR over next 5 years.	Needs ~25 BU/qtr	FY22 delivered 37% growth.	High (Macro-dependent)
Guidance	Spot Market Share	25% of total generation by FY25-26.	Current ~7.7%	Gov target in draft NEP 2021.	Medium (Policy)
Guidance	New Products	Launch Coal Exchange & Carbon Market.	FY23-24	IGX (Gas) already profitable.	Low (Execution)
Strategy	Green Market	Merchant RE capacity addition without PPA.	11 GW targeted	Deloitte study confirms 20% IRR.	Medium (Financing)
Strategy	Tech Evolution	Transition to Automated Digital Mesh.	Ongoing	RTM API now contributes 30-40% vol.	Low
Macro	Coal Inventory	Improvement from 4 to 11 days.	Needs >15 days	Inventory rising despite monsoon.	Medium (Global)
Macro	GNA Implementation	Close DAC/TAM tax loop-hole.	Q3 FY23	Regulations notified June '22.	Low (Timeline)

4. ANALYST Q&A

Q#	Relevance	Analyst / Firm	Theme Cluster	Category	Underlying Concern	Management Response & Investment Implication	Evaded	Credibility	Verdict
1	4.0	Speaker 1	New Products	Business	Why would customers use 90-day LDC contracts over spot?	Mgmt noted seasonal demand (Punjab/MP) and bilateral replacement as the key drivers for LDC. This expands IEX's addressable market into the ~50-60 BU bilateral segment.	None	4.5	Clear and quantified
3	5.0	Speaker 2	Competition	Management Outlook	Is the market share drop due to NTPC/PTC backed competitors (HPX)?	Mgmt clarified share loss is purely in the DAC/TAM segment due to an "anomaly" in transmission charge sharing (50p cost diff). This implies the core DAM/RTM moat is untouched, but the DAC segment is vulnerable until GNA implementation.	None	4.0	Specific timeline given
7	4.5	Mohit Kumar	Open Access	Business	Why has Open Access (OA) volume dwindled despite NOAR implementation?	Mgmt attributed the -58% OA drop to high clearing prices; industrial consumers hedge by reverting to Discoms when prices cross ₹6. Expectancy of volume return as prices soften below ₹5/kWh.	None	4.0	Directional evidence
11	3.5	Sumit Kishore	Cross-Border	Management Outlook	What is the 3-year potential for Cross-Border (CBET)?	Mgmt target is 2 BU for the current year, with Bangladesh	Volume beyond 1 year	3.0	Vague/ Consistent

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						joining in Q3. CBET is a long-term liquidity play restricted currently by inter-country transmission capacity.			
12	3.0	Devesh	Pricing	Financials	Will you offer discounts to compete in the TAM segment?	Mgmt ruled out transaction fee discounts for short-duration products. Maintains "Liquidity creates liquidity" stance over price-cutting.	None	5.0	Specific/ Verifiable

PATTERN FLAGS & SENTIMENT * **The "TAM/DAC" Leakage:** Multiple analysts questioned the market share drop. Management's stance is that it is a regulatory arbitrage where buyers avoid a 50p/unit transmission charge by moving from "Collective" (IEX core) to "Bilateral" (DAC). This creates a temporary overhang until the GNA (General Network Access) rules are finalized in Q3FY23. * **Coal vs. Optimization:** A recurring theme was when the "cheap" volumes will return. Management was defensive but factual: with coal production up 26% and HBA prices softening, the "Optimization" bid (the most profitable for IEX) is expected to return in H2FY23. * **Analyst Sentiment Verdict:** Cautiously optimistic. While analysts are wary of the 10-15% market share "leakage" to competitors in the TAM segment, they are convinced of IEX's dominance in price discovery (DAM/RTM). The credibility of management remains high due to the IGX breakeven, which serves as a proxy for their ability to build new markets.

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5. WHAT CHANGED vs PRIOR QUARTER

What Changed	Prior Quarter (FY22)	This Quarter (Q1FY23)	Direction
Market Share	94.2%	89.0% (Jul/Aug avg)	↓
Clearing Prices	₹4.39 (Avg FY22)	₹6.76 (Avg Q1FY23)	↑
Product Suite	Long Duration Pending	LDC (up to 90 days) Launched	↑
Coal Stock	4 Days Inventory	11 Days Inventory	↑
IGX Status	Investment Phase	Financial Breakeven Achieved	↑
OA Volume	Strong recovery	-58% Drop (Price driven)	↓
Tech Focus	API in Beta	API used for 40% RTM Sell-side	↑

INVESTOR NOTES: * **Thesis Check:** The thesis of "Exchange-led Power Procurement" is entering a cyclical lull. IEX is a volume-leveraged play; high fuel costs are currently a "Supply Tax" that reduces traded units. * **The GNA Trigger:** Q3FY23 is the pivot point. If GNA implementation is delayed, IEX will continue to lose volume to bilateral/contingency markets. * **Valuation Cushion:** □650 Cr net cash and a 50%+ payout ratio provide a floor, but the multiple will only re-rate once DAM volume growth returns to >20%.

STOP HERE.