

We recommended BUY on IEX at Rs. 193/share in Sept 2020. Share Price touched Rs. 799/share in Oct'21. Following information was available on our website for you to make an informed decision to BUY the stock in your portfolio.

Indian Energy Exchange | Market Cap: 5,781 Cr

Date: 03-Sept-2020 | CMP 193.00 | PE 29x FY21

About Indian Energy Exchange Ltd

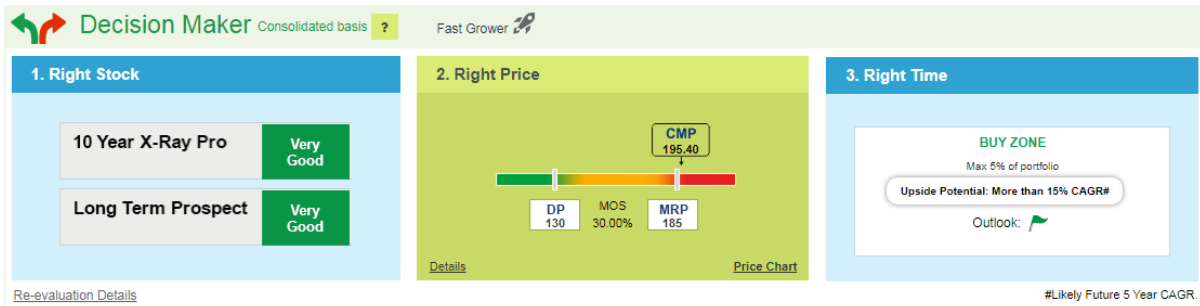
Indian Energy Exchange (IEX), is a power exchange which offers a digital platform for power trading just like stock exchanges (BSE&NSE); it enables efficient price discovery, provides speed and efficiency of trading power over short term.

IEX enjoys a virtual monopoly in the power exchange segment with 92% market share while its only competitor PXIL has the rest 8%.

Indian Energy Exchange Ltd Stock Analysis 2020

EXCLUSIVE										
Value Creation Index Colour Code Guide										
	Mar'11	Mar'12	Mar'13	Mar'14	Mar'15	Mar'16	Mar'17	Mar'18	Mar'19	Mar'20
Net Sales (Rs. Cr.)	36	60	121	153	145	175	199	230	254	257
Y-o-Y Gr. Rt.	-	67.6%	101.7%	26.4%	-5.2%	20.7%	13.7%	15.6%	10.4%	1.2%
Adjusted EPS (Rs.)	0.7	1.27	2.57	3.31	2.94	3.48	3.43	4.02	5.07	5.67
Y-o-Y Gr. Rt.	-	81.4%	102.4%	28.79%	-11.18%	18.37%	-1.44%	17.2%	26.1%	11.8%
Adjusted Net Profit	18.8	34.1	70.3	90.5	80	100	98.1	121	153	169
Net Op. Cash Flow (Rs. Cr.)	52	30	69.1	67.8	91.9	88.6	206	131	138	128
Debt to Cash Flow from Ops	0	0	0	0.04	0	0	0	0	0	0
CAGR	9 yrs	5 yrs	3 yrs	1 yr						
Net Sales	24.48%	12.13%	8.90%	1.18%						
Adjusted EPS	26.17%	14.04%	18.24%	11.83%						
Share Price				42.54%						
Key Financial Parameters	Mar'11	Mar'12	Mar'13	Mar'14	Mar'15	Mar'16	Mar'17	Mar'18	Mar'19	Mar'20
Return on Equity (%)		37.52	53.04	45.32	36.82	50.72	41.17	43.18	46.84	44.48
Operating Profit Margin (%)		67.9	72.92	75.16	71.91	71.52	72.22	80.22	79.83	79.55
Net Profit Margin (%)		56.85	57.96	59.29	55.36	57.2	49.37	52.64	60.29	65.8
Debt to Equity	0	0	0.01	0	0	0	0	0	0	0

As you can see, IEX enjoyed > 40% ROCE as it doesn't require large investment in assets to grow its business. Also, businesses like exchange are limited by competition as they own exchange license to operate into this business. Due to small market size, limited players might be interested to get into this business and obtaining new license is also difficult.



Our MRP showed Rs.185/share as fair price and Rs. 130 as Discounted Price. Upside Potential from this price was More than 15% CAGR

To verify, you could have referred to our Indian Energy Exchange's Price Tab which includes all Valuation ratios:

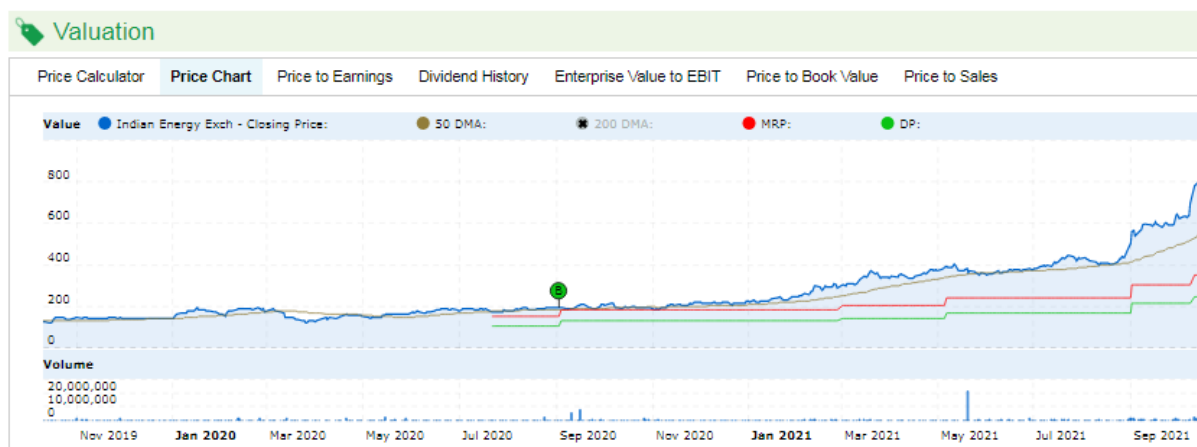
Though IEX was not cheap based on Price to Earnings ratio, it was fairly valued.



You did not have to look at Price/Earnings ratio but follow our MRP/DP.



You would have seen the price was at our MRP in September 2020. Since that point, the stock has grown 4x.



What would have given you more confidence on Indian Energy Exchange's future prospects?

Analyst note in Sep 2020

- IEX has large network effect with all power generators, industries and discoms as its trading members. Prominent industries being Textiles, metals, etc.
- IEX earns Rs. 4 paise per unit exchange between buyer and seller. Even if realizations of power unit changes depending on supply and demand, IEX gets to keep its fixed charge for every unit exchanged on its platform.
- Its sales grew at 12.2% CAGR while its profit has grown 12% CAGR over last 5 years. We expect rising volume can lead to faster profit growth than sales growth like it happened in last 3 years.
- Since FY10, the volume at power exchange grew by ~4X in electricity consumption during same period. We expect volume to grow by 2-2.5x in electricity consumption over next decade.
- IEX has launched, India's first gas exchange, Indian Gas Exchange (IGX) through its wholly owned subsidiary on 15th June, 2020. Gas exchange will add to its sales growth over next 2 years.
- We expect sales growth to be in the range of 10-12% over next 2 years while Profit growth of more than 15% CAGR due to operating leverage benefit (operating leverage: Higher sales with no increase in costs leads higher profit growth).
- We believe the latest products like Real Time Market (additional 15-20,000 mn units) (1st Month IEX clocked ~6,000 mn annualized run rate) and gas exchange will lead to sustainable sales growth.

Positives

- Government push on improving efficiency in power sector and 24x7 electricity for discoms
- Increasing volume in short term power market
- New products like Real Time market and new category like Gas Exchange bodes well for growth

Risks

- Fall in tariff charged by IEX
- No growth for short term power market.

What should investors do?

We recommend buying 3% allocation in IEX. IEX trades 29x 1 year forward P/E ratio with cash per share of ~RS 15/Share. In our opinion, IEX deserves to trade at premium valuation due to i) earning stability ii) high ROE from asset light and high operating leverage business.

Even if the company continues to trade at 29x forward P/E ratio, we believe one can earn 15% CAGR over next 3 years including dividend yield of 1-2%.

****All the above information/images/tools were available at the day of our recommendation on Indian Energy Exchange Ltd. We have not reproduced this any of the above.***

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