Twitter Thread by Tar ■

Tar ■
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Edelweiss on #IEX

■Launching new products in next six months
■No discom entering into new thermal power based PPA
■Enhancing customer experience via implementation of an intelligent digital mesh

IEX

POST-CONFERENCE NOTES

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Ideas create, values protect

KEY DATA

Rating	BUY
Sector relative	Outperformer
Price (INR)	407
12 month price target (INR)	500
Market cap (INR bn/USD bn)	122/1.6
Free float/Foreign ownership (%)	100.0/30.2
What's Changed	
Target Price	–
Rating/Risk Rating	–

INVESTMENT METRICS



FINANCIALS

(INR mn)

Year to March	FY20A	FY21A	FY22E	FY23E
Revenue	2,571	3,179	3,855	4,644
EBITDA	2,022	2,506	3,174	3,829
Adjusted profit	1,757	2,054	2,572	3,093
Diluted EPS (INR)	5.9	6.9	8.6	10.4
EPS growth (%)	7.8	16.8	25.2	20.2
RoAE (%)	46.4	44.9	44.5	45.3
P/E (x)	69.1	59.1	47.2	39.3
EV/EBITDA (x)	58.6	45.8	35.9	29.4
Dividend yield (%)	0.6	1.0	1.3	1.7

PRICE PERFORMANCE



Explore:

Financial model | Podcast | Corporate access | Video

Deepening spot power market

We hosted top management of IEX at our Edelweiss e-conference 2021 – Asia Pacific. Management indicated structural deepening of spot power market (GoI target 4x in 3 years) backed by policy makers, regulators and renewable markets. It is witnessing robust traction in all products and is slated to launch LDC, GDAM and derivatives products in six months, which is likely to increase IEX's canvas by 50BU. Led by network effect, integration of new technologies and customised applications, IEX is technologically ahead of competitors.

IEX is a big beneficiary of changing dynamics of the short-term power market, apart from benefits of Gas Exchange. Maintain 'BUY' with TP of INR500 and one of our top picks.

Key takeaways

- The biggest change in the power market over the past 2 years is GoI's vision and its support in deepening the spot power market, apart from regulatory support. While IEX's target on 25% spot power market mix over the next 3 years is aggressive, doubling of market to 12% is possible.
- Capacity market, integrated DAM market and ancillary market are the new policy initiatives being undertaken and could be new opportunities for IEX. Management indicated that while exchanges won't have major role in ancillary services apart from bids collection, GDAM has a huge market potential.
- In light of negative feedback from Discoms on MBED due to cash flow concerns and losing of right to recall bids, IEX expects delay in implementation.
- Open access customer's volume mix has dipped, but on absolute basis is still growing. With the advent of open access for Green Power (minimum size has been reduced by one tenth to 100KVA), industrial customers mix will increase.
- IEX's clear focus on agile technological platform (web-based integrated portal, integrated bid pipeline etc.) is likely to be key differentiator.

Outlook and valuations: Raising the energy bar; maintain 'BUY'

IEX's management exuded confidence about growth prospects powered by strong demand, enhanced merchant capacity base, new products and favourable regulatory & policy changes. Management indicated that there is more than 20-25GW of existing thermal capacities that can come to merchant market as no Discom is looking to tie long-term PPAs. Besides, IGX has started gaining volume traction on daily basis now though critical mass will be achieved only when all enablers are in place. Furthermore, IEX is focusing on taking customer experience to a new level via an intelligent digital mesh.

We believe spot market is on a roll and this is likely to continue as Discoms continue to trade more closely to real-time markets. With a near monopoly, IEX is set to benefit from the deepening spot power market. We maintain **'BUY/SO'**.

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