

## Indian Energy Exchange Limited

12<sup>th</sup> June 2023

### Market Coupling Threatens Moat of Leader in Industry

The Ministry of Power (MoP) recently issued a draft order regarding market coupling. In this order, MoP declared its intention to adopt market coupling and instructed the Central Electricity Regulatory Commission (CERC) to initiate the consultation process and finalize its implementation. This decision will have the effect of eroding the moat enjoyed by IEX. Market coupling will involve a third party consolidating all the bids/asks from the three power exchanges and determine a uniform market price that will apply across all exchanges. We have highlighted this issue as a key risk in our [initiating coverage report](#) on IEX.

#### Market Coupling

Within the framework of market coupling, the bids/asks originating from all power exchanges within the country will be consolidated and matched to determine a uniform Market Clearing Price (MCP). This approach is anticipated to contribute to the maintenance of affordable power tariffs in the nation over the long term.

Presently, MCPs vary across different power exchanges, IEX has established itself as a dominant player with 88%+ market share, benefitting from superior pricing discovery due to higher number of participants on exchange. However, with the implementation of market coupling, the authority to determine prices shifts to the market coupler, while IEX's role transforms into that of collecting bids and providing services to its customers, thereby resulting in the loss of its competitive advantage.

#### Caveat to current situation

- As part of the implementation process, the CERC will undertake stakeholder consultations. There exists a possibility that stakeholders may reject the implementation of market coupling, resulting in no impact on the competitive advantage of the IEX.
- Market coupling will be accompanied by Market-Based Economic Dispatch (MBED), which has the potential to nullify long-term Power Purchase Agreements (PPAs) and generate substantial volume growth on the power exchange. It is important to note that currently, ~87% of the total volume of electricity traded is conducted through long-term PPA contracts, while the power exchange holds only a modest market share of ~7-8%.
- Despite the advent of market coupling, the customer base of IEX remains loyal due to the superior services and diverse product offerings provided by the exchange. However, it should be acknowledged that the possibility of pricing wars could lead to customer migration to other platforms in the future.

#### View and Valuation

Considering the alterations in the fundamental factors of the business, we have revised our rating from BUY to UNDER REVIEW. Our stance will be adjusted based on the implementation of market coupling from the CERC.

## Under Review

CMP Rs. 125

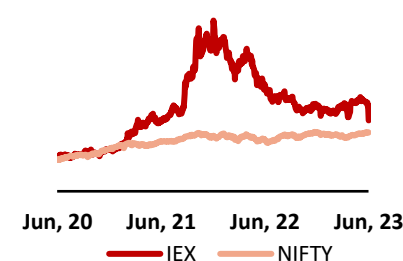
#### Company Data

MCAP (Rs. Mn)	111,110
O/S Shares (Mn)	892
52w High/Low	180 / 116
Face Value (in Rs.)	1
Liquidity (3M) (Rs. Mn)	1,054

#### Shareholding Pattern %

	Mar 23	Dec 22	Sept 22
Promoters	0.00	0.00	0.00
FIIIs	17.88	15.49	15.79
DIIIs	21.53	21.73	22.39
Non-Institutional	60.60	62.78	61.82

#### IEX vs Nifty



Source: Keynote Capitals Ltd.

## Rating Methodology

Rating	Criteria
BUY	Expected positive return of > 10% over 1-year horizon
NEUTRAL	Expected positive return of > 0% to < 10% over 1-year horizon
REDUCE	Expected return of < 0% to -10% over 1-year horizon
SELL	Expected to fall by >10% over 1-year horizon
NOT RATED (NR)/UNDER REVIEW (UR)/COVERAGE SUSPENDED (CS)	Not covered by Keynote Capitals Ltd/Rating & Fair value under Review/Keynote Capitals Ltd has suspended coverage

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