

09 April 2024

India | Equity Research | Sector Update

Power/Mining

TYTW #4: Electricity exchanges – growth returns amidst vortex of uncertainty

Electricity exchanges reported a growth print of 18% in FY24, after a sluggish growth of 2% in FY23. Exchanges volume grew by 2x of demand print of 8% in FY24. IEX reported a decline in market share of 85% (-200bps yoy) as the new exchanges HPX gained 400bps market share in the fiscal. However, the year was characterized by noises around market coupling. Note that the imposition of market coupling can erode the competitive advantages of incumbent. The regulator, directed by central government, initiated discussion on the raison d'etre of market coupling. The last word is yet to be spoken on the market coupling. As a result, the uncertainty will continue to plague the sector. Short term market is ~15% of total market and exchanges comprises 38% of total markets.

Sharp improvement in electricity volume growth at 16%

Electricity volumes on power exchanges witnessed a growth of 16% YoY to 120BU in FY24, after a mere 2% growth in FY23. Power electricity volumes have grown at 17% over FY17-FY23. IEX market share dropped to 85% in FY24 (vs 87% in FY23), PXIL market share dropped to 8% in FY24 (vs 10% in FY23), while HPX gained market share in FY24 to 7% (vs 3% in FY23). (Refer exhibit 1 and 2)

IEX electricity volumes up 13%; total volumes up 14%

IEX electricity volume grew 13% YoY to 102BU in FY24 which was largely led by 50% growth in TAM volumes to 14.8BU, 26% growth in RTM segment to 30BU; while DAM, GDAM and GTAM volumes grew 4%/-32%/-51% to 53.3BU/2.5BU/0.7BU respectively. REC volumes grew 26% YoY to 7.5BU and ESCERTS volumes grew >2x to 0.9BU thus total volumes grew 14% YoY to 110BU. (Refer exhibit 5)

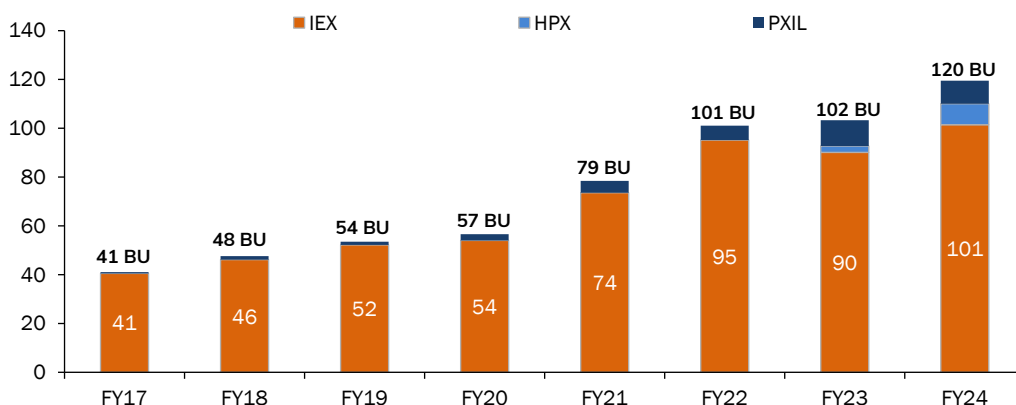
HPX and PXIL benefit too

While PXIL volumes are estimated to have fallen 10% YoY in FY24 to 9.4BU, HPX volume grew >3x YoY to 8.6BU. Note that PXIL and HPX have higher market share in TAM segment and benefited owing to transmission charge arbitrage available in TAM segment over DAM segment.

IEX unable to consolidate market share after new GNA regulations

After the implementation of GNA regulations in Oct-23, IEX witnessed improvement in market share to 96% in Dec-23, however the market share dropped to back 85% in Mar-24. (Refer exhibit 3)

Exhibit 1: Electricity volume trend at power exchanges



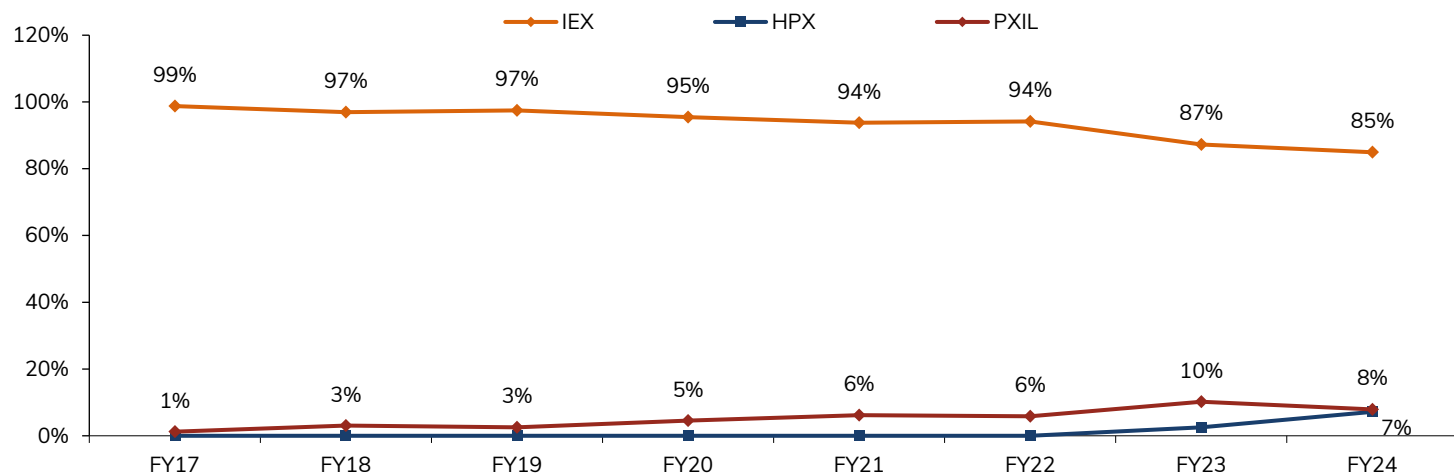
Source: I-Sec research, IEX, HPX, PXIL, CERC

Mohit Kumarkumar.mohit@icicisecurities.com
+91 22 6807 7419**Nikhil Abhyankar**

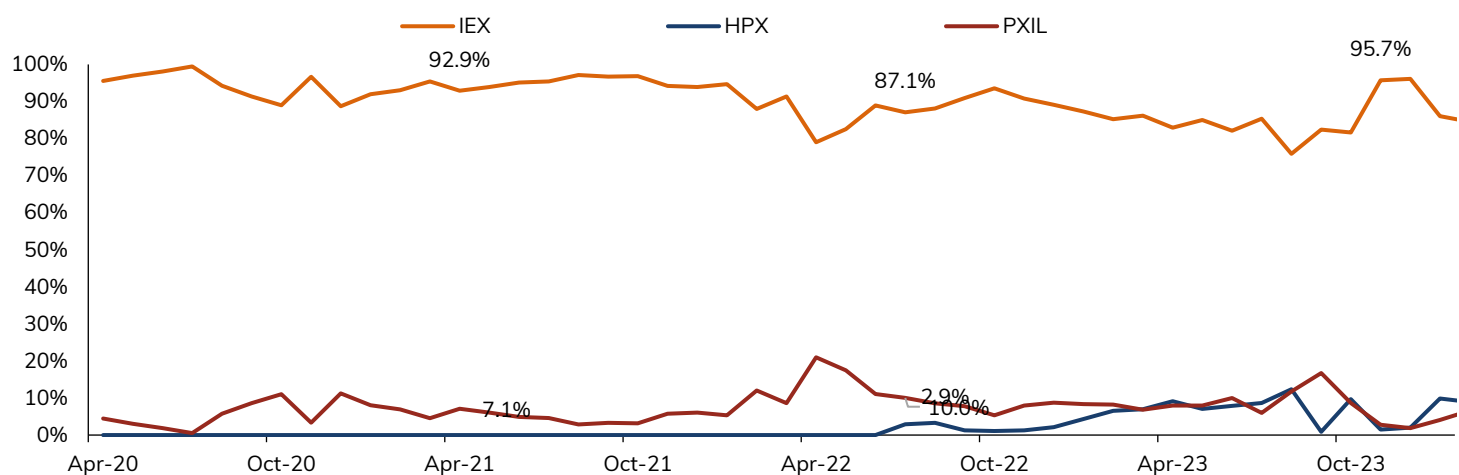
nikhil.abhyankar@icicisecurities.com

Nidhi Shah

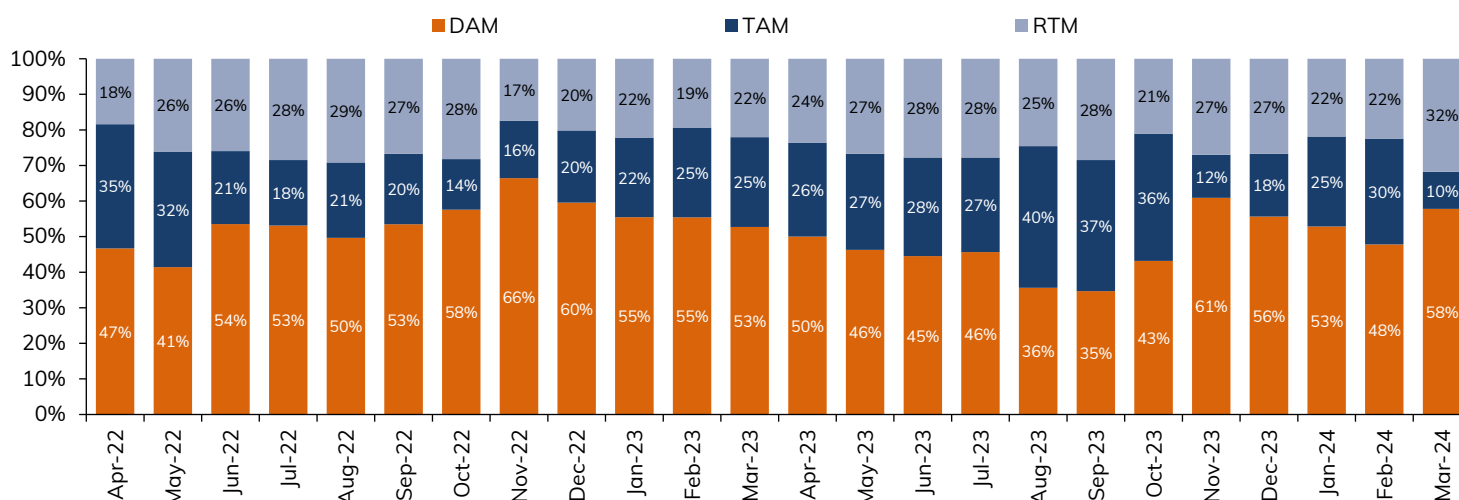
nidhi.shah@icicisecurities.com

Exhibit 2: Yearly market share trend (%)

Source: I-Sec research, IEX, HPX, PXIL, CERC

Exhibit 3: Monthly market share trend (%)

Source: I-Sec research, IEX, HPX, PXIL, CERC

Exhibit 4: Segment wise volumes trend across power exchanges (%)

Source: I-Sec research, IEX, HPX, PXIL, CERC

Exhibit 5: IEX segment wise volume growth over FY18-FY24

	FY18	FY19	FY20	FY21	FY22	FY23	FY24
Day Ahead Volumes (BU)	44.8	50.06	49.2	60.4	65.2	51.1	53.3
GDAM (BU)	0.0	0	0.0	0.0	0.9	3.7	2.5
TAM (BU)	1.4	2.105	4.8	3.0	5.1	9.9	14.8
GTAM (BU)	0.0	0	0.0	0.7	4.3	1.5	0.7
RTM (BU)	0.0	0	0.0	9.5	20.0	24.0	30.1
Electricity market (BU)	46.2	52.165	54.0	73.6	95.2	90.1	101.5
Sub - Total Growth (%)					29%	-5%	13%
REC (Volume)	9.3	8.9	6.029	0.6	6.1	6.0	7.5
ESCERT Volumes	0	0	0	0.0	0.3	0.4	0.9
Total (BU)	55.5	61.1	60.0	74.1	101.7	96.5	109.9
Growth (%) yoy		10%	-2%	24%	37%	-5%	14%

Source: I-Sec research, IEX, HPX, PXIL, CERC

Exhibit 6: Events around market coupling

Dates	Event around market coupling
Jun-23	Central government directed the regulator to consider implementation of market coupling
Aug-23	The regulator published staff paper and ask for comments
Oct-23	Stake holder submitted comments
Jan-24	Order to run shadow pilot for coupling of 3 exchanges and report its findings within 6 months

Source: I-Sec research

"In case of industry/sector reports or a report containing multiple stocks, the rating/recommendation for a particular stock may be based on the last released stock specific report for that company."

This report may be distributed in Singapore by ICICI Securities, Inc. (Singapore branch). Any recipients of this report in Singapore should contact ICICI Securities, Inc. (Singapore branch) in respect of any matters arising from, or in connection with, this report. The contact details of ICICI Securities, Inc. (Singapore branch) are as follows: Address: 10 Collyer Quay, #40-92 Ocean Financial Tower, Singapore - 049315, Tel: +65 6232 2451 and email: navneet_babbar@icicisecuritiesinc.com, Rishi_agrawal@icicisecuritiesinc.com.

"In case of eligible investors based in Japan, charges for brokerage services on execution of transactions do not in substance constitute charge for research reports and no charges are levied for providing research reports to such investors."

New I-Sec investment ratings (all ratings based on absolute return; All ratings and target price refers to 12-month performance horizon, unless mentioned otherwise)
BUY: >15% return; ADD: 5% to 15% return; HOLD: Negative 5% to Positive 5% return; REDUCE: Negative 5% to Negative 15% return; SELL: < negative 15% return

ANALYST CERTIFICATION

I/We, Mohit Kumar, MBA; Nikhil Abhyankar, Masters in Finance; Nidhi Shah, MBA; authors and the names subscribed to this report, hereby certify that all of the views expressed in this research report accurately reflect our views about the subject issuer(s) or securities. We also certify that no part of our compensation was, is, or will be directly or indirectly related to the specific recommendation(s) or view(s) in this report. Analysts are not registered as research analysts by FINRA and are not associated persons of the ICICI Securities Inc. It is also confirmed that above mentioned Analysts of this report have not received any compensation from the companies mentioned in the report in the preceding twelve months and do not serve as an officer, director or employee of the companies mentioned in the report.

Terms & conditions and other disclosures:

ICICI Securities Limited (ICICI Securities) is a full-service, integrated investment banking and is, inter alia, engaged in the business of stock broking and distribution of financial products. Registered Office Address: ICICI Venture House, Appasaheb Marathe Marg, Prabhadevi, Mumbai - 400 025. CIN: L67120MH1995PLC086241, Tel: (91 22) 6807 7100. ICICI Securities is Sebi registered stock broker, merchant banker, investment adviser, portfolio manager, Research Analyst and Alternative Investment Fund. ICICI Securities is registered with Insurance Regulatory Development Authority of India Limited (IRDAI) as a composite corporate agent and with PFRDA as a Point of Presence. ICICI Securities Limited Research Analyst SEBI Registration Number – INH000000990. ICICI Securities Limited SEBI Registration is INZ000183631 for stock broker. ICICI Securities AIF Trust's SEBI Registration number is IN/AIF3/23-24/1292 ICICI Securities is a subsidiary of ICICI Bank which is India's largest private sector bank and has its various subsidiaries engaged in businesses of housing finance, asset management, life insurance, general insurance, venture capital fund management, etc. ("associates"), the details in respect of which are available on www.icicibank.com.

ICICI Securities is one of the leading merchant bankers/ underwriters of securities and participate in virtually all securities trading markets in India. We and our associates might have investment banking and other business relationship with a significant percentage of companies covered by our Investment Research Department. ICICI Securities and its analysts, persons reporting to analysts and their relatives are generally prohibited from maintaining a financial interest in the securities or derivatives of any companies that the analysts cover.

Recommendation in reports based on technical and derivative analysis centre on studying charts of a stock's price movement, outstanding positions, trading volume etc as opposed to focusing on a company's fundamentals and, as such, may not match with the recommendation in fundamental reports. Investors may visit icicidirect.com to view the Fundamental and Technical Research Reports.

Our proprietary trading and investment businesses may make investment decisions that are inconsistent with the recommendations expressed herein.

ICICI Securities Limited has two independent equity research groups: Institutional Research and Retail Research. This report has been prepared by the Institutional Research. The views and opinions expressed in this document may or may not match or may be contrary with the views, estimates, rating, and target price of the Retail Research.

The information and opinions in this report have been prepared by ICICI Securities and are subject to change without any notice. The report and information contained herein is strictly confidential and meant solely for the selected recipient and may not be altered in any way, transmitted to, copied or distributed, in part or in whole, to any other person or to the media or reproduced in any form, without prior written consent of ICICI Securities. While we would endeavour to update the information herein on a reasonable basis, ICICI Securities is under no obligation to update or keep the information current. Also, there may be regulatory, compliance or other reasons that may prevent ICICI Securities from doing so. Non-rated securities indicate that rating on a particular security has been suspended temporarily and such suspension is in compliance with applicable regulations and/or ICICI Securities policies, in circumstances where ICICI Securities might be acting in an advisory capacity to this company, or in certain other circumstances. This report is based on information obtained from public sources and sources believed to be reliable, but no independent verification has been made nor is its accuracy or completeness guaranteed. This report and information herein is solely for informational purpose and shall not be used or considered as an offer document or solicitation of offer to buy or sell or subscribe for securities or other financial instruments. Though disseminated to all the customers simultaneously, not all customers may receive this report at the same time. ICICI Securities will not treat recipients as customers by virtue of their receiving this report. Nothing in this report constitutes investment, legal, accounting and tax advice or a representation that any investment or strategy is suitable or appropriate to your specific circumstances. The securities discussed and opinions expressed in this report may not be suitable for all investors, who must make their own investment decisions, based on their own investment objectives, financial positions and needs of specific recipient. This may not be taken in substitution for the exercise of independent judgment by any recipient. The recipient should independently evaluate the investment risks. The value and return on investment may vary because of changes in interest rates, foreign exchange rates or any other reason. ICICI Securities accepts no liabilities whatsoever for any loss or damage of any kind arising out of the use of this report. Past performance is not necessarily a guide to future performance. Investors are advised to see Risk Disclosure Document to understand the risks associated before investing in the securities markets. Actual results may differ materially from those set forth in projections. Forward-looking statements are not predictions and may be subject to change without notice.

ICICI Securities or its associates might have managed or co-managed public offering of securities for the subject company or might have been mandated by the subject company for any other assignment in the past twelve months.

ICICI Securities or its associates might have received any compensation from the companies mentioned in the report during the period preceding twelve months from the date of this report for services in respect of managing or co-managing public offerings, corporate finance, investment banking or merchant banking, brokerage services or other advisory service in a merger or specific transaction.

ICICI Securities or its associates might have received any compensation for products or services other than investment banking or merchant banking or brokerage services from the companies mentioned in the report in the past twelve months.

ICICI Securities encourages independence in research report preparation and strives to minimize conflict in preparation of research report. ICICI Securities or its associates or its analysts did not receive any compensation or other benefits from the companies mentioned in the report or third party in connection with preparation of the research report. Accordingly, neither ICICI Securities nor Research Analysts and their relatives have any material conflict of interest at the time of publication of this report.

Compensation of our Research Analysts is not based on any specific merchant banking, investment banking or brokerage service transactions.

ICICI Securities or its subsidiaries collectively or Research Analysts or their relatives do not own 1% or more of the equity securities of the Company mentioned in the report as of the last day of the month preceding the publication of the research report.

Since associates of ICICI Securities and ICICI Securities as a entity are engaged in various financial service businesses, they might have financial interests or actual/ beneficial ownership of one percent or more or other material conflict of interest in various companies including the subject company/companies mentioned in this report.

ICICI Securities may have issued other reports that are inconsistent with and reach different conclusion from the information presented in this report.

Neither the Research Analysts nor ICICI Securities have been engaged in market making activity for the companies mentioned in the report.

We submit that no material disciplinary action has been taken on ICICI Securities by any Regulatory Authority impacting Equity Research Analysis activities.

This report is not directed or intended for distribution to, or use by, any person or entity who is a citizen or resident of or located in any locality, state, country or other jurisdiction, where such distribution, publication, availability or use would be contrary to law, regulation or which would subject ICICI Securities and affiliates to any registration or licensing requirement within such jurisdiction. The securities described herein may or may not be eligible for sale in all jurisdictions or to certain category of investors. Persons in whose possession this document may come are required to inform themselves of and to observe such restriction.

This report has not been prepared by ICICI Securities, Inc. However, ICICI Securities, Inc. has reviewed the report and, in so far as it includes current or historical information, it is believed to be reliable, although its accuracy and completeness cannot be guaranteed.

Investment in securities market are subject to market risks. Read all the related documents carefully before investing.

Registration granted by SEBI and certification from NISM in no way guarantee performance of the intermediary or provide any assurance of returns to investors. None of the research recommendations promise or guarantee any assured, minimum or risk free return to the investors.

Name of the Compliance officer (Research Analyst): Mr. Atul Agrawal, Contact number: 022-40701000, **E-mail Address** : complianceofficer@icicisecurities.com

For any queries or grievances: [Mr. Prabodh Avadhoot](mailto:Mr.Prabodh.Avadhoot) Email address: headservicequality@icicidirect.com Contact Number: 18601231122
