



Dated: October 31, 2022

The Manager
BSE Limited
Corporate Relationship Department
Phiroze Jeejeebhoy Towers
Dalal Street
Mumbai- 400001
Scrip Code: 540750

The Manager
National Stock Exchange of India Ltd
Listing Department
Exchange Plaza, 5th Floor, Plot no. C/1
G Block, Bandra Kurla Complex
Bandra (E), Mumbai-400 051
Symbol: IEX

Sub: Transcript of the Earnings Conference call with analysts and investors held on October 21, 2022.

Dear Sir/Madam,

Pursuant to Regulation 30 of the SEBI (Listing Obligations and Disclosure Requirements) Regulations, 2015, please find the attached transcript of the earnings conference call held with analysts and investors on October 21, 2022, at 02:30 pm (IST) to discuss the financial results of the Company for the quarter and half year ended September 30, 2022.

The above information will also be made available on the website of the Company:
www.iexindia.com

You are requested to take the above information on record.

Thanking You

Yours faithfully,

For Indian Energy Exchange Limited

Vineet Harlalka
CFO, Company Secretary & Compliance Officer
Membership No. ACS-16264

Encl: as above

Indian Energy Exchange Ltd

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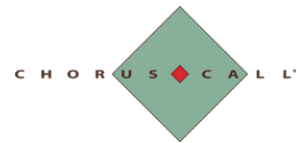
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“Indian Energy Exchange Limited
Q2 FY '23 Earnings Conference Call”

October 21, 2022



MANAGEMENT: **MR. SATYANARAYAN GOEL – CHAIRMAN AND
MANAGING DIRECTOR – INDIAN ENERGY EXCHANGE**
**MR. VINEET HARLALKA – CHIEF FINANCIAL
OFFICER – INDIAN ENERGY EXCHANGE**
**MR. ROHIT BAJAJ – HEAD BUSINESS
DEVELOPMENT – INDIAN ENERGY EXCHANGE**
**MS. APARNA GARG – HEAD INVESTOR RELATIONS,
AND CORPORATE COMMUNICATIONS – INDIAN
ENERGY EXCHANGE**

MODERATOR: **MR. SUMIT KISHORE – AXIS CAPITAL LIMITED**

Moderator: Good day, ladies, and gentlemen, and welcome to the Q2 FY '23 Earnings Conference Call of Indian Energy Exchange hosted by Axis Capital Limited. As a reminder, all participant lines will be in the listen-only mode. And there will be an opportunity for you to ask questions after the presentation concludes. Should you need assistance, during the conference call, please signal an operator by pressing star then zero on your touchtone phone. Please note that this conference is being recorded. I now hand the conference over to Mr. Sumit Kishore from Axis Capital Limited. Thank you, and over to you, sir.

Sumit Kishore: Thank you, Michelle. On behalf of Axis Capital, I'm pleased to welcome you all for the Indian Energy Exchange Q2 FY '23 Earnings Conference Call. We have with us the management team of IEX, which is represented by Mr. S.N. Goel, Chairman and Managing Director, Mr. Vineet Harlalka, CFO, Mr. Rohit Bajaj, Head Business Development, Ms. Aparna Garg, Head Investor Relations, and Corporate Communications

We will begin with the opening remarks from Mr. Goel, followed by an interactive Q&A session. Over to you, sir.

Satyanarayan Goel: Good afternoon, friends, and welcome to the Earnings Call for Quarter 2 of Financial Year 2023. Joining me today are Mr. Vineet Harlalka, our CFO and Company Secretary, Mr. Amit Kumar, Head of Market Operations and Product Development; Mr. Sangh Gautam, CTO; Mr. Samir Prakash, CHRO, Ms. Aparna Garg, Head of Investor Relations and Communications and Mr. Archit Gupta.

India recently surpassed UK to become the world's fifth largest economy and is now steadily heading towards becoming a 5 trillion-dollar economy. Further, the Indian economy continues to gain traction and is expected to become the third largest by the end of this decade.

On the quarterly economic update, despite the global headwinds, the Manufacturing PMI stood at 55.1 in September 2022 and 56.2 in August 2022. The Services PMI was 54.3 in September 2022, and 57.2 in August 2022. Services PMI indicated a 13th straight month of expansion in the month of August 2022. We witnessed a mild reduction in PMI in September as compared to August due to subdued increase in new orders and an increase in input costs. For FY'23, the Indian economy is expected to grow by 6.8% as per IMF.

During the quarter, the electricity consumption at 385BU registered a growth of 6% YoY. The peak demand at 200GW declined marginally by 1% YoY. The surge in overall consumption was driven by the increase in economic activities.

The total installed capacity as on September 30th stood at 408GW registering a growth of 5% YoY. The renewable energy capacity is steadily growing, and its contribution today stands at 165GW, which is 40% of the total capacity. It is evident that the nation is advancing towards a carbon neutral economy by 2070 and achieve 50% clean energy share by 2030.

Unfortunately, led by geo-political disruptions, the global energy crisis continued in this quarter resulting in high prices of e- auction coal, imported coal and gas. During the quarter, while the prices of e-auction coal witnessed a lower increase of 293% on YoY basis as compared to an increase of 376% YoY in Q1FY23, it was still a significant rise. This led to high cost of power generation for IPP's. Similarly, during the quarter, the imported coal prices (HBA Index) and the gas prices also continued to increase by 145% YoY and 168% YoY respectively, a lower increase as compared to Q1FY'23, but a significant increase on YoY basis. To manage the power crisis Government of India reduced supply of coal through e-auction and increased supply of coal to Gencos with long term PPAs. The e-auction coal quantity declined by 63% YoY

to 17MT in the first five months of FY23. As a result, there was increase in the e-auction prices, and decline in the availability of e-auction coal. Therefore, the input cost for Gencos increased significantly and forced some of them to shut their operations temporarily, leading to increase in prices on the exchange. The average Day Ahead Market price increased to Rs 5.40 per unit during the quarter as against Rs 4.14 in Q2 of FY'22. A large part of the sell volumes, i.e around 65% were contributed by discoms, which sold the additional power only after meeting their own demand.

We are now witnessing a gradual improvement in the coal situation in India as the Government is proactively taking various initiatives to curb the increasing input costs. During the quarter, the domestic coal production increased by 10% YoY and the dispatch to the energy sector grew by 11% YoY. Further, to cater the increasing demand and reduce dependency on imported coal, the Government envisions to further increase the domestic coal production.

The improving coal situation is leading to an increase in power generation thereby increase sell liquidity and reduce the electricity prices on the exchange from Rs 5.40/unit during the quarter to Rs 3.85/unit in the first 10 days of Oct 2022. However, despite the substantial reduction in prices, these prices still do not provide replacement opportunity for discoms, and are not encouraging open access purchases. Going forward, we expect further correction in prices on the Exchange which will result in an increase in volumes on the Exchanges.

As part of the government's thrust towards transforming the power sector in the country, several regulatory and policy reforms were implemented. Some of the noteworthy initiatives for this quarter are:

Late Payment Surcharge and Related Matters Rules 2022 – These rules have the provisions for rationalization of late payment surcharge. Further, generating companies are free to sell un-requisitioned power through Power Exchanges without obtaining any consent which will improve sell liquidity, whereas timely payments will ensure financial discipline in the sector.

Electricity (Amendment) Bill, 2022 – The Bill proposes to introduce multiple Discoms in a supply area which will promote private participation, better service, and improvement in financial health of distribution sector.

The MoP issued proposal on High Price Day Ahead Market (HP-DAM) segment which will facilitate generators with a high variable cost exceeding Rs. 12 per unit to participate in the exchange market. This will ensure availability of power during high demand period even at slightly higher cost. This market is expected to be launched by early next month.

Draft Electricity Amendment Rules 2005 – The proposal seeks procurement of renewable energy through a central pool mechanism. The proposal also includes the framing of the Resource Adequacy Guidelines by the central government to create opportunities for the introduction of capacity markets.

Energy Conservation Act Amendment Bill 2022 – This amendment aims to establish a carbon market in the country and has already been passed in the Lok Sabha.

CERC also notified GNA regulations during the quarter and issued draft sharing regulations and grid code. In this regard, hearings have already taken place. GNA is expected to be implemented by 1st Jan 2023. Implementation of GNA will be more conducive towards market development within the country.

All these initiatives will go a long way in the creation of a conducive environment for the power market in general and will contribute significantly towards deepening of the exchange market in the country.

Coming to IEX updates, during quarter 2 FY'23, IEX achieved 23,121MU of volume, of which 19,731MU and 1,476 MU were contributed by the conventional power market and the Green Market segments, respectively. The REC Market traded 19.14 lakh certificates, which equals to a volume of 1,914MU.

During the quarter total volumes declined by 11% YoY. However, during H1FY23 declined marginally by 2% with respect to 1H FY'22. The volumes declined on account of supply side disruptions.

On a standalone basis, due to a decline in traded volumes, revenue for Q2FY23 declined to Rs. 113.8 Cr. witnessing a de-growth of 6% YoY. The PAT declined by 10.3% YoY to Rs. 70.1 Cr. with a margin of 61.6%. However, revenue is flat and PAT increased by 2.1% on QoQ basis.

The timely interventions of the Indian government to raise the domestic production of coal has drastically improved the coal inventory. With a rationalization of power prices on the Exchange, the volumes are expected to improve, and we expect to end the fiscal year on a stronger note.

With customer centricity at the core of our operations, we continue to improve the customer experience on our platform, in addition to enabling flexibility, transparency and a competitive price discovery, we are constantly working towards designing innovative products and services to meet the varied requirements of our participants. In this regard, we continue to append our bouquet of products and I'm delighted to share with you all that we have successfully added daily contracts upto 90 days, weekly contracts for upto 12 weeks and monthly contracts

for upto a period of 3 months to our existing Longer Duration Contracts portfolio. Our members have shown significant interest in this segment, and once prices normalize, we expect to witness similar growth in LDC as we have seen in case of RTM and Green markets. With the interest shown by the participants, our new products now constitute nearly 40% of the total traded volume of electricity on the exchange.

Now, I will enumerate some of the developments at IGX during Q2 FY23.

During the quarter, despite a massive increase in LNG prices, from \$13.6 a year ago to \$36.5, IGX achieved a total volume of 59.38 lakh MMBtu, that is a volume growth of 501% YoY and 44% on QoQ basis. The profit after tax was recorded at Rs 2.42 Cr. witnessing a growth of 111% on QoQ basis.

I am pleased to share that all important stakeholders of the Gas sector are now clients or members of IGX.

IEX is well positioned to leverage the opportunities arising from massive transformation in the global and Indian energy sector and will continue to pursue opportunities in the present Power Markets and evaluate foray into adjacencies.

We will continue to fortify our position in existing products and launch new products such as Ancillary Market, and Capacity Markets.

Indian Gas Exchange, our first diversification initiative is growing strength to strength backed by the Government of India's ambition to increase the share of Gas from 6% to 15% by 2030 in the overall energy basket, thereby creating a huge potential for IGX in the years to come.

As we continue to explore other opportunities in the energy marketplace, we are inspired by the Government's idea of establishing a Coal

Exchange within the country. Similarly, enactment of the Energy Conservation Act 2022, which talks about creating a carbon market, provides us the opportunity to set up India's first Carbon Exchange. We have already appointed a consultant to study the feasibility of Carbon market.

As India moves towards carbon neutrality and harnesses vast amounts of renewable power to meet its growing appetite for energy, IEX will continue to make use of technology and innovation to facilitate the nation's energy transition.

Now, we shall commence the Q&A session. Thank you.

Moderator: Thank you, very much. We will now begin for the question-and-answer-session. Anyone who wishes to ask a question, may please press star and one on your touchtone phone. If you wish to remove yourself from the question queue, you may press star and two. Participants are requested to use handsets, while asking a question. Ladies and gentlemen, we will wait for a moment while the question queue assembles. The first question is from the line of Mohit Kumar from DAM Capital. Please go ahead.

Mohit Kumar: I wanted to understand, sir, our electricity volumes have fallen around 8 - 9% in the H1. Where do you see we might end up in FY '23? And also at the start of the year, you had guided for 8 - 9 billion units for REC. Do you think we can still achieve it?

Satyanarayan Goel: See, as far as electricity is concerned, you are aware that in the first quarter, the situation was quite challenging and it was not only in India, but world over. In fact, in India, the government comparatively managed the disruptions in an efficient manner. There was shortage of coal, both imported coal prices and e-auction prices were higher so the government decided to supply more coal to the GENCOs tied up under long-term PPAs, so there is no hue and cry by the states.

And as a result, the generation improved by the GENCOs under the PPA plant, but the supply in the market remained less. Because of this, the volumes in H1FY23 were lower. Now, coal supply has already improved. Inventory at the power plant is better than what it was last year. And as you are aware, in the second half of the year, coal production is almost 60% of the total year production, and power generation is comparatively lower in the second quarter. I'm sure availability of the coal in the e-auction market will improve.

As I told you, this year, the e-auction was only about 17 metric tonnes, which was 63% lower than last year. In the second half this position will improve and there will be more e-auction coal in the market. Rates also should come down, and we should see good volume growth in the second half of the fiscal year 2023.

It will be difficult to say anything about the numbers because numbers are dependent on the demand growth and participation of distribution companies, but looking at our first half year performance, I'm sure we should be able to at least achieve the numbers which we achieved in the second half of the last year or better than that even.

Mohit Kumar: Understood, sir. And also, can you give us a brief update on the timeline for new product launches and also the new business initiatives? Can you also share some details about the derivatives market as to when are we looking to launch it? And also, are we looking to launch it on our own or are we tying up with some other exchange for it?

Satyanarayan Goel: See, we have already launched the long-duration contracts for delivery of power up to three months. In these contracts, we are seeing a lot of interest from the buy side. But since generating companies are still not very sure about availability of coal, so the price quoted by them is slightly higher in the market and only one transaction has been accepted by the buyer at a price of about INR 5.70. I'm sure when the prices soften

in the market, the reverse auction transactions for delivery up to three months also will improve.

You also asked about the REC certificate markets. In this market also, we are seeing active participation now. Distribution companies particularly, they participate mostly in the last quarter to comply with RPO obligations. So, we expect a much better participation in the REC market.

Other new products we are going to launch include the HP-DAM market, which has been directed by the Government of India. Maybe by December, we will launch that market, and ancillary market, regulator has issued the regulations, but that market will be functional only after GNA and Grid codes are notified and implemented. So, maybe from 1st January '23, the ancillary markets should also be available through the exchange platform.

Mohit Kumar: And sir specifically for the derivatives contract, what is the timeline for it?

Satyanarayan Goel: Derivative contracts, earlier also I have mentioned about it. Derivatives will be regulated by SEBI and will be launched only on the SEBI regulated exchanges, such as MCX or NSE or BSE. We are actively working with them because we strongly believe that when derivatives are launched in the market, it will bring a lot of liquidity. The volatility in the price will also smoothen, and we have seen wherever there are derivatives, the volumes in the spot market increase because the participants have an option to hedge their position in the derivative market.

There is a joint working group consisting of members from CERC and SEBI. They are working on this and as we understand, this should start sometime in the month of December or January.

Moderator: Thank you, very much. The next question is from the line of Aniket Mittal from SBI Mutual Fund. Please go ahead.

Aniket Mittal: A few questions. Firstly, in your presentation, you have highlighted that there's been some shift in volume from the Day Ahead Market to Day Ahead Contingency Market. Just wanted to understand the reason for that? And what is the type of shift that has happened? And what would be our share in the Day Ahead Contingency Market right now?

Satyanarayan Goel: See, the reason for some volume shifting from DAM market to the Day-Ahead Contingency market is that in the Day-Ahead Market, buyers, and sellers both have to pay their transmission charges. Whereas in the Day-Ahead Contingency market, it is only either buyer or seller paying the transmission charges. So there is double charging of transmission charges in the Day-Ahead Market and there is arbitrage of almost about 30 – 40p available in the Day-Ahead Contingency Market. So some of the participants do transactions in the Day-Ahead Contingency Market to take advantage of that.

And our share in the Day-Ahead Contingency Market in the second quarter was almost about more than 50%. But as I told you in the past also that GNA is going to get implemented from 1st of January. And under the GNA, all these anomalies will be corrected and there will be a single charge where only buyers will have to pay the transmission charges. There is no transmission charges applicable for sellers.

In fact, for the Day-Ahead Market and the RTM market, the provisions are more favorable for these markets. I'm sure whatever transactions are presently happening in the Day-Ahead Contingency Market, they all will shift to the DAM market and this anomaly will get corrected.

Aniket Mittal: Just a clarification, apart from the transaction charges, has something in the market also changed? Because this quarter our DAC volumes have

also gone up very significantly. Is there some market condition that is also facilitating, let's say, to DAC from DAM?

Satyanarayan Goel: No. Except for this arbitrage, I don't think that there is any other reason.

Aniket Mittal: The other question that I had was on the RTM market. And I'm fairly surprised by the growth that you're seeing in the RTM market despite the higher prices. I think we're now doing close to almost 70 million to 75 million units per day. Just wanted to understand how do you see the potential for the RTM market? And despite the higher prices, why is the growth fundamentally coming over here? Is there just some sort of cannibalization that you think is happening from DAM or are there any other factors at play?

Satyanarayan Goel: Definitely, some cannibalization is also happening, because earlier participants were placing bid in the DAM market at a slightly higher price, and now they have the option to buy power in the RTM market also. So many of the participants are placing price sensitive bids. As a result, if their bid is not cleared then they participate in the RTM market. So some cannibalization has happened.

But RTM market is mainly improving because of the higher share of the renewable generation taking place in the country. And because of the high variability in the renewable generation, participation has increased. When we find that the renewable is highest, many of the state discoms start selling power and when wind generation starts going down, they start buying power.

RTM market, when a GENCO unit trips, earlier they had no option and had to do load shedding. But now they have option to buy power in the RTM market. So volume in the RTM market, I expect will continue to increase, may not be at this rate what has happened in the last two years, but definitely at a rate of 10 - 15%.

Aniket Mittal: Okay. That's very helpful. Just one last question, and this is, to understand more fundamentally, when I compare the average prices on the RTM versus DAM, the average prices on RTM are still lower than DAM market. Just wanted to understand the reasons behind that.

Satyanarayan Goel: Yes. See, seller is placing a bid at a slightly higher price in the DAM market. But if it is not cleared, then in RTM market, he has no other choice. So in the RTM market he is placing the bid at marginal cost. It is like a real-time market, seller has no other option and he will try to sell power at the minimum viable rate for him.

Aniket Mittal: Okay. So the seller is actually being more dominant than the buyer in the RTM in determining the price

Satyanarayan Goel: Earlier also if you see the trend, Exchange Day-Ahead Market rates always used to be lower than the bilateral market because Day-Ahead Market was nearer to the delivery. The transactions were happening in the Day-Ahead Market at a marginal cost. Now RTM market is further near to the actual delivery, so I think this is a natural phenomenon.

Aniket Mittal: Got it. If I can add one more question. In the RTM market, as per you on the sell side, how much of the sell side is coming from URS power?

Satyanarayan Goel: See in the first half of this year, because of the high demand and less supply, there was hardly any URS power. And most of the sell was by the distribution companies. Whatever surplus power they had under the PPA and beyond after meeting their own demand, they were selling power on the exchange platform. Also, Nepal imported about 400 megawatts through the RTM market.

Moderator: Thank you. The next question is from the line of Sumit Kishore from Axis Capital. Please go ahead.

Sumit Kishore: My first question is that in the first 20-odd days of October, the liquidity situation seems to have improved because sell bids were almost we see close to 70% higher than the purchase bids. And the prices on DAM and RTM have also come up quite sharply even on a year-on-year basis, they're down almost by 60%. Still, we see the October volumes so far down close to 20%, so far on a year-on-year basis? So at what price level do we really see industrial demand on exchanges coming back or volumes coming back, because I thought prices have come off quite significantly even on a year-on-year basis?

Satyanarayan Goel: See, if you look at last year, month of October, if you are comparing with that. Last year, month of October was a very high demand period and less availability of power. Distribution companies were very active on the exchange platform. Every day, we were getting buy bid far in excess of the sell bid. So the volumes were higher. This year, as I told you, the coal inventory and the power availability at the power station under the PPA is very good. So the distribution companies buy on the exchange platform, it's not a desperate buy. Some of the distribution companies are buying power to optimize their costs, or maybe during the evening hours, when the demand is higher.

October, as of now in comparison to last year, the volumes are lower, mainly because the participation of distribution companies is slightly lower.

But looking forward, I am sure when the availability of coal improves and prices go down further to maybe about INR 3.25 paisa to INR 3.40 paisa, there are three things which happen. One is that distribution companies, they meet their demand. Second is, they optimize their cost, and shut down their costly plants. And third is, it is viable even for the industrial consumers to buy power from the exchanges.

Sumit Kishore: Because coal inventory at power plants is actually better than what it was same time last year. It's almost nine days. But from IEX perspective, we should be tracking e-auction coal availability and e-auction premium to notified price?

Satyanarayan Goel: Actually, this 9-day inventory is for the PPA based power plant. If you look at the inventory of the IPPs, which are merchant plants, that situation is still not comfortable. As Coal India has already started increasing the quantum in the e-auction, I'm sure in the next 15 - 20 days, that situation should also improve.

Sumit Kishore: Okay. Another question, which is actually a follow-up from the last one. The shift to DAC from DAM and the arbitrage that you mentioned around transmission charge of 40-odd paisa, will that arbitrage completely go after GNA is implemented from 1st of January? Will it reduce significantly for that shift back to happen?

Satyanarayan Goel: Actually, in December 2020, the transmission charge sharing regulations, which were implemented, there was some anomaly in that. This issue was discussed with the regulator, and they have corrected this thing. So going forward, this anomaly is not going to be there and in fact, the regulations are more in favor of the Day-Ahead and RTM collective transactions.

In most of the occasions, distribution companies will not have to pay any transmission charges for purchase of power through the exchange. Because if the GNA plus TGNA is more than the total power purchased by them including the exchange, then there is no further charges to be paid. So these regulations are, in fact, more favorable to the exchange transactions.

Sumit Kishore: But this arbitrage will go once the GNA is implemented?

Satyanarayan Goel: 100%, this will go.

Sumit Kishore: Post 1st of January.

Satyanarayan Goel: What we're expecting is that it will get implemented from 1st of January, based on our present discussions with NLDC and CERC. But then, we are now doing all transactions through the National Open Access Registry, which is a software-based solution. There are some changes to be done in that. NLDC is already working on it. Hopefully, from 1st of January, it will get implemented.

Sumit Kishore: Okay. Otherwise, because of these operational issues, there will be some more delays before that can be implemented, is my understanding right?

Satyanarayan Goel: No. We are reasonably sure that it will get implemented from 1st of January because there is a lot of monitoring from CERC end also, and NLDC, I think, they have done a very significant progress as of now.

Sumit Kishore: And on a previous question, so INR 3.85 is the current exchange price for the Day-Ahead Market, you think that about INR 3.30 will be a reasonable level for the demand to come back on exchanges? Or so what price would really be attractive?

Satyanarayan Goel: What we have seen in the past, around INR 3.25 to INR 3.50. In this price range, there are many high-cost power plants and distribution companies when they shut down those high-cost power plants and start buying from the market.

Even in many of the states the open access consumers also, there is a breakeven at a price, which is around this. So their purchase also increases on the market. And for distribution companies, in any case, this is a lucrative price.

Sumit Kishore: Got it. Just one last question to clarify on quarterly results. If you look at the volume decline on a year-on-year basis in Q2 was about 11%, but revenue declined slightly higher, closer to 13%. So is that explained by

any rebates, which have been given by IEX or what explains that? And the other income is slightly on the higher side? Is that mainly because of treasury income? Or is there any clarification on this?

Satyanarayan Goel: Yes. Number one is, last year, there were no REC certificates. This year, there is some quantum of REC certificates in the volume. And in the REC certificate, we give rebates to the customers based on the volume. That is one reason. Second is, in the membership and client fees also, we've made some concessions this time because of the high price. Many of the trading companies were open access consumers and for open access consumers, the high prices were not viable, and they were not doing a good volume. So we allowed these incentives to many of the traders for a couple of months. I think primarily because of these two reasons, in percentage wise, there is a difference.

Sumit Kishore: And on other income, sir, is this mainly treasury income? Or is there any...

Satyanarayan Goel: Yes, mainly treasury income because the interest rates have gone up.

Moderator: Thank you. The next question is from the line of Devansh Nigotia from SIMPL. Please go ahead.

Devansh Nigotia: Just a follow-up to the temporary shift in volume from DAM to DAC. I just want to understand the change in transmission charges and then the arbitrage of INR 0.3 to INR 0.4, we mentioned that it was from December 2020, but the shift we are largely seeing is in last three months to four months or probably six months. So, I'm not able to understand why this change happened in only the last six months? And secondly, also, the uncertainty of availability that I mentioned in peak hours, but both DAM and DAC, both the trades happen a day before. So the uncertainty should be there in both of them, then why that is causing the shift to happen? If you can just share some perspective on this?

Satyanarayan Goel: Let me tell you one thing, if you look at the volume in the DAM, RTM and the DAC market, prior to December 2020, the DAC market was hardly 1% or 2% of the total market size. From December 2020, it started increasing. It increased to almost about 4%. In March this year, when we had shortage of power the distribution companies, they wanted to ensure availability of power, and that is the time when they shifted to the DAC market.

In many of the cases, they did off-market agreements and verbal understandings and then participated on the exchange platform in the DAC market and did those transactions. So from March, DAC volumes have started increasing. But then again, from the month of September, if you see, when our prices have started coming down, DAC volumes came down. And in October also, these are hardly about 7 - 8%.

Devansh Nigotia: Okay, but in Day Ahead Contingency also the trade happens just a day before the power is purchased, is that understanding correct?

Satyanarayan Goel: No, the point is that in Day Ahead Contingency, they are doing verbal understanding before the market hours and the generator is keeping power for him and then does transactions in the Day Ahead Contingency Market.

Devansh Nigotia: Okay. And sir, as you mentioned that REC, there is ESCerts and then, there will be the carbon market where carbon credits will be traded, so what will be the market platform for that to happen? Is that decided yet? And will IEX be the only one who will be able to trade it or there will be other players as well? Can you share some perspective here?

Satyanarayan Goel: See, Bureau of Energy Efficiency is a nodal agency for this, and they have issued a discussion paper also on this for creating a carbon market in the country. And the first step of that market is that they will create fungibility between REC and ESCerts and whatever spare volume of

this REC and ESCerts is available, which is unsold, maybe those will be converted into carbon credits and then participants can buy that.

Going forward in the next 2 - 3 years, they will create a mandatory carbon market, and they will create obligation for the business and different users who are generating CO₂ for the purpose of compliance that they have to reduce their carbon footprint or obtain these carbon credits from the market. That is going to be a market something like the REC or the ESCerts market.

The market model may be different, but then all exchanges will have the option to introduce those contracts. Since CERC is going to be the regulator, CERC regulated exchanges, which are three at present. All three of them will have the option to introduce those contracts.

And we are also talking about the voluntary carbon market. India has large options to trade carbon credits and a lot of buyers from the European countries, multinational, they want to buy carbon credits on a voluntary basis to comply with the ESG requirements to do their brand building. We see a lot of demand in that market also. And we are also exploring that option. That is going to be a different market. That is going to be a voluntary market whereas the mandatory market is basically what is going to be done by the government.

Devansh Nigotia: Okay. And sir, based on your discussion with SEBI and MCX regarding the launch of derivatives, what is the constraint, which is postponing the launch of these contracts? Because CERC has launched LDC. So what do you think what are the constraints for the derivatives to be launched?

Satyanarayan Goel: If you look at the different derivatives, which are there, derivatives for the different commodities on the MCX platform or the NCDEX platform, you don't have a spot market for any of those commodities. In case of electricity, we have a very vibrant electricity market. Regulator is concerned about the effect of the derivatives in the spot market. They

want to analyze from all angles, that there is no adverse impact of this on the spot market. And that is why there is some delay.

Moderator: The next question is from the line of Milind Karmarkar from Dalal & Broacha Stock Broking Private Limited. Please go ahead.

Milind Karmarkar: I have a couple of basic questions. So we have been talking about 4 to 5x volume growth because of PPAs moving away and trading volumes increasing in the coming years, let me put it that way. But if I see this year's volumes actually don't support them about it. So I just wanted to understand, has our thought process changed or we are reasonably confident that this type of volume growth will come in going forward?

Satyanarayan Goel: See you can't have that kind of volume growth, which we had seen in the last two years, every year. And we definitely get a year in between where the consolidation will happen.

Milind Karmarkar: No. Fair enough.

Satyanarayan Goel: This year was a very challenging year for all countries. And this was mainly because of the significant increase in the input costs. If you look at the generation last year from the imported coal-based power plants, and even many of the IPPs were importing coal and blending with the domestic coal and selling power in the exchange platform, but it is no more viable for them. I think situation has changed this year. And despite that, if we are able to maintain our volume at par with the last year on first half basis, I must say that it is a good job done. And in the coming second half, we definitely expect a better growth.

Milind Karmarkar: Okay. That's fine, but the basic thought process that over a longer period of time, PPAs will be abolished and most of the volumes will happen on the exchanges. What's your thought process on that? Has it changed? Or it still remains?

Satyanarayan Goel: That is a stated rule of the government, that distribution companies have the option to exit PPAs after 25 years. They can do that, but there are not many projects where the PPAs are 25 years old. Mostly the IPP stations started from 2007 - 2008. So, in many of the cases, the PPAs are still only about 14 - 15 years old and have another 10 more years to go. Some of the NTPC stations, yes, their PPA is over in one or two cases. In one of the cases, I think distribution companies have exercised the option to exit.

But in any case, there is growth in demand happening in the country at a rate of 6 - 7%. I think draft national electricity plan projection is around 7% growth in the demand for the next five years which is a very high number. If the demand increase continues to happen, I'm sure good part of the demand increase will come in the market.

Milind Karmarkar: And what about the new generating capacities which are coming in, let's say, renewables. In your opinion, they would directly come to the market or they would prefer to go the PPA route?

Satyanarayan Goel: See, as of now, most of the renewable capacity is under the PPA. But the distribution companies who have the PPA, we have seen that their participation on the exchange platform has started increasing now. Whenever they have more renewable power, above their requirement they participate in the market. So that is one.

Second is that at the price which they are able to get in the Day Ahead Market during the solar hours, many of that price is definitely more than INR 3.50 paisa for the last year and this year. So many of the IPPs are also now considering to set up merchant capacity. Maybe part merchant maybe 20 - 25% merchant and the balance PPA to comfort the lenders. So many of them are considering this option also.

Milind Karmarkar: Okay. My second question was that we have already seen two exchanges being set up, and I think one of them has already started business. So

with this, are you expecting some reduction in the share which we hold currently or a lower growth than what we have seen in the past few years?

Satyanarayan Goel: See, last two years in the electricity segment, we saw a growth of almost about 35%. So yes, this year, definitely is the year of consolidation and next year, it is difficult to talk about the growth number. But if the generation and demand growth happens at a rate of 7% to 8%, then I am sure exchange volumes should also grow at least at the rate of 20%.

Milind Karmarkar: Okay. But what about the competition from the new exchanges?

Satyanarayan Goel: I'm sure you all must be having the numbers. I need not talk about it.

Milind Karmarkar: One has not yet started. The second is just started. What's your take on that? That's what I'm asking.

Satyanarayan Goel: One exchange is already operational for the last 14 years. They started operations in November, we started our operations on 7th of July. I think you have the numbers; you can compare with that. I don't think it has made any impact on our business.

Milind Karmarkar: Okay. My last question was that this government has also talked about privatization of distribution companies across India. So just wanted to understand in which way would this impact the traded volumes on the exchanges?

Satyanarayan Goel: The distribution sector is financially inviable. It will bring viability in the power sectors. Today, the distribution company is losing money for every unit they supply and there is no incentive to supply more power. But if privatization happens and there is an improvement in the distribution sector, the loss reduction happen and if the companies start making some money out of the sale of power, then they will have incentives to supply more power.

I mean, in a country like India, maybe we're talking about 7%, 8% kind of GDP growth and our per capita consumption is only about 1,300, 1,400 units per year. World average is more than 3,500, which is huge. There is a very high potential for power demand growth which is not happening because there's no incentive for distribution companies to supply more power.

Moderator: Ladies and gentlemen, this would be the last question for today, which is from the line of Abhishek from Daydream Entertainment. Please go ahead.

Abhishek: I just had one question. Like we always talk about India's growth. We always talk about future is good. We are expanding in other countries and also a lot of other prospects. But I want to know if you can give us some guidelines and some detailed picture about what's going to happen and what's your plan and what is going right and what's not going right from your prospective?

Satyanarayan Goel: What is not going right is, I told you already. Presently, the fuel availability is not right. Less coal available in the market under the e-auction route. E-auction rates are higher. Exchange clearing price is higher, which is not good. For any market when the prices are higher means market is not doing well. And the same is the condition with us.

In our case, distribution companies not only purchase power to meet their demand, but they also purchase power to optimize their cost. In fact, in last 2 years, Andhra Pradesh state has reduced their power procurement cost by more than INR 1,000 crores, just by purchasing more power through the exchange because our rates were very competitive. This year, that kind of opportunity was not there for the distribution companies to optimize their costs.

Open access consumers, industrial consumers, large industries, earlier they were also active on the exchange platform, but when the rate is

high, which is more than their breakeven rate, they have no incentive to buy from the market. So I think because of all these things, this was a challenging year for us and volumes were less because of that.

Abhishek: Yes. I love the explanation. So one more question. Like there's a lot of negativities right now in terms of competition. I know you just explained that there's no competition in literal way, but a lot of negativity and especially FIIs, we see they're selling and share price also, we see a lot of negativity. Do you have any plan to account for that?

Satyanarayan Goel: See, I can't say anything about what FIIs are doing and what is happening in the share market. I can only talk about my business and how we are doing and what we hope to do in future.

Abhishek: Do you want to say anything about the competition because a lot of negativity about the competition but you said that the volume is dry, but it's not well communicated?

Satyanarayan Goel: I told you about the competition four months have passed, the third exchange also is in operation. And you can see the volume of the other two exchanges. And I'm sure these numbers will speak in the market.

Moderator: As that was the last question for today, I would now like to hand the conference back to Mr. Sumit Kishore for closing comments.

Sumit Kishore: Thanks a lot for giving us this opportunity to host the call. I wish team IEX and the audience on this call a very happy Diwali. So over to you for any closing comments.

Satyanarayan Goel: I would like to thank all of you for being part of this call today. Q2 has been a challenging quarter for all of us. Going forward, we expect reduction in input prices, lower prices on IEX, and optimization by discoms and Open Access consumers, thereby better volumes on IEX.



*Indian Energy Exchange Limited
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IEX, as always, remains committed to positively contributing towards the growth and sustainability of the Indian energy sector.

Thank you for being part of this call. I look forward to our interaction in the next earnings call. Thank You!

Moderator:

Thank you. On behalf of Axis Capital Limited, that concludes this conference. Thank you for joining us. And you may now disconnect your lines.