



Dated: February 19, 2019

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**The Manager
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Listing Department
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Scrip Code: BSE- 540750; NSE- IEX

**Sub: Transcript of the Conference call with analysts and investors relating to Financials
Results of the Company for the quarter ended December 31, 2018**

Dear Sir / Madam,

Please find enclosed herewith transcript of conference call with analyst/investors held on Monday, February 11, 2019 at 02:30 p.m.(IST) to discuss the financial results of the Company for the quarter ended December 31, 2018.

You are requested to take the above information on record.

Thanking You

Yours faithfully,

For **Indian Energy Exchange Limited**

**Vinct Harlalka
Company Secretary & Compliance Officer**



Encl: as above



“Indian Energy Exchange Q3 FY-2019 Earnings Conference Call”

February 11, 2019



MANAGEMENT: MR. S. N. GOEL – MANAGING DIRECTOR & CEO, INDIAN ENERGY EXCHANGE

MR. VINEET HARLALKA – CHIEF FINANCIAL OFFICER, INDIAN ENERGY EXCHANGE

MR. RAJESH MEDIRATTA – DIRECTOR – BUSINESS DEVELOPMENT, INDIAN ENERGY EXCHANGE

MR. AKHILESH AWASTHY – DIRECTOR – MARKET OPERATIONS,

INDIAN ENERGY EXCHANGE

MODERATOR: MS. PRANJAL JAIN – AXIS CAPITAL

Moderator: Ladies and gentlemen, good day and welcome to the Indian Energy Exchange Q3 FY 2019 earnings Conference Call hosted by Axis Capital Limited. As a reminder, all the participants' 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 '*' and then '0' on your touchtone phone. Please note that this conference is being recorded. I now hand the conference over to Ms. Pranjal Jain from Axis Capital. Thank you and over to you, Madam.

Pranjal Jain: Thanks Raymond, on behalf of Axis Capital, we welcome all the participants for the Q3 FY19 earnings conference call of Indian Energy Exchange. From the management, we have Mr. S. N. Goel – Managing Director & CEO, Mr. Vineet Harlalka – Chief Financial Officer and Mr. Rajesh Mediratta – Director, Business Development and Mr. Akhilesh Awasthy – Director, Market Operations. The call will be initiated with brief management discussion on the earnings performance followed by a Q&A session. We now open the floor for the opening remarks from the management, over to you Mr. Goel.

S. N. Goel: Thank you Pranjal and good afternoon to all of you. To begin with, I would like to share highlights of the quarter and the nine months ending 31st December, 2018.

During nine months FY19, the increase in electricity demand in the country was very well reflected on the Exchange. All India generation increased by 6.5%, from 980 billion units to 1044 billion units and IEX Electricity trade volume increased by 20%.

Electricity volume traded for FY19 nine months was 42 billion units with an increase of 20% on year to year basis and for quarter-3, it was 14 billion units with an increase of 20% on year to year basis. We achieved highest volume of 306 million units on 28th of September, 2018 which was 8% of the country's total generation on that day. During this year, on 27 occasions we traded volume of more than 200 MUs per day. On a daily average basis about 210 MU got traded in October 2018, the highest during any of the months so far. The buy bid on IEX increased by 22% during the nine months' period as compared to the same period of last year. Almost all DISCOMs are active on Exchange platform and have contributed 80% of IEX volume. We operated in congestion free market, volume curtailment due to congestion was only about 0.68%. The average market clearing price for nine months was Rs.

4.08 per unit, with an increase of 28% as compared to corresponding price of Rs. 3.18 in the last year for the nine months.

Today IEX has dominant market share of more than 98% in the traded volume of electricity and we have a diverse registered participant base of more than 6400. Country has achieved almost 100% electrification of the rural areas under Saubhagya Scheme which will further contribute to increase in the demand in the country and volume on the exchange platform.

As per the interim budget, income tax applicable for FY20 for IEX will be 25% plus cess.

Further Government and regulator have taken many initiatives to deepen the electricity market. In the month of January, government of India has issued guidelines for cross border trade of electricity through Power Exchanges and with this now we can do trading with Bangladesh, Nepal, Bhutan, Myanmar with whom we have electrical connectivity. CERC is in the process of issuing the regulations, after which trading can start. Government of India had constituted a High-Power Committee chaired by Cabinet Secretary – Mr. P. K. Sinha to look into stress power assets. Along with other recommendations Committee has also recommended allocation of coal for the Merchant Power Plants for sale of power in the market. These recommendations are being considered by empowered group of Ministers. In the month of December, CERC has issued a revised DSM regulation under which the DSM price at 50 Hertz is linked to the Exchange's daily average clearing price. With this, the over-drawal from the system is expected to be reduced. Distribution companies should do advance planning to purchase power. Since IEX provides the next best option so it is expected that a part of this over-drawal will shift on the exchange platform. CERC has also issued regulations for establishment of National Open Access Registry to facilitate online open access clearance, this will reduce the gate closure time and also subsequently will facilitate operation of real time market in the country. CERC has also issued discussion papers regarding real time electricity markets, ancillary service markets and market based economic dispatch through Power Exchanges.

Under market based economic dispatch, regulator intent to schedule, 100% generation through power exchange. These initiatives indicate positive intent of the Government and the regulator to achieve efficiency

and economy in Power Sector by bringing more liquidity on Exchange platform.

IEX has also taken up new initiatives, we launched IEX GST portal. You may be aware that electricity is exempted from GST but it is applicable on REC & ESCert transaction. To facilitate GST transaction on sale and purchase of REC on IEX, we have launched this GST portal. And then we have also launched now unified trading system providing single window for all our members to trade in different segments like Day Ahead Market, Term ahead market, REC and ESCerts. IEX has also filed petition with the CERC for approval of New Bid (Order) Types in Day Ahead Market to provide more flexibility to market participant. We have also filed petition with CERC for Green Term Ahead market to facilitate trading of renewable power on the Exchange platform.

Now moving to our financial highlights for quarter 3, 2019, total revenue was Rs. 76.92 crore, an increase of 10% with respect to Rs. 70.21 crore in Q3 of FY18. Total expenses for Q3 was Rs. 17.61 crore with increase of 15% with respect to Rs. 15.26 crore in Q3 of FY18. EBITDA margin during Q3 was 81% with respect to 83% in Q3 of FY18. Profit after Tax for Q3, FY19 was Rs. 42.62 crore with increase of 18% with respect to corresponding period of last year.

For 9 months, FY19 total revenue for 9 months was Rs. 226.36 crore, an increase of 17% with respect to Rs. 193.21 crore in the 9 months of FY18. Total expense for 9 months of FY19 was Rs. 47.61 crore with increase of 15% with respect to Rs. 41.45 crore in 9 months of FY18. EBITDA margin during 9 months of FY19 was 83% in comparison to it was 82% during the corresponding period of last year. Profit after Tax for the 9-month period was Rs. 127.18 crore with increase of 27% with respect to Rs. 100.24 crore in corresponding 9 months' period of last year.

Now we can have questions please.

Moderator: Thank you very much. We will now begin with the question and answer session. The first question is from the line of Rahul Murkya from Jefferies. Please go ahead.

Rahul Murkya: First thing I wanted to ask, is there any one-off in Other Income and Other Expenses for the quarter?

S. N. Goel: Yes, in quarter 3 our treasury income was quite high and I will request Mr. Vineet Harlalka to explain that.

Vineet Harlalka: In Q3, the treasury income was quite good because if you see the overall interest rates scenario, the interest rates came down significantly during the last 2 months November and December, which resulted in a good return on the long-term investments of the company.

There were some onetime expenses on the consultancy fees, Buyback related cost etc. So, these two-three items were there on the expense side, and the other income gain was mainly because of the treasury gain.

Rahul Murkya: Okay, so for these onetime expenses that you had mentioned because of consultancy and training cost, can you just quantify how much it would be and this was only one time, this is not going to repeat in the future quarters, or it would be dependent on.

Vineet Harlalka: IEX organizes the training courses for its members and participants, and recovers costs from them. Amount received is shown as revenue whereas amount spent on training is shown as expenditure. During this quarter approximately Rs. 57 lakhs were on the training revenue side against which the cost incurred was Rs. 65 lakhs.

S. N. Goel: Responding to your question of onetime expenses, this year the onetime expenses in the 9-month were almost about Rs. 6.30 crore which are not routine expenses and out of this we expect that next year we may have about Rs. 3 crore kind of expenses. One-time expense includes professional fees for the executive search firm because we did some senior level hiring in the company and we did the buyback of shares, splitting of shares, 10-year celebration, so these kinds of expenses are onetime, then we had. I think going forward these onetime expenses will be reduced by almost about Rs. 3 crores.

Rahul Murkya: Okay, sir you mentioned Rs. 6.30 crore were onetime in the 9 month expenses?

S. N. Goel: Yes

Rahul Murkya: And how much would be in the 3rd quarter of this Rs. 6.30 crore?

S. N. Goel: Rs. 2.46 crore.

- Rahul Murkya:** And this Rs. 2.46 crore includes the training fees as well, the training cost and onetime consultancy income?
- S. N. Goel:** No.
- Rahul Murkya:** And what would be the Other Income which we have received because of this training cost, which would have come in the Other Income, how much it would have been?
- S. N. Goel:** Rs. 57 lakhs. Training is recognized as an income and also whatever we are spending that is recognized as an expense. So, on training part of it, on net basis, there is hardly any impact of that.
- Rahul Murkya:** Okay, so net basis there is no impact?
- S. N. Goel:** Yes, there is no impact.
- Rahul Murkya:** Okay and can you just give me how much would be State share and Private open access and what are the key states in the quarter 3 which have seen sharp increased or which were the 3 few key states which have seen, which have traded high volumes in the quarter 3?
- S. N. Goel:** Distribution companies have become very active on the exchange platform. Almost all distribution companies in the country are now trading on the exchange platform and 80% of the electricity volumes came from distribution companies. Top 5 states which bought power through exchange platform are Gujarat, Maharashtra, Bihar, West Bengal and Telangana. Also, Uttarakhand, J&K, Andhra Pradesh, and all other states are also actively trading on the exchange platform now.
- Moderator:** Thank you. The next question is from Ravi Srikanth from Muthoot Family. Please go ahead.
- Ravi Srikanth:** I just had two small questions, one is I think in the opening remarks you briefly mentioned about the linking of the DSM price to the exchange price but if I look at the volume data for January volumes are by and large stagnant, they have not gone up much year on year, if you can just comment on that. My second question is on a recent article that the CERC had sort of making it mandatory for all the power to be traded on spot exchanges, so how would that impact IEX, so what is the thought process behind that?

- S. N. Goel:** Responding to your first question, the revised DSM regulation are applicable from 1st January,19. We are carrying out analysis on over-drawal by different states and impact of UI for the month of January19 because of the linking UI price with exchange price. I think states will need some time to take corrective action, hence impact of volume shift from over-drawl to exchange will be visible in next 2-3 months only. Responding to your second question on CERC's market based economic dispatch discussion paper. To achieve efficiency in scheduling of generation in the country, the paper stipulates that 100% generation will be sold and bought through the exchange, including the power tied up under long term PPA and state and central generation. This is a discussion paper at the moment. To implement this kind of concept the consent of the states and generators is required and also a financial settlement system to implement this needs to be evolved. I would only say this is a discussion paper at the moment, and it will be difficult to implement in the near future but this definitely indicates the intent of the regulator that in what direction the regulator is thinking about and what are his view about the market.
- Ravi Srikanth:** If I could just squeeze in one more point, any update on the gas exchange?
- S. N. Goel:** I think government is now in the election mode, so there is no news from the government side on Gas Exchange. Gas exchange requires enablers like creating a system operator and separating supply and the transportation function. I think there is no talk on that as of now. and maybe some activities will happen on this only after the election.
- Moderator:** Thank you. The next question is from Mohit Kumar from IDFC. Please go ahead.
- Mohit Kumar:** You just spoke about the fact that the CERC is in last stages to approve cross border regulations. Is it possible to give some sense of timeline, you know when you expect this to happen in Q1 FY20 is it likely?
- S. N. Goel:** Yes, as per our understanding, CERC is in the process of finalization of the regulations and may issue the same in this month. Once these regulations are issued, Central Electricity Authority will have to issue the procedure. It is not a very elaborate procedure, so I think in FY20 we should this cross border transaction through the exchange.

Mohit Kumar: Secondly, on Open Access Volumes, it has completely gone away despite of prices coming down, I do not think in this volume is picking up you know, of course in FY18, it was nearly 33%, FY19 it has come down to 20%, so how this you will make sure that this volume which was sticky or from a sticky it comes back to us in going forward in the near future.

S. N. Goel: Open Access Volume is price sensitive. In 2016-2017, our clearing price was Rs. 2.40, open access volume was quite high. In 2017-2018, with increase in clearing price to Rs. 3.25/unit, open access volume decreased. This year clearing price is Rs. 4.08/unit, the volume has gone down further because breakeven rate in most of the States for OA consumers is less than Rs. 3.00/unit. When exchange clearing price is above Rs. 3/unit, only Open Access consumers, there from 3-4 States will participate, where the breakeven rate is around Rs. 3.50/unit. Additionally, I will Like to add that the State Regulatory Commissions have specified high cross subsidy surcharge and high Open Access charges and also exchange clearing prices have increased because merchant generators are getting less coal at high prices through e-auction route. Imported coal rates are also higher as compared to prices two year back. Impact of all these factors are contributing to decrease in Open Access Volume. If rates come down to Rs. 2.50/unit, I am sure Open Access Volume will again pick up but that is unlikely in near future.

Mohit Kumar: One last question Sir. There was a dip in volume you know significantly in January and in the last ten days of February, how do you see the volume panning in Q4 and Q1 FY20 given that election also is there but you do not see that impact on our volumes?

S. N. Goel: Typically, in the month of December and January the volumes are lower because of winter. The demand is lower in the country during winter months but this year the winters are slightly prolonged, in the month of February also we are getting rains and temperature is low so that is why the demand has not picked up and exchange volume is also low. In the next ten days, as per the weather forecast, the temperature will start rising increasing demand and volume on the exchange platform. The elections will further increase the demand. Almost 100% electrification is done in the rural areas so we will also start seeing impact of this. Hence, it is expected that the month of March should be a very good month.

Rajesh Mediratta: Mohit, I will add to what Sir said that this year actually in February normally the demand averages to 155 GW and currently it is about 145 GW, so 10,000 MW is already down because of weather conditions. So that is the main contributor to lower volumes in the market.

Moderator: Thank you. The next question is from Vikas Jain an Individual Investor. Please go ahead.

Vikas Jain: I have three questions, first maybe apt for Mr. Harlalka. Sir what is the treasury income for the nine months in absolute figure?

Vineet Harlalka: It is Rs. 28 crores.

Vikas Jain: It is Rs. 28 crores as compared to Rs. 25.6 crore last year 12 months?

Vineet Harlalka: Yes.

Vikas Jain: My second question is about the cross border that we have been talking about, so just to gain understanding on that. So does that mean that once that cross border functionality gets approved from CERC and even to the similar kind of activities in our neighboring countries like Bhutan, Nepal and Bangladesh, is that my understanding correct?

S.N.Goel: See once the regulations are issued by CERC then there has to be a procedure issued by Central electricity Authority. The trading will happen on the IEX platform, the procedure will stipulate how foreign entities will submit their bids, upto what quantum of power neighboring countries can buy or sell because these things will be limited by the transmission capacity which has been created between these countries. So once these procedures are issued, the transaction will start.

Vikas Jain: In terms of price competitiveness, is India more competitive than neighboring countries, Sir?

S.N.Goel: Yes, our prices are definitely much more competitive than the cost of generation in case of Bangladesh and Nepal.

Vikas Jain: And it is still a power deficit country to a large extent?

S.N.Goel: They are significantly power deficit.

Vikas Jain: My last question is about few outlook statements that you had mentioned in our FY 17-18 about implementation of smart order entry options,

market watch functionality and smart power procurement, so just wanted to gain an understanding of how far we have proceeded and if the real benefit of these implementation has been started after getting into our operating performance by now?

S.N.Goel:

Distribution companies have to pay the capacity charge and energy charge for the quantum of energy scheduled from power plants under long term contracts. In case, the energy charge is Rs. 3.25/unit and the exchange clearing price simultaneously is Rs. 3/unit, then the distribution company under smart power procurement can back down Rs. 3.25/unit power and buy power from the exchange at Rs. 3 saving Rs. 0.25/unit. This concept is applicable provided exchange clearing price is lower than the variable cost of the power stations under long term contract with the state distribution companies. On this concept we already had discussions with 7-8 distribution companies and all of them have appreciated the Smart Power Procurement software. Most of the DISCOMs are aware about it. In fact couple of them have already started using it. But because average clearing price was Rs. 4/ unit during the current year, the opportunity for replacement of high variable cost power was lower. These days during the night hours, when the rate is around Rs. 2-2.25/unit, there is opportunity to replace costly power and some of the DISCOMS are replacing it.

Moderator:

Thank you. Next question is from Dhruv Muchal from Motilal Oswal.

Dhruv Muchal:

Sir recently we have seen a paper by CERC where it is asking POSOCO to do the national merit order, for at least the CERC regulated plants. So, is this not a step in the direction, corresponding to the recent discussion paper moving all India to the national merit order? Can the process be accelerated if these initial steps get a success by POSOCO?

S.N.Goel:

This order of CERC is to achieve merit order by POSOCO only for the central generating stations where the capacity is limited. Secondly, the merit order will be done during the last hour of the scheduling process. The distribution companies and generators have the right to revise the schedule upto 1 hour before the delivery and in that last one hour, if there is an optimization opportunity, POSOCO will do that. It has been issued with a view to see whether it is really possible to implement this kind of system and what will be the net effect of this. POSOCO has to come out with a detailed procedure for same and then start implementing from 1st April,2019 and see effect of that. If there is a positive impact, yes maybe POSOCO will think about it, too early to say anything on that.

Dhruv Muchal: Just to understand conceptually, when you say gate closure what does that mean? what is the current gate closure for sourcing power by DISCOM, is it one hour?

S.N.Goel: Today distribution companies under a long term PPA can revise the schedule upto one hour before the time of delivery. So under the long term contracts the gate closure is one hour, after one-hour schedule cannot be revised. If DISCOM want to buy power from exchange, they will have to buy it 3 hours in advance, the gate closure time for exchange transactions is 3 hours.

Dhruv Muchal: So, is there a plan to reduce these 3 hours to 1 hour for even the exchanges?

S.N.Goel: Yes, CERC has issued regulations for starting National Open Access Registry; this will facilitate online Open Access clearance between the State SLDC, regional RLDCs and the NLDC and if that happens , then it will be possible to reduce this gate closure time to maybe 1 hour, even half an hour also going forward. Today Gate closure is 3 hours because we have to take clearance from RLDCs and SLDCs which takes time.

Dhruv Muchal: Once this National Open Access Registry is implemented.

S.N.Goel: Yes.

Moderator: Thank you. Next question is from Ms. Pranjal Jain from Axis Capital. Please go ahead.

Pranjal Jain: Sir just regarding these renewable certificates; in Q3 we have seen a sharp decline, but we have seen our transactions revenue from REC is more or less flat that we understand is primarily because we have withdrawn incentives. So in that regard, wanted to understand, what is our outlook on REC volumes going forward, like for FY20 and FY21 and what would be our effective transaction margin on the same?

S.N.Goel: FY18 our REC volume was about 94 lakh because lot of inventory was available This year for first five to six months the buy was quite strong and available inventory was sold out. As a result, in quarter 3 the volumes were very low, inspite of high buy bids, the sale bids were not there. only 11.97 lakh RECs were sold. Going forward also, it all depends on how many number of RECs are issued and available for sale. As per our estimate, in a year almost about 60 -70 lakh REC are going

to be issued . So the total transaction in the REC market will be limited to that only because there is no inventory at the moment.

Pranjal Jain: Okay and on the transaction margin, although we used to give some discount.

S.N.Goel: Earlier there was lot of inventory, so to promote buyers to participate in this market, we were not charging any transaction fees from the buyers but this year from April we started charging Rs. 10 and from October we have started charging the full transaction fees of Rs. 20 from buyer also. At present, we are charging Rs. 20 from both buyer and seller.

Moderator: Thank you. As there are no further questions, I would like to hand the conference back to the management team for closing comments.

S.N.Goel: This quarter was good. During nine months' period also we saw good volume growth. With upcoming elections, I am sure the volume will pick up. Let us hope for the best. Thank you.

Moderator: Sure, thank you very much. On behalf of Axis Capital that concludes the conference. Thank you for joining us, Ladies and Gentlemen you may now disconnect your lines.