Indian Energy Exchange | ADD

Coupling remains uncertain

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The matter of CERC's *suo moto* instructions to implement market coupling beginning Jan'26 remains *sub judice*. During the two hearings at APTEL so far, appellant IEX has argued—citing ulterior motives for circular, incorrect methodology (regulations)—against 'so-called monopoly', adding that price benefits from coupling are negligible. We believe development of more exchanges is imperative for the success of new trading mechanisms such as derivatives, peer-to-peer trading and virtual PPAs, which are critical to the energy transition journey. That said, we reckon coupling is not likely before Dec'27 in light of the challenges to its implementation. Given IEX's technological prowess and organisational capabilities, we estimate its market share may taper from 75% in FY28E to 60% in FY30E. New initiatives can increase the share of short-term power from 7%+ presently to 10%+ by FY30E. All in all, given the likely volatility in near term, we maintain 'ADD' on IEX with a TP of INR 160 on a valuation rollover to FY30E discounted back by three years.

- **Power market coupling:** In Jul'25, the CERC issued *suo moto* instructions to implement market coupling of the Day-Ahead Market (DAM) of the power exchanges in a round-robin mode by Jan'26. Under the round-robin mode, power exchanges may act as the Market Coupling Operator (MCO) on a rotational basis, with Grid-India being the fourth MCO for backup and audit purposes (HOLD on, it's not so soon, it's not so doom).
- **Implementation process:** The Commission was to initiate the consultative process with Grid-India and power exchanges on various operational and procedural aspects for implementing coupling of DAM, and also propose the regulatory amendments thereof.
- **IEX appeals for review of order:** In Aug'25, IEX appealed to APTEL for a review. Meanwhile, SEBI issued an interim order in Oct'25 *prima facie* finding potential insider trading by certain entities and a few officials of the CERC pertaining to trade of IEX shares exploiting UPSI (decision on coupling). During the two hearings so far—28 Nov'25 and 6 Jan'26—the Appellant has argued three points:
  - The order was passed not as prelude to any regulation, but to affect the stock market.
  - The methodology (regulations) adopted to break IEX's monopoly is not correct. US antitrust laws to break corporate monopolies are used in different contexts.
  - The CERC order itself quoted the outcome of a study conducted by Grid India concluding "negligible impact on price [which is the objective of coupling]"
- **JM view:** The next hearing is on Friday, 9 Jan'26. Development of more exchanges is imperative for the success of new trading mechanisms such as derivatives, peer-to-peer trading and Virtual PPAs, which are important in the energy transition journey. However, we reckon that the coupling is not likely before Dec'27 in light of the implementation challenges. Given IEX's technological prowess and organisational capabilities, we estimate its market share may taper from 75% in FY28E to 60% in FY30E (not one–third as theoretically). New initiatives can increase the share of short-term power from 7%+ presently to 10%+ by FY30E. Given likely volatility in near term (exhibit 1: Scenarios), we maintain '**ADD**' on IEX, valuing it at 35x FY30E EPS and then discount it back by three years, yielding our FY28E base case TP of INR 160.

Recommendation and Price Target	
Current Reco.	ADD
Previous Reco.	ADD
Current Price Target (12M)	160
Upside/(Downside)	7.6%
Previous Price Target	155
Change	3.3%

Key Data – IEX IN	
Current Market Price	INR149
Market cap (bn)	INR132.6/US$1.5
Free Float	83%
Shares in issue (mn)	891.5
Diluted share (mn)	891.5
3-mon avg daily val (mn)	INR971.2/US$10.8
52-week range	215/130
Sensex/Nifty	85,063/26,179
INR/US$	90.2

Price Performance

%	1M	6M	12M
Absolute	2.3	-24.8	-14.4
Relative*	3.1	-26.2	-21.5

** To the BSE Sensex*

Financial Summary (INR mn)

Y/E March	FY24A	FY25A	FY26E	FY27E	FY28E
Net Sales	4,492	5,373	6,458	6,720	5,716
Sales Growth (%)	12.0	19.6	20.2	4.0	-14.9
EBITDA	3,769	4,537	5,431	5,655	4,815
EBITDA Margin (%)	83.9	84.4	84.1	84.2	84.2
Adjusted Net Profit	3,508	4,292	5,031	5,251	4,665
Diluted EPS (INR)	3.9	4.8	5.6	5.9	5.2
Diluted EPS Growth (%)	14.7	22.3	17.2	4.4	-11.2
ROIC (%)	98.2	72.6	80.2	115.5	82.1
ROE (%)	39.6	40.7	40.1	35.0	27.0
P/E (x)	37.9	31.0	26.4	25.3	28.5
P/B (x)	13.7	11.7	9.7	8.1	7.3
EV/EBITDA (x)	34.8	29.1	23.5	22.0	25.9
Dividend Yield (%)	1.3	2.0	2.0	2.0	2.0

Source: Company data, JM Financial. Note: Valuations as of 06/Jan/2026

Exhibit 1. Bear, base and bull cases for IEX

Particulars	Bear case	Base case	Bull case
Coupling	Implemented from FY28; mkt share reduces to 50%	Implemented from FY28; mkt share reduces to 67%	Implementation remains uncertain; mkt share remains at 85%
Trading margin	Trading margin cut by 25%. Avg realisation for IEX reduces to INR 0.026/kWh	Remains same; Avg realisation for IEX INR 0.034/kWh	No change in trading margin
FY28 EBITDA (INR mn)	2,829	6,074	7,004
FY28 EPS (INR)	3.56	5.23	7.07
1 year TP (INR)	113	160	223

Source: Company, JM Financial

Financial Tables (Consolidated)

Income Statement (INR mn)

Y/E March	FY24A	FY25A	FY26E	FY27E	FY28E
Net Sales	4,492	5,373	6,458	6,720	5,716
Sales Growth	*12.0%*	*19.6%*	*20.2%*	*4.0%*	*-14.9%*
Other Operating Income	0	0	0	0	0
Total Revenue	**4,492**	**5,373**	**6,458**	**6,720**	**5,716**
Cost of Goods Sold/Op. Exp	0	0	0	0	0
Personnel Cost	390	461	558	580	493
Other Expenses	333	375	469	484	408
EBITDA	**3,769**	**4,537**	**5,431**	**5,655**	**4,815**
EBITDA Margin	*83.9%*	*84.4%*	*84.1%*	*84.2%*	*84.2%*
EBITDA Growth	*12.0%*	*20.4%*	*19.7%*	*4.1%*	*-14.9%*
Depn. & Amort.	205	213	222	229	234
EBIT	3,564	4,324	5,210	5,426	4,582
Other Income	1,017	1,201	1,356	1,422	1,493
Finance Cost	28	26	27	29	30
PBT before Excep. & Forex	4,552	5,499	6,538	6,819	6,044
Excep. & Forex Inc./Loss(-)	0	0	0	0	0
PBT	4,552	5,499	6,538	6,819	6,044
Taxes	1,154	1,354	1,634	1,705	1,511
Extraordinary Inc./Loss(-)	0	0	0	0	0
Assoc. Profit/Min. Int.(-)	109	146	128	137	132
Reported Net Profit	3,508	4,292	5,031	5,251	4,665
Adjusted Net Profit	**3,508**	**4,292**	**5,031**	**5,251**	**4,665**
Net Margin	*78.1%*	*79.9%*	*77.9%*	*78.2%*	*81.6%*
Diluted Share Cap. (mn)	891.5	891.5	891.5	891.5	891.5
Diluted EPS (INR)	**3.9**	**4.8**	**5.6**	**5.9**	**5.2**
Diluted EPS Growth	*14.7%*	*22.3%*	*17.2%*	*4.4%*	*-11.2%*
Total Dividend + Tax	1,780	2,670	2,670	2,670	2,670
Dividend Per Share (INR)	2.0	3.0	3.0	3.0	3.0

Source: Company, JM Financial

Balance Sheet (INR mn)

Y/E March	FY24A	FY25A	FY26E	FY27E	FY28E
Shareholders' Fund	9,722	11,363	13,724	16,306	18,301
Share Capital	891	891	891	891	891
Reserves & Surplus	8,831	10,472	12,833	15,415	17,410
Preference Share Capital	0	0	0	0	0
Minority Interest	0	0	0	0	0
Total Loans	79	51	91	131	171
Def. Tax Liab. / Assets (-)	307	346	346	346	346
Total - Equity & Liab.	**10,108**	**11,761**	**14,162**	**16,783**	**18,818**
Net Fixed Assets	965	861	690	511	327
Gross Fixed Assets	1,770	1,879	1,929	1,979	2,029
Intangible Assets	0	0	0	0	0
Less: Depn. & Amort.	847	1,060	1,281	1,510	1,744
Capital WIP	42	41	41	41	41
Investments	4,687	4,558	4,558	4,558	4,558
Current Assets	12,084	16,547	19,233	23,707	24,224
Inventories	0	0	0	0	0
Sundry Debtors	8	26	31	33	28
Cash & Bank Balances	1,866	1,129	5,246	8,846	8,573
Loans & Advances	0	0	0	0	0
Other Current Assets	10,210	15,392	13,955	14,827	15,623
Current Liab. & Prov.	7,628	10,206	10,319	11,992	10,291
Current Liabilities	47	57	59	60	55
Provisions & Others	7,581	10,149	10,260	11,932	10,236
Net Current Assets	4,456	6,341	8,914	11,714	13,933
Total – Assets	**10,108**	**11,761**	**14,162**	**16,783**	**18,818**

Source: Company, JM Financial

Cash Flow Statement (INR mn)

Y/E March	FY24A	FY25A	FY26E	FY27E	FY28E
Profit before Tax	4,661	5,645	6,666	6,956	6,176
Depn. & Amort.	205	213	222	229	234
Net Interest Exp. / Inc. (-)	-431	-1,175	-1,328	-1,393	-1,462
Inc (-) / Dec in WCap.	265	966	2,335	1,645	-1,591
Others	-655	0	0	0	0
Taxes Paid	-1,061	-1,354	-1,634	-1,705	-1,511
Operating Cash Flow	**2,985**	**4,296**	**6,260**	**5,732**	**1,846**
Capex	-146	-109	-50	-50	-50
Free Cash Flow	*2,839*	*4,187*	*6,210*	*5,682*	*1,796*
Inc (-) / Dec in Investments	-262	-3,152	-791	-845	-901
Others	163	1,201	1,356	1,422	1,493
Investing Cash Flow	**-245**	**-2,060**	**514**	**527**	**541**
Inc / Dec (-) in Capital	0	0	0	0	0
Dividend + Tax thereon	-1,780	-2,670	-2,670	-2,670	-2,670
Inc / Dec (-) in Loans	0	0	0	0	0
Others	-51	24	13	11	10
Financing Cash Flow	**-1,831**	**-2,646**	**-2,657**	**-2,659**	**-2,660**
Inc / Dec (-) in Cash	**909**	**-410**	**4,116**	**3,601**	**-273**
Opening Cash Balance	570	1,479	1,069	5,186	8,786
Closing Cash Balance	1,479	1,069	5,186	8,786	8,513

Source: Company, JM Financial

Dupont Analysis

Y/E March	FY24A	FY25A	FY26E	FY27E	FY28E
Net Margin	78.1%	79.9%	77.9%	78.2%	81.6%
Asset Turnover (x)	0.3	0.3	0.3	0.3	0.2
Leverage Factor (x)	1.8	1.9	1.9	1.8	1.7
RoE	39.6%	40.7%	40.1%	35.0%	27.0%

Key Ratios

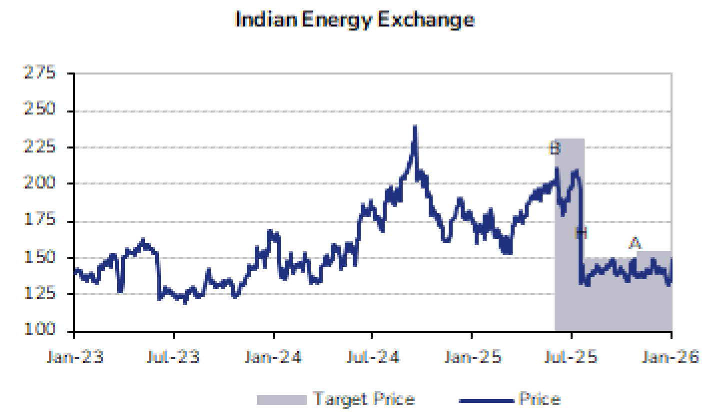
Y/E March	FY24A	FY25A	FY26E	FY27E	FY28E
BV/Share (INR)	10.9	12.7	15.4	18.3	20.5
ROIC	98.2%	72.6%	80.2%	115.5%	82.1%
ROE	39.6%	40.7%	40.1%	35.0%	27.0%
Net Debt/Equity (x)	-0.2	-0.1	-0.4	-0.5	-0.5
P/E (x)	37.9	31.0	26.4	25.3	28.5
P/B (x)	13.7	11.7	9.7	8.1	7.3
EV/EBITDA (x)	34.8	29.1	23.5	22.0	25.9
EV/Sales (x)	29.2	24.5	19.8	18.5	21.8
Debtor days	1	2	2	2	2
Inventory days	0	0	0	0	0
Creditor days	13	15	13	13	13

Source: Company, JM Financial

History of Recommendation and Target Price

Date	Recommendation	Target Price	% Chg.
7-Jun-25	Buy	231	
27-Jul-25	Hold	149	-35.5
2-Nov-25	Add	155	4.0

Recommendation History



APPENDIX I

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New Rating System: Definition of ratings	
Rating	**Meaning**
BUY	Expected return >= 15% over the next twelve months.
ADD	Expected return >= 5% and < 15% over the next twelve months.
REDUCE	Expected return >= -10% and < 5% over the next twelve months.
SELL	Expected return < -10% over the next twelve months.

Note: For REITs (Real Estate Investment Trust) and InvIT (Infrastructure Investment Trust) total expected returns include dividends or DPU (distribution per unit)

Previous Rating System: Definition of ratings	
Rating	**Meaning**
BUY	Total expected returns of more than 10% for stocks with market capitalisation in excess of INR 200 billion and REITs* and more than 15% for all other stocks, over the next twelve months. Total expected return includes dividend yields.
HOLD	Price expected to move in the range of 10% downside to 10% upside from the current market price for stocks with market capitalisation in excess of INR 200 billion and REITs* and in the range of 10% downside to 15% upside from the current market price for all other stocks, over the next twelve months.
SELL	Price expected to move downwards by more than 10% from the current market price over the next twelve months.

* REITs refers to Real Estate Investment Trusts.

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