Dated: June 03, 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 Analysts / Investors conference call

Dear Sir / Madam,

Pursuant to Regulation 30 of the SEBI (Listing Obligations and Disclosure Requirements) Regulations, 2015, please find enclosed herewith transcript of the Analysts / Investors conference calls held on May 27, 2022.

IIFL Singapore Conference Group Meeting – 1 as Annexure-A

IIFL Singapore Conference Group Meeting – 2 as Annexure-B

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
Digitally signed by VINEET HARLALKA
Date: 2022.06.03 20:21:33 +05'30'
Adobe Acrobat Reader version: 2022.001.20117

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

Encl: as above

Invest India Conference - Group_meeting 1

27 May, 2022

Speaker 1: We have met your colleagues 3-4 years ago. Everythingwe talked about kind of made sense. On the business front, the first time there was supply constraint. How does that look like now. Any comments around transaction fees and also, can you give an overall view of the business as to a comparision between the exchange and the bi-lateral market

Speaker 2: Okay, so let me start with the first thing which is about the supply constraint and how it is causing some disturbance. So this is not the first time we have seen this. A similar situation happened in 2015 for a very short duration.

So that was the time when we had this similar exactly same issue, the coal supplies were not there and since the input was not available so there was some supply chain constraint. This started in second fortnight of March. April it was same and then in some part of May also we have seen that.

For last two years our numbers have been great, we have been rewarding almost more than 35% YoY growth. 2021 was COVID year. The growth was majorly on account of optimization done by distribution companies. So they were buying cheaper power which was available on the exchange platform and reducing their cost of generation.

Next year, which was FY22, it was more driven by overall demand growth because India demand growth increased by ~8%, 7.8% precisely which helped us to register the volume growth because distribution companies they were coming, they were participating to meet their deficit. So, there was sudden surge in demand across the country and all situation companies were coming and building their power.

Speaker 1: And can you just walk us through in terms of you know when they're talking about optimization, the cheaper pricing that we're able to provide that mechanism.

Speaker 2: Yeah, so what happens is as you are aware, majority of the power today is tied up under long term. 86% of the transmissions are done through long term agreements and under long term agreements you have two parts there. One is you have to pay for the capacity that you have booked and second is for every unit you're drawing from the exchange, you have to pay the energy charge. The capacities that we have pay is fixed. Annually you have to pay so many thousand crore rupees for every generator you have tied up with.

So what they do they start comparing energy charge deserving market prices. So let's say there is a generating station where energy charge is Rs. 4, on other hand your market prevailing prices are Rs. 3. So what you will do, you will back down that particular generator station. There are some technical limitations, so you will back it out till technical minimum and start to buy from exchange. Then you will see that these prices are still low, one day you will shut down that plant and start to buy more from the exchange.

So what you're doing is you're not compromising on your long term ties, you are not getting away from that tie, you are still paying capacity charge, whenever you want you can always take that power. So in between wherever this arbitrage is available, they are trying to take advantage.

So in the full year, this was the reason why we could register such a good growth, because many states particularly AP, they would save more than Rs. 2400 crore in one and a half year by doing this replacement. Now the next year the demand that we saw was more to meet the deficit. Our prices last to last year was less than Rs. 3 average price of Rs 3.01. This year in FY22, this number increased to Rs. 4.30.

So now people are willing to buy at higher prices. And suddenly in the month of August-September we realized that our coal stocks are inadequate. What happened during the COVID times was not many distribution companies were buying, they had their own problems, in that many consumers were not paying, they were not able to collect efficiently, their financial position was not good, they were not able to pay to Coal India and they also reduced the supply. With increase in demand and with increase in economic activity suddenly they realized that demand is increasing and there is not enough coal stock is available. You might remember that in the first fortnight of October, our prices at this time was Rs. 13 for first 15 days and then government issued certain orders that we have to start taking power from imported coal based plants. There the prices were even higher and then they said the past through will be allowed temporarily. So suddenly states like Gujarat, they started Tata brand JCBL and suddenly there was a major correction of prices. So first fortnight average price was Rs. 13, second fortnight it was Rs. 4, some sort of correction happened. Then November-Feb these are the lead months. This is the time when the temperature is optimum, not enough demand is there, and when you don't have very high demand, the stocks are good because our dependence on imported coal is very limited. More than 90% of our energy generation is on account of domestic coal.

Suddenly in the month of March when the demand started to pick up and it was more so this year because immediately after winter, summer started, there was no spring season this time. So must have heard that recently it was 49 degrees in Delhi and in the month of March it was all time high, so that sort of sudden climate change and then the unprecedented demand came. In March and April, we faced acute shortage on this price. Every state was consuming whatever resources they had and they were reluctant to sell because whatever surplus they had, they wanted to conserve before the rain. So they were not saving. So this is the time, April was first month where we could not register growth in volume. It was -1%, but in May again things have started improving because May, the energy mix is changing now, hydro generation in increasing, then wind generation has started to come up now, and volume has again started to improve. Year-on-year basis on the basis of total volume, we are 20% plus in the month of May and overall also it is 7.5% plus. So the loss that had happened in the month of April is we are trying to cover it up and going forward situation is expected to be better.

The worse is behind us for sure because I think, March and April are traditionally the months where your reliance on coal based generation is maximum. After this the change in mix, the coal based generation would again be required in the month of August.

Speaker 1: That's how it's been every year.

Speaker 2: Every year. Because by October again hydro will start to reduce, wind will not be there.

Speaker 1: And what's the mix there, June-July

Speaker 2: June-July is very big, because these are the months when hydro and green put together will take care of almost 30% of the total requirement.

Speaker 1: This is total requirement that goes through IEX?

Speaker 2: All India, so whatever we have discussed is overall, so just to give you numbers 4,500 is the peak demand that we had met in the month of April and March on an average. And out of 4,500 going forward up to 400MU will come from wind alone, and hydro will also give us more than 700MU.

Speaker 1: What were these numbers, just five years ago or three years ago.

Speaker 2: So first of all this 4,500 was very less because we have registered very good demand growth this year. May is more than 20% up. April was 11% up. So this number used to be about 3,500 or so and mix was wind we have not added much capacity last 3-4 years, so it was almost same, hydro is almost same, only thing that we have added is solar. Solar we are generating close to 270MU per day now. This number used to be very low. The point that I was trying to explain you was, this situation probably can come again for a limited period in the month of October because that is again traditionally the month when demand is highest.

Speaker 1: But what I mean there's a lag time now you know why the power producers that use coal not thinking about where they will get it from.

Speaker 2: Exactly, so on the demand side this thing can come in the month of October, but from a supply side Government has taken so many initiatives. They're talking about compulsorily doing blending for all the generators. Now blending means the generators who are dependent 100% on domestic coal they have asked them to initially, their first order was to do 10% blending, which means they should buy 10% coal from using imported coal, now they have gone up to 30%. They are saying you must buy 30% imported coal, blend, and then supply it to the consumer and then the cost of procurement will be passed. So, whatever you will blend, distribution company has to pay you. So the measures that we are taking now everybody is hopeful that September-October probably this problem will not be there and we need I think one year time to again rebuild our inventory to the level which was there two years ago.

Speaker 1: And coal because coal India just hasn't been..

Speaker 2: They need time to ramp it up right, it cannot happen overnight. They will need some time and in fact there are taken not only production, there is also transportation that is equally important. So, on the railway side also lot many measures have been taken by the Government where they are giving preference to goods train now.

Speaker 1: Why did coal India slow its production?

Speaker 2: This is very big question and very difficult to answer. In fact there are various things which are to be blamed for that. Two years back we had written off coal inflation right. We said no more coal generation is required, no more investments are required, it will only go down, ease will come, things will be moving away from coal energy resources.

Speaker 1: No I mean that's a better way, but I don't think anybody at coal India thought they don't have to produce anymore

Speaker 2: No, it's not that, but the whole thing was at the rate the increase in production would not be required at a similar level. So, when you are saying coal will not be required, it means you don't have to increase the production by 10%, generally 5% increase is okay, that’s all. It's not that you are saying you have to stop production, still our dependence 70% of electricity is actually coming from coal. So this is one part of it and again we strongly believe this is a temporary phenomenon and will get sorted out soon. It has already started to sort out, we are seeing volumes coming back, we are seeing supply side improving a lot, this is what we have witnessed recently and this is how we have been evolving.

So that was your first question right, you can move to another one and you have to repeat it now.

Speaker 1: Yeah. There has been a little bit kind of increased competition even on the exchange side or what has happened on that side

Speaker 2: So if you see across the segments there are, the 1 important segment is Day Ahead Market, which about three years back was contributing 95% of our volume, which that was a leading contributor, now the second market has emerged which is real time market. This market we started in June 2020. This has also involved as a very prominent market in a very limited time, in fact more than 22%-23% contribution is coming from this market. These two markets our market share is 90%. There is another component, another segment which is term ahead market where it is bilateral transactions which are happening and it is less sometimes one to one translation also happens. In that particular market last year our share was 70% and traditionally if you see it has been 60-70%. So recently what happened one of the measure which was taken by the Government was to put cap on the electricity prices. So that was initially Rs. 20, they reduced it to Rs. 12, but they did it only for DAM and RTM market, these two segments. So initially regulator imposed cap in DAM & RTM market, so now IPPs were interested to sell at a higher price, they wanted more realization, so they moved their sells to Term Ahead Market. In between there was a major surge in the Term Ahead Market and as I said our market share a healthy market share, so we were living to that. Now immediately after that, within a month's time they came out with a new order, and now the same cap is applied on TAM transactions also. So now the same cap is entertained and again people are coming back to RTM and DAM. Because, when you know the RTM and DAM market relevance, these are the markets where price discovery is really robust. Exchanges are known for DAM, because this is the place where you have very high liquidity, there are 100-200 sellers, there are 700-800 buyers, everybody coming to a common platform, placing their best rates in a close double sided auction format and then the prices and stuff. This price is a robust price and then you have fixing with your requirement, different quantum and different 96 time blocks, all those things are applicable for DAM and that's why this is the most important segment and this is why peaople are coming back.

Speaker 1: Yeah okay. These cap rates will last till 30th June the rationale for this?

Speaker 2: So they are expecting all issues to get sorted by then. So ideally Government and Regulator both are of the view that there should not be any supply and demand constraint whatever is there, but since this there was so much increase in prices, coal trading went all time high, gas trading was beyond the roof because the prices were so high, they thought that for time being, these caps are required. If the market settles down a bit then they will remove it so that again it's a free market.

Speaker 1: So how do these caps affect us?

Speaker 2: As such it has affected us because was not across the segments, there was some impact, but otherwise there is no impact. You know maximum of places, generators don't have energy cost more than Rs 12, so nobody is generating power where their cost is more than Rs 12, this is what we understand. So then if you impose cap, it is not that sell has reduced, sell is safe only thing is earlier buyers were increasing price up to Rs. 20, they were aggressively buying, they were buying in a very big rate in fact to out ways each other. There was competition amongst the buyers, so they were quoting very high prices, now at Rs. 12 many are quoting Rs. 12 under distribution pro-rata basis. So there are 10 players they want to buy at Rs. 12, then it is distributed on pro-rata basis.

Speaker 1: Then in terms of transaction fees, is there any threat to that going forward?

Speaker 2: So one good thing has happened in the 2021 power market regulation, which came in the month of August'21, notified in the month of August. So there, the Regulator has clearly mentioned that we can charge up to Rs0.02 to either party of the transaction. But they also mentioned that we have to seek the approval to the cap they have given, so the good thing is they have given the cap that we are charging. Another thing is we have to obtain an approval for that, which is more of a what we understand is the procedural thing, which we have to do. We are in the process of gaining approval and we will get it soon. And this is coming from the fact that they've given us Rs0.04 ceiling. For traders who are doing similar jobs I must say, in fact lesser than what we're doing. There it is allowed up to Rs 0.07. This regulation came two years back. Initially when this regulation came 10-12 years back it was two slabs - one was Rs 0.04, second was Rs 0.07. So if the trade price is less than Rs. 3.0, you can charge upto Rs0.04. If the price is more than Rs 3.0 then you can charge upto Rs 0.07. But now they have removed this Rs 0.04 ceiling. They are of the view that you can charge upto Rs 0.07 and for us it is Rs 0.04

Speaker 1: How is that fair for you versus others?

Speaker 2: It is fine because we don't have plans to increase because if we were charging when our volume was so low, same thing we are charging when the volume increased tremendous so that way we are very happy we have been charging this and this is what we asked them to do.

Speaker 1: So there's a lot of murmurs that there's always this threat that your transaction costs will be reduced but it looks like the room for increase has actually been given and how you see this?

Speaker 2: But there is no room given by them since they have already put this in the regulation, so we cannot go beyond Rs 0.04.

Speaker 1: I thought it was Rs 0.07

Speaker 2: No, no this is for trading licensee.

Speaker 1: Okay.

Speaker 2: So this is for trading licensee. For us it is Rs 0.04 only, and we are already charging Rs 0.04. So there's absolutely no room for improvement and we don't intend to do also.

Speaker 1: Now further kind of as you scale do you think they will re-look at this and say you should?

Speaker 2: So generally all these orders they are very long lasting orders. Earlier PMR came in 2010, so now it came in 2021. So these are not a very frequent thing which happens, but as I said there is one clause we have to obtain approval for what we are charging and we have to do.

Speaker 1: Every year.

Speaker 2: No one time, so we have already filed the petition, we are excepting exercise to get done in next two to three months.

Speaker 1: To get approval to charge Rs 0.04

Speaker 2: Yeah, so they have given the ceiling, but they mentioned that across the various segments you have to take approval on what you are charging. That petition we have already filed.

Speaker 1: Do you see any risk that they come back and say charge less?

Speaker 2: Ideally not, because we have a competitor right from 2008 when we started the exchange and they have been struggling to meet the network criteria they are not able to make enough money. Another competitor is also coming, so in last 4 years we could just add one more player in the space. So people are not finding it very attractive, not many players are there and second is they would not like to create entry barrier for more exchanges to come and it's not that you can ask me to charge something else and others to charge something else. They have to take a holistic view and they have to ensure that among us also it should be in line and then what they've done in PMR is the right thing, they have given caps. So maximum in this competitive environment where we want to take away everything away from cost cut basis, the competitive environment maximum what we can do is we have ceiling and that is already there. And beyond this suppose they tell me to charge less and the other to charge more, they are actually killing those exchanges because if I charge less they will come to me right. So we have no apprehension.

Speaker 1: In terms of you know management you know I think the management has been with the company for a quite a long time you know incentives, who's running business really, and how is management incentivised?

Speaker 2: So management the key persons they have ESOPs and decent part of salary in the form of variable pay which is linked to overall volumes and growth. I think these two factors are there, which is recently incentivizing on the key employees of the company.

Speaker 1: and the shareholding, what did they look like of the company?

Speaker 2: Very recently I would say scattered. Many stakeholders as per the power market regulation nobody can hold more than 25% in the exchange and second those who were participating in the exchange they cannot hold more than 5%.

Speaker 1: May be a management or something like that

Speaker 2: No, I am talking about participants. We have about 7,000 participants, all big industry groups, commercials, open access consumers participating in the exchange, they cannot hold more than 5%. Our traders or members they are limited to 5% and as one entity no one can hold more than 25%.

Speaker 1: And all top management has ESOPs?

Speaker 2: So all top management have this.

Speaker 1: how long have you been with them

Speaker 2: More than 8 years.

Speaker 1: Where did you join from?

Speaker 2: So before that I was leading one trading company which is National Energy Trading and Services Limited and prior to that I was with various generators - LANCO power, Reliance..

Speaker 1: And what would you say about you know the culture of the organization?

Speaker 2: It's a very good organization and I think doing pretty well.

Speaker 1: Are people self-motivated?

Speaker 2: That's the key. People are self contributing.

Speaker 1: How are you seeing just overall this benign situation prices any alternatives in general inflation or is that impacting the consumer or anything

Speaker 2: No, there will be some impact on consumer on account of increase in input cost that we have recently witnessed, way the energy price is happening now, this will be eventually passed on to the consumer. For what we understand is, like many other commodities, electricity demand is also, there is not big portion which is in lasting, so we don't expect consumption to go down because there is some points increase in the prices. It's a very key input I must say very important commodity. There is a very strong correlation between energy growth and electricity consumption and we are set to grow, all the numbers are indicating in that direction.

Speaker 1: And in terms of power producers are you seeing more capacity come up?

Speaker 2: Yes, so capacity there is about 25GW of capacity, which is expected to come in the next 2-3 years. So this is one, which is more on the commission side I am saying.

Speaker 1: And just so I understand 25 GW incremental today?

Speaker 2: This is above 200 GW, but majority of the capacity addition will happen on the RE side. So we have a 500 GW target that we have taken as a country by 2030. So majority of capacity addition will be on the renewable side. Solar our focus is already there and technology that will also come. This will help us that's all solar generation or integrate solar generation system in the most efficient way.

Speaker 1: Are you seeing the execution on some of this production I mean in capacity when it comes to solar etc. people are investing in, you expect that 500 GW

Speaker 2: Yeah so we have various plans or various policy to make it happen and that is going in that direction, they are going to achieve some here and there can definitely happen intent is all there and this is being done even now. You will see so many new tenders coming, SECI doing a lot of capacity addition, it is being considered that moving forward, your capacity can be added to exchanges also and that is also one of the aspect which is being talked about. The global models are there, you have seen in UK, Germany, particularly there all the capacity on the RE side was through markets and there are lot of stories because when we are doing it for market, you are integrating efficiently. Because Renewable Energy is not evenly distributed across our country. You know wind is on the costal side southern side, western side, and if you are using central platform which is exchange platform for this to exchange with other states then this model is considered as most efficient model. So there are various things which are being explored.

Speaker 1: Is there another player who you think could get capitalized?

Speaker 2: One is already there PXIL, which is there for last 14 year. They started on the same year 2008. The other one is HPX, it is in the process of formation, they are claiming that they will also start in months to come. It is promoted by PTC, BSE, and ICICI.

Speaker 1: How do you see that impacting the business?

Speaker 2: Our focus is on creating more value for our customers. We're in this business for so long. We understand our customer, we understand their requirement, we understand their future requirement, we are constantly innovating trying to create newer technologies, which can facilitate their near requirements, which can help them meeting their requirement. so this is what we're focusing on

Speaker 1: This will take time as well to create the prior relationships etc.

Speaker 2: Yeah, so the other thing that I would like to add here is our one of the strength is huge customer base. We have got more than 7,000 registered participants with us which comprises of small consumers, all generators, renewable generators, all the distribution companies, they are associated with us for so long by using our platform. Till the time we are able to provide value to them, till the time we are constantly improving that is must, and in such exchanges particularly in the electricity exchange, liquidity is very important, because two prices are not well excepted by the participant. It has to be one price and most robust price. The price robustness will come from greater partnerships, which we have been able to maintain.

Speaker 1: And what do you do with your cash flows?

Speaker 2: So we have a board approved policy where 50% of the profits we issue in the form of dividend. We have been doing this till now, sometimes this will give you more also this year it has been little more. Because all the diversification initiative that we are thinking of is not very capital intensive.

Speaker 1: And what are some of this initiatives

Speaker 2: So like we have started IGX and intend to start more things going forward that would not be capital intensive, so we don't need too much cash for that, so that is why we have distributed profit in the form of dividend. Suppose we have to start something, a couple of quarter’s cash is available to start any new initiative.

Speaker 1: On IGX what's the way forward?

Speaker 2: So IGX we have all the right partners in place already, all the who’s who of the sector they are our partners there and Q4 particularly was excellent for us last year FY22. In such a short span of time, we started this roughly in June 2020, in less than one and a half year time the response is positive. This was year is also nearly positive. So it is a great beginning I must say. In between there was some impact on the volume because the prices were very high and we have our own appetite on the basis of prices. Beyond certain price point it becomes unbearable for many of the sectors. I guess as the prices have already started coming down, it went up to $41 per MMBtu, the price it has come down to already $25 level and the trade has started. One recent development here is, Government has also allowed domestic gas to participate in this particular market. So till now all the transaction that has happened is on the basis of RNG, the imported gas. Now domestic gas transaction has also started one transaction happened last week.

Speaker 1: And how is RNG demand least important to India with pretty stagnant you'd expect us to be going up every year but it hasn't

Speaker 2: Yeah, so I can talk more of this demand on the power side. So prices are so high in fact immediately after COVID we have seen there was massive correction in the prices. Prices went down up to $3.5 per MMBtu for a very short span of time and that point in time we saw many generators, many distribution companies taking lead and then entering into small short term contract for fulfillment of RNG. They started buying power and then we were getting very good participation from gas sellers also, gas based generators those who are selling it off. But again price has started to move up and the present pricing is very high, and this price point you're variable cost would be more than Rs 20 and there is not many players who would like to buy price, which is such costly.

Speaker 1: So then they just don't import

Speaker 2: So this is story on the electricity sector side, but otherwise also there are constraints over prices as the prices will go down, we can expect more volume.

Speaker 1: Okay, now this was a lovely catch up. Thank you so much.

Speaker 3: Who are the participants in the IGX?

Speaker 2: I think its all sellers are GAIL and all the gas companies. Buying side we have small participants, there are traders also who are supplying to their consumers, small industry in Gujarat anywhere, where you have pipeline and these are industries connected to them. There they use this gas for the process.

Speaker 3: GAIL sales to somebody in Gujarat and there needs to be a pipeline to ensure that the delivery happens?

Speaker 2: So wherever the pipeline is there, they only can participate. Unless you are connected, you cannot participate.

Speaker 3: So that could be a restriction in terms of growth.

Speaker 2: Yes. So present market is restricted to the extent of the pipe where gas can be delivered. But that is a decent site today. Only thing is pricing is so high.

Speaker 1: Okay, thank you.

Speaker 2: Thank you.

Speaker 3: Thank you.

End of Transcript

Invest India Conference - Group_meeting 2

27 May, 2022

Speaker 1: We have seen actually recently you know quite a lot of disruptions in the supply side right, which has obviously affected your business and so what's your sense, we have just seen the government coming to cap the price right of electricity, so how do you see this demand supply situation, demand, I presume it's not an issue right, demand has been quite strong, so on the supply side how do you see things spanning out.

Speaker 2: Yeah. So see on the supply side, we have huge capacity in the country. We have about 400GW of capacity available, against this we have a peak demand of only 270GW. So present crisis that we witnessed in the month of starting March, which continued in April and some part of May, this was because of increase in the input cost it was one because there was not enough capacity to generate, the capacity was there, there was capacity which would have generated and met the demand it was available, but there were constraints on the supply side because coal prices were all time high, gas prices were over the roof.

Because of these high prices many of the generators they could not import coal in a timely manner and generators started supplying in the market. So that was one of the reasons that caused this disruption and it was more in the month of March and April because these are the months where our reliance on coal based generation is the highest. This is the time we are more dependent on coal based generation because other generations are not available, wind is not available at this time normally, wind season is not there, hydro is not started to peak yet, so this is the time when you need support of coal or thermal, but because these prices were high, the overall generation of this they were not able to supply, but as I said this is pertaining to these two months only. Going forward, in fact it has already started to change, we are able to meet the country's demand in much better way now because wind has started to increase. The sell side has improved a lot at our platform also. So there was a time when we were getting close to 100MU sell per day, but now on an average we are getting double of that, so more than 100% increase has already happened on the sell side. So as sell has been increased now and the buyers are gaining confidence whatever they want to buy they're able to meet and prices have also gone down. Prices were at the cap price level Rs. 12 for almost 10-12 days, it remained at that level, now we have seen prices ranging between Rs. 3 - 6 rupees now. Most of the time prices are ranging between these

Speaker 1: Oh okay.

Speaker 2: depending on the demand, depending on the weather, depending on the wind generation, there are so many factors on which prices are dependent, but overall if you see supply demand scenario it has changed a lot in the last 15 days. Going forward we expect that the situation which is prevailing now will continue, there will be ample supply, supply will only increase. Indian Government has taken lot of initiatives, they're asking all the generators to start importing coal, and then they're saying whatever additional cost is there because of importing high cost coal that will be passed on to the consumer. So, if we start to import now then the future is also secured, the future supply side constraint will also be.

Speaker 1: So this high price of cap only lasted about 10 days, you mean that?

Speaker 2: No, it lasted for about a month.

Speaker 1: Okay.

Speaker 2: It lasted for about a month.

Speaker 1: Again, so subsequently, so now it started it's also seems like a week has it

Speaker 2: Since last 10 days.

Speaker 1: Okay for last 10 days now dropped.

Speaker 2: It has come down drastically.

Speaker 1: Okay. So but it's still the trading range is quite wide. It’s Rs 3 - 6.

Speaker 2: 3-6 yeah, it is already there because of that. Because demand is changing a lot, supply side constraints have improved, but it is not completely solved, there is a volatility with sudden demand increase, sudden wind drop, we see prices going up, and again when the new generation sources are back, this will go down. So it will remain volatile for some time and then it will start to stabilize.

Speaker 1: It's also this time around the back of it is because the wind and hydro has..

Speaker 2: No this is this time, because every year the phenomenon is same. Every year it is the same. The time the only problem was March and April when we had to increase our thermal generation, we could not do so because there was a coal shortage, there was not enough coal stock available with the plants. See if the imported coal prices are so high, we had to stop importing coal, because they are not sure whether they would be able to sell this in the market at very high price. Nobody can guarantee that right and when the prices are on the low side, they can always import and then wait for right time to set. In this particular case, prices were very high, so they were not able to import. So this is the only thing which was different from other reasons and the demand increase was also a little more than what was anticipated, what was expected, what was forecasted. There was a sudden heat wave, which came in the country, normally you have winter, then spring, and then summer. This time it transited directly from winter to summer and that to very intense summer. So all these factors resulted into increase in demand.

Speaker 1: So this easing of supplying, you see it's still not quite back to normal. So in the past how much of coal is actually you know imported.

Speaker 2: Yes. For last two years we have reduced import of coal in a massive way. See what happened after in fact 2019-20, our coal stock position was reduced and after that COVID impact was there, their demand got reduced drastically and then production continued, so our coal position was okay. In last 3-4 years first time when we started to see the problem in coal supply was August 2021, that was the first time when we realized that whole position is going down because of increase in demand. But before that two years back, we were trying to reduce import of coal because we have so much coal available in the country and focus was to increase production of domestic coal, so that we can reduce cost.

In fact we then started various auctions wherein you can buy from the domestic coal to replace it. All those things were being considered, but lately what had happened because sudden demand increase was there and the production increase was not same as demand increase, so there was shortage in coal and slowly it started to deplete. Similar problem happened in the month of October also where prices went up to Rs. 13 average price. In the first fortnight of October prices were Rs. 13, second fortnight of October it came down to Rs. 4. And why it happened, because some of the states decided to start taking power from the imported coal based plants, which is little costlier. So they started which is about Rs. 6, so they started taking power from them and then there was a sudden correction of prices. So this time also similar thing has happened many imported coal based plants were started when the prices were high and because of that and then because of government initiative, government focus on increasing the supply, providing more railway racks, so now their preference is to goods train rather than passenger train, they're giving preference to that and all those things are resulting into increase in supply now and the change in energy mix as I mentioned hydro will also increase this quarter and we will start to build our coal stock again. So though it is taking some time and it is natural because it will not happen overnight, it will take couple of weeks more time and then this will further stabilize.

Speaker 1: So when you have such high mortality you expect that you know because I suppose the whole premise about coming to the exchange is you get much cheaper prices right, so if you have such high volatility then does it in a sense hinder you know the switch for long term you?

Speaker 2: So, there are two parts to it. So value of exchange is #1 – competitive prices and second most important value is that we provide to our customer is the flexibility in power. So you can for every 15 minutes time you can have different quantum to sell or different quantum to buy. You can vary your quantum.

So competitive prices yes, the volatility is high, which is not good for any market, but the point here is the other market, which is alternate to us is a bilateral market there also prices are extremely high and the reason for prices even higher there is, in that particular market only generators participate.

In our market, in exchange market you see participation of distribution companies also. So there's a participation of distribution companies, there is a participation of generator also. So when distribution companies sell, they sell at their energy cost, variable cost, and this is the reason why our prices are on the lower side. So your concern is very much valid, when our price is increased many distribution company they want you to tie up under long term or other short term bilateral contracts, but when they want there they floated tenders, the price discovered there was more than Rs. 10. So distribution company today are not willing to pay power at Rs. 10 for Rs. 6. They are aware that prices will get corrected because exchange market there will be distribution companies who will sell, and this price will come down sooner.

Speaker 1: So, if they would commit to that..

Speaker 2: No, they cannot drop out of that. So these are some of the facts which is there and this is the reality. Price is the function of demand and supply and normally if your demand is very high and suppose we have constraint like this what has happened then prices are bound to go up, but again these high prices are again unsustainable as the things will improve or the biggest strength is in case of India is, we have our dependence on domestic coal is more than 90%, more than 90% of the energy is met by domestic coal only. So if there is 5 - 7% demand drop then you don't need imported coal. So supposed there is some correction in the demand or if you start to import small portion of the coal from outside then you are back, your energy requirement is back and that is why this has happened in the past also, but every time it gets corrected in a short span of time and we are back to the normal situation because we have surplus capacity available normally the prices are always in line.

Speaker 1: So the demand of coal is more active in March and April and in May, so is it a function of just demand supply and also what infrastructure or logistics?

Speaker 2: No it is logistic network is there. If I talk about domestic coal or imported coal, there were some issues, vessel constraints also, not many vessels were available. The logistic cost was very high. In fact even today it is very high, but it is all temporary in nature as the things will evolve, this will exit. It has already started.

Speaker 1: So the short term market is it you know is it still around there like 10% to 12% knock off?

Speaker 2: It is about 14% and exchanges are doing about 7.6% of the total power consumption

Speaker 1: Out of this, okay it is 14% of total short term and 7.6% is for the exchange. So given that you mentioned that the bilateral market it's not necessarily a better option even in this kind of volatile market. So what is the challenge in gaining the market share

Speaker 2: Yeah so we are in fact getting lot of share from bilateral market. If you see last five years trend, bilateral market has grown by just 1.5%, exchange share has grown by 18%. So the traction or you can say that market is stressing exchange market because then another thing is exchange provides you the flexibility to buy when you really need it. So most of these states today are not under deficit, they have temporary deficit, somebody needs power only in the evening peak hour, some other state they need power only during the summer months that to for 5 hours a day. So when you have that peculiar requirement where you want you need it for only weekdays Saturday-Sunday demand is less, we don’t need power. Now under long term this flexibility is not there that I can buy for five days a week or this hour to this hour, no there you have to buy a full quantum for the month or for multiple months round the clock power 24 hours those things are, if you have that requirement you go there, but if you have this requirement which is coming during part of the day, part of the month, part of the week, then the short term bilateral market is not suited, it will not suit your requirement.

Speaker 1: And then what about the long term you know how do you actually control and share from long term you know if the short term is still only 14% right

Speaker 2: It is a very important question and in fact you may recall during the COVID year for FY21 our volume growth was very, very good because close to 30% was the volume growth or above 35% volume growth we registered and why it was, it was because of we were gaining market share from long term supplies. Under long term, there is a provision of two part, you are paying for the capacity charge and you are also paying for energy charge. Every unit you are drawing, you have to pay for that. Sometimes what happens is exchange market prices are lower than energy charge. So what you do, you continue to pay fix charges to them, you stop taking power from them, you start to buy from the market. Now there is arbitrage available, you are saving on that, and you are not going away from the long term contract. You are maintaining long term contract but temporary basis till the time market provides that opportunity that arbitrage you are taking advantage.

Speaker 1: But if they are signed up for long term, how can they still buy short term.

Speaker 2: That is what I am saying. I am a generator, you are a state utility and we have a long term contract. I am supplying 1,000 MW to you for supplying this 1,000 MW, you have to pay me Rs. 100 crore in a year as a capacity charge because I have tied up with you. So I cannot sell this power to anybody else. This Rs. 100 crore will take care of my electricity generation, operations and maintenance right, so till the time you are paying Rs 100 crores to me, the fixed charges have been here. From every unit that you are asking me to generate which you are consuming, you have to pay the whole cost which is say Rs. 3 for every unit, but market price is Rs 2. You will say you please shut down the plant. The agreement is still there, but I will buy from the market at Rs. 2 and you will not take from me because I am supplying at Rs. 3, there is a surplus in the market, so Rs. 2 power is available you will take that power and this is how you will replace the long term power over short term.

Speaker 1: Also long term contract doesn't commit into a volume that they must take, they need to pay that capacity charge and then the volume is okay if you feel that…

Speaker 2: So you are giving, you are taking care of all my costs, so why should there be a minimum quantum which you should take. It’s like taking cab for full day. You have taken cab for full day, they want you to pay $50 for the full day, he will be staying at your doorstep. Now every kilometer that he will drive you, he will charge you let’s say $1 and the driver is charging 50 cents for every kilometer. So you are keeping him parked, at the same time using cab and then sit.

Speaker 1: Okay, so the long term contract, so in that sense it can be obsolete if the exchange prices is..

Speaker 2: No it is not obsolete, there are still honoring

Speaker 1: yeah

Speaker 2: Because tomorrow this can rise also, the market prices can be more than energy costs, so now you are hedged against any volatility in the market. Suppose tomorrow market price, your supply cost is Rs. 3, suppose market prices is Rs. 4, you will start taking power from me.

Speaker 1: I'm paying you only Rs. 3.

Speaker 2: You will pay only Rs. 3 because that's what the contract is all about. So, you will pay me Rs. 3, you will take that power and then again market prices will go down you will ask me to shut down and start taking from the market. So long term contract is giving you security #1. It is giving you a security of price volatility and also security of energy. Suppose tomorrow in market there is no power available, still you will get your power. So this is how we gain share from the long term contract.

Speaker 1: Also it doesn't mean that existing customers to break their long-term contracts

Speaker 2: No, they don't have to break #1. #2 is the incremental demand which is coming in the system. Every year the demand is increasing by 6 - 8%. Last year it was 7.8%, this year also it is going to increase in a very heavy rate. Previously, it was 5% - 5.5%, so every year this incremental demand is coming, but incremental long terms are not being signed.

Speaker 1: Oh okay. Okay, increasingly the overall customers don’t want to sign long-term contracts.

Speaker 2: Yes. Because technology is changing very fast, solar prices are going down, battery storage is expected to come, it is going to be viral soon. So they don't want to sign long term contracts at this point in time. They're waiting or better technologies, so what they do, so if the long term are not being signed in the same proportion as the demand is increasing, there is a possibility that large part of that demand should come to short term market. So we are getting share from their #1. We are getting share from bilateral and wherever opportunity is there, long term transactions are also shifting at our platform.

Speaker 1: Then what happens to this supply side. So if you know generally it is fine that, it is very difficult to get customers to commit the long term contracts, so they are unsure about committing all these CapEx, so the long term doesn't mean that we again from the situation where I don't want to put out this you know…

Speaker 2: So what you're saying is right. There would be a situation again that you have less capacity, more environment shortage for demand, but the point here what has changed is we have a very ambitious target of adding renewable energy. So we want to create 500GW of renewable energy by 2030. So every year we are adding more than 10,000-15,000 solar capacity and this will only increase. So this will take care of that gap that you are envisaging that tomorrow this will come again and then there are further new market models which should take care of it like in the global markets in some of the countries they have adopted model of resource adequacy requirement. Now issue is that as a utility you have to enter into a contract whatever is your peak demand 80% of that demand you must have a contract in place. So regulator will ensure that you should have certain contract in place and this capacity you need not create new capacity. You can go to capacity market to buy this capacity, so those options are also available hopefully and in India also tomorrow it would be there.

Speaker 1: This renewable and so there's a target like but who's your first and foremost you know place to actually commit you know to putting up that capacity if potentially they don't see things being viable right, if it's also most of the renewable energy so you know on short term basis who want to commit to that current CapEx, not really sure you know what lies ahaed?

Speaker 2: So you are right, in fact, initially in convention the vendor things were started, market started in 2008. There were very handful of generators where they had merchant capacity, open capacity, which was not tied on a long term. But over a period of time when people witness their realization they created merchant capacity. Today in the country we have a lot of capacity and there are no barriers to merchant capacity. Similarly, we have recently started green market and in green market what we have seen the price is just going on more than prices just over under long term contracts, long term prices are less than Rs 2.5, less than Rs. 2.4 per unit, here the prices are much more than the market price demand and supply. Now many of these developers they are considering creating part capacity as merchant capacity. So slowly they will gain confidence in the market, slowly they will find that if you have 2-3 bumper years, very good years, then your return can be much more than what you are envisaging under long term. So when developers are convinced, the funding MNCs will also get convinced and gradually this will come and the other possibility there are some developers they are doing financing on their balance sheet. So if you are creating new projects on the strength of your balance sheet then you don't need that SPV model, where you are looking for financing particular project. So you create some capacity on merchant basis and use this capacity for the purpose of selling it out.

Speaker 1: So with the governments Make in India initiative always, actually made incentives schemes, so do you hear about you know what these manufacturer is thinking that okay I want more security of energy and so you know I'm good to have more captive plants?

Speaker 2: So earlier they were doing that, but now some major changes have happened. First of all, all the consumers are confident, they are aware of the fact that there is ample capacity available in the country and we have seen low prices for so many years and this is again because there is more capacity, more sell than more demand right. Demand is less than supply. Second is people used to create captive capacity earlier because there were problems in the transmission capacity loss. So there was generation capacity available, but where your plant is situated that plant cannot import power because there were not enough transmission lines available. Your requirement was 100 MW, but transmission availability was only 50 MW. In the last few years we have added huge capacity on the transmission side and today if you will see our exchange data, 99.9% of the time you will find there is no transmission issues. So now the participants are confident there is enough capacity available #1 and there is also enough transmission capacity available, so whenever I will need power, I would be able to buy. Now when I will go to the market to buy this power, the price would be on the basis of demand and supply, it can be little high sometimes, it can be little low sometimes, but availability will not be an issue. So not many people are creating captive power plants, they are relying on markets.

Speaker 1: In terms of your products, we have seen you actually launching more and more products, now you were able to launch LDC

Speaker 2: That is still not done. We are expecting that launch very soon. We have filed this petition with our regulator and we are awaiting a final approval on that. Once the approval is there, then we would be able to do that.

Speaker 1: So what's holding it up, you know why is it not just a very simple process

Speaker 2: Nothing holding up, it is procedural thing. See in the month of October Supreme Court order came, which paved way for launch of LDC and subsequent to that we filed petition and then stakeholder consultation is to be done that is already completed, hearings will be done, regulator will hear our position, their comments of other parties are also over. The one thing which we are waiting now is final order in what form and shape it will come that we have to see and once we have final order in place then we would be in a position to launch.

Speaker 1: And then in terms of I think previously I heard one of your calls is that you mentioned that in terms of the pricing that you charge Rs 0.02 on either side right and there's always thought that okay would you be forced to cut prices and your contention is the trading community gets about Rs 0.07, so why you know on such high pricing you know and then where I see you are happy with just Rs 0.02 on either side.

Speaker 2: So we are charging Rs 0.02 on either side and the volumes we have seen has been growing, we have no intention of increasing the price. We are happy with the margin that we are charging. #2, there is a provision in the power market regulation 2021, which came in August 2021. There it is mentioned that regulator has given us ceiling of Rs 0.02 to be charged on the either side it is there. It is similar to what we are charging #1, but they have also mentioned that we have to take approval from the regulator what we are charging. They have given a ceiling and they have also said that we have to obtain approval also from them. We have initiated that process and we are under the process of getting that approval. We are very much within the ceiling that is being given to us and we are expecting this approval also soon.

Speaker 1: When you started there was no need for approval.

Speaker 2: Yeah initially it was not.

Speaker 1: Oh okay. So it's not yet finalized the ceiling and then you..

Speaker 2: Three years back there was one order where it had said that if you want to change this they will charge, there was one petition on some other matter, then in that particular order regulator said if you want to change it, you will have to take approval from the regulator.

Speaker 1: So you are not changing it?

Speaker 2: We are not changing, but after that this power market regulation came where they allowed Rs 0.02 on either side and then also asked us to take approval, so which we had applied for.

Speaker 1: Okay, but you don’t see any issues about not getting

Speaker 2: Because what we believe is it is already as per their provisions of what ceiling they have given it is within that but again we have to seek approval which we have started.

Speaker 1: And then in terms of comes out when you started having one more of these renewable energy, how does IEX benefit from that because you also now selling this renewable energy certificates and stuff okay, does it then -- would it then cannibalize it, what does it mean?

Speaker 2: See what is happening is no new products are being registered. These are all old projects. No innovations are happening, so this market is not growing. The new market which is being developed is coming through our green market, the GDAM and GTAM. So there is no possibility of penalization because on the one side we have the market which is cold, which is not growing and this is the upcoming market, this has a long way to go because as I mentioned we should start with our renewable energy and globally also there are what experience is that as more renewable energy in the system you need your idea of new products. We have introduced real time market in June 2020, we started this market and this is doing very good because it is meeting customers requirement and when the renewal is more in the system, they will need this more and because of segments which cater to your requirement very near to the time line and this is exactly what this contact is doing, so there we are gaining, but this product is getting lot of significance and volumes are growing. So both RTM and Green market, these are assignments which are started on a promising note.

Speaker 1: So for renewable certificate so it's legacy business so does it mean they will always just stay around these levels?

Speaker 2: Yeah, because no new projects are registering, so there will not be a major growth. But some of the states, some state distribution company they have surplus and their surplus is huge. So if they get approval from their regulator and if issuance still happen to them then they would be in a position to sell this surplus power, which is available and then will get new REC. In that particular case we will see increase in levels

Speaker 1: And why does this company giving more

Speaker 2: No, its not that they are not giving, it is a process which takes its own time. So those numbers have to be audited, it has to be veted by certain agencies and then finally issuance will be allowed.

Speaker 1: So, it is not it's potentially be a two or three years…

Speaker 2: No, no this process happens every year time.

Speaker 1: So how many are such states?

Speaker 2: There are 2-3 states with surplus and if they get this then there is a potential of increase in buying.

Speaker 1: But really on the renewable side it is really that the green…

Speaker 2: It is already there, green day ahead has started.

Speaker 1: So that's the volume set you're gonna see pick up right

Speaker 2: It is picking up and we have seen good traction, some developers have installed merchant capacity already and they are able to sell that surplus which they have so really there are some response as I mentioned, they are also active participants in this market. They also have huge part. You can see that between last year and this year there is a significant change.

Speaker 1: Then in terms of what is this implementation market based technology dispatch and what does it mean for you?

Speaker 2: This is one of the initiative wherein they are targeting entire central generating station to participate through the market to despatch their capacity through the market. But it has not happened nor any change in regulations are required to be done and on the basis of our interaction with various stakeholders we understand it will take some time.

Speaker 1: I think given that it's going to take quite a bit of time, so why would they set the target is being put some people

Speaker 2: So we were trying to make it happen but you know these regulatory changes we have to do stakeholder consultation on the regulation, the procedural things happen and we will have to bring everyone in the same platform and then it include all changes. It is a time consuming exercise.

Speaker 1: So when you say that it's market based so everything needs to be you know gone to the market, so that should significantly boost your volume.

Speaker 2: This has potential to increase our market share.

Speaker 1: Okay. The only reason why states would hold it back or perhaps not being too agreeable it's that the long-term PPAs will be affected?

Speaker 2: Yeah, so there are certain concerns because we have to make payment on daily basis and their financial condition is we know that it is so precaurious, then there are some more concerns they are utilizing right to recall whenever they want they can maneuver these plants, they can increase generation the lead generation. So once you implement this, then that flexibility will not remain with them. Then they will be dependent on market. These are some of the concerns which are being raised by them and we need to work on it. Hopefully some resolution will come over time.

Speaker 1: So yeah so it sounds very serious concerns right. So it's very unlikely that it's a very short term

Speaker 2: We have also quoted one more concept which is called gross bidding, so we have applied to the regulator for getting approval and here this particular concept we are trying to adjust some of these concerns. There daily billing will not be required, daily transaction will not be required and then that is on voluntary basis, this all states can states can decide themselves which plant they are going to bring to the exchange platform where they see no technical constraint, where they don't require ramp up or ramp down these plant.

Speaker 1: When you see there's no daily billing, then how is that possible because on exchange you have to make the payment

Speaker 2: Yes, so what we are doing is they would be participating on gross basis, which means we have a tie up, they don't want to take full power from that particular plant, so they will sell that power in the exchange and buy corresponding power from the exchange, whatever they want from that. So now exchange platform will optimize that total power being sold or purchased by them. Suppose there is a plant where the cost of energy is Rs. 4, then the price discovered on that particular day when you are trying to do gross bidding from this plant, so this power will not get set which means you have to shut down this plant, and you have bought power replacing this plant from the market at Rs. 3.5, so you have saved that. So here now you have to do settlement on net basis. So you will be paying only for that small portion that you have purchased from them right. Here the settlement with the generator will continue to be on monthly basis. But to the extent you are buying from the market you will be settling on daily basis. So in a way this will sort of some of the issues that is being faced by state utilities.

Speaker 1: Even this tiny portion did not…

Speaker 2: Again I am giving them the flexibility if you want to do it for one plant, you can do two plants, you can do three plants, so they can always as they will realize the advantages, it is not that you have start with such a big portfolio. Whatever you can afford to that extent.

Speaker 1: So, when do you think we can start seeing this progress.

Speaker 2: So this is again we have filed the approval with the regulators and once we have the approval then we can launch. The stakeholders have submitted their comments already and couple of hearings will happen and then we would be able to launch.

Speaker 1: Do you think it's a one year thing?

Speaker 2: It's less than one year.

Speaker 1: And then on the gas exchange, so demand supply there is it also facing quite similar supply issues as well

Speaker 2: So you must have seen the annual results Q4 was very good for us last year, the volume increased tremendously and after that there were some dip in volume because the prices were very high, or prices in the international market are very high and there are not many buyers available at that particular price. So that is the one thing which has temporary impact on our volume #1 and second thing what we are seeing is recently government has allowed domestic gas also on this platform, which is very positive for us. So this will help us in times to come and one such conviction has already happened. 2-3 days back we have executed one transition of domestic gas.

Speaker 1: So, how big is this market.

Speaker 2: If you go by government projections, we want to increase overall gas consumption in the country, there are various areas where we are seeing city gas distribution increasing #1 and as the prices will correct going forward then we can utilize gas in power sector also. So going forward we are expecting gas consumption to increase and with more renewable gas is it very good complementary solution to the renewable energy. We are expecting this consumption is set to grow and when you are market in place people will decide whether they want to go for long term or if they want to keep some capacity for smart market.

Speaker 1: So currently how much is you know no long term and how much is actually short term. So it's a bit like the same market.

Speaker 2: Similar to that majority of the transaction are happening under long-term because earlier the market was not there, and spot market is active there because some participants are buying power that is being traded on spot as well.

Speaker 1: So how are you trying on spot, is there another exchange.

Speaker 2: These are bilateral. There is no exchange, this is the only exchange.

Speaker 1: So how do you try and get them in this bilateral

Speaker 2: So all those who are on the supply side they are smaller numbers, which are targeting small consumers.

Speaker 1: Thanks so much, gentleman.

Speaker 2: Thank you.

End of Transcript