



**Dated: October 29, 2020**

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Corporate Relationship Department  
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The Manager  
National Stock Exchange of India Ltd  
Listing Department  
Exchange Plaza, 5<sup>th</sup> Floor, Plot no C/1  
G Block, Bandra Kurla Complex  
Bandra (E), Mumbai-400 051

**Scrip Code: 540750;**

**Symbol: IEX**

**Sub: Transcript of the Earnings Conference call with analysts and investors relating to Financial Results of the Company for the quarter ended September 2020**

Dear Sir/Madam,

Pursuant to Regulation 30 of the SEBI (Listing Obligations and Disclosure Requirements) Regulations, 2015, please find attached transcript of earnings conference call held with analysts and investors on **Wednesday, October 21, 2020, at 2:30 pm (IST) to discuss the financial results of the Company for the quarter ended September, 2020.**

The above information will also be made available on the website of the Company:  
[www.iexindia.com](http://www.iexindia.com)

You are requested to take the above information on record.

Thanking You

Yours faithfully,

**For Indian Energy Exchange Limited**

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

Encl: as above



# “Indian Energy Exchange Limited’s Q2 FY’21 Earnings Conference Call”

**October 21, 2020**



**MANAGEMENT: MR. SATYANARAYAN GOEL – NON-EXECUTIVE  
CHAIRMAN OF THE BOARD, INTERIM MANAGING  
DIRECTOR & CHIEF EXECUTIVE OFFICER, INDIAN  
ENERGY EXCHANGE LIMITED  
MR. VINEET HARLALKA – CHIEF FINANCIAL OFFICER,  
INDIAN ENERGY EXCHANGE LIMITED**

**MODERATOR: MR. ABHISHEK PURI – AXIS CAPITAL LIMITED**



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October 21, 2020*

**Moderator:** Ladies and gentlemen, good day and welcome to the Indian Energy Exchange Q2 FY'21 Earning Conference Call hosted by Axis Capital Limited. As a reminder, all participant lines will be in the listen-only mode and there will be an opportunity for you to ask questions after the presentation concludes. Should you need assistance during the conference call, please signal an operator by pressing '\*' than '0' on your touchtone phone. Please note that this conference is being recorded. I would now like to hand the conference over to Mr. Abhishek Puri from Axis Capital Limited. Thank you and over to you, sir.

**Abhishek Puri:** Thank you, Janice. Good afternoon, ladies and gentlemen. On behalf of Axis Capital, I am pleased to welcome you all for the Indian Energy Exchange Q2 FY'21 Earnings Conference Call. We have with us the management team of IEX, which is represented by Mr. Satyanarayan Goel – who is the Non-Executive Chairman of Board, Interim Managing Director and Chief Executive Officer; Mr. Vineet Harlalka -- Chief Financial Officer and the Entire Management Team.

We will begin with the “Opening Remarks from Mr. Goel”, followed by an “Interactive Q&A Session.” So over to you, sir.

**Satyanarayan Goel:** I welcome you all to the Q2 Fiscal Year 2021 Earnings Call of IEX. I hope all of you, your teams and families continue to stay safe and healthy. While we are still coping up with COVID pandemic, efforts are being made across the country to revive the economic engine and cautiously moving towards the business as usual as well.

As a critical part of the energy and power sector ecosystem, the exchange continues to be committed to facilitate the distribution utilities and industrial consumers in procuring 24x7 power in the most competitive, transparent and efficient manner. The Q2 of the fiscal year 2021 has been significant one for the IEX. During the quarter, we witnessed the launch of yet another new market segment, which is Green Term-Ahead Market. We continued momentum on our customer outreach efforts to disseminate awareness and build capacity through various webinars as well as digital engagements. We upgraded the technology platform to support the green markets. We further strengthened our subsidiary, IGX, through equity infusion as well as filed an application for approval with the PNGRB, the gas regulator.

With these and many more initiatives, we could achieve and sustain a positive momentum in terms of our business and financial performance even during these unprecedented times. We acknowledge and thank our members, clients, employees and all our energy ecosystem partners for their continued support.

Now, I will talk about Economic and Industry Update. The second quarter of fiscal 2021 saw significant relaxation in the lockdown restrictions across the country. We saw a sharp recovery in industrial activities in the months of August and September 2020. This is evident from the fact that manufacturing PMI for the month of September 2020 rose to 56.8 from 46 in July 2020,

notably September witnessed the highest manufacturing PMI numbers in the last eight years, which is an encouraging sign for the economy.

With an increase in economic and commercial activities, power demand also returned to pre-COVID levels in September 2020. India witnessed 4.6% year-on-year increase in the national energy consumption. However, due to slump in the months of July and August, overall national energy consumption declined by 0.5% in Q2 on year-to-year basis. India's total installed power capacity has reached 373 GW as on September 30, 2020, an increase of 3% on year-to-year basis. In line with the national vision to increase the share of renewable energy and efforts to fulfill the commitment under Paris Climate Agreement 2016, the renewable energy capacity has registered growth at a rate of 8%. As on 30th September 20, India's installed renewable capacity increased to 89 GW and constitute about 24% of the total installed capacity.

On the regulatory front, during the quarter, Uttar Pradesh Electricity Regulatory Commission issued Draft Merit Order on Despatch & Power Purchase Optimization Regulations 2020, aimed at improving the efficiency in generation and power procurement in the state. The regulation rightly recognizes the exchange based short term power market as a possible avenue for power purchase by distribution companies and for efficient and cost-effective optimization while meeting the state's overall demand/supply situation. Given that such regulations are already in vogue in the states of Delhi and Maharashtra and serve as a precedence for other states in pursuing an efficient merit order despatch for procurement of electricity.

As regards the gas industry, PNGRB issued the final Gas Exchange Regulations on September 28, 2020, which is a significant development for the gas market in India. It will mobilize the market and should hopefully accelerate the pace of trading.

Financial and Business Performance - On a standalone basis, the quarter witnessed 4.9% YoY growth in revenue from operations on account of an increase in volumes, however, due to a decline in treasury income, overall revenues increased by 0.8% YoY. Profit before tax increased by 1.5% YoY from Rs 60.65 crores to Rs 61.56 crores. PAT at Rs. 46.70 crores was down by 4.4% as compared to Rs. 48.82 crores in Q2FY'20. Last year PAT was more because of one-time tax benefit of Rs 3.7 crores.

The electricity volumes on the Exchange witnessed an increase of 13.2% YoY in Q2FY'21 and stood at 16,486 MU as compared to 14,560 MU in Q2FY'20. The REC trading could not take place during the quarter owing to stay order from Honourable APTEL, and hence the total volumes including REC saw 3.8% YoY growth during Q2FY'21.

The day-ahead market on the Exchange continued to see robust volume on the sell side with sell side volumes at 2.2x of cleared volumes, the market witnessed average clearing price of Rs.2.53 per unit, a very competitive price, and last year during the same quarter it was Rs.3.15 per unit, a decrease of almost about 20% in the clearing price. This enabled the distribution companies



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and industrial consumers to make significant cost advantages by purchasing power through the exchange. Attractive prices also led to 40% year-on-year increase in the open access volumes on the exchange platform.

The real-time electricity market, which was launched on 1st of June, also continue to witness robust volume and traded 2.350 billion units of volume in Q2. On a cumulative basis market crossed a milestone of 3 billion units on 6th of October this month.

Q2 Initiatives - We are pleased to inform you that in line with our efforts to commence trade in the long duration delivery-based contracts, we have filed a petition with CERC for its approval. Simultaneously, the exchange is working towards ramping up its market operations, business communications and technology infrastructure to support commencement of trading in the new market segments. During the quarter, we launched a new market segment, Green Term-Ahead Market on August 21. The market witnessed an encouraging response from the participants with cumulative traded volume of 75 million units. On every day we trade almost about 1,000 MW during the peak hours. On the first day of the launch of GTAM, there was participation of only about six participants, and today we are seeing participation of almost about 40 participants on daily basis, and average volume is about 8 to 10 MU per day.

IEX continues to strengthen IGX platform through various capacity building initiatives and investments. We have also filed application with PNGRB for the authorization and being a regulated entity would bring in more credibility to the platform, enabling greater penetration of the gas market. We continue to undertake various policy and regulatory advocacy, market development as well as customer outreach initiatives with an aim to build the pickup of positive trade momentum.

While COVID-19 has adversely impacted the energy and power sector, a favorable policy and regulatory framework could unleash transformation in the sector. We feel time is opportune to establish a new market-based energy order which is forward-looking and consumer-centric for India's economic growth. IEX is committed to support this transformation and ensuring reliable energy and power procurement in the most sustainable, efficient and flexible way.

Thank you. I and my colleagues would be pleased to answer your questions now.

**Moderator:** Thank you very much. Ladies and gentlemen, we will now begin the question-answer session. The first question is from the line of Mohit Kumar from IDFC Securities. Please go ahead.

**Mohit Kumar:** Two questions sir. First is, what is the expected timeline of power market regulation and does launch of TAM require only CERC approval or it requires the Supreme Court judgement?

**Satyanarayan Goel:** Power market regulations, we were expecting them to be issued in the month of September. But then as you are aware, because of the Supreme Court order, two of the members are now on

leave, so, the quorum is not available in CERC. So only when a member law is appointed and other members are allowed to function, I think then they will take up this PMR activity. So nothing can be said right now when the PMR will be issued. As far as long duration contracts are concerned, we have filed our application with CERC for approval. But CERC will take up the approval only after the jurisdiction issue is settled by the Supreme Court. So, we have filed this petition basically to save time on procedural aspect, otherwise CERC will give the approval only when the Supreme Court issue is settled.

**Mohit Kumar:** When do you expect Supreme Court approval to be in place sir?

**Satyanarayan Goel:** Very difficult to say, it was a joint application filed in the Supreme Court by the parties which are SEBI, CERC, Ministry of Power about a year back and during this COVID time unfortunately only urgent matters are being taken up. So this hearing is getting postponed and the hearing was to happen on 8th of October, it has now been shifted to December 1<sup>st</sup> week. It is getting shifted from the last seven, eight months. So I cannot really say whether it will happen in the month of December or not.

**Mohit Kumar:** Secondly, on the gas volumes, of course, last quarter was very muted. How do you think gas volumes will be in the next few years? And do you think all the enablers for creating a gas trading market are taking shape? And if you think that, can you just update on all the enabling regulation which can materially increase trading on the gas exchanges?

**Satyanarayan Goel:** When we started electricity exchange in 2008, at that time, all enablers were in place for starting the electricity exchange, enablers like, we had a system operator, which is NLDC, RLDC, SLDC. There was a deviation settlement mechanism which was in the form of UI. We had open access regulations by CERC, non-discriminatory open access to all participants. There was no taxation on interstate sale of electricity. So all these issues were settled. And the trading of electricity became a reality from day one when we launched IEX. In case of gas exchange, we knew that many of these enablers are not in place. But then even to get these enablers in place, there is a lot of policy advocacy to be done. We launched this exchange and activities are happening but then transactions will happen in a big way only when these enablers are in place. First thing is gas market regulations. We launched the gas exchange on 15th of June. In the month of July, the draft regulations were issued. And after the public hearing, the final regulations were issued on 28th of September. So, that is one enabler which is now in place. PNGRB has issued draft regulations for the access code and also issued regulations for the gas transportation tariff, and they are again coming out with the simplified gas transportation tariff system in November which is required for the exchanges. So that is other activity which is work-in progress. Gas is unfortunately not under GST. So, different states have got different taxation on the gas. And because of that, it is very difficult to introduce standard contracts on the gas exchange. We are working with the government. What we understand is that government has already referred this issue to the GST Council. Hopefully, that should also happen in the next couple of months. On System operator, GAIL is already working in this area. They have in one

of the offices, all pipelines, metering systems, all those activities have been provided, all information systems are available now with them, they are also going to do this data gathering from the other pipeline operators. So I think system operator also will be operational maybe in the next couple of months. So, on all these enablers, it is work-in progress. It may take another five, six months and only thereafter, we will see gas trading in a big way. Even if you look at the infrastructure part of it, gas LNG terminals, regasification terminal, today we have only two regasification terminals which are operational which is by Petronet and Shell. Petronet terminal is overbooked and operating at more than 100% capacity under the long-term contracts. Shell terminal also operating in 100% capacity. So, if you want to develop the market, I think we need more terminals so that spare capacity is available for the traders who want to bring cargo and sell in the market. A lot of activities are happening on the regasification terminal. I understand work is happening on five, six terminals and maybe two, three terminals will get commissioned in the next one year. Pipeline also, lot of work in the eastern and southern part of the country is happening. We should see interconnected gas pipeline network in the country, the way we have for the electricity, and that will be the time when we will have real good volume on the gas exchange. So what we are doing at the moment is investment in the gas exchange and creating all these enablers and I am sure about one thing, that opportunity in the gas exchange is much bigger than what we are doing in electricity. Because in case of electricity, 90% of the transactions are happening under long-term contract. The short-term market is very small at about 10%. In case of gas exchange, already the short-term market is about 15% to 20% of the gas consumption and going forward most of the incremental quantity is going to happen under the spot contracts. The opportunity for the gas exchange is much larger.

**Moderator:** Thank you. The next question is from the line of Nikhil Upadhyay from Securities Investment Manager. Please go ahead.

**Nikhil Upadhyay:** Sir, my question is on the RTM market. So, the earlier idea was that when we launch the RTM market, there will be a shift of the market from the DSM to the RTM. What we have seen is that the RTM is cannibalizing the TAM market. So how are you seeing, is there a shift which is happening from DSM to RTM, and how are you seeing the scale up in the TAM market? That is one. Secondly, on the long-dated contract, when we talk of volumes of 20 billion units and on the Green TAM and all, do you see there could be similar cannibalization which can happen from our existing volume?

**Satyanarayan Goel:** Yes, initially, we thought that a substantial part of DSM will get shifted to the RTM market. But actually, what has happened is our intraday TAM transactions, they have now reduced practically to zero and the transactions have got shifted to the RTM market. Because that makes a lot of sense also, now distribution companies can buy on real-time basis, and at a competitive price. At the same time, volume in the RTM markets are much more than what we used to do in the TAM market. So, a good part of the volume is also the additional volume for the exchange. Because of the competitive price, many of the states are replacing the high variable cost by purchasing power in the real-time market. We are working with the states. We are doing analysis

of the power drawn by the states under DSM, what kind of penalty they have paid, at what rate they have overdrawn that power and does it make sense for them to replace that DSM power by the exchange power. We are doing all that kind of analysis. It will take some time but some shift from the DSM to RTM will definitely happen.

**Nikhil Upadhyay:** And secondly, on this long duration contract and the new product which we are launching where we believe the volumes of 20 billion units, additional volumes come up, do you see there is a risk of cannibalization of existing volumes there as well or how do you see...?

**Satyanarayan Goel:** In the long duration contracts, I do not think there is a risk of cannibalization of the DAM markets because DAM market is on day-to-day basis, it is the difference in the demand and supply of the distribution company which gets purchased from the market. Long duration contracts will be basically getting volume from the bilateral market. Today, bilateral market, volumes are also about 40 billion units. So maybe part of those volumes will get to the long-term contracts.

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

**Devansh Nigotia:** Sir, my question was relating to long duration contract, where earlier we highlighted that, we will be looking for reverse auction pricing mechanism, which is basically similar to what is actually happening right now in the DEEP platform. And I think there are no transaction charges on the platform as of now. And we will be taking transaction standard two paisa per unit. So, I mean, what will be the value proposition that we will be offering for which volumes on bilateral will shift on our exchange, if you can just throw some light on that?

**Satyanarayan Goel:** On the DEEP platform, it is only discovery of price which is happening. Once the price is discovered, then the DEEP platform will indicate who are the and thereafter it is up to the distribution companies to enter into agreement with those sellers. And then future delivery, financial and physical settlement is happening between the discom and the seller directly. DEEP platform is only doing price discovery after that their role is over. In case of our long duration contracts, there are going to be auction mechanism, and also matching mechanism. In addition to price discovery, we will do physical and financial settlement also, we will take open access and ensure the supply to the distribution company and payment to the generators on daily basis. That is the value add which we are going to provide.

**Devansh Nigotia:** So responsibility of the payment and delivery of the volume ...?

**Satyanarayan Goel:** We will be counterparty to all these contracts.

**Devansh Nigotia:** In case of REC, there was this news flow where the APTEL has actually concluded that REC trade can now continue. So if you can just reclarify on that and when can we see REC volume back on the exchange if you have any visibility?



**Satyanarayan Goel:** APTEL has not issued order, APTEL has concluded the hearing, order is reserved, we are expecting order in this week so that REC trading can happen on 28th of October. Market participants have all requested the APTEL that for three months trading has not happened, so they should issue the order before 28<sup>th</sup> so that the trading can happen on 28<sup>th</sup> of October. We are waiting for the order.

**Devansh Nigotia:** If you can just throw some light on the increase in employee cost, I think it has increased by 10%, so if you can just divide it between increase in number of employees and increments that we have given if any? And other income, I mean, normally we do a run rate of Rs.11 crores, and it has been Rs.8.5 crores. So if you can just elaborate on these two differences?

**Satyanarayan Goel:** I will request Mr. Vineet Harlalka, our CFO to reply.

**Vineet Harlalka:** Thanks. First of all, I would like to answer on the treasury income. You rightly said, treasury income during the September 2019 quarter, we had around Rs.8 crores and in the June, it was around Rs.13 crores on a consolidated basis. But if you look at the trend in the interest rate, the interest rates have fallen significantly. And in the June what happened because of the first quarter when the interest rate was reduced significantly by the RBI because of the COVID, so there were a lot of mark-to-market gains, which we got in the first quarter which is around Rs.5 crores. June was an exceptional quarter because of the mark-to-market gain what we have because of the lower interest rates. So this was the one factor. Now we look at the manpower cost. Manpower cost has increased by 10%. But if you look at a lot of new contracts we had launched, RTM & GTAM for our market and others for which we need manpower, and the annual increment impacts were there. So there was some add-on provision for the gratuity and the provisioning was there. These are the basic factors, but looking at the overall structure, I think now we have reached the level where we are going to sustain this cost for at least the near-term.

**Devansh Nigotia:** What would be the average yield on the bonds right now, or our treasury income average?

**Vineet Harlalka:** Average gross yield we are getting for the overall September quarter this year, is around 5.6%.

**Devansh Nigotia:** And if you can just elaborate more on Indian gas exchange, where there was a debate around the percentage of ownership that we want to retain, and we even made an application for that. So what is the current status where GAIL was a prospective buyer, with whom we could have sold some stake, so if you can just reclarify a bit on that?

**Satyanarayan Goel:** Yes, GAIL was interested in taking 26% equity and come as a strategic investor in the company, but PNGRB, regulations provide that members can only have 5% equity in the company. GAIL is a large seller in the country, and they are also our member. So I think they will get only 5% equity in the company. We are also in discussion with a couple of strategic investors who are large players in the gas sector for investment in the company. This is basically to get more value for this initiative. Otherwise, as on date, it is IEX which is holding 100% equity in the company.



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**Moderator:** Thank you. The next question is from the line of Lavina Quadros from Jefferies. Please go ahead.

**Lavina Quadros:** Just two questions from my end. So one is October, what volumes I am seeing on your website, it indicates very strong growth. So I just wanted to understand are there any one offs or maybe just a low base effect? That is one. And secondly, sir, any color on states that are contributing, I mean, within all your states any particular state that has increased contribution or someone that has reduced?

**Satyanarayan Goel:** October is not one-off, even September, we had volumes growth of 45%, even in the month of May also we had I think a similar kind of volume growth. So yes, one is base effect also, other is in fact in the month of October, the per day average volume itself is quite significant. RTM market is also giving almost about 25 MU per day. Green Term-Ahead Market is another 7 to 8 MU per day. So I think overall volumes are good in the month of October. And I am sure, going forward also as the consumption of electricity keeps on increasing, the volume on the exchange should also be significantly better than last year. On States contribution, we are seeing participation of all states. Large states like Maharashtra, Tamil Nadu, Telangana, Punjab, buy was significant. In case of Punjab the demand is higher during rainy season. Buying is more or less spread over all the states except for the eastern region where buying is competitively much lower.

**Moderator:** Thank you. The next question is from the line of Ankush Agrawal from Stallion Asset Management. Please go ahead.

**Ankush Agrawal:** Two questions. Firstly, if you can give like how much percentage of total short-term market is currently addressable by IEX? And by what time do you expect a level wherein IEX would be able to address the entire short-term market like we are looking to launch new products in terms of long-term contracts. so will that be able to give you a product portfolio, that will be able to address the entire 100% of the short-term power market if you can clarify that? And secondly, in some of your presentation, I have seen a mention of you looking to market banking contract as a new product. So, just want to clarity on this, is the banking contracts volume which has been currently undertaken by discom, is it separate from the short-term power market, like is it over and above the short-term power markets or it is included in the short-term power market?

**Satyanarayan Goel:** Today, short-term market is almost about 11% of the total generation and IEX exchange share out of that is almost about 35% to 40%. But I am glad to share with you that this year in the first six months, our share has been 50% of the short-term market, there is a significant increase in our share. So, that is one thing good which has happened. The short-term market consists of exchange, bilateral transactions, DSM and the banking transactions. So, when we introduce long duration contracts, with that, our reach will be increased from 50% to maybe about 70%, 75% of the addressable short term market. And with the real-time market, we are also trying to get some volume from the DSM market. Banking transactions, it may not be possible for us to introduce equivalent of the banking transaction, but then we are working with the states that they

can sell power on the exchange platform and maybe bank that money and use that money to buy power when they needed. So, this kind of financial products also we are working on that. I think with all these things, whether we will be able to get the entire short-term market or not, difficult to say but then, yes, addressable market size will increase to 11%, 12% in the next two years.

**Ankush Agrawal:** So just one clarification on this. So with long duration contract, you expect the total addressable short-term power market would be 70%, 75% for IEX and with some variation of a financial contract which would be similar to banking, you expect the total addressable market to be 100% for IEX short term?

**Satyanarayan Goel:** Yes, but, out of that, how much we are able to get is a question.

**Ankush Agrawal:** Yes, how much IEX will be gathered, that would be a separate thing. But the addressable would be 100% post that.

**Satyanarayan Goel:** Yes, you are right.

**Moderator:** Thank you. The next question is from the line of Abhishek Puri from Axis Capital. Please go ahead.

**Abhishek Puri:** On the REC market that you mentioned earlier, if it starts from now, would it mean that the demand which is not met for the last three months will be pent up demand or is it already met elsewhere and we will not see the last three months volumes?

**Satyanarayan Goel:** No, the demand is not met... there is no other product available to meet the demand. Buyers will have to meet the demand through purchase of REC. But because of pandemic, many of the states are giving carry-forward benefit to the distribution companies. Some of the states are doing that. So whether the REC volume will be similar to what we did last year? I think it will depend, we will have to wait and see in the next couple of months, but with the reduction in the REC price, CERC has revised forbearance price and the base price from Rs.1,000 and Rs.2,400 it is now down to zero rupees and Rs.1,000. So REC prices are expected to be significantly lower. And with that, we feel that the purchase by industrial consumers and captive industries could be significantly higher.

**Abhishek Puri:** And this is why APTEL case was there, right because the REC owners had questioned the reduction in rate?

**Satyanarayan Goel:** Yes, you are right.

**Abhishek Puri:** Secondly, in terms of the transmission charge notification, what is the status now, is it stuck because CERC has not started functioning?

- Satyanarayan Goel:** Transmission charge sharing mechanism, will be effective from 1<sup>st</sup> of November. The order was issued by CERC much earlier. NLDC is working on the calculation of charges. And what I understand is it will be effective from 1<sup>st</sup> of November. There are not too many changes in that. It is all administrative activity now.
- Abhishek Puri:** The notification is already out?
- Satyanarayan Goel:** Yes, notification was issued much earlier.
- Abhishek Puri:** And my last question, sir is, NTPC is participating and we are looking at the constituent, they are participating in RTM, but they do not participate in DAM. Any specific reason why you think they have started in RTM, but not in DAM?
- Satyanarayan Goel:** In case of NTPC, entire power is allocated to the states. So states have right to revise the schedule on that during the day also with one-and-a-half-hour notice. But in case of real-time market as per the regulations, un-requisitioned power can be sold by them in the RTM market. So that is the flexibility which they have in the real-term market and that is why they are able to sell power in the real-time market.
- Abhishek Puri:** Any regulation which is pending to get them to the DAM market also?
- Satyanarayan Goel:** We were doing the policy advocacy that all un-requisitioned power on day-ahead basis to be allowed to be sold in the DAM market, that will bring a lot of liquidity in the day-ahead market. But unfortunately, that has not been so far accepted by the regulator and the government.
- Moderator:** Thank you. The next question is from the line of Suraj Ravinder from Prithvi Finmart. Please go ahead.
- Suraj Ravinder:** So my question is regarding the market coupling. Is there any update on the draft paper that was issued two to three months back?
- Satyanarayan Goel:** Market coupling is enabling provision which was introduced in the draft market regulations and there was a public hearing on that. I am sure you are aware about what was the view of different participants. We also presented our case and whatever discussions we had during the presentation and subsequent to that, we understand this is an enabling provision, and maybe this has come mainly because of the MBED. In 2018 a discussion paper on market based economic dispatch was issued. If you want to mandatorily do all transactions through the exchange for the 100% of the power generated in the country, then I think you need one price to settle the transactions. And that is why you need market coupling. So therefore, this concept was introduced, and enabling provision was created in the discussion paper. I do not think anything is going to happen in the near future. And I really do not know whether it will be there as a part of the final regulations or not.

**Moderator:** Thank you. The next question is from the line of Aniket Mittal from Motilal Oswal. Please go ahead.

**Aniket Mittal:** Sir my first question is on the open access front. If you could just let me know what sort of your total volume is coming through open access for 2Q and 1H? And this is note on that, typically what has happened is over the past one year we have seen an uptick in open access volumes. But whenever such a situation happened, states have sort of increased the additional surcharges, especially given the power demand situation is pretty low. So, based on your assessment, how are sort of states also reacting to this, are they increasing the surcharges for open access?

**Satyanarayan Goel:** Yes, there has been significant increase in the open access volume during this last six months, increase of almost about 32% in that in the last 3 months, mainly it has happened because of the low clearing price, our clearing price during this time was about Rs.2.50 against Rs.3.15 in the last year. So, the increase in open access was mainly on account of the low clearing price. States are still not encouraging open access. The tariff barriers and non-tariff barriers are still being created. We are working with the states and the state regulators. But the access is in a very limited manner. Open Access volume in first half is 26%. And if you look at second quarter, it is about 32%.

**Aniket Mittal:** My second question is probably just to harp a bit more on the DSM, RTM dynamics over here. Obviously, DSM still continues to have a 2% market share on the overall volume. So just trying to understand from let us say a medium term perspective, what is required for IEX to get that shift from DSM to RTM, is there a low amount of participation that we are still seeing on RTM, is that the reason why or is there a thinking now that the one hour timeframe actually may not be sufficient, maybe that one hour time over a period of time come down for the shift to happen?

**Satyanarayan Goel:** We are working on that. If you look at the DSM price, DSM price are linked to the day-ahead price, with the reduction in the clearing price in the day-ahead market, the DSM rates also have reduced. DSM becomes costly only in the event there is overdrawl beyond the specified limit. So we are doing these calculations for state-by-state. What is the quantum of overdrawl beyond the limit, what kind of rate and penalty they have paid under these overdrawl, and whether there was an opportunity for them to optimize and how they could have done that? I think these kinds of analysis and interactions with the state over the period of time then only we will be able to get the volumes from the DSM to the real-time market.

**Aniket Mittal:** Still you can see increased participation coming from discom, and that could probably...?

**Satyanarayan Goel:** Yes, the participation every day is more than 400 participants participate in the real-time market.

**Aniket Mittal:** Can you please provide an update on how GTAM is progressing, what sort of response are you seeing on that front especially in terms of participants? And also with the REC in place, how does that dynamic work for you?

**Satyanarayan Goel:** When we started GTAM on 21st of August, the volume was 0.2 MU, and these days we are seeing almost about 9 to 10 MU per day. The participation has significantly increased; almost every day 40 participants participate in this market, we are seeing generators selling power and good thing is also from the distribution companies like Andhra Pradesh, Karnataka, Telangana which have larger renewable portfolios and power availability is more than the RPO obligation of the state. So they sell that excess green power on the exchange platform and take advantage of that because clearing rate in the green market is almost about 70 to 80paise more than the rate cleared in the conventional market. But they get that premium by selling power in the green market. Earlier states were backing down the green generation when the demand was less. Now they have a market to sell that power instead of backing down the generators. This is a very big development and very positive for the renewable generators also and for the states also.

**Moderator:** Thank you. The next question is from the line of Yash Nerurkar from PPFAS Mutual Fund. Please go ahead.

**Yash Nerurkar:** The first question which I had was on REC. So, I heard in the call that you were not able to trade and the REC volumes were low. So, could you throw some light on this? That is my first question. And secondly, I just wanted to understand the difference between Green Term-Ahead Market and the REC market like what addresses which market? So, if could just throw light on these two questions.

**Satyanarayan Goel:** Yes, Green Term-Ahead Market, you are purchasing electricity and also the green attribute of electricity. So, you are meeting your energy demand and at the same time, you are also fulfilling your green obligations. In the REC market, you are only buying the green attribute, for example, industry, which has got its own captive generation, there is RPO obligation applicable for that industry. So, since they have already met their requirement from the captive generation, they will have to buy REC from the market to meet the RPO obligation. But if there is a state which is wanting to purchase power and also have to combine the RPO obligation, they can purchase green power to meet both of them.

**Yash Nerurkar:** And sir, about the REC certificates, like, there was no volume, so what exactly happened, the prices were lowered by the regulator?

**Satyanarayan Goel:** The volume is not there because transactions are not happening because of the APTEL stay order. I am sure this month the order should come. And we should see transactions in the REC market also from 28th of October, which is the last Wednesday of the month.

**Moderator:** Thank you. The next question is from the line of Sujit Jain from ASK Investment. Please go ahead.

**Sujit Jain:** Sir, a few quick questions. Any update on CEO search? What were the admission and annual fees for Q2? MCX has tied up with Mjunction for coal exchange. Now, in energy markets, IEX

clearly has the lead and monopoly in spot transactions. So, will it be too much to expect now that we have launched a gas exchange to also take on something like a coal exchange?. And if you can quickly elaborate on the states that you just mentioned that is Maharashtra, etc., on the draft merit dispatch, what exactly that it is, and what impact it has on the power market?

**Satyanarayan Goel:**

So first is on CEO search. The board is working on that. I will not be able to tell you anything beyond that. But there are no uncertainties as far as the company is concerned. You have somebody who is looking after the company who was with the company for a long time. Do not worry about that. There will be no vacuum as far as the CEO is concerned. On Mjunction and MCX, it is very difficult to say what kind of a coal exchange they are talking about. Because what I understand about exchange is exchange which is doing price discovery and also physical and financial settlement. Physical and financial settlement can be done for a commodity, in which there is no issue regarding quality and quantity. If you look at electricity or the gas, these are measured by automatic online measurement of the quality and quantity. In case of coal, I am sure you are aware what kind of coal we have and what kind of issues we have in the coal market. So, whether it is going to be a coal exchange, or it is going to be a reverse auction mechanism for price discovery similar to what we have on the DEEP platform, I am not really aware of what is their business model. Your third question is regarding annual fees. For Q2 it is Rs.4.46 crores.

**Sujit Jain:**

And finally, the draft merit order dispatch, Maharashtra and Delhi, they already have that in place. What exactly is the impact it has?

**Satyanarayan Goel:**

Let me briefly explain you what a merit order dispatch is. Normally states are purchasing their power based on the long-term contract. So, they try to meet the demand through the long-term contracts and if there is a shortfall in demand, then they purchase power through the bilateral or the exchange. Now, regulator in case of Maharashtra and Delhi, have said very clearly that when you are setting your merit order, you should also factor in the exchange clearing price. If exchange clearing price is lower than the variable cost of some of your plants with the long-term contracts, you should back down the power from those costly plants and purchase power from the exchange. That is a true merit order because you are replacing high cost variable power. And there are many plants in the country where the variable cost is much higher than the exchange clearing price. So, if everybody starts doing merit order dispatch, then in that case, you will find that the objective of MBED will be automatically met through this merit order dispatch process.

**Sujit Jain:**

And one quick question on MBED. In MBED, you will first look at sources where you have the cheapest variable cost, you will exhaust them, then to the next source, the entire architecture at a particular point in time will be under an MCO. In that pan India level, they will be having, but you also have to honor the PPA. So some of that saving will be passed on to the producers of power, but some of the savings will be retained at the national level. To that extent if I have a PPA at a price that may not be the best price or remunerative price, but I will still get that price under that PPA, right?

- Satyanarayan Goel:** Let me interrupt you. For discussion on MBED, we need one full good hour. I am willing to spend time with you. Let me tell you in brief that, with MBED the intention is to dispatch entire power of the country through exchange to meet entire demand of the country on the most efficient manner. So it is a true merit order despatch which will happen under the MBED. It is very simple to hear. But if you want to implement this process, there are many complications. All those complications will have to be addressed. You have to pay the capacity charges, you will have to pay for the energy charges on daily basis and there is going to be contract for difference, all those things will have to happen. I think it is as complicated as GST, very difficult to implement in the country. You also need the consent of the state. So I think it will need time, not going to happen very soon.
- Moderator:** Thank you. The next question is from the line of Ankit Gupta from Alchemy Capital. Please go ahead.
- Ankit Gupta:** As per your given volumes, pricing per unit compared to the last quarter or even last year is relatively lesser, is there pricing pressure or is the pricing derived in RTM market or other market?
- Satyanarayan Goel:** As far as the transaction fees is concerned, it is constant, it is same as last year and this year, there is no change in that, there is no reduction or any incentive or discount on that.
- Ankit Gupta:** Our volume growth is 13% but our revenue growth is only 5%. Why it is so?
- Satyanarayan Goel:** REC volume has not happened because of APTEL stay order, you are seeing only electricity volume growth, you are not seeing the REC.
- Ankit Gupta:** Second, what are the volumes in the gas exchange which we did this quarter?
- Satyanarayan Goel:** IGX volumes are very low, as I told you, we are working with the government and regulators to put enablers in place. All those enablers will have to happen. We are not really today worried about the volumes. I think for the next couple of months we will have to work aggressively with the government to put these enablers in place. And thereafter I am sure there is large opportunity.
- Moderator:** Thank you. The next question is from the line of Pavan Kumar from Ratna Traya Capital. Please go ahead.
- Pavan Kumar:** Sir, REC volumes contribute what portion of our entire revenues?
- Satyanarayan Goel:** REC volumes constitute almost about 12%, 13%.
- Pavan Kumar:** And regarding the other expenses part which fell down by 52%, Rs.8.5 crores other expenses, is it a sustainable kind of run rate?



- Vineet Harlalka:** Other expenses if you look into it, the significant fall in reduction in comparison to the Q1, mainly is because of the CSR expenses because the Rs.5 crores contribution in the PM CARES which the company made during the Q1, that is the major differentiation. And secondly, because of the COVID restrictions, so a lot of the activities are on hold. So when the opening up happens, some cost will definitely go up on this side, but not significantly.
- Pavan Kumar:** Any idea of what would be the sustainable run rate that we can take on this particular...?
- Vineet Harlalka:** If you look into the average, other expenses will be in the range of Rs.5 crores to Rs.6 crores.
- Moderator:** Thank you. The next question is from the line of Saloni Jindal from Everyday Capital. Please go ahead.
- Saloni Jindal:** I wanted to ask if market coupling is introduced, what have we set for the company in the future?
- Satyanarayan Goel:** So the point is when will market coupling get introduced? If we are introducing market coupling with the MBED there is no threat because today, exchange volumes are 60 billion units, after MBED this will multiply by 25 times to 1400 billion units, entire generation of the country will happen through the exchange. So I do not see any threat in that or any challenge in that. But in the existing market of 5%, there is no case for introducing market coupling. What is one going to achieve by doing the market coupling in the existing market? Existing market is a voluntary market. MBED is going to be a mandatory market. In the mandatory market you need single price discovery. In a voluntary market you do not need a single price discovery. We have NSE and BSE. There is a price difference between the stock price between these two exchanges. We still have MCX and NCDEX. So these kinds of variations will be there. I do not think regulators are thinking of coupling those markets. So in the existing voluntary market, I do not think there's any case for coupling it. And with MBED, we have no issues, in fact it is a big opportunity for us.
- Moderator:** Thank you. The next question is from the line of Utsav Saraf, individual investor. Please go ahead.
- Utsav Saraf:** Our power volume is traded only 3% in the organized market.
- Satyanarayan Goel:** No, now a days it 5%.
- Utsav Saraf:** What are we doing to do to make that from 5% to 10%, what is the progress over there?
- Satyanarayan Goel:** I told you that real-time market, long duration contract we are doing all this work. The real-time market is already started and in this market the volume is also good. When we will launch the long-duration contract then the addressable market size will be increased from 5% to 10%. Now from that how much our share will increase we will see that, but the market size will increase for exchanges.

- Moderator:** Thank you. The next question is from the line of Kunal Gandhi from Banyan Tree Advisors. Please go ahead.
- Kunal Gandhi:** Sorry, I joined late. My question maybe repetitive. Wanted to understand and have a sense on how should one read into the employee cost in this quarter like is it a one-off increase or it is a more sustainable run rate going ahead?
- Vineet Harlalka:** There are two components which is annual increment also there was increase in employee cost because of the launch of new products. So, we have taken additional manpower. I think going forward it is going to remain in this range.
- Kunal Gandhi:** Okay, that is Rs.12 crores per quarter? And the second question was on green TAM. So, when we look at the volume, this would be classified under the TAM itself, right, if I were to track the daily or the monthly volumes, so, it would be classified in the overall TAM, right or they would be in terms of classification....?
- Satyanarayan Goel:** Cannibalization of TAM has happened because of RTM. So TAM volume has shifted to the RTM. Green term-ahead market is a market for the green power, I mean, you can compare it with REC, but in case of the green market, it is energy plus green attribute.
- Moderator:** Thank you. The next question is from the line of Swarnim Maheshwari from Edelweiss Securities. Please go ahead.
- Swarnim Maheshwari:** Two questions. First, anything on the derivative platform that we have planned, the shape and the form?
- Satyanarayan Goel:** Number one, derivatives in electricity can be introduced only after the jurisdiction issue is settled by the Supreme Court. Because today derivative will be regulated by whom? That is an issue. In fact, SEBI, CERC, Ministry of Finance, Ministry of Power, they all discussed this issue, minutes have been signed, and they have been filed with the Supreme Court, that derivatives will be regulated by SEBI and long duration, delivery contracts will be regulated by CERC. So, once that case is disposed off by Supreme Court, then SEBI will be able to introduce financial contracts in electricity also. And these will be introduced on SEBI regulated exchanges. But you know this will have advantage in electricity market also. There is lot of volatility in the price. So user will be able to hedge his position in the derivative market and take delivery in the spot market. So a part of the bilateral contracts will then get shifted on the exchange platform.
- Swarnim Maheshwari:** Sir, the hearing was supposed to take place on 8th of October, but we have not heard anything on that?
- Satyanarayan Goel:** Before 8th October itself the hearing got shifted to December.

**Swarnim Maheshwari:** So actually, means that we were looking to launch LDC by December end. So now that actually looks a bit possible?

**Satyanarayan Goel:** Yes, yes, you are right.

**Swarnim Maheshwari:** Just a second question sir. This is actually on GTAM. Now sir, right now, we are at about 1 GW. Now, what according to you would be the changes required for GTAM market to go from 1 GW to say something like 15-odd GW? We do understand that there are new policies that is actually getting discussed with respect to higher capacity or higher merchant capacity allocation say something like an 80:20 with respect to new capacity. But the existing capacity can you see a ramp up, is it possible that from 1 GW which is 10 million units per day, can it go to something like 15-odd GW over the next few years?

**Satyanarayan Goel:** One is in the green term-ahead market, our transactions are 1 GW in the peak hours. The transaction is mainly happening during the daytime. So, average, if you look on daily basis, the volume is about 9, 10 million units. Today, there is no generator which has got merchant capacity. Entire renewable capacity is tied up under the long-term contract. So, the participation is more by the distribution companies. The distribution companies who have got surplus renewable power generation, beyond the RPO obligation, they are selling power on exchange platform. But then, if you look at the clearing price of the day-time market, this price is about Rs.3.40 which is a very lucrative price considering that price discovered under the bidding route for the renewable generators, which is around Rs.2.50. So, I am sure looking at this price, maybe in future a couple of IPPs will set up capacity under the merchant route or they will keep 10% to 15% of their capacity for selling in the market and try to take advantage of this market. So, this is how the market will get developed. Ramping up from 1,000 MW today to maybe 10,000 or 15,000 MW, will take time, I mean, we have created a market and people will now see what kind of value they can take out of this market and accordingly make investment for selling power in this market.

**Swarnim Maheshwari:** So, in GTAM right now, we have more of buy side rather than sell side, is it?

**Satyanarayan Goel:** Yes, yes, you are right. But on the sell side, we are seeing active participation of the state distribution companies which have surplus power, and today it is Karnataka and Telangana who are participating, but in the near future, we are expecting even Andhra Pradesh or Gujarat or Rajasthan or Maharashtra who have large renewable capacities to participate in this market.

**Moderator:** Thank you. The next question is from the line of Ankush Agrawal from Stallion Asset Management. Please go ahead.

**Ankush Agrawal:** Just one clarification on my earlier question. So the banking contract value, the volumes in the current short-term market annually would be somewhere around 30, 35 billion, is that understanding correct?



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**Satyanarayan Goel:** No-no, banking transactions volume are I believe about 10 to 12 billion units only. Rest of the volumes are under bilateral contracts.

**Moderator:** Thank you so much. The next question is from the line of Manoj Kumar from IDFC Securities. Please go ahead.

**Manoj Kumar:** My question is on the RTM market. You explained about how RTM is cannibalizing other segments, but if you could throw more light quantitatively on what happened in this quarter and moving forward, what is your outlook on this?

**Satyanarayan Goel:** See, RTM is not on account of cannibalization of other markets. What I told you is that term-ahead market, good part of those volumes is sitting on the RTM market. But if you look at the total volume what we have done in RTM market, that is significantly more than what we did in the TAM market. I think almost about 60% of the RTM volume is additional volume which we have got, and Q2 RTM volume, we did about 2.35 billion units in the RTM market in second quarter. I mean, RTM market is definitely going to give additional volume. To your second question, we are working with the distribution companies to shift the DSM volume to the RTM market, how can they take advantage of the real-time market to reduce their cost under the DSM, we are working with them, let us see what kind of success we get and how we are able to provide value to our distribution companies.

**Moderator:** Thank you. The next question is from the line of Rohit Balakrishnan from Vriddhi Capital. Please go ahead.

**Rohit Balakrishnan:** Sir, I just had two questions. One was, so, while our share in the short-term market has increased over the last few years, but as overall market, short term market has been stagnant at about 10%, I mean, this has been the case since our listing in 2008. So, I just wanted your views what is going to change that and what is going to increase? I know we are introducing products in the long-term market, etc., but just talking about short-term, what do you think can take this 10% to probably 15%, 20% and more which is also seen in the advanced market. My second question is, you mentioned earlier to a participant's question that this market coupling is not a risk if MBED comes in. So, if you can probably elaborate a bit more on that, that will be helpful?

**Satyanarayan Goel:** Yes, short-term market is hovering around 10% to 11% from the last I think four or five years. But government is seriously working in creating more liquidity in the short-term market. There are a few things which are happening now. One is long-term PPAs are not happening. So, whatever is the incremental demand, either it is met by the existing long-term contracts or it is going to come to the short-term market. The short-term market volume with the increase in demand will definitely go up. It is unfortunate that last year, the increase in demand happened only by 1%, and this year, there is a decline in the demand, and we may end the whole year maybe at a level of the last year or maybe lower than that. So that incremental demand has really not happened in these two years. That is why the volume in the short-term market has not

increased. Secondly, government has already decided that the old inefficient plants will be phased out because they are not complying with the environmental norms. So, when those plants are phased out, these plants are supplying power under the long-term contracts. A part of the demand also will come to the market. Further, cross-border transactions which should happen anytime, CERC has issued regulations, the procedure is to be issued by the CEA. I understand that it is into the final stages. So, if that happens, that also will bring some volume to the short-term market. I think these are the drivers for increasing volume in the short-term market. This should take the short-term market from 10% to 15% in the next two, three years.

**Rohit Balakrishnan:** The other question on market coupling and you mentioned if MBED comes in, that is not a big issue, if you can just maybe explain it in more detail?

**Satyanarayan Goel:** What I told is that in the present market model, which is a voluntary market, there is no compulsion on participants to purchase power from the exchanges. It depends on the demand and supply position. They can contract the shortfall through the bilateral market also or through the exchange and they can purchase power from any of the exchange, it is a voluntary market and it is only 5% of the total generation happening through this market. And IEX is already having 99% kind of market share in the day-ahead market and real-time market. So the competitive price discovery is already happening. I do not think we are going to get any additional value by doing market coupling in the existing model. And there is no need for doing market coupling in the existing model. But if you are going to implement MBED, in the MBED, entire power of the country is going to get dispatched through the exchanges. If that happens, then you need a common clearing price. You cannot have three clearing prices of the three exchanges. So since you need a common clearing price, and market coupling makes some sense if you want to implement MBED and if MBED is implemented then the entire volume which is 1400 billion units in the country, generation taking place, the entire generation will come to the market. So then there is no challenge. I mean, we are doing today 60 billion units and even if we get 50% of the market share, it becomes 700 billion units. So that is what my point is.

**Rohit Balakrishnan:** Just one final thing on this REC, you said that probably at the end of this month trading should start, but given the price has been so low, is there an alternative that generators can because the price is not remunerative is what my understanding is. So, would want your view on and what will happen post even if APTEL comes out with an order, will...

**Satyanarayan Goel:** The point is the existing generators who are selling in the REC market, have contracted energy with DISCOMs and selling green attributes in the market. What options they have? They have no other options. They have to sell the green attribute only in the REC market. Earlier also when the REC volumes were higher, the sale volumes were higher the clearing price used to be only Rs.1000 for one REC certificate. Under the bidding route, these IPPs are selling renewable power at a rate of Rs.2.50 solar and even in case of wind also the rate is similar. Conventional power market clearing price itself is more than Rs.2.50. On top of it, you are getting a premium of another 60, 70 paise in the green market. So, it makes a lot of sense for the green generator to

set up some capacity for selling in the market also. I think in future irrespective of the price, they will have some value in the green term-ahead market or in the REC market.

**Moderator:** Thank you. The next question is from the line of Nikhil Upadhyay from Securities Investment Management. Please go ahead.

**Nikhil Upadhyay:** I just have one question, which is based on the explanation you gave between the REC and the green TAM. Now, would it be possible that the generators who are selling on the REC, they can sell the generation and the REC both at the green term market. So whole of the REC volumes can shift to green term. Is it a possibility or would you say like the split could remain at 80:20?

**Satyanarayan Goel:** It depends. Today, generators who have set up capacity under the REC market, they have contract with the state distribution companies for supplying power to the discoms at the average cost of power purchase of the distribution company, and the green attribute they sell, they get REC for the green attribute and sell that to REC. In future, it is left to the IPPs whether they want to sell power in the renewable market, in the GTAM market, or they still want to sell power to the distribution company and take REC for the green attribute. But looking at the market clearing price and the payment position of the distribution companies, I am sure generators will be inclined to sell power in the green market and thereby they will be getting better valuation and also the prompt payment.

**Nikhil Upadhyay:** Sir just one last point, which I want to understand, so, if a person is selling a green REC on the REC platform and is selling power to the distribution company, the combined price which he is getting, would that be higher than what he is getting on the green term market as of now, because that will define upon...?

**Satyanarayan Goel:** It depends on what time the contract was signed. If the contract was signed five years back, at that time, the rate for the renewable power itself was Rs.5 per unit. But today, a state distribution company will not sign a contract to purchase power at a rate of Rs.3 or Rs.3.50. Under the bidding route, the rate is Rs.2.50. They would like to purchase green power which has got both energy and the green attribute. So, capacity addition under the REC market is not expected in future. Capacity addition will happen under the green market now.

**Moderator:** That was the last question for today. You may give your closing remarks.

**Satyanarayan Goel:** Thank you very much for participating in this earnings call. I can only say one thing that last two quarters were difficult time for us, for the whole country because of the COVID, there was contraction of demand in the country, and on exchange also initially we were apprehending that the volumes will also decline. But because of the very competitive clearing price, we could achieve a volume growth of almost about 13%. And we also ensured uninterrupted operation of the power exchange, ensuring safety of our employees by doing digital transformation of the operations. If we could achieve 13% kind of growth under difficult times, unfavorable



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conditions, I think going forward when the economic activities are now improving, I am sure that our growth will be much better. That is all. Thank you.

**Moderator:**

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