



Ion Exchange Ltd. Q1 FY18 Quarterly Update

MARKET DATA

BSE TICKER	IONEXCHANG
Networth FY17E (Rs in Crs)	197.8
P/BV Ratio (FY17E) (x)	1.5X
EPS (FY17E)(Rs.)	19.2
Market Price (Rs.)	457
P/E Ratio (FY18E) (x)	24X
52 Week High(Rs)	638
52 Week Low(Rs)	254
Market Capitalisation (rs. Cr)	833

AVERAGE MONTHLY VOLUME ('000)

BSE	18.2
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SHARE HOLDING PATTERN

Promoter	44.0
FII	1.1
DII	3.1
Public	51.8

RETURN (%)

	3M	6M	12M
Ion	18.6	55.5	45.2
Sensex	7.6	17.1	21.8

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Ion Exchange Ltd. (IEL) saw muted growth of 2.9% in its top line for Q1FY18 from Rs. 202.3 cr to Rs. 208.1 cr YoY. Revenues from Engineering Division were flattish as company didn't recognize any revenues from Sri Lankan project during the quarter. The scope of work, during the quarter, primarily involved site audits, land surveys and Design Engineering due to which there was no revenue recognition. The Speciality Chemical business grew at 19% while Consumer Business grew at 5.6% respectively during the quarter. IEL's EBITDA came in at Rs. 11.9cr vs. 12.7 cr, a decline of 6.5% YoY while EBITDA Margin contracted 60 bps. Lower revenues and increase in employee cost led to deterioration in margins. PAT for the quarter stood at Rs. 7.3 cr against 8.1 cr YoY.

Outlook:

EPC Division: During the quarter revenues as well as EBIT Margin from this division remained flat. IEL is expected to see a steep upsurge in revenue and profits in FY18 and FY19 as it starts recognizing revenues from Sri Lankan project (~Rs. 300-350 cr will be recognized during FY18 and remaining 900 cr in FY19 and FY20 equally). Though company has not recognized any revenues during Q1FY18, the project is progressing as per schedule and the management is confident of achieving its guidance for the year.

This along with other orders in hand will help company register sales growth of ~38% CAGR over FY17-FY19 period. Incremental growth above it would be possible only if company regularly bags such big orders. As at end of Q1FY18, company's order book excluding Sri Lanka project stood at Rs. 510 cr and it has tendered bid for projects worth another Rs. 3000 cr.

Speciality Chemicals: IEL reported 19% growth in revenues from this division for the quarter. However, company's EBIT margin shrunk 290 bps to 10.6% due to unfavourable sales mix and increase in raw material price. Going ahead, the margin is expected to recoup back to normal levels as the sales mix reverses and also as export business starts contributing more. Company has completed expansion of its facility and now the focus will be on ramping up its international presence mainly the US and Europe market. Co. has received USFDA approval for manufacturing resins for pharmaceutical usage and it will help them penetrate into the overseas market. Revenues from this segment are expected to grow at a CAGR of 13.5% from FY17 to FY19.

Consumer Product: Turnover of this division increased by 5.6%, however due to cost overruns, loss at EBIT level widened to Rs. 1.8 cr from 0.9cr. IEL's consumer business has been struggling for a few years and in order to turn this business around; the company is augmenting its team and is also planning to launch new products. The focus would be on expanding ground water treatment solutions and designing new products to meet specific requirements

Quarterly Performance:

Particulars (Rs in crs)	Q1 FY18	Q1 FY17	YoY (%)	Q4 FY17	QoQ (%)	FY17	FY16	y-o-y
Net Sales	208.1	202.3	2.9	360.5	-41.7	1024.0	869.5	17.8
RM Consumed	124.7	126.3	-1.2	236.8	-47.3	661.8	563.6	--
RM as % of Sales	60.0	62.4	-240 bps	65.7		62.3	6.23	--
EBITDA	11.9	12.7	-6.5	42.2	-71.9	77.5	58.8	31.7
EBITDA Margin	5.7	6.3	-60 bps	11.7	-600 bps	7.6%	6.8%	--
Interest	3.2	2.8		3.3		16.3	18.1	--
PBT	11.1	12.3	-9.6	39.9	-72.1	53.7	34.6	55.1
Tax	3.8	4.2		13.7		25.1	17.7	--
PAT	7.3	8.1	-10.2	26.2	-72.2	28.6	16.9	69.4
EPS	6.1	6.8	-10.3	17.9	-72.2	19.2	10.8	76.6



Concall Highlights:

- Order Book has been more or less stagnant. Engineering order-book stands at Rs. 500 cr. There were deferment in awarding projects from the Govt.'s side due to pending clarities on taxation and other related matters and the same has been postponed to Q2. Company expects order inflows to begin next quarter onwards
- Company has not yet participated in large infrastructure projects under *Swachh Bharat* scheme and going ahead it intends to participate in the bidding.
- No revenue was recognized from Sri Lankan Project but the project is going per schedule. Management is confident of achieving 25-30% of project's revenue during the year.
- Specialty Chemical Division: Increase in raw material prices and change in the composition of revenue had a temporary impact on the margins of this segment. Margin impact from RM price hike will get resolved during Q2.
- Consumer Product division: Ramp up in fixed costs could not be absorbed due to lower than expected turnover, which was impacted due to proposed GST implementation.

Segment-Wise Performance:

Ion Exchange (India) Ltd. Segment-wise performance [INR-Crore]								
Description	Sep-15	Dec-15	Mar-16	Jun-16	Sep-16	Dec-16	Mar-17	Jun-17
REVENUE:	205.82	214.58	252.20	201.14	213.29	204.35	363.38	217.90
Chemicals	75.69	79.36	82.82	78.62	76.59	75.22	85.28	93.22
Consumer Products	21.30	22.15	26.44	24.22	27.54	23.31	29.49	25.61
Engineering	108.83	113.07	142.43	98.29	109.16	105.82	247.89	99.07
EBIT:	13.02	14.73	26.20	13.47	13.48	13.85	40.80	12.14
Chemicals	10.58	11.52	19.00	10.44	10.81	12.19	21.41	9.87
Consumer Products	-0.92	-0.94	-0.38	-0.86	-0.82	-1.40	-0.48	-1.75
Engineering	3.36	4.15	7.58	3.89	3.49	3.06	19.87	4.02
EBIT Margin	6.3%	6.9%	10.4%	6.7%	6.3%	6.8%	11.2%	5.6%
Chemicals	14.0%	14.5%	22.9%	13.3%	14.1%	16.2%	25.1%	10.6%
Consumer Products	-4.3%	-4.2%	-1.4%	-3.6%	-3.0%	-6.0%	-1.6%	-6.8%
Engineering	3.1%	3.7%	5.3%	4.0%	3.2%	2.9%	8.0%	4.1%



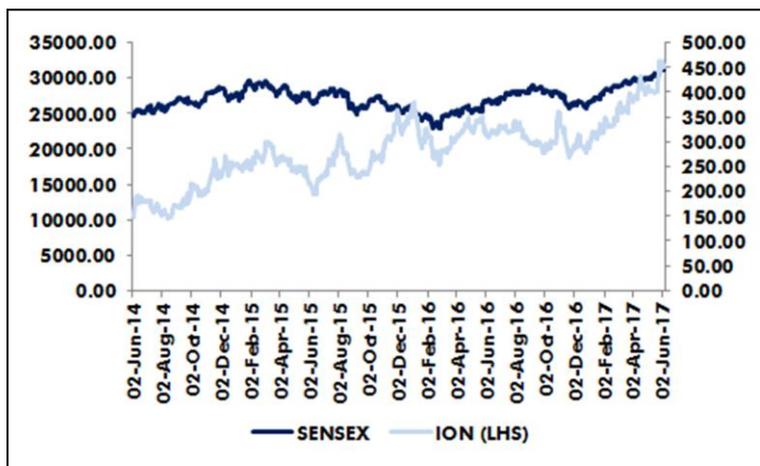
Valuation and View:

Since the EPC business is based on order inflows unlike Specialty Chemicals and Consumer business which are recurring in nature, we have valued the company by using SoTP method wherein we have valued EPC Division on P/BV basis and Specialty Chemicals and Consumer business on P/E basis.

Due to improving RoE profile of EPC business we have increases our P/BV multiple from 1.75X to 2.2X. We have reduced our estimates of EPS of Consumer Business from Rs. 2.9 to Rs. 2.4 due to lower offtake and weak guidance. We have arrived at a target price of Rs. 510 for the company and the recent sharp rally in the stock warrants us to recommend a REDUCE on the stock.

Segment	Multiple Assigned	Value per share
Engineering Division (EPC): FY19E BV per Share Rs. 102.8	P/BV of 2.2X	Rs. 226
Specialty Chemical: FY19E EPS Rs. 21.2	P/E of 12X	Rs. 254
Consumer Business: FY19E EPS Rs. 2.4	P/E of 12X	Rs. 29
Total Value per Share		Rs. 510

3-Yr Price comparison





Ion Exchange- Statement of Profit & Loss

DESCRIPTION	FY16	FY17	FY18E	FY19E
Net Sales	869.5	1024.0	1290.3	1425.5
EXPENDITURE :				
Raw Material Consumed	565.0	661.8	850.1	943.3
as % of Sales	65.0%	64.6%	65.9%	66.2%
Employee Cost	110.2	121.7	158.2	170.9
Other Manufacturing Expenses	37.8	42.8	50.6	55.4
Other Expenses	97.6	111.4	125.0	136.3
EBITDA (Ex OI)	58.8	77.5	106.5	119.6
EBITDA Margin	6.8%	7.6%	8.3%	8.4%
Depreciation	12.6	13.3	17.6	21.1
EBIT	46.2	64.2	88.9	98.4
Other Income	6.5	5.8	4.3	3.6
Interest	18.1	16.3	20.7	18.6
Profit Before Taxation	34.6	53.7	72.4	83.4
Provision for Tax	17.7	25.1	24.6	28.4
Profit After Tax	16.9	28.6	47.8	55.1
Adjusted EPS	10.8	19.2	32.7	37.9

Ion Exchange - Key Ratios

DESCRIPTION	FY16	FY17E	FY18E	FY19E
EBITM (%)	6.8	7.6	8.3	8.4
ROCE (%)	18.4	22.7	26.3	26.3
ROE (%)	9.4	14.9	21.7	20.7
Inventory Turnover(x)	7.2	7.3	7.3	7.3
Debtors Turnover(x)	2.4	2.4	2.4	2.4
Creditors Turnover(x)	1.8	1.8	1.8	1.7
Fixed Asset Turnover (x)	9.3	9.9	9.2	8.2
Receivable days	152	152	152	152
Inventory Days	51	50	50	50
Creditor Days	207	207	207	209
Total Debt/Equity(x)	0.5	0.6	0.6	0.3
Current Ratio(x)	1.2	1.2	1.2	1.2
Interest Cover(x)	2.5	3.9	4.3	5.3
Adjusted P/E Ratio	28.5	23.8	13.9	12.0
Price/ Book value	2.6	3.3	2.8	2.3

Ion Exchange- Balance Sheet

DESCRIPTION	FY16	FY17	FY18E	FY19E
Share Capital	14.1	14.2	14.2	14.2
Share Warrants & Outstandings	1.5	0.0	0.0	0.0
Total Reserves	154.5	183.7	217.9	266.4
Shareholder's Funds	170.1	197.9	232.1	280.6
Minority Interest	6.2	6.3	9.4	11.0
Total Borrowings	87.7	190.7	137.0	95.7
Other Non Current Liabilities	29.3	47.4	43.4	48.8
Total Non-Current Liabilities	117.0	238.1	180.4	144.5
Trade Payables	331.4	396.0	495.3	554.7
Other Current Liabilities	90.5	165.0	130.2	143.9
Total Current Liabilities	421.9	561.0	625.5	698.6
Total Liabilities	709.1	1003.3	1047.4	1134.7
Fixed Assets	105.0	145.3	177.9	173.7
Other Non Current Assets	83.0	74.8	122.0	134.6
Total Non-Current Assets	188.0	220.1	299.9	308.2
Inventories	81.3	110.9	119.7	132.7
Sundry Debtors	363.0	440.5	538.7	595.2
Cash and Bank	33.4	166.9	20.0	20.0
Other Current Assets	49.4	64.9	69.8	78.6
Total Current Assets	527.2	783.2	748.2	826.5
Total Assets	715.3	1003.3	1048.2	1134.7

Ion Exchange- Cash Flow Summary

DESCRIPTION	FY16	FY17E	FY18E	FY19E
PBT + Adjustments	40.7	61.2	85.8	101.0
Changes In working Capital	6.3	-29.6	-45.4	-18.0
Tax Paid	-17.7	-25.1	-24.6	-28.4
Cash From Operating Activities	29.3	6.5	15.8	54.6
Cash from Investing Activities	-21.2	-32.3	-55.8	-13.3
Cash from Financing Activities	2.3	25.8	23.5	-41.3
Net Cash Inflow / Outflow	10.4	0.0	-16.5	0.0
Opening Cash & Equivalents	26.2	36.5	36.5	20.0
Closing Cash & Equivalents	36.5	36.5	20.0	20.0



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