



Ion Exchange Ltd. Q2 FY18 Quarterly Update

MARKET DATA

BSE TICKER	IONEXCHANG
Networth FY18E (Rs in Crs)	225.1
P/BV Ratio (FY18E) (x)	3.2X
EPS (FY18E)(Rs.)	22.6
Market Price (Rs.)	480
P/E Ratio (FY18E) (x)	21.2X
52 Week High(Rs)	638
52 Week Low(Rs)	254
Market Capitalisation (rs. Cr)	704

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	-11.1	25.0	56.5
Sensex	3.3	10.6	25.8

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Ion Exchange Ltd. (IEL) saw muted growth of 3.1% YoY in its top line for Q2FY18 from Rs. 210.5 cr to Rs. 217.1 cr. While the revenues from Speciality Chemicals division and Consumer Division were significantly down, the Engineering Segment led by execution of Sri Lankan project, supported the revenues. Revenue from Engineering segment grew 19.4% YoY to Rs. 130.3 cr. The Speciality Chemical business declined 5.7% YoY to Rs. 72.2 cr while Consumer Business declined by 9.2% YoY to Rs. 25 cr during the quarter.

IEL's EBITDA came in lower by 25.5% to Rs. 10.9cr while EBITDA Margin contracted by 190 bps to 5.0% led by 560 bps fall in Gross Margins. PAT for the quarter stood at Rs. 7.9 cr which is lower by 10.3% YoY.

Outlook:

EPC Division: While the company saw 19% jump in the revenues, it was entirely attributable to the Sri Lankan project. Excluding that, company's revenues would have declined considerably. On the back of implantation of GST, the finalization of orders got delayed as the contracts had to be reworked to account of rdelay. Even for the orders under execution, some delayed were witnessed leading to lower revenues and margins during the quarter from domestic operations.

The work on Sri Lankan project is underway and this along with other orders in hand will help company register sales growth of ~24% CAGR over FY17-FY19 period. Incremental growth above it would be possible only if company regularly bags such big orders. As at end of Q2FY18, company's order book excluding Sri Lanka project stood unchanged at Rs. 500 cr and it has tendered bid for projects worth another Rs. 4000 cr.

Speciality Chemicals: IEL reported 5.2% decline in revenues from this division for the quarter. Slowdown in industrial activities and EPC projects led to lower off-take during the quarter. EBIT margins remained almost flat YoY while on sequential basis it improved by 230 bps due to change in sales mix. Company is expanding its facility and now the focus will be on ramping up its international presence mainly the US and Europe market post receipt of UAFDA approval. Revenues from this segment are expected to grow at a CAGR of 8.5% from FY17 to FY19.

Consumer Product: Turnover of this division decreased by 9.2%, while loss at EBIT level narrowed to Rs. 0.50 cr from 0.85cr. 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)	Q2 FY18	Q2 FY17	YoY (%)	Q1 FY18	QoQ (%)	FY17	FY16	y-o-y
Net Sales	217.1	210.5	3.1	208.1	4.3	1024.0	869.5	17.8
RM Consumed	147.0	130.8	12.4	124.7	17.8	661.8	563.6	17.4
RM as % of Sales	67.7	62.1	--	60.0	--	62.3	6.23	--
EBITDA	10.9	14.6	-25.5	11.9	-8.6	77.5	58.8	31.7
EBITDA Margin	5.0%	6.9%	-190 bps	5.7	-70 bps	7.6%	6.8%	--
Interest	3.9	3.3	--	3.2	--	16.3	18.1	--
PBT	12.8	13.0	-1.6	11.1	15.0	53.7	34.6	55.1
Tax	4.9	4.2	--	3.8	--	25.1	17.7	--
PAT	7.9	8.8	-10.3	7.3	8.6	28.6	16.9	69.4
EPS	6.60	7.4	-10.5	6.1	8.6	19.2	10.8	76.6



Concall Highlights:

- Order Book has been more or less stagnant and as at Q2 end engineering order-book stood at Rs. 500 cr. Order flows were muted as order finalization were delayed due to implementation of GST. Not much improvement was witnessed in Q2 compared to Q1. However, from Q3 there have been markeable improvements and H2FY18 would be much better than H2FY17.
- Many contracts are being reworked to account for GST dispatches which is leading to deferral in order bookings and order executions.
- Company has not yet participated in large infrastructure projects under *Swachh Bharat* and *Namami Gange* scheme and going ahead it intends to participate in the bidding.
- There is a slight delay in executing Sri Lankan project and it will be able to register 20% of the total project as revenues during FY18 against 25% as guided earlier.
- Booked lower than normal revenue in India and even in Sri Lanka scope of work during Q2 was lower than expected which led to lower margin.
- Lower off-take in industrial segment and slower subsequent recovery led to decline in volume in Specialty Chemicals Business.
- Expanding Specialty Chemicals capacity for which Rs. 70 crore have been earmarked.

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	Sep-17
REVENUE:	205.8	214.6	252.2	201.1	213.3	204.4	363.4	217.9	227.5
Chemicals	75.7	79.4	82.8	78.6	76.6	75.2	85.3	93.2	72.2
Consumer Products	21.3	22.2	26.4	24.2	27.5	23.3	29.5	25.6	25.0
Engineering	108.8	113.1	142.4	98.3	109.2	105.8	247.9	99.1	130.3
EBIT:	13.0	14.7	26.2	13.5	13.5	13.9	40.8	12.1	12.5
Chemicals	10.6	11.5	19.0	10.4	10.8	12.2	21.4	9.9	10.0
Consumer Products	-0.9	-0.9	-0.4	-0.9	-0.8	-1.4	-0.5	-1.8	-0.5
Engineering	3.4	4.2	7.6	3.9	3.5	3.1	19.9	4.0	3.0
EBIT Margin	6.3%	6.9%	10.4%	6.7%	6.3%	6.8%	11.2%	5.6%	5.5%
Chemicals	14.0%	14.5%	22.9%	13.3%	14.1%	16.2%	25.1%	10.6%	13.9%
Consumer Products	-4.3%	-4.2%	-1.4%	-3.6%	-3.0%	-6.0%	-1.6%	-6.8%	-2.0%
Engineering	3.1%	3.7%	5.3%	4.0%	3.2%	2.9%	8.0%	4.1%	2.3%



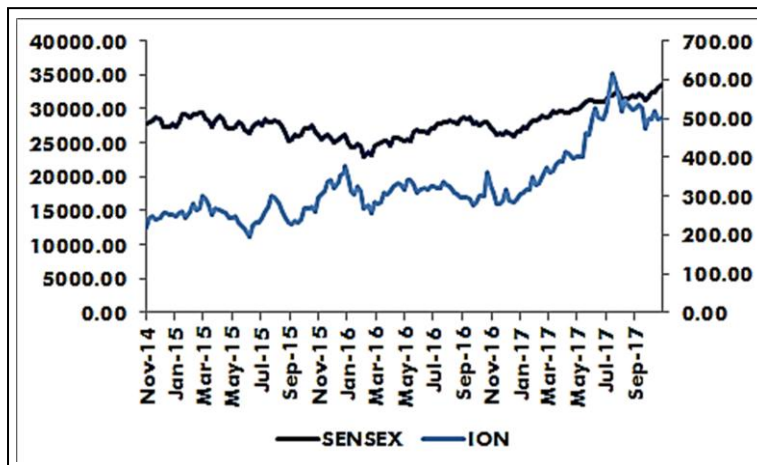
Valuation and View:

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 Specialty Chemicals from Rs. 21.2 to Rs. 20.7 due to lower off-take and moderation in guidance. We have arrived at a target price of Rs. 523 for the company and recommend a HOLD on the stock.

Segment	Multiple Assigned	Value per share
Engineering Division (EPC): FY19E BV per Share Rs. 118.6	P/BV of 2.2X	Rs. 261
Specialty Chemical: FY19E EPS Rs. 20.9	P/E of 12X	Rs. 251
Consumer Business: FY19E EPS Rs. 1	P/E of 12X	Rs. 12
Total Value per Share		Rs. 523

3-Yr Price comparison





Ion Exchange- Statement of Profit & Loss

DESCRIPTION	FY16	FY17	FY18E	FY19E
Net Sales	869.5	1024.0	1161.7	1408.6
EXPENDITURE :				
Raw Material Consumed	565.0	662.8	756.8	918.7
<i>as % of Sales</i>	<i>65.0%</i>	<i>64.7%</i>	<i>65.1%</i>	<i>65.2%</i>
Employee Cost	110.2	121.7	148.5	173.0
Other Manufacturing Expenses	37.8	42.0	46.7	54.5
Other Expenses	97.6	114.6	126.7	145.6
EBITDA (Ex OI)	58.8	83.0	83.0	116.8
<i>EBITDA Margin</i>	<i>6.8%</i>	<i>8.1%</i>	<i>7.1%</i>	<i>8.3%</i>
Depreciation	12.6	13.3	17.6	21.6
EBIT	46.2	69.7	65.4	95.2
Other Income	6.5	5.8	4.3	3.6
Interest	18.1	21.6	20.5	18.5
Profit Before Taxation	34.6	53.9	49.2	80.3
Provision for Tax	17.7	25.1	16.7	27.3
Profit After Tax	16.9	28.8	32.5	53.0
Adjusted EPS	10.8	20.0	22.6	36.9

Ion Exchange- Balance Sheet

DESCRIPTION	FY16	FY17	FY18E	FY19E
Share Capital	14.1	14.2	14.2	14.2
Share Warrants & Outstandings	0.0	0.0	0.0	0.0
Total Reserves	154.5	183.7	210.9	258.4
Shareholder's Funds	168.7	197.9	225.1	272.6
Minority Interest	6.2	6.3	6.6	7.2
Total Borrowings	87.7	190.7	138.6	87.8
Other Non Current Liabilities	29.3	47.4	43.4	48.8
Total Non-Current Liabilities	117.0	238.1	182.0	136.6
Trade Payables	331.4	396.0	441.7	535.0
Other Current Liabilities	90.5	165.0	122.8	148.9
Total Current Liabilities	421.9	561.0	564.5	683.9
Total Liabilities	707.6	1003.3	978.2	1100.2
Fixed Assets	105.0	145.3	177.9	188.2
Other Non Current Assets	83.0	74.8	84.5	101.8
Total Non-Current Assets	188.0	220.1	262.4	290.0
Inventories	81.3	110.9	121.7	129.3
Sundry Debtors	363.0	440.5	515.6	586.6
Cash and Bank	33.4	166.9	20.0	20.0
Other Current Assets	49.4	64.9	58.6	74.4
Total Current Assets	527.2	783.2	715.8	810.2
Total Assets	715.3	1003.3	978.2	1100.2



Ion Exchange- Cash Flow Summary				
DESCRIPTION	FY16	FY17E	FY18E	FY19E
PBT + Adjustments	40.7	61.4	62.5	98.3
Changes In working Capital	8.3	-35.5	-43.7	8.1
Tax Paid	-17.7	-25.1	-16.7	-27.3
Cash From Operating Activities	31.3	0.8	2.1	79.1
Cash from Investing Activities	-21.2	-32.3	-55.7	-28.3
Cash from Financing Activities	2.3	31.5	35.2	-50.8
Net Cash Inflow / Outflow	12.4	0.0	-18.5	0.0
Opening Cash & Equivalents	26.2	38.5	38.5	20.0
Closing Cash & Equivalents	38.5	38.5	20.0	20.0

Ion Exchange - Key Ratios				
DESCRIPTION	FY16	FY17E	FY18E	FY19E
EBITM (%)	6.8	8.1	7.1	8.3
ROCE (%)	18.4	24.8	19.7	26.3
ROE (%)	9.4	15.5	15.2	21.1
Inventory Turnover(x)	7.2	7.3	6.4	7.3
Debtors Turnover(x)	2.4	2.4	2.3	2.4
Creditors Turnover(x)	1.8	1.8	1.8	1.8
Fixed Asset Turnover (x)	9.3	9.5	8.1	7.8
Receivable days	152	152	162	152
Inventory Days	51	50	57	50
Creditor Days	207	207	207	207
Total Debt/Equity(x)	0.5	0.5	0.6	0.3
Current Ratio(x)	1.2	1.2	1.3	1.2
Interest Cover(x)	2.5	3.2	3.2	5.1
Adjusted P/E Ratio	28.5	22.8	20.2	12.4
Price/ Book value	2.6	3.3	2.9	2.4



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