



Ion Exchange Ltd. Q3 FY18 Quarterly Update

MARKET DATA

BSE TICKER	IONEXCHANG
Networth FY18E (Rs in Crs)	223.9
P/BV Ratio (FY18E) (x)	3.7X
EPS (FY18E)(Rs.)	21.8
Market Price (Rs.)	566
P/E Ratio (FY18E) (x)	25.9X
52 Week High(Rs)	638
52 Week Low(Rs)	313
Market Capitalisation (rs. Cr)	830.1

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	9.1	-7.9	69.5
Sensex	8.1	10.6	31.3

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Ion Exchange Ltd. (IEL) reported strong quarter on the back of higher realization of revenues from the Sri Lankan project. Company reported revenues of Rs. 242.9 cr during the quarter, a jump of 23.3% YoY and 11.9% QoQ.

IEL's EBITDA grew by 40.6% YoY to Rs. 14.4 cr led by margin expansion of 70bps to 5.9%. Sequentially EBITDA grew by 32.3% and Margins expanded by 90 bps. Company's PAT grew by 49% YoY and 11.7% QoQ to Rs. 8.9 cr.

Outlook:

EPC Division: IEL witnessed recovery in order flows for engineering division during the quarter. Company also witnessed marked improvement in dispatches of industrial products as the underlying industries have seen recovery from GST teething problems. With focus now also on Government project, company sees immense opportunities going ahead. Besides water treatment, the company will also soon enter into 'solid waste to energy' projects in India and it will commence with its Rs 7 cr pilot project in Hyderabad.

The execution of Sri Lanka project (worth Rs. 1250 cr) has been delayed a bit but company is sure of making up for it in FY19. During the quarter company recognized revenues of Rs. 32 cr from this project.

During the quarter company reported 39.2% growth in revenues to Rs. 143.2 cr with EBIT of 3.1 cr, growth of 47% YoY.

Speciality Chemicals: This division saw good better off take due to recovery in certain sectors. Company reported 2.5% YoY and 16.7% QoQ growth in revenues from this segment to Rs. 84.3 cr. It reported EBIT of 11.2 cr vs 11.6 cr YoY with slight decrease in margin due to rise in crude prices. The Ankleshwar facility which has got USFDA approval has started supplying to the export markets and it will see steady ramp up during FY19.

Consumer Product: Turnover of this division improved by 9.2%, while loss at EBIT level narrowed to Rs. 0.80 cr from 1.4cr YoY. 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. Company doesn't want to cater the traditional B2C channels like Aquaguard or Kent, but want to cater to niche areas like hospitals, schools, hotels, etc.

Concall Highlights:

- Company is seeing improvement in order inflows. During Q3FY18 company booked orders worth Rs. 150 cr and total order book for Engineering segment now stands at Rs. 550 cr

Quarterly Performance:

Particulars (Rs in crs)	Q3 FY18	Q2 FY17	YoY (%)	Q2 FY18	QoQ (%)	FY17	FY16	y-o-y
Net Sales	242.9	197.0	23.3	217.1	11.9	1024.0	869.5	17.8
RM Consumed	162.6	119.7	35.8	147.0	10.6	661.8	563.6	17.4
RM as % of Sales	66.9%	60.8%	--	67.7%	--	62.3	6.23	--
EBITDA	14.4	10.2	40.6	10.9	32.3	77.5	58.8	31.7
EBITDA Margin	5.9%	5.2%	70 bps	5.0	90 bps	7.6%	6.8%	--
Interest	3.7	3.7	--	3.9	--	16.3	18.1	--
PBT	13.7	9.2	49.0	12.8	6.8	53.7	34.6	55.1
Tax	4.8	3.2	--	4.9	--	25.1	17.7	--
PAT	8.9	5.9	49.0	7.9	11.7	28.6	16.9	69.4
EPS	7.4	5.0	48.6	6.60	11.4	19.2	10.8	76.6



- At Sri Lanka, company is currently completing all the engineering, drawing and survey work and will ramp up the execution from next financial year. Company expects to finish the project by May 2020. Total size of the project is ~Rs. 1250 cr of which company has recognized revenues of Rs. 150 cr till now.
- The dispatch for speciality chemicals improved during the quarter as GST regime has started stabilizing.
- The losses in the international subsidiary have come down considerably and company expects better performance from its subsidiaries going ahead.

Segment-Wise Performance:

Ion Exchange (India) Ltd. Segment-wise performance [INR-Crore]									
Description	Dec-15	Mar-16	Jun-16	Sep-16	Dec-16	Mar-17	Jun-17	Sep-17	Dec-17
REVENUE:	214.6	252.2	201.1	213.3	204.4	363.4	217.9	227.5	253.3
Chemicals	79.4	82.8	78.6	76.6	75.2	85.3	93.2	72.2	84.3
Consumer Products	22.2	26.4	24.2	27.5	23.3	29.5	25.6	25.0	25.4
Engineering	113.1	142.4	98.3	109.2	105.8	247.9	99.1	130.3	143.6
EBIT:	14.7	26.2	13.5	13.5	13.9	40.8	12.1	12.5	13.4
Chemicals	11.5	19.0	10.4	10.8	12.2	21.4	9.9	10.0	11.2
Consumer Products	-0.9	-0.4	-0.9	-0.8	-1.4	-0.5	-1.8	-0.5	-0.8
Engineering	4.2	7.6	3.9	3.5	3.1	19.9	4.0	3.0	3.1
EBIT Margin	6.9%	10.4%	6.7%	6.3%	6.8%	11.2%	5.6%	5.5%	5.3%
Chemicals	14.5%	22.9%	13.3%	14.1%	16.2%	25.1%	10.6%	13.9%	13.2%
Consumer Products	-4.2%	-1.4%	-3.6%	-3.0	-6.0%	-1.6%	-6.8%	-2.0%	-3.3%
Engineering	3.7%	5.3%	4.0%	3.2%	2.9%	8.0%	4.1%	2.3%	2.1%

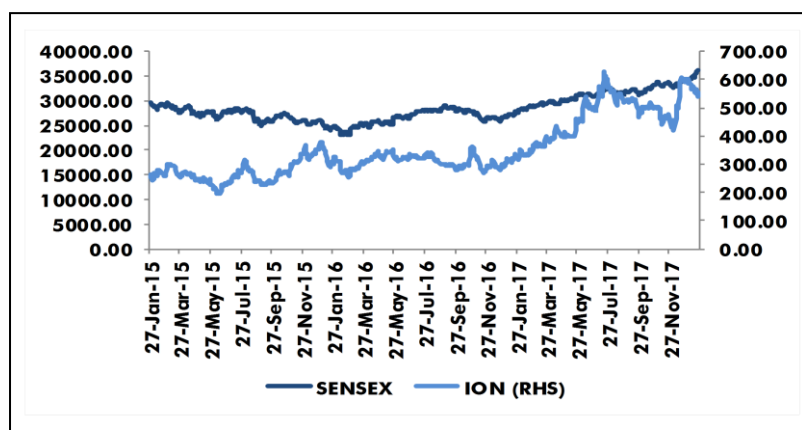
Valuation and View:

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 arrived at a target price of Rs. 545 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. 21.9	P/E of 12.5X	Rs. 274
Consumer Business: FY19E EPS Rs. 0.8	P/E of 12X	Rs. 10
Total Value per Share		Rs. 545

3-Yr Price comparison





Financial Statements

Ion Exchange- Statement of Profit & Loss				
DESCRIPTION	FY16	FY17	FY18E	FY19E
Net Sales	869.5	1024.0	1140.3	1422.3
EXPENDITURE :				
Raw Material Consumed	565.0	662.8	741.6	927.2
as % of Sales	65.0%	64.7%	65.0%	65.2%
Employee Cost	110.2	121.7	146.0	170.1
Other Manufacturing Expenses	37.8	42.0	46.6	56.6
Other Expenses	97.6	114.6	125.1	147.6
EBITDA (Ex OI)	58.8	83.0	81.0	120.8
EBITDA Margin	6.8%	8.1%	7.1%	8.5%
Depreciation	12.6	13.3	17.6	21.6
EBIT	46.2	69.7	63.4	99.2
Other Income	6.5	5.8	4.3	3.6
Interest	18.1	21.6	20.3	18.4
Profit Before Taxation	34.6	53.9	47.4	84.4
Provision for Tax	17.7	25.1	16.1	28.7
Profit After Tax	16.9	28.8	31.3	55.7
Adjusted EPS	10.8	20.0	21.8	38.7

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	209.7	259.9
Shareholder's Funds	168.7	197.9	223.9	274.1
Minority Interest	6.2	6.3	6.6	7.2
Total Borrowings	87.7	190.7	135.8	88.5
Other Non Current Liabilities	29.3	47.4	43.4	48.8
Total Non-Current Liabilities	117.0	238.1	179.2	137.3
Trade Payables	331.4	396.0	433.3	540.0
Other Current Liabilities	90.5	165.0	122.3	152.6
Total Current Liabilities	421.9	561.0	555.6	692.6
Total Liabilities	707.6	1003.3	965.4	1111.3
Fixed Assets	105.0	145.3	177.9	188.2
Other Non Current Assets	83.0	74.8	83.0	102.8
Total Non-Current Assets	188.0	220.1	260.9	291.0
Inventories	81.3	110.9	119.3	130.5
Sundry Debtors	363.0	440.5	506.1	592.3
Cash and Bank	33.4	166.9	20.0	20.0
Other Current Assets	49.4	64.9	59.1	77.5
Total Current Assets	527.2	783.2	704.5	820.3
Total Assets	715.3	1003.3	965.4	1111.3



Ion Exchange- Cash Flow Summary				
DESCRIPTION	FY16	FY17E	FY18E	FY19E
PBT + Adjustments	40.7	61.4	60.7	102.4
Changes In working Capital	8.3	-35.5	-39.8	1.9
Tax Paid	-17.7	-25.1	-16.1	-28.7
Cash From Operating Activities	31.3	0.8	4.8	75.5
Cash from Investing Activities	-21.2	-32.3	-55.7	-28.3
Cash from Financing Activities	2.3	31.5	32.4	-47.2
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	8.5
ROCE (%)	18.4	24.8	19.2	27.5
ROE (%)	9.4	15.5	14.7	22.1
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	7.9	7.9
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	3.1	5.4
Adjusted P/E Ratio	28.5	27.0	24.8	13.9
Price/ Book value	2.6	3.9	3.4	2.8



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