



## Ion Exchange Ltd. Q4 FY17 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)	
52 Week Low(Rs)	
Market Capitalisation (rs. Cr)	673

### AVERAGE MONTHLY VOLUME ('000)

BSE	28.2
-----	------

### 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	7.4	18.2	16.5

Harsh Shah (Research Analyst)

[harsh.shah@dimensional.in](mailto:harsh.shah@dimensional.in)

+91-22-66545231

Ion Exchange (IEL) saw a big boost in its top line during Q4FY17 as it commenced working and realizing revenues from its Sri Lankan project (Total project value Rs. 1250 cr). IEL reported 45% growth in revenues to Rs. 360.5 cr, led by 73.5% increase in EPC segment's to Rs. 247.9 cr. Revenues of chemical segment grew marginally by 3% to Rs. 85.3 cr. IEL reported EBITDA of 42.2 cr, which was 52.0% higher than that in corresponding quarter of the previous year. Company's margins expanded by 50bps YoY to 11.7% led by improvement in operating margins of EPC and Chemical Division. IEL reported PAT of Rs. 26.5 cr for the quarter, implying a growth of 57.7% YoY and 329% QoQ.

### Outlook:

**EPC Division:** 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). 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 FY17 end, company's order book excluding Sri Lanka project declined to Rs. 510 cr from Rs. 625 cr signaling sluggishness in its normal business. However, the management is expecting order inflows to resume during FY18 and they are more optimistic on orders from Govt. sector.

**Speciality Chemicals:** During the year company 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 11% through FY17 to FY19.

**Consumer Product:** 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

### Concall Highlights:

- Industry scenario is still sluggish. Some traction is visible in Govt. sector while private sector especially power and steel will take time before order inflows come in.
- Order Book has been more or less stagnant. Engineering order-book stands at Rs. 506 cr. Bidding pipeline for small and mid-size project is healthy while for larger projects is sluggish. However, the management is expecting bidding pipeline from the Govt. to improve substantially.

### Quarterly Performance:

Particulars (Rs in crs)	Q1 FY17	Q1 FY16	YoY (%)	Q4 FY16	QoQ (%)	FY17	FY16	y-o-y
Net Sales	360.5	248.5	45.0	192.7	87.1	1024.0	869.5	17.8
EBITDA	42.2	27.8	51.9	12.3	244.0	77.5	58.8	31.7
EBITDA Margin	11.7%	11.2%	--	6.4%	--	7.6%	6.8%	--
Interest	3.3	3.0	--	3.7	--	16.3	18.1	--
PBT	39.9	24.6	62.2	9.8	308.8	53.7	34.6	55.1
Tax	13.7	8.0		3.7		25.1	17.7	--
PAT	26.2	16.6	57.7	6.1	329.5	28.6	16.9	69.4
EPS	17.9	11.2	60.1	4.2	330.5	19.2	10.8	76.6



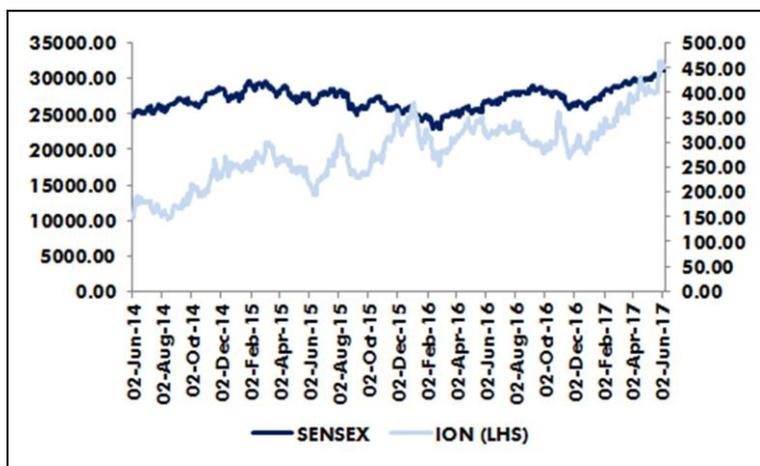
- Chemical business will start seeing growth, though gradually, from current year as the expansion of capacity is completed and company will now look for international business. Post capacity expansion, the utilization level stands at ~60%.
- Consumer Product division: Turnover has improved by 21% for the year and company would continue to carry out activities on ground to continue to increase their sales and focus now will also be on improving profitability.
- Company is not aggressive on marketing spends and is not their preferred route to push itself.
- Commencement of Sri Lankan project, high execution of mid-sized projects and improvement of efficiency in Spec. Chem division aided margin improvement during the quarter. The Mgt. expects current margins to sustain and gradually improve as some of its loss making subsidiaries would start getting profitable.
- Not seeing major change in competitive landscape in India.

### Valuation and View:

Since the EPC business is based on order inflows unlike Spec. Chem 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 Spec. Chem and Consumer business on P/E basis. We have arrived at a target price of Rs. 463 for the company and recommend a HOLD.

Segment	Multiple Assigned	Value per share
<b>Engineering Division (EPC):</b> FY19E BV per Share Rs. 101.4	P/BV of 1.75X	Rs. 170
<b>Specialty Chemical:</b> FY19E EPS Rs. 21.6	P/E of 12X	Rs. 250
<b>Consumer Business:</b> FY19E EPS Rs. 3.6	P/E of 12X	Rs. 43
<b>Total Value per Share</b>		<b>Rs. 463</b>

### 3-Yr Price comparison





## Ion Exchange- Statement of Profit & Loss

DESCRIPTION	FY16	FY17	FY18E	FY19E
<b>Net Sales</b>	<b>869.5</b>	<b>1024.0</b>	<b>1277.2</b>	<b>1412.7</b>
<b>EXPENDITURE :</b>				
Raw Material Consumed	565.0	661.8	841.0	934.1
as % of Sales	65.0%	64.6%	65.8%	66.1%
Employee Cost	110.2	121.7	158.2	170.9
Other Manufacturing Expenses	37.8	47.1	56.2	58.6
Other Expenses	97.6	106.7	121.7	134.3
<b>EBITDA (Ex OI)</b>	<b>58.8</b>	<b>77.5</b>	<b>100.1</b>	<b>114.8</b>
<i>EBITDA Margin</i>	<i>6.8%</i>	<i>7.6%</i>	<i>7.8%</i>	<i>8.1%</i>
Depreciation	12.6	13.3	17.6	21.1
<b>EBIT</b>	<b>46.2</b>	<b>64.2</b>	<b>82.5</b>	<b>93.7</b>
Other Income	6.5	5.8	4.3	3.6
Interest	18.1	16.3	20.5	19.0
<b>Profit Before Taxation</b>	<b>34.6</b>	<b>53.7</b>	<b>66.2</b>	<b>78.3</b>
Provision for Tax	17.7	25.1	22.5	26.6
<b>Profit After Tax</b>	<b>16.9</b>	<b>28.6</b>	<b>43.7</b>	<b>51.7</b>
<b>Adjusted EPS</b>	<b>10.8</b>	<b>19.2</b>	<b>29.8</b>	<b>35.5</b>

## Ion Exchange - Key Ratios

DESCRIPTION	FY16	FY17E	FY18E	FY19E
EBITM (%)	6.8	7.6	7.8	8.1
ROCE (%)	18.4	22.7	24.7	25.3
ROE (%)	9.4	14.9	20.0	19.9
Inventory Turnover(x)	7.1	7.3	7.3	7.3
Debtors Turnover(x)	2.4	2.4	2.4	2.4
Creditors Turnover(x)	1.7	1.7	1.7	1.7
Fixed Asset Turnover (x)	9.3	9.9	9.1	8.1
Receivable days	152	152	152	152
Inventory Days	51	50	50	50
Creditor Days	209	209	209	209
Total Debt/Equity(x)	0.5	0.6	0.6	0.4
Current Ratio(x)	1.2	1.2	1.2	1.2
Interest Cover(x)	2.5	3.9	4.0	4.9
Adjusted P/E Ratio	28.5	23.8	15.3	12.9
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	213.8	258.9
<b>Shareholder's Funds</b>	<b>170.1</b>	<b>197.9</b>	<b>228.0</b>	<b>273.2</b>
<b>Minority Interest</b>	<b>6.2</b>	<b>6.3</b>	<b>9.4</b>	<b>11.0</b>
Total Borrowings	87.7	190.7	134.9	103.2
Other Non Current Liabilities	29.3	47.4	43.4	47.9
<b>Total Non-Current Liabilities</b>	<b>117.0</b>	<b>238.1</b>	<b>178.3</b>	<b>151.1</b>
Trade Payables	331.4	396.0	493.5	546.6
Other Current Liabilities	90.5	165.0	129.9	143.7
<b>Total Current Liabilities</b>	<b>421.9</b>	<b>561.0</b>	<b>623.4</b>	<b>690.3</b>
<b>Total Liabilities</b>	<b>709.1</b>	<b>1003.3</b>	<b>1039.2</b>	<b>1125.6</b>
Fixed Assets	105.0	145.3	177.9	173.7
Other Non Current Assets	83.0	74.8	120.8	133.4
<b>Total Non-Current Assets</b>	<b>188.0</b>	<b>220.1</b>	<b>298.7</b>	<b>307.0</b>
Inventories	81.3	110.9	118.0	130.8
Sundry Debtors	363.0	440.5	533.3	589.8
Cash and Bank	33.4	166.9	20.0	20.0
Other Current Assets	49.4	64.9	69.2	78.0
<b>Total Current Assets</b>	<b>527.2</b>	<b>783.2</b>	<b>740.4</b>	<b>818.6</b>
<b>Total Assets</b>	<b>715.3</b>	<b>1003.3</b>	<b>1039.2</b>	<b>1125.6</b>

## Ion Exchange- Cash Flow Summary

DESCRIPTION	FY16	FY17E	FY18E	FY19E
PBT + Adjustments	40.7	61.2	79.6	95.8
Changes In working Capital	6.3	-28.7	-40.1	-24.3
Tax Paid	-17.7	-25.1	-22.5	-26.6
<b>Cash From Operating Activities</b>	<b>29.3</b>	<b>7.5</b>	<b>17.0</b>	<b>45.0</b>
<b>Cash from Investing Activities</b>	<b>-21.2</b>	<b>-32.3</b>	<b>-55.8</b>	<b>-13.3</b>
<b>Cash from Financing Activities</b>	<b>2.3</b>	<b>24.8</b>	<b>22.4</b>	<b>-31.7</b>
Net Cash Inflow / Outflow	10.4	0.0	-16.5	0.0
Opening Cash & Equivalents	26.2	36.5	36.5	20.0
<b>Closing Cash &amp; Equivalents</b>	<b>36.5</b>	<b>36.5</b>	<b>20.0</b>	<b>20.0</b>



## ANALYST CERTIFICATION

I (Harsh Shah), Research Analyst, author and the name subscribed to this report; hereby certify that all of the views expressed in this research report accurately reflect our views about the subject issuer(s) or securities. We also certify that no part of our compensation was, is, or will be directly or indirectly related to the specific recommendation(s) or view(s) in this report.

### Terms & conditions and other disclosures:

Dimensional Securities Private Limited (DSPL) is engaged in the business of stock broking and distribution of financial products. This Report has been prepared by Dimensional Securities Private Limited (DSPL) in the capacity of a Research Analyst having SEBI Registration No. INH000001444 and distributed as per SEBI (Research Analysts) Regulations 2014.

The information and opinions in this report have been prepared by DSPL and are subject to change without any notice. The report and information contained herein is strictly confidential and meant solely for the selected recipient and may not be altered in any way, transmitted to, copied or distributed, in part or in whole, to any other person or to the media or reproduced in any form, without prior written consent of DSPL. While we would endeavour to update the information herein on a reasonable basis, DSPL is under no obligation to update or keep the information current. Also, there may be regulatory, compliance or other reasons that may prevent DSPL from doing so.

This report is based on information obtained from public sources and sources believed to be reliable, but no independent verification has been made nor is its accuracy or completeness guaranteed. This report and information herein is solely for informational purpose and shall not be used or considered as an offer document or solicitation of offer to buy or sell or subscribe for securities or other financial instruments. Nothing in this report constitutes investment, legal, accounting and tax advice or a representation that any investment or strategy is suitable or appropriate to your specific circumstances. The securities discussed and opinions expressed in this report may not be suitable for all investors, who must make their own investment decisions, based on their own investment objectives, financial positions and needs of specific recipient. This may not be taken in substitution for the exercise of independent judgment by any recipient. The recipient should independently evaluate the investment risks. DSPL or its associates accept no liabilities whatsoever for any loss or damage of any kind arising out of the use of this report. Past performance is not necessarily a guide to future performance. Investors are advised to see Risk Disclosure Document to understand the risks associated before investing in the securities markets. Actual results may differ materially from those set forth in projections. Forward-looking statements are not predictions and may be subject to change without notice.

DSPL encourages independence in research report preparation and strives to minimize conflict in preparation of research report. DSPL or its analysts did not receive any compensation or other benefits from the companies mentioned in the report or third party in connection with preparation of the research report. Accordingly, neither DSPL nor Research Analysts have any material conflict of interest at the time of publication of this report.

It is confirmed that (Harsh Shah), Research Analyst of this report have not received any compensation from the companies mentioned in the report in the preceding twelve months.

Compensation of our Research Analysts is not based on any specific merchant banking, investment banking or brokerage service transactions. DSPL or its associates collectively or Research Analysts do not own 1% or more of the equity securities of the Company mentioned in the report as of the last day of the month preceding the publication of the research report.

Since associates of DSPL are engaged in various financial service businesses, they might have financial interests or beneficial ownership in various companies including the subject company/companies mentioned in this report.

It is confirmed that (Harsh Shah), Research Analyst do not serve as an officer, director or employee of the companies mentioned in the report.

DSPL may have issued other reports that are inconsistent with and reach different conclusion from the information presented in this report.

We submit that no material disciplinary action has been taken on DSPL by any Regulatory Authority impacting Equity Research Analysis activities.

This report is not directed or intended for distribution to, or use by, any person or entity who is a citizen or resident of or located in any locality, state, country or other jurisdiction, where such distribution, publication, availability or use would be contrary to law, regulation or which would subject DSPL and associates to any registration or licensing requirement within such jurisdiction.

The securities described herein may or may not be eligible for sale in all jurisdictions or to certain category of investors. Persons in whose possession this document may come are required to inform themselves of and to observe such restriction.

DSPL shall not be liable for any delay or any other interruption which may occur in presenting the data due to any reason including network (Internet) reasons or snags in the system, break down of the system or any other equipment, server breakdown, maintenance shutdown, breakdown of communication services or inability of DSPL to present the data. In no event shall DSPL be liable for any damages, including without limitation direct or indirect, special, incidental, or consequential damages, losses or expenses arising in connection with the data presented by DSPL through this report.