



## KEY HIGHLIGHTS

### 1. RESULTS OVERVIEW:

- ION Exchange Ltd Q3 FY22 consolidated revenues came in at ₹388 Cr, up 11.18% YoY and up 2.64% QoQ.
- Op Profit for Q3FY22 stood at ₹43 Cr, down 2.27% YoY and up 7.5% QoQ.
- Op margins for Q3FY22 came at 11%, -153bps YoY and -100 bps QoQ.
- PAT for Q3FY22 stood at ₹28 Cr, down 3.44% YoY and up 3.70% QoQ.

### 2. MANAGEMENT COMMENTARY:

- Co. posted decent set of numbers for the quarter ended 31<sup>st</sup> Dec 2021.
- During the Quarter, In Engineering division there is Improvement in order book, as order received from Numaligarh Refinery Limited, Also UP Jal Nigam project has commenced in this quarter, and Management is expecting higher revenue contribution in next few quarters.
- Co. is expecting margins to be impacted due to rise in commodity prices like crude.
- Domestic sales are improved for chemical division, and co has launched new products in consumer segment which will lead to profits in next few quarters.
- There is one big order from shrilanka and it was affected due to covid and also exports are impacted in this quarter due to logistics issue and covid restrictions in overseas market.
- During the Quarter Co. total order book was rs 2756cr and co has already bid for rs 5640 cr, mainly related to pipelines.

### 3. SEGMENTAL ANALYSIS:

- Q3FY22 Revenue Breakup: **Engineering Division (56%), Chemical Division (38%), Consumer division (9%)**
- During the Qtr. Revenue from engineering division stood at Rs 216.8cr, with EBIT of 11.3cr. Revenue from Chemical division stood at 146.7cr, with EBIT of 30.80cr. Revenue from Consumer division stood at rs 35.2 cr, with EBIT of -0.20cr.

### 4. CONCALL SUMMARY

- The operating income for the quarter was INR 3,882 million, an increase of around 11% on a year-on-year basis. Operating EBITDA was INR427 million, decrease of 4% on year on year and EBITDA margin stood at 11%. Net profit after tax reported was INR 280 million, a decrease of 2.4% year on year while the PAT margin percentage was 7.21%, decrease of 101 basis points on a year-on-year basis.
- As Up Jal nigam project has commenced, we will see significant revenue contribution in next quarter, but margin will be impacted due to rise in commodity prices like crude.
- Chemical division will continue to show higher revenue contribution in next few quarters.

### 5. OTHER DEVELOPMENTS:

- Co. is expected to receive new contacts from Govt for clean ganga or Namami ganga projects

### 6. VALUATION AND OUTLOOK:

We believe we should invest in co, as with the growth in capex cycle every manufacturing co have to install water treatment plant, also co. is focused on environmental governance. ROE is 30% and co. is debt free. At this market cap co. is having potential to get doubled. also co has new contracts with UP govt, clean ganga project,

We initiate a "BUY" rating on the stock and value the stock at 17.0x FY23E earnings to arrive at the target of ₹2526.

## RECOMMENDATION - BUY

CMP – 1771

TARGET – 2526 (42.63%)

Industry	Engineering - Industrial Equipments
NSE CODE	IONEXCHANG
BSE CODE	500214
Market Cap (₹ Cr)	2735.92
Shares Outstanding (in Cr)	1.47
52 wk High/Low (₹)	1914 / 1845
P/E	18.25
P/BV	4.76
Face Value (₹)	10.00
Book Value (₹)	391.78
EPS (FY21) (₹)	101.16
Dividend Yield (%)	0.77

## SHAREHOLDING PATTERN

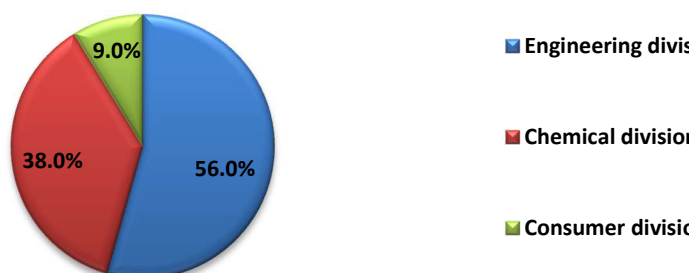
	Dec 21	Sep 21	Jun 21
Promoters	27.01	27.01	27.01
MF/ DII	6.69	5.44	5.25
FII/FPI	2.54	1.63	1.49
Retail & Others	60.95	63.22	63.66
Promoter	0.00	0.00	0.00
Pledging			

## FINANCIAL SNAPSHOT (₹ Cr)

Y/E March	2021A	2022E	2023E
<b>Crore</b>			
Sales	1449.52	1740	2088
Sales Gr. (%)	-2.05	20	20
EBITDA	204.41	243.6	292.32
EBITDA %	16.38	14	14
PAT	143.93	176.61	211.93
EPS (₹)	101.16	120.09	144.1
EPS Gr. (%)	53.74	18.72	19.98
BV/Sh. (₹)	355.50	475	619
<b>Ratios</b>			
RoE (%)	33.00	33.07	39.0
RoCE (%)	41.05	41.78	44.01
<b>Valuation</b>	9.89		
P/E (x)	17.53	14.98	12.42
P/BV (x)	4.75	4.4	4.0
EV/EBITDA	3.67	5.68	5.46

## Historical & Industrial Val Ratios

Historical P/E	18.25
Industry P/E	25.03
Historical P/B	4.76
Industry P/B	3.55

**REVENUE SPLIT (Q3 FY22)**
**Segmental Mix (Q3 FY22)**

**QUARTERLY PERFORMANCE (CONSOLIDATED)**

(₹ Cr)

Y/E March	FY21				FY22				FY21	FY22E*
	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4E*		
<b>Net sales</b>	265	390	349	445	314	378	388	660	1,450	1,740
YoY change (%)	-17.40%	-4.75%	-12.32%	26.79%	18.42%	-3.02%	11.18%	70.10	-2.05%	20.0%
<b>Total Expenditures</b>	234	349	305	360	278	338	345	431	1,243	1,392
<b>EBITDA</b>	31	41	44	85	36	40	43	229	207	243.6
Margins (%)	12%	11%	13%	19%	11%	10%	11%	34.69%	14%	14.0%
Depreciation	7	7	7	7	7	7	7	7	28	32.66
Interest	4	3	3	3	3	2	2	4.18	15	11.18
Other income	6	8	6	14	7	8	6	9.0	31	33.08
<b>PBT</b>	26	39	41	90	33	38	39	125.48	195	235.48
Rate (%)	32%	31%	30%	22%	31%	29%	28%	28%	27%	25%
<b>Adjusted PAT</b>	18	27	29	70	24	27	28	132.9	144	211.93
<b>EPS in Rs</b>	12.07	18.37	19.87	47.83	16.28	18.70	19.37	87	98.13	144.1
<b>Key Performance Indicators</b>										
<b>Raw Mat cost as % of revenue</b>	61	66	62	57	60	62	61			
<b>Employee cost as % of revenue</b>	16	11	12	10	15	13	13			
<b>Op profit Margin</b>	12	11	13	19	11	10	11			
<b>Net profit margin</b>	7.69	6.92	8.31	15.73	7.64	7.14	7.21			

Source: Company, Hem Securities Research.

**\*Insights into the assumptions:**

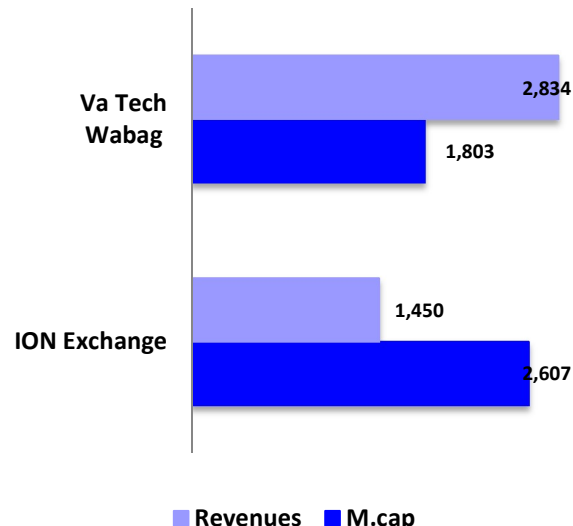
- We expect significant increase in revenue in upcoming quarters as co has receive new orders and execution is also going well.
- We also believe that there could be margin pressure due to rise in commodity prices.



## INDUSTRY OVERVIEW

- Capital expenditure on water and waste water infrastructure in India is set to increase by 83% over the next five years, hitting an annual run rate of USD 16 Bn by 2023..
- In 2001, per capita water availability was 1,820 cubic meters which is projected to decline to 1,140 cubic meters by 2050.
- Almost 62,000 MLD of sewage is generated across urban India and there are just 816 STPs installed that treat 23,277 MLD or 37.5% of sewage per day.
- Capital expenditure on water reuse is expected to grow at a CAGR of 19.5%.
- Govt plans to spend 200bn in next 5 year to clean ganga project.
- Global water treatment chemical market size is expected to grow \$39billion in 2021 to 461billion in 2026.
- Nal Se Jal Scheme: Current coverage of Har Ghar, Nal Se Jal is 8.7 crores. Of this 5.5 crore households were provided tap water in last 2 years itself. Allocation of ` 60,000 crore has been made with an aim to cover 3.8 crore households in 2022-23

## KEY PLAYERS in Water Treatment



## PEER PERFORMANCE

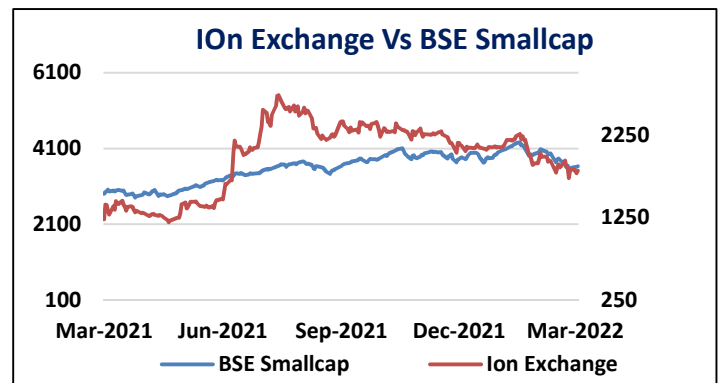
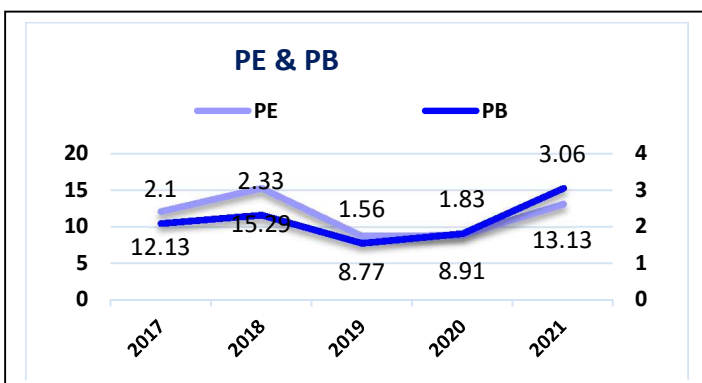
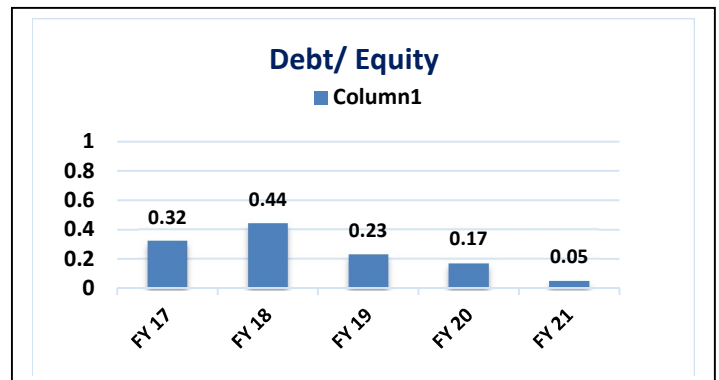
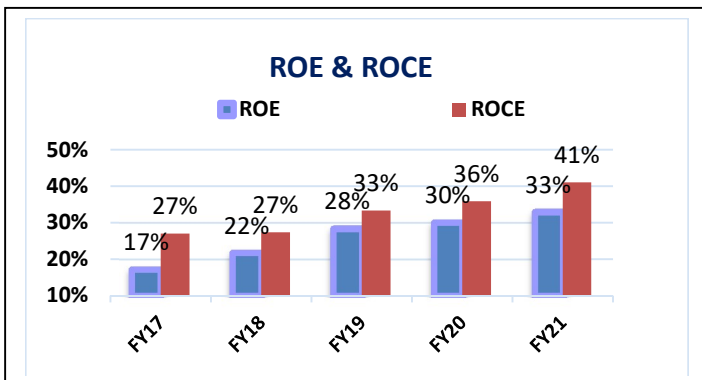
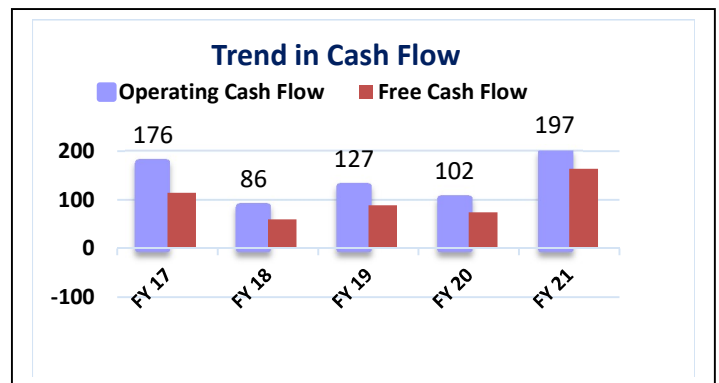
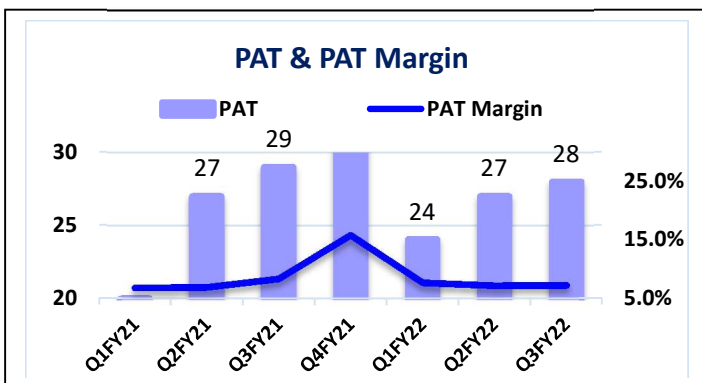
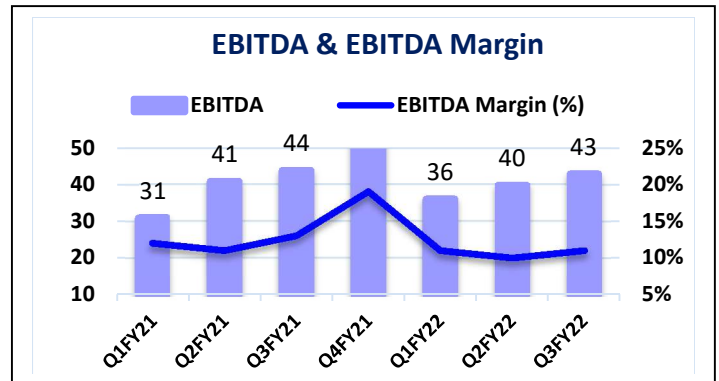
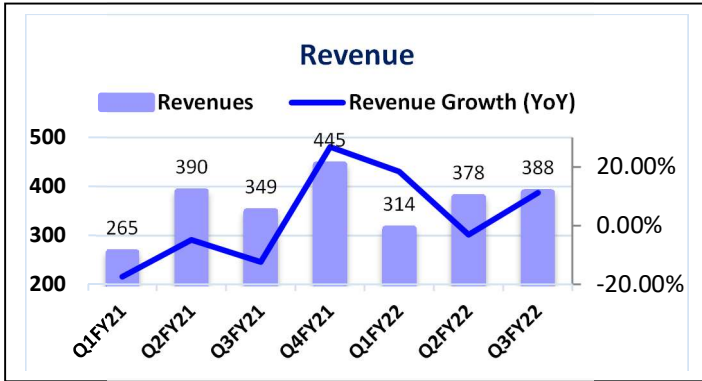
(₹ Cr)

Particulars	Ion Exchange	Va Tech Wabag
	Market Cap	2,659.3
Net Sales	1,449.5	2,834.5
EBITDA	204.4	218.0
PAT	143.9	110.1
EPS(₹)	101.2	17.7
EBITDA MARGIN %	16.4	8.0
PAT MARGIN %	9.9	3.4
ROCE %	41.1	12.4
ROE %	33.0	7.4
P/E TTM	17.9	13.9
P/B TTM	4.7	1.2
EV/EBITDA		
Dividend Yield %	0.5	-
MCap/ Sales TTM	1.7	0.6

Source: Company, Hem Securities Research.



## STORY IN CHARTS





## INVESTMENT RATIONALE:

- We believe we should invest in co, as with the growth in capex cycle every manufacturing co have to install water treatment plant , also co. is focused on environmental governance. ROE is 30% and co. is debt free. At this market cap co. is having potential to get doubled. also co has new contracts with UP govt, clean ganga project, Any further Announcement related to that will boost share in future.
- Co. get benefit from NAL se JAL scheme as announced in recent budget.
- Ion Exchange (India) Ltd has been able to grow its sales at a growth rate of 10% per annum over the last 10 years.
- Ion Exchange operates on 3 segments which are Engineering, Chemicals, and Consumer segment. We believe consumer segment could be dark horse for company.
- As compare to its peers Ion Exchange is being able to reduce its operating cost to 86 %, which is 92% in other companies.
- Co. is having Current order book is 1.8 times of TTM revenue and co has already bid for rs 5900cr orders, which shows revenue visibility for next 2-3 years
- Co is having Op profit margin Of 14% and 3y CAGR of profit is around 54% Broad based growth witness across all verticals and geographies.

## RISK / NEGATIVE FACTORS:

- Overall, Ion Exchange (India) Ltd has been able to grow its sales at a growth rate of 10% per annum over the last 10 years. However, they have been facing intense competition from organized as well as unorganized and Indian as well as foreign competitors. Because of the competition, the company has faced difficulties to pass on the increase in raw material costs to its customers and reported low net profit margins in earlier years.
- Increase in commodity prices impact their margins and this will affect their profitability.
- Ion Exchange (India) Ltd executes projects for large customers like power plants, steel plants etc. who have a higher negotiating power over the company. As a result, the company faces frequent delays in collecting receivables from its customers. Significant amounts of receivables have been delayed more than 6 months from the due date.

## COMPANY RECAP

- Ion Exchange is Mumbai based co., Started operation in 1964, is pioneer in water, waste water treatment & environment solutions and caters to various industries, institutions, homes & communities.
- Co is Largest one stop water solution's provider in Asia and executed more than 100,000 Projects till date
- The company is Manufacturer of • Chemicals in ISO 9001, 14001 and 45001 certified facilities. • Resins & Membranes in ISO 9001 & 14001 certified facilities. • Excipients and APIs in FDA compliant facility.
- The co provide its services to Infrastructure, industry, institutions, municipalities, homes and communities, urban and rural Segments.
- The co is having 50patents & 100+ products commercialized till date, 36+ sales & service centers and 100+ Channel Partners and 1500+ trained professionals.
- The company exports to Africa, Japan, Middle East, Russia, South East Asia, Europe, UK, USA, Canada and neighbouring countries.
- The Major clients are **Industrial** – NTPC, NPC, Reliance, IOCL, JSW, CPCL, L&T, Arcelormittal, Nippon Steel, Nayara Energy, IRCTC , BHEL, Tata Group. **Institutional** – Leela, Military Engineering Services, Taj Hotels, Holiday Inn, Hyatt Regency, Oberoi Hotels, Apollo Hospitals, Escorts Heart Institute, DLF, Puravankar. **International** – Cargill, Technip France, Unilever Group, Jurong, Thyssenkrupp (Uhde), Jacobs, Kawasaki, Mitsubishi, PDO Oman, Emirates Steel, IKPP Indonesia.
- The promoter is having more than 40 years of experience in Industry.



## ANNUAL PERFORMANCE

### Financials & Valuations

Income Statement							(₹ Cr)
Y/E March	2017	2018	2019	2020	2021	2022E	2023E
<b>Revenue from operations</b>	<b>1,008.91</b>	<b>1,045.81</b>	<b>1,162.28</b>	<b>1,479.83</b>	<b>1,449.52</b>	<b>1740</b>	<b>2088</b>
Growth YoY (%)	15.82	3.66	11.14	27.32	-2.05	20	20
<b>Total Expenditure</b>	<b>936.71</b>	<b>965.76</b>	<b>1,053.41</b>	<b>1,341.97</b>	<b>1,245.11</b>	<b>1,496.40</b>	<b>1,795.68</b>
(%) of sales	92.84	92.35	90.63	90.68	85.90	86.00	86.00
<b>EBITDA</b>	<b>72.20</b>	<b>80.05</b>	<b>108.88</b>	<b>137.85</b>	<b>204.41</b>	<b>243.6</b>	<b>292.32</b>
EBITDA Growth (%)	29.13	19.82	40.61	21.80	37.11	19.17	20.00
EBITDA Margin (%)	8.06	9.59	12.24	11.71	16.38	14.00	14.00
Depreciation	11.83	13.08	19.59	23.53	27.67	32.66	38.53
<b>EBIT</b>	<b>72.58</b>	<b>88.06</b>	<b>122.62</b>	<b>149.69</b>	<b>209.82</b>	<b>210.94</b>	<b>253.79</b>
EBIT Growth (%)	37.59	21.33	39.25	22.07	40.17	12.12	12.15
Net Interest Expenses	18.88	21.74	21.35	19.25	14.72	11.18	8.50
Other Income	12.21	21.09	33.34	35.37	33.09	33.09	33.09
<b>Earnings before Taxes</b>	<b>53.70</b>	<b>66.32</b>	<b>101.27</b>	<b>130.44</b>	<b>195.11</b>	<b>235.48</b>	<b>282.57</b>
EBT Margin (%)	5.13	6.29	8.71	8.81	13.46	13.53	13.53
Tax-Total	24.81	26.36	35.94	36.73	51.71	58.87	70.64
Rate of tax (%)	46.21	39.74	35.48	28.16	26.50	25.00	25.00
<b>Net Profit</b>	<b>28.89</b>	<b>39.96</b>	<b>65.34</b>	<b>93.71</b>	<b>143.39</b>	<b>176.61</b>	<b>211.93</b>
PAT Growth (%)	70.91	38.34	63.49	43.43	53.02	23.16	20.00
PAT Margin (%)	2.76	3.79	5.62	6.33	9.89	10.15	10.15
Minority Interest	1.57	0.32	-0.65	-0.53	0.61	0.00	0.00
<b>Adjusted PAT</b>	<b>30.41</b>	<b>40.18</b>	<b>65.26</b>	<b>93.62</b>	<b>143.93</b>	<b>176.61</b>	<b>211.93</b>
<b>EPS</b>	<b>21.37</b>	<b>28.24</b>	<b>45.86</b>	<b>65.80</b>	<b>101.16</b>	<b>120.095</b>	<b>144.1</b>
EPS Growth (%)	97.07	32.10	62.44	43.46	53.74	18.72	19.99

### Balance Sheet

Y/E March	2017	2018	2019	2020	2021
Share Capital	14	14	14	14	14
Reserves	153	186	246	349	492
<b>Net Worth</b>	<b>167</b>	<b>200</b>	<b>260</b>	<b>363</b>	<b>506</b>
Borrowings	0	0	0	0	0
Other Liabilities	724	749	835	942	894
<b>Total Liabilities &amp; Equity</b>	<b>965</b>	<b>1064</b>	<b>1164</b>	<b>1381</b>	<b>1438</b>
Fixed Assets	99	145	161	194	190
CWIP	34	7	12	12	15
Investments	0	0	0	0	0
Other Assets	832	913	991	1175	1234
<b>Total Assets</b>	<b>965</b>	<b>1064</b>	<b>1164</b>	<b>1381</b>	<b>1438</b>

Source: Company, Hem Securities Research.



<b>Ratios</b>					
<b>Y/E March</b> (Basic (INR))	<b>2017</b>	<b>2018</b>	<b>2019</b>	<b>2020</b>	<b>2021</b>
<b>Profitability and return ratios</b>					
Net profit margin (%)	2.76	3.79	5.62	6.33	9.89
EBITDA margin (%)	8.06	9.59	12.24	11.71	16.38
EBIT margin (%)	6.93	8.35	10.55	10.12	14.48
ROE (%)	17.23	21.79	28.40	30.08	33.00
ROCE (%)	27.03	27.42	33.39	35.87	41.05
<b>Working Capital &amp; liquidity ratios</b>					
Payables (Days)					
Inventory (Days)	155.07	157.06	146.67	133.47	160.57
Receivables (Days)	36.65	39.82	36.26	32.59	33.00
Current Ratio (x)	135.79	147.62	135.23	114.20	119.71
<b>Valuations Ratios</b>					
EV/sales (x)	1.05	1.07	1.10	1.17	1.33
EV/EBITDA (x)	0.49	0.58	0.33	0.40	0.97
P/E (x)	5.88	6.03	2.71	3.38	5.92
P/BV (x)	18.19	17.63	8.68	9.15	12.92
Dividend Yield (%)	3.32	3.54	2.18	2.36	3.67
<b>Leverage Ratio</b>					
Debt/Equity (x)	3.44	3.94	5.86	7.36	10.17

<b>Cash Flow Statement</b>					
<b>Y/E March</b>	<b>2017</b>	<b>2018</b>	<b>2019</b>	<b>2020</b>	<b>2021</b>
<b>CF from Operating activities (A)</b>					
	176	86	127	102	197
<b>CF from Investing Activities (B)</b>					
	-75	-167	-70	-17	-132
<b>CF from Financing Activities (C)</b>					
	-3	31	-79	-28	-75
Net Cash Flow	98	-50	-22	56	-9
Add: Opening Bal.	19	117	67	45	101
<b>Closing Balance</b>	117	67	45	101	92

Source: Company, Hem Securities Research.



## RATING CRITERIA

INVESTMENT RATING	EXPECTED RETURN
BUY	>=15%
ACCUMULATE	5% to 15%
HOLD	0 to 5%
REDUCE	-5% to 0
SELL	<-5%

## RECOMMENDATION SUMMARY

DATE	RATING	TARGET
07 Mar 2022	Buy	2526

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Name of the Research Analyst: Madhur Mandhana

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2.	Research Analyst or his/her relative or HSL's actual/beneficial ownership of 1% or more securities of the subject company(ies) at the end of the month immediately preceding the date of publication of the Research Report	No
3.	Research Analyst or his/her relative or HSL has any other material conflict of interest at the time of publication of the Research Report	No
4.	Research Analyst has served as an officer, director or employee of the subject company(ies)	No
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6.	HSL has received any compensation for investment banking or merchant banking or brokerage services from the subject company in the past twelve months	No
7.	HSL has received any compensation for products or services other than investment banking or merchant banking or brokerage services from the subject company in the past twelve months	No
8.	HSL has received any compensation or other benefits from the subject company or third party in connection with the research report	No
9.	HSL has managed or co-managed public offering of securities for the subject company in the past twelve months	No
10.	Research Analyst or HSL has been engaged in market making activity for the subject company(ies)	No

Since HSL and its associates are engaged in various businesses in the financial services industry, they may have financial interest or may have received compensation for investment banking or merchant banking or brokerage services or for any other product or services of whatsoever nature from the subject company(ies) in the past twelve months. Associates of HSL may have actual/beneficial ownership of 1% or more and/or other material conflict of interest in the securities discussed herein.

There were no instances of non-compliance by HSL on any matter related to the capital markets, resulting in significant and material disciplinary action during the last three years.