



The Trick Is To
Spot Them At The
Larval Stage

Ion Exchange (India) Ltd.

Wastewater management: Recycling into Magic!

Our Tiny Treasure for the month of December is Ion Exchange India Limited. The company pioneers water treatment in India and has become a premier company in water and environment management having a strong international presence. It mainly operates through three segments, namely: Engineering (which contributed 55 per cent towards the total revenue in FY19), followed by Chemical segment (35 per cent) and Consumer products (10 per cent).

Engineering segment – Strong order book driving top line

The engineering segment is the revenue driver for the company. It caters to the requirements of medium and small-scale industries such as F&B, pharmaceutical, automotives, chemicals etc. through its pre-designed, pre-engineered product range for water and waste treatment. Some of the large-scale companies from the industries like Oil & Gas, automotive, pharmaceutical, steel, paper etc, use its technologically advanced innovative and customised solutions for total water and waste management.

Its order book as on September 30, 2019 stood at Rs 756 crore. In 2017, the company initiated its prestigious large-scale project from Sri Lanka worth Rs 1,200 crore. By the end of FY19, revenue of Rs 344 crore was recognised in the books. Later in H1FY20, the company booked Rs 143 crore revenue from the project. The remaining Rs 700 crore would be completed and recognised in books in FY20 and FY21. A huge surge in the top line would be visible in these two years. Apart from this, it bagged turnkey EPC order from Cairn Oil & Gas for its onshore oil & gas processing facility worth Rs 373 crore. The total order book has given a strong revenue visibility for the next 2 years.

It also launched a unique product 'Indion Swift 5Gx' to meet the growing requirements of high purity water systems required by the pharmaceutical, power, semi-conductor and electronics industry. In FY19, it won several orders from various companies. It has also maintained its market leadership position in the Zero Liquid Discharge (ZLD) projects.

Chemicals segment – Margins driver

This segment is the margin driver for the company. Water chem-

BSE Code : **500214**

Time Duration : **1 year**

CMP : **₹775 (as on 26 December, 2019)**

Target Price : **₹990**

icals contribute 60 per cent of the chemical business, while the rest comes from Resins. The company has more than 35-40 per cent market share in the Indian market for the resins, and close to around 10-15 per cent, in the water treatment chemicals. The resin plant is operating at 90 per cent capacity utilisation and the company has multiple patents in its name for resins. Due to the environmental issues faced in China, the demand for resins across the world has grown significantly. As a result of a robust demand, the growth in this segment is visible over the years with higher contribution towards the overall profit margins of the company.

Consumer products – On the path of growth

This segment caters to the need of individual homes, institutions and commercial establishments. A range of product provides safe drinking water, waste treatment, recycle, swimming pool solutions backed by countrywide channel partners and service centers. The company wants to focus on the rural market with its pioneer 'Zero B' brand water purifiers. It also supplies water to IRCTC under brand name 'Rail Neer' which has become profitable in FY19.

Rising exports through subsidiaries

In FY19, more than 75 per cent of the revenue generated from the Chemicals' segment came through exports. From the engineering segment, it has export orders to Sri Lanka. It has a consolidated business in North America, Middle East, SE Asia, South and East Africa. Also, it has secured export orders for membranes manufactured in the newly constructed state-of-the-art integrated Reverse Osmosis membrane manufacturing facility in Goa. The company has 22 subsidiary and associate companies spread across the globe. As per the company, it bids for many projects abroad and some of the bidding requires local presence. Hence, the company has more internationally-based subsidiaries. The related party transactions are within limits between the company and its subsidiaries. Some of the subsidiaries have witnessed a turnaround in their performance in H1FY20, while the others may also expect break-even in a couple of years. Overall at the consolidate level, a growth is expected in top line with an im-

Continued On PG 2...

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provement in the margins in near-term.

Industry Outlook

Wastewater market in India is projected to grow at a CAGR of over 12 per cent during 2016-2021 driven by curbs on increasing water pollution, rapid urbanisation and implementation of stringent regulations. There is a lot of environmental push from the government pushing the manufacturing plants to be Zero liquid discharge. Ion Exchange has expertise in these manufacturing plants and also it has pioneered the concept of sea water desalination. Thus, the entry of new entrants in this segment is difficult. With a growing environmental awareness among people and their shift towards reusability, the waste water treatment segment is expected to flourish. Also, the 'Nal se Jal' scheme by government is likely to attract investment worth Rs 6.3 lakh crore in next 5 years. The industrial usage of water has also been increasing, thereby a demand for ZLD is increasing. All these factors are giving ample opportunities to the company to bag new orders in the domestic market.

Robust Financial Performance

Ion Exchange consolidated revenue for the quarter Q2FY20 came in at Rs 409.4 crore as against Rs 243.76 crore in the corresponding quarter last year, registering 68 per cent YoY increase. The EBITDA for the quarter grew by 104.2 per cent YoY to Rs 32.88 crore as against Rs 16.1 crore in the corresponding quarter last year, with corresponding margin expansion of 143 bps, while the EBITDA margin for the quarter stood at 8 per cent. The PAT for

the quarter came in at Rs 25.66 crore as against Rs 11.31 crore in the corresponding quarter last year, YoY increase of 126.9 per cent.

Looking at the half yearly numbers for H1FY20, the revenue jumped by 55 per cent to Rs 730.51 crore while EBITDA rose by 100 per cent to Rs 56.08 crore. Further, the company reported a net profit of Rs 38.98 crore, up 78 per cent YoY. Historically, the March quarter is the strongest contributor to the company's annual top line. If this trend continues, FY20 will end up delivering huge growth as H1FY20 has already delivered robust numbers.

The company's balance sheet is strong, being a cash-rich company with a manageable debt in books, leading to D/E of 0.3x. Also, the company has been paying dividend consistently to its shareholders over the years.

Valuation

The company is trading at TTM P/E of 16.7x with TTM EPS of Rs 44.5. For FY19, it delivered ROE and ROCE of 28.4 per cent and 33.4 per cent, respectively, which is far better than its peers. Sri Lanka and Cairn Oil orders would bring growth in top line in the upcoming two years. The demand for water chemicals and resin in domestic and international market is growing, which would lead to an expansion in company's margins. The waste water management industry is expected to flourish, led by an environmental safety push. Considering all these factors along with a robust financial performance and attractive valuation, we see potential upside of 28 per cent with a target price of Rs 990 for one year.

Inc/Exp Statement(Consolidated) (Rs in Crore)

Description	201903	201803	201703	201603	201503
Net Sales	1162.28	1045.81	1008.91	871.08	800.48
Total Income	1195.62	1066.90	1021.12	877.61	804.90
Total Expenditure	1053.41	965.76	936.71	812.24	748.95
PBIDT	142.21	101.14	84.41	65.37	55.95
PAT	65.34	39.96	28.89	16.90	11.41
Dividend %	45.00	35.00	35.00	30.00	30.00
Adj. EPS(Rs)	45.86	28.24	21.37	10.85	6.92

Quarter On Quarter (Consolidated) (Rs in Crore)

Particulars	201909	201906	Q on Q Var%	201809	Y on Y Var%
Net Sales	409.40	321.11	27.50	243.76	67.95
Total Expenditure	376.52	297.91	26.39	227.66	65.39
PBIDT (Excl OI)	32.88	23.20	41.72	16.10	104.22
PAT	25.61	12.79	100.23	11.07	131.35
PBIDTM% (Excl OI)	8.03	7.22	11.22	6.60	21.67
PBIDTM%	10.26	9.64	6.43	11.24	-8.72
PATM%	6.26	3.98	57.29	4.54	37.89
Adj. EPS(Rs)	17.82	9.63	85.05	7.84	127.30

Continued On PG 3...



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