


 Company Name : **ION EXCHANGE (INDIA)**

 BSE Code : **500214**

 Time Duration : **1 year**

 CMP : **₹526 (as on 14 Sept., 2017)**

 Target Price : **₹680**

The Value Pick for the month of September is Ion Exchange (India) Ltd. It is a pioneer in water, waste water treatment and environment solutions and caters to various industries, homes and communities. The company is headquartered in Mumbai and has six manufacturing and assembly facilities across India and one each in Bangladesh and UAE. It also exports (32% of the total revenue) to Africa, Japan, Middle East, Russia, South East Asia, Europe, UK, USA, Canada and neighbouring countries. It operates through three segments, including engineering, chemicals and consumer products that contributed 60%, 30% and 10%, respectively, to its revenue in FY17.

We see this stock as our Value Pick as water and waste management industry has potential to flourish not only in India but also globally. Demand for ion exchange resins is showing an upward trend which will boost company's production levels. Additionally, the company has been a consistent performer and has grown its sales at CAGR of 7.8% over the last ten years, while its net profit has grown at a pace of 17.5% CAGR over the same period.

Order from Sri Lanka to trigger revenue

The company has bagged a significant order for water supply project from Sri Lanka worth USD 194mn during the last quarter of FY17. It expects to execute this order within the next three years. Hence, the realisations would be accumulated over the next three years. Booking of revenue in FY17 was low, but the company expects to see pick-up in the revenue in FY18 from this specific order. We expect to see a turnaround in revenue and margins in FY19 and FY20.

Good margins expected from chemicals segment

Although revenues from chemicals segment remained flattish, improved performance is expected in FY18. Improvements in scale and push towards the international market would be the triggers for this segment. The company is planning for capacity expansion with capex of Rs 130cr in chemicals division, which would accelerate its debt to Rs.135cr by FY19-20. This segment is expected to grow in high single digits or low double digits and margins are expected to be in the range of 22-24% in FY18.

Growing demand for Ion Exchange resins

Ion exchange resins are small and insoluble matrices, primarily used for purification of water in wastewater treatment plants

and chemical industries. It has various applications in foods & beverages, power generation, pharmaceuticals, domestic and waste water treatment, electrical & electronics and fertilisers. The global demand for ion exchange resins is expected to skyrocket over the following decade, mainly due to their advanced purification properties and their high feasibility in industrial applications for chemical processing plants. The global ion exchange resins market is expected to reach USD 2.26bn by 2026.

Ion Exchange (India) is one of the key players dealing with such resins in India. As of FY17, manufacturing and trading of ion exchange resins contributed 16.57% towards company's total turnover. The company's pharma resin facility at Ankleshwar has been audited by the USFDA and no objections have been raised. This would boost the production and further trading of resins by the company in domestic and international markets. The company sees the US and Europe as potential markets for drug active resins.

Outlook of water chemicals industry

As per a study by the Central Pollution Control Board (CPCB) in 2015, India generated a total of approximately 62,000 MLD of sewage. However, the country had a capacity to treat about 23,000 MLD, leaving a gap of around 39,000 MLD of sewage, or 63 per cent, which was left untreated and discharged in the local water bodies, thereby causing large-scale water and ground contamination. Due to increased awareness to protect the environment and impetus from the government, we expect the industry growth to remain buoyant. Waste water management is projected to grow at a CAGR of 8-10% through 2015-2020. The water and waste water infrastructure is estimated to grow by 83% over the next five years in India. The water chemicals market in India is expected to grow at a CAGR of 15% over FY15-19 up to USD 0.8bn in FY19.

Swachh Bharat Abhiyan and Clean Ganga projects are the initiatives started by Government of India and funds have been set up to invite voluntary contributions from the public. Private sector spending is also rising due to setting up of new industries and water recycling projects.

Financial Performance

Over the last three years, the company's revenue has grown at a CAGR of 9.6% and profit grew at CAGR of 30.8%. Its EBITDA

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margin has improved gradually from 6.7% in FY13 to 9.8% in FY17. PAT margin grew from 2.7% in FY13 to 4.8% in FY17. Its EPS has almost doubled in five years from Rs 14.5 in FY13 to Rs 31.3 in FY17. Its debt-equity ratio for FY17 was 0.27x.

In Q1FY18, the revenue of the company was Rs 208.05 cr, a growth of 2.8% YoY from Rs 202.25 cr in Q1FY17. Its EBITDA grew by 0.57% YoY to Rs 17.5 cr., while EBITDA margin was down by 30 bps to 8.19% from 8.49%. The net profit decreased by 9.88% YoY to Rs 7.3 cr. However, PAT margin declined marginally by 49 bps to 3.42% in Q1FY18.

Valuation

The company is trading at TTM P/E of 16.44x with TTM EPS of Rs 31.71. It has delivered ROE and ROCE of 16.8% and 24.8%, respectively, for FY17. The significant order from Sri Lanka will shoot up the revenue and margin levels of the company in the upcoming 2-3 years. While the demand for resins and industrial growth has been showing consistent pick-up, various government initiatives would also augur well for the company. We see a potential upside of 29% with target price of Rs 680 over a period of one year from the current levels.

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

Description	201703	201603	201503	201403	201303
Net Sales	937.21	801.69	731.83	711.95	767.34
Total Income	951.33	813.89	740.05	720.09	773.21
Total Expenditure	855.11	739.23	676.74	668.90	718.24
PBIDT	96.22	74.66	63.31	51.19	54.97
PAT	45.95	34.49	26.14	20.52	21.49
Dividend %	35.00	30.00	30.00	20.00	20.00
Adj. EPS(Rs)	31.33	23.69	17.99	14.12	16.15

Quarter On Quarter (Standalone) (Rs in Crore)

Particulars	201706	201703	Q on Q Var%	201606	Y on Y Var%
Net Sales	208.05	357.16	-41.75	202.25	2.87
Total Expenditure	196.18	318.30	-38.37	189.55	3.50
PBIDT (Excl OI)	11.87	42.18	-71.86	12.70	-6.54
PAT	7.29	26.24	-72.22	8.12	-10.22
PBIDTM% (Excl OI)	5.71	11.70	-51.20	6.28	-9.08
PBIDTM%	8.44	12.78	-33.96	8.72	-3.21
PATM%	3.50	7.28	-51.92	4.01	-12.72
Adj. EPS(Rs)	4.97	17.89	-72.22	5.54	-10.29

