

Ion Exchange (I) Ltd.

₹ 279

Water you waiting for ?**Buy**

Gateway to Prosperity

Aug 14, 2015

Company Background

Ion Exchange is a global company with sales, production and service footprints across the globe. It was incorporated 50 years ago on 6th March 1964. It is a pioneer of water treatment in India with a legacy spanning over five decades, Ion Exchange is recognised internationally as a premier company in water and environment management and also commands a high Brand Equity in India. It is among the largest environment solutions providers, one of very few companies worldwide have such a complete range of technologies, products and services. This enables it to offer total solutions for every sector of society. Its current businesses can be classified into 3 segments, Engineering, Chemicals & Consumer Products. The Engineering segment designs, manufactures and sells medium and large size equipment for water & waste water treatment plants. The Chemical segment supplies different conventional & speciality resins for water treatment and for other industries like Mining and Refinery. The consumer product division manufactures products like "Zero B" (which is an age old flagship brand) and other products for Home & Institutional water treatment requirements.

Key Highlights

- ➔ Growing awareness about sanitization, scarcity of fresh water & more vigilant approach by regulatory authorities have opened new opportunities for sewage treatment & recycle of waste water across institutional segments.
- ➔ The new government is also likely to initiate actions that would bolster capital expenditure, as companies are looking for macroeconomic stability and forward movement on some structural issues before commencing operations. Consequently, there would be an increase in demand for various water treatment projects which is likely to bring better business opportunities in current FY.
- ➔ Ion Exchange has been selected by Sri Lanka Water Board to execute water supply project worth US\$ 194 mn which is expected to commence soon.
- ➔ Ion Exchange has the capacity and expertise and has supplied over 1 million water treatment plants world-wide including 1000 major installations to industries like thermal power, nuclear power stations, refineries, steel industries etc. Even its Zero B brand is a household name in India for water purifiers.

Key Financials

Year Ended 31 st	Mar 12	Mar 13	Mar 14
Revenue (INR mn)	6,670.8	7,727.2	7,202.7
Rev. growth (%)	13.4	15.8	(6.8)
EBITDA (INR mn)	476.6	564.0	541.1
Net profit (INR mn)	175.5	214.9	205.2
Shares outstanding (mn)	13.6	13.3	14.5
EPS (INR)	12.9	16.2	14.1
EPS growth (%)	61.8	24.8	(12.6)
P/E (x)	8.3	6.2	6.7
RONW (%)	11.2	12.5	10.4
ROCE (%)	8.8	9.5	7.7

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Info Codes

Reuters	: IONX.BO
Bloomberg	: ION@IN
NSE	: IONEXCHANG
BSE	: 500214

Market Data

52 Wk Range (₹)	: 139 / 319
Shares in Issue (mn)	: 14.5
Mkt. Cap (₹ bn)	: 4.03
BSE 2 Wk Avg Vol	: 24000

Share Holding Pattern (%)

Promoters	: 44.44
FIIs	: 0.17
DIIIs	: 1.18
Others	: 54.21

Investment Theme

Water is an essential commodity whose availability is dwindling day by day. It is among the most wonderful solvents and a very good medium to throw out waste. So many industries around the world generate loads of waste water. However this water must be reclaimed with an environmental approach to make it reuse able and potable. Ion Exchange exactly functions in the same field. With brands like Zero B it is a household name in India which stands synonymous with pure drinking water. Its other industrial solutions cater to environment based water treatment of waste water, thus making Industries more compliant to local laws. As the general focus changes from from potabvle drinking water to pure drinking water and as the laws of the land get more tightened with stricter norms for water treatment to various industries. Excellent growth opportunity will come knowcking at Ion Exchange.

As pure as Drinking water

Financial Statements

Income Statement

(₹ mn)

Year end	Mar 12	Mar 13	% Chg	Mar 14	% Chg
Total Sales + Excise	6766.6	7955.4	17.57	7363.5	(7.44)
Other Income	62.8	51.8	(17.52)	77.6	49.81
Change in Stocks	39.5	29.9	(24.30)	(25.0)	(183.61)
Raw Material Con.	4426.5	5151.6	16.38	4689.9	(8.96)
Employee Exp.	619.5	780.2	25.94	731.6	(6.23)
Indirect Taxes	244.7	316.0	29.14	275.5	(12.82)
Other Exp.	1139.7	1263.5	10.86	1218.2	(3.59)
Operating Exp.	6390.9	7481.4	17.06	6940.2	(7.23)
Operating Profit	375.7	474.0	26.16	423.3	(10.70)
Total Interest	102.4	135.2	32.03	109.7	(18.86)
Gross Profit	336.1	390.6	16.22	391.2	0.15
Net Dep.	79.9	65.7	(17.77)	77.2	17.50
Total Taxation	80.7	110.0	36.31	108.8	(1.09)
Net Profit/Loss	175.5	214.9	22.45	205.2	(4.51)

4 Years Balance Sheet

(₹ mn)

Balance Sheet as on 31 st	Mar 11	Mar 12	Mar 13	Mar 14
SOURCES OF FUNDS	1,870.0	2,077.4	2,455.0	2,736.8
Equity Share capital	134.3	135.6	133.0	145.3
Share Application Money	0.0	0.0	11.8	0.0
Preference Share Capital	0.0	0.0	0.0	0.0
Reserves & Surplus	1,338.1	1,485.7	1,693.9	1,862.7
Long Term Loans	71.6	117.2	174.1	142.1
Short Term Loans	326.0	338.9	442.2	586.7
USES OF FUNDS	1,870.0	2,077.4	2,455.0	2,736.8
Gross Block	1,301.9	1,373.6	1,720.3	1,733.1
Less : Revaluation Reserves	1.1	1.1	1.0	1.0
Less : Accumulated Depreciation	733.6	797.7	888.9	962.2
Net Block	567.2	574.8	830.4	769.9
Capital Work in Progress	10.6	132.8	14.5	11.3
Investments	299.5	353.4	521.6	521.7
Current Assets	4,247.4	4,796.5	4,424.3	4,765.6
Less : Current Liabilities	3,254.7	3,780.1	3,335.8	3,331.7
Total Net Current Assets	992.7	1,016.4	1,088.5	1,433.9
Misc. Expenses not writtenoff	0.0	0.0	0.0	0.0
NOTE				
Bk Val Unquoted Investments	299.0	352.9	521.1	521.2
Mkt Val. Quoted Investments	5.4	4.1	3.3	2.3
Contingent Liabilities	528.1	514.0	807.1	1,059.8
Dividend (%)	20	20	20	20

Quarterly Income Sheets

(₹ mn)

Quarter Ended	Sep 14	Dec 14	Mar 15	Jun 15
Net Sales	1745.0	1982.1	2352.2	1625.8
Cost Of Sales	1659.7	1876.5	2135.8	1543.3
Operating Profit	85.3	105.6	216.4	82.5
Recurring Income	25.5	29.0	25.1	33.0
Adjusted PBDIT	110.8	134.6	241.5	115.5
Financial Expenses	27.6	27.8	25.5	23.8
Depreciation	28.9	28.5	11.1	23.5
Other Write Offs	0.0	0.0	0.0	0.0
Adjusted PBT	54.3	78.3	204.9	68.2
Tax Charges	17.7	22.7	64.5	24.1
Adjusted PAT	36.6	55.6	140.4	44.1
Non Recurring Items	0.0	0.0	0.0	0.0
Other Non Cash Adjust	0.0	0.0	0.0	0.0
Net Profit	36.6	55.6	140.4	44.1

52 Week Index Relative Percentage Appreciation



Ion Exchange vs SENSEX

Risks

- Water treatment industry is an economy centric Industry with a lot of challenges in the market since when economy slows down both the large and the small players suffer due to reduced flow of new projects and severe cash crunch affecting the customers. The industry is also directly based on the law of the land and wherever the laws are strict have more scope of growth, any changes in the law reducing environmental compliances hampers new projects. The industry is also based on consumer awareness and literacy and have a slow market in areas where people do not consider the importance of pure water.
- Apart from the risk which global economy poses, companies like Ion Exchange are posed to risks like Currency risk as a significant part of the company revenues comes through Exports, a rising cost of interest which forces the company and its customers to go slow on expansion and newer projects. A credit risk as projects are being deferred and existing projects are under stress due to delayed and slow payments. Inflation also is another major risk factor as the industry in particular is facing margin pressures on account of continued high levels of inflation. A technology risk can turn into a game changer if another better and cheaper technology of water treatment is introduced by a competitor. Finally the regulatory policies and the changes in the law of the land, though completely beyond the control of the company may directly affect business operations

In a Nutshell

Water is one of the most prized commodity in today's world and the significance of Ion Exchange is that it directly works on making the commodity, available, usable and reusable. Ion Exchange was incorporated as a small company in 1964 as a subsidiary of Permutit UK and has grown to be a household name synonymous with pure water in India. Today it caters to Industrial, Institutional and Individual requirements of water. It has 5 manufacturing units in India with one being a 100% Export oriented Unit. It has over 1 mn installations of different water treatment plants around the world to its name and around 1000 large size installations to the core industries. This proves its experience and expertise. Right from the inception Ion Exchange has led the water treatment industry in India in an endeavour to provide total, integrated water treatment solutions to its customers. Water today is becoming scarce day by day. Laws regarding reuse and recycle are becoming stricter. Water conservation is becoming a need of the hour, moreover the falling levels of ground water due to greater demand for water result in increased salinity and increased contamination which requires home water solutions for even the common man. Zero B has turned out to be a good answer. Today Ion Exchange has a Zero B product at every price point, to suite every pocket and cater to every need of the consumer. Thus as the demand of water goes up so will the demand of the companies and products and so may the prices of the scrip.

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Rating Interpretation

Buy : Expected to appreciate 20% or more over 12-months

Accumulate : Expected to appreciate 10% to 20% over 12-months

Trade Buy : Expected to appreciate more than 10% over 45-days

Reduce : Expected to depreciate up to 10% over 12-months

Sell : Expected to depreciate 10% or more over 12-months

Trade Sell : Expected to depreciate more than 10% over 45-days

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