



ION EXCHANGE LTD | HOLD

Q2FY23 UPDATE | Sector – Engineering and Chemicals | 25th Nov 2022

KamayaKya Target of 26% Upside Potential Met – CMP Rs. 2618.8.

Key takeaways- Revenue grew 18.36% on YoY basis and 17.27% on QoQ basis (EPC- 27.72%, Chemical- 9.58%, Consumer products- -8%). The QoQ growth was majorly driven by EPC division. The company had frontloaded the cost in Q1FY23 for its EPC division to strengthen the infrastructure on the back of increased order backlog and expects to reap benefits of the same in upcoming quarters, IEIL has seasonality in its business, with Q4 garnering the highest revenue and EBIT margin. The overall scale of operations is much higher in the last quarter which helps the company to leverage the fixed cost and supports them to scale EBIT margin. As per our conservative estimates, we expect EPC segment to grow by a CAGR of 21% till FY24 which translates to Rs. 1347 Cr by FY24 and the Chemicals segment to grow by 13% CAGR till FY24 which translates to Rs. 712 Cr by FY24 (FY22 Rs. 558 Cr.) whereas the Consumer segment will grow by 30% on a low base which translates to Rs. 265 by FY24 Cr. Overall we expect company topline will grow by 20% CAGR during FY22-FY24E and PAT CAGR of ~22% during FY22-24E.



**Sentiment:
Positive**

Con call Highlights- i) Management guided for 30-35% growth in topline for FY23 and will maintain 14% margins; ii) The total execution of U.P project in H1FY23 was Rs. 76 Cr. The order pipeline is currently at Rs. 8000 Cr. of which 20-30% is at advance stage; iii) Company will be breaking even in FY23 at EBIT level in Consumer product division; iv) Capex guidance of Rs. 70 Cr in FY23 and Rs. 25 Cr. capex has been completed as of H1FY23 majorly in the Engineering segment.

Outlook

We expect the Environmental Clearance (EC) for the upcoming Resin facility within 1-2 months. It will take 12-15 months from EC to get the green field plant operational. The UP-contract execution will majorly take place in FY24. We expect the advance stage EPC contract to materialize soon. Going forward, the incremental capacity of chemical division, new EPC contracts and consumer business growth will drive the 20% CAGR in medium term.

Key Risks:

- Execution of the Sri Lanka contract is at a standstill due to their political and economic situation. Note: Trade Receivables for this contract are secured by EXIM bank.
- Delay in execution of the upcoming capex.

Our Recommendation: We recommend to continue HOLDING the stock further considering the growth prospects and triggers from all the business divisions.

	Q2FY23	Q2FY22	YOY	Q1FY23	QOQ	H1FY23	H2FY22	YOY
Net Sales	447.6	378.2	18.36%	382.4	17.05%	830.0	692.3	19.89%
(Increase) / Decrease In Stocks	-18.0	-2.9	525.44%	4.4	507.03%	-13.5	-18.1	25.32%
Cost of Services & Raw Materials	276.7	228.7	20.97%	216.4	27.82%	493.1	424.7	16.10%
Purchase of Finished Goods	17.4	9.8	77.71%	15.9	9.38%	33.3	17.6	89.36%
COGS	276.1	235.6	17.18%	236.7	16.62%	512.8	424.2	20.90%
Gross Profit	171.5	142.6	20.30%	145.7	17.75%	317.2	268.2	18.29%
GPM	38.32%	37.70%		38.09%		38.22%	38.73%	
Operating & Manufacturing Expenses	61.6	53.2	15.75%	55.2	11.66%	116.8	94.9	23.09%
Employee Cost	56.6	49.7	14.06%	57.6	-1.68%	114.2	97.8	16.78%
Operating Costs	118.2	102.9	14.93%	112.8	4.84%	231.0	192.7	19.88%
EBITDA	53.3	39.7	34.21%	32.9	61.99%	86.2	75.5	14.21%
EBDTAM	11.91%	10.50%		8.61%		10.39%	10.90%	
Depreciation	7.2	7.0	3.43%	7.1	2.55%	14.3	14.0	2.22%
EBIT	46.1	32.7	40.79%	25.9	78.19%	71.9	61.5	16.94%
EBDTM	10.29%	8.65%	18.95%	6.76%		8.67%	8.89%	-2.46%
Other Income	8.1	7.9	2.78%	14.9	-45.36%	23.0	15.2	51.88%
Interest	2.3	2.5	-6.88%	2.2	2.68%	4.5	5.2	13.36%
EBT	51.9	38.2	36.00%	38.5	34.83%	90.4	71.4	26.57%
EBTM	11.60%	10.09%		10.07%		10.89%	10.32%	
Tax	13.3	11.2	19.02%	11.6	15.21%	24.9	21.4	16.36%
Profit after tax	38.6	27.0	43.05%	26.9	43.26%	65.5	50.0	30.94%
PATM	8.62%	7.13%		7.04%		7.89%	7.23%	

Appendix

(All figures are in Rs. Cr. unless mentioned otherwise)

	FY20	FY21	FY22	FY23E	FY24E	2 YR CAGR growth
Total REVENUE	1480	1450	1576	2049	2295	21%
EPC	939	941	935	1218.9	1346.47	20%
Growth in %		0%	-1%	30%	10%	
CHEMICAL	469	440	558	652	712	13%
Growth in %		-6%	27%	17%	10%	
CONSUMER	126	108	137	178.1	231.53	30%
Growth in %		-14%	27%	30%	30%	