

Industry	Engineering
CMP (Rs)	2404
FY24E Target Price (Rs)	3268
52 Week H/L (Rs)	2510/1501
Volumes (BSE+NSE)*	32,231
Shares O/S (mn)	14.7
Market Cap (Rs mn)	36366
Free Float (%)	63.0
Bloomberg	ION IN
Reuters	IONX.BO
*Three month daily average	

**Share Holding Pattern (30/09/2022)**

Particulars	Shares (mn)	Holding (%)
Promoters	4.0	27.0
FIIIs	0.1	0.7
DIIIs	1.6	10.8
Others	9.0	61.5
<b>Total</b>	<b>14.7</b>	<b>100.0</b>

**Financial Highlights- Consolidated**

(Rs mn)	FY22	FY23E	FY24E
Sales	15,769	20,927	25,067
Sales Growth	8.8%	32.7%	19.8%
EBITDA	2,132	2,885	3,850
EBITDA Margin	13.5%	13.8%	15.4%
PAT	1,617	2,135	2,662
EPS (Rs)	110.3	145.6	181.6
P/E (x)	21.8	16.5	13.2
EV/EBITDA (x)	16.8	12.4	9.3
ROE	24.7%	24.9%	24.1%
RoCE	31.7%	33.0%	31.8%


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**Quarterly Result Review**

Ion Exchange (India) Ltd (Ion Exchange) reported a robust growth in its topline in Q2FY23, but was below our expectation. The EBITDA margin improved due to slower growth in employees and other expenses and was above our estimates.

**Key Highlights:**

- Ion Exchange's revenues grew by 18.4% Y-o-Y to Rs 4,476mn, below our estimate of Rs 4,830mn.
- The **Engineering segment** which accounts for 56% of sales grew by 16.7% Y-o-Y. Segmental EBIT margin improved by 110bps Y-o-Y to 7.0%. This segment's current order book increased from Rs 26.7bn in Q4FY22 to Rs 27.9bn in Q2FY23. This gives a revenue visibility of more than ~2 years. The outstanding bid pipeline has also improved from Rs 67bn in Q4FY22 to Rs 80.3bn in Q2FY23.
- The **Chemicals segment** which accounts for 34% of sales grew by 18.5% Y-o-Y. Segmental EBIT margin improved by 260bps Y-o-Y to 23.6%.
- **Consumer Products segment** grew by 28.8%, however its impact on total sales was small as it only accounts for ~10% of total sales. Segmental EBIT margin improved by 20bps Y-o-Y to -1.1%.
- Overall EBITDA margin during the quarter improved by 140bps Y-o-Y and 330bps Q-o-Q to 11.9%.
- EBITDA margin improved on a Y-o-Y basis mainly due lower increase in employee and other expenses.
- Further, net profit during the quarter increased by 42.1% Y-o-Y to Rs 387mn.

**Key Concall Highlights**

Management expects a topline growth of 30%-35% in FY23 as pace of execution will pick up in the subsequent quarters. Revenue growth in Engineering segment is expected to pick up as company has built up material and personnel to execute an increased order backlog.

Management expects EBITDA margin for FY23 remain similar to FY22 EBITDA margin.

**Outlook and Valuations**

Execution of a robust order book and growing demand for resins and industrial chemicals would help Ion Exchange to clock 26.1% CAGR revenue growth over FY22-24E.

We are increasing our target multiple to 18x (vs. 15x earlier), considering high growth potential of the company and superior return ratio. Giving a target PE multiple of 18x to its FY24E EPS of Rs 181.6, we arrive at a target price of Rs 3268 for the stock, which gives an absolute upside potential of 36.0%. We have a buy rating on Ion Exchange with a medium to longer-term view.

**Segmental Results**

Sales (Rs mn)	Q2FY23	Q2FY22	YoY Change	Q1FY23	QoQ Change	H1FY23	H1FY22	YoY Change
Engineering	2577.2	2208.0	16.7%	2023.6	27.4%	4600.8	3974.8	15.7%
Chemicals	1595.4	1346.7	18.5%	1458.1	9.4%	3053.5	2598.0	17.5%
Consumers Products	455.1	353.4	28.8%	504.7	-9.8%	959.8	588.9	63.0%
Others	-151.6	-126.2	NA	-162.4	NA	-314.0	-252.4	NA
<b>Total Revenue</b>	<b>4476.1</b>	<b>3781.9</b>	<b>18.4%</b>	<b>3824.0</b>	<b>17.1%</b>	<b>8300.1</b>	<b>6909.3</b>	<b>20.1%</b>
<b>EBIT Margin</b>								
Engineering	7.0%	5.9%	+110bps	4.0%	+300bps	5.7%	5.6%	+10bps
Chemicals	23.6%	21.0%	+260bps	21.5%	+210bps	22.6%	21.4%	+120bps
Consumers Products	-1.1%	-1.3%	+20bps	0.8%	-190bps	-0.1%	-3.0%	290bps

**Consolidated Quarterly Results**

Particulars (Rs mn)	Q2FY23	Q2FY22	YoY Change	Q1FY23	QoQ Change	H1FY23	H1FY22	YoY Change
<b>Total Op. Income</b>	<b>4,476.1</b>	<b>3,781.9</b>	<b>18.4%</b>	<b>3,824.0</b>	<b>17.1%</b>	<b>8,300</b>	<b>6,923</b>	<b>19.9%</b>
Input Costs	2,760.8	2,356.1	17.2%	2,367.3	16.6%	5,128	4,242	20.9%
Other Expenses	615.9	532.1	15.7%	551.6	11.7%	1,168	949	23.1%
Employee Expenses	566.3	496.5	14.1%	576.0	-1.7%	1,142	978	16.8%
Total Expenditure	3,943.0	3,384.7	16.5%	3,494.9	12.8%	7,437.9	6,168.2	20.6%
<b>EBITDA</b>	<b>533.1</b>	<b>397.2</b>	<b>34.2%</b>	<b>329.1</b>	<b>62.0%</b>	<b>862.2</b>	<b>754.9</b>	<b>14.2%</b>
EBITDA Margin	11.9%	10.5%	140bps	8.6%	330bps	10.4%	10.9%	-50bps
Other Income	81.3	79.1	2.8%	148.8	-45.4%	230	152	51.9%
Interest Costs	23.0	24.7	-6.9%	22.4	2.7%	45	52	-13.4%
Share of JV/Associate	(1.2)	(2.6)	NA	(4.5)	NA	(6)	(4)	NA
Depreciation	72.3	69.9	3.4%	70.5	2.6%	143	140	2.2%
PBT	520.3	384.3	35.4%	389.5	33.6%	909.8	718.6	26.6%
Tax Expenses	133.3	112.0	19.0%	115.7	15.2%	249	214	16.4%
<b>PAT</b>	<b>387.0</b>	<b>272.3</b>	<b>42.1%</b>	<b>273.8</b>	<b>41.3%</b>	<b>660.8</b>	<b>504.6</b>	<b>31.0%</b>
EPS (Rs)	26.4	18.6	42.1%	18.7	41.3%	45.0	34.4	31.0%

**Consolidated Income Statement**

Y/E March (Rs mn)	FY20	FY21	FY22	FY23E	FY24E
<b>Net Sales</b>	<b>14,798</b>	<b>14,495</b>	<b>15,769</b>	<b>20,927</b>	<b>25,067</b>
<i>Net Sales Growth</i>	27.3%	-2.0%	8.8%	32.7%	19.8%
<b>Expenditures:</b>					
Raw Materials Expenses	9,653	8,919	9,457	12,870	15,416
Personnel Expenses	1,808	1,736	1,990	2,407	2,883
Other Expenses	1,992	1,817	2,189	2,765	2,918
<b>Total Expenditure</b>	<b>13,453</b>	<b>12,472</b>	<b>13,637</b>	<b>18,042</b>	<b>21,216</b>
<b>EBITDA</b>	<b>1,346</b>	<b>2,023</b>	<b>2,132</b>	<b>2,885</b>	<b>3,850</b>
<i>EBITDA Margin</i>	9.1%	14.0%	13.5%	13.8%	15.4%
Depreciation	235	277	280	281	563
Other Income & Expenses	318	264	380	389	401
<b>EBIT</b>	<b>1,429</b>	<b>2,010</b>	<b>2,232</b>	<b>2,992</b>	<b>3,689</b>
<i>EBIT Margin</i>	9.7%	13.9%	14.2%	14.3%	14.7%
Financial Charges	160	126	100	142	135
Other Income	40	66	41	54	69
<b>PBT</b>	<b>1,309</b>	<b>1,950</b>	<b>2,173</b>	<b>2,905</b>	<b>3,622</b>
Provision of Tax	367	517	556	770	960
<b>PAT</b>	<b>942</b>	<b>1,433</b>	<b>1,617</b>	<b>2,135</b>	<b>2,662</b>

**Consolidated Balance Sheet**

Y/E March (Rs mn)	FY20	FY21	FY22	FY23E	FY24E
<b>Sources of Funds</b>					
Equity Capital	142	142	142	142	142
Reserves & Surplus	3,489	4,916	6,414	8,402	10,917
Non-controlling Interest	20	(1)	(8)	14	4
<b>Total Networth</b>	<b>3,652</b>	<b>5,057</b>	<b>6,548</b>	<b>8,558</b>	<b>11,063</b>
<b>Total Loans</b>	<b>910</b>	<b>405</b>	<b>481</b>	<b>510</b>	<b>540</b>
<b>Total Capital</b>	<b>4,562</b>	<b>5,463</b>	<b>7,029</b>	<b>9,067</b>	<b>11,603</b>
<b>Application of Funds</b>					
<b>Net Block</b>	<b>1,460</b>	<b>1,486</b>	<b>1,446</b>	<b>3,753</b>	<b>3,740</b>
Capital Work-in-Progress	115	146	200	212	225
Investments	955	871	1,139	1,197	1,260
<b>Current Assets:</b>					
Inventories	1,345	1,276	1,810	2,292	2,534
Sundry Debtors	5,019	4,490	5,077	4,937	5,491
Cash and Bank	3,731	5,054	5,359	5,780	8,853
Other Current Assets	1,198	1,110	1,223	1,296	1,374
<b>Total Current Assets</b>	<b>11,293</b>	<b>11,930</b>	<b>13,469</b>	<b>14,305</b>	<b>18,252</b>
<b>Current Liabilities &amp; Provisions</b>	<b>9,261</b>	<b>8,971</b>	<b>9,225</b>	<b>10,400</b>	<b>11,874</b>
<b>Net Current Assets</b>	<b>2,032</b>	<b>2,959</b>	<b>4,244</b>	<b>3,904</b>	<b>6,377</b>
<b>Capital Employed</b>	<b>4,562</b>	<b>5,463</b>	<b>7,029</b>	<b>9,067</b>	<b>11,603</b>

**Consolidated Cash Flow Statement**

Y/E March (Rs mn)	FY20	FY21	FY22	FY23E	FY24E
<b>PBT Before Extraordinary Items</b>	<b>1,304</b>	<b>1,951</b>	<b>2,169</b>	<b>2,905</b>	<b>3,622</b>
Adjustments for:					
Depreciation	235	277	280	281	563
Interest Expenses	160	126	100	142	135
Other Adjustments	-206	-106	-164	-180	-198
<b>Operating Profit before Working Capital changes</b>	<b>1,494</b>	<b>2,248</b>	<b>2,385</b>	<b>3,149</b>	<b>4,123</b>
Change in Working Capital	-111	221	-758	776	617
<b>Cash generated from Operations</b>	<b>1,383</b>	<b>2,470</b>	<b>1,628</b>	<b>3,925</b>	<b>4,740</b>
Direct Taxes (net)	-365	-499	-714	-770	-960
<b>Net Cash from Operating Activities</b>	<b>1,018</b>	<b>1,971</b>	<b>914</b>	<b>3,155</b>	<b>3,779</b>
CASH FLOW FROM INVESTING ACTIVITIES:					
Purchase of PPE	-320	-300	-500	-2,589	-550
Proceeds from sale of PPE	4	0	3	0	0
Proceeds from sale of Non-current other Investments	219	0	-36	-73	-77
Proceeds/(Investment) from/in Bank Deposits	-262	-366	-585	-2	-3
Interest Received	180	373	199	0	0
<b>Net Cash used in Investing Activities</b>	<b>-179</b>	<b>-292</b>	<b>-920</b>	<b>-2,664</b>	<b>-630</b>
CASH FLOW FROM FINANCING ACTIVITIES:					
Repayment of long-term Borrowings	-282	-553	-188	0	0
Others Proceeds/(Repayment)	274	-48	124	26	28
Finance Costs	-134	-117	-84	0	0
Dividend Paid	-139	-29	-121	0	0
<b>Net cash from / (used in) Financing Activities</b>	<b>-282</b>	<b>-747</b>	<b>-269</b>	<b>26</b>	<b>28</b>
<b>Net increase in Cash and Cash Equivalents</b>	<b>557</b>	<b>931</b>	<b>-275</b>	<b>517</b>	<b>3,177</b>
<b>Cash at the beginning of the year</b>	<b>452</b>	<b>1,015</b>	<b>1,972</b>	<b>1,691</b>	<b>2,038</b>
Other Adjustments	6	27	-7	170	179
<b>Cash at the end of the year</b>	<b>1,015</b>	<b>1,972</b>	<b>1,691</b>	<b>2,038</b>	<b>5,036</b>

**Key Ratios**

Y/E March	FY20	FY21	FY22	FY23E	FY24E
<b>Liquidity Ratios</b>					
Current Ratio	1.2	1.3	1.5	1.4	1.5
Quick Ratio	1.0	1.2	1.3	1.1	1.3
<b>Leverage Ratios</b>					
Total Debt/Networth	0.2	0.1	0.1	0.1	0.0
Interest Coverage Ratio	8.4	16.0	21.4	20.3	28.5
Working Capital/Sales	0.1	0.2	0.3	0.2	0.3
<b>Activity Ratios</b>					
Inventory (Days)	51	52	70	65	60
Debtors (Days)	125	114	119	140	130
Creditors (Days)	187	219	202	175	175
<b>Profitability Ratios</b>					
Operating Profit Margin	9.1%	14.0%	13.5%	13.8%	15.4%
Net Profit Margin	6.4%	9.9%	10.3%	10.2%	10.6%
Return on Equity	25.8%	28.3%	24.7%	24.9%	24.1%
Return on Capital Employed	31.3%	36.8%	31.7%	33.0%	31.8%
<b>Valuation Ratios</b>					
No. of Shares (mn)	14.7	14.7	14.7	14.7	14.7
Book Value (Rs)	248.4	344.0	445.5	582.2	752.6
EPS (Rs)	64.2	97.8	110.3	145.6	181.6
Dividend Payout	90%	15%	100%	100%	100.0%
Dividend Yield	0.4%	0.1%	0.4%	0.4%	0.4%
P/E	37.4	24.6	21.8	16.5	13.2
P/BV	9.7	7.0	5.4	4.1	3.2
M Cap/Sales	2.4	2.4	2.2	1.7	1.4
EV/EBITDA	26.9	17.7	16.8	12.4	9.3

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