

CAPITAL GOODS INDUSTRY



Ion Exchange (India) Ltd (IEIL)

AS ON 03/11/2022

MCap : ₹ 3031 Cr

Risk Profile : Medium

NSE: IONEXCHANG BSE: 500214 Entry Price: Rs 2066.7 Target Price: Rs.2610.98 Duration: 12 months

EV/EBITDA: 9.80	OPM: 14%	D/E: 0.08	ROCE: 34%	Promoter Holding: 27%
Price to Sales: 1.84	NPM: 10%	Interest Coverage Ratio: 24.7	ROE: 26.5%	DII/ + FII: 11.53%

FUNDAMENTAL NOTES

IEIL has been a pioneer of Resin manufacturing in India since 1965, and has diversified into the chemical treatment of water since 1982. IEIL operates in three key segments - Engineering (58% of FY22 sales), Chemical (34%) and Consumer products (8%). Exports contributed 30% of the total revenue in FY22. They have presence in the water effluent and waste treatment, recycle and reuse, ZLD, waste to energy, standardized and customized equipments, chemicals and consumables markets. Very few companies in India provide solutions across the spectrum of water and waste water management. IEIL has in-house manufacturing of membranes which contributes to 10% of Engineering sales and ~15-20% of O&M. Normal execution period of EPC contracts is 2 years. In Resins (Chemical division), IEIL has 40% market share in India and Global market share in lower single digit. The Company caters to wide range of industries like refineries, chemicals, pharma, paper and food & beverages etc.

TRIGGERS

1. ROBUST REVENUE GROWTH, MARGIN IMPROVEMENT IN CHEMICAL BUSINESS, CASH RICH BALANCE SHEET

- As per our conservative estimates, we expect the topline will grow by 21% CAGR till FY24 (Though management has given guidance of 40% for FY23) The EBIT margins will be in the range of 13-14%. We expect EPC to grow by CAGR of 20% till FY24 which translates to Rs. 1346 Cr by FY24 and Chemical business to grow by 13% CAGR till FY24 which translates to Rs. 712 Cr by FY24 (FY22 Rs. 558 Cr.). The Consumer division will grow by 30% on low base (FY22) which translates to Rs. 265 by FY24 Cr.

2. ROBUST ORDER BOOK IN EPC AND STRONG BID PIPELINE OFFERS REVENUE VISIBILITY

- IEIL has total order book of Rs. 2,912 Cr. (Rs. 600 Cr. in Dec 2020, 4.8x growth) of which outstanding UP SWSM is Rs. 1,138 Cr (40% of total order book). We expect Rs. 350 Cr from this contract in FY23 and it will be fully executed by FY24. The Company has a bid pipeline of Rs. 8,000 Cr, of which 30% of their bid is at advance stage which translates to Rs. 1,600 Cr. If the conversion happens, the total order book will be Rs. 5,312 Cr. (3.37 x of FY22 revenue of Rs. 1,577 Cr.). IEIL had frontloaded the cost for strengthening the infrastructure on the back of increased order backlog in Q1FY23, and expects increased pace of execution in the coming quarters.

3. UPCOMING GREEN FIELD CAPEX IN RESINS (CHEMICAL DIVISION) AND BROWN FIELD CAPEX IN MEMBRANE BUSINESS

- Chemical business contributes 34% to the revenue, has 22-24% EBIT margins and contributes 50% to the total profits of the entire business. Capacity for Resins is currently running at 70% utilization levels. The additional capacity is expected to get optimally utilized at 90% by FY24. Green field capex is ongoing at Roha (Maharashtra) with total capex of more than Rs. 250 Cr which is expected to be operational in FY24. The expected revenue is Rs. 500-750 Cr at full utilization. which should be achieved in 2-3 years post expansion. Phase 1 is to double the existing capacity in cation and anion resin by 36,000 TPA each and in Phase 2 further 36,000 TPA will be added to each resin. IEIL had undertaken brownfield capex of Rs. 49 Cr in the membrane business. Current capacity utilization is at 90% . The facility will go live by Q4FY23. The expected revenue from this capex would be 60-70 Cr at full utilization.

RISKS

1. Company got an order from the Sri Lankan Government Authority in 2016. Company has a Rs. 250 Cr. outstanding contract from the Sri Lankan Water Board which is at a standstill due to current political uncertainties and commodity shortages. However, there is no credit risk as the **payment is routed through Exim Bank.**

2. Competition risk from L&T water, Concord Enviro, Triveni engineering (Order book of Rs. 1,889 Cr, Technology till ZLD), Praj Industries.

3. The steel and cement price movements would have an impact on the engineering business. Similarly, the petrochemical prices (crude derivative are a major RM cost) and other commodity price movements on the chemical front would have an impact on chemical segment. Container availability due to any foreseen event can erode revenue and margins. Company is vulnerable to exchange rate fluctuations.

4. Passing on the cost increase has a lag depending upon individual contracts and customers.

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