

Industry	Engineering
CMP (Rs)	3260
FY24E Target Price (Rs)	3702
52 Week H/L (Rs)	3368/1501
Volumes (BSE+NSE)*	45,532
Shares O/S (mn)	14.7
Market Cap (Rs mn)	49285
Free Float (%)	73.0
Bloomberg	ION IN
Reuters	IONX.BO
*Three month daily average	

Share Holding Pattern (31/12/2022)

Particulars	Shares (mn)	Holding (%)
Promoters	4.0	27.0
FIIIs	0.1	0.8
DIIIs	1.7	11.5
Others	8.9	60.7
Total	14.7	100.0

Financial Highlights - Consolidated

(Rs mn)	FY22	FY23E	FY24E
Sales	15,769	20,120	25,627
Sales Growth	8.8%	27.6%	27.4%
EBITDA	2,132	2,788	3,920
EBITDA Margin	13.5%	13.9%	15.3%
PAT	1,617	2,063	2,713
EPS (Rs)	110.3	140.8	185.1
P/E (x)	29.6	23.2	17.6
EV/EBITDA (x)	22.7	17.4	12.4
ROE	24.7%	24.3%	24.6%
RoCE	31.7%	32.2%	32.5%



Analyst: Prashant Sharma
 +91- 22- 40287024
 prashant@qsmail.com

Quarterly Result Review

Ion Exchange (India) Ltd (Ion Exchange) reported a robust growth in its topline in Q3FY23, which was above our expectation. 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 31.9% Y-o-Y to Rs 5,121mn, above our estimate of Rs 5,010mn.
- The **Engineering segment** which accounts for 62% of sales grew by 50.5% Y-o-Y. Segmental EBIT margin improved by 430bps Y-o-Y to 9.5%. This segment's current order book increased from Rs 26.7bn in Q4FY22 to Rs 29.2bn in Q3FY23. This gives a revenue visibility of more than ~2 years. The outstanding bid pipeline has also improved from Rs 67bn in Q4FY22 to Rs 84.1bn in Q3FY23.
- The **Chemicals segment** which accounts for 29% of sales grew by 3.3% Y-o-Y. Segmental EBIT margin improved by 400bps Y-o-Y to 25.0%.
- **Consumer Products segment** grew by 29.7%, however its impact on total sales was small as it only accounts for ~9% of total sales. Segmental EBIT margin declined by 260bps Y-o-Y to -3.3%.
- Overall EBITDA margin during the quarter improved by 120bps Y-o-Y and 30bps Q-o-Q to 12.2%.
- 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 68.4% Y-o-Y to Rs 472mn.

Key Concall Highlights

In Q4FY23, Ion Exchange won an order from IOCL for the work of the Water Treatment Plant at Panipat at a contract value of Rs 7261.3mn, which the company plans to execute in 18 months.

In the Chemical segment, sales in the domestic segment continued to witness steady growth, while the export volume remained muted. Chemical segment's EBIT margin improved mainly due to stability in the input cost.

Outlook and Valuations

Execution of a robust order book and growing demand for resins and industrial chemicals would help Ion Exchange to clock 27.5% CAGR revenue growth over FY22-24E.

We are increasing our target multiple to 20x (vs. 18x earlier), considering high growth potential of the company and superior return ratios. Giving a target PE multiple of 20x to its FY24E EPS of Rs 185.1, we arrive at a target price of Rs 3702 for the stock, which gives an absolute upside potential of 13.5%. Ion Exchange has given 77.3% returns in the last 7 months since we initiated coverage on the company; hence we revise the rating of the company to "**Accumulate**" from a "buy" earlier.

Segmental Quarterly Results

Sales (Rs mn)	Q3FY23	Q3FY22	YoY Change	Q2FY23	QoQ Change	9MFY23	9MFY22	YoY Change
Engineering	3262.8	2168.2	50.5%	2577.2	26.6%	7863.6	6143.0	28.0%
Chemicals	1514.7	1466.7	3.3%	1595.4	-5.1%	4568.2	4064.7	12.4%
Consumer Products	456.5	352.0	29.7%	455.1	0.3%	1416.3	940.9	50.5%
Others	-113.0	-104.9	-7.7%	-151.6	25.5%	-427.0	-343.5	-24.3%
Total Revenue	5121.0	3882.0	31.9%	4476.1	14.4%	13421.1	10805.1	24.2%
EBIT Margin								
Engineering	9.5%	5.2%	+430bps	7.0%	+250bps	7.3%	5.5%	+180bps
Chemicals	25.0%	21.0%	+400bps	23.6%	+130bps	23.4%	21.2%	+220bps
Consumer Products	-3.3%	-0.7%	-260bps	-1.1%	-220bps	-1.1%	-2.1%	+100bps

Consolidated Quarterly Results

Particulars (Rs mn)	Q3FY23	Q3FY22	YoY Change	Q2FY23	QoQ Change	9MFY23	9MFY22	YoY Change
Total Op. Income	5,121.2	3,882.0	31.9%	4,476.1	14.4%	13,421	10,805	24.2%
Input Costs	3,238.8	2,360.5	37.2%	2,760.8	17.3%	8,367	6,602	26.7%
Other Expenses	681.9	595.3	14.5%	615.9	10.7%	1,849	1,544	19.8%
Employee Expenses	576.5	499.1	15.5%	566.3	1.8%	1,719	1,477	16.3%
Total Expenditure	4,497.2	3,454.9	30.2%	3,943.0	14.1%	11,935.1	9,623.1	24.0%
EBITDA	624.0	427.1	46.1%	533.1	17.1%	1,486.2	1,182.0	25.7%
EBITDA Margin	12.2%	11.0%	120bps	11.9%	30bps	11.1%	10.9%	+20bps
Other Income	125.7	53.7	134.1%	81.3	54.6%	356	205	73.4%
Interest Costs	23.5	22.6	4.0%	23.0	2.2%	69	75	-8.1%
Share of JV/Associate	2.4	(1.8)	NA	(1.2)	NA	(3)	(6)	NA
Depreciation	74.5	70.1	6.3%	72.3	3.0%	217	210	3.6%
PBT	649.3	389.9	66.5%	520.3	24.8%	1,559.1	1,108.5	40.6%
Tax Expenses	177.2	109.6	61.7%	133.3	32.9%	426	324	31.7%
PAT	472.1	280.3	68.4%	387.0	22.0%	1,132.9	784.9	44.3%
EPS (Rs)	32.5	19.1	68.4%	26.4	22.0%	77.6	53.5	44.3%

Consolidated Income Statement

Y/E March (Rs mn)	FY20	FY21	FY22	FY23E	FY24E
Net Sales	14,798	14,495	15,769	20,120	25,627
<i>Net Sales Growth</i>	27.3%	-2.0%	8.8%	27.6%	27.4%
Expenditures:					
Raw Materials Expenses	9,653	8,919	9,457	12,374	15,760
Personnel Expenses	1,808	1,736	1,990	2,314	2,947
Other Expenses	1,992	1,817	2,189	2,644	2,999
Total Expenditure	13,453	12,472	13,637	17,332	21,706
EBITDA	1,346	2,023	2,132	2,788	3,920
<i>EBITDA Margin</i>	9.1%	14.0%	13.5%	13.9%	15.3%
Depreciation	235	277	280	281	563
Other Income & Expenses	318	264	380	389	401
EBIT	1,429	2,010	2,232	2,896	3,759
<i>EBIT Margin</i>	9.7%	13.9%	14.2%	14.4%	14.7%
Financial Charges	160	126	100	142	135
Other Income	40	66	41	54	69
PBT	1,309	1,950	2,173	2,808	3,692
Provision of Tax	367	517	556	744	979
PAT	942	1,433	1,617	2,063	2,713

Consolidated Balance Sheet

Y/E March (Rs mn)	FY20	FY21	FY22	FY23E	FY24E
Sources of Funds					
Equity Capital	142	142	142	142	142
Reserves & Surplus	3,489	4,916	6,414	8,331	10,897
Non-controlling Interest	20	-1	-8	14	4
Total Networth	3,652	5,057	6,548	8,487	11,043
Total Loans	910	405	481	510	540
Total Capital	4,562	5,463	7,029	8,996	11,583
Application of Funds					
Net Block	1,460	1,486	1,446	3,753	3,740
Capital Work-in-Progress	115	146	200	212	225
Investments	955	871	1,139	1,197	1,260
Current Assets:					
Inventories	1,345	1,276	1,810	2,204	2,591
Sundry Debtors	5,019	4,490	5,077	4,746	5,613
Cash and Bank	3,731	5,054	5,359	5,749	8,819
Other Current Assets	1,198	1,110	1,223	1,296	1,374
Total Current Assets	11,293	11,930	13,469	13,995	18,397
Current Liabilities & Provisions	9,261	8,971	9,225	10,162	12,040
Net Current Assets	2,032	2,959	4,244	3,833	6,358
Capital Employed	4,562	5,463	7,029	8,996	11,583

Consolidated Cash Flow Statement

Y/E March (Rs mn)	FY20	FY21	FY22	FY23E	FY24E
PBT Before Extraordinary Items	1,304	1,951	2,169	2,808	3,692
Adjustments for:					
Depreciation	235	277	280	281	563
Interest Expenses	160	126	100	142	135
Other Adjustments	-206	-106	-164	-180	-198
Operating Profit before Working Capital changes	1,494	2,248	2,385	3,052	4,193
Change in Working Capital	-111	221	-758	817	562
Cash generated from Operations	1,383	2,470	1,628	3,869	4,755
Direct Taxes (net)	-365	-499	-714	-744	-979
Net Cash from Operating Activities	1,018	1,971	914	3,124	3,776
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
Net Cash used in Investing Activities	-179	-292	-920	-2,664	-630
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
Net Cash from / (used in) Financing Activities	-282	-747	-269	26	28
Net Increase in Cash and Cash Equivalents	557	931	-275	487	3,174
Cash at the beginning of the year	452	1,015	1,972	1,691	2,008
Other Adjustments	6	27	-7	170	179
Cash at the end of the year	1,015	1,972	1,691	2,008	5,002

Key Ratios

Y/E March	FY20	FY21	FY22	FY23E	FY24E
Liquidity Ratios					
Current Ratio	1.2	1.3	1.5	1.4	1.5
Quick Ratio	1.0	1.2	1.3	1.2	1.3
Leverage Ratios					
Total Debt/Networth	0.2	0.1	0.1	0.1	0.0
Interest Coverage Ratio	8.4	16.0	21.4	19.6	29.0
Working Capital/Sales	0.1	0.2	0.3	0.2	0.2
Activity Ratios					
Inventory (Days)	51	52	70	65	60
Debtors (Days)	125	114	119	140	130
Creditors (Days)	187	219	202	175	175
Profitability Ratios					
Operating Profit Margin	9.1%	14.0%	13.5%	13.9%	15.3%
Net Profit Margin	6.4%	9.9%	10.3%	10.3%	10.6%
Return on Equity	25.8%	28.3%	24.7%	24.3%	24.6%
Return on Capital Employed	31.3%	36.8%	31.7%	32.2%	32.5%
Valuation Ratios					
No. of Shares (mn)	14.7	14.7	14.7	14.7	14.7
Book Value (Rs)	248.4	344.0	445.5	577.3	751.2
EPS (Rs)	64.2	97.8	110.3	140.8	185.1
Dividend Payout	90%	15%	100%	100%	100.0%
Dividend Yield	0.3%	0.0%	0.3%	0.3%	0.3%
P/E	50.8	33.3	29.6	23.2	17.6
P/BV	13.1	9.5	7.3	5.6	4.3
M Cap/Sales	3.2	3.2	3.0	2.4	1.9
EV/EBITDA	36.3	23.9	22.7	17.4	12.4

Disclaimer: Quantum Securities Pvt. Ltd. (QSPL) offers discount and full service brokerage services and is not involved in any investment banking or merchant banking activities. This document is based on information obtained from sources believed to be reliable and due diligence has been conducted to that effect. We do not have any other material conflict of interest at the time of publication of the research report. Opinions & theories expressed are based on present circumstances & judgment and are subject to change without notice. Quantum Securities Pvt. Ltd. accepts no liability whatsoever for any direct or consequential loss arising from any use of this document or further communication given in relation to this document.

If annualized returns are greater than 15%, then the stock is rated as BUY, between a range of 10-15% is rated as Accumulate. If annualized returns are lower than -15%, then the stock is rated as SELL and between a range of -10% to -15% is rated as Reduce. In the range of +/- 10%, the stock is rated as Hold. However, within this zone we may choose to give an Accumulate, Reduce or Hold rating.

Quantum Securities Pvt. Ltd. does not have any financial interest in the subject company and has not been engaged in market making activity for the subject company; QSPL or any of its associates have not received any compensation or other benefits from the subject company or third party in connection with the research report or any other compensation from the subject company in the past twelve months. QSPL or any of its associates have not managed or co-managed public offering of securities for the subject company in the past twelve months. Further, Prashant Sharma has not served as an officer, director or employee of the subject company; QSPL does not have actual/beneficial ownership of one per cent or more of securities of the subject company, at the end of the month immediately preceding the date of publication of the research report.