

March 27, 2024

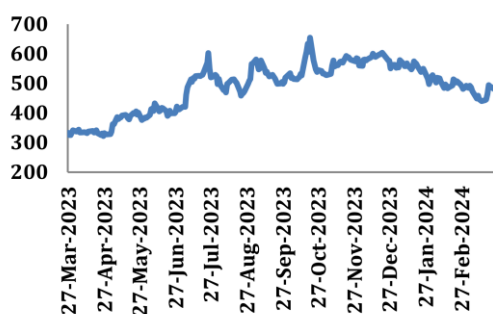
## ION EXCHANGE (INDIA) LTD.

Industry	Engineering Water Treatment
No. of Shares (Crore)	14.67
Face value (Rs.)	1.00
Mkt. Cap (Rs. Crore)	7,040.73
Price (26/03/2024)	480.05
Book Value (Rs)	64.13
P/BV	7.49
BSE Code	500214
NSE Code	IONEXCHANG
Bloomberg	ION IN
Reuters	IONX.BO
Avg. Weekly Volume (NSE)	3,87,272
52 W H/L (Rs)	687.55 / 318.53
<b>Shareholding Pattern</b>	<b>%</b>
Promoters	26.46
Institutions	17.14
Non- Institutions	56.40
<b>Total</b>	<b>100.00</b>
<b>(As on Dec 31, 2023)</b>	

## RECOMMENDATION

**BUY**

Ion Exchange (India)



## Company Background

ION Exchange (India) Ltd (IEIL) was formed in 1964 as a subsidiary of the Permutit Company of UK and subsequently became an Indian company in 1985 when Permutit divested their stake. Today it ranks amongst the leading provider with a complete range of solutions for Water, Wastewater Treatment, Solid Waste Management and Waste to Energy.

## Investment Rationale

➤ IEIL is an established company for the last 59 years with a state-of-the-art sustainable technologies and solutions for managing liquid, solid and gaseous waste generated by industries, institutions, homes and communities – both urban and rural.

➤ Strong execution capabilities with over 1,00,000 installations across the globe with a sizeable presence in Bangladesh, UAE, Sri Lanka and Indonesia.

➤ Healthy order book of Rs 3,303 Cr for the Engineering Division with bid projects worth Rs 8,526 Cr in the pipeline. It recently won an order worth Rs 152 Cr from UAE's Material Construction Trading FZCO. The project involves engineering, manufacturing, delivering, installing, commissioning, and launching a desalination unit in North Africa. IEIL is expected to complete the project within 8 months of receiving the official acceptance letter. This win marks a significant expansion of the company's desalination expertise in the region.

➤ Government agencies are implementing regulatory and funding mechanisms to open up the water and wastewater market for private investments and thus providing an opportunity for established players like IEIL. In FY24, the Union Government had earmarked Rs 1.07 Lakh Cr towards water and related infrastructure under six different schemes. This presents a profitable opportunity for companies like IEIL.

➤ Industrial sectors like Power, Food and Beverages, Chemicals, Pharmaceuticals, Steel, Refineries and Textile industries prefer advanced treatment technological systems such as reverse osmosis membranes for treating their wastewater. India treats just 28% of the sewage generated. There is a lot of headroom for growth in sewage treatment due to industrialization and Govt focus. This also presents a sizeable opportunity for companies like IEIL.

➤ Indian Wastewater treatment solutions segment is forecasted to grow at a CAGR of 9% from Fiscal 2021 to Fiscal 2031 and Indian water & environment industry is projected to register a healthy CAGR of 8-9% during the period 2022-2026. Out of the Indian market about one third is industrial segment while the balance is municipal segment.

## Recommendation

Ion Exchange Ltd is one of the pioneers in waste water treatment projects in India. Rapid urbanization has led to the rise in demand for safe drinking water which is expected to be beneficial for established companies like IEIL. With the Union Government bringing out various schemes for providing of safe and clean water to majority of the households across India, water treatment projects are expected to be the mainstay on development of both social and economic infrastructure. Apart from individual households, the industrial sector is also rooting for advanced waste water management. We would recommend a BUY with a target price of Rs 640 in the next 9-12 months' time period, thus implying a rise of 33% from current levels.

Particulars (In Rs. Crs)	Q3FY24	Q3FY23	Var%	9MFY24	9MFY23	Var%
Net Sales	553.85	512.12	8.15	1,566.04	1,342.13	16.68
PBIDT (Excluding OI)	70.58	62.40	13.11	179.75	148.62	20.95
Net Profit	47.46	48.05	-1.23	123.23	115.06	7.10
PBIDTM% (Excluding OI)	12.74	12.18	4.60	11.48	11.07	3.70
PATM%	8.42	9.27	-9.17	7.74	8.42	-8.08
Equity	14.23	14.23	-	14.23	14.23	-
Adjusted EPS (Rs.)	3.34	3.38	-1.18	8.66	8.09	7.05

\*Source: Company, Ace Equity, AUM Research

## Company Overview

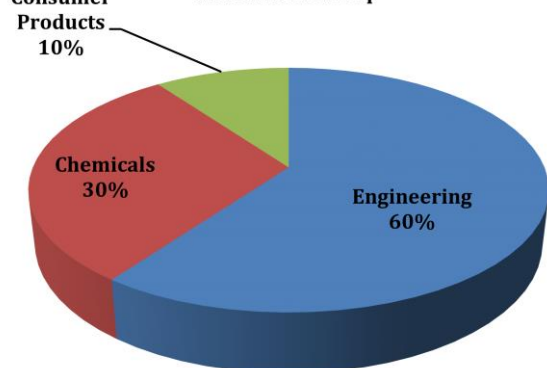
### Background

- **Formation:-** IEIL was originally formed as a subsidiary of Permutit UK in 1964. It became a wholly owned Indian company in 1985.
- **Evolution:-** Over the period of time, IEIL has expanded its foot prints globally and possesses a diversified product range.
- **Solutions:-** Solutions provided by IEIL comprises of pre- treatment to process water treatment, waste water treatment, recycle, zero liquid discharge, sewage treatment, packaged drinking water, sea water desalination etc.
- **Other Products:-** IEIL is also engaged in the manufacturing of Ion exchange resins, membranes, speciality chemicals for water and waste water treatment as well as non-water applications.
- **R&D:-** Two in-house R&D facilities along with two applications and testing centers are some of the infrastructural strengths of IEIL.
- **Patents:-** IEIL has over 50 patents to its credit along with more than 100 products commercialized.
- **Reach:-** IEIL has a presence in major cities in India with more than 36 sales and service partners along with more than 100 channel partners.
- **Exports:-** Exports constitute about 23% of IEIL's turnover and it exports to Africa, Japan, Middle East, Russia, Southeast Asia, Europe, UK, USA, Canada and neighbouring countries
- **Plants:-** The manufacturing plants of the company are located in Gujarat (resin), Andhra Pradesh (water treatment chemicals) and Goa (membrane and consumer products) while it has assembly centres at Navi Mumbai and Hosur, Tamil Nadu.
- **Customers:-** The customer base is also spread over various industries, comprising JSW Steel Ltd and Steel Authority of India Ltd; L&T Ltd and Bharat Heavy Electricals Ltd; Jindal Power Ltd and NTPC Ltd , Indian Oil Corporation Ltd, Hindustan Petroleum Corporation Ltd, and Vedanta Ltd. The group also caters to players in other sectors such as auto, food and beverages, paper, pharma, chemical and cement.

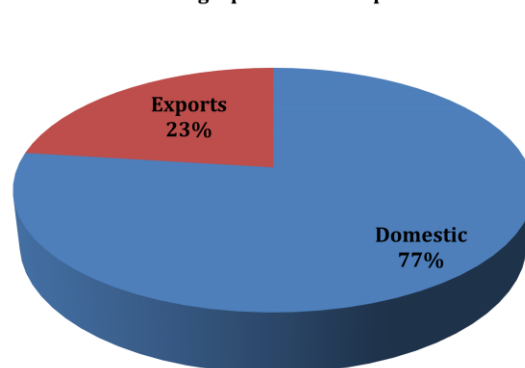
### Segments

- **Engineering:-** IEIL designs, engineers, manufactures and sells medium and large size equipment for water and waste water treatment plants including recycling & Zero liquid discharge plants. These are offered as standard and pre-engineered plants as well as customized, design & build projects undertaken on turnkey, BOOT or EPC basis. The Engineering segment caters to industrial, municipal and institutional segment and also includes O&M Services.
- **Chemicals:-** IEIL is engaged in manufacturing water treatment chemicals, ion exchange resins and other specialty chemicals. Water treatment chemicals are used in boiler, cooling water treatment, coagulation and flocculation, membrane cleaning etc. while the resins are used for softening, demineralization in water treatment and various non-water separation processes. Specialty Chemicals include performance chemicals used in processing of Paper, Sugar, Pharma and Refinery segment.
- **Consumer Products:-** IEIL is the pioneer of the revolutionary RO (Reverse Osmosis is a water purification process that uses a semi-permeable membrane to separate water molecules from other substances) technology, in India and its brand 'Zero B' has emerged as one of the premier brand in this segment. Zero B has pioneered many path-breaking innovations in the field of technology to provide a one stop water treatment solution

Revenue Break Up



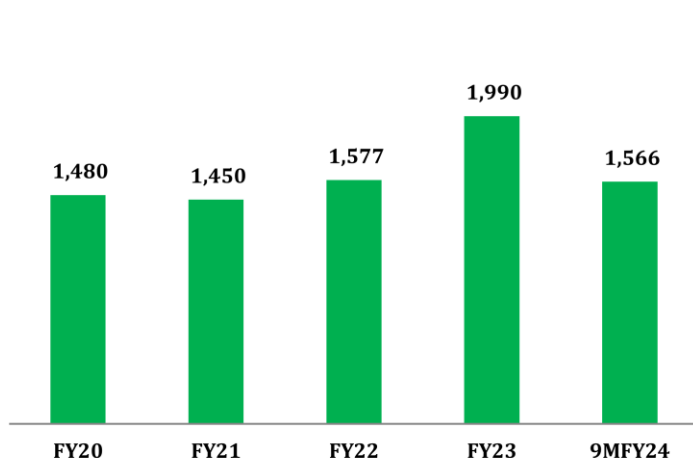
Geographical Break Up



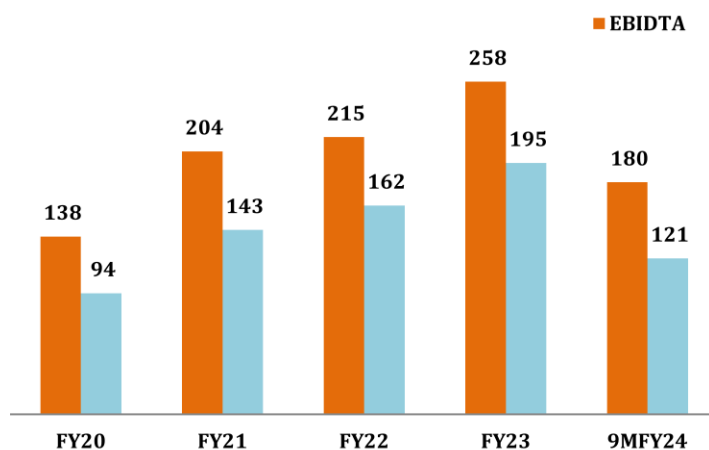
\*Source: Company, AUM Research

## Financial Overview

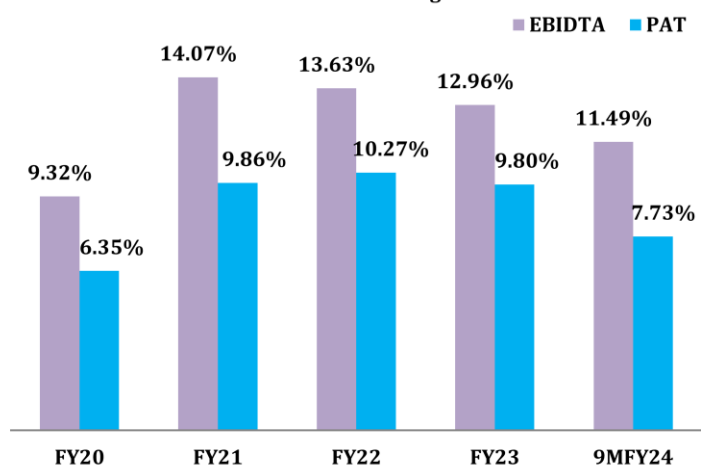
Revenue In INR Cr



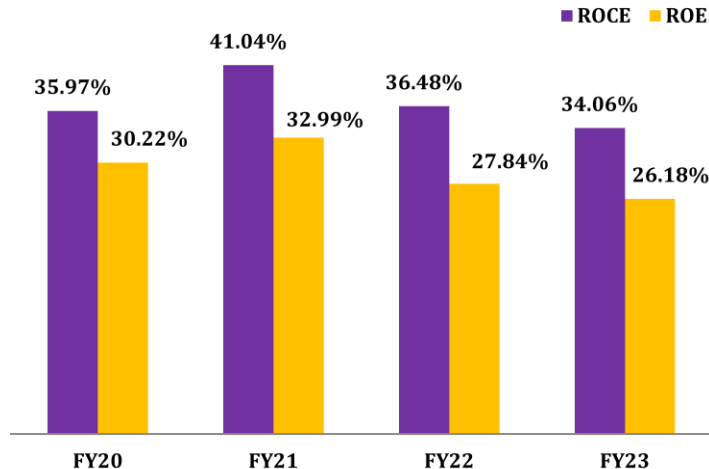
EBIDTA & PAT In INR Cr



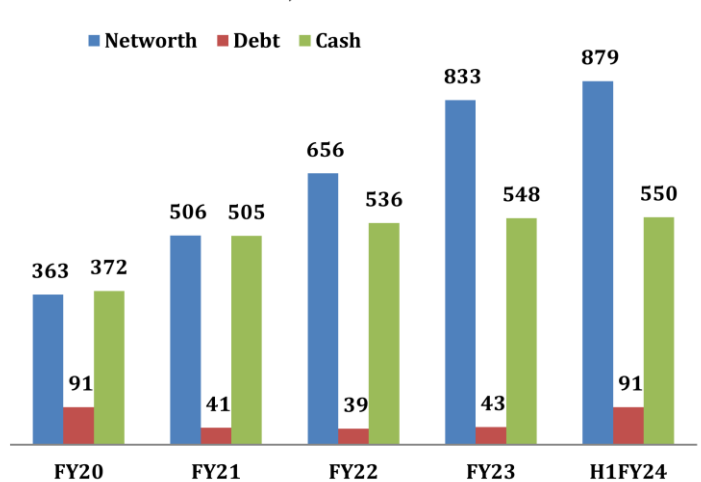
EBIDTA & PAT Margins



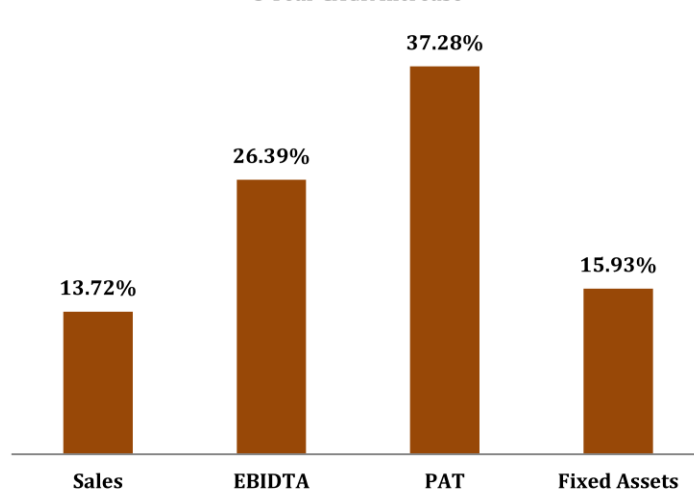
Return Ratios %



Networth, Debt & Cash In INR Cr



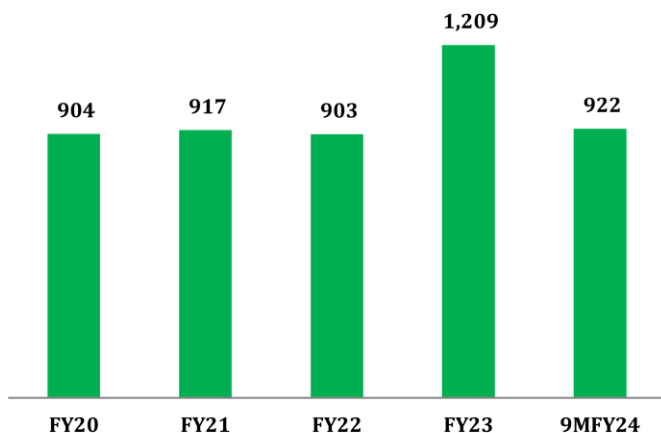
5 Year CAGR Increase



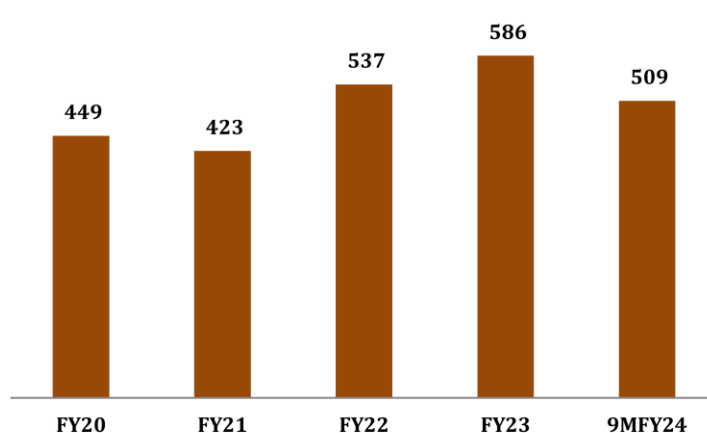
\*Source: Company, Ace Equity, AUM Research

## Segment Results

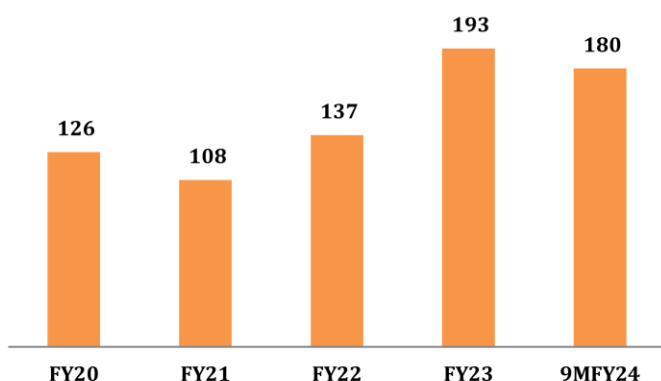
Engg Division Revenue In INR Cr



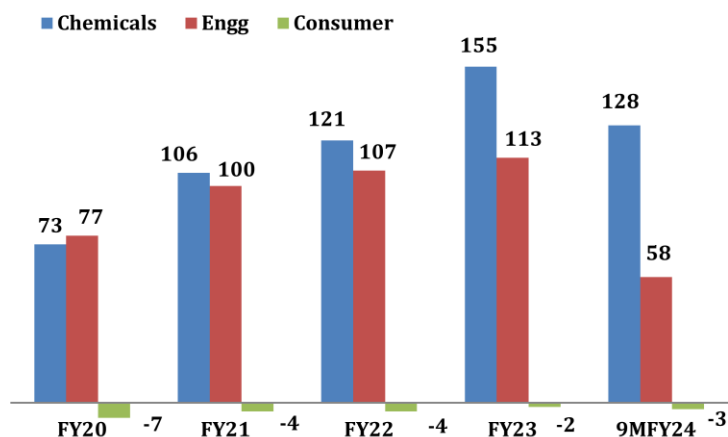
Chemicals Revenue In INR Cr



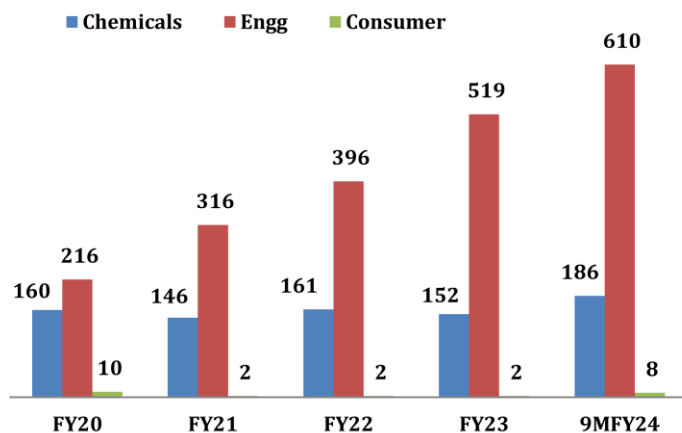
Consumer Revenue In INR Cr



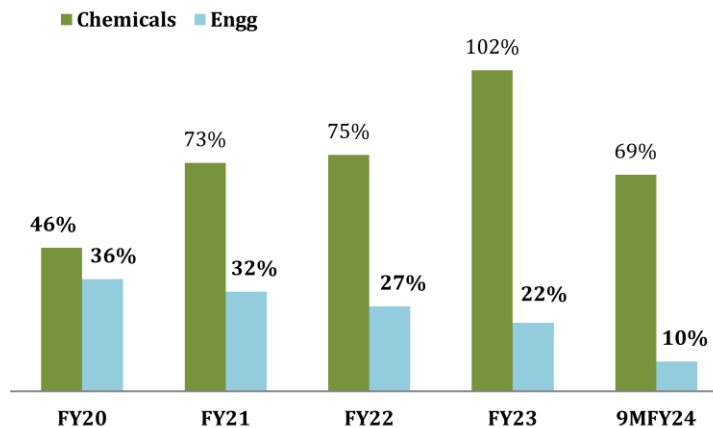
Segment PBIT



Capital Employed In INR Cr



ROCE%



\*Source: Company, Ace Equity, AUM Research

## Rationale For Investment

### 1) Initiatives undertaken by the Union Government

- **Growth in water treatment and conservation:-** A report by Frost & Sullivan has estimated that the Indian water and wastewater treatment market is likely to reach \$2.08 billion by 2025 from \$1.31 billion in 2020, registering growth at a CAGR of 9%.
- **Schemes launched by the government:-** Robust governmental initiatives, such as the Atal Mission for Rejuvenation and Urban Transformation, National Mission for Clean Ganga, Jal Jeevan Mission, and Community Drinking Water Schemes will contribute to the growth of the Indian water and wastewater treatment market.
- **Opening up to private parties:-** Government agencies are implementing regulatory and funding mechanisms to open up the water and wastewater market for private investments providing an opportunity for market to achieve significant growth as the industry shifts toward deriving more project value-based and utilizing government expenditure efficiently.

### 2) Demand from the industrial sector

- **Advanced treatment techniques:-** Industrial sectors Power, Food and Beverages, Chemicals, Pharmaceuticals, Steel, Refineries and Textile industries prefer advanced treatment technological systems such as reverse osmosis membranes for treating their wastewater. The concept of wastewater recycling and zero discharge systems is becoming more widely accepted as newer technologies such as membrane bioreactor (MBR) based treatment gain in adoption.
- **Setting up of water desalination plants:-** Industries are setting up sea water desalination plants to meet process water requirements. Rapid industrialization, deteriorating quality of surface and ground water has increased the demand for pure and safe water in residential, institutional and community segments.

### 3) Increasing awareness amongst individual consumers

- **Strong growth in the home water purifier market:-** The home water purifier market has grown at a CAGR of 9% and commands the largest share in the South-East Asian region.
- **Concerns on safe water consumption:-** Today consumers are well aware about safe water consumption and its health effects. Through advancements in technology, industry participants are introducing higher end models at the top of the pyramid whilst increasing the penetration at the bottom rungs with quality value-added products.

### 4) Growth opportunity in the ZLD (Zero Liquid Discharge) Segment

- **New regulations:-** Industries and government regulatory agencies from Europe, North America, to China and India, comprising of the world's largest industrial water consumers, are rapidly resorting to ZLD systems, to recover all liquid from wastewater or effluent, and return it to the system as clean and reusable water. The Indian Government has ordered that a wide range of industries should migrate to ZLD treatment techniques.
- **State of the art plant of IEIL:-** IEIL has a resin manufacturing facility at Gujarat, which produces cation and anion exchange resins; gel, macroporous and isoporous resins for water, wastewater treatment as well as for non-water specialty applications. To comply with these stringent regulations, it has invested in advanced wastewater treatment technologies.

### 5) Capacity expansion to propel growth

- **Resin facility expansion:-** IEIL's resin facility expansion is nearing completion, which is expected to support growth in the coming months. Its' resins are used in many applications, including industrial water treatment, food and beverage, bio-diesel, and pharmaceuticals.
- **Commencement of commercial production:-** IEIL is investing approximately Rs 400 Cr in a new resin production facility at Roha. Commercial production is expected to begin in FY25-26, with full capacity utilisation anticipated within 3-4 years. The new facility is expected to double its' resin capacity and help achieve higher scale.
- **Acquisition of an European company Mapril:-** In the chemical segment, IEIL anticipates to consolidate the numbers of the recently acquired European company MPRIL. MPRIL was acquired to build a strong manufacturing base in Europe and international business growth. This year, it is expected to add about Rs 80 Cr to its consolidated revenue. Next year, it could be higher with an improved utilization and better product mix.

### 6) Healthy order books

- **Earnings visibility for the next 2-3 years:-** IEIL has a healthy order book of Rs 3,303 Cr, providing visibility for the next 2-3 years. Furthermore, the bid pipeline looks robust, with L1 orders of around Rs 8,526 Cr. It anticipates that work on some large projects that have been pushed is expected to start after the general elections in April and May this year.



**Financials**

Consolidated Quarterly Results (Value in Rs. Crs)						
Particulars	Q3FY24	Q3FY23	Var%	9MFY24	9MFY23	Var%
Net Sales & Other Operating Income	553.85	512.12	8.15	1,566.04	1,342.13	16.68
Total Expenditure	483.27	449.72	7.46	1,386.29	1,193.51	16.15
PBIDT (Excl OI)	70.58	62.40	13.11	179.75	148.62	20.95
Other Income	8.81	12.57	-29.91	27.03	35.58	-24.03
Operating Profit	79.39	74.97	5.90	206.78	184.20	12.26
Interest	3.22	2.35	37.02	8.83	6.89	28.16
PBDT	76.17	72.62	4.89	197.95	177.31	11.64
Depreciation	9.62	7.45	29.13	25.99	21.73	19.60
PBT	66.55	65.17	2.12	171.96	155.58	10.53
Tax	19.94	17.72	12.53	50.80	42.62	19.19
Net Profit	46.61	47.45	-1.77	121.16	112.96	7.26
Minority Interest	0.22	0.36	-38.89	0.32	1.29	-75.19
Share of Associates	0.63	0.24	162.50	1.75	0.81	116.05
Consolidated Net Profit	47.46	48.05	-1.23	123.23	115.06	7.10
Equity	14.23	14.23	-	14.23	14.23	-
Face Value	1.00	10.00	-	1.00	10.00	-
Adjusted EPS (Rs.)**	3.34	3.38	-1.18	8.66	8.09	7.05

\*\* Company undertook a stock split in June 2023 from FV of Rs 10 to Rs 1. EPS has been adjusted accordingly.

Consolidated Income Statement (Value in Rs. Crs)			
Particulars	FY23	FY22	FY21
Net sales	1,989.61	1,576.87	1,449.52
Total Expenditure	1,731.77	1,361.74	1,245.11
Operating Profit (Excl OI)	257.84	215.13	204.41
Other Income	41.07	42.50	33.09
Operating Profit	298.91	257.63	237.50
Interest	12.05	12.67	14.72
PBDT	286.86	244.96	222.78
Depreciation	29.09	28.04	27.67
Profit Before Tax & Exceptional Items	257.77	216.91	195.11
Share of Profit/Loss of JV & Associates	0.93	0.42	-0.07
Profit Before Tax	258.70	217.33	195.04
Provision for Tax	63.74	55.64	51.71
Net Profit	194.97	161.69	143.32
Minority Interest	1.78	1.09	0.61
Consolidated Net Profit	196.74	162.77	143.93
Adjusted EPS (Rs.)	13.83	11.44	10.12

\*Source: Company, Ace Equity, AUM Research

Consolidated Balance Sheet (Value in Rs. Crs)			
Particulars	FY23	FY22	FY21
<b>EQUITY AND LIABILITIES</b>			
Share Capital	14.23	14.23	14.23
Total Reserves	819.26	641.43	491.61
<b>Shareholder's Funds</b>	<b>833.49</b>	<b>655.66</b>	<b>505.84</b>
Minority Interest	2.31	-0.83	-0.12
Secured Loans	15.68	11.72	7.95
Unsecured Loans	-	-	-
Deferred Tax Assets / Liabilities	-10.82	-9.10	-5.35
Other Long Term Liabilities	12.65	12.32	13.83
Long Term Provisions	23.89	18.98	17.05
<b>Total Non-Current Liabilities</b>	<b>41.39</b>	<b>33.92</b>	<b>33.47</b>
Trade Payables	551.25	523.49	535.32
Other Current Liabilities	460.07	354.58	299.85
Short Term Borrowings	27.49	26.90	32.59
Short Term Provisions	12.54	22.35	31.01
<b>Total Current Liabilities</b>	<b>1,051.35</b>	<b>927.31</b>	<b>898.77</b>
<b>Total Liabilities</b>	<b>1,928.55</b>	<b>1,616.07</b>	<b>1,437.96</b>
<b>ASSETS</b>			
Gross Block	354.05	303.34	276.31
Less: Accumulated Depreciation	138.63	111.24	86.58
<b>Net Block</b>	<b>215.41</b>	<b>192.10</b>	<b>189.74</b>
Capital Work in Progress	41.95	20.04	14.60
Non Current Investments	9.52	8.34	4.27
Long Term Loans & Advances	29.15	43.43	30.47
Other Non Current Assets	4.61	5.29	5.91
<b>Total Non-Current Assets</b>	<b>300.64</b>	<b>269.20</b>	<b>244.98</b>
Currents Investments	0.32	0.32	0.24
Inventories	222.26	180.96	127.59
Sundry Debtors	696.79	507.70	448.96
Cash and Bank	547.97	535.90	505.38
Other Current Assets	38.12	40.51	28.84
Short Term Loans and Advances	122.45	81.49	81.96
<b>Total Current Assets</b>	<b>1,627.91</b>	<b>1,346.88</b>	<b>1,192.98</b>
Net Current Assets (Including Current Investments)	576.55	419.56	294.21
Total Current Assets Excluding Current Investments	1,627.59	1,346.56	1,192.74
<b>Total Assets</b>	<b>1,928.55</b>	<b>1,616.07</b>	<b>1,437.96</b>

\*Source: Company, Ace Equity, AUM Research

**Aum Capital RESEARCH DESK**

Rajesh Agarwal	Head of Research	033-4057 21221	<a href="mailto:rajesh.agarwal@aumcap.com">rajesh.agarwal@aumcap.com</a>
Pinaki Banerjee	Manager- Research	033-405721221	<a href="mailto:pinaki.banerjee@aumcap.com">pinaki.banerjee@aumcap.com</a>
Shashank Khandelwal	Executive – Research	033-40572121	<a href="mailto:shashank.khandelwal@aumcap.com">shashank.khandelwal@aumcap.com</a>

**Disclosure & Disclaimer**

This document is solely for the personal information of the recipient and must not be singularly used as the basis of any investment decision. Nothing in this document should be construed as investment or financial advice. Each recipient of this document should make such investigations as they deem necessary to arrive at an independent evaluation of an investment in the securities of the companies referred to in this document (including the merits and risks involved) and should consult their own advisors to determine the merits and risks of such an investment.

Reports based on technical and derivative analysis center on studying charts of a stock's price movement, outstanding positions and trading volume, as opposed to focusing on a company's fundamentals and as such, may not match with a report on a company's fundamentals.

The information in this document has been printed on the basis of publicly available information, internal data and other reliable sources believed to be true but we do not represent that it is accurate or complete and it should not be relied on as such, as this document is for general guidance only. AUM Capital Market Private Limited (hereinafter referred to as "AUM Cap") or any of its affiliates/group companies shall not be in any way responsible for any loss or damage that may arise to any person from any inadvertent error in the information contained in this report. AUM Cap has not independently verified all the information contained within this document. Accordingly, we cannot testify nor make any representation or warranty, express or implied, to the accuracy, contents or data contained within this document.

While, AUM Cap endeavors to update on a reasonable basis the information discussed in this material, there may be regulatory compliance or other reasons that prevent us from doing so.

This document is being supplied to you solely for your information and its contents, information or data may not be reproduced, redistributed or passed on, directly or indirectly. Neither, AUM Cap nor its directors, employees or affiliates shall be liable for any loss or damage that may arise from or in connection with the use of this information.

AUM Cap is registered under SEBI (Research Analysts) Regulations, 2014. Further, AUM Cap hereby declares that –

- AUM Cap/its associates/research analysts do not have any financial interest/beneficial interest of more than one percent/material conflict of interest in the subject company.
- AUM Cap/its associates/research analysts have not received any compensation from the subject company(s) during the past twelve months.
- AUM Cap/its research analysts has not served as an officer, director or employee of company covered by analysts and has not been engaged in market making activity of the company covered by analysts.

AUM Capital Market Private Limited

Registered Office: 226/1, AJC Bose Road, Trinity, 3<sup>rd</sup> Floor, Unit No.3G, Kolkata – 700020;

Phone: +91(33) 40572121; Fax: +91(33) 24760191

Website: [www.aumcap.com](http://www.aumcap.com); Email: [aumresearch@aumcap.com](mailto:aumresearch@aumcap.com)

SEBI Research Analyst Registration No.: INH300002423