

Ion Exchange (India) Ltd.

An Opportunistic Bet

ValuePickr Goa Meeting 2019

Sandeep Patel

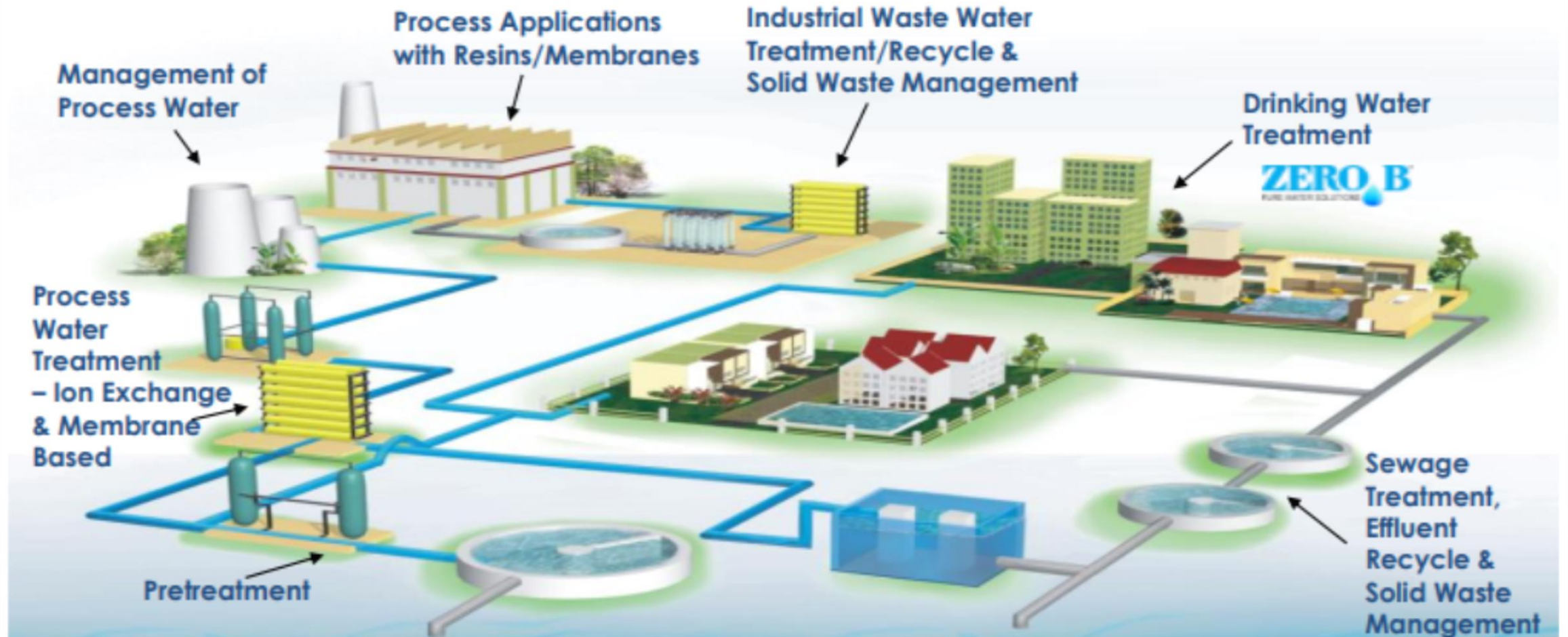
What is interesting?

- Very strong revenue growth visibility for Fy20 (over 50% growth guidance)
- Promising orderbook and bid pipeline
- Capacity expansion and price increase (in Chemicals segment)
- Management tone and confidence in quarterly conf call (Q4Fy19)
- RoE up, Debt down, Margin up, Net Block up, CWIP up (in Fy19)
- No YoY PAT degrowth in last decade (consistency)
- Reasonable valuation

Rising awareness for environment augurs well for the co.

Business

Ion Exchange (India) Ltd, formed in 1964, is a pioneer in water, waste water treatment & environment solutions and caters to various industries, homes & communities



Business Segments Overview

Engineering

- Provides comprehensive and integrated services and solutions in water & waste water treatment including Sea Water desalination, Recycle and Zero liquid discharge plants to diverse industries
- Caters to industrial, municipal and institutional segment and also includes O&M Services

Chemicals

- Provides a comprehensive range of resins, speciality chemicals and customized chemical treatment programmes for water, non-water and specialty applications
- Resins are used for softening & demineralization; also used in non-water separation by pharmaceuticals, biotechnology, food and beverages etc
- Specialty Chemicals include performance chemicals used in processing of Paper, Sugar, Pharma and Refinery segment

Consumer Products

- Caters to individuals, hotels, spas, educational institutions, hospitals, laboratories, railway and defence establishments providing safe drinking

Performance

In INR cr												CAGR					
Business Segment		Fy09	Fy10	Fy11	Fy12	Fy13	Fy14	Fy15	Fy16	Fy17	Fy18	Fy19	10yr	7 yr	5yr	3yr	1yr
Engineering	Sales (A)	323.2	344.3	395.1	471.4	557.2	485.0	457.3	512.3	641.8	634.8	685.1	8%	5%	7%	10%	8%
	PBIT (B)	9.9	7.1	5.3	21.4	23.1	13.0	11.4	13.7	28.2	35.2	56.1	19%	15%	34%	60%	59%
	Capital Employed (C)	73.2	59.9	66.2	72.6	85.0	113.2	105.0	121.6	144.1	183.6	172.1	9%	13%	9%	12%	-6%
	= B/C (in %)	14%	12%	8%	29%	27%	11%	11%	11%	20%	19%	33%					
	= B/A (in %)	3%	2%	1%	5%	4%	3%	2%	3%	4%	6%	8%					
Chemicals	Sales (A)	121.8	125.4	153.0	187.9	243.5	254.7	294.9	310.6	324.3	353.5	423.4	13%	12%	11%	11%	20%
	PBIT (B)	12.6	17.9	15.1	13.5	21.2	24.1	38.2	49.0	54.5	49.8	56.4	16%	23%	19%	5%	13%
	Capital Employed (C)	52.2	52.0	43.9	58.7	71.6	69.5	68.5	82.4	86.2	105.2	108.8	8%	9%	9%	10%	3%
	= B/C (in %)	24%	34%	34%	23%	30%	35%	56%	59%	63%	47%	52%					
	= B/A (in %)	10%	14%	10%	7%	9%	9%	13%	16%	17%	14%	13%					
Consumer	Sales (A)	67.8	71.2	82.1	93.3	87.8	86.5	83.2	87.1	104.8	108.6	109.9	5%	2%	5%	8%	1%
	PBIT (B)	-1.2	-0.1	0.7	-2.0	2.8	-0.3	-1.6	-3.7	-3.5	-3.0	-2.7	-9%	-5%	-60%	10%	10%
	Capital Employed (C)	17.7	15.0	12.0	6.5	10.1	14.8	10.0	14.3	11.9	13.0	12.3	-4%	9%	-4%	-5%	-5%
	= B/C (in %)	-7%	-1%	6%	-30%	27%	-2%	-16%	-26%	-29%	-23%	-22%					
	= B/A (in %)	-2%	0%	1%	-2%	3%	0%	-2%	-4%	-3%	-3%	-2%					

Engineering (promising part currently)

- Order book (excluding Sri Lanka)
 - 860cr at Fy19 end
 - Was 550cr at Fy18 end
- Order inflow
 - 806cr in Fy19
 - Was 452cr in Fy18.
- Bid pipeline
 - ~6000cr at Fy19 end
 - Was ~4000cr at Fy18 end
 - Hit ratio ~20%.
- **Sri Lanka mega order**
 - 900cr pending order
 - Major chunk to be completed in Fy20
 - 145cr completing in Fy19
 - 98cr in Q4Fy19
 - 344cr total invoicing done till now

Chemicals (good times, thanks to China)

- Significant increase in export in Fy19
- Better demand due to environmental clampdown in China
- Capacity increased in Fy19; new capacity is online now
- ~31cr capex at co. level in Fy20 (major chunk in Chemicals segment)
- ~50cr capex visualized in Fy21 (in Chemicals segment)
- EC granted in late 2018 for doubling resin capacity

http://environmentclearance.nic.in/writereaddata/FormB/EC/EC_Letter/12172018GRL8SIGY125526112018.pdf

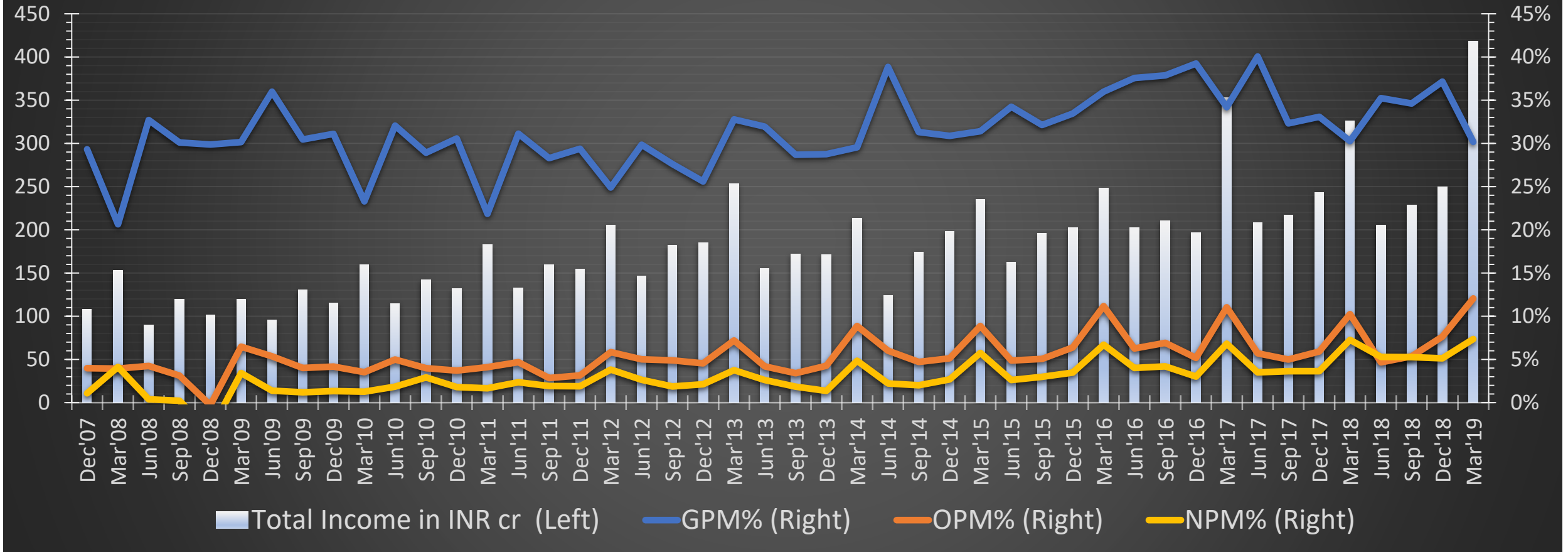
Submitted by Proponent	Query for Shortcoming(if any) by SEIAA	Resubmission of Proposal by Proponent	Accepted by SEIAA and forwarded to SEAC	Query for Shortcoming(if any) by SEAC	Resubmission of Proposal by Proponent	Accepted by SEAC	Forwarded to SEIAA for EC	EC Letter Uploaded On	EC Granted
21/12/2016		N/A	02/01/2017	N/A	N/A	29/08/2017	01/01/2018	17/12/2018	26/11/2018

Consumer Products (noise)

- Looking at this space without trying to burn upfront cash
- Not focusing on marketing or advertisement dependent product range
- Product range has changed recently
- Looking at products that go into slightly higher community usage; not just home RO or inside the home products

Margin Trend

Ion Exchange - Total Income, GPM%, OPM% & NPM% (Qtrly)



Clientele – Industrial & Institution

HEAVY INDUSTRIAL		PETROCHEMICALS		AUTO-MOBILES	HOTELS	POWER	PHARMA	TEXTILES	ELECTRONICS/ELECTRICALS	PAPER AND PULP
		 IndianOil		 BAJAJ <i>Determining Ahead</i>		 ADANI	 Cipla <i>Compounding</i>	 GRASIM <small>EASY DRIVING FOR THE SELF-DRIVEN MAN</small>	 LG	 ITC Limited
		 Reliance Industries Limited		 Kawasaki	 Holiday Inn	 TATA POWER	 Zydus Cadila	 TRIDENT GROUP	 muserbaer	 JK PAPER LTD.
 emirates steel		 CPCL		 GM	 HYATT <small>Feel the Hyatt Touch</small>	 BHEL <small>Bharat Heavy Electricals Company</small>	 Aventis <small>Aventis Pharma</small>			
 Technip		 Petroleum Development Oman		 MITSUBISHI	 THE LEELA <small>DELHI</small>	 NTPC	 Baxter	 ashima TEXCELLENCE	 SAMSUNG	 indah kiati pulp and paper products
CHEMICALS		SUGAR		CEMENT		FOOD & BEVERAGES		HOSPITALS		REAL ESTATE
 Asahi India Glass Ltd.		 dhampur		 ACC LIMITED		 HATSUN		 Apollo HOSPITALS		 DLFA
 ADITYA BIRLA GROUP		 GEM GROUP		 Ambuja Cement		 KDIL		 INDIAN RAYONS LIMITED		 PURAVANKARA

Risks & Competitors

Risks

- Forex
- Loss making subsidiaries
- Viability of Consumer products business segment
- Susceptibility to economic cycles

Competitors

- VA Tech Wabag
- Thermax
- Hindustan Dorr Oliver
- Veolia
- Degremont
- Biwater
- Metito

Resources (for further reading/viewing)

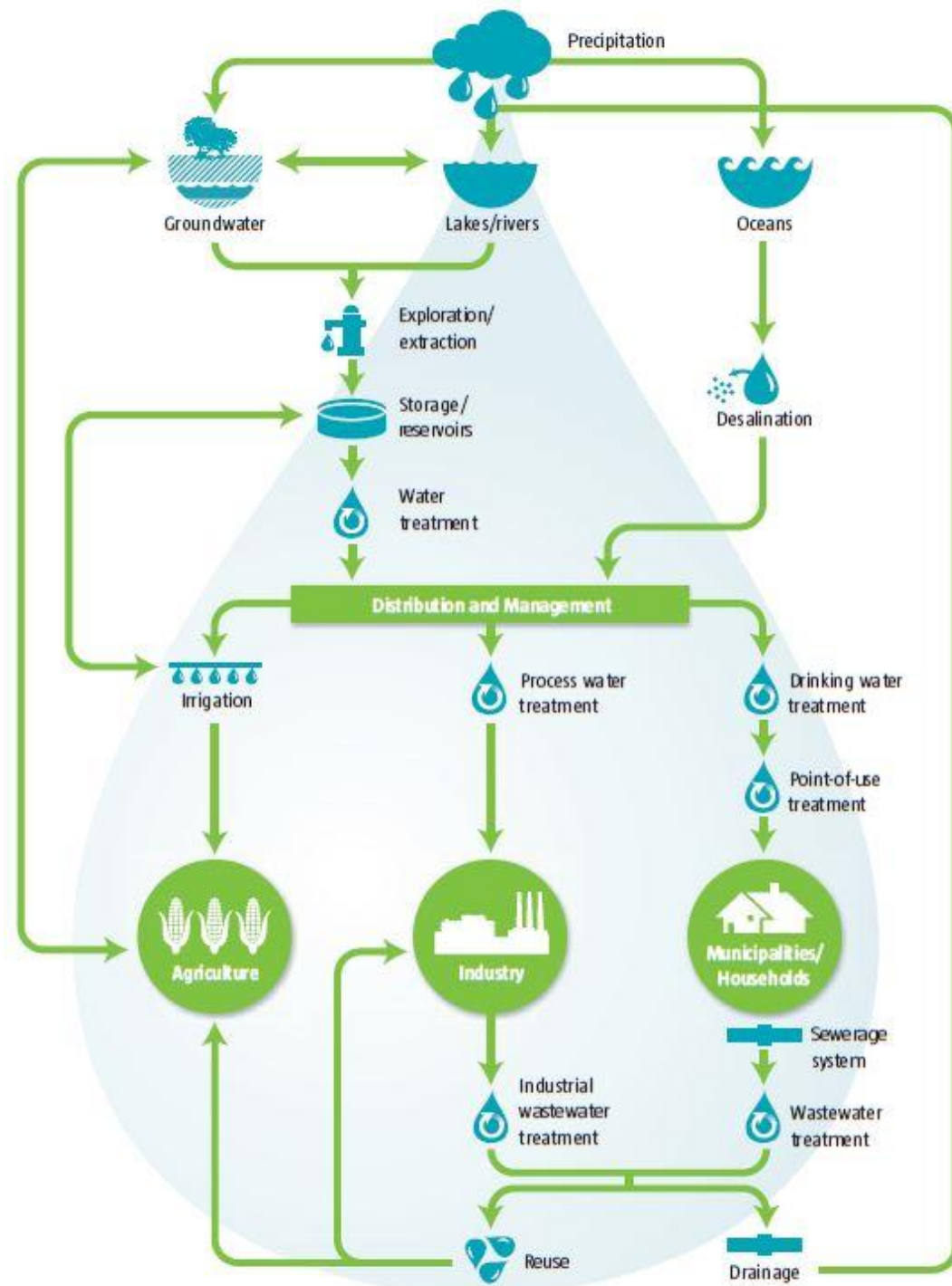
- [Co. Presentation](#) - slides
- [Q4Fy19 Conf Call Transcript](#) - text
- [Ion Exchange's journey for over 50 years](#) - video
- [India's first Membrane manufacturing facility at Goa](#) - video

Thank You

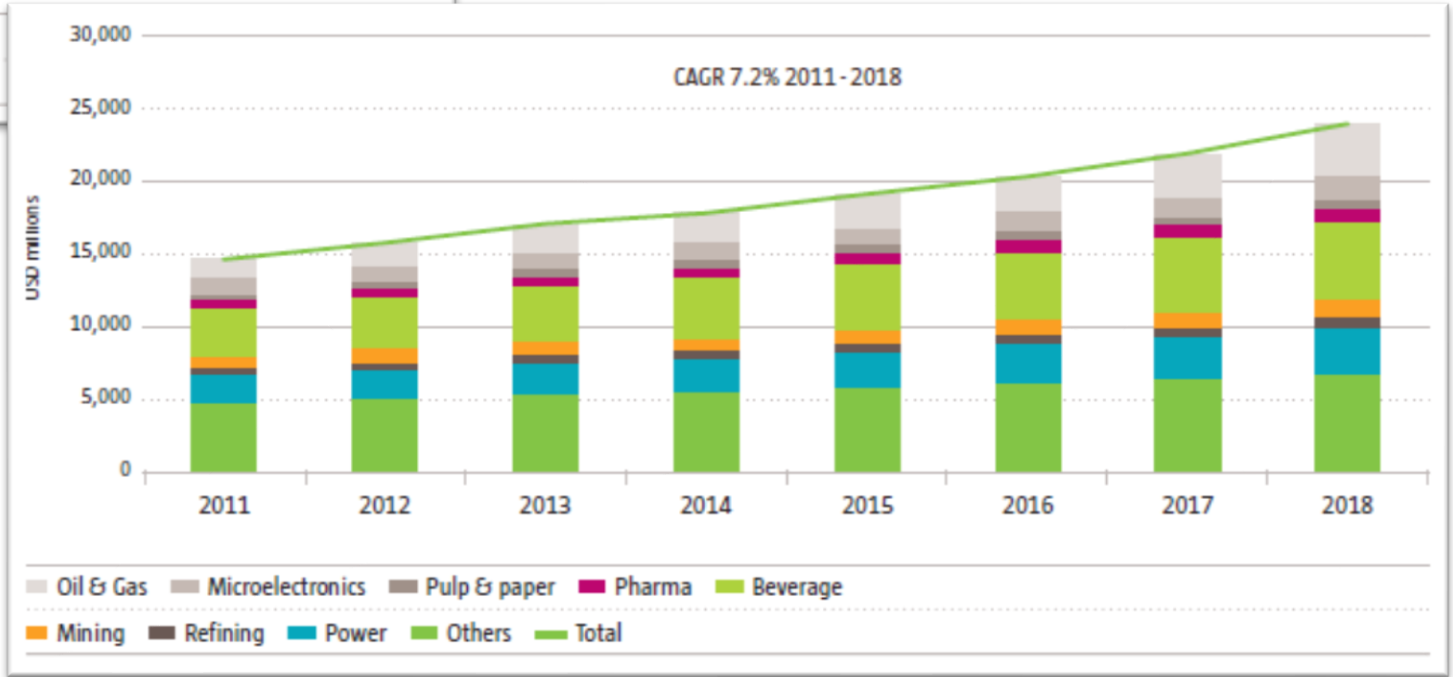
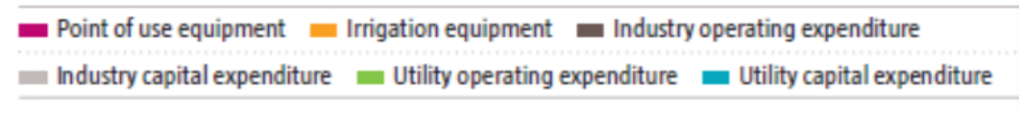
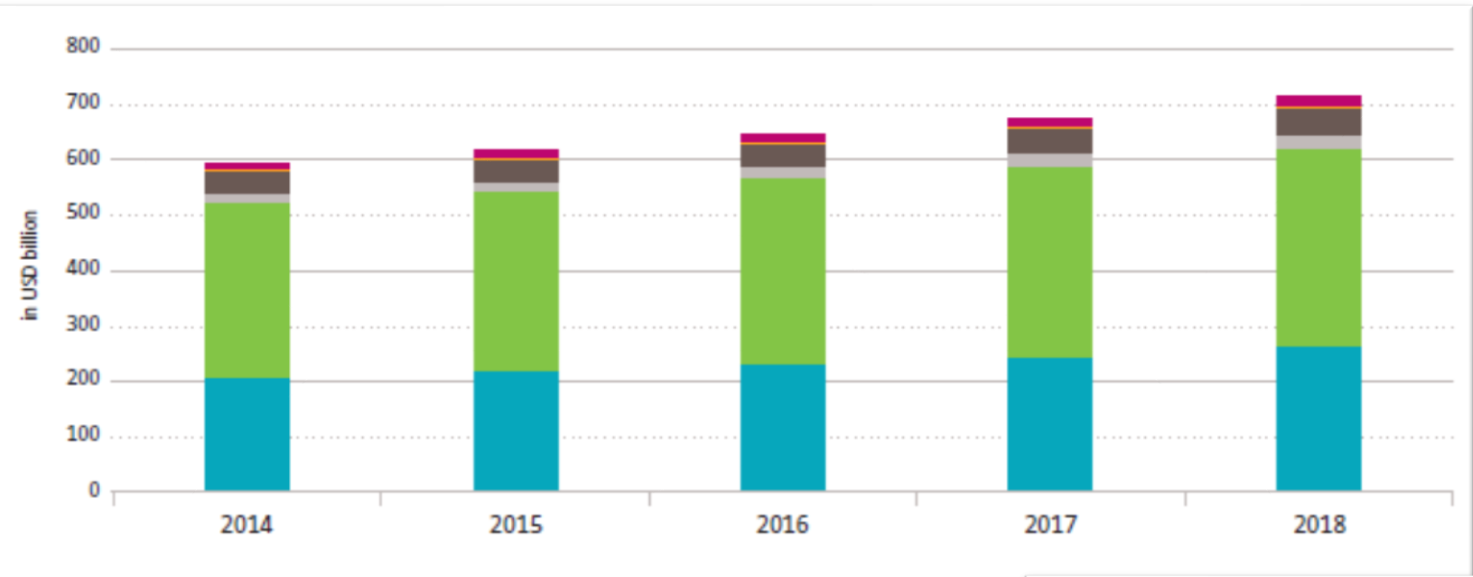
Some charts and pics for off-line chewing

(not to be covered in 20 mins slot)

The Water Value Chain



The water market is expected to grow by 1-2 percentage points above GDP growth, reaching USD 1 trillion by 2025.





Water use for **hydrocarbon fuel** production

Water use for **biofuel** production

