



KEY HIGHLIGHTS

1. RESULTS OVERVIEW:

- Ion Exchange Q2FY25 consolidated revenues came in at ₹644 Cr, up 20.9% YoY and up 13.4% QoQ.
- Op Profit for Q2FY25 stood at ₹68 Cr, up 13.3% YoY and down 6.3% QoQ.
- Op margins for Q2FY25 came at 10.6%, -70 bps YoY and -70 bps QoQ.
- PAT for Q2FY25 stood at ₹51 Cr, up by 21.4% YoY and down 13.3% QoQ.

2. MANAGEMENT COMMENTARY:

- The **Engineering Division** reported quarterly revenue of INR 3,949 million, up 26% YoY, with EBIT of INR 235 million, a 21% increase. Growth was driven by improved execution of large EPC contracts, with strong order flow and a robust domestic enquiry pipeline. The order book stood at INR 3,580 crores at the end of Q2 FY25.
- The **Chemicals Division** achieved INR 1,968 million in revenue (12% YoY growth) and INR 522 million in EBIT (23% YoY growth). The segment continues to improve in turnover and margins. The Roha plant expansion is nearly complete, with commercial production expected in Q1 FY'25-26.
- The **Consumer Products Division** posted quarterly revenue of INR 691 million, a 20% YoY increase. However, the division recorded a loss of INR 35 million, compared to a loss of INR 3 million in the same period last year. The growth is driven by increased market penetration and product acceptance, though margins remain negative due to ongoing infrastructure investments.

3. CONCALL SUMMARY

- The management anticipates stronger performance in H2 FY'25 compared to H1, with a projected growth of 15-20% for the year. There is a robust inquiry pipeline, with opportunities for large contracts, and the management is optimistic about the expansion of the order book.
- The company is prioritizing international markets and growth sectors such as semiconductors and solar energy. It also plans to expand its membrane facilities and initiate new chemical production in Odisha. The management is focused on achieving aggressive growth, with goals to significantly boost both top and bottom lines over the next 5-7 years.
- Progress on the Sri Lanka contract has been slow due to fund allocation issues, with invoicing relying on government funding. UP contracts faced delays from elections and fund allocation problems, but improvements are expected in H2. One underperforming project is negatively impacting overall margins, which are expected to be reduced by 150-200 basis points.
- The current operating profit margins of Ion Exchange is around 11%, and the management aims to maintain margins close to last year's levels.

4. RECENT DEVELOPMENTS:

- Adani Power Limited has awarded Ion Exchange contracts worth approximately INR 161.19 Crores for a comprehensive and complete water and environment management solution. The contracts involve Engineering, Procurement, and Construction (EPC) of complete water and environment management systems for the process and utility requirements of two 800 MW units at the Raipur and Raigarh Ultra Super Power Projects.

5. VALUATION AND OUTLOOK:

- Ion Exchange is a well-diversified company with Engineering, Chemical and Consumer segments with Engineering order book of 3,580cr and bid pipeline of 8695cr, We value Ion Exchange at 42 times its FY26 EPS of 18.4 to arrive at a Target price of 772 indicating a 16% upside from the CMP of 663.

RECOMMENDATION - BUY

CMP – 663

TARGET – 772 (16%)

Industry	Water Management
NSE CODE	IONEXCHANG
BSE CODE	500214
Market Cap (₹ Cr)	9,721
Shares Outstanding (in Cr)	14.7
52 wk High/Low (₹)	768/ 407
P/E	45.20
P/BV	8.87
Face Value (₹)	1.00
Book Value (₹)	74.70
EPS (FY24) (₹)	13.37
Dividend Yield (%)	0.23
Debt / Equity	0.20
Interest Coverage	23.50

SHAREHOLDING PATTERN

	Sep 24	Jun 24	Mar 24
Promoters	25.92%	26.20%	26.38%
MF/ DII	13.24 %	12.83%	12.21%
FII/FPI	5.44%	5.43%	5.63%
Retail & Others	55.42%	55.54%	55.77%
Promoter Pledging	0%	0%	0%

FINANCIAL SNAPSHOT (₹ Cr)

Y/E March	2024A	2025E	2026E
Core			
Sales	2,348	2,817	3,381
Sales Gr. (%)	18%	20%	20%
EBITDA	275	310	372
EBITDA %	11.71%	11%	11%
PAT	195	226	271
EPS (₹)	13.37	15.34	18.4
EPS Gr. (%)	-0.3%	14.7%	19.7%
Ratios			
RoE (%)	21%	21.16%	23.06%
RoCE (%)	27%	23.8%	25.9%
Valuation			
P/E (x)	45.2	43.2	36.1

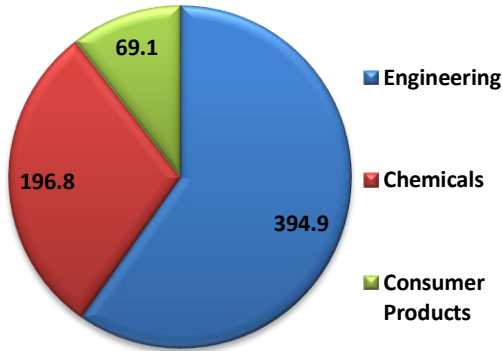
Historical & Industrial Val Ratios

Historical P/E	48.26
Industry P/E	61.50
Historical P/B	9.51
Industry P/B	7.35

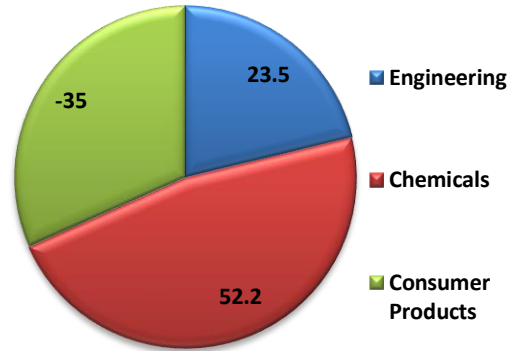


Revenue and EBIT Split (Q2 FY25)

Segmental Revenue Split in Q2FY25 (In Cr)



EBIT Split in Q2FY25 (In Cr)



QUARTERLY PERFORMANCE (CONSOLIDATED)

(₹ Cr)

Y/E March	FY23		FY24				FY25			FY24	FY25E*
	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3FY25E*			
Net sales	647	479	533	554	782	568	644	659	2,348	2,817	
YoY change (%)	30.45%	25.32%	19.07%	8.15%	20.75%	18.44%	20.92%	19.00%	18.01%	20%	
Total Expenditures	541	430	473	483	690	503	576	587	2,072	2,507	
EBITDA	106	49	60	71	92	64	68	73	275	310	
Margins (%)	16%	10%	11%	13%	12%	11%	11%	11%	12%	11%	
Other income	6	9	11	9	17	11	15	14	45	55	
Interest	2	2	4	3	3	3	4	4	15	16	
Depreciation	7	8	8	10	10	10	11	11	36	40	
PBT	102	48	59	67	95	62	68	72	269	309	
Rate (%)	21%	30%	28%	30%	24%	28%	26%	27%	27%	27%	
Adjusted PAT	81	33	42	47	72	45	51	52	195	226	
EPS in Rs	5.57	2.27	2.90	3.24	4.96	3.07	3.47	3.55	13.37	15.34	

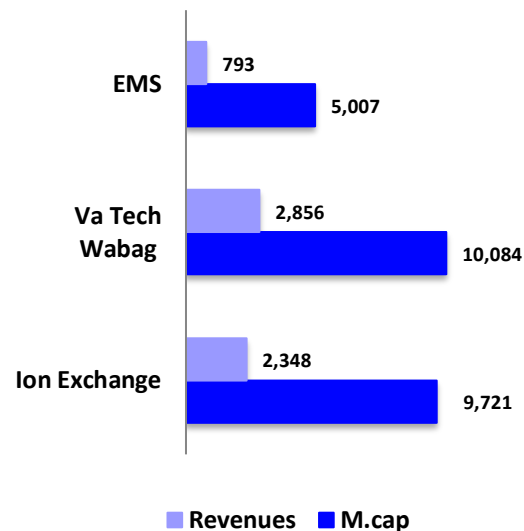
Source: Company, Hem Securities Research.



INDUSTRY OVERVIEW

- The **wastewater treatment industry** in India is witnessing significant growth, driven by increasing urbanization, industrialization, and growing concerns about water scarcity and environmental sustainability.
- India's wastewater treatment market has a strong growth trajectory, with an expected market size of **USD 6-7 billion by 2025-2027**. With government initiatives, growing industrial wastewater generation, and increasing awareness about water conservation, the sector is poised for significant expansion.
- **Government initiatives** like **Swachh Bharat Mission, Namami Gange, and Atal Mission for Rejuvenation and Urban Transformation (AMRUT)** are critical to driving demand for wastewater treatment infrastructure.
- Industrial wastewater treatment in India is a major contributor to the market, with a significant portion of the market share and increasing demand for specialized treatment solutions like **reverse osmosis (RO), membrane bioreactors (MBR), and advanced oxidation processes (AOP)**.
- As urbanization increases, the need for sewage treatment plants (STPs) is growing. Municipal wastewater treatment accounts for a significant share of the market. The government's focus on building STPs under the Namami Gange and other sanitation initiatives will continue to drive growth in this segment.
- In the **wastewater treatment industry**, chemicals play a crucial role in ensuring the effective treatment and removal of contaminants from water. These chemicals are used in various stages of the wastewater treatment process, including coagulation, flocculation, disinfection, and **pH adjustment**, among others. The growing emphasis on water treatment in industrial, municipal, and residential sectors has led to a rising demand for wastewater treatment chemicals in India.

KEY PLAYERS in Water Mangement



PEER PERFORMANCE

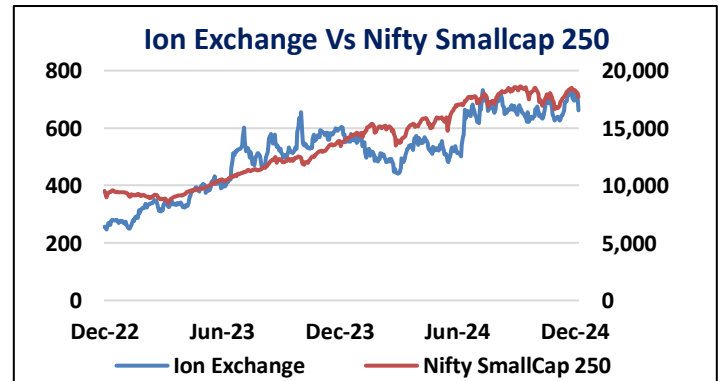
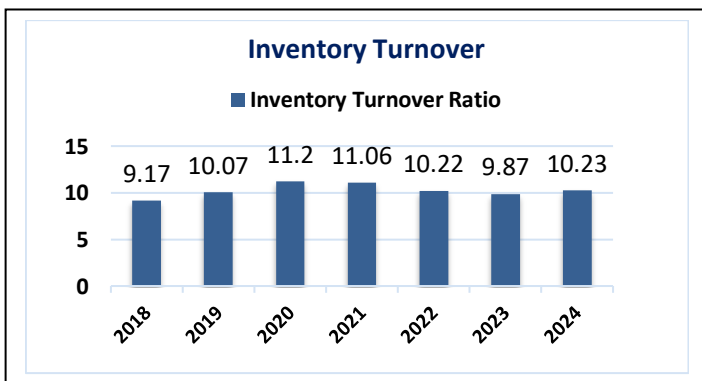
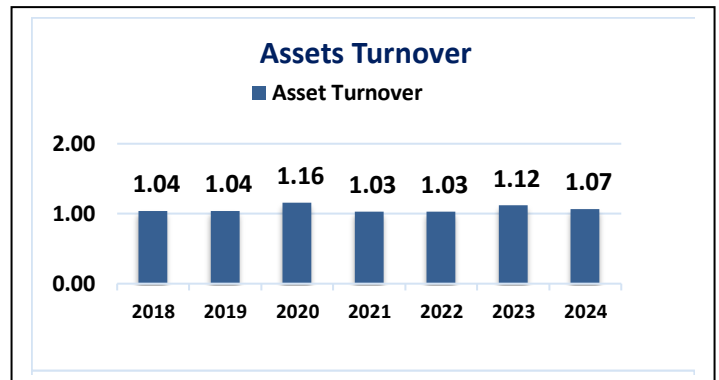
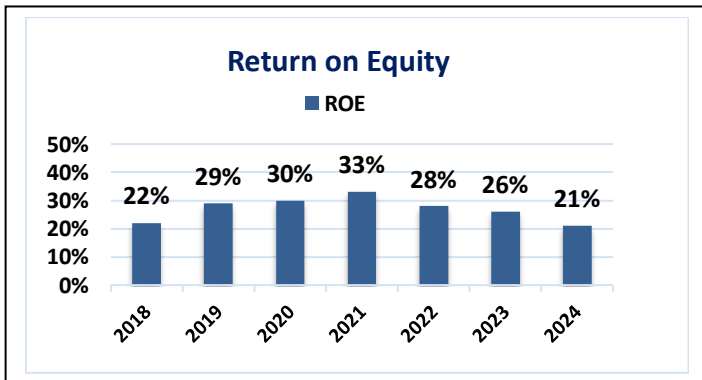
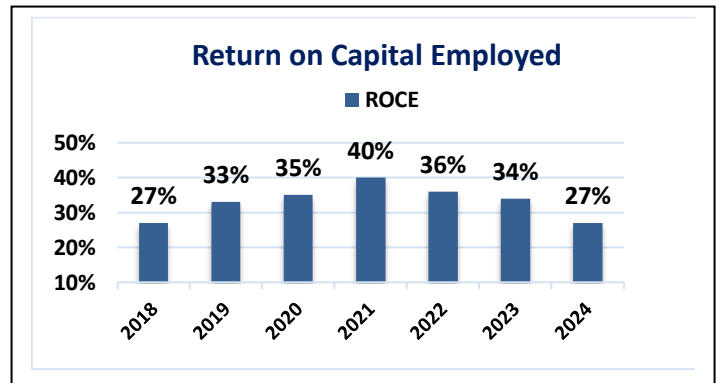
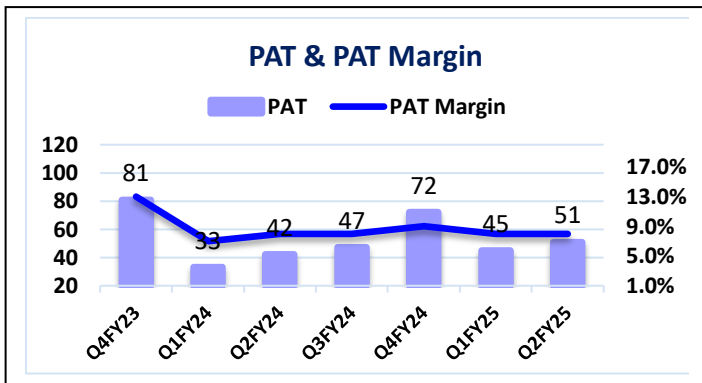
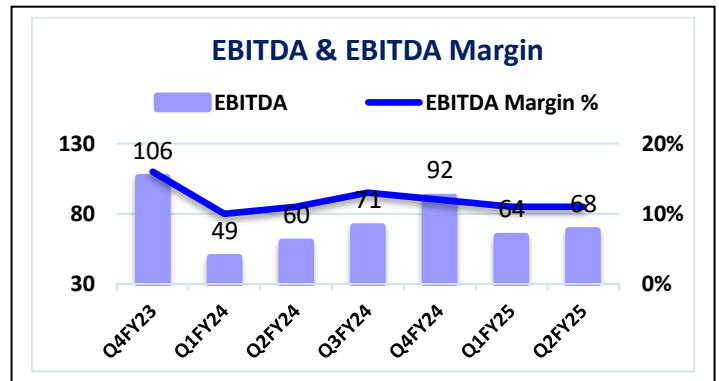
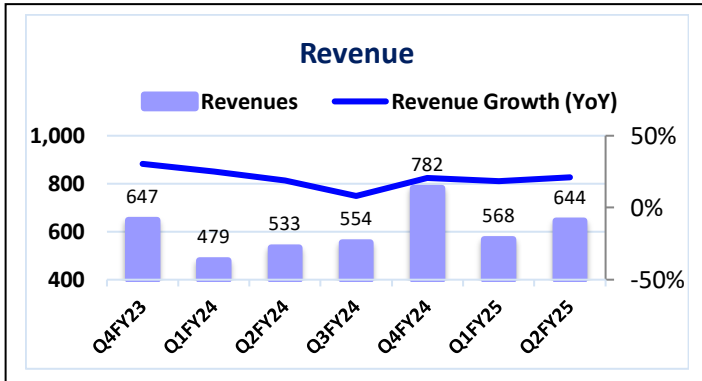
(₹ Cr)

Particulars	Ion Exchange	Va Tech	EMS
Market Cap	9,721	10,084	5,007
Net Sales	2,348	2,856	793
EBITDA	275	366	204
PAT	195	250	153
EPS(₹)	13.8	39.5	27.4
EBITDA MARGIN %	11.7	12.8	25.7
PAT MARGIN %	8.3	8.8	19.3
ROCE %	27	20	29
ROE %	21	14	23
P/E TTM	45.2	38.8	29.2
P/B TTM	8.87	5.13	5.66
EV/EBITDA	27.2	23.0	20.2
Dividend Yield %	0.23	-	0.22
MCap/ Sales TTM	3.81	3.4	5.65

Source: Company, Hem Securities Research.



STORY IN CHARTS





INVESTMENT RATIONALE:

- Ion Exchange is expanding its product portfolio to cater to emerging technologies in water treatment such as **desalination** and **advanced oxidation processes (AOP)**, which are expected to have high demand as water scarcity issues intensify globally and also **Membrane Technology Expansion** which will help company to expand its **membrane production facilities** and invest in new chemical production in regions like **Odisha** show its commitment to future growth. These expansions will help it meet the increasing demand for water treatment solutions, particularly in the **semi-urban** and **rural** markets with focus on **Semiconductors & Solar Industries**, Ion Exchange is looking to diversify into growing sectors like **semiconductors** and **solar** industries, which will further bolster its revenue growth and product diversification.
- Ion Exchange offers a **strong market leadership, diversified product portfolio, consistent financial performance, and future growth potential** in both domestic and international markets. The company is well-positioned to capitalize on the growing global focus on **water conservation, wastewater treatment, and sustainable environmental solutions**. Moreover, with a commitment to **innovation** and **sustainability**, Ion Exchange is likely to remain a key player in the water treatment industry for years to come.

RISK / NEGATIVE FACTORS:

- The demand for safer and environmentally-friendly chemicals is increasing, especially as industries look to reduce their carbon footprint. Regulatory standards are becoming stricter, with a greater focus on sustainable practices and the reduction of harmful chemicals in the treatment process.
- A delay in the execution of projects, coupled with an increase in receivables, may negatively impact the company's working capital cycle.

COMPANY RECAP

- Ion Exchange (India) offers a comprehensive array of solutions throughout the water cycle, encompassing pre-treatment, process water treatment, wastewater treatment, recycling, zero liquid discharge, sewage treatment, packaged drinking water, and seawater desalination, among others.
- Ion Exchange (India) Limited, founded on March 6, 1964, is a prominent entity in the Indian water treatment sector, providing comprehensive water management solutions for industries, households, and communities. It stands out as one of the rare companies globally that offers an extensive array of technologies, products, and services encompassing the full range of water and wastewater treatment. Originally a subsidiary of British Permutit until 1985, it transitioned to a fully Indian-owned company following Permutit's divestment of its shares.
- Engineering (60%) – Delivers a wide array of integrated services and solutions in the field of water and wastewater treatment, encompassing seawater desalination, recycling, and zero liquid discharge facilities for various industries. Chemicals (29%) – Offers an extensive selection of resins, specialty chemicals, and tailored chemical treatment programs for both water-related and specialized applications. Consumer Products (11%) – Serves a diverse clientele, including individuals, hotels, spas, educational institutions, hospitals, laboratories, as well as railway and defense organizations, ensuring access to safe drinking water and a hygienic environment.
- The company's product portfolio encompasses water treatment, process liquid management, and wastewater treatment solutions, along with recycling facilities. These offerings employ a variety of physico-chemical methods, including sedimentation, clarification, filtration, disinfection, as well as membrane and ion exchange technologies. Additionally, the range includes ion exchange resins, polymers, and polyelectrolytes applicable to both water and non-water processes. The company also provides chemicals for boiler, cooling water, and fireside treatment, alongside Zero-B (bacteria) water purifiers that deliver instant access to bacteria-free drinking water, and electrochlorinators designed for water disinfection.
- The Company established a cutting-edge Membrane Manufacturing facility in Goa in 2018, aimed at producing high-quality membranes. It engaged in several significant projects with the Indian Navy, Military Engineering Services, healthcare initiatives, and the railway sector. In 2019, it introduced the 'INDION SWIFT 5Gx' product to address the increasing demand for high-purity water systems essential for the pharmaceutical, power, semiconductor, and electronics industries. Additionally, the Company acquired full ownership of Waterleau Group N.V., a Belgium-based firm, making it a wholly owned subsidiary as of August 20, 2018. In the fiscal year 2023-24, the Company secured a 100% ownership stake in MAPRIL on June 22, 2023.



ANNUAL PERFORMANCE

Financials & Valuations

Income Statement							(₹ Cr)
Y/E March	2020	2021	2022	2023	2024	2025E	2026E
Revenue from operations	1,479.83	1,449.52	1,576.87	1,989.61	2,347.85	2,817	3,381
Growth YoY (%)	27.32	-2.05	8.79	26.17	18.01	20.00	20.00
Total Expenditure	1,341.97	1,245.11	1,361.74	1,731.77	2,074.82	2,508	3,009
(%) of sales	90.68	85.90	86.36	87.04	88.37	89	89
EBITDA	137.85	204.41	215.13	257.84	273.03	310	372
EBITDA Growth (%)	21.80	37.11	8.48	16.02	6.80	12.7	20
EBITDA Margin (%)	11.71	16.38	16.34	15.02	13.60	11	11
Depreciation	23.53	27.67	28.04	29.09	36.41	40	44
EBIT	150.13	209.75	230.00	270.75	284.36	270	328
EBIT Growth (%)	21.86	39.71	9.65	17.72	5.03	-5.03	21.48
Net Interest Expenses	19.25	14.72	12.67	12.05	15.47	16	18
Other Income	35.37	33.09	42.50	41.07	46.20	55	60
Earnings before Taxes	130.88	195.04	217.33	258.70	268.89	309	370
EBT Margin (%)	8.84	13.46	13.78	13.00	11.45	10.96	10.94
Tax-Total	36.73	51.71	55.64	63.74	73.54	83.41	99.87
Rate of tax (%)	28.06	26.51	25.60	24.64	27.35	27	27
Net Profit	94.15	143.32	161.69	194.97	195.35	225.52	270.04
PAT Growth (%)	42.85	52.23	12.81	20.58	0.20	15.7	19.7
PAT Margin (%)	6.36	9.89	10.25	9.80	8.32	8.00	7.99
Minority Interest	-0.53	0.61	1.09	1.78	0.67	0.51	0.62
Adjusted PAT	93.62	143.93	162.77	196.74	196.02	226.03	270.66
EPS	6.58	10.12	11.44	13.83	13.78	15.3	18.4
EPS Growth (%)	43.46	53.74	13.09	20.87	-0.37	14.74	19.74

Balance Sheet

Y/E March	2020	2021	2022	2023	2024
Equity Capital	14	14	14	14	14
Reserves	349	492	641	819	1,004
Preference Capital	0	0	0	0	0
Borrowings	122	62	55	59	152
Other Liabilities	896	875	914	1,047	1,271
Total Liabilities & Equity	1,382	1,443	1,625	1,939	2,441
Fixed Assets	194	190	192	215	367
CWIP	12	15	20	42	61
Investments	5	5	9	10	12
Other Assets	1,172	1,234	1,404	1,672	2,001
Total Assets	1,382	1,443	1,625	1,939	2,441

Source: Company, Hem Securities Research.



Ratios					
Y/E March (Basic (INR))	2020	2021	2022	2023	2024
Profitability and return ratios					
Net profit margin (%)	6.36	9.89	10.25	9.80	8.32
EBITDA margin (%)	11.71	16.38	16.34	15.02	13.60
EBIT margin (%)	10.15	14.47	14.59	13.61	12.11
ROE (%)	30.22	32.99	27.84	26.18	21.10
ROCE (%)	35.97	41.04	36.48	34.06	27.86
Working Capital & liquidity ratios					
Inventory (Days)	32.59	33.00	35.71	36.99	35.66
Receivables (Days)	114.20	119.71	110.72	110.48	126.82
Current Ratio (x)	1.17	1.33	1.45	1.55	1.55
Valuations Ratios					
EV/sales (x)	0.40	0.97	1.17	2.19	2.88
EV/EBITDA (x)	3.38	5.92	7.18	14.59	21.19
P/E (x)	9.15	12.92	14.37	24.68	36.81
P/BV (x)	2.36	3.67	3.57	5.83	7.09
Dividend Yield (%)	1.00	0.77	0.61	0.37	0.30
Leverage Ratio					
Debt/Equity (x)	0.28	0.10	0.07	0.06	0.14

Cash Flow Statement					
Y/E March	2020	2021	2022	2023	2024
CF from Operating activities (A)	102	197	91	63	130
CF from Investing Activities (B)	-18	-29	-92	-40	-160
CF from Financing Activities (C)	-28	-75	-27	-15	8
Net Cash Flow	55.67	93.11	-27.48	7.01	-22
Add: Opening Bal.	45	101	197	169	175
Closing Balance	101	197	169	175	154

Source: Company, Hem Securities Research.



RATING CRITERIA

INVESTMENT RATING	EXPECTED RETURN
BUY	>=15%
ACCUMULATE	5% to 15%
HOLD	0 to 5%
REDUCE	-5% to 0
SELL	<-5%

RECOMMENDATION SUMMARY

DATE	RATING	TARGET
20th December 2024	Buy	772

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Name of the Research Analyst: **Deepanshu Jain**

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