



Prime Stock

Short Term Fundamental Pick

Ion Exchange (India) Ltd



TODAY'S PRIME STOCK (SHORT-TERM INVESTMENT)

Ion Exchange (India) Ltd

BSE CODE: 500214

NSE CODE: IONEXCHNAG

Sector: Capital goods

Industry: Engineering

CMP (Rs): 660 | Buy Range: 650-660 | Target Price: 760 | Potential Upside: 15%

Duration of Recommendation: 6 Months

About Company: Ion Exchange is a company that provides solutions for water and wastewater treatment. This includes designing, building, and maintaining water treatment plants. The company also manufactures chemicals used in water treatment, like ion exchange resins. Additionally, Ion Exchange offers consumer products like home water purifiers.

INVESTMENT RATIONALE

Market Leader with Diversified Growth Opportunities: Ion Exchange is a leader in India's water and wastewater treatment industry, leveraging decades of experience and a strong brand reputation for competitive advantage. Its diverse product portfolio across Engineering, Chemicals, and Consumer Products serves industries, institutions, and homes, ensuring risk mitigation and multiple growth opportunities.

Robust Order Book and Promising Pipeline: The company has a solid order book of ₹3,580 crores as of Q2 FY25, reflecting its strong market positioning in the water and wastewater treatment sector. This provides solid revenue visibility near future. Additionally, the bid pipeline of ₹8,695 crores points to continuous opportunities for large-scale projects.

Capitalizing on the Growing Water Management Sector: As water scarcity becomes a pressing global issue, demand for water & wastewater treatment solutions is surging. Ion Exchange is well-positioned to capitalize on this trend with its comprehensive portfolio including desalination, recycling, and zero-liquid discharge plants. The company is also exploring high-growth segments like semiconductor and solar industries, diversifying its applications and strengthening its growth trajectory.

Focus on High-Margin Products and Strategic Expansion: The Chemicals division is a major profit driver, with revenue growth of 12% YoY and EBIT margins of 26.5%. The upcoming expansion of the Roha plant, expected to commence operations in FY26, will enable the production of high-margin specialty chemicals. This strategic move not only enhances production capacity but also aligns the company with market demands for value-added products, thereby driving profitability and operational efficiency.

Management's Guidance on Future Growth and Margins: The management expects 15-20% revenue growth in the Engineering Division this fiscal year, supported by strong EPC contract execution and a robust order book. In the Chemical Segment, production ramp-up at a new plant, long-term contracts, and product mix optimization aim to achieve full capacity in 3-4 years, enhancing profitability. Company maintains an 11% operating margin & remains optimistic about stabilizing margins.

Consistent Financial Growth with Strong Profitability Metrics: In Q2 FY25, consolidated operating income stood at ₹644 crores, a 21% YoY increase. EBITDA grew by 13% YoY to ₹68 crores, and the net profit rose by 20% YoY to ₹50.6 crore, reflecting efficient cost management and robust revenue generation. Over H1 FY25, the company achieved a 26% YoY rise in net profit and maintained a PAT margin of 7.85%.

Reasonable Valuations: At CMP, the stock is trading at FY25E/FY26E P/E of 43x/37.4x respectively. We believe Ion exchange's robust order book, bid pipeline, industry tailwinds and growth in EPC and chemical segment will drive the growth.

Key risks: Competition in the water treatment industry, dependence on government contracts, delays in projects approval & execution, raw material price volatility and supply chain disruptions.

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