

Rating Rationale

October 03, 2023 | Mumbai

ION Exchange India Limited

Long-term rating upgraded to 'CRISIL A+/Stable'; short-term rating reaffirmed; Rated amount enhanced for Bank Debt

Rating Action

Total Bank Loan Facilities Rated	Rs.1759.71 Crore (Enhanced from Rs.1342.71 Crore)
Long Term Rating	CRISIL A+/Stable (Upgraded from 'CRISIL A/Stable')
Short Term Rating	CRISIL A1 (Reaffirmed)

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1 crore = 10 million

Refer to Annexure for Details of Instruments & Bank Facilities

Detailed Rationale

CRISIL Ratings has upgraded its rating on the long term bank facilities of ION Exchange India Limited (IEIL; part of the Ion Exchange group) to '**CRISIL A+/Stable**' from 'CRISIL A/Stable' while reaffirming the short term rating at 'CRISIL A1'.

The upgrade reflects an improvement in the overall business profile, driven by strong operating performance, sustained healthy return on capital employed, healthy and diversified orderbook and maintaining healthy financial risk profile. CRISIL expects the company to sustain the consolidated topline growth in fiscal 2024 in line with as witnessed in the previous fiscal, on the back of strong order book for Engineering segment of ~Rs 3,351 crore as on June 30, 2023 duly supported by new acquisition and strong demand from end-users spread across the industries. Consequently, IEIL is likely to generate net cash accrual of above Rs 250 crore in the same period. Operating margin is expected to be range bound at 13-14% in fiscal 2024, primarily driven by the healthy operating profitability of above 20% in the chemicals division. In fiscal 2023, consolidated revenue grew by ~26% with sustained operating margin of ~13%, leading to increase in the net cash accruals to ~Rs 224 crore.

The rating action duly factors IEIL's long and established track record of around six decades, strong market position in the domestic water segment and diversified revenue stream. Recent acquisition of a Portugal based company MAPRIL (acquisition completed in Q1FY2024 at a total consideration of ~Rs 24 crore, funded from internal accruals), will provide better access to the European market and increase the product offerings in chemical division. Liquidity remains strong with healthy unencumbered cash and cash equivalents of Rs 338 crore as on 31st March 2023 and cushion in the working capital limits.

The company's financial risk profile stood comfortable as characterized by the net cash accrual to adjusted debt ratio, total outside liabilities to networth (TOL/TNW) ratio of around 4 times and 1.3 times respectively in fiscal 2023. The financial risk profile is likely to remain comfortable with expected strong cash accruals of over Rs 250 crore in fiscal 2024, project debt repayments well-spaced out over 7 years till FY2031 and a prudent dividend policy. The TOL/TNW ratio to remain below 1.5 times in fiscal 2024 amid the greenfield expansion in the chemical division for Resins manufacturing in Roha, Maharashtra with an estimated capex outlay of ~Rs 400 crore (to be funded in the debt equity ratio of 4:1), to be phased out in fiscal 2024 and fiscal 2025, the debt tie-up is already in place.

These strengths are partially offset by the working capital-intensive operations and susceptibility to economic downturns. The company is also exposed to project execution risk, including risks of delays and cost overruns. The company's ability to commission the Roha project within the budgeted cost and estimated timeframe, stabilize the facilities and ramp up sales post commissioning would be a key monitorable.

Analytical Approach

For arriving at its ratings, CRISIL Ratings has combined the business and financial risk profiles of IEIL and its subsidiaries. This is because all these companies, collectively referred to as the Ion Exchange group, have a common management, have significant transactional linkages and operate in the same or related businesses. IEIL has also extended corporate guarantees for a portion of debt contracted by some of its subsidiaries. Furthermore, CRISIL Ratings has factored in the debt of one associate company, Aquanomics Systems Ltd (ASL), as IEIL has extended corporate guarantees for the debt contracted by ASL.

Please refer Annexure - List of Entities Consolidated, which captures the list of entities considered and their analytical treatment of consolidation.

Key Rating Drivers & Detailed Description

Strengths:

Strong market position in domestic water treatment segment – The company has a strong market position in the domestic water treatment segment with established relationships with its customers and suppliers. The varied product range

find usage in various industries like - Petrochemical & Refinery, Power, Steel, Sugar, Electronics, Pharma, Pulp & Paper, Textile, Cement, Automobile etc. Further, it has an established track record and strong expertise of around six decades in providing the full range of products in the water treatment segment. Longstanding presence of the promoters and a robust nationwide aftersales service have helped the group to establish the brand. Revenue is well-diversified, with the engineering, chemicals and consumer products divisions contributing around 60%, 30% and 10%, respectively, to sales in fiscal 2023. The diversified revenue stream support the company from any downturn in any particular segment. Diversified product profile and customer base spread over various industries like - Petrochemical & Refinery, Power, Steel, Sugar, Electronics, Pharma, Pulp & Paper, Textile, Cement, Automobile etc. With the recent acquisition of a Portugal based company MAPRIL (acquisition completed in Q1FY2024), will provide better access to IEIL in and around the European market.

The engineering segment had orders worth Rs 3,351 crore as on June 30, 2023, with strong bid pipeline of ~Rs 8,500 crore offers strong revenue visibility.

Healthy growth in the consolidated revenues and sustained operating margin - Consolidated revenue grew 26% in fiscal 2023 due to healthy order execution in the engineering segment (33% increase y-o-y) and strong demand from end-user industries in the chemical segment (increase 11% y-o-y). Driven by the strong Engineering order book and healthy demand in the chemical segment duly supported by new acquisition, IEIL's consolidated revenue growth in fiscal 2024 is expected to sustain in the same line as in previous fiscal, consequently IEIL is likely to generate net cash accrual over Rs 250 crore in the same period.

Operating margin remained range bound at 13-14% in fiscal 2023, healthy operating profitability of above 20% in the chemicals division continues to provide a cushion to overall profitability. CRISIL expects the operating margin to continue to be range bound at 13-14% in the medium term.

Comfortable financial risk profile:

The company's financial risk profile stood comfortable as characterized by the net cash accrual to adjusted debt ratio, total outside liabilities to networth (TOL/TNW) ratio of around 4 times and 1.3 times respectively in fiscal 2023. Networth improved to Rs 825 crore as on March 31, 2023 on the back of increased scale and sustained operating margins. The financial risk profile is likely to remain comfortable with expected strong cash accruals of over Rs 250 crore in fiscal 2024, project debt repayments well-spaced out over 7 years till FY2031 and a prudent dividend policy. The TOL/TNW ratio to remain below 1.5 times in fiscal 2024 amid the greenfield expansion in the chemical division for Resins manufacturing in Roha, Maharashtra with an estimated capex outlay of ~Rs 400 crore (to be funded in the debt equity ratio of 4:1), to be phased out in fiscal 2024 and fiscal 2025. However, the company is exposed to project execution risk, including risks of delays and cost overruns. The company's ability to commission the Roha project within the budgeted cost and estimated timeframe, stabilization of the plant and ramp up of sales post commissioning would be a key monitorable.

Weaknesses:

Working capital-intensive operations: Gross current assets are high at 257 days as on March 31, 2023 (252 days in the previous fiscal), led by receivables of 130 days (against 121 days) and modest inventory of 56 days. Payables declined to 159 days as on March 31, 2023, from over 198 days, a year ago. Back-to-back arrangements with suppliers and advances from the clients partly aid working capital management.

Exposure to intense competition and cyclicity in the EPC segments and susceptibility to economic cycles along with risk related to contingent liabilities - Revenue remains susceptible to economic cycles that impact the EPC/ Engineering segment. Furthermore, the company also caters to government agencies and PSUs, expenditure of which is directly linked to the economy. Any delay or deferment of capital expenditure (capex) in end-user industries or any slowdown in the Indian economy could adversely affect IEIL's revenue. However, diversified revenue stream from other segments viz Chemical and Consumer Product segments support the company from any downturn in EPC/ Engineering segment.

Furthermore, due to the nature of business, IEIL has sizeable off-balance sheet liabilities, primarily bank guarantees given to clients. Hence, the company is exposed to the liquidity risk that may arise out of these contingent liabilities.

Liquidity: Strong

Expected cash accrual of over Rs 250-300 crore in the medium term which should comfortably cover the yearly debt of Rs 15-25 crore. The unencumbered cash and cash equivalents of Rs 338 crore as on March 31, 2023 and negligible utilization of fund based working capital limits and 60% utilization of the non-fund based sanctioned limits in add cushion in liquidity. Liquidity should remain strong over the medium term, with expected strong cash accruals, project debt repayments well-spaced out over 7 years till FY2031 and a prudent dividend policy.

Outlook: Stable

CRISIL Ratings believes IEIL group will continue to benefit from its established market position, healthy order pipeline in the engineering division, strong profitability in the chemicals division and an improved business risk profile.

Rating Sensitivity Factors

Upward Factors

- Substantial and sustained increase in revenue supported by improvement in diversity and more equitable contribution in the cash accruals from all the segments
- Commissioning of the Roha project within the budgeted cost and time, stabilization of the plant and ramp up of sales post commissioning
- Sustenance of prudent working capital management and capital structure and sustenance of TOL/TNW below 1.2 times

Downward Factors

- Significant decline in revenue and operating margin, leading to lower-than-expected net cash accrual

- Any other large debt funded capex or acquisitions or significant stretch in the working capital cycle, resulting in deterioration in the financial risk profile and increase in total outside liabilities to tangible network (TOLTNW) ratio to above 1.5 times

About the Group

The flagship company of the ION Exchange group, IEIL was incorporated in 1964 as a 60% subsidiary of the UK-based Permutit Company. The foreign holding was reduced in a phased manner and it became wholly owned Indian company in 1985. IEIL began manufacturing ion-exchange resins at its plant in Ambarnath, Maharashtra in 1965 and diversified into chemical treatment of water in 1982.

IEIL operates in three key segments—engineering, chemical, and consumer products and has six factories in five states. Each business is managed by a dedicated team. The engineering segment plans and executes orders for installation of large and medium-sized water and effluent treatment plants. The chemicals division manufactures ion-exchange resins and industrial chemicals and sells them in India, North America, Middle East, Europe, and South-East Asia. The consumer products segment offers a range of water-care products for homes, institutions and community to provide pure & safe drinking water under Zero-B brand and sustainable waste management.

Key Financial Indicators

As on/for the period ended March 31	Unit	2023	2022
Revenue	Rs crore	1990	1577
Profit After Tax (PAT)	Rs crore	195	162
PAT Margin	%	9.8	10.3
Adjusted debt/adjusted network	Times	0.06	0.07
Interest coverage	Times	24.8	20.3

Any other information: Not applicable

Note on complexity levels of the rated instrument:

CRISIL Ratings' complexity levels are assigned to various types of financial instruments and are included (where applicable) in the 'Annexure - Details of Instrument' in this Rating Rationale.

CRISIL Ratings will disclose complexity level for all securities - including those that are yet to be placed - based on available information. The complexity level for instruments may be updated, where required, in the rating rationale published subsequent to the issuance of the instrument when details on such features are available.

For more details on the CRISIL Ratings' complexity levels please visit www.crisilratings.com. Users may also call the Customer Service Helpdesk with queries on specific instruments.

Annexure - Details of Instrument(s)

ISIN	Name of instrument	Date of allotment	Coupon rate (%)	Maturity date	Issue Size (Rs.Crore)	Complexity level	Rating outstanding with outlook
NA	Cash Credit	NA	NA	NA	110.0	NA	CRISIL A+/Stable
NA	Term Loan	NA	NA	Jun-30	58.53	NA	CRISIL A+/Stable
NA	Term Loan	NA	NA	Dec-25	8.94	NA	CRISIL A+/Stable
NA	Term Loan	NA	NA	Dec-30	22.0	NA	CRISIL A+/Stable
NA	Term Loan	NA	NA	Jun-30	306.42	NA	CRISIL A+/Stable
NA	Overdraft Facility	NA	NA	NA	35.0	NA	CRISIL A+/Stable
NA	Proposed Long Term Bank Loan Facility	NA	NA	NA	61.58	NA	CRISIL A+/Stable
NA	Proposed Short Term Bank Loan Facility	NA	NA	NA	49.0	NA	CRISIL A1
NA	Letter of credit & Bank Guarantee	NA	NA	NA	1108.24	NA	CRISIL A1

Annexure - List of Entities Consolidated

Name of entities consolidated	Extent of consolidation	Rationale for consolidation
Ion Exchange Enviro Farms Ltd	Full	Common management, same business, and significant transactional linkages
Watercare Investments (India) Ltd		
Aqua Investments (India) Ltd		
Ion Exchange Asia Pacific Pte Ltd, Singapore		
IEI Environmental Management (M) Sdn Bhd, Malaysia		
Ion Exchange Environment Management (BD) Ltd, Bangladesh		

Ion Exchange LLC, USA	Rating Rationale	
Ion Exchange And Company LLC, Oman		
Ion Exchange WTS (Bangladesh) Ltd, Bangladesh		
Ion Exchange Projects and Engineering Ltd		
Global Composites and Structural Ltd		
Ion Exchange Safic Pty Ltd, South Africa		
Total Water Management Services (India) Ltd.		
Ion Exchange Purified Drinking Water Pvt Ltd		
Ion Exchange Environment Management Ltd		
Aquanomics Systems Ltd		
IEI Water-Tech (M) Sdn Bhd, Malaysia	Moderate	Based on support extended to these companies
Ion Exchange PSS Co Ltd, Thailand		
Ion Exchange Financial Products Pvt Ltd		

Annexure - Rating History for last 3 Years

Instrument	Current			2023 (History)		2022		2021		2020		Start of 2020
	Type	Outstanding Amount	Rating	Date	Rating	Date	Rating	Date	Rating	Date	Rating	Rating
Fund Based Facilities	LT/ST	651.47	CRISIL A+/Stable / CRISIL A1		--	07-07-22	CRISIL A/Stable	29-05-21	CRISIL A-/Positive	26-02-20	CRISIL A-/Stable	CRISIL A2+ / CRISIL A-/Stable
Non-Fund Based Facilities	ST	1108.24	CRISIL A1		--	07-07-22	CRISIL A1	29-05-21	CRISIL A2+	26-02-20	CRISIL A2+	CRISIL A2+

All amounts are in Rs.Cr.

Annexure - Details of Bank Lenders & Facilities

Facility	Amount (Rs.Crore)	Name of Lender	Rating
Cash Credit	23.54	Bank of India	CRISIL A+/Stable
Cash Credit	7	Punjab National Bank	CRISIL A+/Stable
Cash Credit	15	Bank of India	CRISIL A+/Stable
Cash Credit	15.96	State Bank of India	CRISIL A+/Stable
Cash Credit	3.21	IDFC FIRST Bank Limited	CRISIL A+/Stable
Cash Credit	23.47	Canara Bank	CRISIL A+/Stable
Cash Credit	7.27	Axis Bank Limited	CRISIL A+/Stable
Cash Credit	11.55	Export Import Bank of India	CRISIL A+/Stable
Cash Credit	3	Standard Chartered Bank Limited	CRISIL A+/Stable
Letter of credit & Bank Guarantee	294.1	IDFC FIRST Bank Limited	CRISIL A1
Letter of credit & Bank Guarantee	42.88	State Bank of India	CRISIL A1
Letter of credit & Bank Guarantee	63.82	Punjab National Bank	CRISIL A1
Letter of credit & Bank Guarantee	116.73	Canara Bank	CRISIL A1
Letter of credit & Bank Guarantee	33.98	Axis Bank Limited	CRISIL A1
Letter of credit & Bank Guarantee	65.32	Export Import Bank of India	CRISIL A1
Letter of credit & Bank Guarantee	66	ICICI Bank Limited	CRISIL A1
Letter of credit & Bank Guarantee	122	Standard Chartered Bank Limited	CRISIL A1
Letter of credit & Bank Guarantee	303.41	Bank of India	CRISIL A1
Overdraft Facility	25	IDFC FIRST Bank Limited	CRISIL A+/Stable
Overdraft Facility	10	Standard Chartered Bank Limited	CRISIL A+/Stable
Proposed Long Term Bank Loan Facility	61.58	Not Applicable	CRISIL A+/Stable

Proposed Short Term Bank Loan Facility	49	Not Applicable	CRISIL A1
Term Loan	58.53	Export Import Bank of India	CRISIL A+/Stable
Term Loan	8.94	IDFC FIRST Bank Limited	CRISIL A+/Stable
Term Loan	22	ICICI Bank Limited	CRISIL A+/Stable
Term Loan	306.42	Export Import Bank of India	CRISIL A+/Stable

Criteria Details

Links to related criteria
CRISILs Approach to Financial Ratios
Rating criteria for manufacturing and service sector companies
CRISILs Bank Loan Ratings - process, scale and default recognition
Rating Criteria for Construction Industry
Rating Criteria for Engineering Sector
CRISILs Criteria for rating short term debt
CRISILs Criteria for Consolidation

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