

# Ratings



## Rating Rationale

November 27, 2018 | Mumbai

### ION Exchange India Limited

Rated amount enhanced

#### Rating Action

Total Bank Loan Facilities Rated	Rs.1305.14 Crore (Enhanced from Rs.1057.14 Crore)
Long Term Rating	CRISIL A-/Stable (Reaffirmed)
Short Term Rating	CRISIL A2+ (Reaffirmed)

1 crore = 10 million

Refer to annexure for Details of Instruments &amp; Bank Facilities

#### Detailed Rationale

CRISIL has reaffirmed its 'CRISIL A-/Stable/CRISIL A2+' ratings on bank facilities of ION Exchange India Limited (IEIL; part of the Ion Exchange group).

The ratings continue to reflect the Ion Exchange group's established market position in the water treatment segment, its diverse product mix, and comfortable financial risk profile. These strengths are partially offset by working capital-intensive operations and the susceptibility to economic downturns.

#### Analytical Approach

For arriving at its ratings, CRISIL 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 team, operate in the same line of business, and have significant intra-group transactions. IEIL has also extended corporate guarantees for a portion of debt contracted by its subsidiaries. Further, CRISIL has factored in the debt of one of IEIL's associate companies, Aquanomics Systems Ltd (ASL), as IEIL has extended corporate guarantees for the debt contracted by ASL.

#### Key Rating Drivers & Detailed Description Strengths

**\* Established market position in the water treatment business:** The Ion Exchange group has strong expertise in providing the full range of products in the water treatment segment. Longstanding presence in the water treatment business and strong nationwide aftersales service, have helped the group establish its brand. Revenue is diversified, with 56% sales from the engineering division, 33% from the chemicals division, and 11% from the consumer products division in fiscal 2018. The Ion Exchange group caters to customers in diverse industries such as JSW Steel, Steel Authority of India Ltd in the steel industry; Tata Projects Ltd and Bharat Heavy Electricals Ltd ('CRISIL AA+/Stable/CRISIL A1+') in the engineering segment; Jindal Power Ltd and NTPC Ltd ('CRISIL AAA/FAAA/Stable/CRISIL A1+') in the power industry; Indian Oil Corporation Ltd ('CRISIL AAA/Stable/CRISIL A1+') in the refinery industry and players in the auto, food and beverages, and paper industries.

The engineering segment also has orders worth Rs 975 crore as on Sep 30, 2018, which along with orders worth Rs 1,060 crore to be executed in Sri Lanka, provide better revenue visibility in the near to medium term. The diverse end-user industry base protects the Ion Exchange group from downturn in any one industry.

**\* Comfortable financial risk profile; despite high total outside liabilities to tangible networth ratio:** Financial risk profile is supported by improved debt protection metrics and low gearing. Net cash accrual to total debt and interest coverage ratios were at 0.27 time and 4.53 times, respectively, in fiscal 2018, vis-a-vis 0.29 time and 4.40 times, respectively, in fiscal 2017. Gearing has averaged 0.66 time over the five years ended March 31, 2018, and may remain stable in the medium term.

Given the receipt of large customer advances from the Sri Lankan order, the group's total outside liabilities to tangible networth (TOL/TNW) ratio remained high at 4.26 time as of March 2018 against 4.68 times a year before, but is expected to taper down with the phased execution of the project. Timely execution of the Sri Lankan order and correction in TOL/TNW ratio, with sustained improvement in revenue and profitability will be key monitorables.

#### Weaknesses

**\* Working capital-intensive operations:** Gross current assets were high, at 232 days as on March 31, 2018, (224 days a year before), mainly led by rise in cash levels owing to receipt of advance from the Sri Lanka project along with high receivables at a consolidated level. Receivables stood at 157 days as on March 31, 2018, against 152 days a year before. Receivables tend to be stretched, due to the large order execution, primarily in the power, refinery and metal industries. Inventory remains low, in the range of 38-45 days. Payables have improved to 190 days as on March 31, 2018, from over 200 days during the past few years. The group, to an extent, is protected against working capital issues due to back-to-back arrangements with suppliers.

**\* Susceptibility to economic cycles:** The engineering and capital goods industries are linked to economic cycles, and thus, investments tend to be cyclical. Slowdown in the Indian economy led to curtailment of capital expenditure in sectors such as steel, infrastructure, and power, which are key customer segments for IEIL. For instance, the group's order inflow declined in fiscal 2009, with the economic slowdown resulting in deferment of capital expenditure by most corporates. Subsequently, the group's revenue declined 8.5% year-on-year in fiscal 2009 and remained flat in fiscal 2010.

#### Outlook: Stable

CRISIL believes IEIL's operating performance will benefit over the medium term, from its healthy unexecuted orders and timely execution of its order in Sri Lanka. The outlook may be revised to 'Positive' if the group reports significant and sustained growth in revenue and cash accrual, while maintaining a stable margin, leading to stronger debt protection metrics. The outlook may be revised to 'Negative' if operating performance weakens materially, owing to slowdown in order inflows or delay in execution of the Sri Lankan order, thereby impacting financial metrics, or in case of a considerable stretch in working capital cycle.

#### About the Group

IEIL, the flagship company of the ION Exchange group, was incorporated in 1964 as a 60% subsidiary of the UK-based Permutit Company. The foreign holding was reduced in stages, and since 1985, the paid-up share capital has been held by resident Indians. IEIL began manufacturing ion-exchange resins at its plant in Ambarnath, Maharashtra, in 1965 and diversified into chemical treatment of water in 1982.

IEIL has three key divisions-engineering, chemical, and consumer products which it operates through six factories in five states. Each of the businesses is managed by a dedicated team. The engineering division plans and executes orders for installation of large and medium-sized water and effluent treatment plants. The chemical division manufactures ion-exchange resins and industrial chemicals and sells them in India and the US, the Middle East, Europe, and South-East Asia. The consumer products division offers a range of water-care products for homes and institutions under the Zero-B brand.

#### Key Financial Indicators

As on / for the period ended March 31		2018	2017
Revenue	Rs crore	1045.81	1008.91
Profit after tax	Rs crore	39.85	28.84
PAT margin	%	3.81	2.86
Adjusted debt/Adjusted networkth	Times	0.87	0.72
Interest coverage	Times	4.53	4.40

**Any other information:** Not applicable

#### Note on complexity levels of the rated instrument:

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#### Annexure - Details of Instrument(s)

ISIN	Name of instrument	Date of allotment	Coupon rate (%)	Maturity date	Issue size (Rs. Crore)	Rating assigned with outlook
NA	Cash Credit	NA	NA	NA	143.04	CRISIL A-/Stable
NA	Letter of credit & Bank Guarantee	NA	NA	NA	975.83	CRISIL A2+
NA	Bank Guarantee	NA	NA	NA	10.00	CRISIL A2+
NA	Term Loan 1	NA	NA	Sep-19	15.00	CRISIL A-/Stable
NA	Term Loan 2	NA	NA	Mar-22	15.00	CRISIL A-/Stable
NA	Overdraft	NA	NA	NA	10.00	CRISIL A-/Stable
NA	Proposed Short Term Bank Loan Facility*	NA	NA	NA	116.30	CRISIL A2+
NA	Proposed Cash Credit Limit*	NA	NA	NA	19.97	CRISIL A-/Stable

\*Umbrella limits for Ion Exchange India Ltd and Ion Exchange Projects & Engineering Ltd

#### Annexure - Rating History for last 3 Years

Current				2018 (History)		2017		2016		2015		Start of 2015
Instrument	Type	Outstanding Amount	Rating	Date	Rating	Date	Rating	Date	Rating	Date	Rating	Rating
Fund-based Bank Facilities	LT/ST	319.31	CRISIL A-/Stable/ CRISIL A2+			28-08-17	CRISIL A-/Stable/ CRISIL A2+	03-05-16	CRISIL A-/Negative/ CRISIL A2+	02-02-15	CRISIL A-/Negative/ CRISIL A2+	CRISIL A-/Negative/ CRISIL A2+
										28-01-15	CRISIL A-/Negative/ CRISIL A2+	

Non Fund-based Bank Facilities	LT/ST	985.83	CRISIL A2+			28-08-17	CRISIL A-/Stable/CRISIL A2+	03-05-16	CRISIL A-/Negative/CRISIL A2+	02-02-15	CRISIL A-/Negative/CRISIL A2+	CRISIL A2+
										28-01-15	CRISIL A2+	

All amounts are in Rs.Cr.

#### Annexure - Details of various bank facilities

Current facilities			Previous facilities		
Facility	Amount (Rs.Crore)	Rating	Facility	Amount (Rs.Crore)	Rating
Bank Guarantee	10	CRISIL A2+	Bank Guarantee	10	CRISIL A-/Stable
Cash Credit	143.04	CRISIL A-/Stable	Cash Credit	136.4	CRISIL A-/Stable
Letter of credit & Bank Guarantee	975.83	CRISIL A2+	Letter of credit & Bank Guarantee	796.49	CRISIL A2+
Overdraft	10	CRISIL A-/Stable	Proposed Cash Credit Limit*	6.6	CRISIL A-/Stable
Proposed Cash Credit Limit*	19.97	CRISIL A-/Stable	Proposed Short Term Bank Loan Facility*	92.65	CRISIL A2+
Proposed Short Term Bank Loan Facility*	116.3	CRISIL A2+	Term Loan	15	CRISIL A-/Stable
Term Loan	30	CRISIL A-/Stable	--	0	--
<b>Total</b>	<b>1305.14</b>	<b>--</b>	<b>Total</b>	<b>1057.14</b>	<b>--</b>

\*Umbrella limits for Ion Exchange India Ltd and Ion Exchange Projects & Engineering Ltd

#### Links to related criteria

[CRISILs Approach to Financial Ratios](#)

[CRISILs Bank Loan Ratings - process, scale and default recognition](#)

[Rating criteria for manufacturing and service sector companies](#)

[Rating Criteria for Construction Industry](#)

[Rating Criteria for Engineering Sector](#)

[CRISILs Criteria for Consolidation](#)

[CRISILs Criteria for rating short term debt](#)

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