

# Ion Exchange (India) Limited Q2 FY17 Earnings Conference Call

## October 26, 2016

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**Moderator:** Ladies and Gentlemen, Good Day and Welcome to the Ion Exchange (India) Limited Q2 FY17 Earning Conference Call. As a reminder, all participant lines will be in the listen-only mode and there will be an opportunity for you to ask questions after the presentation concludes. Should you need assistance during the conference call, please signal an operator by pressing “\*” then “0” and your touchtone phone. I now hand the conference over to Mr. Anuj Sonpal from Valorem Advisors. Thank you and over to you, sir.

**Anuj Sonpal:** Good Afternoon and Welcome to you all. My name is Anuj Sonpal -- CEO of Valorem Advisors. We represent the Investor Relations of Ion Exchange (India) Limited. On behalf of the company and Valorem Advisors, I would like to thank you all for participating in the company's earnings conference call for Q2 FY17.

Before we begin, I would like to mention a short cautionary statement: Some of the statements made in today's concall may be forward-looking statement in nature. Such forward-looking statements are subject to risk and uncertainties which could cause actual results to differ from those anticipated. Such statements are based on management's belief, as well as assumptions made by and information currently available to the management. Audience are cautioned not to place any undue reliance on these forward-looking statements in making any investment decision. The purpose of today's earnings conference call is to only educate and bring awareness about the company's fundamental business and financial quarter under review.

I would now like to introduce you to the management, participating in today's concall; we have with us Mr. Aankur Patni -- Executive Director, Mr. N. M. Ranadive -- Executive Vice President of Finance; Mr. Vasant Naik -- Senior VP of Finance; Mr. Milind Puranik -- Company Secretary. Without much ado, I request Mr. Aankur Patni to give his opening remarks.

**Aankur Patni:** Good Afternoon, everybody. It is a pleasure to welcome you to this earnings concall.

Since a lot of you would be new to Ion Exchange, I think it would be prudent to just give you a brief overview about our company: Ion Exchange India Limited is a pioneer in the field of Water Management and Waste Management in India. It was formed in 1964 and it caters to industries, communities, consumer products side. So, across the length and breadth of Water Treatment Products and Solutions. The company is headquartered in Mumbai and it has six manufacturing facilities and assembly facilities across India and it is also present abroad in terms of operating facilities as well as manufacturing facilities in some key geographies.

Primarily there are three segments which we like to represent – One, being Engineering which constitutes approximately 54% of the revenue; Second is Chemicals which represents around 36% of revenue; and the third is Consumer Products which represents around 10% of the revenue.

We have been playing in the field of Water Treatment, Chemicals since 1964 as I mentioned, but initially it was a subsidiary of a UK company which is Permutit and it became a wholly-owned Indian company in 1985. But, currently we represent India as a global MNC and we operate out of almost all major countries in the world either directly or through representatives in these countries. So, the company offers a wide range of solutions which deal with Waste Water Treatment, Recycle, Zero Liquid Discharge, Sewage Treatments, Water Desalination, we also deal in Chemicals, Resins and other components of Water Treatment Equipments. We have more than 50 patents to our credit and have been probably instrumental in more than a lakh installations across the globe.

With that brief overview, what I would like to now do is, ask Mr. Ranadive to give you a very broad overview of the financial performance of our company during this quarter and then I will come back to you with more.

**N. M. Ranadive:**

Good Afternoon. This is Ranadive. I will briefly take you to the quarterly performance of our company: The total income for the second quarter is Rs.204 crores, representing growth of 2.35%; EBITDA is Rs.16 crores which is 11.7% growth over the previous year; EBITDA margin is 7.8% of the turnover; net profit after tax is Rs.6.9 crores, representing growth of 13.11%; PAT margin to the sales is 3.4%.

Now, we will take the half-yearly performance: The total income is Rs. 398.4 crores, representing growth of 9%; EBITDA is Rs.31.6 crores; representing growth of 21.54% and margin is 7.93%; net profit after tax is 13.6%, here again the growth is 29.52% and the PAT margin is 3.41%.

Now, I will briefly take you to the segmental performance for the quarter: As the Engineering order is concerned, the growth is almost flat, turnover is Rs.109 crores as against Rs.108.8 crores of the last year for second quarter and the segmental profit is Rs. 3.5 crores as against last year's Rs. 3.4 crores, representing growth of 2.9%.

Chemicals is concerned, again, the growth is flat; 1.2% growth from Rs.75.7 crores to Rs.76.6 crores and profit has moved by Rs.10.6 crores to Rs. 10.8 crores representing growth of 1.9%.

Consumer Products division which is representing growth of 29.1% from Rs.21.3 crores to Rs. 27.5 crores and here we are able to reduce the losses from Rs. 90 lakhs to Rs. 80 lakhs.

I will request Aankur Patni to give you the brief about the company's operational performance for the second quarter. Over to Mr. Aankur Patni. Thank you very much.

**Aankur Patni:**

Thanks, Ranadive. I will briefly take you to what we feel has been happening in the various segments of the company and to begin with we will talk about the Engineering segment. The overall business environment for this segment still looks like recovering from the shocks which we have been facing in the Indian economy and on the global economy for some time now. But I do believe that we are certainly looking at some positive side. The investment by the government has been certainly picking up and the indications are that there will be more aggressiveness which will come from the government in terms of pushing its various infrastructure and model projects which the government has been talking about since the beginning. We feel that apart from this the Industrial side of Engineering business on the small and medium size projects has been showing some kind of improvement because we are still not exactly happy with what has happened, we had expected a little bit better than what we have achieved, but the signs are that by the next quarter or may be two quarters, the order inflow from this particular segment should improve quite a bit.

On our side, we have looked at international operations and infrastructure projects to be fueling the future growth of the company and these areas we are taking strategic steps to make sure that our presence in the business from this particular side of our operations grows up. We feel the advantages which would come out of scale as well as the improved operation parameters from international operations should benefit both the top-line and the bottom-line for the company.

I think a lot of you would be tracking the Sri Lankan order that we have spoken about earlier and you would be happy to note that there has been movement on this front and we have now got a lot of the documentation work which was pending for some time, it has got almost completed. I can also tell you that we expect that by the end of this year the work should commence on this order. There already been some work on the ground, we have been present in Sri Lanka for quite some time now, and expenditure on this particular front has been coming to the books. So, a lot of these will now give us benefits in terms of quickly initiating the work, and as I said that should not be normally beyond the end of this calendar year.

On the front of Chemicals, you would probably have noted from the figures which was discussed by Mr. Ranadive that overall top line looks a bit flattish, but there have been structural changes in what constitutes to revenue. I think the profitability of some of the product line has improved.

A lot you would also be aware of commodity price movements which direct the realization from this particular segment. Because of those we have had a slight impact on the realizations where we have had to pass on some of the cost advantages which we have got during the quarter. But net-net there has been improvement in profitability from the segment although the top line looks a little bit muted.

I can also tell you that since there is a cutoff date and we have to cut off the numbers as on the end of September, but there is a lot of billing which we could not do at the last moment

because and those amounts stand in the inventory. The performance of the Chemicals segment is better than the muted top line growth which is what is reflected in the financial numbers.

We have been taking a lot of steps in the front of the Chemicals business which gives us a sizeable portion of our profits. We have been augmenting our capacities at regular intervals and you might have noted that there is increase in the CAPEX which has been deployed in this particular segment. We continue to invest in our Resins facilities as well as our Chemicals facilities which is what the CAPEX relates to. Our FDA facilities which have been reported in our 'Annual Report' we continue to invest on those and we continue to get some good traction in the international markets from these operations; however, it will still take us a little bit more time for this particular facility to start really giving the numbers which we anticipate should happen in a year or a year and a half time.

Overall, the outlook for the Chemicals business remains good and we feel it will continue to give us benefits both in the Indian and international market.

Consumer Products side, we have taken initiatives to make sure that segment keeps growing on the top line and we reduce the bleed on the bottom line side and I am sure you would have noted that these actions have resulted in reasonable amount of improvement on the top line front and with improvement also visible on the bottom line. There have been augmentation of the team on the consumer products side as also initiatives to bring in relevant products in some of the markets, which this particular segment addresses. So we feel the full impact of these initiatives will still be around a little bit more and the performance towards the year-end would reflect a better position than what is already agreed.

So, with that Anuj, we can open the line for Q&A and we can take your questions one-by-one.

**Moderator:** Thank you very much. We will now begin with the Question-and-Answer Session. We take the first question from the line of Madan Gopal from Sundaram Mutual Fund. Please go ahead.

**Madan Gopal:** Sir, you spoke about the industrial activity seeing some sort of pick up. I would like to understand from you which are these industries which are showing some sort of an improvement, because broadly the power, steel and cement which are very important for us, those sectors are not showing any sort of improvement in CAPEX?

**Aankur Patni:** So what I mentioned was that we are seeing some improvements coming in the small and medium sized industries. You are right the ones which you mentioned which is power, steel, cement, the bigger ones are still not really showing signs of major improvement in CAPEX or otherwise, but we are seeing some traction coming in from this medium and small size industries and these also tend to be a quite good source of revenue for the company, which gives us some kind of continuity of our market leadership in this particular segment is pretty good. So, we feel it is the beginning of sort of trend upwards and by the looks of the

developments on even the larger industries we feel that may be it is a question of another two quarters and we should be seeing some improvements coming in the power and steel side also.

**Madan Gopal** Sir, so you are referring to small industries, then generally can we say, textiles, pharma, food and beverages, these are the sort of industries you are referring to?

**Aankur Patni:** That is right.

**Madan Gopal** Are our margins better in these segments?

**Aankur Patni:** Normally, the margins tend to be better in the margins which we get from the big ticket contracts.

**Madan Gopal** In terms of contribution, these would be at least say around 40%-50% of total revenue from this segment now?

**Aankur Patni:** If you are saying currently, yes, but in general, they tend to be almost an equal split between this and the larger ticket contracts.

**Madan Gopal** Sir, second question is on exports. What is happening there? In the first half what is the kind of growth we saw?

**Aankur Patni:** As of date, the exports, I would not say we are very happy with the kind of the overall environment which we are seeing on the exports front especially because the Middle East market is still not showing very great signs, but we are seeing some improvements happening in other markets like Southeast Asia and Africa. So overall it is a flattish performance by the exports segment during this period. But the trends would indicate that we will get quite improved performance during the remaining part.

**Madan Gopal** Any reason why we restrict to these closer markets like just trying to understand why cannot we go and compete in the developed markets also?

**Aankur Patni:** No, we do compete in the developed markets also but generally do not tend to be the larger projects because the industrial activity on the new projects side which is visible in the African markets or the Middle Eastern markets or the South Eastern markets they tend to be quite a bit, and for us at this point of time it makes more sense to concentrate on this market rather than going after developed markets where the opportunities are not as many. So we do compete in the developed markets quite substantially on the consumable side where most of our chemical exports which is happening is to developed markets.

**Madan Gopal:** Can you elaborate on the Consumer Products side, what are we trying to do there little bit, you spoke about change in team and initiatives to bring in new products?

**Aankur Patni:** So, I will just give you a little bit more insight into it; when I said, change the team it is but we are augmenting the team little bit on that front. So there is like about the team expansion, we are trying to address the different parts of that consumer market with newer products or more focused products, let us say, when we talk about community-based products. So we have some new initiatives there which try to address the market slightly better. We have got some good success on these products which we have introduced recently. So while we have got some benefits already as I mentioned, but I anticipate that the measures which we have taken they would bear the full fruit only over the future periods and we should see improved performance coming in the balance part of the year.

**Moderator:** Thank you. We take the next question from the line of Dhruv Agarwal from Crescita Investment. Please go ahead.

**Dhruv Agarwal:** What should be your current order book in the Engineering business?

**Aankur Patni:** We are looking at total order book of around Rs.600 crores, this is excluding the Sri Lanka order, we are looking at the larger sized Engineering order book of around Rs.400 crores.

**Dhruv Agarwal:** This is large scale order book you are talking about?

**Aankur Patni:** Yes.

**Dhruv Agarwal:** What should be your bidding pipeline sir?

**Aankur Patni:** Bidding pipeline is pretty large and as a cautionary note, let me tell you that they are at various stages of bidding, but yet the number is standing at around Rs.3500 crores.

**Dhruv Agarwal:** So any L1 orders out of these Rs.3500 crores bid pipeline?

**Aankur Patni:** It is very difficult to state off hand, but as I said that the pipeline would include bids at various levels which could be budgetary, which could be at an initial bid kind of a thing.

**Dhruv Agarwal:** Sir, regarding the margins in the Engineering business, up to what levels do you see optimizing those like currently the PBIT margins in the Engineering business range from 3% to 4% and in the last quarter of the year it really shoots up? So what is the optimum margin at the EBIDTA you are seeing in the engineering business

**Aankur Patni:** We have addressed this question in earlier analyst meets also, but we can see these large variances happening because lot of the time we wait for contracts to get fully completed before we recognize the revenues and the expenses keep happening during the course of the year. So you would see variations happening in these margins as would get reflected during any given period of time. #2 is that it is a cumulative effect of various contracts, but to give you a thumb rule kind of an answer, we can easily double the margins which we see in a given period, depends on how the composition of that revenue turnover is.

**Dhruv Agarwal:** The execution time for Sri Lankan project is three years?

**Aankur Patni:** That is right.

**Dhruv Agarwal:** For the remaining order book of Rs.600 crores, what is the execution period?

**Aankur Patni:** The contract range from maybe as low as 3 to 6-months to maximum of 3-years.

**Moderator:** Thank you. The next question is from the line of Dimple Kotak from SKS Capital. Please go ahead.

**Dimple Kotak:** Sir, the first question would be, what is the CAPEX which you have incurred in the first half and then the rest of the year?

**Aankur Patni:** The CAPEX which we have had till now is around Rs.19 crores and I think we should be having another maybe around Rs.10 crores or Rs.15 crores coming in during the balance part of the year.

**Dimple Kotak:** So that will be under the Engineering and the Chemicals segment or only Engineering?

**Aankur Patni:** It will be split between these two, roughly 50:50.

**Dimple Kotak:** This is internal accruals or we have taken some debt?

**Aankur Patni:** No, we have taken debts; also if you look at the segmental numbers which we have given, you would see the debt has gone up.

**Dimple Kotak:** For the rest of the year, is it Rs.10-15 crores you will be taking debt more?

**Aankur Patni:** Yes, we will be financing it through external sources.

**Dimple Kotak:** What is the interest rate currently?

**Aankur Patni:** I am giving you an indicative number; it is around 11-12%.

**Dimple Kotak:** Sir, as you said you have incurred expenditure which should be coming in the books for the Sri Lankan order, so have we had that amount come in this quarter or if not then what would be the amount we will be booking for the rest of the year?

**Aankur Patni:** No, we have already been incurring it, so it is there in the accounts but it will get accounted for in terms of against the revenue, so currently, that amount during this period will be around Rs.3-4 crores.

**Dimple Kotak:** In this quarter numbers, do we have that amount?

**Aankur Patni:** Yes, during this half year, there is a ticket of Rs.3-4 crores under other expenditure.

**Dimple Kotak:** For the rest of the year, again, the next Rs.3-4 crores are more?

**Aankur Patni:** As I had mentioned that we expect that the work on the order will start, so once the order starts getting executed it will be far more.

**Dimple Kotak:** Sir, we are using this amount for which purpose because the order has not been started, we are in the process of documentation?

**Aankur Patni:** There is a lot of on-ground work and there is a team which is currently already stationed in Sri Lanka, so the preoperative expenses and some work on making sure that when the contract comes in, we are able to initiate work and execute it fast. So expenses of those nature have already happened.

**Dimple Kotak:** Sir, the order book is around Rs.600 crores. I believe in the beginning of the year also we had order book of similar level. So is this a total order book or is this unexecuted portion?

**Aankur Patni:** No, we are talking about the unexecuted portion which is Rs.600 crores.

**Dimple Kotak:** Sir, in your initial remarks, you mentioned that you have got strategies in place for augmenting both the Engineering and Chemicals division. So if you can just throw some more light on to what are the strategies which we are taking?

**Aankur Patni:** I had mentioned to you that during my talk that we are looking at international operations as one of the drivers for both of these businesses and we continue to invest in new facilities and new products as far as both the Engineering and the Chemicals side is concerned. So with a mix of the kind of geographies and the business lines that we are targeting, we expect that both these lines which is Engineering as well as Chemicals should show improvement.

**Dimple Kotak:** On a consolidated basis, we get on a quarterly basis we get standalone numbers. So how are your subsidiaries performing currently as on date – do we have orders in the Engineering part?

**Aankur Patni:** Yes, we do have orders in the Engineering part; however, the overall performance of the subsidiaries which you will see towards the end of the year, but as of date they continue to be somewhat flattish, there is not much change on a year-to-year basis.

**Moderator:** Thank you. The next question is from the line of Vikram Kotak from Crest Capital & Investment. Please go ahead.

**Vikram Kotak:** You started saying that there is a good amount of order visibility can come in next say 6 to 12-months. So I just want to know what kind of preparation you are doing for that in terms of appointing people or processes or the more investments, can you just time on that? Also the Sri Lankan order which you get, what kind of impact it will have on the other orders like this?

**Aankur Patni:** In terms of our readiness for the improved business, I think we have not really downsized quite a bit from what we were. So our ability to execute orders remains quite good and we can easily take in quite a few of the increased numbers that we are talking about. In terms of other strategies for improving our ability to augment the size of the businesses, I mentioned about intent to augment capacities and to penetrate the international markets a bit more. So, we are looking more at our reach into the international markets and our organization structures in various countries have been improved to make sure that we are able to do this. For the Sri Lanka order, I think we have been quite conservative how we have gone about looking at an order of this nature and we want to make sure that our execution of this is done well within time and with the benefit of our experience on this front, I am sure the impact would be felt in other geographies also, but it is very difficult to give you a forward-looking statement as to exactly where and how much these benefits are going to be.

**Moderator:** Thank you. The next question is from the line of Pratik Singhania from Param Capital. Please go ahead.

**Pratik Singhania:** Sir, in this order book, I would like to know the small orders, how has been the order book flown compared to last year and last say 6-7-months?

**Aankur Patni:** Small and medium size orders I have indicated earlier we are seeing slightly better movement than last year.

**Pratik Singhania:** So you said that currently it is at Rs.200 crores. So last year it would be how much?

**Aankur Patni:** I mentioned the total order book as Rs.600 crores, I mentioned the larger size projects to be around Rs.400 crores and some of these large size projects also come from the small and medium sized industries. So I would say that we are around 25-30% higher than previous year, this is year-on-year.

**Pratik Singhania:** Sir, is there still a legacy order lying in the order book or it has been completely taken care of in the first half of this year?

**Aankur Patni:** No, there are still some orders which are in the books which have been effected because of some sectoral slowdowns in the power and steel industries, but those numbers are not very large, I think they will be around Rs.40-50 crores thereabouts.

**Pratik Singhania:** This is coming down or it is going up quarter-by-quarter?

**Aankur Patni:** No, it is not going up, it is almost flat.

**Pratik Singhania:** So basically can we exclude like Rs.40 crores that this would be executed or like do we have to take some write-off on this?

**Aankur Patni:** We are looking at in the deferral of this order book.

**Pratik Singhania:** This would be executed by when sir?

**Aankur Patni:** I would expect that the movement on this should start anytime between the next two quarters or thereabouts.

**Pratik Singhania:** Your debt has gone up and correspondingly the short-term loans and advances have gone up. So what is that regarding?

**Aankur Patni:** Debt has gone up, I explained that there has been significant investment in the CAPEX which has happened during this period.

**Pratik Singhania:** So that is Capital advances, CAPEX one?

**Aankur Patni:** We have fixed some CAPEX and you would also see that there has been a change in the cash and bank balance, there has been some margin money deployment because are on one side we are gearing up for the Sri Lankan orders, that has reached a stage where we are quite sure we will be able to start work on it in the coming quarter, there is some degree of investment which has gone in, in terms of advances towards orders to be executed. So these are Engineering orders towards which we have to give advances. Some reflection of that and there is some investment also which has happened into group companies wherein we have to give in certain advances towards jobs to be executed.

**Pratik Singhania:** How confident are you this time around for that Sri Lanka piece to happen because we have been guiding since a long time... has the document been signed by both the governments authorities?

**Aankur Patni:** Yes, document has now been signed and that is the major development based on which I made the statement that I think by the end of December we should be initiating work on this.

**Pratik Singhania:** Can you throw a bit of light on the chemicals business because we have a vision to make it a very big from the current size?

**Aankur Patni:** I think we took a similar question just a while back, but I will again give you a broad overview of what we are trying to do. The various segments which we address, we are looking at augmenting our product lines to address each of the segments ...when I say segments, I am talking about sectors, the Chemicals business addresses, we are looking at augmenting product lines to better serve those particular sectors, we are looking at capacity expansions in our existing product lines and taking them international for various products which have so much better potential than what is currently being achieved internationally. We would be looking at both of these measures and also improving the composition of revenue so that we have more and more value added products so that the impact on the bottom line is better than what it is already.

**Pratik Singhania:** So currently, I think we are doing somewhere around 15-16% of margin on this. So like 3-4 years down the line is it possible that a mix would be such that margin because you are going into value added it can like improve significantly to around 25% margin?

**Aankur Patni:** We do not give you a number on it but yes, it can certainly improve significantly.

**Moderator:** Thank you. The next question is from the line of Devang Patel from Crest Wealth Management Private Limited. Please go ahead.

**Devang Patel:** On the Sri Lanka order, I wanted to understand how we are protected on cost escalation has been two years since we have taken the project, so what is the mechanism for adjusting the cost for the time that has gone by?

**Aankur Patni:** We have been tracking the cost components quite regularly and also the contract also provides for some degree of protection for escalation plus the order is dollar-denominated. So to the extent of any variation caused by on that account we will be protected.

**Devang Patel:** So based on the calculation are we at the same margin level at the time which we had bid or we are plus/minus from there?

**Aankur Patni:** We are almost the same.

**Devang Patel:** In the opening comments, you were also mentioning in the Engineering segment the margins are impacted because of some pass-through benefit passed on to customers. Is this for the larger projects or on the short cycle projects that you passed on the benefit?

**Aankur Patni:** I mentioned that in the context of the Chemicals segment where I mentioned that there has been some reduction in cost which we have benefited from and some of these benefits have been passed on to the customers.

**Devang Patel:** Sir, on the Chemicals segment, could you give how much of the revenue is coming from exports...would it be 65%?

**Aankur Patni:** No, it is not that much, it is around 25%.

**Devang Patel:** Sri Lankan execution, the revenue will it flow in the standalone numbers or will it be coming partly in standalone, partly consol numbers?

**Aankur Patni:** Standalone.

**Devang Patel:** There will be revenue threshold that you will cross before which you start booking the revenue. So it may more like come in the Q1 of next year?

**Aankur Patni:** We will be doing it as per the milestones of the contract. So, my gut feel is that we should be booking something during by the end of this year.

**Devang Patel:** On the order book, could you give me some number, Rs.600 crores, what was the number a year back?

**Aankur Patni:** I think it was almost the same.

**Devang Patel:** In June PPT you mentioned the order book was about Rs.700 crores?

**Aankur Patni:** Yes, there was slight correction which we made when we were doing the analyst call because the order book post that had fallen a little bit based on the execution during that quarter.

**Devang Patel:** In the Consumer business, the revenue growth pickup that we are seeing, is this coming from the Institutional business or the Retail business?

**Aankur Patni:** It is a mix of both but yes, Institution is also seeing very good traction.

**Devang Patel:** With more hiring and team building that you are doing, would that impact the margins in the near-term?

**Aankur Patni:** So we would have seen better bottom line coming in from the consumer segment if it has not been for some of the expenses of the team, but the benefits of that we should see in the next coming period.

**Devang Patel:** Sir, on the consol numbers, you commented earlier that the subsidiary performance is flattish. So the loss contribution is the same in the first half versus last year?

**Aankur Patni:** In the first half, the change is not too much, slightly better than last year, but I am expecting that by the end of the year, the performance should improve a little bit, but we will have to take that at the end of the year, as of now, it is safe to say that it is somewhat flattish, probably bottom line impact is a little bit better.

**Moderator:** Thank you. The next question is from the line of Kashyap Jhaveri from Capital72 Advisors. Please go ahead.

**Kashyap Jhaveri:** I had two questions: One, in your remarks, you mentioned about the order book under bidding at about Rs.3,000 crores. This would be what? -- largely government contracts or it would include everything?

**Aankur Patni:** No, it includes everything.

**Kashyap Jhaveri:** Sri Lankan order, is that part of the Rs.600 crores order book?

**Aankur Patni:** No.

**Moderator:** Thank you. The next question is from the line of Nishna Biyani from Prabhudas Lilladher Private Limited. Please go ahead.

**Nishna Biyani:** Just wanted to understand, what is the utilization in the Chemicals business currently?

**Aankur Patni:** There are two components to it which you would know – Chemicals and the Resins. On a cumulative basis, it would be around 80-85%.

**Nishna Biyani:** Why the CAPEX in this segment?

**Aankur Patni:** We keep investing on the Resins side because there is a component of improving visibility in the future where we are seeing new product lines coming in and also specific products which are hitting let us say 90-95% capacities. So those products we have to modularly increase capacities. We are also looking at new geographies. So in those new geographies, we are coming up with the new facilities.

**Nishna Biyani:** Could you throw some light on the competition in this Chemicals space?

**Aankur Patni:** The competition for the Resins side, we are by far one of the dominant players in the Indian markets and we are one of the leading players on the global markets. As far as Chemicals is concerned, again, we are one of the major players in the domestic market. On the international market, the space is relatively fragmented. While we are one of the recognized and respected players, in terms of market shares the numbers will be very small.

**Nishna Biyani:** But is it fair to say that over the next two to three years, this segment can easily grow in double digits?

**Aankur Patni:** Yes, we hope that it does. I think the opportunities are very much there and we are certainly wanting to take those international and domestic opportunities.

**Nishna Biyani:** Sir, when I look at your overall Engineering business over the last 4-6-years, I get a feeling that though you have done very good in terms of the turnover part of it for the last 5-6-years, but somewhere some projects goes in for a toss, it is not really flowing to the bottom line. So when I look at the peak order, which you must have executed over the past many years should be between Rs.200 crores to Rs.400 crores ticket size, not more than that, and when you are going for this big project Sri Lanka, what gives you confidence that over here can be done better?

**Aankur Patni:** Yes, you are right, the ticket sizes have not been to the scale earlier, but the nature of contracts that you are talking about, contractual part being much more secured in this particular case and two, there is the level of exercise, the level of home work which has gone in behind this with the advantage of all the learnings that we have had in the recent past, I think we are more than sure that we will be doing this well. My assessment of this particular order is significantly better than the traditional orders that we take in the domestic market.

**Nishna Biyani:** When we are just getting into the Sri Lankan project, what is the funding like – EXIM was a big funder, there was some local body also who are funding this project, so is the buyers' credit there in terms of...?

**Aankur Patni:** The funding has been fully tied up and yes, you are right, EXIM is a significant financier of this.

**Nishna Biyani:** This project duration would be after the commencement should be three years or...?

**Aankur Patni:** Yes, three years.

**Nishna Biyani:** This should be on a conservative basis one-third, one-third, one-third or is it a lumpy in some part of it?

**Aankur Patni:** That is a milestone-based invoicing and it is spread out over the period of the contract, but it is not front-loaded, it is loaded little bit towards the middle and towards the end.

**Nishna Biyani:** So for FY18 some part say 20-25% we should usually get booked?

**Aankur Patni:** Yes.

**Nishna Biyani:** What is the retention money in this project... is it higher or lower as a percentage?

**Aankur Patni:** It is lower than our normal contracts.

**Nishna Biyani:** Could you throw some light on the working capital part of the business both taking one-by-one, the Chemicals part of it, in the Water segment, how is it? When I look at the retention money, which is there in most of the Municipality orders, should we be seen (+10%) so there should be significant amount of retention money is sitting on your balance sheet say between Rs.60 crores to Rs.100 crores at least...?

**Aankur Patni:** Yes.

**Moderator:** Thank you. The next question is from the line of Madan Gopal from Sundaram Mutual Fund. Please go ahead.

**Madan Gopal:** Just had a follow up question on the order book front. On the pipeline particularly, how much of the Rs.3500 crores would be Municipal and how much would be international of this?

**Aankur Patni:** Municipal side is not very significant as a percentage and as far as the international side is concerned, that would be almost 50% of it.

**Madan Gopal:** So this is broadly everything industrial related?

**Aankur Patni:** Yes, largely Industrial.

**Madan Gopal:** All those sectors that we discussed is something to do with SME, medium industry size?

**Aankur Patni:** Medium as well as large and there is a bit of infrastructure project which go into this which are not necessarily Municipal in nature but you would still have government site coming into this.

**Moderator:** Thank you. The next question is from the line of Pratik Singhania from Param Capital. Please go ahead.

**Pratik Singhania:** In exports currently, we are doing Rs.15-20 crores in Chemicals business, right?

**Aankur Patni:** No, coming to around Rs.40 crores.

**Pratik Singhania:** The capacity expansion that you are doing in the Chemicals piece, is it in India or is it abroad?

**Aankur Patni:** Both sides.

**Pratik Singhania:** What will be the size of this investment?

**Aankur Patni:** The total figure is roughly around Rs.20 crores yearly.

**Pratik Singhania:** Sir, this Rs.40 crores say in next 3-4-years, can it grow at more than the normal Chemicals business revenue growth of say 12% to 15%?

**Aankur Patni:** We have the opportunity and that is the intent

**Pratik Singhania:** What is the intent...25-30%?

**Aankur Patni:** It is significantly more than what we are currently achieving and hopefully we reach the number which you mentioned.

**Pratik Singhania:** On the legality part like there was one case related to some SEBI thing in one of our subsidiary. So is that thing resolved?

**Aankur Patni:** Since we are in regular touch with them, we are making to resolve it by discussion.

**Pratik Singhania:** So there would not be any financial implication on us, right?

**Aankur Patni:** Hopefully not.

**Pratik Singhania:** So what can be the financial implication in a worst case?

**Aankur Patni:** We are not anticipating it to go against us and we have other legal remedies in our hand. Under the circumstance where this somehow does not work out. But I do not think that situation will arise.

**Moderator:** Thank you. We take the follow up question from the line of Dimple Kotak from SKS Capital. Please go ahead.

**Dimple Kotak:** Sir, your margins in the Engineering segment has come down marginally. So what is the reason for that and going ahead what kind of margins we can see in this segment, you have done Engineering segment an EBIT of Rs.3 crores and revenue of Rs.109 crores, 2.8% approximately would be the margins?

**Aankur Patni:** 3.19%.

**Moderator:** Thank you. We take the last question from the line of Kashyap Zhaveri from Capital72 Advisors. Please go ahead.

**Kashyap Zhaveri:** In your remarks, you had also highlighted that margins in Engineering business could be probably double of what we have seen historically if let us say order book goes up. Now that comment was with respect to what kind of revenue –today, let us say if last year we did about Rs.443 crores of revenue in Engineering and EBIT margins were roughly about 3-4.5%, 6-8 would require what kind of order booking?

**Aankur Patni:** That comment was in context of the question put whether the Engineering business can get better margins.

**Kashyap Zhaveri:** If you do not want to put a number, but could it be materially higher than what we are doing today?

**Aankur Patni:** Yes, it could be materially higher.

**Moderator:** Thank you. Unfortunately, this earning call has hard stop at 6 p.m. So we cannot entertain any more questions. I now hand the conference over to Mr. Aankur Patni from Ion Exchange India Limited for closing comments.

**Aankur Patni:** Thank you very much, everybody for joining us on this conference call and if you have any further questions, I request you to please direct it to Anuj Sonpal of Valorem Advisors and I am sure he would be able to respond to you appropriately. Thank you once again.

**Moderator:** Thank you. That concludes this conference. Thank you for joining us and you may now disconnect your lines.