Ion Exchange (India) Ltd — FY 2026 Annual Report Analysis

Annual Report Analysis (Consolidated)

Source: CRORES. All figures Crores. Pipeline: v5-Gemini — W1a → W3 → W1b+W2+W2F (parallel, notes-injected) → Merge.

Investor Snapshot

#	Analytical Point	Sentiment
1	**Ion Exchange maintains a high-moat position in environmental solutions, strategically pivoting toward high-barrier sectors including Semiconductors and Green Hydrogen.**	□Positive
2	Revenue growth remained modest at 6.5% YoY (□2,915 Cr), though the core Engineering segment (60% of mix) faces cyclicality and West Asia logistics disruptions.	□Neutral
3	***Operating margins compressed significantly from 11% to 7% as a 64% surge in material costs outpaced top-line growth, leading to a 29% decline in operating profit.***	□Negative
4	***Reported PAT of 143 Cr is heavily supported by non-recurring Other Income (88 Cr), which contributed 45% of PBT, masking underlying operational weakness.***	□Negative
5	***Total debt escalated to 482 Cr to fund aggressive expansion, resulting in a 78% spike in finance costs and a looming 345 Cr repayment cliff in September 2026.***	□Negative
6	***Cash Flow from Operations (CFO) turned negative at - 28 Cr against a positive PAT, indicating a total lack of cash conversion and severe liquidity stress.***	□Negative
7	***Capital expenditure of 254 Cr for the Roha and Goa facilities has led to return dilution, with ROCE deteriorating from 22% to 14% due to debt-funded capitalization.***	□Negative
8	***Earnings quality is critically low, evidenced by a 207% explosion in Unbilled Revenue (229 Cr) and inventory growth (47%) that is 7x the rate of revenue growth.***	□Negative
9	***Governance risks are highlighted by a failure in audit trail monitoring during system migration and a SEBI refund order of 22.02 Cr involving land seizure risks.***	□Negative
10	***Management compensation is aggressive at 11.7% of PAT, exceeding the 5% benchmark, despite the sharp deterioration in financial health and cash flows.***	□Negative
11	The outlook depends on the successful ramp-up of the solvent-free Roha Resin facility to absorb fixed costs and improve the ESG profile of the Chemicals business.	□Neutral
12	Investment View: WATCH; avoid entry until the CFO/PAT ratio exceeds 0.8x and unbilled revenue stabilizes, as current "paper profits" and debt levels pose high risk.	□Neutral

1. BUSINESS OVERVIEW (In Bullet Points)

- **Business Segments:** Ion Exchange has transitioned from a traditional water treatment equipment provider to an integrated environmental solutions partner. The business is structured into three primary segments: **Engineering** (60% of revenue; EPC for desalination, ZLD, and ultrapure water), **Chemicals** (25% of revenue; ion exchange resins and specialty chemicals), and **Consumer Products** (15% of revenue; residential Zero B and institutional solutions).

- **Revenue Drivers:** Growth is driven by industrial expansion in high-tech sectors (Semiconductors, Data Centers, Green Hydrogen) and stringent environmental mandates like Zero Liquid Discharge (ZLD). The company is pivoting from project-led to product-led international growth, focusing on Resins and Membranes.
- **Cost Drivers:** The cost profile is in a transition phase due to the commissioning of the Roha Resin facility, which has introduced significant depreciation and interest overheads. Raw material volatility remains a risk, mitigated by "Green Chemistry" innovations and cost pass-through mechanisms.
- **Industry Position:** Positioned as a "One Partner" solution provider, reducing customer friction and enabling cross-selling between engineering projects and recurring chemical supplies. The order book is increasingly dominated by complex, high-precision utility requirements.
- **Expansion Plans & Capacity Additions:**
  - **Roha, Maharashtra:** A new state-of-the-art, solvent-free resin facility with a Sulphuric Acid Regeneration (SAR) system.
  - **Goa:** Phase II expansion of membrane manufacturing for desalination and wastewater reuse.
  - **International:** New blending units in Dammam (Saudi Arabia) and the UAE (ICV certified) to serve the GCC market locally.
- **Segment Performance:** Engineering remains the largest contributor but faced headwinds due to the West Asia crisis. Chemicals provide high-margin recurring revenue, while Consumer Products focus on brand-led growth.
- **Geographical Presence:** Domestic operations contribute 79% of revenue, supported by government missions (Jal Jeevan, AMRUT). Exports (21% of revenue) serve 67 countries, with a strategic focus on North America and Europe for Resins and Membranes.

2. MANAGEMENT COMMENTARY & OUTLOOK

- Management has shifted its strategic view of water from a utility to a "strategic resource" critical for industrial resilience, particularly for semiconductors and battery manufacturing.
- The demand environment is described as a "fundamental shift," with bullishness on new-age industrials, the circular economy (resource recovery), and "Digital Water" via AI/IoT-led monitoring platforms.
- Guidance suggests a move up the value chain into high-precision utilities where technical barriers are higher and competitive intensity is lower.
- Management highlighted the successful implementation of SAP across the Engineering business to improve process control and standardization.
- The West Asia crisis (Feb 2026) created significant headwinds, impacting high-value dispatches and logistics; however, operational agility allowed for realignment by Q1 FY27.
- A technology transfer agreement with Mann+Hummel for ultrafiltration membranes was secured to close a critical technological gap in the membrane portfolio.
- A long-term partnership with BITS Pilani for employee technical programs was established to address the bottleneck of a specialized technical workforce.
- Management acknowledges a "Profitability Gap" where revenue growth and net profit are disconnected due to Roha facility costs and new labor legislation; they expect fixed cost absorption as the plant scales.
- The long-term vision focuses on "Future Readiness," trading short-term margin stability for technological leadership in global Green Chemistry and Ultrapure Water markets.
- Management Tone: The management displays a pragmatic and execution-oriented tone, avoiding hyperbole while candidly discussing geopolitical headwinds and raw material costs. They are deeply ESG-centric, viewing solvent-free manufacturing as a core competitive advantage. Despite current-year profitability dips,

their aggressive capacity expansion signals a long-term bullishness and a commitment to a 5-10 year growth cycle over quarterly earnings management.

3. FINANCIAL ANALYSIS

3.1 Financial Statements

Source: Screener.in — all monetary values in Crores. Use these numbers directly.

P&L Statement (□Crores)

Line Item	Mar 2026	Mar 2025
Sales -	2,915.00	2,737.00
Sales Growth %	6.49	16.58
Expenses -	2,705.00	2,440.00
Material Cost % -	64.00	63.00
Raw material cost	1,939.00	1,743.00
Change in inventory	-85.00	-17.00
Manufacturing Cost %	0.00	6.00
Employee Cost %	14.00	13.00
Other Cost %	15.00	8.00
Operating Profit	210.00	297.00
OPM %	7.00	11.00
Other Income -	71.00	49.00
Exceptional items	-17.00	0.00
Other income normal	88.00	49.00
Interest	24.00	17.00
Depreciation	63.00	44.00
Profit before tax	195.00	285.00
Tax %	27.00	27.00
Net Profit -	143.00	208.00
Profit from Associates	0.00	0.00
Minority share	-1.00	0.00
Exceptional items AT	-12.00	0.00
Profit excl Excep	155.00	208.00
Profit for PE	154.00	208.00
Profit for EPS	143.00	208.00
Profit Growth %	-26.00	6.00
EPS in Rs	9.73	14.17
Dividend Payout %	12.00	10.00

Balance Sheet (□Crores)

Line Item	Mar 2026	Mar 2025
Equity Capital	14.00	14.00
Reserves	1,325.00	1,194.00
Borrowings -	482.00	323.00
Long term Borrowings	358.00	252.00
Short term Borrowings	97.00	51.00
Lease Liabilities	28.00	20.00
Other Borrowings	0.00	0.00
Other Liabilities -	1,559.00	1,449.00
Non controlling int	1.00	2.00
Trade Payables	900.00	779.00
Advance from Customers	0.00	248.00
Other liability items	658.00	420.00
Total Liabilities	3,380.00	2,979.00
Fixed Assets -	754.00	392.00
Land	0.00	58.72
Building	0.00	180.50
Plant Machinery	0.00	264.68
Equipments	0.00	41.44
Furniture n fittings	0.00	13.06
Vehicles	0.00	11.92
Intangible Assets	24.25	10.21
Other fixed assets	0.00	22.44
Gross Block	0.00	602.97
Accumulated Depreciation	0.00	210.72
CWIP	175.00	323.00
Investments	16.00	13.00
Other Assets -	2,435.00	2,250.00
Inventories	441.00	299.00
Trade receivables -	1,075.00	1,134.00
Receivables over 6m	0.00	208.00
Receivables under 6m	0.00	948.00
Prov for Doubtful	0.00	-22.00
Cash Equivalents	319.00	466.00
Loans n Advances	24.00	72.00
Other asset items	576.00	280.00
Total Assets	3,380.00	2,979.00

Cash Flow Statement (□Crores)

Line Item	Mar 2026	Mar 2025
Cash from Operating Activity -	-28.00	32.00
Profit from operations	241.00	307.00
Receivables	39.00	-195.00
Inventory	-142.00	-62.00
Payables	116.00	82.00
Loans Advances	0.00	0.00
Other WC items	-217.00	-27.00
Working capital changes	-205.00	-203.00
Direct taxes	-65.00	-72.00
Cash from Investing Activity -	-44.00	-165.00
Fixed assets purchased	-254.00	-320.00
Fixed assets sold	3.00	1.00
Investments purchased	-1.00	0.00
Investments sold	0.00	0.00
Interest received	27.00	39.00
Dividends received	0.00	0.00
Acquisition of companies	-2.00	-2.00
Other investing items	182.00	118.00
Cash from Financing Activity -	100.00	128.00
Proceeds from shares	0.00	0.00
Proceeds from borrowings	159.00	185.00
Repayment of borrowings	-8.00	-19.00
Interest paid fin	-22.00	-11.00
Dividends paid	-19.00	-19.00
Financial liabilities	-10.00	-7.00
Other financing items	0.00	0.00
Net Cash Flow	27.00	-4.00
Free Cash Flow	-280.00	-287.00
CFO/OP	17.00	35.00

Key Ratios (□Crores)

Line Item	Mar 2026	Mar 2025
Debtor Days	135.00	151.00
Inventory Days	87.00	63.00
Days Payable	177.00	165.00
Cash Conversion Cycle	44.00	50.00
Working Capital Days	53.00	33.00
ROCE %	14.00	22.00

3.2 Financial Analysis Summary

- **Revenue** grew by **6.49%** to **□2,915.00 Cr**, but **Operating Profit** declined sharply by **29.3%** to **□210.00 Cr** as **Material Cost %** rose to **64%**, with project management and travel costs outpacing top-line growth.
- **PAT** of **□143.00 Cr** is of significantly low quality as **CFO** turned negative at **-□28.00 Cr**, primarily driven by a **207.94%** explosion in **Unbilled Revenue** (Contract Assets) to **□229.05 Cr** and a **47.63%** surge in **Inventories** to **□441.39 Cr**.
- **Revenue** for engineering contracts is recognized using the Percentage-of-Completion (POC) method; the massive gap between **Revenue** and **CFO** suggests aggressive recognition ahead of milestone billings, as **Unbilled Revenue** grew at 7x the rate of sales.
- **Total Debt** increased to **□482.00 Cr** to fund a **Capex** of **□254.00 Cr** for new facilities in Roha and Goa, leading to a **78.31%** spike in **Finance Costs** to **□24.00 Cr** and a doubling of **Current Maturities of Long-Term Debt** to **□73.73 Cr**.
- **Other Income** of **□88.00 Cr** accounted for **45%** of **Profit Before Tax**, but this is largely non-recurring, consisting of a **□37.99 Cr Exchange Gain** and **□21.39 Cr** interest on contractual claims, masking a weaker core operational performance.
- **Trade Receivables** decreased slightly to **□1,075.00 Cr**, yet undisputed receivables overdue by more than 6 months rose **20.28%** to **□218.04 Cr**, while **Cash Equivalents** fell from **□466.00 Cr** to **□319.00 Cr** to bridge the **Working Capital** gap.
- **ROCE** deteriorated sharply from **22.00%** to **14.00%** as the **Gross Block** expanded through a **□345.00 Cr** loan for the Roha facility, while **Working Capital Days** worsened from **33 to 53 days**.
- **Trade Payables** rose to **□900.00 Cr**, with dues to MSME vendors doubling to **□122.78 Cr**, suggesting the company is increasingly relying on small suppliers to fund its expanding **Working Capital** cycle.
- **Sale of Services** (high-margin) contracted by **11.25%** to **□697.16 Cr**, contributing to the overall **OPM %** compression from **11% to 7%**.
- **Other Assets** are heavily impacted by **Balance with Statutory Authorities** (**□189.47 Cr**), representing blocked cash in GST/tax inputs, and **Export Incentives Receivable** which doubled to **□19.63 Cr**.
- **Other Liabilities** show a **14%** drop in **Unearned Revenue** (**□193.78 Cr**), which, contrasted with the surge in **Unbilled Revenue**, confirms that the company is recognizing "paper profits" well ahead of its ability to invoice customers.
- **Other Expenses** rose to **□436.55 Cr**, driven by a **□16.89 Cr** exceptional charge for the new Labour Code and increased R&D capitalization of **□0.86 Cr** which slightly deferred costs.
- The dominant financial theme of the year is a severe liquidity strain and earnings quality deterioration, where aggressive revenue recognition and massive inventory buildup have forced a transition to a debt-funded growth model, resulting in negative free cash flow and diluted return ratios.

3.3 Contingent Liabilities & Commitments

- **SEBI Refund Order (Enviro Farms):** A major regulatory risk exists in the subsidiary Ion Exchange Enviro Farms Ltd (IEEFL). SEBI has directed a refund of **₹22.02 Cr** to investors. The Supreme Court previously dismissed an appeal, indicating a high probability of cash outflow.
- **SEBI Administrator:** An administrator has been appointed to sell the company's land in Goa to recover the aforementioned dues.
- **Bank Guarantees:** **₹98.98 Cr** in margin-backed bank guarantees (down from ₹160.97 Cr).
- **Provision for Warranties:** Increased to **₹0.83 Cr**, reflecting the growing scale of the Consumer Product Division.

3.9 Earnings Quality & Forensic Checks

#	Check	Impact	Status	Evidence	Notes Detail
1	PAT vs CFO trend	Profit ↓ — earnings overstate cash	□	PAT □143 Cr; CFO -□28 Cr	CFO/OP ratio dropped from 35% to 17%; driven by unbilled revenue and inventory build.
2	Receivables & channel-stuffing signal	Revenue ↑↓ — channel stuffing risk	□	Inventory +47.6%; Unbilled Revenue +207.9%	Undisputed receivables >6 months increased 20.28% to □218.04 Cr, signaling collection friction.
3	Revenue timing	Revenue ↑ — aggressive recognition	□	Unbilled: □229.05 Cr; Unearned: □193.78 Cr	POC method [Note 3.17] relies on management's "cost-to-completion" estimates, a Key Audit Matter.
4	Revenue from related parties %	Neutral — minimal P&L impact	□	Loans to RPs: □2.43 Cr	Note 12: Loans are unsecured and non-interest bearing but considered "good" by management.
5	Inventory vs revenue growth	Profit ↑ — margin padding	□	Inventory: □441 Cr (FY26) vs □299 Cr (FY25)	Finished goods more than doubled to □154.72 Cr, suggesting potential overproduction or slow stock.
6	Inventory valuation method change	Neutral — no policy change	□	Material cost 64% of sales	Note 3.6: Engineering segment uses POC; product segment uses standard valuation.
7	Exceptional items in operating profit	Profit ↓ — one-time hit	□	Exceptional Item: □16.89 Cr	Note 2.10: Charge related to new Labour Code impact; adjusted profit is □155 Cr.
8	Depreciation rate vs useful life policy	Profit ↑ — aggressive depreciation	□	Depreciation: □63 Cr (up 43% YoY)	Note 3.8: Site equipment useful life is only 3 years, leading to rapid front-loaded expense.
9	Provision reversals boosting PAT	Profit ↑ — inadequate provisioning	□	ECL Allowance: □27.90 Cr	Note 3.15: Simplified ECL approach used; aging >6 months represents 20% of total receivables.
10	Tax rate consistency + cash tax vs P&L tax	Neutral — tax alignment	□	Tax %: 27.00; Direct Taxes: □65 Cr	P&L tax charge of □52 Cr (27% of PBT) is broadly consistent with cash tax paid.
11	CWIP age and stalling projects	Neutral — active expansion	□	CWIP: □175 Cr (FY26) vs □323 Cr (FY25)	Note 23: Large capitalization for Roha Resin and Goa RO Membrane facilities during the year.
12	Deferred tax asset recognition adequacy	Neutral — no major red flags	□	Statutory Balances: □189.47 Cr	Note 16: Blocked cash in GST/tax inputs represents a significant portion of current assets.
13	RPT quantum and trend	Neutral — stable governance	□	Management Fees: □1.36 Cr	Note 21: Chairman Rajesh Sharma increased stake to 5.82%, signaling management confidence.
14	Dividend paid vs FCF adequacy	Profit ↓ — liquidity strain	□	FCF: -□280 Cr; Dividends: □19 Cr	Note 23: New □345 Cr loan taken to fund Capex as operations failed to generate cash.
15	Internal Control Integrity	Neutral — data integrity risk	□	Audit Trail monitoring failure	Inadequate monitoring of privileged user activity during system migration (p.203).
16	Other Income Sustainability	Profit ↑ — non-core earnings	□	Other Income: 44.4% of PBT	□37.99 Cr forex gain and □21.39 Cr interest on claims are non-recurring/ non-cash.

#	Check	Impact	Status	Evidence	Notes Detail
17	Subsidiary Debt Capacity	Neutral — insolvency risk	□	CARO Qualification	Auditor flagged debt repayment capacity concerns in IEEFL and Ion Exchange Projects.

4. MANAGEMENT & GOVERNANCE

A. Auditor Report & Key Audit Matters

- **Audit Opinion Type:** Unqualified with Emphasis of Matter.
- **KAM 1: Revenue Recognition – Engineering Contracts:** The auditor flagged the estimation of "cost-to-completion" as a significant risk due to management subjectivity in forecasting material, sub-contracting, and overhead costs. The auditor challenged margin revisions and tested for onerous contract determinations.
- **Emphasis of Matter:** The auditor highlighted the SEBI litigation involving the subsidiary, Ion Exchange Enviro Farms Ltd (IEEFL). SEBI has directed a refund of **□22.02 Cr** to investors. The Supreme Court previously dismissed an appeal, indicating a high probability of cash outflow.
- **Material Weaknesses:** A significant internal control weakness was noted regarding the **Audit Trail (edit log)** facility. There was inadequate monitoring of privileged user activity during and after system migration in the Parent company.
- **CARO Qualifications:** Qualifications were noted for the Parent (Title deeds) and Subsidiaries (IEEFL and Ion Exchange Projects) regarding cash losses and debt repayment capacity.

B. Related Party Transactions

Party	Relationship	Nature	Amount (□ Cr)	Concern
Ion Exchange Enviro Farms Ltd	Subsidiary	SEBI Refund Liability	22.02 Cr	Potential cash drain to settle regulatory dues.
Related Parties (Unspecified)	Subsidiaries/ Assoc.	Loans Given	2.43 Cr	Unsecured and non-interest bearing; parent incurs 9.25% cost.
Rajesh Sharma	Promoter/ Chairman	Dividend Paid	1.24 Cr	Standard payout based on shareholding.
Management Personnel	KMP	Management Fees	1.36 Cr	Recurring service fee.

- **RPT Verdict:** Monitor □ While routine RPTs are low (0.93% of revenue), governance risk is concentrated in the Enviro Farms subsidiary where regulatory failures threaten the consolidated balance sheet.

C. Shareholding

- **Promoters:** 23.23% (Unchanged YoY).
- **FIIs:** 13.50% (Down from 14.10%).
- **DIIs:** 11.20% (Up from 10.80%).
- **Public:** 52.07%.
- **Pledged Shares:** 0.00%.
- **Note:** Chairman Rajesh Sharma slightly increased his personal stake to 5.82%. Treasury shares held by Staff Welfare Trusts (□28.13 Cr) are eliminated from equity.

D. Board Composition + KMP Compensation

- **Total Directors:** 10 | **Independent:** 50% | **Women Directors:** 1 (Alka Arora Misra).
- **Family Concentration:** The **Sharma** and **Patni** families occupy four of the top six KMP positions, drawing an aggregate of **□16.78 Cr**.
- **Compensation vs Performance:** Aggregate KMP payout remains high despite **Operating Profit falling 29%** and **Net Profit falling 31%**.
- **Advisory Fees:** Dinesh Sharma and Aankur Patni receive **□1.68 Cr each** in "Advisory Fees" in addition to commissions, totaling **□3.23 Cr each**, which is high for non-executive roles.

F. Capital Allocation & Capex

Action	FY Current (□Cr)	FY Prior (□Cr)	Signal
Capex	254.00 Cr	320.00 Cr	□
Net Debt Change	159.00 Cr	138.00 Cr	□
Dividends	19.00 Cr	19.00 Cr	□
Interest Payments	22.00 Cr	11.00 Cr	□
Working Capital Investment	205.00 Cr	203.00 Cr	□

- **CAPEX Analytical Notes:**
    - **CFO Coverage of Capex: 0.00x**. CFO (**-□28.00 Cr**) failed to cover any portion of the **□254.00 Cr Capex**.
    - **Nature of Capex:** Primarily **growth capex** for the new Resin facility in Roha and RO Membrane facility in Goa.
    - **Deployment Efficiency:** Revenue grew only **6.5%** despite massive prior-year capex, suggesting a lag in asset turnover.
    - **Key Takeaways:** The **□345.00 Cr new term loan** for the Roha facility features a moratorium until Sept 2026, creating a significant **repayment cliff** that current negative CFO cannot service.

H. Risks

#	Risk	Category	Description	Potential Impact	Severity
1	***Regulatory Litigation***	Regulatory	SEBI refund order for IEEFL subsidiary.	**22.02 Cr immediate cash outflow** plus potential asset seizure.	□High
2	***Earnings Quality***	Financial	Negative CFO vs Positive PAT.	Profits not backed by cash; high reliance on debt for survival.	□High
3	***Internal Control***	Operational	**Audit Trail monitoring failure**.	Risk of unauthorized data alteration or financial misstatement.	□ Medium
4	***Working Capital***	Liquidity	Unbilled revenue surge and inventory buildup.	**441.00 Cr tied in inventory**; 47% growth vs 6% sales growth.	□High
5	***Geopolitical***	Macro	West Asia crisis impacting GCC dispatches.	Delayed revenue recognition and increased logistics costs.	□ Medium
6	***Interest Rate***	Financial	78% spike in finance costs.	Margin erosion as debt levels and rates both rise.	□ Medium

5. SCORECARD & VERDICT

Part A: Scorecard

Dimension	Rating (1–5)	Delta	Key Evidence	One-line Rationale
Business Quality	4	→	60% Engineering, 25% Chemicals; Semiconductor/Hydrogen pivot.	Strong moat in high-tech water treatment but cyclical engineering exposure.
Financial Health	2	↓	D/E rising; CFO -□28 Cr; Interest costs +78%.	Negative CFO and rising debt to fund capex create significant liquidity stress.
Earnings Quality	1	↓	Unbilled Revenue +207%; Inventory +47%; CFO < PAT.	Aggressive POC revenue recognition and inventory buildup mask poor cash conversion.
Management & Governance	3	↓	Audit trail failure; SEBI litigation; Family pay concentration.	Generally transparent but significant internal control and subsidiary regulatory risks.
Capital Allocation & Earnings Visibility	2	↓	ROCE 22% → 14%; Capex funded by debt; FCF negative.	Reinvesting heavily with declining returns and a looming debt repayment cliff.

BUSINESS POSITIVES (for this company this year) * □**Strategic Pivot:** Successful positioning in high-barrier sectors like Semiconductors and Green Hydrogen. * □**Capacity Expansion:** Commissioning of the state-of-the-art, solvent-free Roha Resin facility. * □**Technology Acquisition:** Technology transfer agreement with Mann+Hummel for ultrafiltration membranes. * □**Promoter Confidence:** Chairman Rajesh Sharma increased his personal stake to 5.82%. * □**Order Book Resilience:** Ability to realign logistics routes post-West Asia crisis to secure Q1 FY27 clearances.

BUSINESS NEGATIVES / CONCERNS (for this company this year) * □**Cash Flow Stress: CFO turned negative (□-28 Cr)** against a PAT of □143 Cr. * □**Working Capital Explosion: Unbilled Revenue surged 207%** to □229 Cr; **Inventory grew 47%** (7x revenue growth). * □**Regulatory Risk: □22.02 Cr SEBI refund order** against IEEFL subsidiary with land seizure risk. * □**Governance Flag: Audit Trail monitoring failure** during a major system migration. * □**Return Dilution: ROCE deteriorated from 22% to 14%** due to heavy debt-funded capitalization. * □**Margin Compression: OPM % fell from 11% to 7%** as material costs outpaced revenue.

OVERALL SCORECARD SUMMARY Ion Exchange is currently in a high-risk transition phase, where its financial strength is being compromised to fund long-term technological leadership. While the business quality remains high due to its specialized niche in "Green Chemistry," the earnings quality has deteriorated to a critical level, characterized by aggressive revenue recognition and a total lack of cash conversion. Governance is clouded by internal control weaknesses and significant regulatory litigation at the subsidiary level. Consequently, the company is on a **deteriorating trajectory** in the near term, as it faces a debt-servicing cliff in 2026 without the current operational cash flow to support it.

Part B: Governance Check Matrix

#	Check	Status	Evidence
1	Audit opinion clean?	□	Unqualified but with "Emphasis of Matter" on SEBI litigation.
2	Promoter pledge = 0?	□	0.00% pledged.
3	KMP pay < 5% of PAT?	□	Aggregate KMP pay (□16.78 Cr) is ~11.7% of PAT (□143 Cr).
4	RPT quantum < 5% of revenue?	□	Routine RPTs at 0.93% of revenue.
5	Board > 50% independent?	□	50% (5 out of 10 directors).
6	At least 1 woman director?	□	Alka Arora Misra (Independent).
7	No statutory dues outstanding?	□	No major defaults reported in parent.
8	No fraud reported?	□	No fraud reported by auditors.
9	Audit trail enabled?	□	**Inadequate monitoring of privileged user activity** (p.203).
10	Frequent Auditor change	□	Deloitte Haskins & Sells LLP (Stable).

Final line: "Total: 7/10 □— Governance Rating: 3"

Part C: Investor Verdict

THESIS: A high-moat environmental solutions leader undergoing a debt-heavy capacity expansion that has severely strained liquidity and earnings quality. **OVERALL STANCE:** WATCH **RATIONALE:** The divergence between PAT and CFO, coupled with aggressive revenue recognition, makes the current valuation risky until cash conversion improves. **RE-EVALUATE WHEN:** CFO/PAT ratio returns to >0.8x AND Unbilled Revenue as % of Sales drops below 5%. **BULL CASE:** Rapid scaling of the Roha facility leads to 20%+ revenue growth and margin recovery to 12%+, absorbing fixed costs. **BEAR CASE:** SEBI litigation triggers a □22 Cr+ cash drain and the Sept 2026 debt cliff forces a dilutive equity raise. **KEY MONITORABLE:** Working Capital Days: 53 days → Watch threshold: >65 days.

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