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Water tight investment ideas

Fair disclosure – I, my family and investment company have exposure of 1000 shares in ION Exchange and 1400 shares of Mount Everest Mineral Water. The exposure is likely to increase in the coming days. This report therefore may have a positive bias. You are advised to exercise due diligence and / or obtain professional opinion before investing in these companies.

Introduction – post elections in May 2009, there is an air of jubilation on the expectation of a push on reforms, infrastructure, construction and GDP growth etc, little thought is going into the “back bencher” issues like town planning, urban amenities and civic supplies. While every politician talks of transforming India into (and even ahead of) China, little consideration goes into basic issues like water supply. Before you read this report further, I urge you to visit the url’s pasted below –

<http://www.dnaindia.com/report.asp?newsid=1262118>

<http://www.dnaindia.com/report.asp?newsid=1261356>

<http://www.livemint.com/2009/05/01220105/The-poor-pay-more-for-water-th.html>

<http://www.livemint.com/2009/04/26233852/Water-woes-for-rural-India-as.html>

<http://www.dnaindia.com/report.asp?newsid=1261413>

<http://www.dnaindia.com/report.asp?newsid=1262133>

<http://www.dnaindia.com/report.asp?newsid=1261787>

Please do not restrict yourself to these newspapers alone, similar warnings are carried by Times of India, Indian Express, Mid-Day and Mumbai Mirror among others on a regular basis. Read the second last url with care – we get less than 60 % of water requirements per person as specified by the United Nations ! Water ? It’s taken for granted right ? Wrong ! The BMC (Bombay Municipal Corp) warns that 24 hr water supply will be impossible after 2021 onwards. No fresh water supply is likely before 2012 when Vaitarna lakes pumping capacity is stepped up. The recent 5 day cut down of water supply due to pipeline repairs has seen mineral / bottled water selling at a steep premium as taps ran dry. While the situation seems alarming, the investor in me views some opportunities. Just like economic uncertainty helps prices of Gold, Silver, Platinum and Rhodium, hurricanes help commodity traders go long on Corn and Cotton, this situation too has it’s silver lining. You can choose to pass up these opportunities and mull over the situation. Alternately, try and make the most of it. After all, alpha into omega or omega into alpha – it’s your call. I draw your attention to the fact that these stocks are a long term strategy and **not** a quick fix gratification. Similar to the report dtd May 01 2009 on Petronet LNG, (click here to view the report - <http://bsplindia.com/files/archives/may09/plng.pdf>) I feel you should give these ideas a few years to fructify. Just because Petronet LNG soared 60 % in 5 weeks, it is not necessary that these stocks too repeat that performance. Also note – both these stocks are only listed on the BSE and are currently in the trade-to-trade segment. Happy investing.

ION Exchange

Basics – Engg company, into water treatment plants, recycling, Organic Horticulture, retail / home solutions, air, water and bio solid recycling, soil remediation, industrial level water / air supply solutions and owners of the popular “Zero B” brand. Corporate website – www.ionindia.com, the Company is headquartered in Mumbai South. Tel : (91) 22 - 39890909 / 30472042.

Formed in 1964 as a subsidiary of the British Permutit Co; this firm went solo in 1985 when Permutit divested it's holding. Employing approx 1,000 people and having licensing affiliations with the following –

Butler Manufacturing Services (BMS)	Ireland	Packaged Sewage Treatment Plant
Elf Antar SA	France	Oil Separators/Coalescers and Drum Skimmers
Eutech Instruments	Singapore	Water Quality Monitoring Instruments
Nordic Water Products	Sweden	Continuous Sand Filters

Representing agreements are with the following –

Triogen	UK	UV Sterilisers
Ozonia	Switzerland	Ozonators

All the operating units of the Co are ISO 9001:2000 certified. The Co. has many “firsts” to it's credit in it's business and has it's footprints in many parts of the world where projects have been completed successfully.

Plant locales – Ankleshwar (Gujarat), Hosur (Tamilnadu), Patancheru (Andhra Pradesh), Rabale (Maharashtra) and Verna (Goa).

Overseas Offices – Bangkok, Jakarta, Kenya, Dhaka and Kuala Lumpur.

For updates on the Co, please visit it's in-house online newsroom at <http://www.ionindia.com/news.html>

Client list – the Company boasts an enviable client list as follows –

- Taj Group of Hotels (Indian Hotels – Tata Group Co.)
- Tata Iron and Steel Co.
- Nicco Water Parks and Resorts (Nicco group, Kolkotta)
- Goa energy
- Indian railways (Rail Neer – bottled water)
- JSW Steel
- General Motors (India)
- IOCL

- Reliance Industry (Jamnagar refinery)
- Nigeria AGIP Oil Co.
- Royce Pharma (Malaysia)
- LULU Island redevelopment project (Bahrain)
- Hamriya Free Trade Zone (Sharjah, UAE)
- Technip (Malaysia)
- Reef Island (Bahrain)
- Tiger Woods Project (Dubai, UAE)
- Copper Mining Co. (Zambia)
- KSI Combodia
- Wade Adams (Jebel Ali, Dubai UAE)

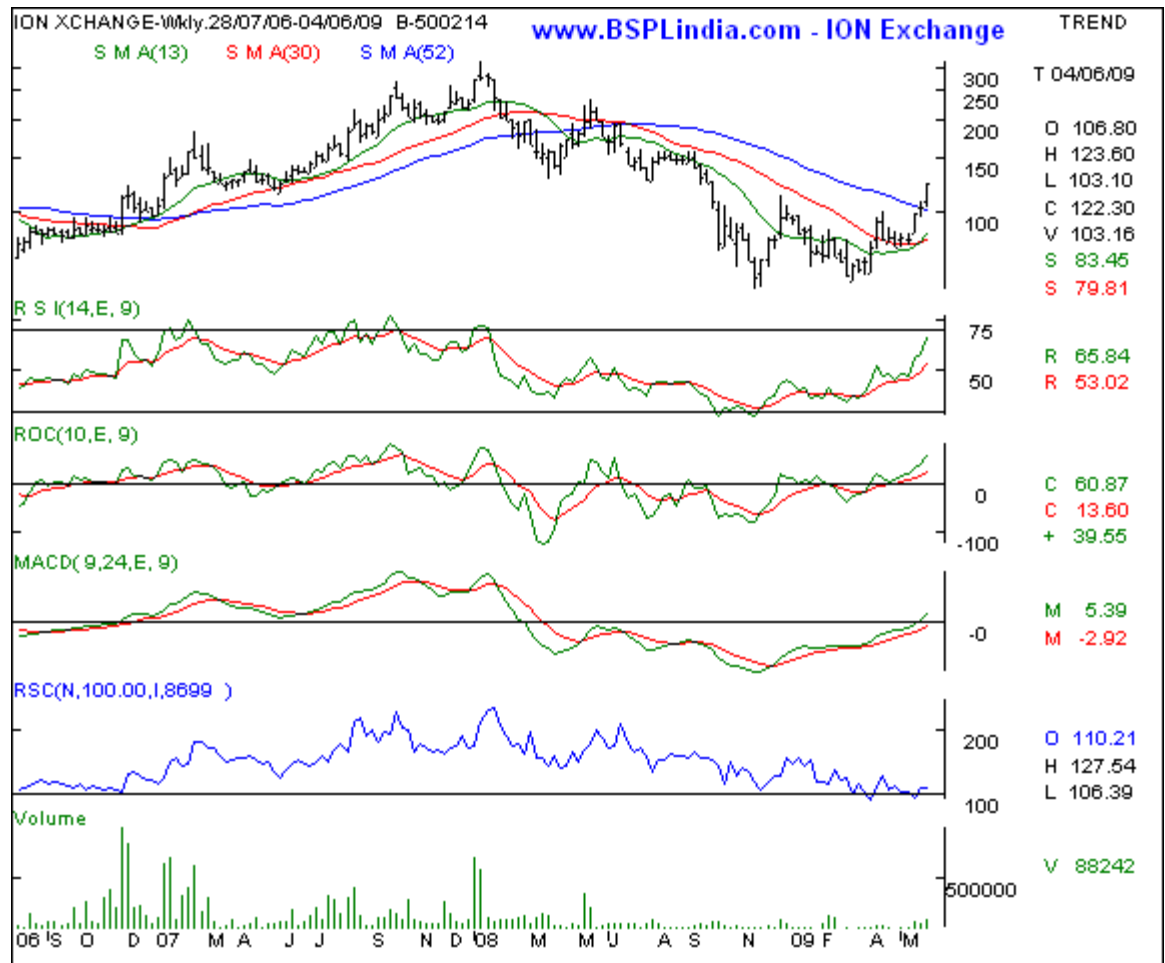
What we like about the company – as per the results announced by the company (http://www.ionindia.com/investor_relations.html), the EPS has been jumping from 2006 – 2008. Diluted EPS through the years has been –

Year	Diluted EPS	EPS Growth	Sales Crs	Sales growth
2006	2.06	n/a	294.61	n/a
2007	3.84	86.40 %	418.46	42.03 %
2008	7.31	90.36 %	530.80	26.85 %

Please note, results for 2009 are awaited. The Company has seen poor topline / bottomline growth in H1 and kickers are seen in H2. The book value is at 99.90 Rs as on 31/3/08. The stock at Rs 120 quotes at 1.20 x book value and 16.4 x earnings (2008). The possibility of lower profits for Mar 2009 should not be ruled out and prudent investors may choose to await the numbers before deploying money in the markets. The company had declared dividend of Rs 1.50 & Rs 2 for 2006 – 2007 & 2007 – 2008 respectively.

Technicals – the weekly chart of shows the 55 level acting as a rough and ready double bottom support and a breakout above a congestion level of 100. The overcome resistance of 100 should now act as a support on declines. Note the volumes are improving (though volumes remain poor due to trade-to-trade settlement). The price, volumes and ticket size per trade indicates a higher buying interest on this counter. The 150 – 155 band remains an immediate hurdle for the upsides. Unless this hurdle is overcome convincingly, fresh upsides maybe elusive. Therefore 150 becomes the first target for bulls. Once the 150 – 155 band is overcome forcefully, expect the 200 – 230 band to be a reality in the medium / long term.

The stock has been a mild market out performer as the relative strength comparative vis-à-vis the Nifty is at the 110 levels (where 100 = base). The oscillators are supportive of the upmove and the scrip has cleared the 52 week SMA at the 100 levels. Declines may test these levels and a stop loss should be kept at the 80 levels on a closing basis. Unless this stock closes below this threshold on high volumes, long positions maybe held by the investors. Keep monitoring the price / volume and ticket size per trade keenly on this counter for signs of distribution during a profit taking phase.



Your call of action – go long on the counter at the current levels in small lots and keep room for pyramid style averaging on every Rs 10 fall till the 90 mark. Hold with a stop loss at the 80 level on a closing basis as specified above. Expect part profit sales at the 150 levels and complete profit sales at the 200 – 225 levels in the absolute long term – 18 / 24 months. Keep the overall exposure curtailed on this counter as the liquidity factor is a constraint for the bulls. We advise our investors to spread their investment amount evenly between ION Exchange and Mount Everest Mineral Water specified below.

Mount Everest Mineral Water

Basics – Promoted by Mr Dadi Balsara (NRI from Singapore) in 1991, the Co floated an IPO in 1995. Tata Tea now is a majority shareholder and the company belongs to the Tata group as the management control change is now complete. The Company is in the business of bottling & selling premium mineral water under the brand name “Himalayan”. The Company press release claims approx 50 % market share in the organized packaged drinking water market. It is the only internationally accepted bottled water brand from India. The water is sourced from the Daula Kuan base aquifer (130 metres below ground level) at Himachal Pradesh. The bottling is done at source itself. The Company has an in-house capability to manufacture food grade PET bottles and tamper proof bottle caps. Corporate website - <http://www.himalayanmineralwater.com>. Ph - 91 22 - 6746 5858.

Client list – the product is available off the shelf in grocery stores, cinema halls, airlines, restaurants and premium hospitality properties.

USP – “Himalayan” is the only accredited and recognized potable water brand, certified by the US FDA, Health Ministries of Japan, France, Institut de Fresenius - Germany, the European Union, HACCP, BIS and ISI.

Plant locale – Himachal Pradesh

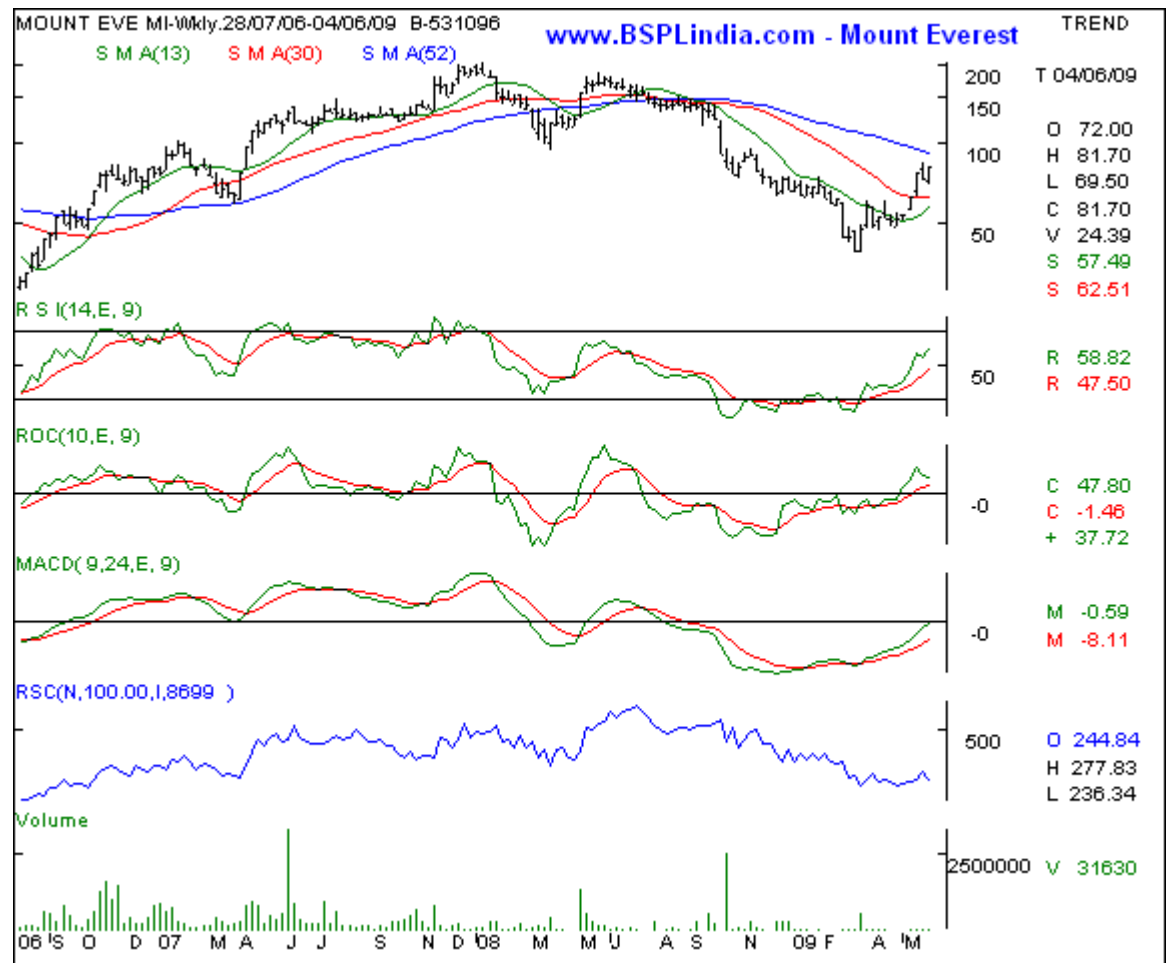
What we like about the company – Tata group pedigree and the high brand recall. The latest quarterly results show a steep rise in the advertising and marketing expense. We see bill boards, TV adverts and print media footprints frequently. Historically such a media blitz is followed by a sales surge and profits tend to follow with a lag effect. The high institutional holding as on March 2008 is confidence inspiring too –

Name of institution	No of shares held	Percentage holding
Goldman Sachs	2540189	7.47 %
Guj Fluorochem	2353777	6.92 %
Foresight Holdings	2250000	6.62 %
Morgan Stanley Dean Witter	1825003	5.37 %
Mr. Vinod sethi	860439	2.53 %
DSP Merrill Lynch	536824	1.58 %

Public shareholding is 55 % as on March 2009 (previous year 59 %)

Financials – weak numbers as the company remains under pressure from high marketing expenses and sluggish sales. Employee costs, selling expenses and other expenses are up noticeably. These are ills that can be cured by rising sales and margins alone. We are optimistic that the inability of civic authorities to supply sufficient and safe potable water will see a demand surge. The GDP growth rate will also drive up sales in the coming years as health awareness spreads. The book value stands at 20.88 Rs as on March 2009 and the share trades at 4x BV. The company has declared a net loss of Rs 27.96 Crs for Mar 2009.

Technicals – like ION Exchange, this scrip too is in the trade-to-trade segment and is therefore suffering from poor relative liquidity. The stock bottomed out in March 09 at Rs 38 and has discounted the 2009 loss. There is no negative surprise to that extent. Oscillators confirm the upmove and the relative strength vis-à-vis the Nifty is higher than ION Exchange at 245 (where 100 = base). Overhead supply may come in at the 90 – 95 band which is the 52 week SMA and only a sustained trade above the 100 mark will invite accelerated buying interest. In such an event, the first hurdle will be at the 150 mark and eventual target will be at the 200 + levels over the absolute long term. The 60 – 65 band will be a fairly good floor support in case of a decline.



Your call of action – go long on the counter at the current levels in small lots and keep room for pyramid style averaging on every Rs 5 decline till the 60 mark if needed. Hold with a stop loss at the 50 mark and expect to book profits at the 150 + levels in the medium term and 200 + levels in the long term 18 – 24 months.

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