Company: EMS Ltd – IPO Note

Industry: Water Treatment (Supply & Management)

SUBSCRIBE - Deep Value Buy
Date: 6th Sept, 2023

ISSUE HIGHLIGHTS

- The IPO comprises of a fresh issue of shares worth Rs 146.24 crore.

- The company has done a Pre-IPO Placement, wherein a total of 16,00,000 Equity Shares have been allocated at an issue price of Rs. 211 per Equity Share. Share premium being Rs. 201 and Face Value Rs.10 per Equity Share. This Pre-IPO Placement has made an aggregate fund inflow of Rs. 33.76 Crores.

- The Offer for Sale (OFS) tranche encompasses a total of 82,94,118 shares, each with a face value of ₹10, thereby culminating in an aggregate value of ₹175 crore. These shares are being divested by the promoter Mr. Ramveer Singh.

- The objectives of EMS Limited's IPO are listed below:

Particulars	Amount (In Cr)
Working capital requirements	101.24
General Corporate Purpose (1)	[●]
Total	**[●]**

(1) *To be determined on finalisation of the Issue Price and updated in the Prospectus. The amount utilised for General Corporate Purposes shall not exceed 25% of the Gross Proceeds of the Fresh Issue.*

OUTLOOK

- Robust Book to Bill Ratio of 3.2x.
- Present order book is around Rs.1745 crores.
- Expected revenue Cagr over next 3 years ~25%.
- Operating margins likely to be sticky around 25 to 27%.
- Foreseeable ROE of 20%+ for next 3 years.
- The Pre-Issue PER stands at ~11x.
- Management's undented focus on bidding and executing only high margin projects, augurs well.
- The IPO, marked by attractive pricing, presents a deep value buy.

ISSUE DETAILS

Price Band	Rs. 200 to Rs. 211 per share
Face Value	Rs. 10 per share
Total Offer Size	[.] shares (aggregating up to ₹321.24 Cr)
Fresh Issue Size	[.] shares (aggregating up to ₹146.24 Cr)
Offer for Sale Size	8,294,118 shares of ₹10 (aggregating up to ₹175.00 Cr)
Issue Type	Book Built Issue IPO
Minimum lot	70 Shares
Allocation to anchor investors	Thursday, September 7, 2023
Issue Opens	Friday, September 8, 2023
Issue Closes	Tuesday, September 12, 2023
Listing on	NSE and BSE

Indicative Timeline	On or before
Finalization of Basis of Allotment	Friday, September 15, 2023
Unblocking of Funds	Monday, September 18, 2023
Credit of shares to Demat Account	Wednesday, September 20, 2023
Listing on exchange	Thursday, September 21, 2023

EMS IPO Reservation

QIB Shares	75,99,900 shares
HNI Shares	22,80,110 shares
Retail Shares	53,20,000 shares

COMPANY OVERVIEW

- **Company Background**: Incorporated in 2010, EMS Limited, an ISO 9001:2015 certified entity, is a Ghaziabad-based multidisciplinary Engineering, Procurement, and Construction (EPC) firm specializing in turnkey services for water and wastewater collection, treatment, and disposal.
- **Core Competencies:** EMS excels in EPC activities for Infrastructure Projects, focusing on Water Supply & Sewerage Infrastructure Projects.
- **Diverse Portfolio:** EMS extends its EPC services to Electrical Substations, Transmission Lines, Roadworks, etc.
- **Project Expertise:** EMS offers comprehensive solutions, including Sewerage, Water Supply Systems, Water and Waste Treatment Plants, and Operation & Maintenance of Wastewater and Water Supply Scheme Projects for government bodies.
- **Experienced Management and in-house Expertise:** The company's promoters, Mr. Ramveer Singh and Mr. Ashish Tomar, bring over three and one decades of experience in the water and waste-water treatment industry, driving the company's growth from inception. EMS boasts an in-house civil construction team comprising 61 engineers, complemented by third-party consultants and industry experts.
- **EMS Ltd exclusively undertakes project tenders initiated by government or semi-government entities**, financially **backed by the World Bank and the Asian Development Bank**. This distinctive project portfolio not only ensures a stable source of funding, fortifies the company's cash flow security and warrants zero bad debts and zero delinquencies.
- **Human Engagement Dynamics:** In the course of project execution, the company interfaces with a diverse spectrum of stakeholders, including labour forces, contractors, government authorities, and individuals hailing from Tier 2 and Tier 3 urban centres. The intricacies of navigating these human interactions are underscored by the profound reservoir of experience possessed by the company's promoters.
- **Proven Track Record**: The company has successfully delivered over 67 projects for government bodies and municipalities since 2010.
- **Robust Order Book & Operational Footprint:** Currently they are executing 18 ongoing projects aggregating into an Order Book of Rs. 1,745 Crores including Water and Waste Treatment Plants (WWTPs), Water Supply Scheme Projects (WSSPs), EPS & Hybrid Annuity Model (HAM) projects. Apart from this they are also executing 5 O&M projects of Rs. 99.28 Crores in Uttar Pradesh, Uttarakhand and Bihar.
- **Scalable Asset-Light Model with Strong Financials:** This asset-light model optimizes capital utilization, reduces debt (e.g., Total Borrowings as on 31st March 2023 was Rs. 124.9 Crores while Net Debt was Rs. -36.28 Crores), and ensures steady income, driving higher return on capital employed, thereby facilitating growth and development.

RISKS

1. **Government Project Dependency**: Revenue streams originate from contracts financed by the World Bank through Central and State Governments, focusing on sewage treatment plants (WWTPs) and water supply systems (WSSPs). Company also engages in government-funded construction and electricity transmission projects.
2. **Government Policy Dependency**: Vulnerability to shifts in Union and State Government policies poses a significant operational risk, impacting business stability.
3. **Working Capital Strain**: Heavy reliance on substantial liquidity for working capital exposes the company to potential financial strain, affecting financial health and flexibility.
4. **Competition with Industry Giants**: Competitive challenge from established industry leaders such as L&T, particularly in the same segment, threatens market position.
5. **Political-Induced Delays:** Political changes contribute to project completion delays, affecting timelines & profitability.
6. **Blacklisting and Legal Challenges:** History of government blacklisting with subsequent clearance and legal actions to

FINANCIALS

Balance Sheet Extracts

Particulars (Rs. Cr)	As on 31st March 23	As on 31st March 22	As on 31st March 21
Share Capital	47.00	11.75	11.75
Reserves & Surplus	440.83	368.43	290.16
Net Worth	**487.83**	**380.18**	**301.91**
Fixed Assets including CWIP	149.89	87.80	78.52
Current Assets	488.83	414.76	299.79
Current Liabilities (Others)	79.49	108.55	66.09
Borrowings (LT)	45.4	3.71	3.16
Capital Employed	**533.23**	**383.89**	**305.08**

Income Statement

Particulars (Rs. Cr)	As on 31st March 23	As on 31st March 22	As on 31st March 21
Revenue from Operations	538.16	359.85	330.70
Other Income	5.12	3.25	5.48
Total Income	**543.28**	**363.10**	**336.18**
EBITDA	**149.00**	**112.51**	**98.90**
Depreciation	3.40	2.52	1.74
Finance Cost	3.84	5.75	4.45
PBT	146.87	107.49	98.19
Tax	38.20	28.56	26.28
PAT	**108.67**	**78.93**	**71.91**
EPS (In Rs.)	23.15	67.27	61.24
Book Value (In Rs.)	103.79	323.56	256.95

Margin & Ratio Analysis

Particulars	As on 31st March 23	As on 31st March 22	As on 31st March 21
EBITDA Margin (%)	27.69%	31.27%	29.91%
Net Profit Margin (%)	20.19%	21.93%	21.74%
Return on Capital Employed (ROCE%)	28.26%	29.50%	33.65%
Return on Equity (ROE%)	22.28%	20.76%	23.82%
Return on Assets (%)	17.01%	15.71%	19.01%
Fixed Assets Turnover Ratio	3.59	4.10	4.21

PEER COMPARISON

Company	Market Cap (Rs. Cr)	PE Ratio	ROE (%)	ROCE (%)	OPM (%)
EMS Ltd	1,172	11	22.3%	28.3%	27.7%
Va Tech Wabag Ltd	3,084	10.7	3.11%	19.4%	11%
Ion Exchange (India) Ltd	8,638	43	26.2%	33.8%	13%

INDUSTRY OUTLOOK

The waste water management industry in India is critical given the population size and gradual transformation from rural to urban India. Country's present population of 1.38 billion, needs clean water, healthy waste management and stricter pollution controls. By 2050, the country is expected to require 1450 cubic km of potable water, for drinking, agriculture, industrial and energy generation.

With regard to urban sewage and treatment, India is far behind as urban sewage generation has reached 72,368 MLD, while treatment capacity stands at 31,841 MLD, with operational capacity at 26,869 MLD. Only 28% of sewage discharge undergoes treatment, resulting in 72% of untreated wastewater disposal. The existing capacity gap of 35,700 MLD underscores the need for enhanced sewage treatment infrastructure. Given current urban growth estimates, the gap between wastewater discharge and operational treatment capacity stands tall at 45,499 MLD, which is a huge opportunity for waste water treatment companies.

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