



EMS Ltd. is in the business of Sewerage solution provider, Water supply system, Water and waste treatment plants, Electrical transmission and distribution, Road and allied works, Operation and maintenance of Wastewater scheme projects (WWSPs) and Water supply scheme projects (WSSPs) for government authorities. WWSPs include Sewage Treatment Plants (STPs) along with Sewage Network Schemes and Common Effluent Treatment Plants (CETPs) and WSSPs include Water Treatment Plants (WTPs) along with pumping stations and laying of pipelines for the supply of water. The Company bids for tenders issued by CPWD, State Governments and Urban Local Bodies (ULBs) for developing WWSPs and WSSPs on EPC or HAM basis. EMS has a team of 61 engineers who are supported by third-party consultants and industry experts to ensure compliance and quality standards laid down by the industry and government agencies and departments. As of July 31, 2023, EMS is operating and maintaining 18 projects including WWSPs, WSSPs, STPs and HAM aggregating INR 1744.92 crores and 5 O&M projects aggregating INR 99.28 crores.

Investment Rationale:

Capitalize on Government policy initiatives in WWTP and WSSP sectors:

- India is the world's second most populous country with 1.38 billion people. Out of this, 65% of the population lives in rural area and 35% are connected to the urban centers according to United Nations.
- It is expected that by 2050, about 1450 km of water will be required out of which ~75% will be used in agriculture, ~7% for drinking water, ~4% in industries, and ~9% for energy generation.
- The government is taking certain key initiatives like Jawaharlal Nehru National Urban Renewal Mission, Namami Gange program, Atal Mission for Rejuvenation and Urban Transformation (AMRUT), Swachh Bharat Mission (Urban) and Jal Jeevan Mission. Currently EMS operates 5 projects under Atal Mission for Rejuvenation and Urban Transformation (AMRUT), Project under Namami Gange Program. The company is further looking to develop new projects under various government schemes.

Robust Order Book:

- As on July 31, 2023, the company is operating and maintaining 18 projects including WWSPs, WSSPs, STPs & HAM aggregating of INR 1,744.92 crores and 5 O&M projects aggregating to INR 99.28 crores.
- Consistent growth in its Order Book has materialized due to its continued focus to successfully bid and win new projects.

Expansion of footprint:

- EMS has successfully completed 67 projects as on July 31, 2023 across states of Bihar, Uttarakhand, Madhya Pradesh, Rajasthan, Haryana.
- The company gradually intend to expand its business operations to other regions of the country, especially North-East and South India. EMS plans to continue its strategy of diversifying and expanding its presence in these regions for the growth of business.

Scalable and asset light business model supported by its strong financial position:

- The company's business model relies on the strength of its brand, project execution and management capabilities as well as its well-established relationships with its clients, architects and contractors.
- EMS's asset-light business model results in efficient utilization of capital resulting in lower debt, allowing them to have higher ROCE. For example, as on March 31, 2023, EMS has a total borrowing of INR 45 crores for the HAM Project of Mirzapur Ghazipur. Apart from this the company does not have any borrowings despite having a huge working capital requirement.

World Bank Funded Projects help in maintaining robust cash flows, timely payments and no bad debts:

- India has 18 percent of the world's population, but only 4 percent of its water resources, making it among the most water-stressed in the world. A large number of Indians face high to extreme water stress, according to the NITI Aayog.
- Over the last decade, the World Bank has supported the government's efforts to bring clean drinking water to rural communities. A range of projects with a total financing of \$1.2 billion have benefitted over 20 million people. Almost all of EMS's projects are world bank funded through local state government bodies. This is the main reason of its robust cash flows and timely payments, no bad debts, which helps to take more projects with the help of internal accruals only and helps the company to save finance cost and to increase profit margins.

Valuation and Views: EMS is looking to benefit from: i. Strong support from government and world bank initiatives. ii. Expansion of footprint in north-east and south India. iii. EMS's asset light business model is resulting in higher ROCE. iv. Robust orderbook. The company's revenue from operations increased 49.55% YoY to INR 538.16 crores for FY23. The company's PAT for the year increased by 37.66% YoY to INR 10,881.63 crores for FY23 compared. EMS's ROE and ROCE were reported at 24.92% and 32.89% in FY23 compared to 23.03% and 32.80% in FY22. At upper end of the price band, the P/E translates to ~10.76x on FY23 EPS of INR 19.60. We believe the company has scope to grow ~25% p.a. given EMS's growth is aligned with government and world bank initiatives to water management and growing population and expansion of footprint with robust order book in hand.

Key Financial & Operating Metrics (Consolidated)

In INR mn	Revenue	YoY (%)	EBITDA	EBITDA %	PAT	EPS	ROE	ROCE
FY21	3307.04	-2.75	700.21	17.96	719.11	61.24	27.04	37.33
FY22	3599.17	8.83	826.32	17.57	788.50	67.11	23.03	32.80
FY23	5381.62	49.52	863.16	15.16	1088.51	23.16	24.92	32.89

Issue Snapshot

Issue Open	08-Sep-23
Issue Close	12-Sep-23
Price Band	INR 200 - 211
Issue Size (Shares)	1,11,28,858
Market Cap (cr)	INR 1171.7 cr

Particulars

Fresh Issue	69,30,806 shares
OFS Issue	8,294,118 shares
QIB	50%
Non-institutionals	15%
Retail	35%

Capital Structure

Pre Issue Equity	4,86,00,000
Post Issue Equity	5,55,30,806
Bid Lot	70 shares
Minimum Bid amount @ 200	INR 14,000
Maximum Bid amount @ 211	INR 14,770

Share Holding

	Pre Issue	Post Issue
Promoters	96.71%	19.33%
Public	3.29%	29.32%

Particulars

Face Value	INR 10
Book Value	INR 88.37
EPS, Diluted	INR 19.60

Objects of the Issue

- Working capital requirements
- General corporate purposes

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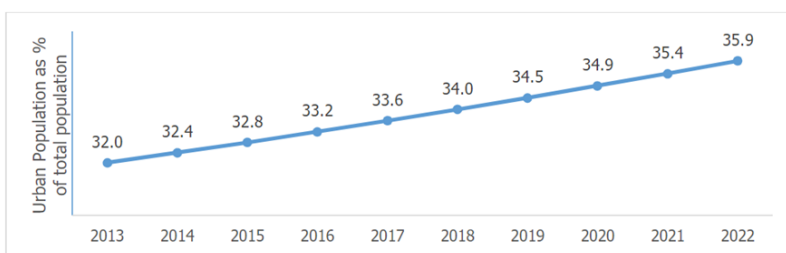


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Investment rationale:

Capitalize on Government policy initiatives in WWTP and WSSP sectors: India is the world’s second most populous country with 1.38 billion people. Out of this, 65% of the population lives in rural area and 35% are connected to the urban centers according to United Nations. The metropolitan cities of the country are seeing major expansion as a result of economic expansions and reforms. This expansion in urban population is unsustainable without efficient planning of cities and provision of utility services especially sewerage, clean and affordable water. Water allocation in cities are usually done from the common pool with multiple sectoral demands. It is expected that by 2050, about 1450 km of water will be required out of which ~75% will be used in agriculture, ~7% for drinking water, ~4% in industries, and ~9% for energy generation. However, because of growing urbanization, the need for drinking water will take precedence over the rural water requirements. Many of the cities are situated by the bank of rivers from where the freshwater is consumed by the population and the wastewater is disposed back into the river, thus contamination of the water source and irrigation water. This has raised serious challenges for urban wastewater management, planning and treatment. According to Central Pollution Control Board (CPCB), the estimated wastewater generation was almost 39,600 million litres per day (MLD) in rural regions, while in urban regions it was estimated to be 72,368 MLD. The estimated volume is double in the urban cities is almost double than that of the rural regions because of the availability of more water for sanitation which has increased standard of the living. The government is taking certain key initiatives like Jawaharlal Nehru National Urban Renewal Mission, Namami Gange program, Atal Mission for Rejuvenation and Urban Transformation (AMRUT), Swachh Bharat Mission

Chart 13: Trend of urbanisation in India



Source: World Bank Database

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(Urban) and Jal Jeevan Mission. Currently EMS operates 5 projects under Atal Mission for Rejuvenation and Urban Transformation (AMRUT), Project under Namami Gange Program. The company is further looking to develop new projects under various government schemes.

Robust Order Book: As on July 31, 2023, the company is operating and maintaining 18 projects including WWSPs, WSSPs, STPs & HAM aggregating of INR 1,744.92 crores and 5 O&M projects aggregating to INR 99.28 crores. Consistent growth in its Order Book has materialized due to its continued focus to successfully bid and win new projects. Its experience in designing, engineering, construction, operations and maintenance of projects, technical capabilities, timely performance, reputation for quality and timely delivery, financial strength as well as the price competitiveness has enabled it to successfully bid and win projects. Its capabilities as an established player allows it to focus on projects with EPC or HAM and O&M components. Post the commissioning of the project, O&M provide steady cash flows and add significantly to the company’s margins.

Table 9: Overall progress of implementation till January 2023 - Sector wise:

Sector	Projects completed		Projects ongoing		Total projects grounded	
	No.	Amount (in Mn)	No.	Amount (in Mn)	No.	Amount (in Mn)
Water supply	934	1,75,976	407	250,401	1341	4,26,378
Sewage and septage management sector	507	1,21,637	357	218,209	864	3,39,846
Storm water drainage sector	682	13,589	118	16,186	800	29,775
Parks and Green spaces	2,312	13,651	209	2,326	2,521	15,978
Urban transport	265	5,460	83	4,788	348	10,248
Total	4,700	3,30,313	1174	4,91,912	5874	8,22,226

Source: Ministry of Housing and Urban Affairs

Expansion of footprint: EMS has successfully completed 67 projects as on July 31, 2023 across states of Bihar, Uttarakhand, Madhya Pradesh, Rajasthan, Haryana. The company gradually intend to expand its business operations to other regions of the country, especially the North-East and South India. EMS plans to continue its strategy of diversifying and expanding its presence in these regions for the growth of business. EMS is selective in expanding to new locations and look at new geographies where they can deliver quality services without experiencing significant delays and interruptions due of local considerations. Through further diversification of its operations geographically, EMS hopes to hedge against risks of operations in only specific areas and protection from fluctuations resulting from business concentration in limited geographical areas.

Scalable and asset light business model supported by its strong financial position: The company's business model relies on the strength of its brand, project execution and management capabilities as well as its well-established relationships with its clients, architects and contractors. Leveraging these capabilities and relationships, it seeks to transition to a combination of designing and execution based business model. As part of this model, it focusses on development management or joint development agreements or joint ventures, which requires lower upfront capital expenditure compared to direct approach. Its focus on its development management model and commitment to leverage its brand, project execution and management capabilities, will continue to contribute to the growth and development of business. EMS's asset-light business model results in efficient utilization of capital resulting in lower debt, allowing them to have higher ROCE. For example, as on March 31, 2023, EMS has a total borrowing of INR 45 crores

The state wise revenue generated in last 3 financial years:

Name of the State	(Rs. In Lakhs)					
	March 31, 2023	% of total revenue from operations	March 31, 2022	% of total revenue from operations	March 31, 2021	% of total revenue from operations
Uttar Pradesh	26,385.76	49.03%	13,279.93	36.90%	25,983.14	78.57%
Rajasthan	12,436.98	23.11%	13,068.73	36.32%	408.46	1.24%
Bihar	9,406.26	17.48%	7,039.82	19.56%	5,159.78	15.60%
Uttarakhand	5,382.88	10.00%	2,080.51	5.78%	1,121.95	3.39%
Madhya Pradesh	160.13	0.30%	494.62	1.37%	383.48	1.16%
Others	44.16	0.08%	21.48	0.06%	13.58	0.04%
Total	53,816.17	100.00%	35,985.09	100.00%	33,070.39	100.00%

for the HAM Project of Mirzapur Ghazipur. Apart from this the company does not have any borrowings despite having a huge working capital requirement.

World Bank Funded Projects help in maintaining robust cash flows, timely payments and no bad debts: India has 18 percent of the world's population, but only 4 percent of its water resources, making it among the most water-stressed in the world. A large number of Indians face high to extreme water stress, according to the NITI Aayog. India's dependence on an increasingly erratic monsoon for its water requirements increases this challenge. Climate change is likely to exacerbate this pressure on water resources, even as the frequency and intensity on floods and droughts in the country increases. The World Bank is engaged in different aspects of water resource management and the supply of drinking water and sanitation services across the country. Over the last decade, the World Bank has supported the government's efforts to bring clean drinking water to rural communities. A range of projects with a total financing of \$1.2 billion have benefitted over 20 million people. Almost all of EMS's projects are world bank funded through local state government bodies. This is the main reason of its robust cash flows and timely payments, no bad debts, which helps to take more projects with the help of internal accruals only and helps the company to save finance cost and to increase profit margins. In the near future, the awareness about clean water and government initiatives to supply clean water to every village in India, will also provide EMS good opportunities.

Valuation and views: EMS is looking to benefit from: i. Strong support from government and world bank initiatives. ii. Expansion of footprint in north-east and south India. iii. EMS's asset light business model is resulting in higher ROCE. iv. Robust orderbook. The company's revenue from operations increased 49.55% YoY to INR 538.16 crores for FY23. The company's PAT for the year increased by 37.66% YoY to INR 10,881.63 crores for FY23 compared. EMS's ROE and ROCE were reported at 24.92% and 32.89% in FY23 compared to 23.03% and 32.80% in FY22. At upper end of the price band, the P/E translates to ~10.76x on FY23 EPS of INR 19.60. We believe the company has scope to grow ~25% p.a. given EMS's growth is aligned with government and world bank initiatives to water management and growing population and expansion of footprint with robust order book in hand.

Income Statement				Balance Sheet			
Y/E (INR mn)	FY21	FY22	FY23	Y/E (INR mn)	FY21	FY22	FY23
Revenue	3307.04	3599.17	5381.62	Source of funds			
Expenses:				Equity Share Capital	117.50	117.50	470.00
Employee Cost	21.51	103.87	138.41	Reserves	2901.65	3711.38	4437.22
Total Expenses	2318.04	2472.08	3881.54	Total Share holders funds	3019.15	3828.88	4907.22
EBITDA	700.21	826.32	863.16	Total Debt	31.63	37.13	453.96
EBITDA Margin %	17.96	17.57	15.16	Current Liabilities	153.08	34.63	1.79
Interest	44.53	57.46	38.41	Trade Payables	403.03	430.13	154.05
Depreciation	17.35	25.21	34.00	Total Non-Current Liabilities	2.70	2.72	2.42
Other Income	54.80	32.48	51.15	Total Liabilities	3778.48	5043.33	6410.87
PBT	981.92	1076.90	1478.83	Application of funds			
PAT	719.11	788.50	1088.51	Fixed Assets	286.79	428.63	443.71
EPS	61.24	67.11	23.16	Capital Work in Progress	27.54	3.03	40.28
				Cash and Bank	675.15	899.24	1212.22
				Other current assets	675.15	899.24	1212.22
				Inventory	354.29	541.29	1047.59
				Sundry Debtors	932.86	1163.52	541.87
				Total Assets	3778.48	5043.33	6410.87

Cash Flow				Key Ratios			
Y/E (INR cr)	FY21	FY22	FY23	Y/E (INR cr)	FY21	FY22	FY23
Profit Before Tax	981.92	1076.90	1478.83	Growth Ratio			
Adjustment	22.36	48.61	17.69	Net Sales Growth(%)	1.55	8.83	49.52
Changes In working Capital	-644.26	-843.01	-1611.00	EBITDA Growth(%)	1.57	11.09	33.78
Cash Flow after changes in Working Capital	360.03	282.49	-114.48	PAT Growth(%)	-0.72	9.65	38.05
Interest Paid	84.63	56.79	29.92	Margin Ratios			
Tax Paid	-2.34	0.43	-0.19	Gross Profit	97.74	37.19	33.33
Other Direct Expenses paid	0.00	0.00	0.00	PBIDTM	31.56	32.22	28.82
Extra & Other Item	0.00	0.00	0.00	EBITM	31.04	31.52	28.19
Cash From Operating Activities	357.68	276.01	-122.76	PBT	29.69	29.92	27.48
Cash Flow from Investing Activities	-84.75	-117.83	-49.44	PAT	21.74	21.91	20.23
Cash from Financing Activities	-108.98	-51.96	378.41	Return Ratios			
Net Cash Inflow / Outflow	163.95	106.22	206.22	ROA	20.98	17.88	19.01
Opening Cash & Cash Equivalents	340.36	504.31	610.53	ROE	27.04	23.03	24.92
Closing Cash & Cash Equivalent	504.31	610.53	816.75	ROCE	37.33	32.80	32.89
				Turnover Ratios			
				Asset Turnover(x)	0.96	0.82	0.94
				Inventory Turnover(x)	8.44	8.04	6.77
				Debtors Turnover(x)	4.99	3.43	6.31
				Fixed Asset Turnover (x)	8.27	7.08	8.86
				Solvency Ratios			
				Total Debt/Equity(x)	0.01	0.01	0.09
				Current Ratio(x)	4.54	3.49	5.41
				Quick Ratio(x)	4.00	2.99	4.06
				Interest Cover(x)	23.05	19.74	39.50

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Buy: Return >15%, Accumulate: Return between 5% to 15%, Reduce: Return between -5% to +5%, Sell: Return < -5%

Contact us:

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