

Rating: Subscribe for Long Term

Issue Offer

Fresh Issue of 6,930,806 equity shares up to INR 1,462.4mn and OFS of 8,294,118 shares by Promoters group taking the total issue size at INR 3,212.4mn

Issue Summary

Price Band (INR)	200-211
Face Value (INR)	10
Implied Market Cap (INR mn)	11,717
Market Lot	70
Issue Opens on	Sep, 8, 2023
Issue Close on	Sep, 12, 2023
No. of share pre-issue	48,600,000
No. of share post issue	55,530,806
Listing	NSE / BSE

Issue Break-up (%)

QIB Portion	≤ 50
NIB Portion	≥15
Retail Portion	≥35

Book Running Lead Managers

Khambatta Securities Ltd

Registrar

KFIN Technologies Ltd

Shareholding Pattern

	Pre-Issue	Post-Issue
Promoters	96.71%	69.70%
Public & Others	3.29%	30.30%

Objects of the issue

- Funding of working capital requirements of the company
- General corporate purposes

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EMS Ltd has engaged in the business of water & wastewater collection, treatment, and disposal services. The company provides sewerage solutions, Water supply systems, Water treatment plants, Road & allied works Electrical T&D, Operation and maintenance of Wastewater scheme projects, and water supply scheme projects for the government. In Wastewater treatment, the company majorly participates in world-bank-funded projects, and around 80% of the water & wastewater business and the remaining 20% are coming from other miscellaneous projects.

Investment Rationale

Business visibility backed by strong order book: The fresh issue fundraising of INR 1,462.4mn will be utilized for working capital purposes (INR 1,012.4mn) and the remaining will be utilized for general corporate purposes. The company is currently executing 18 ongoing projects worth INR 17,449.2mn and 5 O&M projects aggregating an order book of INR 992.8mn together total order book of INR 18,741.5mn (~3.5x of FY23 revenue) as of 15th Jul 2023 shows potential visibility. Around 80%-85% of projects are from water & wastewater, 5%-7% from construction, and the remaining from others. The bidding projects conversion ratio is around 10%-15% and the company is very selective eyeing higher margin projects. The higher margins projects lead to maintaining EBITDA margins of 30% and PAT margins of 20% going forward.

Focused on high-value projects and expansion of footprint: The company majorly focused on WWSP and WSSP projects. The company has started with 4 MLD projects and increased the capacity to 60 MLD projects. Currently, the company is bidding on projects less than INR 5bn, and Post IPO, the company is expected to bid INR 15bn – INR 20bn projects going forward. The company is focused on EPC and HAM projects in WWSP and WSSP's. The execution of high-capacity projects has less competition, better margins, economies of scale, and better utilization of resources. The projects were majorly distributed in Rajasthan, Bihar, UP, Uttarakhand, and Madhya Pradesh and intended to expand into North East and South India.

Focused on capitalizing on government initiatives: The company operates 5 projects under the Atal Mission for Rejuvenation and Urban Transformation (AMRUT) and 1 project under the Namami Gange Programme. The company is focused on capitalizing on government initiatives of the Jal Jeevan Mission (JJM), Swachh Bharat Mission, and others.

Valuation and View: EMS Ltd has a strong order book of INR 17,449.2mn (~3.3x of FY23 revenue) as of 15th Jul 2023 shows potential revenue visibility and is expected to grow at a CAGR of 30% over the medium term. The company is currently bidding under INR 5bn projects and expected to bid INR 15bn to INR 20bn projects going forward. The majority of projects are funded by World Bank which assures payments and working capital days stand around 90 days. The company is very selective in bidding for high-margin projects and the conversion ratio is around 10%-15%. The higher margins project led to maintaining an EBITDA margin of 30% and a PAT margin of 20% going forward. The majority of IPO funds will be utilized for working capital requirements of projects indicating strong execution of projects over the medium term. At the upper band of INR 211, the issue is valued at an EV/EBITDA of 6.2x based on FY23 EBITDA and PE of 9.1x based on FY23 EPS of INR 23.2. We are recommending "Subscribe for Long Term" for this issue.

Financial Statements

Income statement summary

Y/e 31 Mar (INR mn)	FY21	FY22	FY23
Revenue	3,307	3,599	5,382
Net Raw Materials	2,157	2,258	3,588
Employee Cost	79	106	140
Other Expenses	83	109	163
EBITDA	989	1,125	1,490
EBITDA Margin (%)	29.9%	31.3%	27.7%
Depreciation	(17)	(25)	(34)
Interest expense	(45)	(57)	(38)
Other income	55	32	51
Profit before tax	982	1,075	1,469
Taxes	(263)	(286)	(382)
PAT	719	789	1,087
PAT Margin (%)	21.7%	21.9%	20.2%
Other Comprehensive income	0	1	1
Total Comprehensive Income	720	790	1,088
EPS (INR)	61.2	67.3	23.2

Source: Company Reports, Arianth Capital Research

Balance sheet summary

Y/e 31 Mar (INR mn)	FY21	FY22	FY23
Equity capital	118	118	470
Reserves	2,902	3,684	4,408
Net worth	3,019	3,802	4,878
Minority Interest	2	9	21
Provisions	3	3	3
Debt	204	528	1,058
Total Liabilities	3,227	4,342	5,960
Fixed assets	93	182	179
Capital Work In Progress	28	3	40
Other Intangible assets	0	-	-
Goodwill	1	59	58
Investments	466	442	550
Other non current assets	198	192	209
Net working capital	931	1,734	2,725
Inventories	354	541	1,048
Sundry debtors	933	1,578	1,697
Loans & Advances	-	-	-
Other current assets	200	297	407
Sundry creditors	(403)	(430)	(154)
Other current liabilities & Prov	(153)	(253)	(273)
Cash	675	899	1,212
Other Financial Assets	835	831	986
Total Assets	3,227	4,342	5,960

Source: Company Reports, Arianth Capital Research

Cashflow summary

Y/e 31 Mar (INR mn)	FY21	FY22	FY23
Profit before tax	982	1,075	1,469
Depreciation	17	25	34
Tax paid	(263)	(286)	(382)
Working capital Δ	(931)	(802)	(991)
Change in Goodwill	(1)	(58)	1
Operating cashflow	(196)	(46)	130
Capital expenditure	(138)	(89)	(69)
Free cash flow	(334)	(135)	61
Equity raised	2,300	(7)	(10)
Investments	(466)	24	(108)
Others	(1,033)	9	(172)
Debt financing/disposal	205	332	542
Other items	3	0	(0)
Net Δ in cash	675	224	313
Opening Cash Flow	-	675	899
Closing Cash Flow	675	899	1,212

Source: Company Reports, Arianth Capital Research

Ratio analysis

Y/e 31 Mar	FY21	FY22	FY23
Growth matrix (%)			
Revenue growth		8.8%	49.6%
Op profit growth		13.8%	32.4%
Profitability ratios (%)			
OPM	29.9%	31.3%	27.7%
Net profit margin	21.7%	21.9%	20.2%
RoCE	23.3%	22.0%	21.7%
RoNW	23.8%	23.1%	25.0%
RoA	22.3%	18.2%	18.2%
Per share ratios (INR)			
EPS	61.2	67.3	23.2
Cash EPS	62.7	69.3	23.8
Book value per share	256.9	323.6	103.8
Valuation ratios (x)			
P/E	3.4	3.1	9.1
P/CEPS	3.4	3.0	8.8
P/B	0.8	0.7	2.0
EV/EBITDA	1.6	1.5	6.2
Payout (%)			
Tax payout	26.8%	26.6%	26.0%
Liquidity ratios			
Debtor days	103	127	111
Inventory days	60	72	81
Creditor days	63	61	27
WC Days	99	138	165

Source: Company Reports, Arianth Capital Research

Story in Charts

Exhibit 1: EMS Ltd grew at a CAGR 27.6% over the period of FY21-23 backed by strong execution. The current order book of INR 17,449.2mn (~3.3x of FY23 revenue) shows double digit growth over medium term.

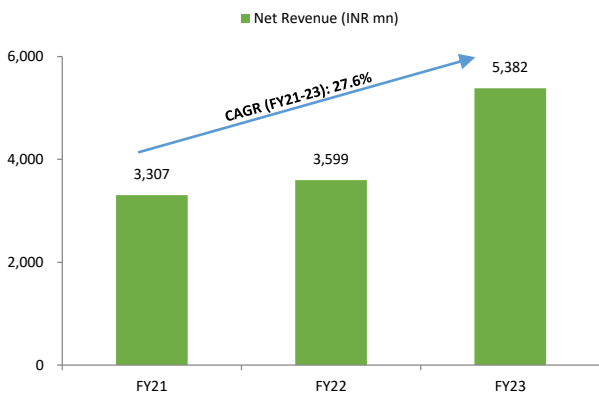


Exhibit 2: The company has maintained gross margins above 30%, the high value projects would lead to cost optimization and margin improvement going forward.

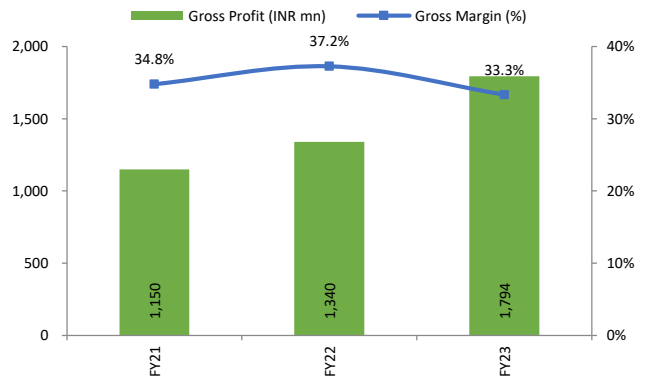


Exhibit 3: The company is very selective for projects and EBITDA and PAT margins are expected to maintain 30% and 20% respectively going forward.

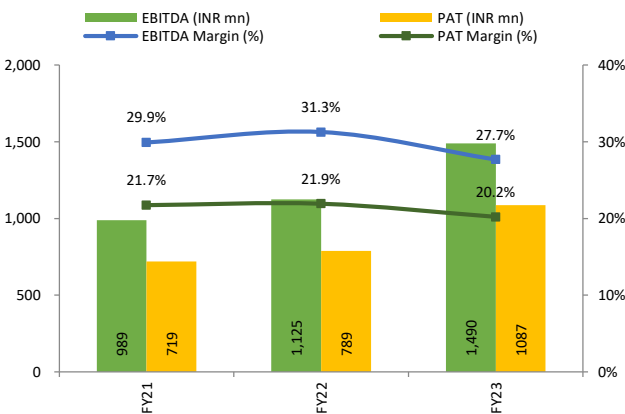


Exhibit 4: Working capital stood around ~69% of sales in FY23. Majority of IPO funds will be utilised for projects working capital requirements.

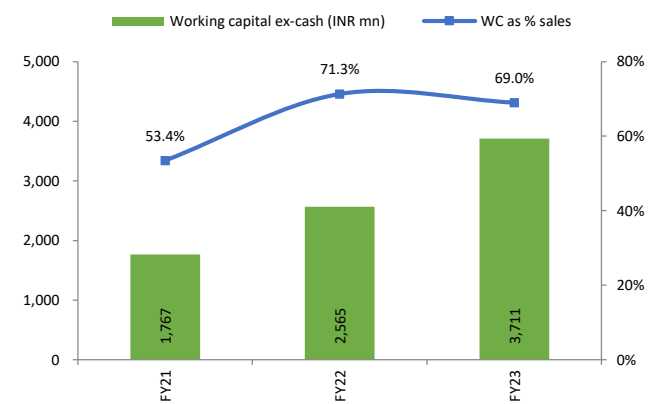


Exhibit 5: Witnessed improvement on Return ratios in FY23. The focus on high value projects with strong execution would improve further going forward.

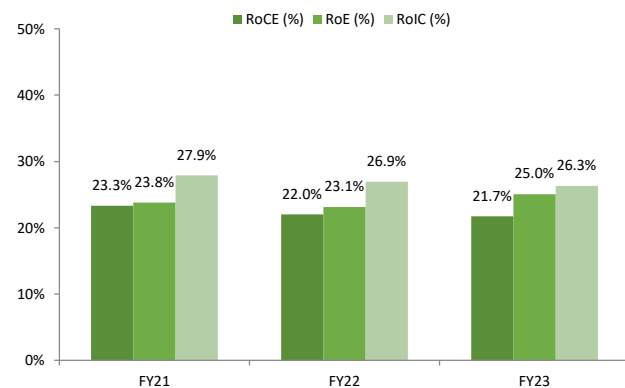
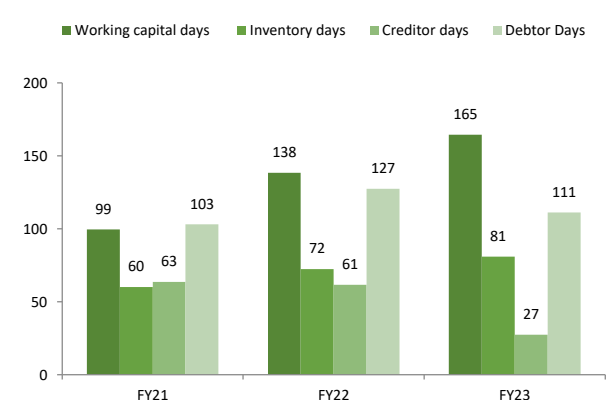


Exhibit 6: Working capital days were increased in FY23.



Source: RHP, Company Reports, Arihant Capital Research

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Stock Rating Scale	Absolute Return
BUY	>20%
ACCUMULATE	12% to 20%
HOLD	5% to 12%
NEUTRAL	-5% to 5%
REDUCE	-5% to -12%
SELL	<-12%

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