

January 31, 2024

EMS Limited: Ratings reaffirmed; rated amount enhanced

Summary of rating action

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Long-term – Fund-based – Cash credit	17.0	32.0	[ICRA] BBB+(Stable); Reaffirmed/ Assigned for enhanced amount
Short-term – Non-fund based	263.0	365.5	[ICRA] A2; Reaffirmed/ Assigned for enhanced amount
Long-term/ Short-term Unallocated	-	52.5	[ICRA]BBB+(Stable)/[ICRA]A2 Assigned
Total	280.0	450.0	

*Instrument details are provided in Annexure-I

Rationale

The reaffirmation of ratings for EMS Limited (EMS, erstwhile EMS Infracon Private Limited) factors in the healthy increase in its scale of operations, with revenues improving to Rs. 484.2 crore in FY2023 (YoY growth of 43%), low leverage (TOL/TNW of 0.3 times)¹ and robust debt coverage metrics (interest cover of 51 times), which is expected to sustain going forward. It had reported revenues of Rs. 308 crore in H1 FY2024 and is likely to close FY2024 at revenues of over Rs. 650 crore. The momentum is anticipated to sustain in FY2025. The company saw strong order inflows in FY2023 and 9M FY2024 resulting in an unexecuted order book of ~Rs. 2,093 crore (including recent order of Rs. 469 crore where it has been declared L1 bidder), which translates to 3.2 times of FY2024e revenue, thereby providing healthy medium-term revenue visibility. The ratings favourably consider the company's healthy financial risk profile, marked by robust profitability (OPBDITA/OI of around 27-29% in FY2023-H1 FY2024), low leverage (TOL/TNW of 0.3 times as on March 31, 2023) and strong debt protection metrics. ICRA notes the successful public listing of EMS in September 2023, whereby it has raised a growth capital of ~Rs. 170 crore, leading to improved liquidity position and enhanced financial flexibility (in terms of access to capital markets and liquidity for shareholders). Further, the ratings continue to draw comfort from the experience of its promoters in executing water supply, sewage treatment projects and civil construction projects and its healthy clientele comprising Government bodies, which reduces the counterparty risks.

Notwithstanding the above, the ratings remain constrained by the company's persistently high working capital intensity, as reflected in NWC/OI at ~63% in H1 FY2024 against ~54% in FY2023 and ~51% in FY2022. This has been driven by sizeable receivables (107/140 days in FY2023/H1 FY2024) and inventory/unbilled revenue holding days (111 days in FY2023 and H1 FY2024), and retention money/security deposits held by clients. The ratings factor in the high execution risk, given the heavy new order addition in the last 12-15 months, with 75% projects at less than 20% completion stage as on October 31, 2023. The company is also involved in developmental business under PPP mode, wherein it is undertaking one hybrid annuity model (HAM) based sewage treatment project through a special purpose vehicle (SPV/subsidiary). The HAM project has faced cost overrun of ~Rs. 36 crore in its construction phase so far, which has been entirely funded by the joint venture (JV) partners from the available liquidity and accruals from operations. Timely completion of the project remains a key monitorable as it has a scheduled COD in April 2024 and the project was ~57% complete as on October 31, 2023. EMS has extended a corporate guarantee for the debt availed by this SPV. The ratings continue to note the inherent risks associated with construction contracts and the intense competition in the sector, which coupled with the tender-based contract awarding system, could result in volatility in revenues and profit margins in future. The ratings consider the company's exposure to sizeable contingent

¹ TOL includes the project debt outstanding in the HAM SPV

liabilities in the form of bank guarantees, mainly for contractual performance, earnest money deposit, etc. Nonetheless, ICRA draws comfort from EMS' execution track record and absence of invocation of guarantees in the past.

The Stable outlook on the long-term rating reflects ICRA's opinion that EMS will continue to benefit from its operational track record and healthy order book. However, addition of incremental HAM projects, which significantly increases its equity commitments and impacts the leverage and liquidity position, will remain a key monitorable.

Key rating drivers and their description

Credit strengths

Experience of promoters and track record of operations – EMS' promoters have more than a decade of experience in executing water supply and sewage treatment projects. In the past, the company executed power supply and civil construction projects as well. In the recent years, it has developed credentials in water supply and treatment projects leading to repeat orders from various Government departments. As a result, revenues witnessed a CAGR of ~12% to Rs. 484 crore in FY2023 from FY2019 level. The Government's strong focus on drinking water and wastewater treatment sectors is expected to help EMS in sustaining its revenue growth momentum over the medium term.

Healthy order book with reputed counterparties providing medium-term revenue visibility – EMS had a pending order book of ~Rs. 2,093 crore, which is to be executed over the next 2-3 years. The order book, which is ~3.2 times of expected FY2024 revenues, thus provides a healthy medium-term revenue visibility. EMS' key clientele includes government bodies like Municipal corporation of Rajasthan (under AMRUT Scheme), Uttarakhand Urban Sector Development Agency and Bihar Urban Infrastructure Development Corporation (under National Mission for Clean Ganga) and CPWD, Maharashtra and are funded (partly or fully) by Central Government or multilateral agencies, which limits the counterparty risks in these projects. Timely execution of the current order book, while prudently managing its working capital requirements, remains a key monitorable over the medium term.

Healthy net worth and debt protection metrics – The company has a healthy financial profile, characterised by robust profitability, with an operating profit margin of 27-31% during the past five years and strong capitalisation as reflected in low Total outside liability/Tangible Net Worth ratio of 0.3 times as on March 31, 2023. With robust profitability and inflow of funds following its IPO in September 2023, its net worth significantly improved to ~Rs. 718 crore as on September 30, 2023 from ~Rs. 160 crore as on March 31, 2019. EMS' liquidity position has strengthened by the funds available from IPO and is supported by the availability of unencumbered cash balance and access to undrawn fund-based facilities. These factors have helped the company (and are expected to keep) in keeping a low reliance on external debt and consequently robust debt coverage indicators.

Credit challenges

High working capital intensity – The company has high working capital-intensive operations with sizeable receivables due over six months and unbilled revenues/inventory of over 111 days. The rise in working capital intensity in H1 FY2024 was mainly due to an increase in receivables to Rs. 236 crore as on September 30, 2023 from Rs. 142 crore as on March 31, 2023, partly owing to higher billing in August-September 2023. However, the share of receivables over 180 days increased to 35% in September 2023 vis-à-vis 25% in March 2022 (100% increase in absolute terms). As these receivables get realised, the debtor days and working capital intensity are expected to reduce. The retention money and security deposits increased over the years due to longer release cycle. While the terms vary across contracts, security deposits are released on the expiry of the defect liability period (DLP). The DLP period starts after trial runs and stabilisation period, which elongates the release cycle. Besides, the contracts involve operations and maintenance (period within 5-15 years), which is concurrent with DLP.

Exposure towards HAM project – EMS is undertaking one HAM project in a 60:40 JV with the EMIT Group (Ercole Marelli Impianti Tecnologi S.r.l), which is being developed in an SPV - Mirzapur Ghazipur STPs Private Limited (MGSPL). This project

originally entailed equity commitment of (~Rs. 22 crore) from EMS, which is expected to almost double by the end of the construction period due to cost overrun. The project was 57% completed in October 2023, which exposes it to residual project implementation risks (scheduled COD in April 2024). Overall, the timely completion of the project within the budgeted cost will be crucial to maintain returns from these investments. The risk of delays in receipt of grant and annuity in these projects or rise in maintenance costs could increase the support required towards this project. Further, any significant increase in equity commitments, due to the addition of new HAM projects, which significantly impacts EMS' leverage and liquidity position, will remain a key monitorable.

Execution and sector-related risk including high non-fund-based exposure – While the order book is strong and counterparties are reputed and well-funded, the project and client concentration risks persist for EMS, with top three projects forming 55% and top three clients constituting nearly 80% of the outstanding order book as on October 31, 2023. EMS is also exposed to execution risks associated with the contracts as more than three fourth of orders are in the early stage with less than 20% progress (large orders were awarded over the last few months). Further, as inherent to the construction industry, the company is exposed to cyclicity and intense competition in the tender-based contract award system, resulting in risk of volatility in order inflows, revenues, and profitability. Like other contractors, it has sizeable contingent liabilities in the form of bank guarantees (Rs. 260 crore as on October 31, 2023), mainly for contractual performance, earnest money deposit, mobilisation advance and security deposits. Nonetheless, ICRA draws comfort from EMS' long presence and established relationship with clients, healthy execution track record and no invocation of guarantees in the past.

Liquidity position: Strong

The company's liquidity is strong, as reflected in its free cash and bank balances and liquid investments of around Rs. 175 crore as on September 30, 2023. In addition, it has buffer available in its fund-based working capital bank limits (Rs. 32-crore limit utilisation averaged at 30% in 12-month period ended in October 2023). In addition, it enjoys flexibility through provision to avail mobilisation advances against bank guarantees across its projects and has buffer available in its non-fund-based limits (24% of Rs. 350 crore was unutilised as on October 31, 2023). EMS has no major capex plans or debt repayment obligations in FY2025. The expected cash flows from operations and liquidity available are likely to remain comfortable to meet its debt servicing obligations, working capital requirements and equity commitments in the HAM project.

Environment and social consideration

Environmental consideration – EMS' business is primarily related to the environment and water treatment. It operates at multiple project sites at any point of time. Therefore, the risk of business disruptions on account of physical climate risks is low. Given that construction activity generates air pollution, entities in the industry remain vulnerable to the risk of temporary bans on operations in cities that are more sensitive to deteriorating air quality, which exposes the company to the price escalation risk. Nevertheless, most of its projects have price escalation clauses and it seeks compensation from the client if there is delay on account of environmental issues, geographical issues, etc.

Social consideration – Construction entities, like EMS, face social risks stemming from the health and safety concerns of its workers, which could invite regulatory or legal action, besides reputational harm. However, it has a track record of maintaining healthy relationships with its workers/employees, including contractual labour with no major incidents of a slowdown in execution because of workforce management issues.

Rating sensitivities

Positive factors – The ratings maybe upgraded if there is a sustained improvement in its working capital intensity, scale of operations and earnings while maintaining strong leverage and coverage metrics. Specific credit metrics which would be a monitorable is $NWC/OI < 25\%$ on a prolonged basis.

Negative factors – The ratings may be downgraded if the working capital intensity remains elevated, or if a substantial decline in its revenues or profitability, or significant investments in BOT/HAM projects lead to a moderation in its credit metrics or liquidity position.

Analytical approach

Analytical Approach	Comments
Applicable rating methodologies	Corporate Credit Rating Methodology Rating Methodology for Construction
Parent/Group support	Not Applicable
Consolidation/Standalone	For arriving at the ratings, ICRA has done full consolidation of HAM project SPV as EMS Ltd has extended corporate guarantee for the entire debt and tenor of this entity. Details are mentioned under Annexure-2

About the company

EMS Limited (formerly known as Infracon Private Limited) is an engineering, procurement, and construction (EPC) contractor with focus on executing water supply and sewerage infrastructure projects. EMS undertakes EPC works in other segments like power transmission, civil construction, electrical transmission and distribution, construction of buildings and allied works. Its clientele comprises Urban Local Bodies of UP and Bihar, like UP Jal Nigam, Bihar Urban Infrastructure Development Corporation Ltd. (BUIDCo), Municipal Commissioner for various districts among others.

EMS was incorporated in 2010 by its current directors Ramveer Singh and Ashish Tomar. The company took over the partnership firm 'M/s Satish Kumar (SK)' in June 2012, that was involved in the civil construction business and was promoted by Mr. Satish Kumar and Ramveer Singh. The company got listed on the BSE and NSE stock exchange in September 2023.

Key financial indicators (audited)

Standalone	FY2022	FY2023	H1 FY2024
Operating income (Rs. Crore)	337.7	484.2	308.5
PAT (Rs. Crore)	74.2	103.1	66.7
OPBDIT/OI (%)	31.4%	29.0%	27.5%
PAT/OI (%)	22.0%	21.3%	21.6%
Total outside liabilities/Tangible net worth (times)	0.3	0.2	0.2
Total debt/OPBDIT (times)	0.0	0.0	0.0
Interest coverage (times)	18.5	51.0	64.1

Source: Company data; ICRA Research; All ratios are as per ICRA calculations

PAT: Profit after tax; OPBDIT: Operating profit before depreciation, interest, taxes and amortisation

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

Rating history for past three years

Instrument	Type	Current rating (FY2024)		Chronology of rating history for the past 3 years			
		Amount rated (Rs. crore)	Amount outstanding (Rs. crore) as on Dec 31, 2024	Date & rating in FY2024	Date & rating in FY2023	Date & rating in FY2022	Date & rating in FY2021
				January 31, 2024	October 28, 2022	Jul 05, 2021	-
1 Fund-based - Cash credit	Long term	32.0	-	[ICRA]BBB+ (Stable)	[ICRA]BBB+ (Stable)	[ICRA]BBB+ (Stable)	-
2 Non-fund based	Short term	365.5	-	[ICRA]A2	[ICRA]A2	[ICRA]A2	-
3 Unallocated	Long term/ short term	52.5	-	[ICRA]BBB+(Stable)/ [ICRA] A2	-	[ICRA]BBB+(Stable)/ [ICRA] A2	-

Complexity level of the rated instruments

Instrument	Complexity Indicator
Fund-based - Cash credit	Simple
Non-fund based	Very Simple
Unallocated	NA

The Complexity Indicator refers to the ease with which the returns associated with the rated instrument could be estimated. It does not indicate the risk related to the timely payments on the instrument, which is rather indicated by the instrument's credit rating. It also does not indicate the complexity associated with analysing an entity's financial, business, industry risks or complexity related to the structural, transactional or legal aspects. Details on the complexity levels of the instruments are available on ICRA's website: [Click Here](#)

Annexure I: Instrument details

ISIN	Instrument Name	Date of Issuance	Coupon Rate	Maturity	Amount Rated (Rs. crore)	Current Rating and Outlook
NA	Fund-based - Cash credit	NA	NA	NA	32.00	[ICRA]BBB+(Stable)
NA	Non-fund based	NA	NA	NA	365.50	[ICRA]A2
NA	Unallocated	NA	NA	NA	52.50	[ICRA]BBB+(Stable)/ [ICRA]A2

Source: Company

[Please click here to view details of lender-wise facilities rated by ICRA](#)

Annexure II: List of entities considered for consolidated analysis:

Company Name	EMS Ownership	Consolidation Approach
Mirzapur Ghazipur STPs Private Limited	60%	Full Consolidation

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