

IPO NOTE



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CONCORD ENVIRO SYSTEMS LIMITED
18.12.2024



Canara Bank Securities Ltd
A Wholly Owned Subsidiary Of Canara Bank



- ◆ Founded in July 1999, Concord Enviro Systems Limited is a global water and wastewater treatment and reuse solutions provider, including zero-liquid discharge (ZLD) technology.
- ◆ The company offers in-house solutions across the entire value chain, including design, manufacturing, installation, operation and maintenance (O&M), and digitalization, such as IoT. The company provides integrated wastewater treatment and zero liquid discharge (ZLD) solutions, focusing on energy optimization and recovery to aid industries in achieving water conservation and sustainability goals.
- ◆ The company's business can be segregated into the following: -
- ◆ The manufacture and sale of water and wastewater treatment, reuse and ZLD of systems and plants and turnkey solutions;
 - ◇ Operations and maintenance;
 - ◇ The manufacture and sale of consumables and spare parts (including membranes, plants, chemicals and consumables); and
 - ◇ Installation of compressed biogas plants ("CBG Plants").
- ◆ As of March 31, 2024, the company exports its solutions to North America, Latin America, Africa, the Middle East, and Southeast Asia and has a large customer base of 377 customers worldwide.
- ◆ As of FY 2024, the company has served over 353 domestic and 24 international customers in pharmaceuticals, chemicals, food and beverage, defence, automotive, steel, and textiles, with a presence in two countries.
- ◆ As of August 31, 2024, the company operates two manufacturing facilities: one located in Vasai, Maharashtra, India, and the other in Sharjah, UAE. The company uses its operations in UAE to spearhead its international business. The company develops its solutions through an in-house R&D team comprising 25 employees, which designs industry-specific membranes for its systems and develops new technologies and processes. By August 31, 2024, the company had been awarded four patents in India and had filed nine additional patent applications.

Objects of the Offer

- ◆ Investment in Concord Enviro FZE (CEF) for capital expenditure on the U.A.E. greenfield project (assembly unit for water treatment systems).
 - ◆ Investment in Rochem Separation Systems (India) Pvt. Ltd. (RSSPL) for expanding manufacturing and storage (Vasai Project).
 - ◆ Funding capital expenditure for purchasing plant and machinery.
 - ◆ Investment in CEF for prepayment/repayment of outstanding borrowings.
 - ◆ Investment in CEF for funding working capital requirements.
 - ◆ Investment in Reserve Enviro Pvt. Ltd. to expand pay-per-use/pay-as-you-treat business.
 - ◆ Investment in technology and growth initiatives to access new markets.
- General corporate purposes.

Issue Details

Price Band (in ₹ per share)	665-771
Issue size (in ₹ Crore)	483.62-500.33
Fresh Issue (in ₹ Crore)	175.00
OFS (in ₹ Crore)	308.62-325.33
Issue open date	19.12.2024
Issue close date	23.12.2024
Tentative date of Allotment	24.12.2024
Tentative date of Listing	27.12.2024
Total number of shares (lakhs)	72.72-71.37
No. of shares for QIBs (50%) (lakhs)	36.36-35.69
No. of shares for NII (15%) (lakhs)	10.91-10.71
No. of shares for S-HNI (33%) (lakhs)	3.64-3.57
No. of shares for B-HNI (66%) (lakhs)	7.27-7.14
No. of shares for retail investors (35%) (lakhs)	25.45-24.98
No of shares for Employee Reservation (lakhs)	NA
Minimum order quantity	21
Face value (in ₹)	5.00
Amount for retail investors (1 lot) (in ₹)	13965-14721
Maximum no. of shares for Retail investors at Lower Band	294 (14 lots)
Maximum no. of shares for Retail investors at Upper Band	273 (13 lots)
Maximum amount for retail investors at lower band - upper band (in ₹)	195510-191373
Minimum no. of shares for sHNI (2 Lakhs) at upper band	294 (14 lots)
Maximum no. of shares for sHNI (10 Lakhs) at upper band	1407 (67 lots)
Minimum number of shares for bHNI at upper band	1428 (68 lots)
Exchanges to be listed on	BSE & NSE

Promoters

- PRAYAS GOEL
- PRERAK GOEL

BRIEF FINANCIALS

PARTICULARS (Rs. Cr) *	5MFY25	FY24	FY23	FY22
Share Capital	9.10	9.10	9.10 ^{^^}	0.42
Net Worth	319.71	320.81	279.22	266.81
Revenue from Operations	206.17	496.85	343.21	329.36
EBITDA	15.11	81.14	49.58	61.42
EBITDA Margin (%)	7.33	16.33	14.45	18.65
Profit/(Loss) After Tax	0.51	41.43	5.48	16.47
EPS (in Rs.)	0.67 [^]	22.77	3.01	9.05
Net Asset Value (in Rs.)	176.62	177.23	154.38	147.55
Total borrowings	167.53	153.18	131.06	125.75
P/E [#]	1043.15	30.79	NA	NA
P/B [#]	3.97	3.96	NA	NA

*Restated consolidated financials; #Calculated at upper price band [^]Annualised ^{^^}Bonus issuance in the ratio of 17:1

Profit & Loss Statement

Particulars (In Crores)	FY2022	FY2023	FY2024
INCOME			
Revenue from operations	329.37	343.22	496.86
Other Income	8.20	7.28	15.42
Total Income	337.57	350.50	512.27
YoY Growth (%)	-	4.21%	44.76%
Cost of raw materials and components consumed	131.27	141.42	224.44
Cost of raw materials and components consumed-% of Revenue	38.89%	40.35%	43.81%
Service Charges	29.62	28.40	25.30
Service Charges-% of Revenue	8.78%	8.10%	4.94%
Employee benefit expenses	52.03	57.88	71.01
Employee Expenses-% of Revenue	15.41%	16.51%	13.86%
Purchase of stock-in-trade	16.91	11.77	37.12
Purchase of stock-in-trade-% of Revenue	5.01%	3.36%	7.25%
Increase/(decrease) in inventories of finished goods and work-in-progress	-9.96	-7.93	1.29
Other expenses	56.01	68.67	68.75
Depreciation and amortisation expense	25.48	24.34	21.87
EBIT	36.20	25.95	62.50
EBIT Margin (%)	10.72%	7.40%	12.20%
Finance cost	18.51	18.75	17.79
Share of profit / (loss) of joint ventures (C)	0.84	0.36	-0.71
Profit before tax	18.531	7.553	43.997
Tax expenses			
Current tax	4.18	2.27	3.54
Deferred Tax	-1.43	-0.42	-0.98
(Excess) / Short Provision of Tax	-0.69	0.21	0.00
Total tax expenses	2.05	2.07	2.56
Profit for the year	16.48	5.49	41.44
PAT Margin (%)	5.00%	1.60%	8.34%

Cashflow Statement

Particulars (In Crores)	FY2022	FY2023	FY2024
Cash generated from operating activities	53.00	120.93	-30.05
Income tax paid (net of refunds)	-3.96	-3.57	-4.62
Net cash generated from operating activities	49.03	117.36	-34.67
Net cash used in investing activities	-27.89	-49.83	-3.27
Net cash used in financing activities	-11.97	-26.88	-4.07
Net increase/ (decrease) in cash and cash equivalents	9.18	40.65	-42.00
Cash and cash equivalents at the beginning of the period/ year	10.43	19.61	60.26
Foreign currency translation reserve	0.00	0.00	0.00
Cash and cash equivalent as at year end	19.61	60.26	18.26

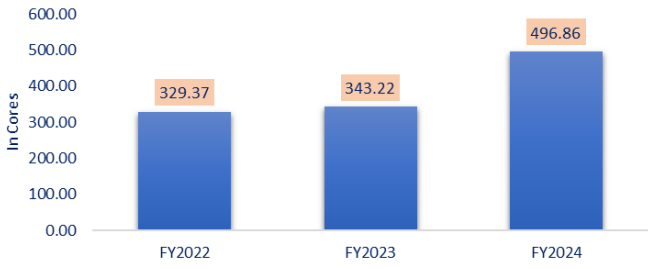
Balance Sheet

Particulars (In Crores)	FY2022	FY2023	FY2024
Assets			
Non-current assets			
Property, Plant and Equipment	73.65	68.06	61.47
Right of use assets	49.86	43.87	14.67
Intangible assets	25.91	27.30	27.57
Intangible assets under development			0.97
Capital work in progress	0.08	0.36	1.37
Financial assets			
Investments			
Investments accounted for using equity method	21.10	55.11	58.25
Other investments	0.74	0.92	1.74
Other financial assets	8.37	9.00	3.29
Deferred tax assets (net)	6.28	6.93	8.14
Current tax assets (net)	0.83	1.41	2.35
Other Non Current assets	22.86	6.68	11.06
Total non-current assets	209.67	219.63	190.86
Current assets			
Inventories	134.36	149.93	153.99
Financial Assets			
Trade Receivables	128.50	105.87	171.36
Cash and Cash Equivalents	19.61	60.26	18.26
Bank Balances other than above	9.67	22.15	13.38
Loans	1.16	0.28	0.35
Others	3.09	3.12	10.93
Contract Assets	6.86	1.11	22.47
Other Current Assets	23.98	29.88	46.07
Total current Asset	327.23	372.59	436.81
Total assets	536.90	592.22	627.68
Equity and liabilities			
Equity			
Equity Share Capital	0.43	9.10	9.10
Other Equity	268.12	271.86	313.45
Total equity	268.55	280.96	322.55
Liabilities			
Non-Current liabilities			
Financial Liabilities			
Borrowings	41.14	33.10	22.82
Lease liabilities	33.08	26.52	2.20
Other Financial Liabilities	0.20	0.35	2.00
Provisions	4.48	6.03	7.77
Other non-current liabilities	0.15	0.06	1.45
Total Non-Current liabilities	79.05	66.06	36.25
Current liabilities			
Financial liabilities			
Borrowings	84.62	97.96	130.37
Lease liabilities	12.59	12.89	3.23
Trade payables			
Due to MSME	6.32	6.35	18.39
Due to other than MSME	67.46	80.41	97.28
Other financial liabilities	3.13	2.28	1.75
Provisions	1.95	2.23	2.48
Contract liabilities	6.28	37.03	8.50
Current tax liabilities (net)	1.36	0.85	0.71
Other current liabilities	5.62	5.19	6.18
Total Current liabilities	189.31	245.20	268.88
Total liabilities	268.35	311.26	305.12
Total equity and liabilities	536.90	592.22	627.68

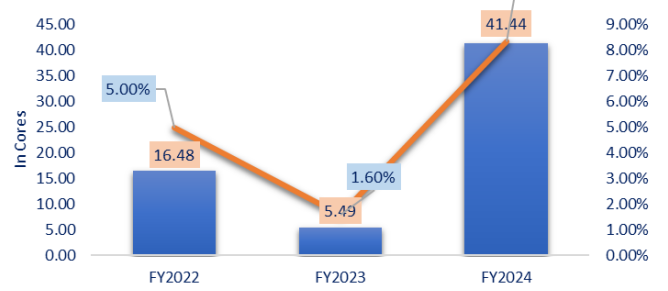


PERFORMANCE THROUGH CHARTS

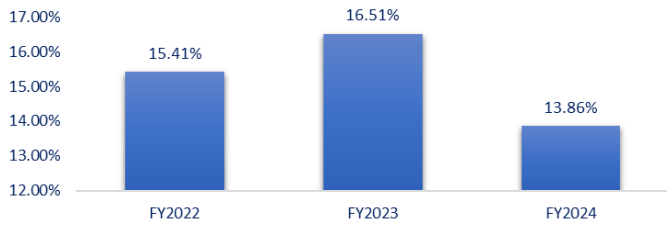
REVENUE HAS GROWN BY 23% CAGR 2 YR



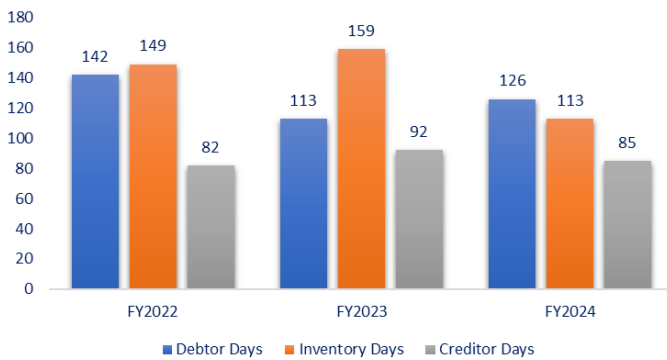
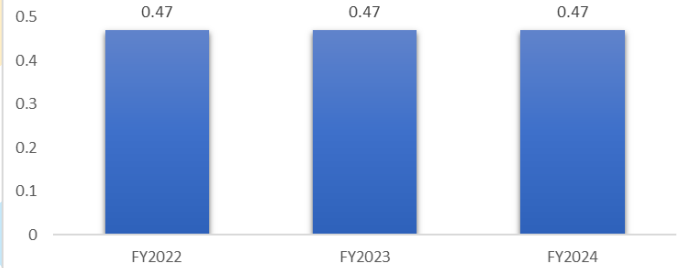
PAT GREW BY 59% CAGR 2 YR



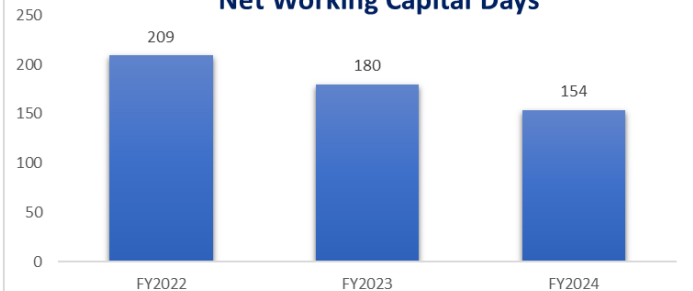
EMPLOYEE EXPENSE AS % TO REVENUE IS DECREASING



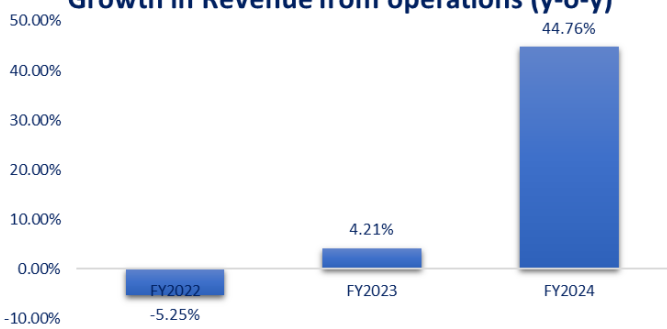
Debt to equity Ratio



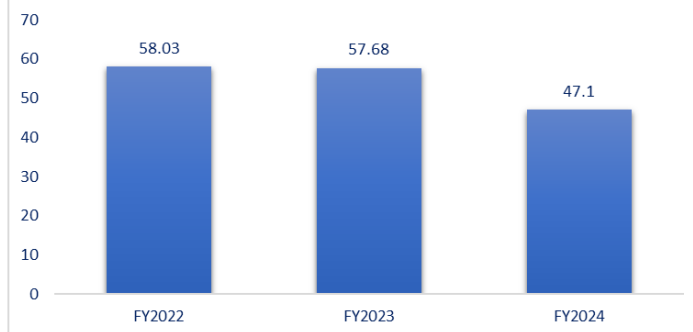
Net Working Capital Days



Growth in Revenue from operations (y-o-y)



Gross Profit Margin (%)



INDUSTRY REVIEW

Water scarcity/water stress in India is highest at 66.5% when compared to other developing economies, and lowest in Brazil at 1.5%;

- India has the highest levels of water stress as compared to BRICS nations at 65%, South Africa is facing a similar situation with a stress level of 65%.
- China follows it with 42% and Brazil has the least amount of stress with 1.5%.
- Short-term droughts can lead to water shortages and force governments to shut off taps, as seen in countries like India, England, Iran, Mexico, and South Africa.
- The Middle East and South Africa are the most affected regions, with 83% of the population under extreme water stress, followed by South Asia, where 74% of the population is similarly impacted.
- As of 2023, South Africa continues to grapple with severe water shortages, a situation exemplified by Cape Town's narrowly averted "Day Zero" in 2018.
- Rainfall remains inconsistent and unpredictable, exacerbated by global warming, leading to water levels in dams being critically low in various regions.
- KwaZulu-Natal faces severe water theft and infrastructural issues, while Gauteng's growing population strains its limited water resources, awaiting relief from projects like the Polihali Dam expected in 2026.

Global water and wastewater treatment solutions market analysis;

- Wastewater treatment aims to convert wastewater into environmentally suitable effluent, meeting national and international standards for returning to the water cycle.
- It involves primary, secondary, and tertiary treatment stages. Globally, municipalities and industries pursue water infrastructure sustainability through net-zero, decarbonization, and circularity goals.
- They utilize IoT, real-time monitoring, and AI to enhance energy efficiency, with a notable increase in circular water and sludge management, especially in the Asia Pacific region.
- Europe, North America & other economies are focusing on emerging pollutants treatment, with global reuse of treated wastewater increasing.
- Concord has also implemented digitalization solutions (including IoT) to provide data capture and analysis platforms that enable real-time monitoring, troubleshooting, and preventative maintenance of their installed systems and plants.

Indian water and wastewater treatment solutions market size;

- The water and wastewater management market in India was valued at US\$ 7.3B in FY24 and is expected to reach US\$ 12.8B by FY29, growing at a CAGR of 12.0% from FY24 to FY29.
- This growth is driven by the economic imperative of efficient water management.
- As the concerns over water scarcity intensify, industries and municipalities face increasing pressure to adopt efficient wastewater treatment practices.
- This leads to stringent regulations on effluent treatment and the escalating concern over water scarcity, prompting a significant shift towards reducing freshwater usage across various sectors.
- As the world's third-largest coal producer, India faces significant environmental challenges that are spurring demand for advanced wastewater treatment solutions.
- In 2021, India generates 72,368 MLD of sewage daily, but only 20,235 MLD (28%) of this is treated, despite STPs having an installed capacity of 31,841 MLD (44%).
- This untreated sewage poses substantial costs for municipalities, including increased public health risks, environmental degradation, and higher expenses for emergency clean-ups.
- Improved sewage treatment capacity is crucial to reduce these costs and ensure fiscal stability.



COMPETITIVE STRENGTHS OF THE COMPANY

Expertise in ZLD technology in India and well placed to harness global industry opportunities.

- They are an integrated solutions provider of industrial wastewater reuse and ZLD solutions with a global presence. Their inhouse capabilities span across the value chain including design, component manufacturing, installation and commissioning, O&M including digitalization solutions including IoT technology for analysis of customer data.
- As of Fiscal 2024 they were among the top two largest ZLD solutions providers in India in terms of the revenue and through their recycling solutions have been supporting their customers to achieve their water conservation and achieve sustainability goals. In addition, they are one of the major Indian manufacturers of offshore desalination systems, which is well-positioned to contribute to these efforts.

Integrated solutions provider supported by backward integrated manufacturing facilities

- They are a leading global provider of water and wastewater treatment and reuse solutions, including zero liquid discharge ("ZLD") technology, in terms of revenue from operations, as on March 31, 2024. They design, manufacture, install, operate and maintain industrial wastewater reuse and ZLD solutions.
- Their integrated solutions incorporate their own industry specific designs and include their inhouse designed and manufactured membranes and systems and plants (including effluent treatment plants, Membrane based plants and waste heat evaporators).
- They are an end-to-end solutions provider for the entire wastewater treatment needs of their customers across a diverse set of industries such as pharmaceutical, chemicals, food and beverage, defence and offshore, automotive and auto ancillaries, steel and textiles. Their end-to-end solutions encompass a range of integrated offerings.

Established presence in international markets

- They have an established presence in international markets, which complements their domestic business and present opportunities for growth.
- They employ a differentiated approach for entering and deepening their presence in each of their markets so as to address the unique characteristics of each market, such as, its regulatory landscape, market size, competitive landscape and scope for their products.
- They export their products and deliver their services across geographies. As on August 31, 2024, their reach has grown across diverse regions, with exports extending to countries in North America, Latin America, Africa, and Southeast Asia. As of August 31, 2024, they exported their products and delivered their services to over 14 countries in Asia, North Africa, Latin America and Europe. Their major international customers are Diageo Mexico Operaciones, S.A. De C.V. and AB Mauri.

Diversified customer base across multiple industries and geographies

- They have a diversified customer base across industries and geographies. As of August 31, 2024, they had 289 domestic customers and 21 international customers.
- They provide their wastewater treatment products and services to industries such as pharmaceutical, chemicals, food and beverage, defence and offshore, automotive and auto ancillaries, steel and textiles industries, amongst others.
- They also have built a strong international customer base.
- They use their operations in the UAE. to spearhead their international business. As of August 31, 2024, they exported their products and delivered their services to over 14 countries in Asia, North Africa, Latin America and Europe. Their major international customers are Diageo Mexico Operaciones, S.A. De C.V. and AB Mauri.
- During the five-month period ended August 31, 2024 and Fiscal 2024, Fiscal 2023 and Fiscal 2022, their consolidated revenue outside India, as a percentage of their revenue from operations were 44.39%, 41.77%, 24.04% and 22.48%, respectively.

RISK FACTORS

Their Order Book is subject to cancellation, modification or delay which may materially and adversely affect their business, prospects, reputation, financial condition and results of operation.

- As on June 30, 2024, their confirmed Order Book amounted to ₹ 102,130.66 million and sets forth expected revenue of around 55% - 60% from ongoing projects in the next twelve months.
- While there has been no material instance in the past three Financial Years, however, in such events, they may have to bear the actual costs for project activities incurred by them which may exceed the agreed work, as a result of which their future earnings may be lower from the amount of the Order Book and if any of the forgoing risks materialize, their cash flow position, revenues and earnings may be adversely affected.

They are exposed to foreign currency fluctuation risks, particularly in relation to import of raw materials, receivables from their foreign projects and their trade receivables, which may adversely affect their results of operations, financial condition and cash flows.

- They present their financial statements in Indian Rupees. However, given that they execute projects outside India a significant portion of their business transactions is dealing with in foreign currencies.
- Further, their raw materials such as zinc and aluminum are priced by reference to global benchmarks quoted in US dollars, and hence their expenditures are largely influenced by the value of the US dollar.
- While they hedge their foreign currency exposure through forward contracts, a very small portion of their international business is hedged.
- Accordingly, depreciation of the Indian Rupee against the USD and other foreign currencies may adversely affect their results of operations if there is an increase in the cost of the raw materials they import or any proposed capital expenditure in foreign currencies.

In the past, their books of accounts have been inspected by the Ministry of Corporate Affairs (“MCA”) and certain non-compliances have been found by the MCA in their books of accounts. If they are subject to penalties or other regulatory actions in relation to the non-compliances, their reputation, business and results of operations could be adversely affected.

- MCA had conducted an inspection of their books of accounts, records and other statutory documents on November 19, 2018, under Section 206(5) of the Companies Act, 2013, whereby their Company was required to furnish certain details for the period from April 1, 2014 to March 31, 2018, about, inter alia, (a) the long term borrowing availed from Gammon India Limited in Financial Year ended March 31, 2014, (b) the various corporate guarantees given by them to various companies since April 1, 2014, (c) liabilities of their Company, (d) loans and advances made by their Company, (e) subcontracting expenses incurred by the Company, (f) provisioning for debts made by their Company.
- The MCA did not provide for the reasons for conducting such an inspection.
- Their Company has not received any communication from the MCA concerning the date of closure of the inspection.
- However, their Company received a letter dated November 27, 2020, directing their Company to compound, the first four of the aforementioned non-compliances.
- Their Company has not received any correspondence from the MCA, post letter dated November 27, 2020, and accordingly, no further action is required from the Company.
- They cannot assure you that such type of lapses will not occur in the future and that they will not be subject to further penalties or other regulatory action.

Their business relies on Vasai and Sharjah facilities, with FY24 operating costs of ₹1,312.26M and ₹861.68M. Uncontrollable manufacturing risks may adversely impact operations, financial health, and cash flows.

- They have manufacturing facilities in Vasai, Maharashtra and Sharjah, U.A.E. Their business is dependent upon their ability to manage their manufacturing facilities, which are subject to various operating risks, including those beyond their control, such as the breakdown or failure of equipment, industrial accidents, severe weather conditions and natural disasters.
- Any significant malfunction or breakdown of their machinery, their equipment, their automation systems, their IT systems or any other part of their manufacturing processes or systems (together, their “Manufacturing Assets”) may entail significant repair and maintenance costs and cause delays in their operations.
- If they are unable to repair Manufacturing Assets in a timely manner or at all, their operations may need to be suspended until they procure the appropriate Manufacturing Assets to replace them.

PEER COMPARISON

Name of the company	Revenue from Operations (in Cr)	Face Value (Rs per share)	EPS (in Rs)	NAV (Per share Rs)	RoE (%)	P/E*	P/B*
Concord Enviro Systems Limited	496.85	5.00	22.77	177.23	12.92	30.79	3.96
Praj Industries Limited	3509.77	2.00	15.42	69.35	22.24	53.53	11.90
Ion Exchange (India) Limited	2391.73	1.00	16.53	86.15	19.24	42.09	8.08
Triveni Engineering and Industries Limited	5220.09	1.00	18.05	132.51	13.80	25.19	3.43
VA Tech Wabag Limited	2856.40	2.00	39.49	235.96	15.04	47.77	8.00
Thermax Limited	9323.46	2.00	57.28	314.96	14.80	85.59	15.57

*P/E & P/B ratio based on closing market price as of December 16th, 2024, at the upper price and of IPO, financial details consolidated audited results as of FY24.

KEY BUSINESS INSIGHTS

- The company started by providing machines to the Navy for desalination of seawater. It designs, manufactures, deploys, and commissions its machines for recycling the industrial water and using again for industrial application.
- India and globally, the recycling and reuse wastewater market is experiencing robust growth and is projected to grow at a CAGR of 10.1%, increasing from USD 30 billion in CY23 to USD 48.6 billion. In order to capitalize on this expected growth in demand for water and wastewater treatment systems and plants, the company is expanding its capacity for the manufacture of membrane modules, WHE modules and containerised plants by building a new assembly unit near the existing facility in Sharjah. Membranes, a key machinery component, are manufactured in the UAE, while other parts are assembled in Vasai, India.
- Only 0.01% of industrial water is recycled out of the 7% industrial water usage, highlighting significant growth potential in water recycling. Operations and Maintenance (O&M) contribute 30-40% of the business, with agreements lasting 1-2 years.
- The company has different divisions: REVA manages biological plants, Rochem focuses on O&M, Roserve handles leasing operations, and Concord Enviro oversees exports. EPS business is executed for Diageo as a greenfield project, supported by a Mexico entity established to serve this client. ₹170 crore out of a ₹240 crore order book from Diageo has been executed, with the remaining to be billed in the future.
- Vanilla equipment projects are completed in 12 weeks, while full-chain systems take up to 18 months. Pilot testing of equipment is conducted before installation. Pumps are imported from the USA, plastic fittings are imported from Switzerland due to high pressure requirements, and 40% of raw materials are imported. Pipes are procured locally.
- The company's machines can process 2 tons of feed per day, recovering 90% of the water. Research and testing of industrial feed for water treatment solutions are conducted in R&D centers, and client samples are analyzed for suitable treatment technologies.
- Membrane technology is the company's USP and accounts for 20% of costs. Advanced techniques include ultra-filtration for lower power usage and better recovery, plate technology for settling waste efficiently, and macro and nanotechnologies for improved recovery. The lead time for evaporator manufacturing is 6 months, and the company is working to reduce this timeline.
- Revenue growth is expected to align with the order book. The CBG business expects an order book of ₹300 crore for FY25. The company projects a 30-45% CAGR growth in the order book over the next 2-3 years.

OUR VIEW

The company operates in the high-potential water recycling and treatment industry, addressing critical environmental challenges with innovative technologies. With only 0.01% of industrial water being recycled and significant regional disparities in water costs, the sector offers immense growth opportunities. The company's end-to-end solutions, including its USP in membrane technology and advanced techniques like ultra-filtration and nanotechnology, ensure high water recovery rates of up to 90%. Diversified operations through segments like REVA for biological plants, Rochem for O&M, and Roserve for leasing demonstrate a well-structured business model, while backward integration through UAE-based membrane manufacturing enhances cost efficiency. High-margin segments like O&M and consumables, contributing 30-40% of revenues, further strengthen profitability, supported by the company's R&D capabilities and pilot testing services. However, reliance on imports for 40% of raw materials and long lead times for components like evaporators remain key execution challenges.

They are expecting good revenue visibility in future due to strong pipeline of orders from Diageo and CBG orders. However, improving execution timelines and reducing dependency on imports and Diageo by looking for business across globe will be crucial for long-term scalability, sustainability and efficiency. In terms of valuation, they are available at P/E of 30.79x as of FY2024 which is better than peers.

We recommend to **SUBSCRIBE** to the issue for long term gains.

Sources: Company website and red herring prospectus

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Canara Bank Securities Ltd.

(A Wholly Owned Subsidiary of Canara Bank)



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Analyst Certification

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