April 10, 2023

EKI Energy Services Limited: Ratings assigned

Summary of rating action

Instrument*	Current Rated Amount (Rs. crore)	Rating Action
Long term/Short term - Fund based/Non fund based	40.00	[ICRA]BBB+ (Stable)/[ICRA]A2; assigned
Long term/Short term - Unallocated	10.00	[ICRA]BBB+ (Stable)/[ICRA]A2; assigned
Total	**50.00**	

**Instrument details are provided in Annexure-1*

Rationale

ICRA's assigned ratings for EKI Energy Services Limited (EKIESL) factor in the growing demand for voluntary carbon credits globally and its respectable market share. The sustainability pledge by many corporates, especially in developed economies, to voluntarily contribute to the global climate action by limiting their emissions has led to a substantial rise in carbon credit trading volumes in the voluntary carbon credit market over the last two years. As a result, EKIESL, which provides consultancy services for trading in voluntary carbon credits and is a leading player in India in this space, witnessed a significant rise in revenues to Rs. 1,800 crore in FY2022 from Rs. 190 crore in FY2021, which sustained in 9M FY2023.

The ratings consider the strong financial profile of the company, reflected in its healthy return metrics in FY2022 and 9M FY2023, low leverage and strong debt coverage metrics. The ratings also positively factor in the company's reputed client base, including large corporate groups and global commodity trading platforms, along with the tying up with various project developers for the supply of carbon credits.

The ratings are, however, constrained by the sensitivity of the company's revenues and profitability to volume and pricing risks in the voluntary carbon credit market. The demand for carbon credits remains sensitive to corporate budget allocation towards sustainability spending amid heightened concerns over recession in the developed markets. Further, the competitive intensity is expected to increase with an evolving market and fewer entry barriers. The increased competition could pose challenges to the company in maintaining its current market share and would also shrink the contribution margins from the current levels.

The ratings also factor in the product concentration risk with the company mainly operating in carbon credit advisory and trading. Nonetheless, ICRA notes that the company has ventured into the improved cookstove project for rural households, launching a climate impact fund and investing in nature-based projects under joint ventures to expand its portfolio of services in the carbon value chain. However, the ability of the company to diversify without adversely impacting its financial position would be a key monitorable. In addition, given that the company is largely export-oriented, its profitability remains exposed to the volatility in foreign exchange prices. The risk is partially mitigated by the natural hedge provided by carbon credit imports.

Further, ICRA takes note of the auditor qualification in the limited review of 9M FY2023 on revenue recognition and would continue to monitor such qualifications for their impact on the company's financial profile and flexibility.

The Stable outlook on EKIESL's rating reflects ICRA's opinion that the company would benefit from its established presence in an evolving carbon credit market and a comfortable financial profile.

Key rating drivers and their description

Credit strengths

Growing demand for voluntary carbon credits and focus on emission reduction in developed economies – Over the past few years, many corporates, especially in the developed economies, have pledged to contribute to the global climate action by limiting their emissions through i) reduced emissions from their facilities and/or, ii) purchase of carbon credits. The latter has led to the evolution of the voluntary carbon credit market and is a key driver for the substantial rise in carbon credit trading volumes witnessed in this market in the last two years.

Sizeable market share in a growing carbon credit market – EKIESL caters to the voluntary carbon credit market wherein it provides consultancy services for energy-efficient projects and trading in carbon credits issued from such projects. At present, the company is a leading player in India in this space and holds a respectable market share in the global voluntary carbon credit market as well.

Strong financial risk profile – The company's revenue shot up to Rs. 1,800 crore in FY2022 from Rs. 190 crore in FY2021, bolstered by the increase in trading volumes and prices, amid the growing demand for carbon credits. In 9M FY2023, the company booked a revenue of Rs. 1,383.69 crore (9M FY2022: Rs. 1324.63 crore). Further, the healthy return metrics, low leverage and strong debt coverage metrics reflect the strong financial profile of EKIESL.

Large network of customers and suppliers – The company has a reputed client base that includes large corporate groups and global commodity trading platforms. Further, the company has tied up with various projects (around 850 projects) managed by renowned project developers for the supply of carbon credits.

Credit challenges

Exposure to volume and pricing risks in voluntary carbon credit market – The trading volumes and prices of carbon credits are sensitive to the demand for carbon credits, which in turn is linked to corporate budgets allocated towards sustainability spending. The company's revenues and profitability are exposed to these market factors, rendering them susceptible to any adverse movement in volumes and realisation.

Competition from other players as carbon market evolves – Given the nascent stage of the market and fewer barriers to entry, the competitive intensity is expected to increase as the market evolves. The increased competition could pose challenges to the company in maintaining its current market share and would also shrink the contribution margins from the current levels over the next two to three years.

Limited product portfolio – The company currently offers a limited range of services across carbon credit advisory and trading, exposing the company to product concentration risk. Nonetheless, the company is venturing into the manufacturing, distribution and installation of improved cookstoves for rural households, launching a climate impact fund and investing in nature-based projects in joint ventures, to expand its portfolio of services in the carbon value chain. However, the ability of the company to diversify without adversely impacting its financial position would be a key monitorable.

Vulnerable to foreign exchange fluctuations – Exports contribute a large portion of EKIESL's revenues, exposing the company to forex fluctuations. While the import of carbon credits provides a natural hedge to a certain extent, the company is exposed to forex risks for its unhedged exposure.

Environmental and Social Risks

Given the advisory-oriented business of EKIESL, the company's direct exposure to environmental risks is not material. Moreover, the company's ongoing initiatives such as the cookstove project aim to reduce carbon emissions in the environment.

The social risks for the company manifest in the form of human capital management and employee attrition. EKIESL conducts training and development programmes to upskill the workforce and undertakes employee-friendly initiatives to promote its commitment to the organisation.

Liquidity position: Adequate

EKIESL's liquidity position remains adequate with the expected cash flows from operations sufficient to meet the debt repayments of ~Rs. 17 crore in FY2024 and capital expenditure requirements of ~Rs. 100 crore in FY2024. In addition, the company has unencumbered cash of Rs. 4.50 crore and undrawn working capital lines of Rs. 61.64 crore as of December 2022.

Rating sensitivities

Positive factors – The ratings could be upgraded if the company demonstrates sustained healthy profitability metrics, low leverage and strong debt coverage metrics along with the strengthening of the liquidity profile.

Negative factors – The ratings could witness a downward revision in case of any adverse impact on the revenue or profitability, leading to a deterioration in the return metrics and debt coverage metrics. Further, a higher working capital requirement, adversely impacting the liquidity position, can trigger a downward rating revision.

Analytical approach

Analytical Approach	Comments
Applicable rating methodologies	Corporate Credit Rating Methodology
Parent/Group support	Not Applicable
Consolidation/Standalone	The ratings are based on the consolidated financial statements of EKIESL and its subsidiaries [details in Annexure II]

About the company

EKIESL, incorporated in 2011, is engaged in the business of climate change and sustainability advisory services and carbon credit trading. The company mobilises carbon credits for sale in the global voluntary carbon credit market and has customers across 40+ countries. The company advises and assists the customers engaged in carbon avoidance/reduction/removal projects, with registration, validation, verification, issuance and sale of carbon credits. The company is listed on the Bombay Stock Exchange (BSE), with a 73.44% shareholding held by the promoters led by Mr. Manish Kumar Dabkara.

Key financial indicators (audited)

EKIESL Consolidated	FY2021	FY2022
Operating income (Rs. crore)	190.79	1,800.12
PAT (Rs. crore)	18.70	383.04
OPBDIT/OI (%)	13.63%	28.85%
PAT/OI (%)	9.80%	21.28%
Total outside liabilities/Tangible net worth (times)	0.59	0.37
Total debt/OPBDIT (times)	0.06	-
Interest coverage (times)	92.91	748.73

PAT: Profit atter 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	Current rating (FY2024)				Chronology of rating history for the past 3 years		
		Type	Amount rated (Rs. crore)	Amount outstanding as on Feb 28, 2023 (Rs. crore)	Date & rating	Date & rating in FY2023	Date & rating in FY2022	Date & rating in FY2021
					Apr 10, 2023	-	-	-
1	**Fund based / Non fund based**	Long-Term / Short Term	40.00	-	**[ICRA]BBB+ (Stable) / [ICRA]A2**	-	-	-
2	**Unallocated**	Long Term / Short Term	10.00	-	**[ICRA]BBB+ (Stable) / [ICRA]A2**	-	-	-

Complexity level of the rated instruments

Instrument	Complexity Indicator
Fund based/Non fund based	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 / Sanction	Coupon Rate	Maturity	Amount Rated (Rs. crore)	Current Rating and Outlook
NA	**Fund based/Non fund based**	-	-	-	40.00	[ICRA]BBB+ (Stable) / [ICRA]A2
NA	**Unallocated**	-	-	-	10.00	[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	Ownership	Consolidation Approach
Amrut Nature Solutions Private Limited	51.00%	Full Consolidation
EnKing International FZCO	100.00%	Full Consolidation
GHG Reduction Technologies Private Limited	49.90%	Equity Method
Glofix Advisory Services Private Limited	51.00%	Full Consolidation

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About ICRA Limited:

ICRA Limited was set up in 1991 by leading financial/investment institutions, commercial banks and financial services companies as an independent and professional investment Information and Credit Rating Agency.

Today, ICRA and its subsidiaries together form the ICRA Group of Companies (Group ICRA). ICRA is a Public Limited Company, with its shares listed on the Bombay Stock Exchange and the National Stock Exchange. The international Credit Rating Agency Moody's Investors Service is ICRA's largest shareholder.

For more information, visit www.icra.in

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