

October 04, 2023

EKI Energy Services Limited: Ratings downgraded; removed from rating watch with negative implications

Summary of rating action

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Long-term/Short term - Fund-based/Non-fund based	168.00	128.00	[ICRA]BBB- (Negative)/[ICRA]A3; downgraded from [ICRA]BBB+ rating watch with negative implications / [ICRA]A2 rating watch with negative implications and removed from rating watch
Long-term/Short-term – Unallocated	132.00	172.00	[ICRA]BBB- (Negative) / [ICRA]A3; downgraded from [ICRA]BBB+ rating watch with negative implications / [ICRA]A2 rating watch with negative implications and removed from rating watch
Total	300.00	300.00	

*Instrument details are provided in Annexure-1

Rationale

ICRA's ratings downgrade for EKI Energy Services Limited (EKIESL) factor in the deterioration in its revenue and profitability over the last two quarters – Q4 FY2023 and Q1 FY2023 - because of a recent slowdown in the carbon credit market, after having grown strongly in the previous two years. This impacted the trading volumes and realisation of carbon credits for EKIESL, thereby leading to a decline in the operating revenue to Rs. 1,286 crore in FY2023 from Rs. 1,800 crore in FY2022 with the trading volumes going down to ~61 million carbon credits from ~91 million carbon credits. Moreover, the profit after tax declined to Rs. 120 crore in FY2023 from Rs. 383 crore in FY2022. Further, in Q1 FY2024, the company booked a revenue of Rs. 61.99 crore and PAT loss of Rs. 33 crore, against a revenues of Rs. 434.05 crore and PAT of Rs. 58 crore in Q1 FY2023. ICRA also takes note of the negative impact on the revenue booked for FY2023 from a change in revenue recognition to comply with the accounting standards, as qualified by the auditor in the 9M FY2023 results.

The ratings continue to be 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. An uncertain regulatory and policy environment also contributes to the vastly fluctuating demand and pricing for carbon credits globally. As on March 31, 2023, the company held an inventory of ~15 million carbon credits valued at over Rs. 300 crore that amplifies these risks. Further, the competitive intensity is expected to increase as the market evolves and there are fewer entry barriers. This could pose challenges to the company in maintaining its current market share and can also shrink the contribution margins, going forward.

The ratings also factor in the product concentration risk with the company mainly operating in the carbon credit advisory and trading areas. Nonetheless, ICRA notes that the company has ventured into the improved cookstove project for rural households, is 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, its ability 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, however, partially mitigated by the natural hedge provided by carbon credit imports.

Nonetheless, the ratings positively factor in the established presence of EKIESL in the carbon credit advisory and trading market with a respectable market share in carbon credit trading in India. The sustainability pledge by many corporates, especially in developed economies, to voluntarily contribute to the global climate action by limiting their emissions is seen as the key driver for demand in the carbon credit trading market. The ratings also consider the low leverage of the company, reflected in the total debt/OPBITDA of 0.42 times as on March 31, 2023. Further, EKIESL has prepaid the term loan of Rs. 40 crore availed in the previous financial year in Q1 FY2024 and the debt outstanding is limited to the working capital facilities as on June 30, 2023. Further, the ratings factor in the company's reputed client base, including large corporate groups and global commodity trading platforms, along with tying up with various project developers for the supply of carbon credits.

The Negative outlook on EKIESL's rating reflects the large volatility in the trading volumes and prices of carbon credits, in turn affecting the company's revenue and profitability.

Key rating drivers and their description

Credit strengths

Sizeable market share in the carbon credit market; focus on emission reduction drives demand for voluntary carbon credits

– 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 led to the evolution of the voluntary carbon credit market and is a key driver for the carbon credit trading 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 the carbon credit trading space in India and holds a respectable market share.

Low leverage – The company has a low leverage position, reflected in a total debt/OPBITDA of 0.42 times as on March 31, 2023. Further, EKIESL has prepaid the term loan of Rs. 40 crore availed in the previous financial year and does not have any outstanding term loans as on June 30, 2023.

Large network of customers and suppliers – The company has a reputed client base, including large corporate groups and global commodity trading platforms. Further, it 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; large inventory levels heighten this risk – 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. Further, as on March 31, 2023, the company held an inventory of ~15 million carbon credits valued at over Rs. 300 crore that amplifies these risks.

Adverse impact of the recent downturn in the carbon credit market on the company's financial position – The carbon credit market has witnessed a slowdown in the recent past after reporting strong growth in the previous two years. This has impacted the trading volumes and realisation of carbon credits for EKIESL, thereby reducing its revenue and profitability in Q4 FY2023 and Q1 FY2024. The operating revenue reduced to Rs. 1,286 crore in FY2023 from Rs. 1,800 crore in FY2022 with the trading volumes going down to ~61 million carbon credits from ~91 million carbon credits. Moreover, the profit after tax declined to Rs. 120 crore in FY2023 from Rs. 383 crore in FY2022. ICRA also takes note of the negative impact on the revenue booked for FY2023 from a change in revenue recognition to comply with the accounting standards. Further, in Q1 FY2024, the company booked a revenue of Rs. 61.99 crore and PAT loss of Rs. 33 crore, that was significantly lower than the revenue of Rs. 434.05

crore and PAT of Rs. 58 crore in Q1 FY2023. An uncertain regulatory and policy environment for carbon credit trading adds to the risk of vastly fluctuating revenues and profitability.

Competition from other players as carbon market evolves – The carbon credit market is at a nascent stage at present. However, as the market evolves, competition is likely to intensify because of the limited entry barriers, which could pose a challenge to the company in maintaining its market share and shrink the contribution margins, going forward.

Limited product portfolio – The company currently offers a limited range of services across carbon credit advisory and trading, exposing it 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, its ability to diversify without adversely impacting its financial position would be a key monitorable.

Vulnerable to foreign exchange fluctuations – Exports contribute to 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 are primarily 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 capital expenditure requirements envisaged in FY2024. Further, the company has prepaid the debt of Rs. 40 crore in Q1 FY2024 and has no debt repayment obligation in the remaining period of FY2024. In addition, the company has unencumbered cash of Rs. 20 crore and undrawn fund-based working capital lines of Rs. 48.16 crore as of August 2023.

Rating sensitivities

Positive factors – The ratings are unlikely to be upgraded in the near term given the Negative outlook. The outlook could be revised to Stable if the company demonstrates an improvement in its revenue and profitability metrics, while maintaining low leverage and adequate liquidity.

Negative factors – The ratings could witness a downward revision if the company is unable to improve its revenue and profitability, thereby adversely impacting its debt coverage metrics and liquidity position. Further, an increase in the 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 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 and it advises and assists the customers involved 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 73.4% shareholding held by the promoters led by Mr. Manish Kumar Dabkara.

Key financial indicators (audited)

EKIESL Consolidated	FY2022	FY2023
Operating income (Rs. crore)	1,800.12	1,286.45
PAT (Rs. crore)	383.07	119.65
OPBDIT/OI (%)	28.86%	12.62%
PAT/OI (%)	21.28%	9.30%
Total outside liabilities/Tangible net worth (times)	0.37	0.64
Total debt/OPBDIT (times)	Nil	0.42
Interest coverage (times)	748.94	28.69

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

NOTE: Debt includes lease liabilities

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 Aug 31, 2023 (Rs. crore)	Date & rating	Date & rating in FY2024				Date & rating in FY2023	Date & rating in FY2022	Date & rating in FY2021
					Oct 04, 2023	Jul 24, 2023	Apr 28, 2023	Apr 10, 2023	-	-	-	
1	Fund-based / Non-fund based	Long-Term / Short Term	128.00	-	[ICRA]BBB- (Negative) / [ICRA]A3	[ICRA]BBB+; rating watch with negative implication / [ICRA]A2; rating watch with negative implications	[ICRA]BBB+ (Stable) / [ICRA]A2	[ICRA]BBB+ (Stable) / [ICRA]A2	-	-	-	
2	Term loan	Long Term	-	-	-	-	[ICRA]BBB+ (Stable)	-	-	-	-	
3	Unallocated	Long Term / Short Term	172.00	-	[ICRA]BBB- (Negative) / [ICRA]A3	[ICRA]BBB+; rating watch with negative implication / [ICRA]A2; rating watch with negative implications	[ICRA]BBB+ (Stable) / [ICRA]A2	[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	-	-	-	128.00	[ICRA]BBB- (Negative) / [ICRA]A3
NA	Unallocated	-	-	-	172.00	[ICRA]BBB- (Negative) / [ICRA]A3

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

ANALYST CONTACTS

Sabyasachi Majumdar
+91 124 4545 304
sabyasachi@icraindia.com

Vikram V
+91 40 4547 4829
vikram.v@icraindia.com

Vinayak Ramesh
+91 40 4547 4829
r.vinayak@icraindia.com

RELATIONSHIP CONTACT

L Shivakumar
+91 22 6114 3406
shivakumar@icraindia.com

MEDIA AND PUBLIC RELATIONS CONTACT

Ms. Naznin Prodhani
Tel: +91 124 4545 860
communications@icraindia.com

Helpline for business queries

+91-9354738909 (open Monday to Friday, from 9:30 am to 6 pm)

info@icraindia.com

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

ICRA Limited



Registered Office

B-710, Statesman House, 148, Barakhamba Road, New Delhi-110001
Tel: +91 11 23357940-45



Branches



© Copyright, 2023 ICRA Limited. All Rights Reserved.

Contents may be used freely with due acknowledgement to ICRA.

ICRA ratings should not be treated as recommendation to buy, sell or hold the rated debt instruments. ICRA ratings are subject to a process of surveillance, which may lead to revision in ratings. An ICRA rating is a symbolic indicator of ICRA's current opinion on the relative capability of the issuer concerned to timely service debts and obligations, with reference to the instrument rated. Please visit our website www.icra.in or contact any ICRA office for the latest information on ICRA ratings outstanding. All information contained herein has been obtained by ICRA from sources believed by it to be accurate and reliable, including the rated issuer. ICRA however has not conducted any audit of the rated issuer or of the information provided by it. While reasonable care has been taken to ensure that the information herein is true, such information is provided 'as is' without any warranty of any kind, and ICRA in particular, makes no representation or warranty, express or implied, as to the accuracy, timeliness or completeness of any such information. Also, ICRA or any of its group companies may have provided services other than rating to the issuer rated. All information contained herein must be construed solely as statements of opinion, and ICRA shall not be liable for any losses incurred by users from any use of this publication or its contents.