

October 25, 2023

Energy Efficiency Services Limited: Long-term rating reaffirmed and withdrawn; short-term rating reaffirmed

Summary of rating action

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Outstanding
Non-convertible debentures (NCD)	250.00	-	[ICRA]A (Negative); reaffirmed and withdrawn
Fund based - Short term loans	1,000.00	1,000.00	[ICRA]A2+; reaffirmed
Total	1,250.00	1,000.00	

*Instrument details are provided in Annexure-1

Rationale

The reaffirmation of the ratings assigned to Energy Efficiency Services Limited (EESL) factors in the strong parentage of EESL, as the company is promoted by four Central public sector undertakings - NTPC Limited (NTPC), Power Grid Corporation of India Limited (PGCIL), REC Limited (REC) and Power Finance Corporation Limited (PFC) - and is under the administrative control of the Ministry of Power, Government of India (GoI). EESL plays a strategic role in promoting the National Mission for Enhanced Energy Efficiency (NMEEE), which is one of the eight missions under the National Action Plan on Climate Change (NAPCC). The sponsors have demonstrated a track record of regular equity infusion to support the growth plans of the company, with Rs. 407.5 crore infused in FY2022 and Rs. 497 crore in H1 FY2024 and approval for a further infusion of Rs. 203 crore in H2 FY2024. The equity infusion, along with the improved collection efficiency achieved by the company in 5M FY2024, is supporting its liquidity position.

However, the ratings remain constrained by the continued high receivable position because of the exposure to weak counterparties, including urban local bodies (ULBs) and state distribution utilities (discoms). The company's receivable position increased to Rs. 3,779 crore (853 days) as on March 31, 2023 from Rs. 3,500 crore (818 days) as on March 31, 2022, and Rs. 3,194 crore (741 days) as on March 31, 2021, leading to high dependence on short-term debt, which increased to Rs. 1,759 crore as of March 2023 from Rs. 1,436 crore as of March 2022 and Rs. 1,054 crore as of March 2021 and a high creditor position. However, the receivables reduced to Rs. 3,638 crore as on July 31, 2023, led by improved collection efficiency in 5M FY2024. The receivables from the ULBs under the Street Lighting National Programme (SLNP) scheme accounted for 77% of the overall receivables as on July 31, 2023. While the company is taking several steps to recover these dues and expects the receivables from ULBs to reduce by Rs. 700-800 crore by the end of FY2024, a sustained improvement in collections remains to be seen.

Further, ICRA notes that the company's revenue growth remained muted with an operating income of Rs. 1,617 crore in FY2023 against Rs. 1,562 crore in FY2022 on a standalone basis, given the slower-than-expected growth in revenues across various schemes. Moreover, the company reported a net loss of Rs. 277.7 crore on a standalone basis and Rs. 308.8 crore on a consolidated basis owing to the decline in operating margins on a consolidated basis and rise in depreciation and interest costs, along with the forex losses booked on foreign currency debt. This moderation in profitability, along with increasing annual debt repayment, moderated the debt service coverage ratio (DSCR) in FY2023 compared with FY2022. Going forward, the company's ability to scale up its operations in a profitable manner and realising the pending dues from its customers remains important. In the interim, the company would remain dependent on short-term borrowings and promoter support to meet its obligations.

The ratings are also constrained by EESL's large investment plans across multiple schemes. The proposed capital investment by EESL is high at Rs. 700-800 crore for FY2024, with majority of it in street lighting, smart metering and distributed solar power

projects. In this context, the timeliness and the adequacy of funding – both debt and equity – as well as the timely enhancement of employee bandwidth and seamless implementation of the programmes will remain crucial for the company. As these projects are typically funded through a debt and equity ratio of 80:20, EESL's leverage level is expected to be high in the near term and the coverage metrics are likely to remain modest.

Nonetheless, the ratings positively factor in EESL's unique position in the energy-efficiency market as the projects are awarded to it on a nomination basis by Central and state government entities and departments. This enables it to aggregate demand and undertake bulk tendering of equipment such as lights, smart meters, EVs, etc, leading to economies of scale for manufacturers and reduced prices of these products, making it economically viable for the consumers under these schemes. The ratings factor in the cost-plus model followed by EESL that ensures adequate returns and creates an annuity-based income stream for schemes such as the SLNP and the smart-metering projects.

ICRA acknowledges that these schemes are attractive for the customers as they do not have to bear the upfront capital costs for many products such as streetlights, smart meters, building efficiency programmes, etc, because the payments are made annually from the deemed cost savings. The company is also setting up distributed solar projects under long-term power purchase agreements (PPAs) with state distribution utilities, providing a stable revenue visibility. ICRA draws comfort from the availability of debt funding from multiple sources, including domestic banks, capital markets and multilateral agencies at attractive terms, such as highly competitive rates of interest and long repayment schedules. Further, the GoI has offered sovereign guarantees to multilateral agencies that have lent to EESL at attractive terms. The company has undrawn long-term debt of about Rs. 1,650 crore from these multilateral agencies and domestic banks as of September 2023.

The rating assigned to the Rs. 250.0-crore non-convertible debenture (NCD) programme of EESL has been reaffirmed and withdrawn as these debentures have been redeemed in full and there are no dues outstanding against these NCDs.

Key rating drivers and their description

Credit strengths

Strong sponsors and strategic importance of EESL to GoI in the energy efficiency domain - EESL is promoted by four major power sector public sector entities – NTPC, PGCIL, REC and PFC – that have a track record of infusing equity to support its growth plans. The promoters have supported the company through regular equity infusion, including Rs. 308 crore in FY2020, Rs. 407.5 crore in FY2022 and Rs. 497 crore in H1 FY2024 and approval for a further infusion of Rs. 203 crore in H2 FY2024. EESL is strategically important to the GoI as the company is the nodal agency for implementing energy-efficiency programmes on a pan-India basis such as SLNP, UJALA, smart metering, distributed solar projects and electric vehicles, among others.

EESL's unique position enables it to undertake demand aggregation and lower equipment cost – EESL, being a Government entity, is awarded projects on a nomination basis by Central and state government entities and departments. This enables it to aggregate demand and undertake bulk tendering of equipment such as lights, smart meters, EVs, etc, leading to economies of scale for manufacturers and consequent reduction in the prices of these products. This has made the uptake of energy-efficient devices economically viable. Further, the lack of upfront capex and savings from the energy-efficiency projects improves the attractiveness of EESL's projects for customers.

Availability of long-term contracts under cost plus model across multiple schemes provides revenue visibility – EESL follows an energy-saving-based model for most of its programmes, such as SLNP and smart meters, wherein the company finances the upfront capital cost of the project. It recovers the investment, along with the operating cost and a reasonable return (14-15%) through monthly payments from the customers under multi-year contracts, under a deemed savings approach. Also, the distributed solar power projects have long-term PPAs with the state utility of Maharashtra at a fixed tariff. The availability of long-term contracts provides visibility on the company's revenues and profitability. Further, the company benefits from the

availability of long-term debt funding from multilateral funding agencies at attractive rates, backed by sovereign guarantee from the Gol.

Credit challenges

Exposure to weak counterparties and elongated payment cycle – The large exposure to ULBs and state distribution utilities, many of which have weak finances, is a key concern for EESL. This has increased the company's receivable position over the last few years, especially under the SLNP and UJALA schemes. The company's receivable position increased to Rs. 3,779 crore as on March 31, 2023 from Rs. 3,500 crore as on March 31, 2022, and Rs. 3,194 crore as on March 31, 2021. However, the receivables reduced to Rs. 3,638 crore as on July 31, 2023, led by improved collection efficiency in 5M FY2024. The receivables pertaining to the SLNP scheme constituted 77% of the total receivables as on July 31, 2023. While the company has taken various steps, like approaching the state governments for adopting a centralised payment mechanism from the ULBs and clearing the pending arrears under SLNP, a sustainable improvement in collections remains to be seen. This apart, there have been delays in receiving payments from the discoms for the UJALA scheme.

Moderation in profitability and debt coverage metrics - EESL's debt coverage metrics have moderated with the interest coverage ratio and DSCR declining in FY2023 from FY2022 owing to the moderation in profitability and increasing annual debt repayments. The profitability is impacted by subdued growth in revenues, increase in depreciation and interest costs and forex losses on foreign currency debt. Therefore, the company's ability to scale up its operations in a profitable manner and realising the pending dues from its customers remains important. In the interim, the company would remain dependent on short-term borrowings and promoter support to meet its obligations.

Multiple projects with large investments leading to high leverage and modest coverage metrics – EESL has diversified into several segments, such as setting up distributed solar projects, e-mobility, smart-metering projects, apart from the UJALA and SLNP schemes. While this diversifies the revenue stream, it necessitates the need for greater management oversight and involvement in planning, implementation and monitoring of the projects. Further, the proposed capital investment by EESL is high at Rs. 700-800 crore for FY2024, with majority of it in street lighting, smart metering and distributed solar power projects. In this context, the timelines and the adequacy of funding – both debt and equity – as well as timely enhancement of employee bandwidth and seamless implementation of the programmes, will remain crucial for the company. As these projects are typically funded through a debt and equity ratio of 80:20, EESL's leverage level is expected to be high in the near term and the coverage metrics are likely to remain modest. Also, given that a sizeable portion of the debt is in foreign currency, which is unhedged, the company remains exposed to any adverse movements in foreign exchange rates.

Liquidity position: Adequate

EESL's liquidity position is supported by the presence of unutilised fund-based working capital limits of Rs. 200 crore and free cash and bank balance of ~Rs. 300 crore as on August 31, 2023. Also, the company has undrawn long-term debt of ~Rs. 1,650 crore to fund the capex. While the company's receivable position remains high, comfort is drawn from the presence of strong sponsors, who have provided regular equity support, and the ability of the company to raise funding to mitigate any short-term cash flow mismatches. Going forward, improvement in the receivable position remains a key monitorable for the company.

Rating sensitivities

Positive triggers - The rating can be upgraded if the company achieves a sustainable reduction in the receivable position, along with a sustained growth in revenues and profitability leading to improvement in leverage and debt coverage metrics.

Negative triggers - ICRA could downgrade the rating in case of any continued weakness in collections and delays in recovery

of pending arrears, adversely impacting its liquidity profile. Other negative triggers include weakening of linkages and support mechanism from the Gol/its shareholder PSUs and any adverse changes in the Gol's focus on energy-efficiency projects and EESL's role in these projects. Also, the large debt-funded capex significantly weakening the leverage and coverage metrics could be another negative trigger.

Analytical approach

Analytical Approach	Comments
Applicable Rating Methodologies	Corporate Credit Rating Methodology Policy on Withdrawal of Credit Rating
Parent/Group Support	Parent/Group Company: NTPC, PGCIL, PFC, REC The ratings derive strength from the ownership of EESL by four power sector PSUs under the Ministry of Power, Gol and the strategic importance of EESL for meeting the Gol's policy objectives in the energy sector. This is also reflected from the sovereign guarantee issued to loans availed by EESL from multi-lateral agencies.
Consolidation/Standalone	The ratings are based on the consolidated business and financial profiles of the company. The entities considered for consolidation are enlisted in Annexure-2

About the company

EESL is promoted by the Ministry of Power, Gol, as a joint venture (JV) of four Central power sector undertakings viz. NTPC, PGCIL, REC and PFC and is the implementation arm of the Ministry of Power and Bureau of Energy Efficiency (BEE) for energy-efficiency programmes on a pan-India basis. EESL works closely with the BEE and is leading the market-related activities of NMEEE, one of the eight national missions under the Prime Minister's National Action Plan on Climate Change. It is an energy service company (ESCO) and is presently mandated to implement various programmes and consultancy services for the conservation of energy by improving the energy efficiency in the system.

Key financial indicators (audited) (Consolidated)

	FY2022	FY2023
Operating income (Rs. crore)	2,244.96	2,385.50
PAT (Rs. crore)	-173.06	-308.85
OPBDIT/OI (%)	35.0%	32.2%
PAT/OI (%)	-7.7%	-12.9%
Total outside liabilities/Tangible net worth (times)	7.26	9.73
Total debt/OPBDIT (times)	9.27	9.52
Interest coverage (times)	1.95	1.55

Source: Company data, ICRA Research 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	Current rating (FY2024)			Chronology of rating history for the past 3 years			
		Type	Amount rated (Rs. crore)	Amount outstanding as on Sep 30, 2023 (Rs. crore)	Date & rating in FY2024	Date & rating in FY2023	Date & rating in FY2022	Date & rating in FY2021
					Oct 25, 2023	Oct 25, 2022	Oct 25, 2021	Oct 26, 2020
1	Non-convertible debentures	Long Term	-	-	-	[ICRA]A (Negative); Withdrawn	[ICRA]A+ (Stable)	[ICRA]A+ (Stable)
2	Non-convertible debentures	Long term	250.00*	-	[ICRA]A (Negative); Withdrawn	[ICRA]A (Negative)	[ICRA]A+ (Stable)	[ICRA]A+ (Stable)
3	Fund based – Short term	Short term	1000.00	-	[ICRA]A2+	[ICRA]A2+	[ICRA]A1	[ICRA]A1
4	Non-fund based – Short term	Short term	-	-	-	-	[ICRA]A1	[ICRA]A1
5	Unallocated	Long term/ short term	-	-	-	[ICRA]A (Negative); withdrawn	[ICRA]A+ (Stable)/ [ICRA]A1	[ICRA]A+ (Stable)/ [ICRA]A1

*Withdrawn on redemption

Complexity level of the rated instrument

Instrument	Complexity Indicator
NCD	Very Simple
Fund based – Short term	Simple

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-1: Instrument details

ISIN No	Instrument Name	Date of Issuance / Sanction	Coupon Rate	Maturity Date	Amount Rated (Rs. crore)	Current Rating and Outlook
INE688V07033	NCD*	20-Sep-2016	8.07%	20-Sep-2023	250.00	[ICRA]A (Negative); withdrawn
-	Short-term loan	-	-	-	1000.00	[ICRA]A2+

Source: Company; *withdrawn on redemption

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

Annexure-2: List of entities considered for consolidated analysis

Company Name	Ownership	Consolidation Approach
EESL EnergyPro Assets Limited	86.80%	Full Consolidation
IntelliSmart Infrastructure Private Limited	49.00%	Equity Method
Convergence Energy Services Limited	100.00%	Full Consolidation
EESL Energy Solutions LLC	29.00%*	Full Consolidation
NEESL Private Limited	2.21%	Equity Method
Anesco Energy Services (South) Limited	86.80%	Full Consolidation
Creighton Energy Limited	86.80%	Full Consolidation
EPAL Holdings Limited	86.80%	Full Consolidation
Edina Acquisition Limited	86.80%	Full Consolidation
Edina Power Services Limited	86.80%	Full Consolidation
Edina Limited	86.80%	Full Consolidation
Edina UK Limited	86.80%	Full Consolidation
Edina Power Limited	86.80%	Full Consolidation
Edina Australia Pty Limited	86.80%	Full Consolidation
Armoura Holdings Limited	86.80%	Full Consolidation
Stanbeck Limited	86.80%	Full Consolidation
EPSL Trigeneneration Limited	86.80%	Full Consolidation

*full management control

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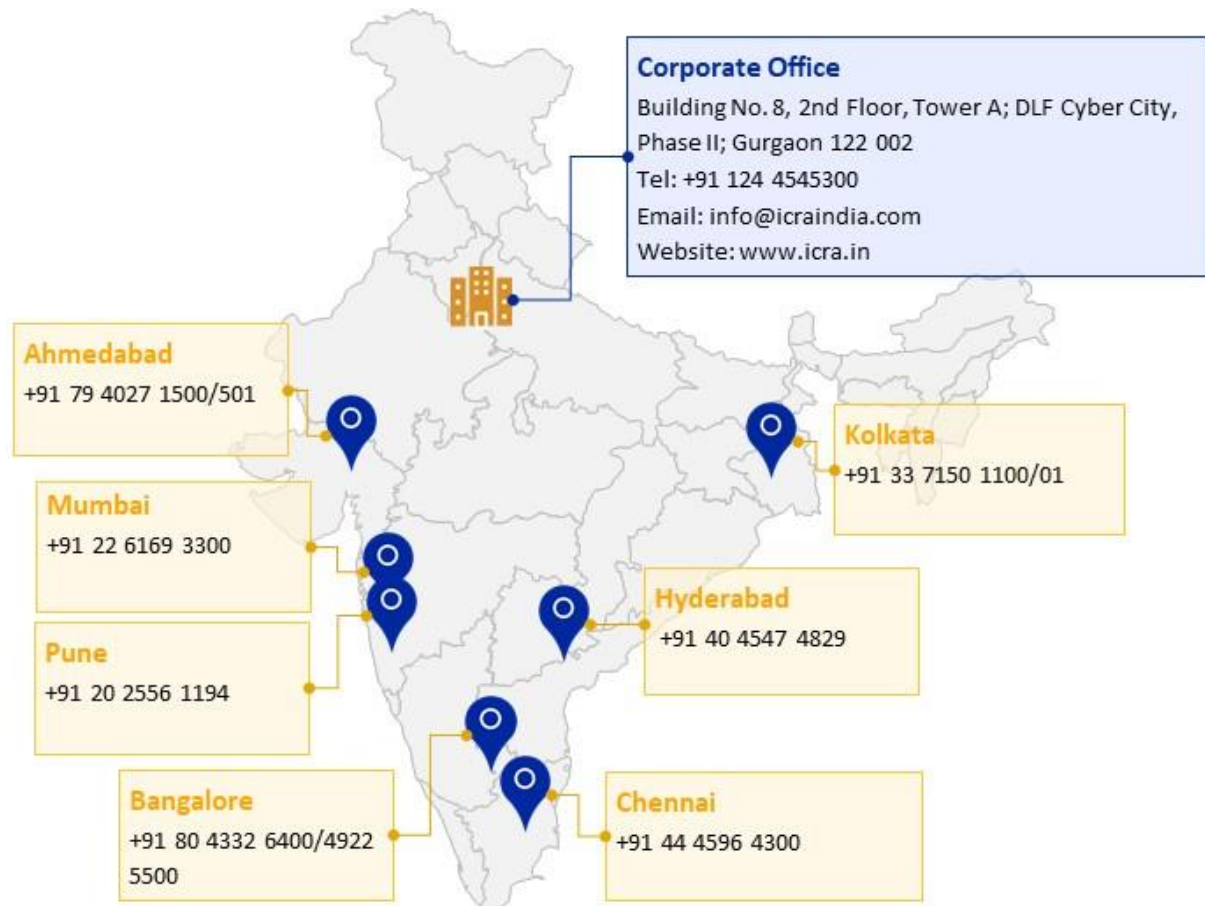
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