December 16, 2024

EKI Energy Services Limited: Ratings reaffirmed; outlook revised to Stable

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	128.00	60.00	[ICRA]BB+ (Stable)/[ICRA]A4+; reaffirmed; outlook revised to Stable from Negative
Long-term/Short-term – Unallocated	172.00	0.00	-
Total	**300.00**	**60.00**	

**Instrument details are provided in Annexure 1*

Rationale

The revision in the outlook to Stable from Negative factors in the improvement in the revenues and profits of EKI Energy Services Limited (EKIESL) in H1 FY2025, compared with the large operating and net losses in FY2024. EKIESL's revenue and profitability deteriorated in FY2024 because of continued 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 pulling down the operating revenue to Rs. 263.4 crore in FY2024 from Rs. 1,286.4 crore in FY2023 with the trading volumes falling to ~18 million carbon credits (~5.1 million carbon credits in H1 FY2025) from ~61 million carbon credits.

EKIESL reported an MTM loss on inventory of ~Rs. 183 crore in FY2024 on account of a dip in realisation of carbon credits. ICRA notes that while there is limited line of sight at present on any meaningful recovery in the company's core business of carbon credit trading, EKIESL has been exploring opportunities in a few asset-light businesses like improved cookstove project for rural households, manufacturing of briquettes and power trading to expand its portfolio of services in the carbon value chain, which have provided alternative revenue streams and have supported the overall earnings. ICRA believes that these new ventures are unlikely to significantly scale up in the medium term to entirely supplement the earnings drop in the carbon credit business. Therefore, going forward, a sustained recovery of the carbon trading business remains critical to strengthen the company's business risk profile.

The ratings derive strength from the established presence of EKIESL in the carbon credit advisory and trading market with a significant 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 company's low leverage, reflected in the net cash accruals by total debt (NCA/TD) of 480.2% and total debt/OPBIDTA of 1.6 times as on September 30, 2024, with the debt outstanding limited to a small amount of auto loan as on September 30, 2024. 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 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 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 September 30, 2024, the company held an inventory of ~8.8 million carbon credits valued at ~Rs. 126 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 segment. This makes the overall earnings highly volatile due to swings in the demand and supply of carbon credits. In addition, as 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.

Key rating drivers and their description

Credit strengths

Sizeable market share in 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 significant market share.

Low leverage - The company has a low leverage position, reflected in net cash accruals by total debt (NCA/TD) of 480.2% and total debt/OPBITDA of 1.60 times as on September 30, 2024. Further, EKIESL does not have any outstanding term loans as on September 30, 2024 (apart from a small amount of auto loan).

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 1,000 projects) managed by renowned project developers for the supply of carbon credits.

Credit challenges

Adverse impact of the recent downturn in the carbon credit market - The carbon credit market has witnessed a slowdown in the recent past after reporting strong growth in the previous two years i.e FY2022 and FY2023. This impacted the trading volumes and realisation of carbon credits for EKIESL, thereby reducing its revenue and profitability in FY2024. The operating revenue reduced to Rs. 263.4 crore in FY2024 from Rs. 1,286.4 crore in FY2023 with the trading volumes falling to ~18 million carbon credits from ~61 million carbon credits. The company reported net losses of Rs. 129.2 crore in FY2024. An uncertain regulatory and policy environment for carbon credit trading adds to the risk of vastly fluctuating revenues and profitability.

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 the 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 September 30, 2024, the company held an inventory of ~8.8 million carbon credits valued at ~ Rs. 126 crore that amplifies these risks.

Competition from other players - 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 may 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 new businesses like improved cookstoves for rural households, manufacturing of briquettes, power trading 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 and scale up 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 vulnerable to forex risks for its unhedged exposure

Environmental and Social Risks

EKIESL's direct exposure to environmental risks is not material because of its advisory-oriented business. 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 no capex plans, going forward, in the near term. Further, the company is largely debt-free. In addition, the company consolidated unencumbered cash/bank balances of Rs. 24.4 crore and investments of ~Rs. 42 crore as on September 30, 2024 which, along with undrawn fund-based working capital lines of ~Rs. 23 crore as on September 30, 2024, provides liquidity comfort.

Rating sensitivities

Positive factors – ICRA could upgrade ratings if there is clear line of sight on durable recovery in core carbon credit business of company leading to improvement in its revenue and profitability metrics on a sustained basis, 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. 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 more than 40 countries. It advises and assists 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	FY2023	FY2024	H1 FY2025 (UA)
Operating income (Rs. crore)	1,286.4	263.4	321.3
PAT (Rs. crore)	119.6	-129.2	4.3
OPBDIT/OI (%)	12.6%	-50.0%	0.4%
PAT/OI (%)	9.3%	-49.0%	1.3%
Total outside liabilities/Tangible net worth (times)	0.64	0.60	0.6
Total debt/OPBDIT (times)	0.41	NM	1.60
Interest coverage (times)	28.75	NM	4.30

PAT: Profit atter Tax; OPBDIT: Operating profit before depreciation, interest, taxes and amortisation; NM: Not Meaningful; UA- Unaudited

Status of non-cooperation with previous CRA: Not Applicable

Any other information: None

Rating history for past three years

<table>
<tr><th rowspan="3" colspan="2">Instrument</th><th colspan="3">Current (FY2025)</th><th colspan="6">Chronology of rating history for the past 3 years</th></tr>
<tr><th rowspan="2">Type</th><th rowspan="2">Amount rated (Rs. crore)</th><th rowspan="2">Dec 16, 2024</th><th colspan="2">Date & rating in FY2024</th><th colspan="2">Date & rating in FY2023</th><th colspan="2">Date & rating in FY2022</th></tr>
<tr><th>Date</th><th>Rating</th><th>Date</th><th>Rating</th><th>Date</th><th>Rating</th></tr>
<tr><td rowspan="5">1</td><td rowspan="5">Fund-based/ Non-fund based</td><td rowspan="5">Long term/Short term</td><td rowspan="5">60.00</td><td rowspan="5">[ICRA]BB+ (Stable)/ [ICRA]A4+</td><td>Feb 02, 2024</td><td>[ICRA]BB+ (Negative)/ [ICRA]A4+</td><td>-</td><td>-</td><td>-</td><td>-</td></tr>
<tr><td>Oct 04, 2023</td><td>[ICRA]BBB- (Negative)/ [ICRA]A3</td><td>-</td><td>-</td><td>-</td><td>-</td></tr>
<tr><td>Jul 24, 2023</td><td>[ICRA]BBB+; rating watch with negative implication/ [ICRA]A2; rating watch with negative implications</td><td>-</td><td>-</td><td>-</td><td>-</td></tr>
<tr><td>Apr 28, 2023</td><td>[ICRA]BBB+ (Stable)/ [ICRA]A2</td><td>-</td><td>-</td><td>-</td><td>-</td></tr>
<tr><td>Apr 10, 2023</td><td>[ICRA]BBB+ (Stable)/ [ICRA]A2</td><td>-</td><td>-</td><td>-</td><td>-</td></tr>
<tr><td>2</td><td>Term loan</td><td>Long term</td><td>-</td><td>-</td><td>Apr 28, 2023</td><td>[ICRA]BBB+ (Stable)</td><td>-</td><td>-</td><td>-</td><td>-</td></tr>
<tr><td rowspan="5">3</td><td rowspan="5">Unallocated</td><td rowspan="5">Long term/ Short term</td><td rowspan="5">-</td><td rowspan="5">-</td><td>Feb 02, 2024</td><td>[ICRA]BB+ (Negative)/ [ICRA]A4+</td><td>-</td><td>-</td><td>-</td><td>-</td></tr>
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Complexity level of the rated instruments

Instrument	Complexity Indicator
Fund based/Non-fund based	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 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**	-	-	-	60.00	[ICRA]BB+ (Stable)/ [ICRA]A4+

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 as on March 31, 2024	Consolidation Approach
GHG Reduction Technologies Private Limited	59.88%	Full Consolidation
Amrut Nature Solutions Private Limited	51.00%	Full Consolidation
Glofix Advisory Services Private Limited	51.00%	Full Consolidation
EKI One Community Projects Private Limited	100.00%	Full Consolidation
EKI Two Community Projects Private Limited	100.00%	Full Consolidation
EKI Power Trading Private Limited (formerly known as EKI Three Community Projects Private Limited)	100.00%	Full Consolidation
Galaxy Certification Services Private Limited (formerly known as EKI Four Community Projects Private Limited)	100.00%	Full Consolidation
Enking International Foundation	100.00%	Full Consolidation
Enking International FZCO	100.00%	Full Consolidation
Enking International Pte. Ltd.	100.00%	Full Consolidation
EKI Community Development Foundation	100.00%	Full Consolidation
Climacool Projects & Edutech Limited	49.94%	Full Consolidation
WOCE Solutions Private Limited	26.00%	Full Consolidation

Source: Annual Report

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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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