January 16, 2025

Esmart Energy Solutions Limited: Ratings upgraded to [ICRA]BBB (Stable)/ [ICRA]A3+

Summary of rating action

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Long term - Fund based-Term loan	62.19	39.63	[ICRA]BBB (Stable); upgraded from [ICRA]BBB- (Stable)
Long term - Fund based- Working capital facilities	7.00	7.00	[ICRA]BBB (Stable); upgraded from [ICRA]BBB- (Stable)
Short-term - Non-fund based - Working capital facilities	60.00	60.00	[ICRA]A3+; upgraded from [ICRA]A3
Total	**129.19**	**106.63**	

**Instrument details are provided in Annexure-I*

Rationale

The upgrade in the ratings of Esmart Energy Solutions Limited's (EESL) factors in its increasing scale of operations supported by addition of new orders pertaining to replacement of streetlights with LED ones for municipal bodies. As on March 31, 2024, the company had cumulative revenue visibility of over Rs. 700 crore (related to the completed projects), which will be received monthly over the next eight years (residual project tenor). This, coupled with the inflow from new orders (planned to be bid for in FY2026), should help the company sustain its increased scale of operations. In FY2024, EESL reported YoY revenue growth of 10% to Rs. 113.1 crore. This is further expected to grow YoY by 15-25% in FY2025 led by successful addition of new projects. Its operating profit margins (OPM) also remained healthy at 35%, given its business model (where capital costs are incurred upfront by EESL and payments are received monthly from deemed cost savings once the project is completed), which, coupled with its comfortable capital structure, has led to healthy debt protection metrics as reflected in interest coverage at 16.4 times and net cash accruals vis-à-vis total debt of 62% and total debt vis-à-vis operating profit of 1.7 times in FY2024, owing to healthy profitability levels in the business. The ratings also consider EESL's proven track record in the energy efficiency sector, the established experience of its promoters in the electrical industry and EESL's strong relations with municipal corporations across India with presence in Delhi, Odisha, Punjab, Gujarat, Uttar Pradesh, Maharashtra and West Bengal.

The ratings are, however, constrained by EESL's moderate, albeit increasing, scale of operations and high working capital intensity owing to the elongated receivable cycle and high inventory requirements. The company's clients are mainly municipal bodies, who elongate the payment cycle due to a long approval process and slow recovery depending on the actual financial health of the municipal corporation. Further, the ratings are constrained by EESL's capital-intensive nature of business, wherein it has large capital investment plans of over Rs. 250 crore for future projects. Going forward, its ability to timely execute the same without any cost overrun and achieve financial closure at favourable terms with limited leveraging will remain critical. EESL is also exposed to foreign exchange (forex) fluctuation risks as it imports certain raw materials for manufacturing LED lights while its revenues are generated from the domestic market. However, the quantum of imports remains minimal compared to the scale of operations of the company.

ICRA also notes the ongoing litigation with Uniglobal Ventures LLP and Paisalo Digital Limited (erstwhile SE Investment), wherein EESL had given a corporate guarantee to Paisalo for the loan taken by Uniglobal Ventures LLP and the corporate guarantee was invoked. The same is under litigation and is an ongoing commercial dispute. ICRA, hence, will continue to monitor the developments in this regard and assess its impact, if any, on the credit profile of EESL, in case any material liability falls on it, or in case of any unfavourable ruling against the company.

The Stable outlook reflects ICRA's expectations that EESL's credit profile will remain supported by a steady increase in revenues along with healthy profitability levels. This will lead to satisfactory debt coverage indicators (commensurate with the rating category), despite its sizeable capital investment plans.

Key rating drivers and their description

Credit strengths

Established experience of promoters with demonstrated track record of operations – EESL is promoted by Mr. Suresh Shah, who has been associated with the electrical industry for more than four decades. The experienced management team with the requisite professional set-up is led by Anand Prakash Rai, a CA by profession, the CEO of the company. The company, over the last five years, has successfully executed more than 15 projects for different municipal corporations across India.

Increasing scale of operations, healthy revenue book position – EESL's scale of operations has increased to Rs. 113.1 crore, a CAGR of 26% in last five years, led by successful addition of new projects. The company has strong relations with municipal corporations across India with presence in Delhi, Odisha, Punjab, Gujarat, Uttar Pradesh, Maharashtra and West Bengal. As on March 31, 2024, the company had cumulative revenue visibility of over Rs. 700 crore (related to the completed projects), which will be received monthly over the next eight years (residual project tenor). In addition, EESL has submitted bids in Karnataka and Delhi and will bid for various upcoming projects, which would further improve its revenue book and geographical presence once the same materialises.

Healthy operating margins, comfortable capital structure and healthy debt coverage indicators – The company's operating margins have remained healthy in the range of 35-50% during the last three years. EESL follows an energy savings-based model, wherein the company finances the upfront capital cost of the project. It recovers the investment, along with operating costs through monthly payments from the customer under multi-year contracts, under a deemed savings approach. EESL's capital structure remained comfortable with a gearing of 0.4 times as on March 31, 2024, (0.2 times as on March 31, 2023), due to healthy accretion to reserves. The debt coverage indicators stood healthy with interest coverage of 16.4 times (11.3 times in FY2023), net cash accruals vis-à-vis total debt of 62.0% (129.6% in as on March 31, 2023) and total debt vis-à-vis operating profit of 1.7 times as on March 31, 2024 (0.7 times as on March 31, 2023). Further, the debt protection metrics are expected to improve in FY2025 over FY2024 with limited debt-funded capex in FY2025 and expected improvement in its profitability levels over FY2024. Its total debt stood at Rs. 66.0 crore as on March 31, 2024, and consisted of term loans of Rs. 57.7 crore, interest-free unsecured loans of Rs. 3.2 crore and Rs. 8.3 crore of working capital borrowings. Its net worth increased to Rs. 162.4 crore as on March 31, 2024, from Rs. 139.2 crore as on March 31, 2023, supported by healthy cash accruals.

Credit challenges

Moderate, albeit increasing scale of operations – Despite the healthy revenue growth over the last five years, EESL's revenues remain moderate. Going forward, the revenues are expected to increase at a faster rate, with new order bookings from additional states. However, the growth will be contingent on actual order inflow and the timely execution of projects.

High working capital intensity owing to elongated receivable cycle and inventory requirements – The company's working capital intensity of operations as measured by ratio of net working capital vis-à-vis operating income, was high at 37.2% as on March 31, 2024, owing to an elongated receivable cycle and high inventory requirements. Given the exposure to municipal corporations, the payment period generally remains in the range of 90-120 days from the date of billing. EESL had pending receivables of Rs. 16.8 crore as on March 31, 2024, owing to the slow recovery from municipal corporations, along with receivables for more than one year due to customer-specific issues for a few projects. However, the debtor days have improved over the years, from the earlier levels of 76 days as on March 31, 2023, owing to improved collections from the municipal corporations and will remain a key rating monitorable. The inventory holding period for the company remained high at 89 days as on March 31, 2024, which relates to the raw materials and finished goods for under-construction projects. EESL imports raw materials such as LED diodes from Singapore and the US and other electrical components from South Korea and Singapore. The quantities ordered are small at a time and the payments are done upfront. Local purchases involve job-work and the purchase of electrical components with a credit period of 30-60 days.

Capital-intensive nature of business with large capital investments planned over the medium term – Given the nature of upfront capex which EESL must undertake, the business remains capital intensive. Further, it has capital investments planned of over Rs. 250 crore over FY2025-FY2027 due to its upcoming bidding pipeline. Hence, the funding requirements would remain high in the near to medium term. The company expects to fund the entire capex by a mix of debt and internal accruals. The generation of adequate internal accruals for FY2025 and FY2026 will remain crucial to meet its capex targets. Given the medium-term capex plans due to its upcoming bidding pipeline, it remains exposed to project execution risk. The capex is proposed to be funded through a mix of term loans and internal accruals. With the onboarding of the debt, the capital structure and debt coverage metrics are likely to moderate over FY2026–FY2027. Though the capex will aid in capacity enhancement, EESL's ability to scale-up and garner commensurate returns from its planned capex and timely commencement of the projects without any cost overrun will remain critical. Nonetheless, some comfort can be drawn from the guarantees provided by the Small Industries Development Bank of India (SIDBI) for term loans under a partial risk-sharing facility for energy efficiency as well as the support extended by the promoters through unsecured loans.

Liquidity position: Adequate

The company's liquidity position is adequate with free cash and liquid investments of Rs. 7.1 crore as on March 31, 2024. Further, the average utilisation of fund-based limits is moderate at 76% of the sanctioned limits for the last 12 months ending in December 2024 with buffer of ~Rs. 2 crore as of December 2024. It has sizeable long-term repayments of ~Rs. 16 crore in FY2025 and ~Rs. 20 crore in FY2026, however, the same is expected to be adequately covered by cash flows. The company is bidding for new projects, capex requirements for which is estimated at over Rs. 150 crore in FY2026, which is expected to be funded by internal accruals and additional term loans. Nonetheless, comfort can be drawn from the past support extended by the promoters in the form of unsecured loans; a large part of the same was also converted to equity in FY2023.

Rating sensitivities

Positive factors – ICRA could upgrade EESL's ratings, if it is able to substantially scale-up the operations, while maintaining profitability levels, along with significant improvement in liquidity profile, through better receivables management.

Negative factors – Pressure on EESL's ratings could arise, in case of weakness in collections, adversely impacting its liquidity profile, or if any delay in execution of upcoming projects affects the top line or profitability. Any large debt-funded capex impacting the coverage metrics materially will also be a negative factor for the rating. Specific credit metrics, which could trigger a negative rating, include a debt service coverage ratio (DSCR) of less than 1.6 times on a sustained basis

Analytical approach

Analytical Approach	Comments
Applicable rating methodologies	Corporate Credit Rating Methodology
Parent/Group support	Not Applicable
Consolidation/Standalone	For arriving at the ratings, ICRA has considered the consolidated financials of EESL. As on March 31, 2024, the company had five subsidiaries, which are all enlisted in Annexure-II.

About the company

EESL was incorporated as Shah Investments Financials, Developments & Consultants Private Limited (SIFDCPL), a private limited company under the Companies Act 1956, on November 29, 1979. SIFDCPL was mainly involved in investment activities, hire purchase, leasing, development of industrial units and others. SIFDCPL changed its name to Esmart Energy Solutions Limited in 2013 and entered the energy saving company (ESCO) business with its own energy efficient LED light manufacturing facility at Nashik, Maharashtra. At present, EESL focuses only on ESCO activities, security and surveillance, providing IT-based LED lighting solutions to municipal corporations on sharing-the-savings-of-energy basis.

EESL primarily follows the ESCO model, wherein it replaces conventional streetlights with LEDs at its own cost with zero investment from municipal corporations. The subsequent reduction in energy and maintenance cost of a municipal corporation is used as revenue sharing for EESL. Most of the contracts are typically of 7-10 years, where EESL agrees on deemed energy saving and provides maintenance of lights at no additional cost (in most cases). The company usually ensures 85% of energy-saving efficiency.

Key financial indicators (Audited)

Consolidated	FY2023	FY2024
Operating income	103.0	113.1
PAT	15.1	15.0
OPBDIT/OI	43.9%	35.1%
PAT/OI	14.6%	13.3%
Total outside liabilities/Tangible net worth (times)	0.41	0.57
Total debt/OPBDIT (times)	0.66	1.66
Interest coverage (times)	11.25	16.41

PAT: Profit after tax; OPBDIT: Operating profit before depreciation, interest, taxes and amortisation; Amount in Rs. crore

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

Rating history for past three years

Instrument	Current (FY2025)				Chronology of rating history for the past 3 years					
	Type	Amount Rated (Rs. crore)	FY2025		FY2024		FY2023		FY2022	
			Date	Rating	Date	Rating	Date	Rating	Date	Rating
Term Loans	Long Term	39.63	16-Jan-2025	[ICRA]BBB (Stable)	30-Oct-2023	[ICRA]BBB- (Stable)	28-Jul-2022	[ICRA]BBB- (Stable)	21-May-2021	[ICRA]BBB- (Stable)
Cash Credit	Long Term	7.00	16-Jan-2025	[ICRA]BBB (Stable)	30-Oct-2023	[ICRA]BBB- (Stable)	28-Jul-2022	[ICRA]BBB- (Stable)	21-May-2021	[ICRA]BBB- (Stable)
Bank Guarantees	Short Term	60.00	16-Jan-2025	[ICRA]A3+	30-Oct-2023	[ICRA]A3	28-Jul-2022	[ICRA]A3	21-May-2021	[ICRA]A3

Complexity level of the rated instruments

Instrument	Complexity Indicator
Long term - Fund based-Term Loan	Simple
Long term - Fund based- Working Capital Facilities	Simple
Short term - Non-fund based - Working Capital Facilities	Very 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	Coupon Rate	Maturity	Amount Rated (Rs. crore)	Current Rating and Outlook
NA	**Cash Credit**	NA	NA	NA	7.00	[ICRA]BBB (Stable)
NA	**Term Loan-I**	FY2023	NA	FY2027	4.55	[ICRA]BBB (Stable)
NA	**Term Loan-II**	FY2023	NA	FY2028	8.85	[ICRA]BBB (Stable)
NA	**Term Loan-III**	FY2023	NA	FY2028	7.32	[ICRA]BBB (Stable)
NA	**Term Loan-IV**	FY2023	NA	FY2028	4.48	[ICRA]BBB (Stable)
NA	**Term Loan-V**	FY2023	NA	FY2028	4.31	[ICRA]BBB (Stable)
NA	**Term Loan-VI**	FY2023	NA	FY2028	6.17	[ICRA]BBB (Stable)
NA	**Term Loan-VII**	FY2023	NA	FY2028	3.95	[ICRA]BBB (Stable)
NA	**Bank Guarantee**	NA	NA	NA	60.00	[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	Consolidated approach
Super Wealth Financials Private Limited	97.48%	Full Consolidation
US Instrument Private Limited	51.27%	Full Consolidation
Redima Energy Solutions Projects Pvt. Ltd.	100.00%	Full Consolidation
DIMA Electro LLP	98.00%	Full Consolidation
DIMA Cable LLP	98.00%	Full Consolidation

Source: Company

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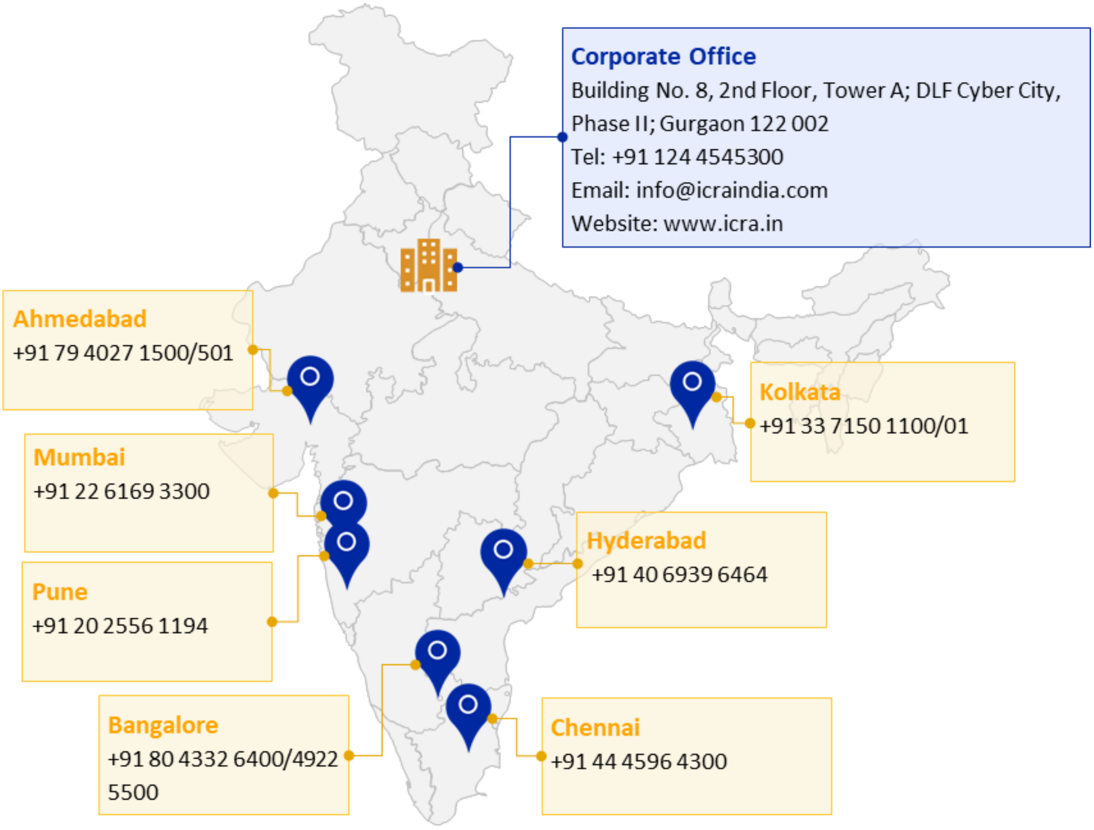

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