October 26, 2020

Energy Efficiency Services Limited: Rating revised

Summary of rating action

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Non-convertible Debenture Programme (NCD)	1375.0	1375.00	Revised to [ICRA]A+ (Stable) from [ICRA]AA- (Negative)
Non-convertible Debenture Programme (NCD)	125.00	-	Revised to [ICRA]A+ (Stable) from [ICRA]AA- (Negative) and withdrawn
Non-fund based – short term	70.00	70.00	Revised to [ICRA]A1 from [ICRA]A1+
Fund based – short term	885.00	900.00	Revised to [ICRA]A1 from [ICRA]A1+
Unallocated limits	45.00	30.00	Revised to [ICRA]A+ (Stable) / [ICRA]A1 from [ICRA]AA- (Negative) / [ICRA]A1+
Total	**2500.00**	**2375.00**	

**Instrument details are provided in Annexure-1*

Rationale

ICRA has revised the ratings assigned to the debt programme of Energy Efficiency Services Limited (EESL). Also, ICRA has revised and withdrawn the rating for the matured non-convertible debenture (NCD) programme of Rs. 125 crore. This is following the repayment of the NCD instrument by the company and in accordance with ICRA's policy on withdrawal and suspension.

ICRA's rating action on Energy Efficiency Services Limited (EESL), factors in the deterioration in its receivables position to Rs. 2,815 crore as on March 31, 2020 (receivable days of 577 days) from Rs. 1,860 crore as on March 31, 2019 (receivable days of 370 days), leading to dependence on short-term debt and high creditor position. The receivable position further increased to more than Rs. 3,000 crore as of September 2020. This is because of the delays in receiving payments from the urban local bodies (ULBs) under the Street Lighting National Programme (SLNP), which account for 63% of the overall receivables as on March 31, 2020. While the company has approached the state governments for adopting a centralised payment mechanism from the ULBs and clearing the pending arrears, the improvement in receivable position remains to be seen. This apart, it has large receivables pending from state distribution utilities (discoms) under the Unnat Jyoti by Affordable LEDs for All (UJALA) scheme. The delays in receiving payments for UJALA-based products sold under the on-bill financing scheme is exacerbated by procedural delays in verifying and approving the transactions with the discoms. The company has now stopped sales under the on-bill financing scheme. The rating is also constrained by EESL's large investment plans in the smart metering projects, distributed solar power projects and e-mobility, apart from the ongoing programmes such as SLNP and Building Energy Efficiency Projects (BEEP). These schemes are proposed to entail investment of more than Rs. 20,000 crore over the next three years, with 80% of it proposed to be funded through debt. As a result, the gearing level is expected to remain high at 4.0 – 5.0 times in the near term with moderate coverage metrics. It remains dependent on timely infusion of equity by the sponsors for meeting the investment target under these schemes. While the investments in newer segments provide diversification benefits, it necessitates increase in management bandwidth for planning, implementation and monitoring of these programmes.

However, ICRA draws comfort from the strong parentage of EESL with the company promoted by NTPC Limited (NTPC), Power Grid Corporation of India Limited (PGCIL), REC Limited (REC) and Power Finance Corporation Limited (PFC), (four Government of India (GoI) owned Central Public-Sector Undertakings (CPSUs)) and its 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. 308 crore infused in FY2020. The rating positively factors in the unique position of EESL in the energy efficiency market as projects are awarded to it on a nomination basis, with the company being a nodal agency for implementing energy efficiency programmes on a pan-India basis such as SLNP, UJALA, smart metering and electric vehicles among others. This enables it to undertake demand aggregation leading to economies of scale for manufacturers and consequent reduction in the prices of energy efficiency products, thus 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 SLNP, smart metering and e-mobility. ICRA acknowledges that these schemes are attractive for the customers, given that there are no upfront capital costs for the customer for many product categories such as streetlights, electric vehicles, smart meters, building efficiency programmes, etc, where payments are made annually from the deemed cost savings. ICRA draws comfort from the availability of debt funding from multiple sources including domestic banks, capital markets and multi-lateral agencies at attractive terms including highly competitive rate of interest and long repayment schedules. Further, the GoI has offered sovereign guarantee to multilateral agencies, which have lent to EESL at attractive terms. The company has undrawn long-term debt of about Rs. 6,406 crore from these multi-lateral agencies and domestic banks as of August 2020.

The Stable outlook assigned to EESL takes note of its important role in achieving the GoI's policy objective in the energy sector and the financial flexibility arising from the presence of strong sponsors, under the administrative control of Ministry of Power, GoI. However, the delays in realisation of payments from customers and large debt-funded investment plans remain key challenges.

ICRA notes that EESL had availed moratorium on its loans from domestic lenders for the payments between March 2020 and August 2020 and the lenders have approved the same, as allowed per the COVID-19 - Regulatory Package announced by the Reserve Bank of India on March 27, 2020 and May 23, 2020. The above rescheduling of loans has been factored in the ratings.

Key rating drivers and their description

Credit strengths

Strong sponsors and importance of EESL to GoI - EESL is promoted by four major power sector public sector entities i.e. NTPC, PGCIL, REC and PFC, with a demonstrated track record of equity infusion to support its growth plans. The promoters infused Rs. 308-crore equity into the company in FY2020. EESL is strategically important to the GoI, given that the company is 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 from the Central and state government entities and departments. This enables it to aggregate demand and undertakes 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.

Lack of upfront capex improves attractiveness of EESL's projects for its customers – EESL follows an energy savings-based model for most of its programmes such as SLNP, e-mobility and smart meters, wherein the company finances the upfront capital cost of the project. It recovers the investment, along with operating cost and a reasonable return (14-15%) through monthly payments from the customer under multi-year contracts, under a deemed savings approach. The lack of upfront capex and savings from the energy efficiency projects for customers improves the attractiveness of EESL's projects.

Availability of debt funding from multiple sources at competitive rates – EESL has access to funding from domestic banks, capital markets and multi-lateral agencies at attractive terms including highly competitive rate of interest and long repayment schedules. Further, the GoI has offered sovereign guarantee to multi-lateral agencies such as Asian Development Bank (ADB), KreditanstaltfürWiederaufbau (KfW), AgenceFrancaise De Developpement (AFC) and International bank for reconstruction and development (IBRD), which have lent to EESL at attractive terms. The company has undrawn debt of about Rs. 6406 crore from these multilateral agencies and domestic banks as on August 31, 2020.

Credit challenges

Exposure to weak counterparties and elongated payment cycle – The large exposure to the ULBs and state distribution utilities, many of which have weak finances, is a key concern for EESL. The same has led to an increase in the receivable position for the company over the last few years, especially under the SLNP and UJALA schemes. The outstanding receivable position as on March 31, 2020 stood at Rs. 2,815 crore, with 63% of the dues under SLNP scheme and 17% of the dues under UJALA scheme, which further increased to more than Rs. 3,000 crore as of September 2020. While the company has approached the state governments for adopting a centralised payment mechanism from the ULBs and clearing the pending arrears under SLNP, the improvement in receivable position remains to be seen. The receivables in case of UJALA-based products sold under the on-bill financing scheme is exacerbated by procedural delays in verifying and approving the transactions. The company has now stopped sales under the on-bill financing scheme.

Multiplicity of projects with large investment plans leading to high leverage and modest coverage metrics – EESL has diversified into a number of segments such as setting up distributed solar projects (PPAs signed for 829 MW and 102 MW has been commissioned so far), 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 more than Rs. 20,000 crore over the next three years, with majority of it in smart metering, e-mobility and distributed solar power projects. In this context, the timeliness and 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 debt and equity of 80% and 20%, the leverage level for EESL is expected to remain high in the near term (gearing level of 4.0-5.0 times) and the coverage metrics are likely to remain moderate.

Liquidity position: Adequate

EESL's liquidity position is supported by profitable operations, presence of large cash balances of Rs. 595 crore as of September 2020 and access to short-term term debt funding from banks, with undrawn limit of Rs. 250 crore as of August 2020. However, the delays in payments from customers under the UJALA and SLNP programmes remain key constraints. In this context, the company's ability to reduce its receivable position remains crucial. Its large capex requirements are expected to be funded through debt funding from multi-lateral funding agencies, domestic banks and bond market, along with internal accruals and fresh equity from sponsors.

Rating sensitivities

Positive triggers – ICRA could upgrade EESL's rating if the company is able to achieve a sustainable reduction in receivable position, with receivable days below 150 days. Further, other major factors for upgrade include a sustainable growth in revenues and profitability, leading to healthy cash flow from operations along with improvement in leverage and coverage metrics.

Negative triggers – Negative pressure on EESL's rating could arise, in case of continued weakness in collections and delays in recovery of pending arrears, adversely impacting its liquidity profile. Further, other negative triggers include weakening of linkages and support mechanism from the GoI / its shareholder PSUs and any adverse change in GoI's focus on energy efficiency projects and EESL's role in these projects. 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
Parent/Group Support	Parent/Group Company: NTPC, PGCIL, PFC, REC The rating derives strength from the ownership of EESL by the four power sector PSUs under Ministry of Power, GoI and the strategic importance of EESL for meeting the GoI'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	For arriving at the ratings, ICRA has used limited consolidation approach, under which the support extended to its subsidiary in UK (EESL EnergyPro Assets Limited) in the form of corporate guarantee and standby letter of credit (SBLC) has been considered.

About the company

EESL is promoted by Ministry of Power, GoI as a joint venture (JV) company 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 the 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 Prime Minister's National Action Plan on Climate Change. It is an energy service company (ESCO) and is currently mandated to implement various programmes and consultancy services dedicated to the conservation of energy by improving the energy efficiency in the system.

Key financial indicators (audited)

	FY2019	FY2020*
Operating Income (Rs. crore)	1,837.65	1,781.26
PAT (Rs. crore)	74.64	34.51
OPBDIT/OI (%)	32.2%	44.7%
PAT/OI (%)	4.1%	1.9%
Total Outside Liabilities/Tangible Net Worth (times)	7.27	6.74
Total Debt/OPBDIT (times)	6.06	6.82
Interest Coverage (times)	3.07	2.27

**Limited review of financials by auditor*

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

Rating history for past three years

	Instrument	Type	Current Rating (FY2021)			Chronology of Rating History for the past 3 years			
			Amount Rated (Rs. crore)	Amount Outstanding (Rs. crore)	26-October-2020	Date & Rating in FY2020	Date & Rating in FY2019	Date & Rating in FY2018	
						4-March-2020	2-January-2019	4-January-2018	28-April-2017
1	NCDs	Long-term	1375.00	1150.00	**[ICRA]A+ (Stable)**	**[ICRA]AA- (Negative)**	**[ICRA]AA- (Stable)**	**[ICRA]AA (Stable)**	**[ICRA]AA (Stable)**
2	NCDs	Long-term	125.00	-	**[ICRA]A+ (Stable); withdrawn**	**[ICRA]AA- (Negative)**	**[ICRA]AA- (Stable)**	**[ICRA]AA (Stable)**	**[ICRA]AA (Stable)**
3	Non fund based	Short Term	70.00	-	**[ICRA]A1**	**[ICRA]A1+**	**[ICRA]A1+**	**-**	**-**
4	Fund based	Short Term	900.00	-	**[ICRA]A1**	**[ICRA]A1+**	**[ICRA]A1+**	**[ICRA]A1+**	**[ICRA]A1+**
5	Unallocated	Long-term	30.00	-	**[ICRA]A+ (Stable) / [ICRA]A1**	**[ICRA]AA- (Negative) / [ICRA]A1+**	**[ICRA]AA- (Stable) / [ICRA]A1+**	**[ICRA]AA (Stable) / [ICRA]A1+**	**[ICRA]AA (Stable) / [ICRA]A1+**
6	Term loan	Long-term	-	-	**-**	**-**	**-**	**[ICRA]AA (Stable)**	**[ICRA]AA (Stable)**

Amount in Rs. crore

Complexity level of the rated instrument

ICRA has classified various instruments based on their complexity as "Simple", "Complex" and "Highly Complex". The classification of instruments according to their complexity levels is available on the 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
INE688V08031	NCD	29-Jan-2018	8.29%	28-May-2021	125.00	[ICRA]A+ (Stable)
INE688V08023	NCD	10-Jan-2018	8.15%	10-Feb-2021	200.00	[ICRA]A+ (Stable)
INE688V08015	NCD	18-Jul-2017	7.80%	18-Jul-2022	450.00	[ICRA]A+ (Stable)
INE688V07025	NCD	20-Sep-2016	8.07%	20-Sep-2021	125.00	[ICRA]A+ (Stable)
INE688V07033	NCD	20-Sep-2016	8.07%	20-Sep-2023	250.00	[ICRA]A+ (Stable)
INE688V07017	NCD	20-Sep-2016	8.07%	20-Mar-2020	125.00	[ICRA]A+ (Stable); withdrawn
-	NCD	Not yet issued	-	-	225.00	[ICRA]A+ (Stable)
NA	Non-fund based - short-term	-	-	-	70.0	[ICRA]A1
NA	Fund based-short-term	-	-	-	900.0	[ICRA]A1
NA	Unallocated	-	-	-	30.0	[ICRA]A+ (Stable)/ [ICRA]A1

Source: EESL

Annexure-2: List of entities considered for consolidated analysis

Company Name	Ownership	Consolidation Approach
EESL EnergyPro Assets Limited	84.55%	Limited Consolidation

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About ICRA Limited:

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