

Energy Efficiency Services Limited

September 24, 2020

Ratings

Facilities/ Instrument	Amount (Rs. crore)	Rating ¹	Rating Action
Short term Bank Facilities	910.00 (increased from 870.00)	CARE A1+ (A One Plus)	Reaffirmed
Long-term/Short-term Bank Facilities (Proposed)	90.00 (reduced from 630.00)	CARE A+; Stable/CARE A1+ (Single A Plus; Outlook: Stable / A One Plus)	Revised from CARE AA-; Stable/CARE A1+ (Double A Minus; Outlook: Stable / A One Plus)
Long term Bank Facilities	1000.00 (increased from 500.00)	CARE A+; Stable (Single A Plus; Outlook: Stable)	Revised from CARE AA-; Stable (Double A Minus; Outlook: Stable)
Total	2,000.00 (Rs. Two Thousand crore only)		
Non-Convertible Debenture issue (NCD – I)	500 (Rs. Five hundred crore only)	CARE A+; Stable (Single A Plus; Outlook: Stable)	Revised from CARE AA-; Stable (Double A Minus; Outlook: Stable)
Non-Convertible Debenture issue (NCD – II)	450 (Rs. Four hundred & fifty crore only)	CARE A+; Stable (Single A Plus; Outlook: Stable)	Revised from CARE AA-; Stable (Double A Minus; Outlook: Stable)
Non-Convertible Debenture issue (NCD – III & IV)	500 (Rs. Five hundred crore only)	CARE A+; Stable (Single A Plus; Outlook: Stable)	Revised from CARE AA-; Stable (Double A Minus; Outlook: Stable)

Details of instruments/facilities in Annexure-1

Detailed Rationale & Key Rating Drivers

The revision in the ratings assigned to the bank facilities and instruments of Energy Efficiency Services Limited (EESL) takes into account its rising level of debtors and susceptibility to counterparty credit risk on account of weak financial profile of its clientele, primarily consisting of urban local bodies, municipal bodies and distribution companies (discoms). The rating revision also factors in the substantial capex plans of the company in the years ahead proposed to be funded predominantly through debt and business uncertainties associated with successful implementation of capex under new programs proposed by EESL, given its limited track record of operations. The ratings continue to factor in its leveraged capital structure owing to high debt funded capex over the years.

The ratings, however, continue to derive strength from its ownership vested completely in strong and Government of India (GoI)-owned PSUs and its strategically important role as the nodal agency for implementation of various energy savings programmes launched by GoI. The ratings also factor in regular and timely support from promoter companies by way of regular equity infusion, their involvement in the formulation of its strategy and long term business plan by way of board representations in EESL and resource mobilization support through low-cost funding from multilateral funding agencies which are guaranteed by GoI. The ratings further factor in high entry barriers for competition in its field of operations as this sector requires huge investments and the cost-plus model followed by EESL which ensures adequate returns and steady annuity based income stream to EESL. The ratings also factors in its scalable nature of business led by its diversified and new business segments.

EESL sought moratorium for the servicing of its bank facilities for the periods March 2020 to August 2020 from its lenders as a part of the COVID-19 – Regulatory Package announced by the RBI on March 27, 2020 and May 22, 2020. CARE has not recognized this instance as a Default, as the same is permitted by the RBI as part of the relief measures announced recently. The non-recognition of default for the payment of interest in this case is as per the guidance provided by the SEBI circular SEBI/ HO/ MIRSD/ CRADT/ CIR/ P/ 2020/ 53 dated March 30, 2020. However, as per the discussion with the management and lenders, the outstanding dues were subsequently cleared off by the company.

Rating Sensitivities

Positive Factors

- Ability of the company to increase its scale of operations by 25-30% while maintaining comfortable profitability margins on a sustained basis going forward.

¹Complete definitions of the ratings assigned are available at www.careratings.com and in other CARE publications

- Ability of the company to successfully diversify into newer segments while improving its leverage levels and coverage indicators.

Negative Factors

- Sustained pressure on the cash flows of the company due to consistently elongated collection cycle.
- Any change in the ownership pattern and support received from the GoI.
- Any change in the strategically important role of EESL for implementation of various energy savings programmes launched by GoI.
- Any sizeable capex or acquisition undertaken by the company adversely impacting the capital structure.

Detailed description of the key rating drivers**Key Rating Strengths****Ownership and support by strong promoters; exclusive mandate as nodal agency for GoI's energy efficiency initiatives**

EESL was set up as a joint venture of reputed public sector undertakings (PSUs) viz. National Thermal Power Corporation Limited (NTPC), Power Finance Corporation Limited (PFC), REC Limited (REC) and Power Grid Corporation of India Limited (PGCIL) under the administrative control of Ministry of Power to create and sustain markets for energy efficiency in the country through supply of energy-efficient products and services. The sponsors not only provide timely equity support to EESL but are also involved in the formulation of strategy and long term business plans of EESL through their representation on the Board of EESL.

Also, EESL has been receiving regular support from the GoI by way of guarantees against its borrowings from overseas agencies. The GoI has also launched various schemes from time to time in this sector which has helped EESL to expand its business with Government clients. EESL has been chosen as the nodal agency to implement all the energy efficiency projects on a pan-India basis. EESL has signed MoUs for smart meters with the states of Andhra Pradesh, Uttar Pradesh, Haryana, Bihar, NDMC-Delhi, Telangana and for prepaid meters with the states of Uttar Pradesh and Tripura.

The Board has representatives from Ministry of Power, Bureau of Energy Efficiency (BEE), REC, PFC and NTPC. EESL works closely with Bureau of Energy Efficiency (BEE) and is leading the market related activities of the National Mission for Enhanced Energy Efficiency (NMEEE), one of the eight national missions under Prime Minister's National Action Plan on Climate Change.

Going forward, the continued support to the company from its promoters in terms of infusing additional equity as well as borrowings from multilateral development agencies and domestic borrowings to fund the growing scale of operations would be critical for its credit profile.

Cost-plus model and steady annuity that ensures adequate returns

EESL follows a demand aggregation method that ensures sufficient return on equity. The cost-plus model ensures that EESL covers itself for all the costs that it incurs during the project including material cost, procurement cost, advertisement cost etc., besides the cost of debt and equity. As the new annuity businesses mature, they are expected to be a source of steady revenue stream to EESL in future. Such businesses typically provide for long term revenue visibility, depending upon the tenor of the agreements.

High entry barrier for competition

EESL has explored scalable areas where it can introduce energy efficiency projects with explicit support from the Government of India and its initiatives to enhance energy efficiency. This sector has a high entry barrier as it is capital intensive and only companies with significant capital raising prowess can venture into this. The capital cost is incurred upfront and the returns are realized over a period of time. EESL has an advantage as it is promoted by PSUs and hence it gets businesses with most of the central and state government entities without an open tendering competition. Any competition from the private sector has to face this hurdle of going through a tendering process as per standard procedure of all government agencies.

Diversified business segments

EESL executes energy saving and efficiency improvement projects in domains of municipal street lighting, household energy efficiency, demand side management in agricultural sector (pumps) and industrial energy efficiencies for PSUs, government bodies and municipal corporations. EESL has also ventured into new areas such as electric vehicles, smart meters and solar PV power plants. EESL has demonstrated a successful implementation track record by venturing into various innovative and first-of-its-kind projects.

EESL generates its business through the various governmental programmes like Unnat Jyoti by Affordable LEDs for All (UJALA), Street Light National Programme (SLNP), Municipal Energy Efficiency Programme (MEEP), Building Energy Efficiency Programme (BEEP), Smart Meter National Programme (SMNP), National E-Mobility Programme (E- Vehicles and charging infrastructure), Agricultural Demand Side Management (AsDSM), Services & Consultancy Business, Solar Energy based vertical (small solar power plants, rooftop solar PV projects, solar study lamp scheme), Atal Jyoti Yojana (solar

street lighting system) and Solar Study Lamp Programme, Trigeneration Business. Besides, EESL is engaged in combined heat and power business in the UK market through its subsidiary, EESL EnergyPro Assets Limited (EEPAL). UJALA and SNLP is executed successfully on a large scale on a pan-India basis by EESL over the last four to five years (launched on January 05, 2015). EESL has pioneered the demand side aggregation methodology thereby driving down the prices of the end product due to economies of scale. They have implemented various projects like distribution and implementation of LED bulbs, LED tube lights and energy efficient fans under UJALA scheme and installation and implementation of LED street lights on a pan India basis under SLNP. Now, company has also ventured into new areas such as electric vehicles and charging infrastructure, smart meters, trigeneration, decentralised solar power plants, solar agricultural pumps and battery storage with the experience gained during UJALA and SLNP.

The existing businesses of UJALA, SLNP and Consultancy businesses have provided an impetus to the growth and profitability of the company over past years whereas the new ventures such as electric vehicles, smart meters, solar power plant businesses, building efficiency and offshore businesses is expected to drive the future growth of EESL going forward. While these areas offer diversification benefits, they also expose the company to various risks associated with entering into new business lines and necessitate the increase in management bandwidth for planning, implementation and monitoring.

Adequate liquidity position

EESL's major sources of funding comprise market borrowings (in form of foreign currency term loans, rupee denominated bonds and short-term loans) and internal accruals. The company is able to borrow at highly competitive rates from multilateral financial institutions, backed by Gol guarantees. The company's available cash and bank balance stood at Rs. 631.35 crore as on March 31, 2020 (Rs. 760.59 crore as on March 31, 2019) with current ratio of 1.39x as on March 31, 2020 (unaudited) as compared to 1.29x as on March 31, 2019. Further, the company is having sanctioned, unavailed Government-guaranteed foreign currency limits to support the large quantum of capex plans of company. However, the company has large capex plans and high requirements of inventory and also has high trade receivables, which have been increasing over the past years for which company is maintaining such a considerable cash and bank balance. The company sought moratorium for the dues for the months of March 2020 to August 2020; however, as per the discussion with the management and the lenders, the dues were subsequently cleared off by the company.

Key Rating Weaknesses

Significantly deteriorated collection cycle with high counter-party credit risk

EESL is exposed to risks emanating from the weak financial profiles of its key customers, i.e. state government utilities and distribution companies, urban local bodies and other state government authorities. The trade receivables of the company as on March 31, 2020 (unaudited) stood at Rs. 2,800 crore (as compared to total operating income of Rs. 1,857.27 crore in FY20) as against trade receivables of Rs. 1,831 crore as on March 31, 2019 (equivalent to around 95% of total operating income in FY19). The average collection period of the company also increased to 455 days in FY20 from 293 days in FY19.

For the Energy Service Company (ESCO) projects (SLNP, smart metering, e- vehicles (EVs), BEEP etc.), EESL incurs the upfront cost and receives the payments from the clients over a protracted period of five to eight years. Consequently, EESL's financial stability hinges upon timely receipt of payments from urban local bodies (ULBs), municipal bodies, and State and Central Governments. However, credit concerns emanate on account of counterparty credit risks arising out of exposure of EESL to state owned discoms, most of which are in poor financial health, and urban local bodies. Increase in debtors greater than one year which are largely pertaining to UJALA and SLNP have led to significant blockage of working capital. Out of the total receivables of Rs. 2,800 crore as on March 31, 2020 (unaudited), Rs. 1,035.64 crore of receivables are outstanding for more than 360 days (equivalent to 56% of total operating income in FY20) as against Rs. 605 crore of receivables outstanding for more than 360 days as on March 31, 2019 (equivalent to 31% of total operating income in FY19). Although the company earns most of its revenue from government-controlled entities (both central and state government) which insulates it from the bad debt risk, the liquidity profile weakens if these receivables are not realized timely.

Nonetheless, the company is taking steps to expedite the recovery of its receivables. For newer programs like smart meters, EV and solar power projects, EESL has been securing its collections from its clients through letters of credit (LCs) or escrow accounts. Besides, a payment security mechanism has been incorporated in the programs where the revenue is billed on monthly annuity mode such as SLNP and BEEP. The agreements with most of the counterparties under the above mentioned programs namely, SLNP & BEEP incorporate payment security mechanisms by way of escrow accounts, which shall be opened on the main collection account of the respective debtors, wherein proceeds from various inflow streams are being deposited.

Leveraged capital structure

During FY20 (unaudited), EESL witnessed a decline of around 4% in its total operating income to Rs. 1,857.27 crore as against Rs. 1,935.67 crore in FY19. However, the PBILDT margin of the company improved to 44.17% during FY20 as compared to 35.67% during the previous year on account of higher contribution from the higher-yielding ESCO business

segment. In addition to this, the distribution and media expenses incurred in the past years in order to create the demand and awareness of the products under UJALA declined during FY20 due to economies of scale, resulting in improvement in PBILDT margins. However, the increase in the depreciation and interest cost led to decline in PAT margin to 1.86% during FY20 as compared to 3.86% during FY19.

The overall gearing of the company remains high and stood at 4.77x as on March 31, 2020 (4.46x as on March 31, 2019). This is on account of the high debt levels of the company, which stood at Rs. 5,465.60 crore as on March 31, 2020 as compared to Rs. 3,589.38 crore as on March 31, 2019. This was partially offset by the additional equity infusion of Rs. 308.13 crore during FY20. The debt profile of the company comprises of short term loans of Rs. 790 crore as on March 31, 2020 (Rs. 790 crore as on August 31, 2020) to finance the day-to-day working capital requirement. Furthermore, the company has outstanding NCD issues of Rs. 1,150 crore, term loans of Rs. 1,330 crore and foreign currency loans of Rs. 2,164.07 crore as on March 31, 2020 (domestic borrowings of Rs. 2,700 crore and foreign currency loan of Rs. 2,378.74 crore as on August 31, 2020). The company is under process to mobilize funds through equity as well as borrowings to fund the increasing scale of operations as the company plans to rely on long term funds to support the projects.

Analytical approach: Standalone; the ratings however factors in the strong parentage of EESL in reputed PSUs and the company's strategic role in promoting energy efficient projects. The ratings also factor in the continued operational and financial support from its parent entities.

Applicable Criteria

[Criteria on assigning 'outlook' and 'credit watch' to Credit Ratings](#)

[CARE's Policy on Default Recognition](#)

[Financial Ratios - Non-Financial Sector](#)

[Rating Methodology - Service Sector Companies](#)

[Criteria for Short term Instruments](#)

[Rating Methodology- Consolidation and Factoring Linkages in Ratings](#)

[Liquidity Analysis of Non-Financial Sector Entities](#)

About the Company

Energy Efficiency Services Limited (EESL) was set up in 2009 as a joint venture of National Thermal Power Corporation Limited (NTPC; a Maharatna PSE with Gol holding of 56.09% as on March 31, 2019; rated CARE AAA; Stable/ CARE A1+), Power Finance Corporation Limited (PFC; a Navratna PSE with Gol holding of 59.05% as on March 31, 2019; rated CARE AAA; Stable/ CARE A1+), REC Limited (REC; a Navratna PSE with PFC holding of 52.63% as on March 31, 2019; rated CARE AAA; Stable/ CARE A1+) and Power Grid Corporation of India Limited (PGCIL; a Navratna PSE with Gol holding of 55.37% as on March 31, 2019; rated CARE AAA; Stable/ CARE A1+) to facilitate the implementation of various programs and consultancy services dedicated to the conservation of energy by improving the energy efficiency in the area of municipal street lighting, household energy efficiency, demand side management in agricultural sector (pumps) and industrial energy efficiencies for PSUs, government bodies and municipal corporations in India. EESL has also ventured into new areas such as electric vehicles and charging infrastructure, smart meters, tri-generation, decentralised solar power plants, solar agricultural pumps and Battery storage. The company is working under the administrative control of Ministry of Power, Govt. of India. EESL works in close association with various Central/State Government authorities, DISCOMs, Multinational agencies and industry on energy efficiency projects.

During FY18, the company through its subsidiary EPAL (EESL EnergyPro Assets Limited with investment of Rs. 271.31 crore (84.55% holding) as on March 31, 2020) has entered the UK market and is engaged in combined heat and power business.

Covenants of rated instrument / facility: Detailed explanation of covenants of the rated instruments/facilities is given in Annexure-3

Brief Financials (Rs. crore)	FY18 (A)	FY19 (A)	FY20 (UA)
Total operating income	1405.09	1935.67	1857.27
PBILDT	323.76	690.41	820.33
PAT	39.46	74.64	34.51
Overall gearing (times)	3.87	4.46	4.77
Interest coverage (times)	2.41	3.58	2.33

A: Audited; UA: Unaudited

Status of non-cooperation with previous CRA: Not Applicable

Any other information: Not Applicable

Rating History for last three years: Please refer Annexure-2

Annexure-1: Details of Instruments/Facilities

Name of the Instrument	ISIN	Date of Issuance	Coupon Rate	Maturity Date	Size of the Issue (Rs. crore)	Rating assigned along with Rating Outlook
Fund-based - LT/ST-Term loan	-	-	-	-	90.00	CARE A+; Stable / CARE A1+
Fund-based - ST-Term loan	-	-	-	-	910.00	CARE A1+
Fund-based - LT-Term Loan	-	-	-	December 2025	1000.00	CARE A+; Stable
Debentures-Non Convertible Debentures	INE688V07017	September 20, 2016	8.07%	February 2020*	125.00	CARE A+; Stable
Debentures-Non Convertible Debentures	INE688V07025	September 20, 2016	8.07%	September 2021	125.00	CARE A+; Stable
Debentures-Non Convertible Debentures	INE688V07033	September 20, 2016	8.07%	September 2023	250.00	CARE A+; Stable
Debentures-Non Convertible Debentures	INE688V08015	July 18, 2017	7.80%	July 2022	450.00	CARE A+; Stable
Debentures-Non Convertible Debentures	INE688V08023	January 10, 2018	8.15%	February 2021	200.00	CARE A+; Stable
Debentures-Non Convertible Debentures	INE688V08031	January 29, 2018	8.29%	May 2021	125.00	CARE A+; Stable
Debentures-Non Convertible Debentures (Proposed)	-	-	-	-	175.00	CARE A+; Stable

*The NCDs were duly paid on the due date.

Annexure-2: Rating History of last three years

Sr. No.	Name of the Instrument/Bank Facilities	Current Ratings			Rating history			
		Type	Amount Outstanding (Rs. crore)	Rating	Date(s) & Rating(s) assigned in 2020-2021	Date(s) & Rating(s) assigned in 2019-2020	Date(s) & Rating(s) assigned in 2018-2019	Date(s) & Rating(s) assigned in 2017-2018
1.	Fund-based - LT/ST-Term loan	LT/ST	90.00	CARE A+; Stable / CARE A1+	-	1)CARE AA-; Stable / CARE A1+ (27-Sep-19)	1)CARE AA; Stable / CARE A1+ (03-Dec-18) 2)CARE AA; Stable / CARE A1+ (30-May-18)	1)CARE AA / CARE A1+ (Under Credit watch with Developing Implications) (28-Mar-18) 2)CARE AA; Stable / CARE A1+ (29-Dec-17)
2.	Debentures-Non Convertible Debentures	LT	500.00	CARE A+; Stable	-	1)CARE AA-; Stable (27-Sep-19)	1)CARE AA; Stable (03-Dec-18) 2)CARE AA; Stable (30-May-18)	1)CARE AA (Under Credit watch with Developing Implications) (28-Mar-18) 2)CARE AA; Stable (29-Dec-17)
3.	Debentures-Non Convertible Debentures	LT	450.00	CARE A+; Stable	-	1)CARE AA-; Stable (27-Sep-19)	1)CARE AA; Stable (03-Dec-18) 2)CARE AA; Stable (30-May-18)	1)CARE AA (Under Credit watch with Developing Implications) (28-Mar-18) 2)CARE AA; Stable (29-Dec-17)
4.	Debentures-Non Convertible Debentures	LT	500.00	CARE A+; Stable	-	1)CARE AA-; Stable (27-Sep-19)	1)CARE AA; Stable (03-Dec-18) 2)CARE AA; Stable (30-May-18)	1)CARE AA (Under Credit watch with Developing Implications) (28-Mar-18) 2)CARE AA; Stable (29-Dec-17)
5.	Fund-based - ST-Term loan	ST	910.00	CARE A1+	-	1)CARE A1+ (27-Sep-19)	1)CARE A1+ (03-Dec-18) 2)CARE	1)CARE A1+ (Under Credit watch with Developing Implications)

							A1+ (30-May-18)	(28-Mar-18) 2)CARE A1+ (29-Dec-17)
6.	Fund-based - LT-Term Loan	LT	1000.00	CARE A+; Stable	-	1)CARE AA-; Stable (27-Sep-19)	-	-

Annexure-3: Detailed explanation of covenants of the rated instrument/facilities

Name of the Instrument	Detailed explanation
A. Financial covenants	
Term Loans	The company needs to maintain a sufficient quantity of the assets constituting Hypothecated assets to provide necessary margin on security as specified.
B. Non-financial covenants	
Term Loans	The company shall as required by the lender will furnish full particulars of all the assets and of the Hypothecated assets and shall allow the inspection of the same.

Annexure 4: Complexity level of various instruments rated for this company

Sr. No.	Name of the Instrument	Complexity Level
1.	Debentures-Non Convertible Debentures	Simple
2.	Fund-based - LT-Term Loan	Simple
3.	Fund-based - LT/ ST-Term loan	Simple
4.	Fund-based - ST-Term loan	Simple

Note on complexity levels of the rated instrument: CARE has classified instruments rated by it on the basis of complexity. This classification is available at www.careratings.com. Investors/market intermediaries/regulators or others are welcome to write to care@careratings.com for any clarifications.

Contact us

Media Contact

Name: Mradul Mishra
Contact no: +91-22-6837 4424
Email ID: mradul.mishra@careratings.com

Analyst Contact 1

Group Head Name: Mr. Gaurav Dixit
Group Head Contact no: 011 – 4533 3235
Group Head Email ID: gaurav.dixit@careratings.com

Analyst Contact 2

Group Head Name: Ms. Ravleen Sethi
Group Head Contact no: 011 – 4533 3251
Group Head Email ID: ravleen.sethi@careratings.com

Business Development Contact

Name: Swati Agrawal
Contact no: +91-11-4533 3200
Email ID: swati.agrawal@careratings.com

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Our ratings do not factor in any rating related trigger clauses as per the terms of the facility/instrument, which may involve acceleration of payments in case of rating downgrades. However, if any such clauses are introduced and if triggered, the ratings may see volatility and sharp downgrades.

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