

Energy Efficiency Services Limited

January 12, 2022

Ratings

Facilities/Instruments	Amount (Rs. crore)	Rating ¹	Rating Action
Long Term Bank Facilities	850.00 (Reduced from 1,000.00)	CARE A+; Stable (Single A Plus; Outlook: Stable)	Reaffirmed
Long Term / Short Term Bank Facilities	90.00	CARE A+; Stable / CARE A1 (Single A Plus ; Outlook: Stable/ A One)	Revised from CARE A+; Stable / CARE A1+ (Single A Plus ; Outlook: Stable / A One Plus)
Short Term Bank Facilities	766.00 (Reduced from 910.00)	CARE A1 (A One)	Revised from CARE A1+ (A One Plus)
Total Bank Facilities	1,706.00 (Rs. One Thousand Seven Hundred Six Crore Only)		
Non Convertible Debentures	250.00 (Reduced from 500.00)	CARE A+; Stable (Single A Plus; Outlook: Stable)	Reaffirmed
Non Convertible Debentures	450.00	CARE A+; Stable (Single A Plus; Outlook: Stable)	Reaffirmed
Non Convertible Debentures [^]	-	-	Withdrawn
Total Long Term Instruments	700.00 (Rs. Seven Hundred Crore Only)		

Details of instruments/facilities in Annexure-1

Detailed Rationale & Key Rating Drivers

The revision in rating assigned to short term bank facilities and debt instruments of Energy Efficiency Services Limited (EESL) considers continually elongated operating cycle of the company due to higher than envisaged receivables thereby resulting in moderation in its liquidity position. The company's total receivables have piled up significantly from Rs.1836 crore as on March 31, 2019, to Rs.3194 crore as on March 31, 2021, which are estimated to have increased further to Rs.3,557 crore by December 2021 reflecting continued delays in the collections from the customers especially the Urban Local Bodies (ULBs) and other state utilities. CARE understands that EESL has been taking various steps to improve collections such as seeking government's intervention to expedite payments from counterparties and creation of payment security mechanism for incremental orders which may result in improvement in collections going forward albeit gradually. Notwithstanding such corrective measures, the receivables position continues to remain stretched and any further increase in receivables or lower than envisaged improvement in collections shall remain a concern from credit perspective. The ratings continue to derive strength from EESL's ownership vested completely in strong and Government of India (GoI)-owned large PSUs with demonstrated financial support to EESL through equity infusions and EESL's strategically important role as the nodal agency for implementation of various energy savings programmes launched by GoI. The ratings also factor in involvement of government and EESL's shareholders in the formulation of EESL's strategy and long-term business plan by way of board representations in the company 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 in the business of large-scale energy efficiency projects due to requirements of substantial capital investment and EESL's presence in diversified segments of energy efficiency businesses wherein it gets governmental orders without getting into the bidding process. Moreover, the cost-plus model followed by EESL ensures adequate returns and steady annuity-based income stream to the company. The ratings, however, remain constrained by elongated operating cycle and susceptibility to counterparty credit risk on account of weak financial profile of its clientele, primarily consisting of ULBs and distribution companies (DISCOMS) and EESL's highly leveraged capital structure owing to high debt funded capex over the years.

[^]The rating assigned to NCDs has been withdrawn upon full redemption of the instruments.

Rating Sensitivities

Positive Factors: Factors that could lead to positive rating action/upgrade:

- Sustained growth in business operations with TOI of above Rs.2000 crore while maintaining margins
- Meaningful improvement in collection period to below 180 days
- Improvement in overall gearing to below 3 times.

¹Complete definition of the ratings assigned are available at www.careedge.in and other CARE Ratings Ltd.'s publications

Negative Factors: Factors that could lead to negative rating action/downgrade:

- Continually stretched receivables or further build-up in receivables
- 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 its leveraged capital structure.

Detailed description of the key rating drivers

Key Rating Strengths

Strong parentage and nodal agency status for GoI's energy efficiency initiatives

EESL was set-up in 2009 as a joint venture of National Thermal Power Corporation Limited (Now NTPC Ltd; a Maharatna PSE with GoI holding of 51.10% as on September 30, 2021; rated CARE AAA; Stable/ CARE A1+), Power Finance Corporation Limited (PFC; a Navratna PSE with GoI holding of 55.99% as on September 30, 2021; rated CARE AAA; Stable/ CARE A1+), REC Limited (REC; a Navratna PSE with PFC holding of 52.63% as on September 30, 2021; rated CARE AAA; Stable/ CARE A1+ and CARE AA+; Stable for Perpetual Bonds) and Power Grid Corporation of India Limited (PGCIL; a Navratna PSE with GoI holding of 51.34% as on September 30, 2021; rated CARE AAA; Stable/ CARE A1+). The company was established to facilitate the implementation of various programs and consultancy services dedicated to the conservation of energy by improving the energy efficiency in 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. GoI has launched various schemes from time to time which has helped EESL to expand its business with government clients. The company has been chosen as the nodal agency to implement several energy efficiency projects on a pan-India basis. It has been receiving regular support from the government by way of guarantee for its borrowing from overseas agencies at very competitive rates. The Board of Directors is represented by Additional Secretary to Ministry of Power and senior officials from NTPC and PGCIL.

Strategic role in promoting energy efficiency and conservation projects

EESL is strategically important entity for GoI to promote and create market for energy efficiency and conservation projects in India through procurement and supply of energy efficient products and services. EESL carries out activities offered by the Central and State Govt., Bureau of EE or any other agencies related to EE, and climate change. EESL is JV of four PSU companies namely NTPC, PFC, REG and PGCIL administered by Ministry of Power, GoI and is one of the main implementation arms of the National Mission for Enhanced Energy Efficiency (NMEEE). In November 2009, the "National Mission for Enhanced Energy Efficiency" (NMEEE), a policy by GoI, has indicated Rs. 74,000 crore of investment potential for energy efficiency and conservation (EE&C) out of which Rs 30,000 crore of potential exists in energy intensive industries and remaining Rs 44,000 crores in the other key demand side economic sectors. GOI has launched various schemes from time to time in this sector which has helped the company to expand its business with government clients. EESL is implementing various programs and consultancy services dedicated to the conservation of energy by improving the energy efficiency of the systems.

Cost plus model and steady annuity income ensuring adequate returns

EESL ensures that it gives the best solution to its clients by following the demand aggregation method and at the same time protecting the shareholders of EESL by ensuring sufficient return on equity. The cost-plus model ensures that EESL covers itself for all the cost that it incurs during the project including material cost, procurement cost, advertisement cost etc and also cost of debt and equity. All these costs are added in the final annuity quote given to clients. EESL also ensures that the annuity cost to the client is less than or equal to the existing cost (deemed or actual) and hence gives a value proposition to them. As the new annuity businesses mature, it shall be a source of steady revenue stream to EESL going forward and shall be long term in nature depending upon the tenor of the agreements. It is a win-win situation for both as client does not incur the upfront cost and pays the annuity which is less than or equal to its current deemed / actual expenses and after say a few years (4 to 7 years), the savings starts to accrue to the clients.

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 a government owned company and hence it gets businesses with most of the central and state government entities without an open tendering competition. Any competition from a private sector must face this hurdle of going through a tendering process as per standard procedure of all government agencies.

Diversified business segments

EESL has been mandated by the Government of India to implement energy efficiency projects. The existing businesses of Ujala, SLNP and Consultancy businesses has given the growth and profitability to the company whereas the new ventures such as electric vehicles, smart meters, solar power plant businesses, Building efficiency and offshore businesses is expected to drive the growth of EESL going forward. EESL follows two types of business models to look at all kind of energy efficiency projects in India i.e. (a) Energy Service Company (ESCO) Model and (b) Project Management Consultant (PMC) Model. Under ESCO model, EESL undertakes the entire upfront investment for the project, instead of relying on consumers or clients. The investment is recovered through periodic instalments which result from deemed energy savings over a mutually agreed-upon project period (generally 5-7 years). Operation and maintenance of new equipment is the liability of EESL during the contract period. This can

enforce effective product warranties to ensure minimal downtime due to equipment malfunctions. In PMC model, EESL plays a role of project management consultant for project implementation. The upfront investment for the project in this model is borne by the client. It is a one-time payment cost of services offer for the energy efficiency projects. The various programmes of EESL are 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. Further, EESL is also engaged in combined heat and power business through its subsidiary, EESL EnergyPro Assets Limited (EEPAL) in the UK Markets.

Key Rating Weaknesses

Significant build-up in receivables

EESL's estimated outstanding receivables remained higher at Rs 3,556 crore as on December 31, 2021 as compared to Rs. 3,195 crore in March 2021 out of which 61% of the total receivables are of more than 365 days. The company's average Collection period increased to 738 days in FY21 as compared to 461 in FY20. It is exposed to weak counterparties, such as discoms and ULBs that have poor financial health and an inferior payment track record to the vendors. Outstanding dues mainly pertain to the street lighting programmes which have increased over the years. Collections pertaining to current billings have gained pace in the last one year because of various initiatives taken by the company, like active intervention from the MoP, which has resulted in lesser increase in receivables. Increase in debtors greater than one year which are largely pertaining to UJALA and SLNP have led to significant blockage of working capital. 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

The overall gearing of the company remains high and deteriorated to 6.08x as on March 31, 2021 (4.84x as on March 31, 2020). This is on account of the high debt levels of the company, which stood at Rs. 6,748.75 crore as on March 31, 2021 as compared to Rs. 5,463.99 crore as on March 31, 2020. The debt profile of the company comprises of short term loans of Rs. 1,053.88 crore as on March 31, 2021 to finance the day-to-day working capital requirement (these short term loan are repayable generally within a year & majority of these are having a roll over clause and company is relying on refinancing or rolling them over). Furthermore, the company has outstanding NCD issues of Rs. 992.48 crore, term loans of Rs. 1,848.71 crore and foreign currency loans of Rs. 2,848.32 crore as on March 31, 2021. Further, company is also retaining some money from its vendors/ suppliers to ensure warranty commitment and to cover other risk factors of the vendors during the concurrence of the various energy efficiency projects undertaken by company (Retention Money). Further company is exposed to forex risk on account of high foreign currency term loans. Company has booked forex gain of Rs. 45.72 crore in FY21 as against forex loss of Rs. 52.50 crore in FY20. EESL has received equity infusion of Rs.407 crore in H1FY22 from PGCIL to support its liquidity and capital structure. Going forward, timely equity support till the time issues of stretched receivables is resolved shall remain key monitorable.

Liquidity: Adequate

EESL's liquidity position although moderated remain adequate with cash and equivalents of Rs 947 crore as on December 31, 2021, and availability of short-term loans from domestic lenders. Besides this, the company's liquidity profile derives strength from strong promoter support, who have infused equity of Rs 1,390 crore until September 2021 out of which 407 crore was infused in the first half of FY22. Existing cash balance and presence of government-guaranteed undrawn long-term lines of USD 450 million from multilateral agencies is adequate for funding the upcoming and ongoing projects.

Analytical approach: Standalone. The ratings however factors in the strong parentage of EESL and its strategic role in promoting energy efficient projects and continued operational & financial support from its parent entities.

Applicable Criteria

[Policy on default recognition](#)

[Factoring Linkages Government Support](#)

[Financial Ratios – Non financial Sector](#)

[Liquidity Analysis of Non-financial sector entities](#)

[Rating Outlook and Credit Watch](#)

[Short Term Instruments](#)

[Service Sector Companies](#)

About the Company

Energy Efficiency Services Limited (EESL) was set-up in 2009 as a joint venture of National Thermal Power Corporation Limited (Now NTPC Ltd; a Maharatna PSE with GoI holding of 51.10% as on September 30, 2021; rated CARE AAA; Stable/ CARE A1+), Power Finance Corporation Limited (PFC; a Navratna PSE with GoI holding of 55.99% as on September 30, 2021; rated CARE AAA; Stable/ CARE A1+), REC Limited (REC; a Navratna PSE with PFC holding of 52.63% as on September 30, 2021; rated CARE AAA; Stable/ CARE A1+ and CARE AA+; Stable for Perpetual Bonds) and Power Grid Corporation of India Limited (PGCIL; a Navratna PSE with GoI holding of 51.34% as on September 30, 2021; 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 promotes energy efficiency through procurement and supply of energy efficient products and rendering of services. EESL 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. 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. EESL has conducted over 500 audits for benchmarking energy performance targets for industries which included the energy audit and base lining of these industries under (Perform, Achieve and Trade) PAT scheme of Bureau of Energy Efficiency (BEE). EESL has prepared Energy Savings Plan for 12 States through State Designated Agencies. Energy Savings Plan involves sector specific load profiling, analysis, energy audit; potential assessment, benefit analysis and phased manner implementation plan. Further, EESL is leading the market related activities of the National Mission for Enhanced Energy Efficiency (NMEEE), one of the 8 national missions under Prime Minister's National Action Plan on Climate Change and has also executed extensive energy assessment for industry waste heat recovery projects, energy audits of MuDSM, AgDSM and Building Energy Efficiency projects.

Financial Performance:

(Rs. crore)

Brief Financials (Rs. crore)	31-03-2020 (A)	31-03-2021 (A)	30-09-2021 (U/A)
Total operating income	1,860.09	1,622.03	741.00
PBILD	801.55	930.35	475.24
PAT	22.29	33.21	-30.52
Overall gearing (times)	5.05	6.33	4.37
Interest coverage (times)	2.31	2.60	2.28

A: Audited / U/A : Unaudited

Status of non-cooperation with previous CRA: None**Any other information:** Not Applicable**Rating History for last three years:** Please refer Annexure-2**Covenants of rated instrument / facility:** Detailed explanation of covenants of the rated instruments/facilities is given in Annexure-3**Complexity level of various instruments rated for this company:** Annexure 4

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	-	-	-	-	766.00	CARE A1
Fund-based - LT-Term Loan	-	-	-	December 2025	850.00	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	0.00	Withdrawn

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 2021-2022	Date(s) & Rating(s) assigned in 2020-2021	Date(s) & Rating(s) assigned in 2019-2020	Date(s) & Rating(s) assigned in 2018-2019
1	Fund-based - LT/ST-Term loan	LT/ST*	90.00	CARE A+; Stable / CARE A1	-	1)CARE A+; Stable / CARE A1+ (03-Mar-21) 2)CARE A+; Stable / CARE A1+ (24-Sep-20)	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)
2	Debentures-Non Convertible Debentures	LT	250.00	CARE A+; Stable	-	1)CARE A+; Stable (03-Mar-21) 2)CARE A+; Stable (24-Sep-20)	1)CARE AA-; Stable (27-Sep-19)	1)CARE AA; Stable (03-Dec-18) 2)CARE AA; Stable (30-May-18)
3	Debentures-Non Convertible Debentures	LT	450.00	CARE A+; Stable	-	1)CARE A+; Stable (03-Mar-21) 2)CARE A+; Stable (24-Sep-20)	1)CARE AA-; Stable (27-Sep-19)	1)CARE AA; Stable (03-Dec-18) 2)CARE AA; Stable (30-May-18)
4	Debentures-Non Convertible Debentures	LT	-	-	-	1)CARE A+; Stable (03-Mar-21) 2)CARE A+; Stable (24-Sep-20)	1)CARE AA-; Stable (27-Sep-19)	1)CARE AA; Stable (03-Dec-18) 2)CARE AA; Stable (30-May-18)
5	Fund-based - ST-Term loan	ST	766.00	CARE A1	-	1)CARE A1+ (03-Mar-21) 2)CARE A1+ (24-Sep-20)	1)CARE A1+ (27-Sep-19)	1)CARE A1+ (03-Dec-18) 2)CARE A1+ (30-May-18)
6	Fund-based - LT-Term Loan	LT	850.00	CARE A+; Stable	-	1)CARE A+; Stable (03-Mar-21) 2)CARE A+; Stable (24-Sep-20)	1)CARE AA-; Stable (27-Sep-19)	-

* Long Term / Short Term

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

Name of the Instrument	Detailed explanation
A. Financial covenants	
I	NA
II	NA
B. Non financial covenants	
I	NA
II	NA

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

Sr No	Name of 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

Annexure 5: Bank Lender Details for this Company

To view the lender wise details of bank facilities please [click here](#)

Note on complexity levels of the rated instrument: CARE Ratings Ltd has classified instruments rated by it on the basis of complexity. Investors/market intermediaries/regulators or others are welcome to write to care@careedge.in for any clarifications.

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About CARE Ratings Limited:

Established in 1993, CARE Ratings Ltd. is one of the leading credit rating agencies in India. Registered under the Securities and Exchange Board of India (SEBI), it has also been acknowledged as an External Credit Assessment Institution (ECAI) by the Reserve Bank of India (RBI). With an equitable position in the Indian capital market, CARE Ratings Limited provides a wide array of credit rating services that help corporates to raise capital and enable investors to make informed decisions backed by knowledge and assessment provided by the company.

With an established track record of rating companies over almost three decades, we follow a robust and transparent rating process that leverages our domain and analytical expertise backed by the methodologies congruent with the international best practices. CARE Ratings Limited has had a pivotal role to play in developing bank debt and capital market instruments including CPs, corporate bonds and debentures, and structured credit.

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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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