RISK ASSESSMENT AND RISK MANAGEMENT PLAN

Risk Description	Rating	Mitigation Measures	Responsibility
Business risk. EESL's growth plans involving entering new business segments and enlarging its geographic presence could strain the company's financial and human resources, resulting in delayed release and deployment of EESL's counterpart contribution.	Moderate	EESL to prepare and implement an action plan for restructuring the organization to meet EESL's business strategy by September 2020.	EESL
Funding risk. The ESCO business model adopted by EESL, while viable, requires substantial initial investment by EESL, which is then recovered through annuity. Consequently, EESL needs to raise capital (both equity and debt) continuously to fund its projects. This could be a challenge.	Moderate	EESL has been mobilizing funds as required. EESL has also committed to maintaining its debt–equity ratio, debt service coverage ratio, and current ratio at acceptable levels to mitigate this risk.	EESL
Counterparty risks. Most of EESL's project payments come from urban local bodies and distribution companies, which are known to have uncertain cash flows, leading to delayed payments to EESL. EESL's trade receivables have increased substantially in recent years.	Substantial	1.EESL has already set up a commercial department headed by a director to continuously monitor and collect payments from customers. 2.EESL has established a framework to monitor the various payment securities like escrow accounts and government guarantees provided by its customers. 3.EESL to continue to focus on collections and bring down its average trade receivables to 250 days of billable revenue for the year by March 2020 and to 150 days by March 2022. 4. EESL to appoint a chief risk officer (supported by qualified staff) to formulate and implement a risk policy by March 2020.	

		5. EESL to formulate an integrated risk management policy by December 2020.	
Foreign exchange risk. While EESL's foreign currency borrowing is not yet substantial, it could rise to make up a significant portion of its debt in the future. Considering that EESL's revenue is entirely in Indian rupees, uncovered foreign exchange exposure could lead to exchange losses in the future.	Moderate	EESL has formulated a foreign exchange risk management framework to deal with this risk.	EESL
Asset protection risk. EESL's assets are geographically spread all over India and it needs to protect these assets post-commission.	Moderate	EESL has formulated a framework to protect its assets and is in the process of taking out an insurance policy.	EESL
Financial reporting. External auditors have issued qualified audit opinions on EESL's financial statements and have flagged several risks related to financial reporting: significant receivables balance, inadequate provisioning for doubtful trade receivables, some cases of inconsistent accounting policies, and potential accounting adjustments at the conclusion of ongoing reconciliations of receivables and payables balances, assets, and inventories resulting in restatement of financial accounts.	Substantial	1.ADB has been continuously engaged in this area and will support EESL further by providing a financial management expert under the attached TA. 2.EESL has agreed to significantly reduce its trade receivables balance, implement a revised bad and doubtful debt policy, and develop an MIS manual.	EESL

ADB = Asian Development Bank, EESL = Energy Efficiency Services Limited, ESCO = energy service company, TA = technical assistance, ULB = Urban Local Body, MIS = Management Information Systems
Source: Asian Development Bank.