

February 15, 2023

To,
BSE Limited
Corporate Relationship Department,
Phiroze Jeejeebhoy Towers
Dalal Street,
Mumbai-400001.

Scrip Code: 543284
Symbol: EKI

Subject: Clarification on the qualified opinion issued by the Statutory Auditors for Q3 of F.Y. 2022-23.

Dear Sir(s),

This is with reference to the caption subject and pursuant to regulation 30 of the SEBI (Listing Obligations and Disclosure Requirements) Regulations, 2015, EKI Energy Services Limited hereby present a clarification on the qualified opinion issued by the Statutory Auditor on Unaudited Standalone and Consolidated Financial Results for the quarter and nine months ended December 31, 2022, in the Limited Review Report.

Further, relevant information and updates in this regard will be shared with all the stakeholders from time to time.

Kindly take the above information on records.

Thanking you,

Yours Faithfully
For EKI Energy Services Limited

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Itisha Sahu
Company Secretary & Compliance Officer

Encl: a/a

**Clarification on the qualified opinion issued by the Statutory Auditors in the Limited
Review Report for Q3 of FY 2022-23**

The Company has entered into contracts with certain parties wherein the Company has agreed to deploy community-based projects and deliver carbon credits from such projects to the customers. The performance obligation of the company from such contracts can therefore be segregated into three segments:

1. Development and Implementation of the community-based project.
2. Registration of the project with respective carbon credit registry.
3. Issuance of the VCUs (verified carbon units i.e. carbon credits) from such project and delivery of VCUs to the customer.

The revenue of the company will also accrue in a phased manner:

1. **Upfront Revenue:** At the time of project implementation and development, at a specified rate.
2. **Phased Revenue:** Share of VCUs at the time of issuance thereof, which will form part of inventory of the company and will be subsequently sold by the company.

Being niche contracts for the industry as well as for the company, the company had entered into first of its contracts during this financial year with various parties, while there was negligible revenue from similar community based projects during FY 21-22

Considering the clauses of the agreement, the Statutory Auditors of the company are of the opinion that since the VCUs from the project are not yet delivered to the customers, the performance obligation of the company is not yet satisfied and accordingly the company should recognize revenue from the contract upon delivery of VCUs.

They accordingly implied that the amount received by the company till date from the customers should be recognized as deferred revenue. The income and expenses from these contracts should be recognized in profit and loss account as and when VCUs are delivered to the customers as per the contract in due course.

The Statutory Auditors have accordingly issued a qualified opinion on the financials of the company as under:

Qualified Opinion:

“During the quarters ended 31 December 2022 and 30 September 2022, and nine-month period ended 31 December 2022, the Company has recognised revenue from contracts with certain customers as detailed in Note 3 to the accompanying Statement. However, in our view, recognition of aforesaid revenues and the corresponding cost to fulfil the underlying performance obligations is not consistent with accounting principles as stated in Ind-AS 115, Revenue from Contracts with Customers, as the performance obligation of delivering the verified carbon units under the aforesaid arrangements, is not yet satisfied by the Company. Had the Company applied the principles of revenue recognition as per Ind AS 115, revenue would have been lower by ₹1,818 Lakhs, ₹10,162 Lakhs and ₹19,011 Lakhs, cost would have been lower by ₹1,140 Lakhs, ₹3,950 Lakhs and ₹7,971 Lakhs and the profit before tax for the periods stated above would have been lower by ₹679 Lakhs, ₹6,212 Lakhs, and ₹11,040 Lakhs respectively, together with corresponding impact on the earnings per share for the aforesaid periods.”

Company Response

In the opinion of the management of the company, the revenue is recognized based on the following principles:

- 1. Substance over form:** In substance, the agreement between company and the customer is development of carbon credit eligible projects whereas, the form of the agreements between the company and the customers is delivery of VCUs from project implementation. The projects have been implemented and some are also duly registered with the respective registry bodies in the name of the project proponent (i.e. customer). Since the projects are duly implemented in the name of the customer, the revenue is ought to be recognized considering substance of the transactions over mere form.
- 2. Transfer of underlying asset:** Majority of the projects deployed by the Company has to be registered with the registry bodies in the name of the project proponent (customer), which implies that the underlying asset generating VCUs are transferred by the company. Accordingly, there will be no sale transaction at the time of generation of VCUs and thus revenue must be recognized upon project development by the company.
- 3. Performance Obligation satisfied:** The Company has duly deployed the project and accordingly has satisfied its performance obligation in substance. In the routine course of business of the company, the issuance of VCUs from a project is only an administrative activity in nature and therefore does not qualify to be called as a performance obligation.

- 4. Standalone Transaction price received and recognized:** The Company has recognized only the transaction price relating to project deployment as its revenue in the results of current period. The future revenue for issuance of VCUs will be earned by the company in addition to the revenue already recognized and the same will be accounted for by the company as revenue in the future as per the relevant and applicable accounting standards.

The company has duly received the stand-alone transaction price (Upfront Revenue) from its customers as per the contracts. Further, even if the company accounts for the transactions as provided by the auditors in their opinion, the same will only result in deferment of recognition of revenue and will not impact the overall revenue and profitability of the company in the long run.

The company is in the process of counselling senior advocates and professionals in this regard along with the customers to amend the contractual clauses so as to ensure the essence of the contract is brought in properly within the contract to the satisfaction of the Statutory Auditors. Relevant information and updates in this regard will be shared with all the stakeholders from time to time.

For **EKI Energy Services Limited**

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Company Secretary & Compliance Officer