CMES Power 1 Private Limited

February 06, 2023

Facilities/Instruments	Amount (₹ crore)	Rating[1]	Rating Action
Long Term Bank Facilities	41.22 (Reduced from 45.12)	CARE BBB+; Stable	Revised from CARE BBB; Stable (Triple B; Outlook: Stable)

Details of instruments/facilities in Annexure-1.

Rationale and key rating drivers

The rating action on the bank facilities of CMES Power 1 Private Limited (CMESP1PL), which is operating 16.02 MWp (AC) solar rooftop capacities across multiple states in India takes into account satisfactory track record of more than three years with generation levels being in line with the designed estimates. The rating continues to factor in long-term revenue visibility owing to 95% of AC capacity being tied up under long term (20-25 years) PPAs with multiple reputed commercial and industrial (C&I) offtakers and various government and education institutes.

Further, the rating continues to factor in the strong parentage by the virtue of CMESP1PL being a wholly owned subsidiary of Clean Max Enviro Energy Solutions Private Limited (CMEESPL, rated CARE A-; Stable/ CARE A2+). CMEESPL's stated posture towards CMESP1PL is strong, as exhibited by the presence of limited period corporate guarantee. This apart , CARE Ratings factors in reduction in interest rate, moderately comfortable debt protection metrics and presence of two quarters debt service reserve account (DSRA) in the form of fixed deposits (FDs).

However, the rating is constrained on account of leveraged capital structure as reflected by gearing and Total Debt/EBITDA of 1.7x and 5.7x, respectively, as on FY22 end. Further CARE Ratings notes the elevated receivable cycle with Rs. 1.5 crore out of Rs. 3.06 crore outstanding for more than 365 days. These receivables primarily pertain to the covid-19 induced lockdown period and have been challenged by the customers. CARE Ratings does not expect a recovery of a major amount of overall overdues exceeding one year, and hence has written-off the same in its base case. Further, the rating is constrained on account of exposure of the project cash flows to adverse variation in weather conditions given the single part tariff for the project. The entity is also exposed to interest rate fluctuation risk given the project has floating interest rate.

Rating sensitivities: Factors likely to lead to rating actions

Positive factors

- Actual generation levels in line with P90 levels along with honouring of full receivables by the offtakers
- Significant reduction in the leverage level or improvement in coverage metrics as reflected by improvement in annual DSCR above 1.30x for the next few years
- Improvement in credit profile of parent

Negative factors

- Negative pressure on CMESP1PL's rating could arise in case of deterioration of generation or collection profile
- Any weakening of the credit profile of the parent, i.e., CMEESPL, or any change in linkages/support philosophy between the parent and CMESP1PL would be a negative factor

Analytical approach: Standalone plus factoring in parent support

Key strengths

Strong parentage and operating track record of Clean Max Group in renewable energy segment

CMEESPL is in the business of developing ground mounted (Solar, wind and wind-solar hybrid (WSH)) and roof top solar power plants across various locations under bilateral arrangements, with several commercial and industrial (C&I) customers. Since inception, the group has executed around 964 MW (including projects being downsold to investors) of power plants till October 2022. Out of total 964 MW capacity, around 273 MW has been down sold to investors while the remaining 691 MW is on the books of company. The group has investments from Augment Infrastructure, UK Climate Investments among others.

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

CMEESPL's stated posture towards CMIPP1 is strong, as exhibited by the presence of limited period corporate guarantee.

Diversified asset pool in terms of geography and offtaker; Long-term revenue visibility owing to 95% of AC capacity being tied up under long term (20-25 years) PPAs

The 16.02 MWp AC rooftop assets are spread across 34 counterparties. The company benefits on account of diversification as the capacity is spread across multiple states viz, Uttar Pradesh (35%), Maharashtra (24%), Karnataka (9%), Haryana (9%), Rajasthan (6%) and other states (18%). Moreover, rooftop assets have diversified offtaker pool as they have a mix of various renowned commercial and industrial (C&I) customers (e.g., Asahi, Bajaj, Amazon, Excel Rubber, etc.) and educational institutes (Amity University, Deen Dayal Upadhyay University, Pune University, etc.).

CMESP1PL has entered into power purchase agreements (PPAs) with multiple Corporates and educational institutes for the offtake of entire capacity of 16.02 MWp (AC). The tenure of PPAs ranges between 10 to 25 years. The weighted average PPA tenure for the overall rooftop portfolio is approximately 24 years. The weighted average tariff of the portfolio is Rs. 4.37 per unit for FY23 and there is presence of annual escalations clause in some of the PPAs (~1-2% increase). The landed tariff continues to remain competitive given the higher grid tariffs for C&I customers.

Operational track record of more than three years with satisfactory generation performance

The rooftop assets under this project were commissioned in a phased manner from June 2018 to December 2019 and have a track record between 3 to 4.7 years. On weighted average basis, the operating track record of the portfolio is more than three years.

The generation performance of the project has been in line with the P90 estimates as reflected by the PLF of 14.3% during FY22 as against P90 PLF of 15.6%. However, rooftop assets witnessed PLF of 15.4% during 8M FY23 which was marginally lower than the PLF of 15.8% during 8M FY22. Going forward, generation performance is expected to remain in line with past trends.

Favourable refinancing of the project debt with reduction in interest rate

CMESP1PL had refinanced its previously existing term debt during Q2FY23. As per the terms of the refinanced debt, there has been a reduction in the interest cost of the project resulting in favourable coverage metrics.

Key weaknesses

Moderate receivable cycle as compared to other projects having C&I offtakers

CMESP1PL has outstanding debtors of ~Rs. 3.06 crores as on December 08, 2022 which corresponds to receivables of ~120 days. Out of the same, approximately Rs. 1.5 crores have been outstanding for more than one year. Major portion of stuck receivables primarily pertains to the contested bills during Covid-19 induced lockdown phase wherein the offtake from various counterparties was low. CARE Ratings does not expect recovery of a major amount of overall overdues exceeding one year, and hence has written-off the same in its base case. Going forward, honouring of bills by counterparties in a timely manner will be a key credit monitorable.

Vulnerability of cash flows to variation in weather conditions

As tariffs are one part in nature, the company may book lesser revenues in the event of non-generation of power due to variation in weather conditions and/or equipment quality. This, in turn, would affect its cash flows and debt servicing ability. The geographical concentration of asset amplifies the generation risk.

Leveraged capital structure along with exposure to interest rate risk

Company's capital structure is leveraged on account of the debt-funded capex incurred for setting up the project which is customary to the renewable sector. Subsequently, the overall gearing and Total Debt/EBITDA of the company stood at 1.7x and 5.7x, respectively, as on FY22 end. Going forward, CARE Ratings expects the gearing and Total Debt/EBITDA of the company as on FY24 end to be 1.6x and 5.3x respectively. Given the leveraged capital structure, single-part nature of the fixed tariff in the PPA and floating interest rates, its profitability remains exposed to any increase in the interest rates.

Liquidity: Adequate

As on November 05, 2022, company had cash and bank balance of ~Rs. 0.80 crores apart from DSRA reserve of ~Rs. 5.17 crores equivalent to two quarters of debt servicing, in line with sanction terms. Going forward, generation levels are expected to remain in line with existing trends and collection cycle of the company is expected to be within the range of 90 days. The internal accruals are anticipated to be adequate to service its debt obligations.

As per CARE Ratings' base case scenario, GCA for FY24 and FY25 is expected to be Rs. 4.0-4.5 crores as against annual repayments of Rs. 2.8-3.1 crores.

Applicable criteria

Policy on default recognition
Factoring Linkages Parent Sub JV Group
Financial Ratios – Non financial Sector
Liquidity Analysis of Non-financial sector entities
Rating Outlook and Credit Watch
Power Generation Projects
Solar Power Projects
Policy on Withdrawal of Ratings

About the company

CMESP1PL incorporated in October 2017 is a wholly owned subsidiary of Clean Max Group. The SPV is currently operating a 16.02 MWp AC (17.78 MWp DC) solar PV rooftop capacities at various locations across India.

Brief Financials (₹ crore)	March 31, 2021 (A)	March 31, 2022 (A)	H1FY23
Total operating income	9.1	9.1	NA
PBILDT	7.6	7.5	NA
PAT	-1.3	-0.7	NA
Overall gearing (times)	7.5	8.6	NA
Interest coverage (times)	1.1	1.2	NA

A: Audited

Status of non-cooperation with previous CRA: Not Applicable

Any other information: Not Applicable

Rating history for the last three years: Please refer Annexure-2

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

Complexity level of the various instruments rated: Annexure-4

Lender details: Annexure-5

Annexure-1: Details of instruments/facilities

Name of the Instrument	ISIN	Date of Issuance (DD-MM-YYYY)	Coupon Rate (%)	Maturity Date (DD-MM-YYYY)	Size of the Issue (₹ crore)	Rating Assigned along with Rating Outlook
Fund-based - LT-Term Loan		-	-	June 2034	41.22	CARE BBB+; Stable

Annexure-2: Rating history for the last three years

Sr. No.	Name of the Instrument/Bank Facilities	Current Ratings			Rating History			
		Type	Amount Outstanding (₹ crore)	Rating	Date(s) and Rating(s) assigned in 2022-2023	Date(s) and Rating(s) assigned in 2021-2022	Date(s) and Rating(s) assigned in 2020-2021	Date(s) and Rating(s) assigned in 2019-2020
1	Fund-based - LT-Term Loan	LT	41.22	CARE BBB+; Stable	-	1)CARE BBB; Stable (07-Jan-22)	1)CARE BBB-; Stable (16-Mar-21) 2)CARE BBB-; Stable (27-Aug-20)	1)CARE BBB-; Stable (19-Jun-19)

*Long term/Short term.

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

Name of the Instrument	Detailed Explanation
Financial covenants	• DSCR>= 1.15x • Interest coverage ratio>=1.75x • Fixed asset coverage ratio>=1.69x

Annexure-4: Complexity level of the various instruments rated

Sr. No.	Name of the Instrument	Complexity Level
1	Fund-based - LT-Term Loan	Simple

Annexure-5: Lender details

To view the lender wise details of bank facilities please click here

Note on the complexity levels of the rated instruments: CARE Ratings 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 us:

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