Clean Max Power Projects Private Limited

January 07, 2022

Ratings

Facilities/Instruments	Amount (Rs. crore)	Rating[1]	Rating Action
Long Term Bank Facilities	86.24 (Reduced from 96.24)	CARE A-; Stable (Single A Minus; Outlook: Stable)	Revised from CARE BBB+; Stable (Triple B Plus; Outlook: Stable)
Total Bank Facilities	**86.24 (Rs. Eighty-Six Crore and Twenty-Four Lakhs Only)**		

Details of instruments/facilities in Annexure-1

Detailed Rationale & Key Rating Drivers

The revision in rating assigned to the bank facilities of Clean Max Power Projects Private Limited (CMPPPL) takes into continued satisfactory generation levels in FY21 (refers to the period April 1 to March 31) which are broadly in-line with P-90 estimates and relatively improved generation levels during 7MFY22 leading to satisfactory operational track record of more than 3.5 years, continued timely receipt of payments from the off-takers and presence of DSRA equivalent to 6 months of debt servicing providing liquidity comfort.

The rating continues to derive strength from the project being part of experienced and qualified promoter with improved credit profile, Clean Max Enviro Energy Solutions Private Limited (CMEESPL, rated CARE A-; Stable/ CARE A2+) which has provided adequate guarantee and undertakings as part of sanctioned terms. Further, the project has off-take arrangement through medium term Power Purchase Agreements (PPA) with multiple reputed industrial and commercial consumers (operating across varied sectors) in the state of Karnataka for the entire capacity at competitive tariff, with relatively strong credit profile of majority of the off-takers and its moderately comfortable debt coverage indicators.

The rating strengths are, however, tempered by risks related to early termination and timely renewal of PPAs, energy demand fluctuations amongst off-takers, interest rate fluctuation risk, regulatory risk owing to any change in stance of Karnataka government towards open access projects and exposure to climatic and technological risks.

Key Rating Sensitivities

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

- Actual generation levels better than envisaged P-90 levels of generation on a sustainable basis along with 100% power off-take by the customers/counterparties.
- Timely receipt of payments from the off-takers in-line with PPA terms on a continuous basis.
- Renewal of PPAs where currently PPA tenor is less than repayment tenor

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

- Actual generation levels lower than envisaged P-90 levels on a sustainable basis or lower power off-take by the customers
- Elongation in receivable cycle to more than three months or any significant deterioration in credit profile of the off-takers.
- Delays in renewal of PPAs/signing of fresh PPAs in case of expiries or early termination of PPAs by existing counterparties or renewal of PPAs/signing of fresh PPAs at relatively lower tariffs than tariffs assumed in base case.
- Change in stance of the promoters to provide support in case of any shortfall in cash flows.
- Non-compliance of various covenants as per sanctioned terms including maintenance of stipulated DSRA.
- Any regulatory changes in state policies in the state of Karnataka negatively impacting the cash flows of the projects.

Detailed description of the key rating drivers

Key Rating Strengths

Improvement in credit profile of the holding company; CMEESPL

CMEESPL successfully concluded the first tranche of equity round during August, 2021. It raised equity from Augment Infrastructure to the tune of USD 220 Mn. Of the total investment, USD 115-120 Mn was utilised to provide exit to Yellow Bell Investment Ltd (an affiliate of Warburg Pincus) and International Finance Corporation (IFC) and USD 100-105 Mn would be for the primary growth capital. Post completion of transaction (funds to be infused under two or more tranches), Augment Infrastructure (through Augment India I Holdings LLC) will become majority shareholder in CMEESPL while other investors including UK Climate Investments (UKCI) and Mr. Kuldeep Jain (MD & CEO, CMEESPL) will continue to remain as minority investors. The said transaction will be happening in two or more tranches. As part of the first tranche, already infused in August 2021, Augment infused ~USD 150 Mn, which includes ~USD 30 - 35 Mn of primary capital and ~USD 115 - 120 Mn secondary capital (IFC and Warburg have completely exit through the first tranche). Further tranches of ~USD 70 Mn which includes primary capital only will come as and when CMEESPL requires growth capital for their under-construction/pipeline capacities in future. Further, there have been relatively better capacity additions during FY21 at a portfolio level and it had comparatively better financial performance on a consolidated basis during FY21.

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

Experienced promoters with qualified management team:
CMEESPL is promoted by Mr. Kuldeep Jain, who prior to forming CMEESPL, was a global partner at McKinsey & Company, heading its Energy & Corporate Finance practice in India. Mr. Jain holds a degree in MBA from IIM Ahmedabad and also holds a Chartered Accountant and a Cost Accountant degree from ICAI and ICWA respectively.
CMEESPL is in the business of developing ground mounted (solar, wind-solar hybrid and wind) and roof top solar power plants across various locations under bilateral arrangements, and under various Central and State Government solar tenders. Since inception, the group has executed around 700 MW (including projects being down-sold to investors) of power plants till August, 2021 out of which around 254 MW were rooftop plants and around 446 MW were ground mounted. Out of total 700 MW capacity executed till August, 2021, around 202 MW has been down sold to investors while remaining 498 MW is on the books of company. The group has also forayed into wind power generation through wind and wind-solar hybrid projects with an aggregate capacity of 89.10 MW as on August, 2021.

Operational track record of more than 3.5 years:
The 24 MW (AC) capacity was fully commissioned on March 28, 2018 as against the scheduled commissioning date of March 31, 2018. The plant has operational track record of more than 3.5 years now. Generation levels of the plant was satisfactory with CUF of 21.20% in FY21 as against 21.23% in FY20. The generation levels for FY21 have been relatively lower than P-90 (21.64% for FY21) on account of relatively lower solar irradiation levels during FY21. During 7MFY22, the company reported relatively healthy generation levels of 19.94% as against 19.53% in 7MFY21. Though the generation levels have been satisfactory, full year cycle achievement of generation levels as against P-90 envisaged level is yet to be seen. Going forward, achievement of the envisaged generation level at P-90 levels would be crucial from cash-flow perspective and will be a key monitorable.

Medium term PPAs in place for entire capacity with reputed customers:
The Company has entered into medium term PPAs with thirteen reputed industrial and commercial consumers for the entire capacity at a weighted average first year tariff of Rs.4.92 per kWh along with tariff escalations of 1%-2% in some of the PPAs. The tariffs offered by the company are at a discount to current grid tariff rates. The tenure of PPAs is 10 years for 12 off-takers (92.34% of total capacity) and 15 years for 1 off taker (7.66% of total capacity).

Diversification benefits with off-takers operating across varied sectors:
Since the company is supplying power to multiple customers, the company enjoys diversification benefits among off-takers. The thirteen off-takers have businesses spread across various sectors including Food & Beverages (15%), Pharma (8%), Packaging (8%), Manufacturing (46%), Electronics & IT (15%) and Energy (8%).
All the off takers have established businesses and have relatively strong credit profile, thus mitigating counterparty risk to an extent. The company has been receiving payments from all of the off-takers in a timely manner.

Moderately comfortable debt coverage indicators, DSRA of two quarters in place:
The coverage indicators are expected to be moderately comfortable throughout the tenure of the term debt. DSRA comprising two quarters' interest and principal repayments has already been created in the form of Bank Guarantees (BGs). Also, as per the sanctioned terms, CMEESPL has provided adequate corporate guarantee and undertakings to take care of risks related to timely debt servicing of debt availed under various factors including PPAs termination, PPAs expiry, levy of additional surcharge by Karnataka Electricity Regulatory Commission (KERC), downward revision in tariff etc.

Industry Outlook
There is great thrust from government for improving the share of solar power in India's overall power mix which is reflected from various policy initiatives. There had been muted solar power generation capacity additions during FY19 & FY20 on the back of imposition of safeguard duty on import of solar modules, lack of clarity w.r.to GST rate on solar modules and cancellation of large number of solar auctions. However, looking at the already allotted capacity and government's push for achieving targeted solar capacity of 100 GW by end FY22, capacity additions are likely to improve in next two to three years. Solar projects have relatively lower execution risks, stable long-term revenue visibility with long term off take arrangements at a fixed tariff, minimal O&M requirements, tariffs comparable to conventional power generation, must run status of solar power projects and upward revision in solar RPO achievement targets. However, there are concerns like increased difficulties in land acquisition, inadequate grid connectivity on account of poor evacuation infrastructure, relatively lesser track record of technology in Indian conditions, lack of stricter enforcement by the state regulators, very high dependence on imported solar cells and modules, regulatory haze in terms of renegotiation of tariff in concluded PPAs and cancellation of concluded auctions, weak financial risk profile of Discoms with significant delays in payment by few state Discoms, increased difficulties in debt tie-up. However, companies operating in Commercial & Industrial (C&I) space having PPAs through 3rd party/open access schemes are less exposed to payment risks as payments are being received through C&I players. Nevertheless, the interest in C&I space is dependent upon considerable discount being available in contracted tariff vis-à-vis discom tariff and the trajectory of discom tariffs would be a key monitorable. Overall, positive and negative developments in the sector counterbalance each other, thereby resulting in a stable outlook. Going forward key monitorables would be prices of solar modules, performance of the modules in Indian conditions, payment pattern of off-takers, imposition of any antidumping duty by India to safeguard domestic solar module manufacturers, capacity additions of rooftop solar and regulatory stance.

Key Rating Weaknesses

Risks related to early termination and expiry of PPAs:

Although the tariffs offered by the company are competitive vis-à-vis the tariffs offered by the discom, the company is exposed to risk of early termination of PPAs and tariff risks given increased competition in the renewable power sector and fall in tariffs of new projects in recent past. Also, timely renewal of PPAs on expiry remains crucial as debt repayment tenure extends beyond the 10 year PPA tenure for 92.34% of the capacity. However, presence of sponsor support undertaking from CMEESPL to cover these events provides some comfort. Also, majority of PPAs (11 out of 13 constituting 75% of aggregate capacity) have termination clauses in case the PPAs are terminated before scheduled tenor for convenience by off-takers which provides for some relief (termination payments covers few months revenue loss).

Exposure to interest rate fluctuations:

The term loan availed is floating in nature wherein the lenders can reset the interest rates annually. However, the tariff for off-take arrangement of the power is fixed, thereby, exposing the company to risk of any adverse movement in interest cost to some extent.

Exposure to technology, climatic and regulatory risks:

The Company has used poly-crystalline PV technology, which has a proven history worldwide, suffers relatively lower degradation as compared to thin film modules and requires lesser land leading to reduction in the Balance of Systems (BoS) cost. However, achievement of desired CUF going forward would be subject to changes in climatic conditions, amount of degradation of modules as well as other technological risks.

Also, the company is operating solar project under Open Access Solar Policy in the state of Karnataka. In past, Karnataka Electricity Regulatory Commission (KERC) had tried to reverse some of the benefits provided to all commissioned solar projects till March 31, 2018 under the policy by increasing the wheeling charges for open access consumers in Karnataka. Though, the same was quashed by Karnataka High Court, the company is exposed to any adverse regulatory change in Karnataka State Open Access Policy in future as the same may impact the profitability of the project.

Liquidity Analysis: Adequate

Liquidity position of CMPPPL is adequate with DSRA of Rs.8.59 crore maintained in the form of BGs issued by the parent company CMEESPL as on December, 2021. The company's cash & bank balances stood at Rs.9.58 crore as on December, 2021. The company does not have any sanctioned working capital limits.

Total debt repayments for FY22 and FY23 are projected to be around Rs.6.62 crore and Rs.7.42 crore respectively as against projected GCA of Rs.9.43 crore and Rs.9.78 crore.

Analytical Approach: Standalone with factoring in linkages with the parent entity i.e. Clean Max Enviro Energy Solutions Private Limited (CMEESPL)

Applicable Criteria

Policy on default recognition
Financial Ratios – Non-financial Sector
Liquidity Analysis of Non-financial sector entities
Rating Outlook and Credit Watch
Infrastructure Sector Ratings
Power Generation Projects
Solar Power Projects

About the Company

Clean Max Power Projects Private Limited (CMPPPL), incorporated on April 27, 2011, is a special purpose vehicle formed by Clean Max Enviro Energy Solutions Pvt Ltd (CMEESPL, rated CARE A-; Stable/ CARE A2+). CMPPPL has set up a 24 MW AC (30 MW DC) solar photovoltaic power project in Ittigi Farm, Sonna Village, District Bellary, Karnataka. The project got commissioned on March 28, 2018 as against the scheduled commissioning date of March 31, 2018. The project has been set-up at a project cost of about Rs.143.70 crore (Rs.5.99 crore/MW) and is funded via debt of Rs.100 crore and equity of Rs.43.70 crore (debt-equity ratio of 2.28:1). The company has signed Power Purchase Agreements (PPAs) with thirteen industrial customers for a period of 10 years at a weighted average first year tariff of Rs.4.92 per kWh.

Brief Financials (Rs. crore)	31-03-2020 (A)	31-03-2021 (A)	H1FY22
Total operating income	23.47	23.82	NA
PBILDT	20.73	20.39	NA
PAT	1.36	2.44	NA
Overall gearing (times)	2.66	2.36	NA
Interest coverage (times)	1.79	1.89	NA

A: Audited

Status of non-cooperation with previous CRA: NA

Any other information: NA

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	Date of Issuance	Coupon Rate	Maturity Date	Size of the Issue (Rs. crore)	Rating assigned along with Rating Outlook
Fund-based - LT-Term Loan	-	-	June, 2034	86.24	CARE A-; Stable

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-Term Loan	LT	86.24	CARE A-; Stable	-	1)CARE BBB+; Stable (17-Dec-20)	1)CARE BBB; Stable (30-Jan-20)	-

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

Name of the Instrument	Detailed explanation
A. Financial covenants	
I. Debt Service Coverage Ratio	Borrower is required to maintain Debt Service Coverage Ratio greater than 1.15x at all the times during the tenure of the loan
B. Non-financial covenants	
Other Conditions	I. The borrower's assets offered as security to the lender for the facility shall be adequately insured as advised by the LIA or as may be required by the lender.
	II. The borrower shall agree that monies (other than equity) brought in by the promoters/ other shareholders/ directors/ depositors/ their friends/relatives by way of deposits/loans/advances shall be subordinated to the facility unless specifically permitted in writing by the lender and under restricted payments.

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

Sr. No	Name of instrument	Complexity level
1	Fund-based - LT-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:
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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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