Clean Max Photovoltaic Private Limited

January 17th, 2023

Facilities/Instruments	Amount (₹ crore)	Rating[1]	Rating Action
Long Term Bank Facilities	119.90 (Reduced from 127.72)	CARE A; Stable	Revised from CARE A-; Stable (Single A Minus; Outlook: Stable)

Details of instruments/facilities in Annexure-1.

Rationale and key rating drivers

CARE Ratings has applied a combined approach for rating the bank facilities of Clean Max Power 3 LLP (CMP3L), Clean Max Pluto Solar Power LLP (CMPSPL), CMES Infinity Private Limited (CMESIPL), Clean Max Mercury Private Limited (CMMPL) and Clean Max Photovoltaic Private Limited (CMPPL) on account of the presence of an inter-company cash pooling agreement between the above-mentioned entities for the facilities issued by NIIF IFL. CARE Ratings also notes the presence of 16.2 MW asset in CMP3PL wherein there is a different lender and is outside the purview of the pooling arrangement. Nevertheless, given no bankruptcy remoteness and the presence of cross default clauses in both lenders' facility agreements, CARE Ratings has applied a combined approach for the full capacity.

As per the inter-company pooling agreement, each entity would be jointly and severally liable towards debt servicing obligations. As per the respective TRA agreements, each entity is obliged to transfer funds from its surplus account in case there is any shortfall in debt servicing in any of the other entities. However, from two assets wherein the Clean Max Group holds 74% stake (CMP3L, CMPSPL), only proportionate share of the surplus would be available for other entities in the structure. The same has been factored in by CARE Ratings, while assessing the structure. The pooling agreement is unconditional, irrevocable, valid for the full tenor of the rated debt facilities and is characterised by the presence of a cross-default clause between all the five entities.

The rating assigned to the bank facilities of the combined entity, which has an operational solar and wind capacity of 90.4 MW AC and 51.6 MW respectively, factors in the track record of around 3 years and satisfactory operational performance. The generation performance has been marginally below the designed estimates and collection cycle has been consistently lower than 60 days. The rating draws comfort from the presence of medium to long term power purchase agreements (PPA) with credible customers for the full capacity. Going forward, as per Care Ratings' base case scenario, the debt protection metrics are expected to be comfortable as reflected by average Debt Service Coverage Ratio (DSCR) being upwards of 1.30x for the portfolio. The rating further derives strength from the strong parentage by virtue of the portfolio being SPV of Clean Max Group which has a satisfactory track record of developing and operating renewable energy projects.

The rating is, however, constrained on account of leveraged capital structure as reflected by Total Debt/EBITDA of 5.1x as on FY22 end. Going forward, as per CARE Ratings' base case the capital structure will continue to remain leveraged with Total Debt/EBITDA multiple remaining range bound between 4.5-5.5x over the next two years. CARE Ratings also factors in exposure of project cash flows to seasonal variations and interest rate fluctuation risk given the single part tariff of the project. However, CARE Ratings draws comfort from the fact that interest rate is fixed for a period of five years up to November 2027 and would be reset after every five years.

Rating sensitivities

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

- Actual generation remaining above P90 levels on a sustained basis resulting in improvement in liquidity profile
- Significant reduction in the overall debt resulting in deleveraging of the portfolio

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

- Any significant underperformance in generation and/or any increase in the debt levels of the entity thereby weakening the cumulative DSCR on project debt to less than 1.25 times, on a sustained basis

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

- Non-adherence to the power purchase agreement (PPA) terms by the off-takers including timely receipt of payments and honouring of tariff for full PPA tenor

Analytical approach: Combined

In a 'Combined Approach', CARE Ratings evaluates the group of entities as if it were a single entity and combines the financials and business risk profiles of these entities to take a view on the ratings. Only the proportionate share of surplus in the group captive offtakers in CMP3L and CMPSPL has been assumed to be available for the pooling entities. All the five entities are subsidiaries of Clean Max Enviro energy Solutions Private Limited (CMEESPL) and are engaged in similar lines of business.

Key strengths

Presence of an inter-company cash pooling agreement for pooling of surplus cash flows
CMP3L, CMPSPL, CMESIPL, CMMPL, and CMPPL have entered into an inter-company cash pooling agreement as per which each entity would be jointly and severally liable towards debt servicing obligations. As per the respective TRA agreements, each entity is obliged to transfer funds from its surplus account in case there is any shortfall in debt servicing in any of the other entities. CARE Ratings also notes the presence of a 16.2 MW wind asset in CMP3L wherein there is a different lender and is outside the purview of the pooling arrangement. Nevertheless, given no bankruptcy remoteness and the presence of cross default clauses in both lenders' facility agreements, CARE Ratings has applied a combined approach for the full capacity.

However, from two assets wherein the Clean Max Group holds 74% stake (CMP3L, CMPSPL), only proportionate share of the surplus would be available for other entities in the structure. The pooling agreement is unconditional, irrevocable, valid for the full tenor of the rated debt facilities and is characterised by the presence of a cross-default clause between all the five entities.

Diversified asset pool in terms of technology and offtake arrangements; Concentration risk prevails on account of most of the portfolio being in Karnataka
The 142 MW capacity under RG structure is spread across five SPVs, with solar projects comprising for 64% of the capacity (90.4 MW) (AC Capacity) and wind assets comprising for the remaining 36% capacity (51.6 MW). Further, the overall capacity is contracted to C&I customers through three different modes i.e. pure open access projects (64 MW), group captive projects (58.4 MW) and rooftop projects (19.6 MW) which includes projects operating on either net metering or gross metering mechanism.

However, the structure has limited diversification in terms of geography as around 85% of the operating capacity is in the state of Karnataka.

Long to medium revenue visibility on account of presence of PPAs for the entire capacity with strong C&I customers; PPA renewal risk prevalent for 64 MW of open access projects
The portfolio has firm offtake arrangements for all its projects with reputed C&I customers having strong credit profile thereby providing medium to long term revenue visibility for the entire portfolio. The overall weighted average tenor of the portfolio is 17.5 years. Within the portfolio, the group captive and rooftop assets have a PPA tenor of 25 years and 20 years respectively whereas the open access assets have a 10-year PPA.

The PPA renewal risk remains applicable for the open access projects, and it is likely that the renewed tariff in these projects is expected be lower than the present tariff levels, as presently these projects are exempted from paying the open access charges as per the Karnataka State policy applicable for projects commissioned prior to April 2018.

Operational track record of approximately 3 years for the portfolio; Improvement in generation performance in FY22
The assets were commissioned in a phased manner and on a weighted average basis, the operating track record of the portfolio is approximately ~3 years. The generation performance improved to 24.8% in FY22 as against 23.0% in FY21 Also, the portfolio reported PLF of 26.0% during 9M FY23 which is an improvement compared to PLF of 25.4% achieved during 9M FY22. The degree of underperformance has been high in the rooftop portfolio and wind assets whereas the ground mounted portfolio has been performing closer to the designed energy estimates. Going forward, CARE Ratings expects the generation from the underlying assets to remain broadly in line with past trends.

Comfortable debt coverage metrics
The debt coverage metrics of the project are expected to remain comfortable as reflected by the cumulative DSCR being upwards of 1.30x. Further the average tail life for the projects in the structure is between 7-9 years. Further, the presence of DSRA as per the stipulated sanction terms, provides comfort from the credit perspective.

Strong parentage and operating track record of Clean Max Group in renewable energy segment
CMEESPL is in the business of developing ground mounted (wind, solar, 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 down sold to investors) of power plants till October 2022. Out of total 964 MW capacity, around 273 MW has been down sold to investors while remaining 691 MW is on the books of company. The group has investments from Augment Infrastructure, UK Climate Investments among others.

Industry Outlook
India has an installed renewable capacity of ~110 GW (excluding large hydro) as on March 31, 2022, comprising solar power of 54 GW, wind power of 40 GW, small hydro of 5 GW and other sources including biomass of 11 GW. There has been a significant traction in solar power installations over the last few years and the cumulative solar power capacity has surpassed the installed wind power capacity, despite its late and slow start. The overall renewable energy installations have increased at a CAGR of 17% from FY16-FY22. Over the years renewable energy industry has benefitted on account of Government's strong policy support, India's large untapped potential, presence of creditworthy central nodal agencies as intermediary procurers and improvement in tariff competitiveness. Going forward, with India setting up an ambitious target of achieving 450-GW renewable capacity by 2030, the regulatory framework is expected to remain supportive. However, developers are expected to face challenges in the near term on account of rising cost of modules, turbines and other ancillary products along with imposition of basic custom duty on cells and modules from April 2022 onwards which is expected to drive up costs and result in increase in bid tariffs for new projects. This apart, challenges for acquisition of land and availability of transmission infrastructure also remains a key bottleneck. However, the Indian renewable industry continues to be a preferred investment alternative for both domestic as well as foreign investors and is expected to post robust growth going forward as well which results in CARE Ratings Ltd assigning a Stable outlook to the industry.

Key weaknesses

Leveraged capital structure along with exposure to interest rate risks; Project coverage metrics however remain at comfortable level
The portfolio's capital structure is leveraged as reflected by Total Debt/EBITDA of 5.1x as on FY22 end. Going forward, as per CARE Ratings' base case the capital structure will continue to remain leveraged with Total Debt/EBITDA multiple remaining range bound between 4.5-5.5x over the next two years. Given the leveraged capital structure, single part nature of the fixed tariff in the PPA and floating interest rates, its profitability remain exposed to any increase in interest rates. However, CARE Ratings draws comfort from the fact that interest rate is fixed for a period of five years up to November 2027 and would be reset after every five years.

Vulnerability of cash flows to variation in weather conditions
As tariffs are one part in nature, the companies 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 the group's cash flows and debt servicing ability.

Liquidity: Adequate

As on January 9th, 2023, the portfolio is maintaining a cash balance of Rs 38.4 crores, of which Rs 26.7 crores has been earmarked for stipulated DSRA (one quarter for CMP3L, CMPSPL and CMESIPL and two quarters for CMMPL and CMPPL). As per CARE's base case, GCAs for FY23 and FY24 are expected to be ~Rs. 58 and 69 crores as against annual repayments of around Rs. 31 crores and Rs 42 crores respectively. As per CARE's base case, GCAs for FY23 and FY24 are expected to be ~Rs. 58 and 69 crores as against annual repayments of around Rs. 31 crores and Rs 42 crores respectively.

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

Policy on default recognition
Consolidation
Solar Power Projects
Policy on Withdrawal of Ratings

About the company

Clean Max Photovoltaic Private Limited (CMPPL), incorporated on August 17, 2017, is a special purpose vehicle formed by Clean Max Enviro Energy Solutions Pvt Ltd. CMMPPL has set up a 32MW AC (46.40 MW DC) solar photovoltaic power project in Sedam, District Gulbarga, 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.208.00 crore (Rs.6.50 crore/MW) and is funded via debt of Rs.156 crore and promoter contribution of Rs.52 crore (debt-equity ratio of 3:1). The company has signed Power Purchase Agreements (PPAs) with three industrial customers for a period ranging between 10-15 years at a weighted average first year tariff of Rs.4.87 per unit along with escalation of 1% with one of the off-takers.

Brief Financials (₹ crore)	March 31, 2021 (A)	March 31, 2022 (A)	H1FY23 (UA)
Total operating income	34.3	33.0	NA
PBILDT	30.5	27.0	NA
PAT	5.2	2.3	NA
Overall gearing (times)	3.7	1.7	NA
Interest coverage (times)	1.9	1.6	NA

A: Audited; UA: Unaudited

Status of non-cooperation with previous CRA: Not Applicable

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

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		-	-	March 2035	119.90	CARE A; 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	119.90	CARE A; Stable	1)CARE A-; Stable (05-Apr-22)	-	1)CARE A-; Stable (16-Mar-21)	1)CARE BBB+; Stable (26-Mar-20)

*Long term/Short term.

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

Name of the Instrument	Detailed Explanation
Financial covenants	The borrower shall during the term of the facility establish to the satisfaction of the lenders that the following financial ratios have been maintained: • DSCR of greater than or equal to 1.20 times • FACR shall not at any time be lower than 1.20 times

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:
Established in 1993, CARE Ratings is one of the leading credit rating agencies in India. Registered under the Securities and Exchange Board of India, it has been acknowledged as an External Credit Assessment Institution by the RBI. With an equitable position in the Indian capital market, CARE Ratings provides a wide array of credit rating services that help corporates raise capital and enable investors to make informed decisions. With an established track record of rating companies over almost three decades, CARE Ratings follows a robust and transparent rating process that leverages its domain and analytical expertise, backed by the methodologies congruent with the international best practices. CARE Ratings has played a pivotal role in developing bank debt and capital market instruments, including commercial papers, corporate bonds and debentures, and structured credit.

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