CleanMax Enviro Energy Solutions Pvt Ltd

August 23, 2021

Ratings

Facilities/Instruments	**Amount (Rs. crore)**	**Ratings**	**Rating Action**
Long Term Bank Facilities	173.11	CARE BBB+ (CWD) (Triple B Plus) (Under Credit watch with Developing Implications)	Placed on Credit watch with Developing Implications
Short Term Bank Facilities	355.00	CARE A2 (CWD) (A Two) (Under Credit watch with Developing Implications)	Placed on Credit watch with Developing Implications
Total Bank Facilities	**528.11 (Rs. Five Hundred Twenty-Eight Crore and Eleven Lakhs Only)**		
Non-Convertible Debentures	-	-	Withdrawn*
Total Long Term Instruments	**0.00**		

Details of instruments/facilities in Annexure-1

**CARE has withdrawn the rating assigned to the instruments of CleanMax Enviro Energy Solutions Private Limited (CMEESPL) with immediate effect, as the company has repaid the NCDs in full and there is no amount outstanding under the NCDs as on date.*

CARE has placed the ratings assigned to the bank facilities of CleanMax Enviro Energy Solutions Pvt Ltd (CMEESPL) on 'Credit watch with developing implications' on account of recent development as per which Augment Infrastructure, a US based infrastructure investment fund will invest around Rs 1,650.00 Cr (~USD 220 Mn) to acquire a majority stake in CMEESPL. Definitive agreements to this regard have already been signed and the said transaction concluded during last week.

The said transaction would involve a purchase of the stake held by Yellow Bell Investment Ltd (an affiliate of Warburg Pincus) and International Finance Corporation (IFC) in CMEESPL by Augment Infrastructure along with primary capital infusion of more than USD 100 mn (~Rs.750 crore) which would act as growth capital for CMEESPL.

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.

Augment Infrastructure is a recently incorporated private equity infrastructure fund that will invest in infrastructure companies globally, primarily in emerging markets.

CARE would continue to monitor the developments and would take a view on the credit rating when the exact implications of the above are conclusive and clear.

Detailed Rationale & Key Rating Drivers

The rating assigned to the bank facilities of CMEESPL continues to factor in experienced promoters & management team with demonstrated track record of execution in the solar roof-top and ground mounted solar projects with pan-India presence along with established relations with reputed clientele who provide repeat orders to the company. The ratings continues to take into account two rounds of Private Equity investments completed in the company aggregating Rs.726 crore from reputed investors viz. Warburg Pincus and IFC (infused in FY18, fully utilized as on December 2019) and UKCI (infused in FY20, under-utilization phase) providing necessary growth capital, successful commissioning of around 719.80 MW renewable energy projects viz. solar roof-top, solar ground mounted and wind solar hybrid projects (including projects down-sold to various investors) up to July,

2021, satisfactory generation levels for the operational portfolio retained on the books for 516 MW along with satisfactory payment track record for majority of the customers.
However, the rating strengths continue to be offset by execution risks pertaining to timely commissioning of under-implementation and planned capacities which is customary to any renewable company, nevertheless equity infusion for the under-construction capacity and equity availability for the planned capacities is already in place which provides some comfort. The ratings also factors in weak financial performance in FY19 and FY20 on account of lower capacity additions along with relatively lower operating performance of operational portfolio in FY19 on account of stabilization issues of the newly commissioned capacities and moderate financial risk profile of the company at consolidated levels on account of high operating expenses at CMEESPL level leading to moderate debt coverage indicators. Further, the ratings would remain constrained on account of exposure to climatic and technological risks that are inherent in this business besides pertinent risks of shadowing and access to plant premises in rooftop projects. Also, any adverse regulatory change in State Solar policies including Rooftop policies and Open Access solar policies may impact the profitability and coverage levels of the company. The company still continue to have significant exposure in the state of Karnataka, though the same has come down to 57% from 64% of total installed capacity leading to company exposed to adverse regulatory changes in Karnataka State Open Access Solar Policy, though, the group is taking some corrective steps to reduce the exposure in Karnataka with new projects planned in states like Gujarat, Tamil Nadu and Haryana apart from new capacity proposed to be added through rooftop projects spread across various locations in India.

Key Rating Sensitivities:

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

- Actual generation in-line or better than envisaged levels of P-90 estimates leading to better cash accruals thereby positively impacting the coverage indicators at SPV as well as consolidated levels
- Timely receipt of payments from various off-takers at consolidated basis with minimal build-up of receivables on a sustained basis
- Commissioning of under-execution projects within envisaged timelines and budgeted project costs
- Infusion of equity from either existing or new equity investor providing next phase of growth capital over and above the envisaged levels

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

- Actual generation lower than envisaged generation levels on sustainable basis leading to lower cash accruals thereby negatively impacting the coverage indicators at SPV as well as consolidated levels
- Delays in receipt of payments from the off-takers/Deterioration in credit risk profile of the off-takers
- Delays in receipt of key approvals and clearances including signing of PPAs which may expose the under-execution project to uncertainties
- Delays in project execution for the under-construction (less than 10% of overall capacity) and pipeline projects leading to significant cost over-runs impacting the financial risk profile
- Any adverse regulatory changes in state solar policies where group is operating and/or implementing projects including Karnataka, Tamil Nadu, Gujarat leading to adverse impact on group's profitability and debt coverage indicators

Detailed description of the key rating drivers

Key Rating Strengths

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 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 719.80 MW (including projects being down-sold to investors) of solar power plants till July, 2021 out of which around 273.60 MW were rooftop plants and around 446.20 MW were ground mounted. Out of total 719.80 MW capacity executed till July, 2021, around 204 MW has been down sold to investors while remaining 516 MW is on the books of company. The group has also forayed into wind power generation through wind-solar hybrid project of 89.10 MW as on July, 2021.

CMEESPL backed by reputed investors such as IFC, Warburg Pincus and UKCI, aggregate equity raised of Rs.726 crore so far: The group is backed by reputed investors viz. Warburg Pincus and IFC which has invested Rs.455 crore (USD 70 million) in the group which has been utilized for setting up rooftop and ground mounted solar projects till FY19. Further, during Q1FY20, the group successfully raised fresh equity of Rs.271 crore (USD 40 million) from a new investor, UK Climate Investments (UKCI). UKCI is a JV between Green Investment Group (specialist in green infrastructure investment) and UK government's department for business, energy & industrial strategy. The company is in the process of deploying the equity raised through UKCI.
Nevertheless, future expansion plans would be dependent upon timely raising of fresh equity and would remain a key rating monitorable.

Established track record of operations in Solar Industry with pan-India presence in C&I segment: CMEESPL is one of the leading players among various solar project developers in C&I segment in India. The Company, along with its subsidiaries, has implemented around 719.80 MW (including projects down-sold) of solar power plants as of July, 2021, out of which around 273.6 MW were roof-top plants and around 446.2 MW were ground mounted. The company has entered into international markets also with small capacities commissioned in Thailand and Dubai.
The capacities that were commissioned during FY18 and FY19 have fully stabilized now and are operating at generation levels which are broadly in-line with envisaged P-90 generation levels.

Established relationships with reputed clientele: The company has established long-term relationships with reputed clientele which include leading corporates such as HCL, TATA Motors, Amazon, Bajaj, Mahindra, Gabriel, Asahi, L&T, Magneti Marelli, Carlsberg, United Spirits, CPWD, Manipal University, Kajaria, GE, Dr.Reddy's, Mindtree, Taj, Cargill, ITC, NTT, Honda etc. The company has been receiving repeat orders from various existing clientele e.g. TVS, Tata Communications, Mahindra and Mahindra, United Breweries Limited etc. Further, CMEESPL has been receiving payments in a timely manner from majority of these off-takers.

Industry Outlook: There is great thrust from Govt. 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 amount of solar auctions. However, looking at the already allotted capacity and govt.'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 Weakness

Moderate financial risk profile, weak financial performance in FY19 and FY20, relatively better capacity additions during FY21: During FY20, company reported Total Operating Income of Rs.319.81 crore (as against Rs. 232.63 crore in FY19), PBILDT of Rs.192.08 crore (as against Rs. 122.54 crore in FY19) and net loss of Rs.20.01 crore (as against net loss of Rs. 30.64 crore in FY19). The moderation in FY20's financial performance was majorly on account of lower capacity additions during FY20. The capacity addition in FY20 got impacted because of COVID-19 outbreak as majority of capacity was planned to be commissioned in Q4FY20. Nevertheless, CMEESPL has successful commissioned around 110 MW of capacities during FY21 (~37 MW rooftop and ~73 MW of solar and wind projects).

Company's overall gearing level is moderately comfortable at 1.54x as on March 31, 2020 (as against 2.04x as on March 31, 2019). The debt coverage indicators at consolidated levels continues to remain moderate in the near term given the company has high operating expenses at CMEESPL level given its nature of business. CMEESPL has successfully repaid the entire Rs. 60.00 Cr NCDs raised directly under CMEESPL.

Interest rate fluctuation risk: Majority of term loans availed at CMEESPL levels and SPVs level are floating rate loans and the lenders can reset the interest rates. However, the tariff for off-take arrangement of the power is fixed for majority of the projects with a pre-determined escalation in some projects, thereby, exposing the company to risk of any adverse movement in interest cost. Nevertheless, interest rates for terms loans in some of the projects (~39% of the debt at CMEESPL consolidated levels as on November, 2020) is fixed, which partially mitigates interest rate fluctuation risk.

Dependence on climatic conditions and technological risks: Achievement of desired solar power generation would be subject to change in climatic conditions, amount of degradation of modules as well as technological risks. Furthermore, wind based projects are exposed to inherent risks of weather fluctuations leading to variations in wind patterns which can affect the PLF for wind projects. Thus, the achievement of desired PLF/CUF levels for both solar and wind-solar hybrid power projects would be crucial going forward.

Concentration risk with high exposure in Karnataka, company exposed to regulatory risks as well: As on Sep, 2020, CMEESPL hold projects totaling to around 227MW of installed capacity in Karnataka, wherein, the tariffs considered the continued availability of the benefits under the Karnataka open access policy under which the developers could avail concessions in wheeling & banking charges and line losses. Though, the PPAs signed by the company with its counter-parties have in-built clauses for 'change in law', however the company may be impacted in case of discontinuation of the above benefits in case of any adverse regulatory changes in Karnataka state open access policy and net metering policy. 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. However, CMEESPL is taking corrective steps to reduce the exposure in Karnataka with new capacities planned in states like Gujarat, Tamil Nadu, Maharashtra and Haryana.

Also, the company is exposed to any change in policies or withdrawal of benefits in other state provided to solar IPPs setting-up projects under Commercial & Industrial (C&I) segment (either on retrospective or prospective basis). The same could impact the already operational portfolio along with impacting the future pipeline of projects.

Liquidity Analysis: Adequate

The liquidity profile of the company remains adequate.

CMEESPL has unrestricted cash balance of Rs. 45.97 crore at standalone level as on December, 2020. Company has sanctioned fund-based working capital limits of Rs. 40.00 Cr which are usable inter-changeably with non-fund based limits along with additional Rs. 10.00 Cr of fund-based working capital limits available. The same are completely unutilized as on Nov, 2020.

Total debt repayments for FY22 at consolidated levels are expected to be around Rs. 96.60 crore as against expected GCA of Rs.192.05 crore.

Impact of COVID: Due to the nation-wide lockdown owing to COVID-19 pandemic announced from March 25, 2020, the operations of the company got impacted with some rooftop plants getting shut down fully/partially during the lock-down period and O&M activities also getting impacted to some extent. Also, some debtor build-up was there given delays in release of payments by some of the government departments in rooftop segment. Subsequent to withdrawal of lockdown in phases, all the rooftop plants have resumed operations from June 2020 onwards and O&M activities were also made regular at all the locations. Also, the payment pattern has largely stabilized now. In light of this disruption, few of the project companies opted for moratorium on interest and/or principal repayments on project term loan.

Analytical Approach: Consolidated; CARE has taken a consolidated view of CMEESPL due to financial and operational linkages between CMEESPL and its SPVs. List of all the companies getting consolidated in CMEESPL as on March 31, 2020 are shown in Annexure 4.

Applicable Criteria
[Criteria on assigning Outlook to Credit Ratings]
[Rating methodology - Infrastructure Sector Ratings]
[Criteria for Short Term Instruments]
[Financial Ratios – Non-Financial Sector]
[Rating Methodology - Private Power Producers]
[Rating Methodology: Solar Power Projects]
[Rating Methodology: Wind Power Projects]
[Policy on Withdrawal of Ratings]

About the Company
Clean Max Enviro Energy Solutions Private Limited (CMEESPL) was incorporated on September 29th, 2010. The company is promoted by Mr. Kuldeep Jain and is in the business of developing ground mounted 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 projects (Rooftop of ~273.60 MW and Ground Mounted of ~446.20 MW) aggregating to ~719.80 MW out of which around 204 MW has been down sold to investors while remaining 516 MW is on the books of company as on July, 2021.

Brief Financials – CMEESPL Consolidated (Rs. crore)	FY19 (Audited)*	FY20 (Audited)*
Total operating income	232.63	319.81
PBILDT	122.54	192.08
PAT	(-30.64)	(-20.01)
Overall gearing (times)	2.04	1.54
Interest coverage (times)	1.06	1.33

**As per Ind-As Audited Financials*

Brief Financials – CMEESPL Standalone (Rs. crore)	FY19 (Audited)	FY20 (Audited)
Total operating income	338.94	399.91
PBILDT	23.53	40.45
PAT	-14.26	1.47
Overall gearing (times)	0.41	0.25
Interest coverage (times)	0.75	1.38

Status of non-cooperation with previous CRA: NA

Any other information: NA

Rating History for last three years: Please refer Annexure-2

Annexure-1: Details of Instruments/Facilities

Name of the Instrument	ISIN	Date of Issuance	Coupon Rate	Maturity Date	Size of the Issue (Rs. crore)	Rating assigned along with Rating Outlook
Fund-based - LT-Term Loan	-	-	-	Sep, 2034	163.11	CARE BBB+ (CWD)
Non-fund-based - ST-Letter of credit*	-	-	-	-	290.00	CARE A2 (CWD)
Non-fund-based - ST-Bank Guarantees	-	-	-	-	65.00	CARE A2 (CWD)
Fund-based - LT-Cash Credit	-	-	-	-	10.00	CARE BBB+ (CWD)
Debentures-Non Convertible Debentures	INE647U07015~	-	-	-	0.00	Withdrawn

**Can be used interchangeably as LC/BG Limits, ~NCDs have been fully repaid and subsequently withdrawn*

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	163.11	CARE BBB+ (CWD)	-	1)CARE BBB+; Stable (06-Jan-21)	1)CARE BBB+; Stable (26-Dec-19)	1)CARE BBB+; Stable (14-Feb-19)
2.	Non-fund-based - ST-Letter of credit*	ST	290.00	CARE A2 (CWD)	-	1)CARE A2 (06-Jan-21)	1)CARE A2 (26-Dec-19)	1)CARE A2 (14-Feb-19)
3.	Non-fund-based - ST-Bank Guarantees	ST	65.00	CARE A2 (CWD)	-	1)CARE A2 (06-Jan-21)	1)CARE A2 (26-Dec-19)	1)CARE A2 (14-Feb-19)
4.	Debentures-Non Convertible Debentures	LT	-	-	-	1)CARE BBB+; Stable (06-Jan-21)	1)CARE BBB+; Stable (26-Dec-19)	-
5.	Fund-based - LT-Cash Credit	LT	10.00	CARE BBB+ (CWD)	-	1)CARE BBB+; Stable (06-Jan-21)	-	-

**Can be used interchangeably as LC/BG Limits*

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

Name of the Facility – Term Loan	Detailed explanation
A. Financial covenants	
I. Debt Service Coverage Ratio	Borrower is required to maintain Debt Service Coverage Ratio of 1.15x at all the times during the tenure of the loan
II. Debt to Equity Ratio	Debt to equity ratio of the borrower shall not be greater than 3.5X during the tenure of the loan.
B. Non-financial covenants	N.A.

Name of the Facility – LC/BG	Detailed explanation
A. Financial covenants	N.A.
B. Non-financial covenants	
Other Conditions	**I.** In case LCs are being opened for deployment in ground mounted projects – borrower to submit an undertaking on letterhead that the required land for the project is under their possession (to be obtained before every LC opening)**.**
	II. PPA needs to be signed before opening of LCs. Brief details of PPA signed to be submitted along with LC opening application

Annexure-4: List of subsidiaries getting consolidated at CMEESPL level as on March 31, 2020

S. No.	Name of company	Shareholding as on March 31, 2020
1	Clean Max Cogen Solutions Pvt Ltd	100%
2	Clean Max Energy Ventures Pvt Ltd	100%
3	Clean Max Power Projects Pvt Ltd	100%
4	KAS Onsite Power Solutions LLP	74%
5	Clean Max IPP1 Pvt Ltd	100%
6	Clean Max IPP2 Pvt Ltd	100%
7	Clean Max Photovoltaic Pvt Ltd	100%
8	Clean Max Mercury Power Pvt Ltd	100%
9	KPJ Renewable Power Projects LLP	100%
10	CMES Jupiter Pvt Ltd	100%
11	CMES Power 1 Pvt Ltd	100%
12	CMES Power 2 Pvt Ltd	100%
13	CMES Infinity Private Limited	100%
14	CMES Amino Private Limited	100%
15	CMES Rhea Private Limited	100%
16	CMES Saturn Private Limited	100%
17	CMES Universe Private Limited	100%
18	CMES Urja Private Limited	100%
19	Chitradurga Renewable Energy Private Limited	100%
20	Clean Max Denab Power LLP	74%
21	Clean Max Orion Power LLP	100%
22	Clean Max Pluto Solar Power LLP	74%
23	Clean Max Regulas Power LLP	100%
24	Clean Max Scorpius Power LLP	100%
25	Clean Max Suryamukhi Power LLP	50%
26	Clean Max Vega Power LLP	100%
27	Clean Max Venus Power LLP	50%
28	Clean Max Auriga Power LLP	100%
29	Clean Max Fusion Power LLP	100%
30	Clean Max Solstice Power LLP	100%
31	Clean Max IPP 3 Power LLP	100%
32	Clean Max Power 3 LLP	100%
33	Clean Max Apollo Power LLP	100%
34	Clean Max Light Power LLP	100%
35	Clean Max Agni 2 Power LLP	100%
36	Clean Max Helios Power LLP	100%
37	Clean Max Charge LLP	100%
38	Clean Max Actis Energy LLP	100%

39	Clean Max Vital Energy LLP	100%
40	Clean Max Proclus Energy LLP	100%
41	Clean Max Augus Power LLP	100%
42	Clean Max Hyperion Power LLP	100%
43	Clean Max Circe Power LLP	100%
44	Clean Max Hybrid Power LLP	100%
45	Clean Max Solar Mena FZCO	100%
46	Clean Max Alpha Lease Co FZCO	100%
47	CleanMax IHQ (Thailand) Co Ltd	100%
48	Sunroof Enviro Solar Energy Systems LLC	49%
49	Clean Max Harsha Solar LLP	50%

Annexure 5: Complexity level of various instruments rated for this Company

Sr. No.	Name of the Instrument	Complexity Level
1.	Debentures-Non Convertible Debentures	Simple
2.	Fund-based - LT-Term Loan	Simple
3.	Non-fund-based - ST-Bank Guarantees	Simple
4.	Non-fund-based - ST-Letter of credit	Simple

Note on complexity levels of the rated instrument: *CARE has classified instruments rated by it on the basis of complexity. This classification is available at www.careratings.com. Investors/market intermediaries/regulators or others are welcome to write to care@careratings.com for any clarifications.*

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