Cleanmax IPP 2 Private Limited

November 23, 2022

Rating

Facilities/Instruments	Amount (₹ crore)	Rating[1]	Rating Action
Long Term Bank Facilities	121.65 (Reduced from 132.34)	CARE A-; Stable (Single A Minus; Outlook: Stable)	Reaffirmed
Total Bank Facilities	**121.65 (₹ One Hundred Twenty-One Crore and Sixty-Five Lakhs Only)**		

Details of instruments/facilities in Annexure-1.

Detailed rationale and key rating drivers

The rating reaffirmation on the bank facilities of Cleanmax IPP 2 Private Limited (CMIPP2) which is operating a 32 MW (AC) solar power plant under the open access route takes into account the long operational track record of more than four years with satisfactory generation and collection performance. The rating continues to factor in the medium-term (10 year) power purchase agreements (PPA) with multiple reputed commercial and industrial (C&I) consumers in the state of Karnataka for the entire capacity. Further, the presence of enabling clauses such compensation to the developer in case of an early exit by the customer acts as a necessary safeguard. The rating is supported by comfortable debt protection metrics as reflected by average DSCR above 1.3x for the tenor of the rated facility and presence of a two quarter Debt Service Reserve Account (DSRA). This apart, the rating continues to factor in the strong parentage by virtue of this project being a part of Clean Max Group which has a satisfactory track record of developing and operating renewable energy projects. The group has an operating capacity of 517 MW as on September 22 end.

Nevertheless, the rating is constrained on account of leveraged capital structure as reflected by gearing and Debt/EBITDA of 1.8x and 4.2x respectively as on FY22 end. Further, the project is exposed to regulatory risks applicable for the open access projects. The project has a waiver on the open access charges for the initial 10 years i.e., the PPA tenure, however it will have to incur these charges post 10 years which is likely to result in reduction in the realised tariff for the company. The ability of the company to enter into PPAs post the initial tenor of 10 years at a remunerative tariff would be a key credit monitorable. CARE Ratings also factors in 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 and asset concentration risk given the full capacity is located in a single state.

Rating sensitivities

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

- Actual generation levels in line with P90 levels along with timely receipt of payments from all offtakers as per PPA terms resulting in a strong liquidity position
- Significant reduction in the leverage level

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

- Negative pressure on CMIPP2's rating could arise if there are significant delays in payments from offtakers leading to accumulation of receivables and adversely affecting the liquidity position
- Also, any underperformance in generation and/or any increase in debt levels weakening the cumulative DSCR on project debt to less than 1.20 times, on a sustained basis
- Any regulatory changes in state policies in the state of Karnataka negatively impacting the cash flows of the projects

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

Detailed description of the key rating drivers

Key rating 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, and under various Central and State Government solar tenders.

Since inception, the group has executed around 774 MW (including projects being down sold to investors) of power plants till February, 2022 out of which around 275.4 MW were rooftop plants and around 499 MW were ground mounted. Out of total 774 MW capacity executed till February 2022, around 257 MW has been down sold to investors while remaining 517 MW is on the books of company. The group has investments from Augment Infrastructure, UK Climate Investments among others.

Operational track record of more than four years with satisfactory generation levels
The 32 MW (AC) capacity was fully commissioned in March 2018 and the plant has operational track record of more than four years. During FY22, plant witnessed marginal improvement in generation level as reflected by annual PLF of 22.8% as against 22.5% during FY21. However, the same was relatively lower than P90 estimate of 24.2% (adjusted for annual degradation). Further, plant generated PLF of 21.3% during 5MFY23 vis-à-vis 22.6% during 5MFY22. Going forward, CARE Ratings expects the generation performance to remain in line with the past trends.

Medium-term PPAs in place with reputed customers, established payment track record of all the offtakers
The Company has entered into medium-term Power Purchase Agreements (PPAs) with nine reputed industrial and commercial consumers for the entire capacity at a weighted average first year tariff of Rs. 4.95 per unit along with tariff escalations of 1%-2% in some of the PPAs. The tenure of PPAs is 10 years for 8 off-takers and 15 years for 1 off-taker. Further, the presence of enabling clauses such compensation to the developer in case of an early exit by the customer is expected to be a strong deterrent. 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 within less than 30 days since commissioning.

Comfortable debt coverage indicators, limited period corporate guarantee provided by promoter
The coverage indicators are expected to be comfortable as reflected by average DSCR being upwards of 1.3x for the tenure of the term debt. Further, CMIPP2 is maintaining DSRA equivalent to two quarters of debt servicing in-line with the sanctioned terms. Also, CMEESPL has given limited period unconditional and irrevocable corporate guarantee till the project complies with stipulated conditions to the satisfaction of lender.

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 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. Further, the project is exposed to regulatory risks applicable for the open access projects. The project has a waiver on the open access charges for the initial 10 years i.e., the PPA tenure, however it will have to incur these charges post 10 years which is likely to

result in reduction in the realised tariff for the company. However, presence of sponsor support undertaking from CMEESPL to cover these events provides some comfort from credit standpoint. The ability of the company to enter into PPAs post the initial tenor of 10 years at a remunerative tariff would 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 of the company stood at 1.8x as on FY22 end. Going forward, CARE Ratings expects the gearing and Total Debt/EBITDA of the company as on FY23 end to be 1.6x and 4.5x 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. However, CARE Ratings notes that the rate of interest for the company is fixed for an initial period of five years and would be subject to reset after every subsequent five years, thereby mitigating the interest rate risk to some extent.

Liquidity: Adequate
As on November 08, 2022, company had cash and bank balance of ~Rs. 18 crores which is inclusive of DSRA reserve of ~Rs. 10 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 60 days given the strong financial risk profile of the offtakers. The internal accruals are anticipated to be adequate to service its debt obligations. As per CARE Ratings' base case scenario, GCA for FY23 and FY24 is expected to be ~Rs. 13-15 crores as against annual repayments of ~Rs. 9-10 crores.

Analytical approach: Standalone

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
Policy on Withdrawal of Ratings

About the company
CMIPP2 was incorporated in August 2017, is a special purpose vehicle formed by CMEESPL. CMIPP2 has set up a 32 MW AC (46.40 MW DC) solar photovoltaic power project at Ballari, Karnataka. The project was commissioned on March 21, 2018 as against SCOD of March 31, 2018. The company has signed Power Purchase Agreements (PPAs) with nine customers for a period ranging between 10-15 years at a weighted average first year tariff of Rs. 4.95/unit along with escalation ranging between 1% to 2% in some of the PPAs.

Brief Financials (₹ crore)	March 31, 2021 (A)	March 31, 2022 (A)	H1FY2023 (UA)
Total operating income	33.8	33.9	NA
PBILDT	29.4	29.4	NA
PAT	5.8	6.6	NA
Overall gearing (times)	1.75	1.83	NA
Interest coverage (times)	1.90	2.14	NA

A: Audited, UA: Unaudited, NA: Not Available

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 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	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-2036	121.65	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	121.65	CARE A-; Stable	-	1)CARE A-; Stable (24-Sep-21)	1)CARE BBB+; Stable (01-Sep-20)	1)CARE BBB; Stable (13-Sep-19)

*Long term/Short term.

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

Name of the Instrument	Detailed Explanation
A. Financial covenants **DSCR**	The Borrower shall pay an additional interest to Lenders in the event of the DSCR falling to 1.15 or below, with effect from the date of such non-compliance till the date such non-compliance is rectified.

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 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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