# Clean Max Enviro Energy Solutions Private Limited

**February 14, 2019**

**Ratings**

| Facilities | Amount (Rs. crore) | Rating[1] | Rating Action |
|---|---|---|---|
| Long-term Bank Facilities (CC) | 10.00 | **CARE BBB+ Stable [CARE Triple B Plus; outlook: Stable]** | **Reaffirmed** |
| Short-term Bank Facilities (LC/ Forward cover) | 115.00 | **CARE A2 [CARE A Two]** | **Reaffirmed** |
| **Total facilities** | **125.00 (Rs. One hundred and twenty five crore only)** | | |

**Detailed Rationale & Key Rating Drivers**

The rating assigned to the bank facilities of CMEESPL continue to factor in experienced and qualified promoters & management team, demonstarted track record of execution in the solar roof-top and ground mounted solar projects with pan-India presence and established relations with reputed clientele who provide repeat orders to the company. The ratings also take into account the Private Equity investment by Warburg Pincus in FY18 which has brought in the necessary capital required for driving the growth of the company as envisaged, the same is expected to be fully utilized towards project execution by FY19 end. Further, the company has successfully commissioned 470 MW (including projects down-sold) of roof top and ground mounted projects upto December 2018 in a timely manner. Going forward, the company is well positioned to take advantage of the favorable demand outlook for the solar roof top / ground mounted segment in light of the increased tariff competitiveness on account of decline in the module prices.

However, the rating strengths continue to be partially offset on account of the aggressive growth plans in the medium term which have exposed the company to project execution risks besides a requirement of a substantial amount of equity deployment in the operations. Further, the debt required for funding the envisaged growth plans is expected to lead to increase in the gearing levels going forward as well as some moderation in the debt protection metrics in the medium term. Also, the ratings continue to factor in the commissioned portfolio of projects (retained on the books on a consolidated basis) amounting to 208 MW in Mar-18, wherein, achievement of envisaged generation levels shall remain crucial for the overall financial position of the company. 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, on account of high concentration of projects in the state of Karnataka, any adverse outcome related to the recent KERC order regarding the withdrawal of exemption of transmission charges, wheeling and banking charges may impact the profitability and coverage levels of the company.

Going forward, timely infusion of equity to undertake the project development plans of the company while at the same time building an order pipeline with reputed counterparties in accordance with the past strategy of the group are key rating sensitivities. Also, timely execution of projects including hybrid projects and international projects being undertaken by the company now and achievement of projected CUF levels in the operational projects would also be crucial rating sensitivities.

**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. Further, he is assisted by management team comprising experienced and qualified personnel. The Chief Executive officer, Mr. Gajanan Nabar possesses prior experience of about 17 years in varied industries. Mr. Umakant Shende, the Chief Operating Officer of the company has prior experience in solar PV segment and has more than 26 years of experience in Operations Management.

**Established track record of operations in roof-top industry with pan-India presence:** CMEESPL is one of the leading players among various solar rooftop project developers in India. The Company, along with its subsidiaries, has implemented 470 MW (including projects downsold) of solar power plants as of Dec-18, out of which 146 MW were roof-top plants and 323 MW were ground mounted.

**Established relation with reputed clientele:** The company has a reputed client base which include leading corporates such as HCL, TATA Motors, Bajaj, Mahindra, Gabriel, Asahi, Magneti Marelli, Carlsberg, United Spirits, Manipal University,

[1] *Complete definitions of the ratings assigned are available at www.careratings.com and in other CARE publications.*

Kajaria, GE, Dr.Reddy's, Mindtree, Taj etc. The company has been receiving repeat orders from its various clientele e.g. TVS, Tata Communications, Mahindra and Mahindra etc Further, CMEESPL has been receiving payments in a timely manner from these off-takers, thereby, reducing the counter party risk.

**Healthy project execution during FY18, translating into improved financial performance:** CMEESPL has executed about 297 MW capacity in FY18, out of which 225 MW is held on books and 72 MW was down-sold to investors. This includes successful commissioning of 208 MW of ground mounted projects in Karnataka in the month of Mar-18, as envisaged. These projects shall be held on own books and generate revenue from sale of energy. On account of substantial quantum of assets held on its own books, the company reported revenue of Rs.345 cr during FY18 (PY: 268 cr) which includes revenue of Rs.40 crore through sale of power (11.6% of total operating income).
Nevertheless, there has been increase in debt levels on account of development of new projects being held on books, which has led to moderation in overall gearing level from 0.35x as on March 31, 2017 to 0.92x as on March 31, 2018, though the same still remains within comfortable levels.

**Private equity investment by Warburg Pincus:** In July FY 18, Warburg Pincus (WP) via its entity Yellow Bell Investment Ltd has proposed to invest an aggregate amount of up to INR 455 cr (USD 70 mn – in form of Compulsorily convertible preference shares). The said investment has provided the necessary capital required for execution of projects by the company. Of the total, Rs 405 cr has already been infused while the balance Rs.50 cr shall also be entirely utilized towards the execution of projects within FY19.

**Favorable Outlook of the Solar Industry:** The outlook of solar industry remains favorable marked by high demand for renewable sources of energy generation due to persistent energy deficits, relatively faster execution of solar energy projects compared with conventional sources, absence of fuel availability risks and government impetus and renewable purchase obligation targets.

**Key Rating Weakness**
**Aggressive development plans going forward, exposing the company to funding risk:** CMEESPL is now focusing on holding assets on its own books leading to generation of revenue from sale of power as against the asset-light model being followed earlier. This would lead to increased debt levels on account of capital intensiveness of operations which, in-turn, shall lead to moderation in overall gearing levels and debt protection metrics.
The company plans to execute about 1000 MW capacity in FY20 & 21, as compared to 297 MW executed in FY18 and about 130 MW planned to be executed in FY19. Further, timely tie-up and infusion of fresh equity shall remain crucial for meeting the envisaged execution targets. Further, the group plans to execute projects in diversified geographies in India (states like Haryana, Andhra Pradesh and Uttar Pradesh) as well as outside India (Dubai and Thailand) and also plans to undertake wind solar hybrid projects, going forward. This will expose the company to execution risks in international geographies as well as risks pertaining to development of wind projects.

**Exposure to climatic and technological risks:** CMEESPL has commissioned capacity amounting to 208 MW in Mar-18. Post the initial stabilization phase of 5-6 months post COD, the generation levels have started improving. The average PLF achieved in these projects stood in-line with P-90 projected levels in the range of 17%-18% in the month of Dec-18.
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. Further, energy generation at envisaged CUF levels remains crucial for the overall debt profile of the company, in light of possible servicing support to be extended by the parent company to its project SPVs in the event of any shortfall in revenue generation.

**Possible impact of KERC open access policy guideline, on account of high concentration of project portfolio in Karnataka:** CMEESPL hold projects totalling to 208 MW 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, till the time, the pass-through is fully-effected the company may be impacted in case of discontinuation of the above benefits in light of the recent KERC order.
As per the KERC order dated May 14, 2018, KERC has determined that solar power projects, commissioned after March 31, 2017 are liable to pay 25% of transmission charges, wheeling charges and also distribution losses fixed by CERC. However, the order has been challenged by the power developers in the High Court of Karnataka and as per order dated May 29, 2018, the court has issued a stay to the order issued by KERC till further hearing. However, any adverse regulatory outcome regarding the said order would be a key rating sensitivity.

**Liquidity Analysis:** The liquidity profile of the company remains stable on account of low debt repayment obligations in FY19 and availability of remaining equity of Rs.50 cr to be infused by Warburg Pincus and IFC for the balance project

execution in FY19. The company had comfortable free cash balance and liquid investments amounting to Rs.85 cr as on March 31, 2018. Further, the company has sanctioned fund-based working capital limits of Rs.32.50 cr which are usable inter-changeably with non-fund based limits. The same are about 90-100% utilized on average.
Going forward, timely infusion of equity to undertake the project development plans of the company as envisaged shall remain crucial for the liquidity profile.

**Analytical approach:** Consolidated; The financial statements of following subsidiaries of CMEESPL have been consolidated:

- Clean Max Cogen Solutions Pvt Ltd
- Clean Max Energy Ventures Pvt Ltd
- Clean Max Power Projects Pvt Ltd
- KAS Onsite Power Solutions LLP
- Clean Max IPP1 Pvt Ltd
- Clean Max IPP2 Pvt Ltd
- Clean Max Photovoltaic Pvt Ltd
- Clean Max Mercury Power Pvt Ltd
- KPJ Renewable Power Projects LLP
- CMES Jupiter Pvt Ltd
- CMES Power I Pvt Ltd
- Clean Max Solar Mena FZCO
- Clean Max Solar Alpha FZCO
- Clean Max Harsha Solar LLP

**Applicable Criteria**
Criteria on assigning Outlook to Credit Ratings
CARE's Policy on Default Recognition
Criteria for Short-term Instruments
CARE's methodology for financial ratios (Non-Financial Sector)
CARE's methodology for Infrastructure sector ratings
CARE'S methodology for private power producers

**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 solar projects (Rooftop of ~146 MW and Ground Mounted of ~323 MW) aggregating 470 MW out of which 149 MW has been down sold to investors while remaining 321 MW is on the books of company as on Dec 31, 2018.

| Brief Financials (Rs. crore) | FY17 (Audited) | FY18 (Audited) |
|---|---|---|
| Total operating income | 268 | 345 |
| PBILDT | 31 | 42 |
| PAT | 9 | (19) |
| Overall gearing (times) | 0.33 | 0.92 |
| Interest coverage (times) | 16.24 | 2.01 |

**Status of non-cooperation with previous CRA: NA**

**Any other information: NA**

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

***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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CARE Ratings commenced operations in April 1993 and over two decades, it has established itself as one of the leading credit rating agencies in India. CARE is registered with the Securities and Exchange Board of India (SEBI) and also recognized as an External Credit Assessment Institution (ECAI) by the Reserve Bank of India (RBI). CARE Ratings is proud of its rightful place in the Indian capital market built around investor confidence. CARE Ratings provides the entire spectrum of credit rating that helps the corporates to raise capital for their various requirements and assists the investors to form an informed investment decision based on the credit risk and their own risk-return expectations. Our rating and grading service offerings leverage our domain and analytical expertise backed by the methodologies congruent with the international best practices.



**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-Cash Credit | - | - | - | 10.00 | CARE BBB+; Stable |
| Non-fund-based - ST-Letter of credit | - | - | - | 110.00 | CARE A2 |
| Non-fund-based - ST-Forward Contract | - | - | - | 5.00 | CARE A2 |

**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 2018-2019 | Date(s) & Rating(s) assigned in 2017-2018 | Date(s) & Rating(s) assigned in 2016-2017 | Date(s) & Rating(s) assigned in 2015-2016 |
| 1. | Fund-based - LT-Cash Credit | LT | 10.00 | CARE BBB+; Stable | - | 1)CARE BBB+; Stable (22-Nov-17) | - | - |
| 2. | Non-fund-based - ST-Letter of credit | ST | 110.00 | CARE A2 | - | 1)CARE A2 (22-Nov-17) | - | - |
| 3. | Non-fund-based - ST-Forward Contract | ST | 5.00 | CARE A2 | - | 1)CARE A2 (22-Nov-17) | - | - |

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