Clean Max Enviro Energy Solutions Private Limited

December 26, 2019

Ratings

Instrument	Amount (Rs. crore)	Rating[1]	Rating Action
Short-term bank facilities	335.00 (enhanced from Rs.115 crore)	**CARE A2 [CARE A Two]**	**Reaffirmed**
Long term fund based bank facilities	164.01 (enhanced from Rs.10 crore)	**CARE BBB+; Stable [CARE Triple B Plus; Outlook: Stable]**	**Reaffirmed**
Total	**499.01 (Rs. Four Hundred Ninety Nine crore and One lakh only)**		
Long term Instrument	60.00	**CARE BBB+; Stable [CARE Triple B Plus; Outlook: Stable]**	**Assigned**

Details of instruments/facilities in Annexure-1

Detailed Rationale & Key Rating Drivers

The rating assigned to the bank facilities and instruments of CMEESPL continues to factor in experienced and qualified 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 also take into account two rounds of Private Equity investments 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, underutilization phase) providing necessary growth capital, successful commissioning of 511 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 September 2019, satisfactory generation levels for the operational portfolio retained on the books along with stabilization of various solar farms commissioned during FY18 in the state of Karnataka.

However, the rating strengths continue to be offset by execution risks pertaining to timely commissioning of under-implementation and planned capacities, however equity availability for the planned capacity is already in place which provides some comfort. The ratings also factors in weak financial performance in FY19 on account of low capacity additions along with majority of operational portfolio under stabilization phase in Karnataka 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 continue to have significant exposure in the state of Karnataka (around 64% of total capacity installed) 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 Haryana and Tamil Nadu apart from new capacity proposed to be added through rooftop projects spread across various locations in India.

Rating Sensitivities:

Positive Rating Sensitivities:

- Actual generation 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 project pipeline before envisaged timelines, Timely stabilization of under implementation projects leading to better than envisaged cash accruals in FY20 and FY21
- Infusion of significant fresh equity from either existing or new equity investor providing next phase of growth capital

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

Negative Rating Sensitivities:

- Actual generation lower than envisaged generation levels impacting gross cash accruals at consolidated basis
- Delays in receipt of payments from the off-takers/Deterioration in credit risk profile of the off-takers
- Delay in receipt of key approvals and clearances including signing of PPAs which may expose the project to uncertainties
- Delay in project construction leading to significant cost over-runs impacting the financial risk profile of the holding company which is doing the EPC in-house
- Higher than envisaged corporate borrowing at hold co level and lower than envisaged capacity downsold at hold co level leading to worsening of coverage indicators i.e. overall gearing of more than 3x at consolidated levels
- Any regulatory changes in respective state solar policies in which the group is operational negatively impacting the cash flows of the projects

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.

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.

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 511 MW (including projects down-sold) of solar power plants as of Sep-2019, out of which around 156 MW were roof-top plants and around 355 MW were ground mounted.

Capacities commissioned during FY18 fully stabilised, satisfactory operational performance so far: Out of the total on books capacity of around 320 MW as on March 31, 2019 around 230 MW of capacity was commissioned during FY18. Out of the 230 MW commissioned during FY18, 208 MW was ground mounted solar projects in the state of Karnataka and 20 MW was roof-top capacity in various locations throughout India. The capacities that were commissioned during FY18 have fully stabilized now and are operating at generation levels which are 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 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 majority of these off-takers, thereby, reducing the counter party risk.

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 & H1FY20 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 RPO 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. 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, developments in claim of off-takers for renegotiation of PPAs, modalities to compensate under change in law for safeguard duty, payment pattern of off-takers, imposition of any anti-dumping 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: CMEESPL is now holding assets on its own books through different SPVs and under CMEESPL leading to generation of revenue from sale of power as against the asset-light model being followed earlier. However, during FY19, company reported Total Operating Income of Rs.232.63 crore (as against Rs.333.18 crore in FY18), PBILDT of Rs.122.54 crore (as against Rs. 34.95 crore in FY18) and net loss of Rs.30.64 crore (as against PAT of Rs.3.08 crore in FY18). The moderation in FY19's financial performance was majorly on account of under stabilization phase capacity aggregating 223 MW (commissioned capacity in FY18) along with lower capacity additions during FY19 as envisaged impacting revenue generation as well as profitability.

Company's overall gearing levels increased to 2.04x as on March 31, 2019 (as against 0.87x as on March 31, 2018) owing to increase in debt levels as company drawn debt under various projects getting commissioning in FY18 and FY19.

Also the company has high operating expenses at CMEESPL level and has raised corporate debt at CMEESPL level which is not backed by any operating assets which has resulted in moderation of debt servicing ability of CMEESPL at consolidated levels, though the same is getting partially funded through equity raised in FY20.

Interest rate fluctuation risk: The 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.

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, 2019, CMEESPL hold projects totalling to around 235MW of installed capacity in Karnataka (out of total installed capacity of 357 MW and held on books), 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.

Also, the company is exposed to any change in policies or withdrawal of benefits 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 on account of moderate debt repayment obligations in FY20 on consolidated basis and availability of un-deployed portion of fresh equity raised from UKCI of Rs.54 Cr. Further, the company has sanctioned fund-based working capital limits of Rs. 40.00 Cr which are usable inter-changeably with non-fund based limits. The same is completely unutilised as on Sep, 2019. Company will also have access to surplus generated from operational SPVs. Total debt repayments for FY20 and FY21 at consolidated levels are expected to be around Rs.97.78 crore and Rs.130.46 crore as against expected GCA of Rs.75.67 crore and Rs.169.53 crore respectively (GCAs are net of projected SG&A of Rs. 55.05 crore and Rs. 59.75 crore for FY20 and FY21 respectively, which are proposed to be partly funded through growth capital and partly through revenues at consolidated levels).

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, 2019 are shown in Annexure 4.

Applicable Criteria
[CARE Methodology on Rating Outlook and Credit Watch]
[CARE Policy on Default Recognition]
[CARE Criteria for Infrastructure Sector Ratings]
[Rating Methodology – Private Power Producers]
[Rating Methodology – Solar Power Projects]
[Rating Methodology – Wind power Projects]
[Criteria for Short Term Instruments]
[Financial Ratios - Non Financial Sector]

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 ~156 MW and Ground Mounted of ~355 MW) aggregating to ~511 MW out of which 154 MW has been down sold to investors while remaining 357 MW is on the books of company as on Sep 30, 2019.

Brief Financials – CMEESPL Consolidated (Rs. crore)	FY18 (Audited)*	FY19 (Audited)*
Total operating income	333.18	232.63
PBILDT	34.95	122.54
PAT	3.08	(-30.64)
Overall gearing (times)	0.87	2.04
Interest coverage (times)	1.72	1.06

*As per Ind-As Audited Financials

Brief Financials – CMEESPL Standalone (Rs. crore)	FY18 (Audited)	FY19 (Audited)
Total operating income	1007.22	338.94
PBILDT	81.49	23.53
PAT	46.31	-14.26
Overall gearing (times)	0.22	0.41
Interest coverage (times)	12.26	0.75

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	Date of Issuance	Coupon Rate	Maturity Date	Size of the Issue (Rs. crore)	Rating assigned along with Rating Outlook
Fund-based - LT-Term Loan	-	-	September 30, 2035	164.01	CARE BBB+; Stable
Non-fund-based - ST-Letter of credit	-	-	-	270.00	CARE A2
Non-fund-based - ST-Bank Guarantees	-	-	-	65.00	CARE A2
Debentures-Non Convertible Debentures	February 01, 2018	13.25%	January 31, 2021	60.00	CARE BBB+; 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 2019-2020	Date(s) & Rating(s) assigned in 2018-2019	Date(s) & Rating(s) assigned in 2017-2018	Date(s) & Rating(s) assigned in 2016-2017
1.	Fund-based - LT-Term Loan	LT	164.01	CARE BBB+; Stable	-	1)CARE BBB+; Stable (14-Feb-19)	1)CARE BBB+; Stable (22-Nov-17)	-
2.	Non-fund-based - ST-Letter of credit	ST	270.00	CARE A2	-	1)CARE A2 (14-Feb-19)	1)CARE A2 (22-Nov-17)	-
3.	Non-fund-based - ST-Bank Guarantees	ST	65.00	CARE A2	-	1)CARE A2 (14-Feb-19)	1)CARE A2 (22-Nov-17)	-
4.	Debentures-Non Convertible Debentures	LT	60.00	CARE BBB+; Stable	-	-	-	-

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, 2019

S. No.	Name of company	Shareholding as on March 31, 2019
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 Solar Mena FZCO	100%
30	Clean Max Alpha Lease Co FZCO	100%
31	CleanMax IHQ (Thailand) Co Ltd	100%
32	Sunroof Enviro Solar Energy Systems LLC	49%
33	Clean Max Harsha Solar LLP	50%

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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