

December 24, 2019

## Clean Max Enviro Energy Solutions Pvt. Ltd.: Ratings downgraded to [ICRA]BBB (Stable) / [ICRA]A3+

### Summary of rating action

Instrument	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Non-Convertible Debentures	62.00	62.00	[ICRA]BBB (Stable); downgraded from [ICRA]BBB+ (Stable)
Long-term - Term loans	163.74	162.01	[ICRA]BBB (Stable); downgraded from [ICRA]BBB+ (Stable)
Short-term - Non-fund based	195.00	296.54	[ICRA]A3+; downgraded from [ICRA]A2
Long-term - Proposed	99.81	-	-
<b>Total</b>	<b>520.55</b>	<b>520.55</b>	

*\*Instrument details are provided in Annexure-1*

### Rationale

The rating revision factors the moderation in Clean Max Enviro Energy Solutions Private Limited's (CMES or the company) debt coverage metrics in the current fiscal on a consolidated basis. While the debt coverage indicators for the owned capacity at project subsidiary level have remained adequate in H1FY2020 supported by its satisfactory operating performance, the same is likely to remain subdued at consolidated level given the high selling, general and administrative (SG&A) cost overheads as required in line with nature of C&I business. The rating revision also considers the execution challenges with respect to scaling up of the owned-asset capacity and achieving desired operating performance, thereafter. The solar asset capacity addition in FY2019 remained lower-than-expected in the absence of required equity funding, which along with the subdued operating performance for ground-mounted solar-based subsidiaries in initial stabilization period affected the company's overall financial performance in FY2019. The pace of solar capacity addition has remained modest till October 31,2019, exposing it to project execution risk. The rating also takes note of sizeable debt repayments for the company at standalone level in the near to medium term, pertaining to outstanding NCD, which it intends to service from the available liquidity position. The availability of cash in hand and undrawn debt facilities for the projects already commissioned through equity provides a source of comfort from liquidity perspective.

The rating, however, continues to draw comfort from the company's highly qualified and experienced management team, and its established track record of close to a decade in execution of solar power projects (roof-top and ground mounted) across the country. Till August 30,2019, the company and its SPVs had commissioned a total solar power capacity (owned as well as down-sold) of 534MW, comprising 339 MW of ground mount projects and 195 MW of rooftop projects. The company has also demonstrated its ability to complete the projects in a timely manner. In FY2018, it had undertaken 274 MW of solar mount projects (owned/SPVs: 208 MW, down-sold: 66 MW) in the state of Karnataka for availing the state solar policy benefits in the form of exemption of the transmission charges and losses, wheeling charges and losses, banking charges and cross-subsidy surcharge for the end customer for a period of 10 years. These projects were successfully commissioned before the deadline of March 31,2018, making them eligible for the above-

mentioned benefits. However, the Karnataka State Electricity Commission (KERC) through its order dated May 14, 2018 proposed the withdrawal of such benefits for third party sale-based solar projects. Any unfavorable outcome related to this order, wherein the matter is pending at the Karnataka High Court, remains a key rating sensitivity. While there is a pass-through clause to some extent for regulatory charges under change in law in all PPAs for Karnataka based projects, the extent of the passthrough and subsequent implementation by the off-takers also remains a monitorable. Nonetheless, the rating draws comfort from the demonstrated ability of the company to raise private equity funding, which has supported the company's capacity addition and growth plans in the past. The rating also considers the company's satisfactory track record of providing O&M services for the SPV owned and down-sold projects; the limited technological risk as solar modules are procured from Tier-I suppliers; and the favourable demand outlook for solar rooftop/ground mounted projects for industrial/commercial consumers aided by improved tariff competitiveness of solar energy caused by decline in prices of solar modules against the prevailing grid tariffs.

## Key rating drivers:

### Credit strengths

**Highly qualified and experienced management team** - CMES is promoted by individuals with an established track record in the Indian corporate sector in key management positions. CMES was incorporated in FY2011 by Mr Kuldeep Jain. Prior to forming CMES, Mr. Kuldeep Jain was a global partner at McKinsey & Company, heading its Energy and Corporate Finance practice in India.

**Demonstrated ability of raising equity funding from reputed private equity firms** -Over the last three fiscals, CMES has demonstrated its ability to successfully raise equity (in form of compulsorily convertible preference shares) from reputed private equity firms, for supporting its capacity addition plans. The company received an aggregate equity funding of Rs 455 crore (USD 70 million) from the renowned PE firm, Warburg Pincus through its company Yellow Bell Investments Limited and International Financial Corporation (a sister organisation of the World Bank and a member of the World Bank Group) during FY2018 and FY2019. In April 2019, the company secured USD Rs 271 crore (USD 29.5 million) of equity funding from a third UK-based marquee investor, UK Climate Investments LLP.

**Established track record of timely execution and operations of solar power projects** - CMES is one of leading developers of rooftop and ground mount solar power projects in India, with an established track record of close to a decade. Till August 31, 2019, the company, along with its different SPVs, had commissioned about 534 MW of solar power capacity (owned as well as down-sold) of which 339 MW was ground-mount capacity and 195 MW was rooftop capacity. The company has also demonstrated timely execution of projects, as evidenced from successful completion of 274 MW solar ground mount projects undertaken during FY2018 in Karnataka (owned/SPVs: 208 MW, down-sold: 66 MW), within the required timeline of March 31, 2018, in order to be eligible for the state solar policy benefits in form of exemption of the transmission charges and losses, wheeling charges and losses, banking charges and cross-subsidy surcharge for the end customer for a period of 10 years. The PLF performance of the operational portfolio has remained satisfactory, in turn resulting into adequate debt coverage metrics at the project subsidiaries level.

**Limited technological risk as solar modules are procured from Tier-I suppliers** - The company procures the modules required for the solar energy projects from Tier-I suppliers such as JA Solar, and Chint Solar. The projects also have a warranty cover for a period of 25 years on the performance of PV modules from suppliers as well as a third-party

insurance cover to mitigate the risk of warranty not being honoured by OEMs. However, the extent to which the warranty and the insurance term are honoured remains to be seen in the long run.

**Favourable demand prospects for solar energy given the improved tariff competitiveness for industrial customers -**

The demand outlook for solar energy remains favourable, given the improved tariff competitiveness for industrial customers caused by declining solar module price levels and prevailing high grid tariffs.

## Credit challenges

**Sizeable capacity addition plans in current and next fiscal, though pace of execution has remained modest so far -** The company, at a consolidated level, plans to add 208.5 MW capacity in FY2020 and 113.9 MW in FY2021 with the current equity in hand. Of the total expected capacity of 208.5 MW in FY2020, 168.5 MW would be owned capacity and 40 MW would be sell-down capacity. The pace of execution has remained modest in the current fiscal, having installed 49 MW of owned capacity and 4 MW sell-down capacity till November 30,2019. While the company has made advanced progress for execution of 112 MW of incremental capacity with respect to PPA tie-up and discussions for further 130 MW capacity are under progress, timely achievement of financial closure, execution of such capacity and subsequent operational performance remains a key monitorable.

**Modest debt coverage and return indicators on consolidated basis –** The significant increase in debt level from FY2018 onwards has impacted the debt coverage indicators at the consolidated level, though the project debt coverage indicators for owned capacity at subsidiary level remained adequate, aided by satisfactory operating performance. The company's consolidated debt level has remained elevated at Rs 1206.42 crore as on September 30,2019, increased from Rs 1053.57 crore as on March 31,2019 and Rs 354.74 crore as on March 31,2018. Subsequently, the Total Debt / OPBIDTA also remained high at 8.03 times as on September 30,2019, 8.60 times as on March 31,2019 and 9.74 times as on March 31,2018. The elevated Total Debt/OPBIDTA levels as on year end are primarily due to skewed nature of capacity addition in second half of the fiscal given which the most part of debt for the projects gets added on the books by fiscal end while the optimized EBIDTA is achieved later, after project stabilisation. The return indicators at consolidated levels have remained muted at ~6.5% during the last two and a half fiscals. Going forward, timely commissioning of planned capacities and achievement of desired operating parameters will remain important for notable improvement in the debt coverage and return indicators.

**Weak financial performance in FY2019 –** In FY2019, the company was expected to add about 220 MW of total solar capacity (120 MW Rooftop and 100 MW Ground mount). However, only 60MW capacity was added as the equity funding which was anticipated for the projects could not be tied up in time. At the consolidated level, revenues were impacted in FY2019 due to stabilisation issues faced during the initial 6-9 months of operations of the ~208-MW Karnataka-based capacity, which got commissioned in March 2018. At the net level, the company reported a net loss of Rs 29.33 crore against PAT of Rs 5.22 crore in FY2018, due to sharp increase in depreciation and interest charges. The company's interest coverage ratio was also impacted significantly, declining to 1.06 times as on March 31,2019 from 1.75 times as on previous fiscal end. The interest coverage after effective interest rate adjustment as per IND AS 109 stood marginally better at 1.12 times for FY2019.

**Sizeable debt repayments at standalone and consolidated levels-** As on September 30,2019, the consolidated long-term debt of the company stood at Rs 1206.42 crore<sup>1</sup>, translating into a Debt to Equity ratio of 1.52 times. The same is expected to go up with draw down of complete debt funding required for setting up the planned capacities. The debt repayments at a consolidated level are sizeable at Rs 94.10 crore in FY2020, Rs 130.46 crore in FY2021, primarily at project level. Similarly, at a standalone level also, the debt repayments are sizeable at Rs 41.27 crore in FY2020 and Rs 42.32 crore in FY2021 (inclusive of Rs 37.50 crore balance repayments of NCD which is a non-project debt, which the company intends to service from the available liquidity position)

**Uncertainty with regards to tariff competitiveness of Karnataka-based projects** - Tariff competitiveness of the company's Karnataka-based projects remain exposed to risk of any unfavourable outcome related to the Karnataka Electricity Regulatory Commission's (KERC) order dated May 14, 2018, regarding the withdrawal of benefit with respect to exemption of open access charges for third party sale-based solar projects as per the earlier state solar policy. The competitiveness of tariff rates offered to the off takers of the project SPVs depends on the State Solar Policy, which ensured exemption of the transmission charges and losses, wheeling charges and losses, banking charges and cross-subsidy surcharge for the end customer for a period of 10 years for the projects commissioned by March 31, 2018. While there is a pass-through clause to some extent for regulatory charges under change in law in all PPAs for Karnataka based projects, the extent of the passthrough and subsequent implementation by the off-takers also remains a monitorable.

### Liquidity position: Adequate

As on September 30,2019, on consolidated basis, the company's liquidity remained adequate as reflected by free/unencumbered cash balance of Rs 58.67 crore and undrawn term loan limits of Rs 117.99 crore from the completed projects. The same will be utilised for meeting the equity requirement of the planned capacity addition. The company's encumbered cash stood at Rs 132.92 crore of which Rs 80.40 crore was DSRA balance maintained against term loan facilities, Rs 27.9 crore was maintained in escrow and TRA accounts and Rs 24.63 crore was margin money maintained against non-fund based limits. As on September 30,2019, the consolidated long-term debt of the company stood at Rs 1206.42 crore. The company will also be raising the balance debt requirement for funding the projects in FY2020 and FY2021. The company's total equity requirement for future projects and debt repayments over the medium term are sizeable. Any significant delay in commencement of projects or lower-than-expected performance of commissioned capacity may create cash flow mismatches and impact the liquidity, especially at the standalone level, which has relatively higher selling, general and administrative overheads. However, presence of reputed private equity investors and track record of raising equity capital provides a comfort.

### Rating Sensitivities:

**Positive triggers** – Improvement in liquidity position on the back of infusion of sizeable equity; refinancing of debt at favourable terms; timely addition of capacity as expected; and sustained operating performance of owned solar assets will be key positive triggers for the rating.

**Negative triggers**– Lower-than-expected capacity addition and lower PLF levels compared to base case estimates (P-90) for owned projects, impacting the accruals and liquidity position would be key negative triggers. Moreover, any

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<sup>1</sup> As per management, this includes Rs 94 crore disbursement received for a refinanced portion of loan which was subsequently used for paying off the outstanding debt of the previous lender

unfavourable regulatory development in Karnataka-based solar projects that affect the tariff competitiveness and economics may also result in a rating downgrade.

### Analytical approach:

Analytical Approach	Comments
Applicable Rating Methodologies	<a href="#">Corporate Credit Rating Methodology</a>
Parent/Group Support	Not applicable
Consolidation / Standalone	For arriving at the rating, ICRA has considered the consolidated financials of CMES. The list of entities considered for consolidation are listed in Annexure-2

### About the company:

CMES was incorporated in September 2010 by Mr. Kuldeep Jain. Prior to forming CMES, Mr. Jain was a global partner at McKinsey & Company, heading its Energy and Corporate Finance unit in India. CMES is involved in the development of onsite/rooftop solar power projects for industrial customers. Key customers of the company include some of the reputed Indian companies, MNCs and leading university and institutes including Tata Communications Ltd, Tata Motors Ltd, Tata Reality & Infrastructure, NBC Group, Gabriel India Ltd., SKF, HCL, Manipal Group, Tata Coffee, GE, Pune University, and Institute of Public Enterprises. The company has set up solar power plants in key industrial clusters of the country including Pune, Delhi, Chennai, Bangalore, Hyderabad, Jaipur, Ahmedabad, Baroda, Hyderabad, Hosur etc. It has offices in five locations viz. Mumbai, Delhi, Pune, Bangalore and Chennai.

In FY2019, the company on a consolidated basis, reported a net loss of Rs 29.33 crore on an operating income (OI) of Rs 228.55 crore, compared to a PAT of Rs 5.22 crore on an OI of Rs 332.56 crore in FY2018. Further, as per the provisional financials for H1FY2020, the company reported a net loss of Rs 7.60 crore on an OI of Rs 141.10 crore.

In FY2019, the company on a standalone basis, reported a net loss of Rs 14.26 crore on an operating income (OI) of Rs 329.53 crore, compared to a PAT of Rs 46.31 crore on an OI of Rs 1007.13 crore in FY2018. Further, as per the provisional financials for H1FY2020, the company reported a PAT of Rs 2.86 crore on an OI of Rs 248.53 crore

### Key financial indicators (Consolidated)

	FY2017 (Audited)	FY2018 (Audited)	FY2019 (Audited)	H1FY2020 (Provisional)
Operating Income (Rs. crore)	260.88	332.56	228.55	141.10
PAT (Rs. crore)	9.33	5.22	-29.33	-7.60
OPBDIT/OI (%)	9.27%	10.96%	53.63%	53.21%
RoCE (%)	3.58%	1.57%	-12.84%	-5.38%
Total Debt/TNW (times)	0.35	0.86	1.99	1.52
Total Debt/OPBDIT (times)	1.43	9.74	8.60	8.03
Interest Coverage (times)	12.65	1.75	1.06	1.06

### Key financial indicators (Standalone)

	FY2017 (Audited)	FY2018 (Audited)	FY2019 (Audited)	H1FY2020 (Provisional)
Operating Income (Rs. crore)	291.54	1007.13	332.99	248.53
PAT (Rs. crore)	34.12	46.31	-14.26	2.86
OPBDIT/OI (%)	15.83%	8.20%	7.40%	6.39%
RoCE (%)	84.68%	25.40%	2.05%	3.92%
Total Debt/TNW (times)	0.00	0.22	0.41	0.23
Total Debt/OPBDIT (times)	0.00	1.17	9.55	6.06
Interest Coverage (times)	25.73	11.63	0.79	1.07

### Status of non-cooperation with previous CRA: Not applicable

### Any other information: None

### Rating history for last three years

S N	Instrument	Current Rating (FY2020)			Chronology of Rating History for the past 3 years					
		Type	Amount Rated (Rs crore)	Amount Outstandi ng (Rs crore)*	24-Dec- 19	FY2019	FY2018		FY2017	
						19-Nov- 18	4-May- 18	8-Mar- 18	12-Jan- 18	22-Nov- 16
1	NCD	Long term	62.00	37.50	[ICRA]B BB (Stable)	[ICRA]BB B+ (Stable)	[ICRA]BB B+ (Stable)	[ICRA]BB B+ (Stable)	-	-
2	Term loans	Long term	162.01	162.01	[ICRA]B BB (Stable)	[ICRA]BB B+ (Stable)	[ICRA]BB B+ (Stable)	[ICRA]BB B+ (Stable)	[ICRA]BB B+ (Stable)	[ICRA]B BB (Stable)
3	Non-fund based	Short term	296.54	-	[ICRA]A 3+	[ICRA]A2	[ICRA]A2	[ICRA]A2	[ICRA]A2	[ICRA]A 3+
4	Proposed	Long term	-	-	-	[ICRA]BB B+ (Stable)	[ICRA]BB B+ (Stable)	[ICRA]BB B+ (Stable)	-	-

\* As on October 31,2019

### Complexity level of the rated instrument:

ICRA has classified various instruments based on their complexity as "Simple", "Complex" and "Highly Complex". The classification of instruments according to their complexity levels is available on the website [www.icra.in](http://www.icra.in)

### Annexure-1: Instrument Details

ISIN No	Instrument Name	Date of Issuance / Sanction	Coupon Rate	Maturity Date	Amount Rated (Rs. Crore)	Current Rating and Outlook
-	Term loan	FY 2018	-	FY 2033	12.37	[ICRA]BBB (Stable)
-	Term loan	FY 2018	-	FY 2031	116.90	[ICRA]BBB (Stable)
-	Term loan	FY 2019	-	FY 2033	17.24	[ICRA]BBB (Stable)
-	Term loan	FY 2020	-	FY 2035	12.80	[ICRA]BBB (Stable)
-	Term loan	FY 2020	-	FY 2035	2.70	[ICRA]BBB (Stable)
-	Non-fund based limits	-	-	-	296.54	[ICRA]A3+
INE647U07015	NCD	01-Feb-18	13.5%	FY 2021	62.00	[ICRA]BBB (Stable)

Source: CMES

## Annexure-2: List of entities considered for consolidated analysis:

Company Name	Ownership	Consolidation Approach
<b>Subsidiaries</b>		
Cleanmax Cogen Solutions Private Limited	100%	Full consolidation
Cleanmax Energy Ventures Private Limited	100%	Full consolidation
Cleanmax Power Projects Private Limited	100%	Full consolidation
KAS Onsite Power Solutions Private Limited	73%	Full consolidation
Clean Max IPP1 Private Limited	100%	Full consolidation
Cleanmax Solar Mena FZCO	100%	Full consolidation
Clean Max IPP2 Private Limited	100%	Full consolidation
Clean Max Photovoltaic Private Limited	100%	Full consolidation
Clean Max Mercury Power Private Limited	100%	Full consolidation
Clean Max Jupiter Private Limited	100%	Full consolidation
CMES Power 1 Private Limited	100%	Full consolidation
KPJ Renewable Power Projects LLP	100%	Full consolidation
CMES Power 2 Private Limited	100%	Full consolidation
CMES Infinity Private Limited	100%	Full consolidation
Clean Max Pluto Solar Power LLP	74%	Full consolidation
Clean Max Deneb Power LLP	74%	Full consolidation
Clean Max Vega Power LLP	100%	Full consolidation
Chitradurga Renewable Energy India Private Limited	100%	Full consolidation
Clean Max Auriga Power LLP	100%	Full consolidation
Clean Max Orion Power LLP	100%	Full consolidation
Clean Max Regulus Power LLP	100%	Full consolidation
Clean Max Scorpius Power LLP	100%	Full consolidation
Clean Max Suryamukhi LLP	50%	Full consolidation
Clean Max Venus Power LLP	50%	Full consolidation
CMES Animo Private Limited	100%	Full consolidation
CMES Rhea Private Limited	100%	Full consolidation
CMES Saturn Private Limited	100%	Full consolidation
CMES Universe Private Limited	100%	Full consolidation
CMES Urja Private Limited	100%	Full consolidation
Clean Max Fusion Power LLP	100%	Full consolidation
Clean Max Solstice Power LLP	100%	Full consolidation
<b>Joint Ventures</b>		
Clean Max Harsha Solar LLP	50%	Equity method

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