Clean Max IPP1 Private Limited

February 12, 2018

Summary of rated instruments

Instrument*	Current Rated Amount(Rs. crore)	Rating Action
Fund based - Term Loan	62.71	[ICRA]BBB- (Stable); Assigned
Unallocated Limit	0.76	[ICRA]BBB- (Stable); Assigned
Total	**63.47**	

Rating action:

ICRA has assigned the long-term rating of [ICRA]BBB- (pronounced ICRA triple B minus) to the Rs. 62.71-crore term loans and Rs. 0.76-crore unallocated limits of Clean Max IPP1 Private Limited (CMIPP1). The outlook on the rating is Stable.

Rationale:

The assigned rating takes in to account the execution track record in onsite/rooftop solar power projects as well as experienced and qualified promoters and management team of the parent company, Clean Max Enviro Energy Solutions Private Limited (CMES). The rating further takes into account the long-term power purchase agreements (PPA) signed for the roof-top mounted solar capacity with the counterparties (or offtakers) in the institutional, industrial and commercial segment at a competitive tariff rate. Further, tariff rates contracted with the offtakers in PPAs are at a discount to their respective grid tariff rates as determined by various state electricity regulatory bodies. Further, the ballooning debt-repayment schedule with a longer maturity profile and provision of Debt Service Reserve Account (DSRA) for 2 quarters of debt servicing provides a comfort from the credit perspective.

The rating, however, is constrained by the project-implementation risks as the company has only commissioned 7.17-MW capacity out of total planned capacity of 17.77-MW, with the remaining capacity expected to be commissioned by September 2018. The rating is further constrained by high leveraging level for funding of the solar project also given the capital intensity involved. In addition, any immediate imposition of anti-dumping duty/customs duty on PV modules during the construction period can lead to a risk of project cost overrun to a certain extent. Nonetheless, the committed capital from the private equity investors in the parent company provides a comfort against the significant cost over-run due to levy of such duty if any. The rating is further constrained by the company's exposure to the risk of variability in solar generation as well as interest-rate risk owing to the single-part nature of tariffs.

The ratings draw comfort from the fact that the company has taken a warranty cover on the performance of PV modules from OEM suppliers as well as a third-party insurance cover to mitigate the risk of warranty not being honoured by OEM suppliers. However, the extent to which the warranty and the insurance term are honoured remains to be seen in the long run. Further, the ability of the company to ensure the minimum performance ratio as per the terms of PPA remains important from the credit perspective.

Outlook: Stable

The outlook may be revised to Positive if CMIPP1 commissions all the underlying roof top solar projects within the required timeline. The outlook may be revised to Negative in case the projects experience any cost overrun due to delayed commissioning and/or any adverse regulatory changes.

Key rating drivers

Credit strengths

Highly qualified and professional management team – CMIPP1 is a subsidiary of CMES, which is promoted by individuals with an established track record in the Indian corporate sector in key management positions. CMES was incorporated in 2011 by Mr. Kuldeep Jain. Prior to forming CMES, Mr. Kuldeep Jain was a global partner at McKinsey & Company, heading its Energy & Corporate Finance practice in India.

Healthy revenue visibility with firm long term PPAs with strong counterparties – The entire 17.78-MW capacity of the solar SPV has been tied-up with 44 customers through long-term PPAs. The company has a reputed as well as a diversified customer profile, which limits the counterparty risk to some extent.

Competitive tariff rate with a discount to grid tariff – The weighted average tariff rate in PPAs contracted by the company stands at ~Rs. 4.9/unit, which is at a significant discount to respective to grid tariff rates thus mitigating the offtake risk to a certain extent.

Limited technological risk as solar modules are procured from reputed suppliers – Multi-crystalline modules used for the project are being procured domestically from Vikram Solar & Renesas (for projects that fall under domestic content requirement category) and imported from china based Trina solar which is Tier-1 supplier of PV modules. Apart from that, the company has taken 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.

Credit challenges

Project-execution risk – The project remains exposed to execution risk as the company has commissioned only 7.17 MW out of total 17.77 MW capacity as on date and the balance capacity is expected to be commissioned by September 2018. Nevertheless, demonstrated ability of the parent company to execute solar projects within the budgeted timelines provides a comfort.

High leveraging level and exposure to interest rate risk - The project is being developed with a debt-to-equity ratio of 70:30**.** The total project cost is expected to be ~Rs. 88.71 crore which will be funded through debt of ~Rs. 62.09 crore and the rest from promoter contribution. The loan facility has a 15-year door-to-door tenure, with a ballooning debt repayment schedule and DSRA provision for 2 quarter of debt servicing. The loan repayment will commence from September 2018.

Risk of cost escalation due to possible regulatory changes; equity commitment from investors offers respite – Regulatory changes such as any immediate implementation of anti-dumping duty/import duty can lead to risk of cost overrun and affect the economies of the project. Nonetheless, availability of committed capital in the parent company from the private equity investors should mitigate near-term project funding risks to large extent in case of any cost escalation.

Variance in cash flows due to variation in solar irradiance – The key factors that may impact the operations of the solar plant are solar radiation levels, losses in PV systems due to temperature and climatic conditions, design parameters of the plant, inverter efficiency and module degradation due to aging. However, the variance in solar irradiance levels has historically been much lower than the variation in other sources of renewable energy such as wind and hydro-power projects.

Analytical approach: For arriving at the ratings, ICRA has applied its rating methodologies as indicated below.

Links to applicable criteria:

[Corporate Credit Rating Methodology]

[Rating Methodology for Solar Power Producers]

About the company:

CMIPP1 is a wholly-owned subsidiary of CMES. It was incorporated in August 2017 to setup 44 independent roof top solar power projects totalling to a capacity of 17.77 MW across India. The company is expected to commission all underlying roof top projects by September 2018. EPC services have been provided by the parent company CMES and O&M work will be carried out by Clean Max Cogen Solutions Private Limited (another subsidiary of CMES). CMES was incorporated in 2011 by Mr. Kuldeep Jain. Prior to forming CMES, Mr. Kuldeep Jain was a global partner at McKinsey & Company, heading its Energy & Corporate Finance practice in India. CMES is involved in the development of onsite/rooftop solar power projects for industrial, commercial and institutional customers. The company has offices in five locations – Mumbai, Delhi, Pune, Bangalore and Chennai. In FY2018, CMES has received investments to the tune of US$ 70 million from the renowned PE firm Warburg Pincus and US$ 15 million from International Finance Corporation (IFC).

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

Rating history for last three years:

		Current Rating (FY2018)				Chronology of Rating History for the past 3 years		
	Instrument	Type	Amount Rated (Rs. crore)	Amount Outstanding (Rs. crore)	Date & Rating February 2018	Date & Rating in FY2017	Date & Rating in FY2016	Date & Rating in FY2015
						-	-	-
1	Term Loans	Long Term	62.71	**62.71**	**[ICRA]BBB- (Stable)**	-	-	-
2	Unallocated Limit	Long Term	0.76	**0.76**	**[ICRA]BBB- (Stable)**	-	-	-

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

Annexure-1: Instrument Details

ISIN No	Instrument Name	Date of Issuance / Sanction	Coupon Rate	Maturity Date	Amount Rated (Rs. crore)	Current Rating and Outlook
NA	Term Loan	May- 2017	-	March-2032	62.71	[ICRA]BBB- (Stable)
NA	Unallocated limit	-	-	-	0.76	[ICRA]BBB- (Stable)

Source: Clean Max IPP1 Private LimitedANALYST CONTACTS

ANALYSTS CONTACT

Sabyasachi Majumdar
+91 124 4545 304
sabyasachi@icraindia.com

Girishkumar Kadam
+91 22 6114 3441
girishkumar@icraindia.com

Aditya Jhaver
+91 22 6169 3379
aditya.jhaver@icraindia.com

Sourabh Kannoje
+91 22 6169 3349
sourabh.kannoje@icraindia.com

RELATIONSHIP CONTACT

Jayanta Chatterjee
+91 80 4332 6401
jayantac@icraindia.com

MEDIA AND PUBLIC RELATIONS CONTACT

Ms. Naznin Prodhani
Tel: +91 124 4545 860
naznin.prodhani@icraindia.com

Helpline for business queries:

+91-124-2866928 (open Monday to Friday, from 9:30 am to 6 pm)

info@icraindia.com

About ICRA Limited:

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ICRA Limited

Corporate Office
Building No. 8, 2nd Floor, Tower A; DLF Cyber City, Phase II; Gurgaon 122 002
Tel: +91 124 4545300
Email: info@icraindia.com
Website: www.icra.in

Registered Office
1105, Kailash Building, 11th Floor; 26 Kasturba Gandhi Marg; New Delhi 110001
Tel: +91 11 23357940-50

Branches

Mumbai	+ (91 22) 24331046/53/62/74/86/87
Chennai	+ (91 44) 2434 0043/9659/8080, 2433 0724/ 3293/3294,
Kolkata	+ (91 33) 2287 8839 /2287 6617/ 2283 1411/ 2280 0008,
Bangalore	+ (91 80) 2559 7401/4049
Ahmedabad	+ (91 79) 2658 4924/5049/2008
Hyderabad	+ (91 40) 2373 5061/7251
Pune	+ (91 20) 6606 9999