INFRASTRUCTURE.

Warburg-backed CleanMax's founder on growth plan, policy woes and more

By
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Earlier this year, CleanMax Enviro Energy Solutions Pvt. Ltd raised Rs 275 crore from UK Climate Investments LLP to expand its renewable energy portfolio. The British investor joins private equity firm Warburg Pincus and International Finance Corporation in backing the company, which operates under the CleanMax Solar brand. The company could look at raising up to $150 million more over the next three to four years to grow its portfolio four-fold, says CleanMax founder and managing director Kuldeep Jain.

This planned expansion comes at a time when the solar power industry in India is battling a declining tariff regime and policy uncertainty, with several state governments looking to renegotiate long-term supply agreements. In an interaction with VCCircle, Jain talks about his company's plans and how the prevailing scenario in the renewable energy sector could impact them. Edited excerpts:

You have a portfolio of 530 MW. What are your plans? It has been said in the past that you were looking to quadruple your portfolio?

That's broadly right. We are adding new assets at the rate of 300 MW per year. So, we anticipate that in four years our capacity will grow further. Initially, we were only in India but now we have expanded our footprints in the MENA (Middle East and North Africa) region through our Dubai office, and also Southeast Asia where our office is based in Thailand. So, we are well on track to quadruple our asset base in the next four years.

Are you looking for fresh capital infusion? Are any of your investors like Warburg Pincus or IFC likely to invest more money? And, how much investment you expect in four years?

We raised around Rs 275 crore in May 2019 from the Macquarie-managed UK Climate Investments. I expect to have more funding rounds in the next four years that will help us grow further and achieve the target.

As far as investment figures are concerned, we would need around $150 million further equity capital over the next three to four years. It could come from multiple funding rounds, or angel investors or may be from a single funding round considering the market conditions. However, I feel investment may likely come from multiple rounds.

In 2017-18, CleanMax reported a net loss of about Rs 24 crore as deferred tax liability rose from Rs 16 crore to Rs 30 crore. What explains that?

The good news is that we have grown tremendously. In about four years, we grew from revenue of Rs 60 crore to about Rs 1,000 crore. Although our [cash] profit remains positive, we saw a massive depreciation as we had commissioned a lot of assets around March 2018. This is a non-cash expense item without the corresponding power generation income.

We also had a consideration challenge in terms of high tax accumulation across the business. Therefore, it had a negative PAT impact but on a cash basis, it is positive.

So, are you likely to turn a net profit?

I think it will be negative for one year. But it will become positive once the asset stabilizes.

Several companies, especially in the engineering and construction segment, are looking to turn into independent power producers (IPPs). Are you also looking for such a transition?

We are an IPP, although we are a C&I (corporate and industry) focussed player. We are sustainability partners to private users. Most of the volumes we do is on our balance sheet, selling energy to corporate houses.

There is some volume also where we are putting up a solar park, and if some company wants to buy an asset in that park, it can do that. There is a thin sliver of 20-25% of EPC volumes, coupled with some O&Ms (operation and maintenance).
We like this hybrid nature. But we are largely an enterprise which sells energy to corporate clients.

Is it true that states like Andhra Pradesh (and others) looking to renege on contracts impacted investor sentiment? Has CleanMax been impacted?

As a business principle, we are energy sellers to private users. This completely comes under the corporate segment. Our average receivables are under 15 days. But broadly yes, any reneging of contracts in the energy industry puts a negative impact on investor confidence.

We have to remember that, as a nation, if our aspiration is another 200 GW of renewables over the next few years, we would need substantial international debt and equity capital.

But in general, has this impacted the net working capital of companies?

For us, it has not. As I mentioned our receivables days are under 15. However, if people aren't getting paid for eight to 10 months in the utility sector, as has been reported, then it does impact the working capital. Debt covenants require interest payments every month and if you don't get paid for 10 months, obviously that is a concern.

How significant is the issue of non-payments of subsidies by states and reneging on net metering policies and contracts?

Policy is certainly very vital to boost growth in any industry. Distributed generation in the form of rooftop solar is pertinent to not just incremental jobs and power generation, but also to stable grids and decentralised power generation to achieve lower losses.

Therefore, discoms or regulators would do well to recommend policy benefits for a certain duration. There should be a principle, which is followed globally, that adverse policy is not applicable retrospectively. So, they are welcome to change policy from time to time, but it should not affect plants that are already in operation at that point.

It is being reported that tariff pressures and compressed margins could prompt some smaller companies in the rooftop segment to go under or sell out. Is such a wave of consolidation imminent and are you likely to be acquire assets if the valuations are right?

Our rooftop business segment is growing around 20% on a year-on-year basis and we remain the largest rooftop IPP in India. We are always open to inorganic growth and evaluate small acquisitions.
That said, we have been the market leader for long and enjoy the benefit of a robust pipeline of growth plans. We, therefore, apply the same yardstick of return expectation to acquisition opportunities.

Are you looking at any exit options? Are you likely to hive off some assets into an Infrastructure Investment Trust (InvIT) or consider being bought over by a bigger company?

As things stand, we are well capitalised and deeply excited about future growth prospects. The market which we have shaped is growing by leaps and bounds. Corporate consumers today save up to 30% of their electricity costs by adopting green technologies like solar and wind. So as of now, there are no plans to divest.

In general, do you think InvITs are likely to become a favored route for exits in the renewables sector in India?

That definitely seems to be the popular opinion and I would resonate with it. It would represent a transfer to retail investors of stable assets. That should represent the lowest cost of funding available and would be a good route for developers to churn the asset portfolio that they have.

Last year, there had been a lot of consternation on safeguard duties on imports of solar equipment, which has since come down from 25% to 20% and will go down to 15%. Are those concerns still relevant?

After much deliberation, in 2018, the government laid out measures for the imposition and continuance of safeguard duties. In general, it would be a good idea for the government to follow the guide path it had previously indicated. Frequent changes in policy, including taxation, does not allow the industry adequate time to plan and react.
So, if the government does wants high continuous growth in renewables, it will be best to continue with policy certainty.

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International Finance Corporation
CleanMax Solar
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UK Climate Investments LLP

renewable energy

solar energy

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