

Khani Khola Hydropower Company Limited: Issuer rating of [ICRANP-IR] B assigned; bank loan ratings reaffirmed

December 18, 2023

Summary of rating action

Instrument* (Amount in NPR million)	Previous Rated Amount	Current Rated Amount	Rating Action
Issuer Rating	NA	NA	[ICRANP-IR] B; assigned
Long-term loans	824.55	785.86	[ICRANP] LB; reaffirmed
Short-term loans	60.00	60.00	[ICRANP] A4; reaffirmed
Total	884.55	845.86	

* Instrument details are provided in [Annexure-1](#)

Rating action

ICRA Nepal has assigned an issuer rating of [ICRANP-IR] B (pronounced ICRA NP Issuer rating B) to Khani Khola Hydropower Company Limited (KKHC or the company). Issuers with this rating are considered to have a high risk of default regarding timely servicing of financial obligations. The rating is only an opinion on the general creditworthiness of the rated entity and not specific to any debt instrument.

ICRA Nepal has also reaffirmed the bank loan ratings of KKHC at long-term loan rating of [ICRANP] LB (pronounced ICRA NP L B) and a short-term loan rating of [ICRANP] A4 (pronounced ICRA NP A Four) respectively.

Rationale

The ratings remain constrained by the subdued operating performance (combined average generation of ~71% of contracted energy in FY2023 Vs. 77% during the last rating) of the company's two operational hydroelectric projects¹, on account of weak hydrology of the source rivers (Tungun river and Thosne river). This has resulted in negative profitability in FY2023 (y-o-y accumulated losses increased by 14% to NPR 65 million in FY2023) which led to a weak debt coverage indicator necessitating advances from the promoters to support the same. Going forward, the projects' ability to improve the generation would remain crucial in determining its future revenue metrics amid its fully escalated tariff rates (fully escalated on FY2022). In lack of the same, the continued support from the promoters would also remain a key rating monitorable given the lack of reserves and on-balance sheet liquidity; until the company is able to build some cash cushion. Hydrological risks also remain high, given the lack of deemed generation clause in the power purchase agreement (PPA) and the fact that both of KKHC's operational projects derive hydrology from the same sources that has a trend of fluctuating hydrology. The rating actions also take note of operational disturbances that can occur out of natural calamities and/or interest rate volatility in the market which can impact its liquidity and debt coverage metrics.

Nonetheless, the ratings factor in the financial strength of the company's promoters which have extended support to the company to meet its debt servicing over the years. Similarly, the rating also continues to factor the low tariff and offtake risks amid the already signed PPA with the Nepal Electricity Authority (NEA; rated at [ICRANP-IR] AA+)

¹ 4.36-MW Tungun-Thosne HEP became operational in October 2016 and its cascade 2-MW Khanikhola HEP was operational from December 2016

under-take or pay modality. The company has been evacuating its power under a contingent evacuation plan² (under a take or pay modality) since its grid indicated evacuation structures are yet to be fully completed.

Going forward, the ability of the company to continue to operate both its plants as per the designed operating parameters; continuous promoter's support at times of need and its ability to successfully issue the proposed 1:1 rights and use its proceeds to deleverage the company as planned would remain the key rating sensitivities.

Key rating drivers

Credit strengths

Strong and experienced institutional promoters – KKHC is mainly promoted by institutions and individuals affiliated to the Pashupati Energy Development Co. (PEDC) Group. PEDC is led by Mr. Bijayman Sherchan who is also the chairman of KKHC. Mr. Sherchan has experiences in the hydropower sector. The promoters have supported KKHC by extending interest free loans over the years, which has supported the company's liquidity and aided the timely debt servicing despite having a subdued financial profile. ICRA Nepal expects similar level of promoter support to the company in case of exigencies.

Low tariff risk and off-take risk amid already signed PPA for entire capacity – The offtake risks remain low for the projects as they have a 30-year PPA with the NEA (the sole purchaser and distributor of electricity in Nepal) on a take-or-pay basis. Also, the predetermined tariff with five escalations lowers the tariff risks for the projects (fully escalated by the end of FY2022). Both projects were eligible for all the five tariff escalations as provided in the PPAs. Though the company has been evacuating its power under a contingent evacuation plan, the same arrangement under a take or pay modality remains a comfort.

Credit challenges

Low generational performances – The company's both the projects are run-of the river types which majorly depend on the monsoon for their operational performances. Thus, the timing/extent of monsoon will have a major impact on their operational performances. The company achieved ~74% of the contracted energy from 4.36 MW Tungun Thosen HPP and 64% of the contracted energy from 2MW Khani Khola HPP (combinedly ~71% of the total contracted energy) in FY2023 Vs. combined generation of 77% in FY2022. Going forward, the projects' ability to improve the generation would remain critical in determining the future revenue metrics and remains crucial for the company's financial position.

Weak financial profile – KKHC's financial profile depleted over the years (*accumulated losses of ~NPR 65 million as of mid-July 2023*) with sizeable Y-o-Y losses on account of lost revenues (NPR 410 million contested with NEA) amid the lack of required evacuation structure. Recovering the same would remain a major challenge given the fluctuating generational performances of the projects on account of weak hydrology. Given the weak revenues, KKHC's internal cash accruals have remained inadequate to serve its debt obligations necessitating promoter advances to support the same. Going forward, its generational output, its plans to issue rights and utilize for loan repayments along with the company's ability to control the operating costs would have a bearing over its debt-servicing capacity. KKHC's track record in debt servicing and augmenting its liquidity profile would be crucial from a rating perspective.

² Amid non-completion of the requisite 33kVA Malta-Matatirtha transmission line by the NEA, the company was forced to evacuate its power through the alternative arrangement of 11 kVA local feeders at reduced capacity; post March 2020, being evacuated through a contingent plan by using the transmission line of Mandu Hydropower Limited ([ICRANP-IR] BBB- towards Kulekhani-I Hydropower project of NEA. f

Hydrology risks– The lack of a deemed generation clause in the PPAs exposes the company to hydrological risks in case of adverse river flow scenarios without receiving any compensation for such losses. The risk is further accentuated by the fact that both the operational projects lie in the same river. Since these are relatively low discharge projects, a slight fall in hydrology could impact the energy generation considerably and create pressure on the debt coverage metrics.

Link to the previous rating rationale

[Rationale Khani Khola Hydropower Limited BLR Surveillance June 2022](#)

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

Links to applicable criteria:

[Issuer Rating Methodology](#)

[Corporate Credit Rating Methodology](#)

About the company

Incorporated on October 3, 2012, as a private limited company, KKHC was converted into public limited company on March 27, 2013, to facilitate public participation. As of mid-October 2023, paid up capital of KKHC stood at ~NPR 466 million. As on same date, major promoters include Pashupati Energy Dev. Co. P. Ltd. (~29%) and Baidik Hydro Investment Co. (P) Ltd. (~11%). KKHC had raised 30% of post IPO equity from public and was listed in Nepal Stock Exchange (NEPSE) on January 11, 2017.

KKHC has two operational hydropower projects viz. 4.36 Mw Tungun-Thosne Hydropower Project (TTHP) and 2 MW cascade Khanikhola Hydropower project (KKHP) in Bhattedanda, Sankhu and Ikudol VDCs of Lalitpur district, Bagmati Province of Nepal. The project came into commercial operation from 25th October 2016 (4.63 MW) and 5th December 2016 (2MW) and was developed at a total cost of NPR 1,223 million (~NPR 192 million per MW), which was funded in debt equity ratio of ~64:36. For FY23, the 4.36Mw project “TTHP” achieved ~75% of the contracted energy while its 2MW KKHP achieved 67%; combinedly achieved ~71% of the total contracted energy for both projects.

Key Financial Indicators

Particulars (Rs. Million)	Audited			
	FY2020	FY2021	FY2022	FY2023
Operating Income (OI)	50.87	99.90	152.55	140.86
OPBDITA/OI (%)	25.42%	63.14%	80.40%	85.14%
Total Debt/Tangible Net Worth (TNW; times)	(9.78)	2.45	2.33	2.42
Interest Coverage (times)	0.20	0.63	1.54	1.20
Total Outside Liability/TNW (times)	(10.89)	2.60	2.39	2.47
DSCR (excl. STD/prepayments) (times)	0.14	4.48*	1.45	0.94
NWC/OI (%)	-167%	394%	270%	294%
Current ratio (times)	0.10	1.83	2.07	1.97

*High with inclusion of ~NPR. 410.37 million invoiced raised by the company to NEA for the energy loss due to non-completion of 33 KV Malta-Matatirtha transmission line. This amount is currently under arbitration. Excluding the same, DSCR of that year would be 0.53x.

Annexure-1: Instrument details

Instrument (NPR Million)	Previous Rated Amount	Current Rated Amount	Rating Action
Long-term Loan Limits (A)	824.55	785.86	
Fund-based facilities; Long-term loan	824.55	785.86	[ICRANP] LB; reaffirmed
Short-term Loan Limits (B)	60.00	60.00	
Fund-based facilities; Working capital loan	60.00	60.00	[ICRANP] A4; reaffirmed
Total Limit (A+B)	884.55	845.86	

Analyst Contacts

Mr. Sailesh Subedi (Tel No. +977-1-4519910/20)

sailesh@icranepal.com

Mr. Purushottam Sedhai (Tel No. +977-1-4519910/20)

purushottam@icranepal.com

Relationship Contacts

Ms. Barsha Shrestha (Tel No. +977-1-4519910/20)

barsha@icranepal.com

About ICRA Nepal Limited

ICRA Nepal Limited, the first Credit Rating Agency of Nepal, is a subsidiary of ICRA Limited (ICRA) of India. It was licensed by the Securities Board of Nepal (SEBON) on October 3, 2012. ICRA Nepal is supported by ICRA Limited through a technical support services agreement, which envisages ICRA helping ICRA Nepal in areas such as rating process and methodologies, analytical software, research, training, technical and analytical skill augmentation.

Our parent company, ICRA Limited, was set up in 1991 by leading financial/investment institutions, commercial banks and financial services companies as an independent and professional investment information and credit rating agency. Today, ICRA and its subsidiaries together form the ICRA Group of Companies.

For more information, visit: www.icranepal.com

ICRA Nepal Limited

Sunrise Bizz Park, 6th Floor, Dillibazar, Kathmandu, Nepal.

Phone: +977 1 4519910/20

Email: info@icranepal.com

Web: www.icranepal.com

All Rights Reserved.

Contents may be used freely with due acknowledgement to ICRA Nepal.

ICRA Nepal ratings should not be treated as recommendation to buy, sell, or hold the rated debt instruments. The ICRA Nepal ratings are subject to a process of surveillance which may lead to a revision in ratings. Please visit our website (www.icranepal.com) or contact ICRA Nepal office for the latest information on ICRA Nepal ratings outstanding. All information contained herein has been obtained by ICRA Nepal from sources believed by it to be accurate and reliable. Although reasonable care has been taken to ensure that the information herein is true, such information is provided 'as is' without any warranty of any kind, and ICRA Nepal, makes no representation or warranty, express or implied, as to the accuracy, timeliness, or completeness of any such information. All information contained herein must be construed solely as statements of opinion and ICRA Nepal shall not be liable for any losses incurred by users from any use of this publication or its contents.