

Kalinchock Hydropower Limited: Ratings reaffirmed

February 26, 2024

Summary of rating action

Instrument (Amounts in NPR million)	Previous Rated Amount	Current Rated Amount	Rating Action
Fund based; long-term loan (Term loans - TL)	700	700	[ICRANP] LBB-; reaffirmed
Fund based; short-term loan (Bridge gap loans – within TL)	(30)	(30)	[ICRANP] A4; reaffirmed
Total	700	700	

Rating action

ICRA Nepal has reaffirmed the long-term rating of [ICRANP] LBB- (pronounced ICRA NP L Double B minus) to the long-term loans and also reaffirmed the short-term rating of [ICRANP] A4 (pronounced ICRA NP A Four) to the short-term loans of Kalinchock Hydropower Limited (KHL or the company).

Rationale

The ratings reaffirmation considers the satisfactory progress in the company's under-construction 5-MW Sangu (Sorun) Khola Hydroelectric Project (SSHP or the project), which is currently towards middle stages of development (~20-25% complete when last rated in August 2022). Similarly, the ratings also continue to factor in the project's good contract plant load factor (PLF) of ~67%, dry-energy mix of ~30% (that have high tariffs) and the presence of up to eight annual tariff escalations on the base rate, which are expected to support the company's revenue profile. The ratings also continue to take comfort from the project's experienced promoters, along with its low evacuation risk amid the presence of Nepal Electricity Authority's (NEA; rated [\[ICRANP\] AA+](#)) operational evacuation structures. ICRA Nepal also draws comfort from the project's low tariff and offtake risks amid the already-signed power purchase agreement (PPA) with NEA at pre-determined tariffs and escalations under a take-or-pay modality.

Nonetheless, the ratings are constrained by the inherent project execution risks for the balance project components, given the completion targets within the now expected required commercial operation date (RCOD¹) of April 12, 2025. Inability to meet the RCOD could expose the company to tariff escalation loss and late COD penalty. Further, the ratings also remain impacted by the project's modest scalability and budgeted cost (~NPR 200 million per MW) and a high debt to equity mix of 70:30, which could pressurise the return and coverage indicators amid the fixed-tariff regime. The ratings further remain constrained by the moderate funding risks for remaining 25% equity component (planned to be raised through IPO). The ratings also remain constrained by the climatic and geological risks during under construction as well as operational stages in addition to the project's exposure to the stringent dry energy short supply penalty clauses in the PPA, amid no cushion in contracted dry energy (30% in annual energy mix vs. minimum 30% requirement). Going forward, KHL's ability to commission the project within the budgeted cost/timeline, ensure the RCOD extension, and thereafter achieve its designed operating parameters will remain key rating sensitivities. Timely closure of funding gaps (for remaining equity and for overruns, if any) and interest rate volatility in the market, will also remain among the monitorable.

Key rating drivers

Credit strengths

Experienced promoters – The company's promoters/board and senior management have prior experience in the development of hydro power projects (HPPs), which remains a positive from the project development aspect of the company's under construction project.

¹ Current RCOD is April 13, 2023, and application to extend the same by two years has been filed, citing Covid-19 impact.

Low tariff and offtake risks and low evacuation risks – The project’s tariff and offtake risks remain low as the company has a 30-year PPA with the NEA (the sole purchaser and distributor of electricity in Nepal) for its entire PPA capacity under a take-or-pay modality (however subjected to 10% reserve margin clause for five months from mid-June to mid-November for the entire project life). As per the PPA, the pre-defined tariffs are NPR 4.8 per kWh for the wet season (June to November) and NPR 8.4 per kWh for the dry season (December to May), with 3% annual escalation on the base tariffs for eight consecutive years. This is expected to support the company’s coverage indicators. However, the company’s ability to secure the RCOD extension, as applied, and commission the project within the revised RCOD, would determine the number of tariff escalations that the project can avail. The project’s evacuation risks are also low given the presence of NEA’s operational evacuation structures i.e. the Singati Substation. While the project is likely to share transmission line and associated costs with the other projects in the vicinity connecting to the same substation, it also exposes the project to risk of any delays in those related projects.

Credit challenges

Inherent project execution risks – The 5-MW project is approaching the middle stages of construction with ~35-40% financial progress (~50% physical progress as per management) till December end 2023. This, the project is still exposed to execution risks and the risk of time and cost overruns, which could erode the project’s financial metrics.

Moderate funding risks – The project has been planned to be developed at a cost of ~NPR 1,000 million at a debt-to-equity ratio of 70:30. Till December end 2023, 75% of the project’s equity requirements had been infused while the rest is proposed to be raised through an IPO. While the pace of equity infusion remains satisfactory vis-à-vis the project progress, funding risks persists for the remaining equity, which could be exacerbated by any unexpected cost overruns towards the advanced stages of project development.

High climatic and geological risks – The project is also exposed to hydrological risks in case of any adverse river flow scenario without receiving any compensation for such losses from the NEA. The climatic risks and stringent dry-energy short-supply penalty clauses in PPA (in case the project fails to supply a minimum of 30% annual energy generation in the dry months, it would result in proportional reduction of annual energy sales revenue), accentuates these concerns amid the borderline dry energy mix in the project’s PPA at 30%. Further, the project, like most HPPs in Nepal, will also remain exposed to geological risks during the under-construction as well as operational stages, being located in difficult terrain with unpredictable river flow scenarios during the monsoon (mainly in lack of gauging data for most rivers, including the company’s project’s river, further accentuated by unpredictable monsoon pattern in recent years).

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

Link to the applicable criteria:

[Corporate Credit Rating Methodology](#)

Link to the previous rating rationale:

[Rationale_Kalinchock Hydropower Limited_Fresh BLR_August 2022](#)

About the company

Incorporated on May 19, 2016, and converted into a public limited company on June 15, 2022, Kalinchock Hydropower Limited (KHL) is developing a 5-MW Sangu (Sorun) Khola Hydroelectric Project (SSHPP) in Dolakha district of Bagmati province of Nepal. It is a run-of-the-river (R-o-R) type project, which is being developed at ~40% probability of exceedance (Q40) with a design discharge of 1.99 m³/s, gross head of 331.5 metres and a catchment area of ~33.60 km². The PPA for the project has been entered under the six-months dry energy and six-months wet energy modality. With a net-contract PLF of 67%, the annual saleable energy, as per the PPA, is ~29.21 GWh with a dry-energy mix of 30%. The budgeted cost of the project is ~NPR 1,000 million, which has been planned to be funded in a debt-to-equity ratio of 70:30.

The paid-up capital of the company as of mid-July 2023 was ~NPR 225 million which was 100% promoter held. As on the same date, the major promoters included Ms. Indira Panta (~12.2% stake), Mr. Ram Chandra Upreti (8.2%), Mr. Giriraj Pant

(6.2%) and Ms. Devika Dahal (4.2%). Till date, the promoters have infused 75% of the project's overall equity requirement (remaining 25% to be raised through IPO).

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About ICRA Nepal Limited

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