Kabeli Hydropower Company Limited: Long-term rating upgraded and short-term rating reaffirmed; ratings removed from ‘Issuer not cooperating’ category

May 06, 2024

Summary of rating action:

Instrument* (Amounts in NPR million)	Previous Rated Amount	Current Rated Amount	Rating Action
Long-term loan limits	3,213	3,213	[ICRANP] LBB-; upgraded from [ICRANP] LB+ and removed from ‘Issuer not cooperating’ category
Short-term loan limits	(1,664)	(1,664)	[ICRANP] A4; reaffirmed and removed from ‘Issuer not cooperating’ category
Total	**3,213**	**3,213**	

*Instrument details are provided in Annexure 1

Rating action

ICRA Nepal has upgraded the long-term loan rating assigned to Kabeli Hydropower Company Limited (KHCL) to [ICRANP] LBB- (pronounced ICRA NP L double B minus) from [ICRANP] LB+ (pronounced ICRA NP L B plus) and reaffirmed the short-term loan rating at [ICRANP] A4 (pronounced ICRA NP A four). The ratings have also been removed from ‘Issuer Not Cooperating’ category.

Rationale

The ratings upgradation/revision mainly considers the satisfactory pace of development in the company’s under construction 21.93 MW Kabeli-3 hydroelectric project (HEP), which has achieved ~60% financial progress till mid-February 2024, including significant progress in the project’s long tunnel structures. The presence of experienced promoters offer further comfort regarding the development of balance components and operation and maintenance (O&M) aspects (post commissioning) of the project. Similarly, the project’s lower evacuation risks amid the operational evacuation structures from the Nepal Electricity Authority (NEA) i.e. the Kabeli substation, also provide comfort. ICRA Nepal also factors in the low tariff and offtake risks amid the already-signed power purchase agreement (PPA) with the NEA, at pre-determined tariffs and escalations under a take-or-pay modality. .

Nonetheless, the ratings remain constrained by the project’s moderate funding risks with ~72% of requisite equity injection by the promoters till mid-February 2024, while the required debt has been fully tied-up at current cost estimates. The promoters’ ability to timely close the current funding gap, along with incremental gaps, in case of unanticipated cost overrun towards project completion, remains to be seen. Rating concerns further arise from the group concentration risk, as the major promoters are also developing two other HEPs in the same river. KHCL’s project execution timeline is also limited at ~10 months (from the latest progress report dated mid-February 2024 to the expected further revision of required commercial operation date (RCOD) to December 16, 2024). Hence, KHCL would need to tightly coordinate will all contractors in completing the remaining project components, despite the likely disturbances during the upcoming monsoon season. Inability to meet the timelines could expose the company to tariff escalation loss and late COD penalty, in addition to cost escalations, mainly through incremental interest during construction (IDC). The assigned ratings also remain impacted by the project’s exposure to the climatic and geological risks, in addition to the presence of 10% reserve margin clause and stringent short supply penalty clauses in the PPA, which can potentially impact the company’s revenue profile. Going forward, KHCL’s ability to timely complete the project within the budgeted cost/timeline and achieve its designed operating parameters will be the key rating drivers for the company.

Key rating divers

Credit strengths

Experienced promoter profile – The company's board and senior management have adequate experience and technical expertise in the development and operations of HEPs, as they have been involved in development of multiple operational as well as under-construction projects. The key promoters of KHCL have completed the 7.8-MW Super Mai HEP (developed by Super Mai Hydropower Limited) and the 9.6-MW Super Mai A HEP (developed by Sagarmatha Jalbidhyut Company Limited), both rated at [ICRANP-IR] BBB-, which were completed prior to their RCODs. Their track record of commissioning projects within the budgeted time and cost, remains a comfort.

Lower evacuation risk – The evacuation risk for the project remains on the lower side amid the presence of operational evacuation structures. The power generated by the project is to be transmitted to the NEA's operational Kabeli (Amarpur) substation by developing a ~18-km long 132-kV single circuit transmission line from its powerhouse to the said substation, as per the PPA. The construction of the requisite transmission line is in near completion stage.

Low tariff and offtake risks – The project's tariff and offtake risks remain low given the presence of a firm PPA for its entire capacity with the NEA (the sole purchaser and distributor of electricity in Nepal) at pre-determined tariffs and escalations. The pre-defined tariffs are NPR 4.8 per kWh for the wet season (six months) and NPR 8.4 per kWh for the dry season with 3% annual escalation on the base tariff, for eight consecutive years. However, there is a provision of 10% reserve-margin clause in the PPA for five months throughout the life of the project, during which the NEA can deny the offtake of up to 10% energy generation, without any compensation to the company, which remains a concern.

Satisfactory pace of project development – The project has exhibited a satisfactory pace of development since the last rating with financial progress of ~60% as of mid-February 2024 (~6% financial progress till mid-April 2022, when last rated). In addition to significant physical progress across most of the civil, hydromechanical and transmission line components, the project has also reported excavation of ~83% of the total tunnel length of ~5.9 kms (including all adit tunnels and underground surge shaft structures). While concerns on execution of balance component persists, satisfactory pace of development and the promoters' past track record, provides comfort.

Credit challenges

Moderate funding risks – The project has been planned to be developed at an estimated cost of ~NPR 4,285 million (i.e. ~NPR XX million per MW, which remains on a modest side) in a debt to equity ratio of 75:25. Till mid-February 2024, ~72% (NPR 770 million) of the overall equity requirement (~NPR 1,072 million) had been injected by the promoters. Since some of the promoters also have equity commitments in other under-construction hydropower projects, timely closure of existing as well as unexpected funding gaps would remain critical in ensuring project development with expected timeline. However, the required debt component for the project development (NPR 3,213 million) has already been tied up, which remains a comfort.

High concentration risks – Some of the company's major promoters are involved in the development of other HEPs in the same river basin. The group's reliance on a single geographical region for multiple projects makes them more vulnerable to unexpected hydrological variations and natural calamities. This could also lead to inadequate or delayed funding support from promoters, in case of exigencies.

Hydrological and geological risks; Stringent PPA clauses – The project's generation will remain dependent on the river's hydrology, which in turn remains dependent on the climactic factors (including monsoon fluctuations and snowfall levels, being a partial snow-fed river). Given the difficult project terrain, the risk of events like flood, landslide, etc also remain high, as seen in the past in the nearby geographies. KHCL's ability to ensure strong insurance coverage (including property damage and loss of profit) covering such risks will remain critical to its long-term financial and operational profile.

Hydrological risks are further increased as the PPA for the project has been done under the six-six months dry and wet energy modality, which requires supply of at least 30% energy in the dry months. In case the project fails to supply the same, the supplied dry energy would be assumed to be 30% of the deemed annual energy and the additional energy supplied in the wet months would not be paid. Any major fall in hydrology could impact generation considerably and create pressure on the debt coverage metrics.

Link to the previous rating rationale:
[Rationale_Kabeli Hydropower Company Limited_Issuer Not Cooperating_March 2024]

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

Link to the applicable criteria:
Corporate Credit Rating Methodology

About the company

Incorporated on May 09, 2017, Kabeli Hydropower Company Limited (KHCL) is developing a 21.93-MW Kabeli-3 Hydroelectric Project in Taplejung district of Koshi Province of Nepal. It is a run-of-the-river (R-o-R) type project, which is being developed at ~47% probability of exceedance (Q47). The budgeted cost of the project is ~NPR 4,285 million, which has been planned to be funded in a debt to equity ratio of ~75:25.

The paid-up capital of the company as of mid-February 2024 was ~NPR 770 million, which was 100% promoter held. As of the same date, the major promoters were Mr. Rajesh Khadka (~30%), Mr. Mohan Bikram Karki (~18%), M/s. Dazaney Investment Company Private Limited (~16%), Mr. Gopal Krishna Shrestha (~14%) and M/s. National Equity Fund (~9%), among others. Till date, the promoters have infused ~72% of the project's overall equity requirement of NPR 1,072 million.

Annexure-1: Instrument details

Instrument (Amount in NPR million)	Last rated amount	Current rated Amount	Rating Action
Long term loan limits (A)	**3,213**	**3,213**	[ICRANP] LBB-; upgraded from [ICRANP] LB+ and removed from 'Issuer not cooperating' category
Fund-based facilities; Term loan (TL)	3,213	3,213	
Short term loan limits (B)	**(1,664)**	**(1,664)**	[ICRANP] A4; reaffirmed and removed from 'Issuer not cooperating' category
Fund-based facilities; Bridge gap loan (within TL)	(400)	(400)	
Non-fund-based facilities; Letter of credit (within TL)	(1,250)	(1,250)	
Non-fund-based facilities; Bank Guarantee (within TL)	(14)	(14)	
Total (A+B)	**3,213**	**3,213**	

Analyst Contacts

Mr. Sailesh Subedi (Tel No. +977-1-4519910/20)
sailesh@icranepal.com

Mr. Rajib Maharjan (Tel No. +977-1-4519910/20)
rajib@icranepal.com

Mr. Sujan Maharjan (Tel No. +977-1-4519910/20)
sujan.maharjan@icranepal.com

Relationship Contacts

Ms. Barsha Shrestha (Tel No. +977-1-4519910/20)
barsha@icranepal.com

About ICRA Nepal Limited

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ICRA Nepal Limited,
Sunrise Bizz Park, 6th Floor, Dillibazar, Kathmandu, Nepal.
Phone: +977-1-4519910/20
Email: info@icranepal.com
Web: www.icranepal.com