

PRESS RELEASE

KABELI ENERGY LIMITED

January 2024

Ratings

Instrument/Facilities	Amount (NPR. Mn)	Ratings	Rating Action
Long Term Bank Facilities	4,510.00	IRN B+	Assigned
Total	4,510.00		

Details of facilities are in Annexure 1 below

Infomerics Credit Rating Nepal Limited (Infomerics Nepal) has assigned the long-term rating of IRN B+ (Single B Plus) to the long-term bank facilities of NPR 4,510.00 Mn.

Detailed Rationale

The rating assigned to Kabeli Energy Limited (KEL) derives strength from the strong promoter group with experienced directors and management team and Power Purchase Agreement (PPA) covering the significant life, at predetermined rates. The rating also factors in the moderate counter party risk, low power evacuation risk, improving demand for electricity and GoN¹ support for the power sector. Also, major contracts have been awarded and debt is fully tied up. These rating strengths are partially offset by the risks associated with project implementation and stabilization afterwards given its initial stage of operation and the hydrology risk connected with run-of-river (ROR) power generation and vulnerability to natural calamities. Also, the rating considers notable project delays and absence of extension of Required commercial operation date (RCOD), which could lead to substantial penalties and may impact the company's financial profile. Going forward, the ability of the company to manage timely completion of the project without any further time or cost overrun will remain key rating sensitivities.

Detailed Description of Key Rating Drivers

Key Rating Strengths

Strong promoter group with experienced directors and management team

KEL is promoted by institutional promoters from Butwal Power Company Limited (BPCL) group and Arun Valley Hydropower Company Limited. BPCL, partly GoN owned public company, is mainly into generation and distribution of electricity in different parts of Nepal. KEL has 5 number of directors in its Board of Directors, chaired by Mr. Pradeep Kumar Shrestha who has more than three decades of experience in various industries. He is supported by other experienced directors along with a team of experienced management team.

Power Purchase Agreement covering significant life of the project, at predetermined tariffs

KEL had entered into a long term PPA of 25 years from commercial operation date with Nepal Electricity Authority (NEA) for sale of 37.60 MW power to be generated from the project. Furthermore, the tariffs for wet/ dry season (6-6 months) are NPR 4.80/ 8.40 per kWh with 3% escalation on base tariff for 8 times in every year after completion of 12 months from COD. Additionally, the project is supported by high dry energy mix of ~31% with an average PLF of ~66%. Power generated from the project is proposed to be evacuated through operational 132 kV Kabeli corridor transmission line, lowering the evacuation risk.

¹ Government of Nepal

Improving market demand with Government support for the power sector

According to the NEA's Annual Report, the annual peak electricity demand during FY23 was 1,870 MW from 1,748 MW during FY22. Additionally, the total energy demand for the time period was 8,850 GWh during FY21 which increased to 11,064 GWh during FY22 which further increased to 12,369 GWh during FY23 of which 1,833 GWh were imported from India and the remaining was generated domestically. The total export to India soared to 1,236.90 GWh in FY23(UA) against 493 GWh in FY22. With this the net import of electricity reduced to ~510 GWh representing 4.12% of total electricity available. Further, NEA has earned ~NPR 15.4 Bn between June 01 to December 06, 2023 from exporting electricity to India. Hence, the prospects remain positive in view of improving generation, growing demand with scope of export. Also, GoN considers hydropower generation as priority sector and intends to maximize private sector participation in the generation of hydroelectricity by offering different exemptions and facilities. Individuals or entities commencing commercial operations, transmission, and distribution of electricity before Mid-April 2027 are eligible for a 100% income-tax exemption for the first 10 years followed a 50% exemption for the next five years.

Key Rating Weaknesses

Project implementation risk and stabilization risk, given its initial stage of construction

KEL is setting up a 37.60 MW Kabeli-A Hydroelectric project (KAHEP) in Panchthar district of Nepal. The estimated cost of the project is NPR 7,520 Mn which is proposed to be funded in debt: equity mix of 60:40. The total debt amount of NPR 4,510 Mn has already been tied up. As on mid-December 2023, the financial progress of the company was ~23%. Construction work of the project has been delayed from the RCOD of February 2020 mainly due to change in scope and contractors of the project, which resulted in halt of the construction work for around 3 years. As the project is at initial stages of construction, the company is exposed to the risks associated with project implementation and satisfactory operations thereafter.

Significant time overruns of the project

As per the PPA, the initial RCOD of the project was September 30, 2019, however it was later extended to February 15, 2020, through the first amendment of the PPA. The company is currently in the process of seeking another extension for the RCOD from NEA. Even after factoring RCOD extension by two years, which the company has applied for, the project remains delayed. The inability to obtain additional RCOD extension until the expected COD could result in significant penalty, representing 45% of the lost revenue, thereby exerting a substantial impact on the company's financial health. The extension of the RCOD is vital for the company's financial outlook and also is also crucial to monitor from credit perspective.

Hydrology risk associated with run-of-the-river power generation

ROR projects face direct exposure to the risks linked to fluctuations in water discharge from rivers, given that they lack the capacity for water storage. KAHEP is intended to utilize tailrace discharge from the Kabeli B1 cascade project, covering a catchment area of 820 square kilometres, as well as the tailrace discharge from the Phawa Khola hydropower project canal. Insufficient water flow may lead to reduced energy output, affecting project performance and financial viability. Therefore, the project is exposed to risks linked with fluctuations in river water discharge. Additionally, if the energy supplied during the dry season is found to be less than 30%, NEA shall not pay any amount as penalty to the company for the energy supplied more than the annual energy calculated on the basis of 30% dry season energy. Consequently, with this stringent clause in the PPA, the hydrology risk is further elevated.

Analytical Approach: Standalone

Applicable Criteria:

[Power Projects Rating Methodology](#)

About the Company:

Kabeli Energy Limited (KEL) was incorporated on 27th January 2010 to build, own and operate 37.60 MW run-of-river Kabeli-A Hydroelectric project (KAHEP) in Panchthar district of Nepal, for the sale of entire power. KAHEP covers a catchment area of 820 sq kms with design discharge of 37.23 m³/s at 42.5% Point of Energy. Originally, the project was designed as a peaking run-of-river type but was subsequently modified to ROR. The company is promoted by institutional promoters from Butwal Power Company Limited group and Arun Kabeli Power Limited.

Annexure:1 Detail of Facilities:

Name of Facilities	Type of Facilities	Amount (NPR Mn.)	Rating
Fund Based Bank Facilities- Term Loan	Long Term	4,510.00	IRN B+
Total Facilities		4,510.00	

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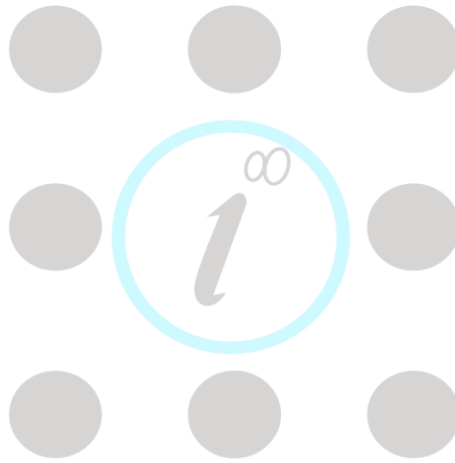
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