Kalika Energy Limited

Rating

Facilities	Amount (Rs. Million)	Rating[1]	Rating Action
Long Term Bank Facilities	**7,500.00**	**CARE-NP BB- [Double B Minus]**	**Assigned**
Total Facilities	**7,500.00**		

Details of instruments/facilities in Annexure-1

CARE Ratings Nepal Limited (CRNL) has assigned the rating of 'CARE-NP BB-' to the long-term bank facilities of Kalika Energy Limited (KEL).

Detailed Rationale & Key Rating Drivers

The rating assigned to the bank facilities of KEL is primarily constrained by project implementation and stabilization risk associated with its under-construction hydropower project. The rating also factors in hydrology risk associated with run-of-river power generation, power evacuation risk and risk of natural calamities. The rating, however, derives strength from KEL's experienced promoters and management team, association with promoters having multiple hydropower projects and presence of power purchase agreement (PPA) with sufficient period coverage. The rating also factors in moderate counter party risk and government support for the power sector.

Going forward, ability of the company to successfully execute the project within the envisaged cost and time and early stabilization thereafter will be key rating sensitivities.

Detailed description of the key rating drivers

Key Rating Weaknesses

Project implementation risk

Kalika Energy Limited (KEL) is developing a 46 MW (amended from 62MW) run-of-river Bhotekoshi-5 Hydropower Project (BHP), a cascade of 102 MW, currently under-construction, Middle Bhotekoshi Hydroelectric Project (MBKHEP), located at Sindhupalchowk district, Bagmati Province, Nepal. The total estimated cost of project is Rs. 9,568 Mn (Rs. ~208 Mn per MW) which is proposed to be financed in a debt equity mix of 75:25, i.e., Rs. 7,176.00 Mn term loan and Rs. 2,392.00 Mn equity, with ~20% of equity proposed to be raised through issuance of Initial Public Offering (IPO). Financial closure for the debt is yet to be achieved and as on February 03, 2025, ~6% of equity has been infused by the promoters. This financing arrangement exposes KEL to funding risks associated with debt and IPO issuance.

The project is in early stages of construction while its RCOD is scheduled for December 28, 2025. Therefore, the project is well behind schedule commensurate to RCOD. This exposes the company towards project implementation risk. Further, BHP being a cascade project, it draws water directly from the tailrace of MBKHEP. Therefore, power generation of BHP is contingent upon operations of MBKHEP. However, given the final stages of construction of MBKHEP, risk associated with operations of upstream project is mitigated to a large extent. Any delays in the commencement of project beyond RCOD will result in late COD penalty and further delays beyond six months will result in restrictions on the number of tariff escalations, consequently diminishing return indicators and adversely impacting the revenue profile of KEL. Thus, extension of RCOD, if any, and timely execution of the project within envisaged cost remains critical from credit perspective. However, current promoters' extensive experience in executing hydropower projects within budgeted cost and time, as well as their ability to bridge funding gaps when needed, helps mitigate the associated risks to some extent.

[1]Complete definition of the ratings assigned are available at https://www.careratingsnepal.com/ and other CARE publications

Power evacuation risk

Power generated through the project was initially proposed to be evacuated through a 4 km 220 kV transmission line to NEA's operational Bahrabise substation at Sindhupalchowk district, which is further connected to the national grid. However, due to space constraints for construction of interconnection bay and capacity limitations at the substation, this project, along with other concerned hydropower projects have reached an agreement for the construction of a pooling substation with sufficient capacity in the proximity of NEA's substation. The pooling substation is proposed to be connected to the Bahrabise substation through a 5 km 400 kV transmission line to facilitate power evacuation. As the required infrastructures for power evacuation have not been constructed, the project is exposed to risks associated with power evacuation.

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

A Run-of-the-river (ROR) power project is recognized as a variable energy source of generation of power due to its reliance on natural river flow without significant water storage capacity. The dependency on river flow makes the power generation from the project highly responsive to seasonal variations. The project extracts discharge from Bhotekoshi river. The effective catchment area of the proposed intake site is 2,347 km^2. The design discharge of 50.80 m^3/s for the project is derived at a 42.5% probability of flow exceedance. BHP tends to produce higher electricity output during the wet season, June to November, when river flows are abundant. Conversely, during the dry season, from December to May, power generation may be reduced due to lower river flows. Consequently, the project's performance will be exposed to the inherent risk associated to the natural hydrological patterns, and variability in water discharge throughout the year.

Risk of Natural Calamities

In Nepal, hydropower projects are usually located in terrains that are topographically challenging making their construction and operations vulnerable to adversities of nature. Floods and landslides that tend to occur in these areas pose threat to these power projects damaging their infrastructures as well as impacting their timely completion. Moreover, disruption in their construction in turn could lead to time and/or cost overrun, negatively impacting the project's financial aspects. Moving forward also, these natural calamities can adversely affect the smooth flow of power generation and distribution, which can further impact financial returns of the projects. BHP's power project is inherently exposed to these natural calamities that have the potential to cause infrastructural, operational, and financial damages to the project.

Key Rating Strengths

Experienced institutional promoters, directors and management team

The company is promoted by individuals having invested and operated multiple hydropower projects. KEL is managed under overall guidance of its three-member board of directors, chaired by Mr. Mohan Bikram Karki, who has more than a decade of experience in the hydropower sector. The board is further supported by an experienced management team.

Low offtake risk and income profile supported by high dry energy mix

Power Purchase Agreement (PPA) had been signed between NEA and KEL on August 10, 2018, for sale of energy generated from plant capacity of 62 MW. However, the project capacity has been amended to 46 MW on account of relocation of powerhouse upstream to initially proposed location and partial changes in project alignment and design. As per amended PPA for reduced capacity, total contracted energy stands at 255.94 million units (MU) annually with dry to wet energy mix of ~31:69 i.e., dry energy of 79.13 MU and wet energy of 176.81 MU. Duration of the PPA extends for 30 years from the Commercial Operation Date (COD) or until the expiration of the generation license, whichever occurs earlier. A provision for extension of the PPA period exists, subject to mutual consensus within the final six months of its validity.

Tariff rates for KEL, as per PPA is Rs. 4.80 per kWh for wet season which extends from June to November and Rs. 8.40 per kWh for dry season which extends from December to May. These contractual terms outline the framework governing the sale of power generated by both operational hydropower projects, delineating the revenue structure and operational parameters for KEL within the energy market. Additionally, the counterparty payment risk associated with NEA is deemed moderate, given its full ownership by the Government of Nepal.

Favourable government policies towards power sector

The Government of Nepal (GoN) has prioritized hydropower generation as a crucial sector for economic development and aims to enhance private sector involvement by offering a range of incentives and facilities. In line with this objective, GoN has introduced a comprehensive tax incentive package, providing full tax exemption for the initial 10 years and a 50% tax exemption for the subsequent five years to individuals or entities engaged in the commercial operation, transmission, and distribution of electricity until mid-April 2028. These incentives are designed to encourage investment and promote growth in the hydropower sector. Additionally, directives from the Nepal Rastra Bank (NRB) mandate that all banks are to allocate a minimum share of their total advances to the energy sector. This strategic initiative is expected to contribute to the financial support and development of projects within the energy sector which augers well for the sector. The industry outlook of Nepalese power sector is likely to remain stable over the long-term with increasing domestic demand for generation backed by growing national demand with an average growth rate of around 11% p.a. over the last five years (2018-2023). Additionally, increasing cross-border energy trades coupled with bilateral treaty signed between Nepal and India for export of 10,000 MW electricity to India over a period of 10 years has further boosted the demand outlook for the power sector in Nepal.

About the company

Kalika Energy Limited (KEL) is a public limited company, initially incorporated in 2007 as a private limited and later converted on May 20, 2018 for setting up of a 46 MW (amended from 62MW) run-of-river Bhotekoshi-5 Hydropower Project (BHP), a cascade of Middle Bhotekoshi Hydroelectric Project (MBHEP) at Bahrabise Municipality, Sindhupalchowk district, Bagmati Province, Nepal. The project will be constructed under BOOT (Build, own, Operate and Transfer) mechanism.

Annexure-1: Details of Instruments/Facilities

Name of the Instrument	Type of the Facility	Amount (Rs. Million)	Rating
Long Term Bank Facilities	Term Loan	7,500.00	CARE-NP BB-
Total Facilities		**7,500.00**	

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