

January 20, 2023

L&T Metro Rail (Hyderabad) Limited: Rating reaffirmed

Summary of rating action

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Non-Convertible Debenture Programme I (NCD-I)	250.00	250.00	[ICRA]AAA (CE) (Stable); Reaffirmed
Non-Convertible Debenture Programme II (NCD-II)	250.00	250.00	[ICRA]AAA (CE) (Stable); Reaffirmed
Non-Convertible Debenture Programme III (NCD-III)	250.00	250.00	[ICRA]AAA (CE) (Stable); Reaffirmed
Total	750.00	750.00	

Rating Without Explicit Credit Enhancement	[ICRA]A+
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*Instrument details are provided in Annexure I

Note: The (CE) suffix mentioned alongside the rating symbol indicates that the rated instrument/facility is backed by some form of explicit credit enhancement. This rating is specific to the rated instrument/facility, its terms and its structure and does not represent ICRA's opinion on the general credit quality of the entity concerned. The last row in the table above also captures ICRA's opinion on the rating without factoring in the explicit credit enhancement.

Rationale

The rating reaffirmation for L&T Metro Rail (Hyderabad) Limited (L&T MRHL) factors in the strength of the promoter support undertaking (PSU), and the put option provided by the sponsor, Larsen & Toubro Limited (L&T; rated [ICRA]AAA(Stable)/[ICRA]A1+), and the payment mechanism designed to ensure timely payment of the non-convertible debentures (NCDs), as per the terms of the transaction. The rating considers the strong linkages of L&T MRHL with the sponsor, given that the entire debt is guaranteed by the sponsor. The rating notes the sponsor's (L&T) track record of supporting the company. L&T MRHL refinanced its entire bank debt through a mix of NCDs and commercial papers (CPs) in December 2021, which are entirely guaranteed by L&T for a total amount of Rs. 13,116 crore.

The Stable outlook on the rating of the NCD programmes of L&T Metro Rail (Hyderabad) Limited (L&T MRHL) reflects the Stable outlook on L&T's rating. The payment obligation of the rated NCD largely remains linked with the credit profile of L&T, as L&T has extended an unconditional and irrevocable undertaking to provide timely financial support for coupon repayments and principal repayment of the rated NCDs. Since the rating of L&T MRHL is supported by L&T, please refer to L&T's rationale for detailed credit strengths and challenges. For the detailed rationale on the support provider—L&T—please visit [link](#).

Adequacy of credit enhancement

The rating of the instrument is based on the credit substitution approach, whereby the rating of the undertaking provider/guarantor has been translated to the rating of the said instrument. The PSU and put option are legally enforceable, irrevocable, unconditional, covers the entire amount and tenor of the rated instruments and has a well-defined invocation and payment mechanism. Given these attributes, the PSU provided by L&T is adequately strong for an enhancement in the rating of the said instrument to **[ICRA]AAA(CE)** against the rating of [ICRA]A+ without explicit credit enhancement. In case the rating of the guarantor undergoes a change in future, the same would reflect in the rating of the aforesaid instrument as well.

Salient covenants of the rated facilities

- » For the rated NCDs, a T-5-day payment mechanism is in place to ensure timely payment of interest and redemption of principle.

- » *The sponsor diluting its shareholding in the issuer to a level below 51% during the tenure of the NCDs would trigger an accelerated put/call event.*
- » *The issuer shall not declare or pay any dividend to its shareholders during any financial year unless it has paid the principal and coupon amounts, due and payable in respect of the debentures in such year, or has made provision satisfactory to the debenture trustees for making such payment.*
- » *For NCD-I, NCD-II and NCD-III, if the rating of the instrument falls below AA-(CE), it would be construed as an accelerated put event.*
- » *Upon occurrence of any accelerated put event/rating downgrade event, the trustee would have the right to accelerate the NCDs. If the trustee exercises this right, the due date of payment on the NCDs would be 30 days from the date the acceleration notice is sent by the trustee.*

Key rating drivers and their description

Credit strengths

Support undertaking and put option provided by the sponsor – The rated NCDs are supported by the PSU and the put option on the promoter/sponsor, i.e., L&T. These NCDs have a scheduled tenor of 20 years and carry put/call option at the end of 10 years and 15 years, respectively, from the deemed date of allotment. The coupon amount is payable on a semi-annual basis and is covered under the PSU. L&T's obligations under the PSU and the put option taken together covers all issuer obligations that may arise on the rated NCDs. The sponsor's obligations under the PSU/put option are unconditional and irrevocable.

Strong linkages with sponsor – The linkages with the promoter (L&T) have strengthened after refinancing of the entire bank debt through market instruments (with a total amount of Rs. 13,116 crore), which are entirely guaranteed by L&T. Moreover, the sponsor has a demonstrated track record of support over the years.

Payment mechanism designed to ensure timely payment to investors – The payment mechanism for the transaction is designed to ensure that all payments under the NCDs (either in the normal course or otherwise) are fully covered by the PSU from the sponsor. Proceeds from the sponsor (if the issuer does not pay and recourse to the sponsor is required) would be available on or before the due date of payment on the NCDs.

Healthy growth in ridership to support revenue growth – The ridership has recovered to the pre-Covid level in July 2022 and improved to around 4.2 lakhs on a daily basis for December 2022, supported by resumption of work from office. The fare revenues improved to Rs. 335 crore in 9M FY2023 as compared to Rs. 138.5 crore in 9M FY2022.

Credit challenges

Weak operational cash flows – The proposed Transit Oriented Development (TOD) monetisation of 18.5 mn sq ft has been delayed owing to the pandemic and procedural constraints. However, with receipt of approvals from the state government, the company is in discussions with potential investors. The TOD monetisation on time will be a key monitorable. L&T provided financial support of Rs. 1,292 crore in FY2021 and Rs. 1,057 crore in FY2022 towards funding cash flow gaps for operational and debt servicing requirements. The cash flow support reduced to Rs. 168 crore in 9M FY2023 due to improvement in cash flows from operations. However, L&T MRHL is expected to receive timely support, whenever required.

Liquidity position

For the CE rating: Strong

L&T's liquidity is strong, as reflected by its sizeable cash and bank balances and liquid investments of ~Rs. 35,000 crore as on March 31, 2022 at the consolidated level (excluding cash and bank balances and liquid investments in L&T Finance Holdings Limited) and unutilised fund-based limits of ~Rs. 25,000 crore at the standalone level. The existing liquidity, along with the expected cash flows from operations, are estimated to be strong in comparison to its debt servicing obligations in the near to

medium term. In addition, L&T derives significant financial flexibility with substantial stake in its listed subsidiaries and its ability to raise additional debt, if need be.

For the rating without credit enhancement: Adequate

L&T MRHL's liquidity position is adequate with unencumbered cash and bank balance of around Rs. 115.5 crore as on September 30, 2022. It has outstanding CPs worth Rs. 4,400 crore, which will be due for refinancing over the next 9-12 months, which exposes the company to the refinancing risk. Nevertheless, being a part of the L&T Group lends strong financial flexibility to the company and mitigates refinancing risk, as these CPs are backed by letter of comfort from L&T Limited.

Rating sensitivities

Positive factors – Not Applicable

Negative factors – The rating assigned to the NCD programme of L&T MRHL would remain sensitive to any change in the credit profile of the guarantor/support provider, L&T Limited.

Analytical approach

Analytical Approach	Comments
Applicable rating methodologies	Corporate Credit Rating Methodology Approach for rating debt instruments backed by third-party explicit support
Parent/Group support	Parent/Group Company: Larsen & Toubro Limited ([ICRA]AAA(Stable)/A1+) The rating notes the strength of the PSU and put option provided by the sponsor, and the payment mechanism designed to ensure timely payment on the NCDs, as per the terms of the transaction.
Consolidation/Standalone	Not applicable; L&T MRHL's rating is based on the credit enhancement from L&T For L&T's rating approach, please refer here .

About the company

L&T MRHL, a special purpose vehicle (SPV), was incorporated to implement the Hyderabad Metro Rail Project. The concession agreement (CA) was signed between the Government of Andhra Pradesh (GoAP) and L&T MRHL on September 4, 2010. The project was awarded to L&T MRHL on a long-term concession of 35 years, with an option for extension of the concession period by another 25 years. The project is operated in the public private partnership (PPP) mode on design, build, finance, operate and transfer (DBFOT) basis. The SPV was initially promoted by L&T Infrastructure Development Projects Limited (L&T IDPL; 99%) and L&T Limited (1%). In March 2017, L&T Limited purchased the stake of L&T IDPL in the project and hence, L&T MRHL is now a wholly-owned subsidiary of L&T Limited. The Hyderabad Metro Rail Project commenced operations along three corridors spanning 66.5 km in length. L&T MRHL is also entitled to commercially develop the parking and circulation areas amounting to 18.5 mn sq ft adjacent to stations and includes two depots.

The project witnessed delay of 32 months owing to issues related to right of way (RoW) approvals, changes in project alignment among others. Consequently, the total project cost was revised to Rs. 18,975 crore from the original Rs. 16,375 crore. The increased cost was funded by external debt and promoter sub-debt in the ratio 2.2:1.

Key financial indicators

	FY2021	FY2022
Operating income (Rs. crore)	189.6	338.6
PAT (Rs. crore)	-1766.8	-1745.8
OPBDIT/OI (%)	-43.3%	5.5%
PAT/OI (%)	-931.8%	-515.5%
Total outside liabilities/Tangible net worth (times)	235.3	-11.40
Total debt/OPBDIT (times)	-193.96	954.59
Interest coverage (times)	-0.1	0.01

Source: Annual report; PAT: Profit after tax; OPBDIT: Operating profit before depreciation, interest, taxes and amortisation

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

Rating history for past three years

	Instrument	Current Rating (FY2023)				Chronology of Rating History for the Past 3 Years			
		Type	Amount Rated (Rs. crore)	Amount Outstanding as on Dec 31, 2022 (Rs. crore)	Date & Rating in	Date & Rating in FY2022		Date & Rating in FY2021	
					Jan 20, 2023	Jan 20, 2022	Jan 21, 2021	Oct 16, 2020	Aug 29, 2019
1	NCD I	Long Term	250.00	250.00	[ICRA]AAA (CE)(Stable)	[ICRA]AAA (CE) (Stable)	[ICRA]AAA (CE)(Stable)	[ICRA]AAA (CE)(Stable)	[ICRA]AAA (SO)(Stable)
2	NCD II	Long Term	250.00	250.00	[ICRA]AAA (CE)(Stable)	[ICRA]AAA (CE) (Stable)	[ICRA]AAA (CE)(Stable)	[ICRA]AAA (CE)(Stable)	[ICRA]AAA (SO)(Stable)
3	NCD III	Long Term	250.00	250.00	[ICRA]AAA (CE)(Stable)	[ICRA]AAA (CE) (Stable)	[ICRA]AAA (CE)(Stable)	[ICRA]AAA (CE)(Stable)	[ICRA]AAA (SO)(Stable)
4	NCD IV	Long Term	-	-		[ICRA]AAA (CE) (Stable) Withdrawn	[ICRA]AAA (CE)(Stable)	[ICRA]AAA (CE)(Stable)	[ICRA]AAA (SO)(Stable)
5	NCD V	Long Term	-	-		[ICRA]AAA (CE) (Stable) Withdrawn	[ICRA]AAA (CE)(Stable)	[ICRA]AAA (CE)(Stable)	[ICRA]AAA (SO)(Stable)

Complexity level of the rated instrument

Instrument	Complexity Indicator
NCD	Simple

The Complexity Indicator refers to the ease with which the returns associated with the rated instrument could be estimated. It does not indicate the risk related to the timely payments on the instrument, which is rather indicated by the instrument's credit rating. It also does not indicate the complexity associated with analysing an entity's financial, business, industry risks or complexity related to the structural, transactional, or legal aspects. Details on the complexity levels of the instruments are available on ICRA's website: [Click Here](#)

Annexure I: Instrument details

ISIN	Instrument Name	Date of Issuance / Sanction	Coupon Rate	Maturity Date	Amount Rated (Rs. crore)	Current Rating and Outlook
INE128M08011	NCD I	18-Jun-15	9.81%	18-Jun-35	250.00	[ICRA]AAA(CE)(Stable)
INE128M08029	NCD II	02-Nov-15	9.81%	02-Nov-35	250.00	[ICRA]AAA(CE)(Stable)
INE128M08037	NCD III	28-Jan-16	9.85%	28-Jan-36	250.00	[ICRA]AAA(CE)(Stable)

Source: Company

Annexure II: List of entities considered for consolidated analysis

Not applicable

ANALYST CONTACTS

Rajeshwar Burla
+91 40 4547 4243
rajeshwar.burla@icraindia.com

Vinay Kumar G
91 40 4547 4225
vinay.g@icraindia.co.in

Ashish Modani
+91 20 6606 9912
ashish.modani@icraindia.com

Vamshi Kinnera
+91 40 4547 4224
vamshi.kinnera@icraindia.com

RELATIONSHIP CONTACT

L. Shivakumar
++91-22-30470000
shivakumar@icraindia.com

MEDIA AND PUBLIC RELATIONS CONTACT

Ms. Naznin Prodhani
Tel: +91 124 4545 860
communications@icraindia.com

Helpline for business queries

+91-9354738909 (open Monday to Friday, from 9:30 am to 6 pm)
info@icraindia.com

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ICRA Limited



Registered Office

B-710, Statesman House, 148, Barakhamba Road, New Delhi-110001
Tel: +91 11 23357940-45



Branches



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