

January 19, 2024

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	6.60	[ICRA]AAA (CE) (Stable); Reaffirmed
Non-convertible debenture programme II (NCD-II)	250.00	1.00	[ICRA]AAA (CE) (Stable); Reaffirmed
Non-convertible debenture programme III (NCD-III)	250.00	41.50	[ICRA]AAA (CE) (Stable); Reaffirmed
Total	750.00	49.10	

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 ratings factor in the strength of the promoter support undertaking (PSU), and the put option provided by the sponsor, Larsen & Toubro Limited (L&T; rated [ICRA]A1+) and the payment mechanism designed to ensure timely payment on the NCDs, as per the terms of the transaction. The rating notes the strong linkages of L&T Metro Rail (Hyderabad) Limited (L&T MRHL) with the sponsor, L&T, given that the entire L&T MRHL debt is backed by corporate guarantee, letter of comfort or support undertaking by the sponsor and there has been the demonstrated track record of timely financial support from L&T. L&T MRHL refinanced its entire bank debt through a mix of new NCDs and commercial papers (CPs) in December 2021, which are guaranteed by L&T for a total amount of Rs. 13,116 crore.

For detailed rationale of the support provider—L&T—please visit [link](#).

The Stable outlook on the rating of the NCD programmes of L&T MRHL reflects ICRA's expectation that entity will continue to benefit from L&T's strong financial and business position.

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 promoter support undertaking (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 likelihood of support from sponsor – L&T MRHL has strong linkages with the sponsor, L&T, given that the entire debt is backed by corporate guarantee, letter of comfort or support undertaking by the sponsor and demonstrated track record of timely financial support over the years towards operational shortfall and debt servicing requirements.

Payment mechanism 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.

Credit challenges

Weak operational cash flows – The company's revenues witnessed a healthy growth to Rs. 682.53 crore in FY2023 from Rs. 357.14 crore on FY2022, supported by improvement in fare revenues and rental income. Further, it is expected to witness a steady growth in the medium term, supported by improved ridership levels. While it is self-sufficient to take care of operational expenses, L&T MRHL will be relying upon timely completion of the Transit Oriented Development (TOD) monetization and/or financial support from the sponsor in the medium term for meeting the debt servicing obligations. The track record of timely sponsor support in meeting the funding requirements provides comfort.

Sizeable debt levels – The company has total external debt of Rs. 12,206.38 crore as on December 31, 2023, which declined from Rs. 13,724.05 crore as on March 31, 2022. The current outstanding external debt mainly comprises Rs. 8,616 crore of NCDs and Rs. 3,541.28 crore of CPs. It has received Rs. 700 crore from monetisation of 3.5-million square feet (msf) TOD rights, Rs. 2,200 crore from fresh equity infusion by sponsor and Rs. 900 crore as interest-free loan from the Government of Telangana. These proceeds were largely utilised for debt reduction. ICRA notes that the company has sizable repayment obligations in the medium term, which is expected to be refinanced thereby exposing company to refinancing risk. Nevertheless, being part of L&T group lends financial flexibility to the company to refinance in timely manner at competitive rates.

Liquidity position

For the CE rating: Strong

L&T's liquidity is strong, as reflected in its sizeable free cash and bank balances and liquid investments of ~Rs. 41,797 crore as on September 30, 2023, 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. 10,000 crore at the standalone level (including CPs). 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. Going forward, ICRA expects the liquidity to remain strong, with L&T likely to maintain Rs. 12,000-15,000 crore in the form of liquid investments and/or cash balances. 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. 133 crore as on December 31, 2023, to support its operational expenditure. Despite the weak operational cash flows, the company has been consistently maintaining adequate liquidity to cover for a month of debt servicing, which is expected to sustain in the medium term.

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 Rating Approach – Project finance
Parent/Group support	Parent/Group Company: Larsen & Toubro Limited ([ICRA] A1+) The rating takes into account 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	Standalone

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 under 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. 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 69.2 km in length. L&T MRHL is also entitled to commercially develop the parking and circulation areas covering 18.5 msf adjacent to stations and includes two depots. The details of the corridors are as given under:

Project profile – L&T MRHL

Corridors	Section	Length (Km)	Stations
Corridor 1	Miyapur- LB Nagar	29.2	27
Corridor 2	JBS Parade Ground – MG Bus Stand	11.0	8
Corridor 3	Nagole – Shilparamam	29.0	22
Total		69.2	57

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.

L&T MRHL achieved commercial operations date (CoD) on February 7, 2020, when the last corridor between Jubilee Bus Station (JBS) and Mahatma Gandhi Bus Station (MGBS) was opened for use by public. Previously, the company achieved partial commencement on stretches of corridor 1 and 3, covering 24 stations and ~30 Km in track length, on November 29, 2017. It commenced operations on another 17 km stretch (Ameerpet to LB Nagar) on September 24, 2018 and on the 8.6 km stretch (Ameerpet to HiTech city) on March 20, 2019 and on 1.34 km (HiTech City to Raidurg) stretch on November 29, 2019.

Key financial indicators (audited)

	FY2022	FY2023
Operating income	338.6	677.2
PAT	-1745.8	-1315.94
OPBDIT/OI (%)	5.5%	39.4%
PAT/OI (%)	-515.5%	-194.3%
Total outside liabilities/Tangible net worth (times)	-11.40	-11.20
Total debt/OPBDIT (times)	954.59	64.25
Interest coverage (times)	0.01	0.20

Source: Company, ICRA Research; Amount in Rs. crore; 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

The company also faces prepayment risk, given the possibility of accelerated payment upon the breach of certain financial covenants or rating linked triggers. Upon failure to meet the covenants, if the company is unable to get waivers from the lenders/investors or the lenders/investors do not provide it with adequate time to arrange for alternative funding to pay off the accelerated loans, the rating would face pressure.

Rating history for past three years

	Instrument	Current Rating (FY2024)				Chronology of Rating History for the past 3 years			
		Type	Amount Rated (Rs. crore)	Amount Outstanding as of Dec 31, 2023 (Rs. crore)	Date & Rating in	Date & Rating in FY2023	Date & Rating in FY2022	Date & Rating in FY2021	
					Jan 19, 2024	Jan 20, 2023	Jan 20, 2022	Jan 21, 2021	Oct 16, 2020
1	NCD I	Long Term	6.60	6.60	[ICRA]AAA (CE)(Stable)	[ICRA]AAA (CE)(Stable)	[ICRA]AAA (CE)(Stable)	[ICRA]AAA (CE)(Stable)	[ICRA]AAA (CE)(Stable)
2	NCD II	Long Term	1.0	1.0	[ICRA]AAA (CE)(Stable)	[ICRA]AAA (CE)(Stable)	[ICRA]AAA (CE)(Stable)	[ICRA]AAA (CE)(Stable)	[ICRA]AAA (CE)(Stable)
3	NCD III	Long Term	41.50	41.50	[ICRA]AAA (CE)(Stable)	[ICRA]AAA (CE)(Stable)	[ICRA]AAA (CE)(Stable)	[ICRA]AAA (CE)(Stable)	[ICRA]AAA (CE)(Stable)
4	NCD IV	Long Term	-	-			[ICRA]AAA (CE)(Stable) Withdrawn	[ICRA]AAA (CE)(Stable)	[ICRA]AAA (CE)(Stable)
5	NCD V	Long Term	-	-			[ICRA]AAA (CE)(Stable) Withdrawn	[ICRA]AAA (CE)(Stable)	[ICRA]AAA (CE)(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	6.60	[ICRA]AAA(CE)(Stable)
INE128M08029	NCD II	02-Nov-15	9.81%	02-Nov-35	1.0	[ICRA]AAA(CE)(Stable)
INE128M08037	NCD III	28-Jan-16	9.85%	28-Jan-36	41.50	[ICRA]AAA(CE)(Stable)

Source: Company

Annexure II: List of entities considered for consolidated analysis

Not applicable

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