

January 16, 2025

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)	6.60	6.60	[ICRA]AAA (CE) (Stable); Reaffirmed
Non-convertible debenture programme II (NCD-II)	1.00	1.00	[ICRA]AAA (CE) (Stable); Reaffirmed
Non-convertible debenture programme III (NCD-III)	41.50	41.50	[ICRA]AAA (CE) (Stable); Reaffirmed
Total	49.10	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 rating 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]A1+), as well as the payment mechanism designed to ensure timely payment on NCDs as per the terms of the transaction. ICRA takes into account 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 a 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 entirely guaranteed by L&T.

For the 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 the 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 have 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 be reflecting 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 cover all issuer obligations that may arise on the rated NCDs. The sponsor's obligations under the PSU/put option are unconditional and irrevocable.

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.

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 the corporate guarantee, letter of comfort or support undertaking by the sponsor. Further, there is a demonstrated track record of timely financial support over the years towards L&T MRHL's operational shortfall and debt servicing requirements.

Credit challenges

Weak operational cash flows – Although the company revenues improved to Rs. 877.41 crore in FY2024 from Rs. 677.21 crore in FY2023 supported by improvement in fare revenues and rental income, the operational cash flows are insufficient for debt servicing requirements. Given this, L&T MRHL will continue to be dependent upon timely completion of the Transit Oriented Development (TOD) monetization and/or financial support from the sponsor for meeting the debt servicing obligations. Nevertheless, the demonstrated track record of timely sponsor support in meeting the funding requirements provides comfort.

Sizeable debt levels – As on December 31, 2024, the company has an external debt of Rs. 12,460.1 crore, which include Rs. 8,616 crore of NCDs, Rs. 3,795 crore of commercial papers and Rs. 49.1 crore of mezzanine debt. In addition, the company has Rs. 900 crore of interest-free loan from the Government of Telangana. Further, the total debt declined from Rs. 16,659.9 crore as on March 31, 2023, on account of mezzanine debt repayment through fresh equity infusion and monetisation proceeds. The company has monetised 3.5-million square feet (msf) TOD rights and received Rs. 700 crore in FY2024 and Rs. 324 crore in September 2024. ICRA notes that the company has sizeable repayment obligations in the medium term, which are expected to be refinanced. Nevertheless, being part of the L&T Group provides the entity with financial flexibility to refinance its upcoming repayment obligations in a timely manner at competitive rates.

Liquidity position

For the CE rating: Strong

L&T's liquidity is strong, reflected in its sizeable free cash and bank balances and liquid investments of ~Rs. 48,347 crore as on September 30, 2024, at the consolidated level (excluding cash and bank balances and liquid investments in LTFHL) and unutilised fund-based limits of over ~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. In addition, L&T derives exceptional financial flexibility with a substantial stake in its listed subsidiaries and its ability to raise additional debt as per requirements.

For the rating without credit enhancement: Adequate

L&T MRHL's liquidity position is adequate, with unencumbered cash and bank balance of ~Rs. 121.48 crore as on December 31, 2024 to support the company's operational expenditure. Despite the weak operational cash flows, the company has been consistently maintaining adequate liquidity to cover a month of debt servicing, supported by the regular ongoing support from its parent.

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 the extension of the concession period by another 25 years. The project is operated under the public private partnership (PPP) mode on a 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 mentioned below:

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 a 32-month delay 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 of 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 public use.

Key financial indicators (audited)

	FY2023	FY2024
Operating income	677.2	877.4
PAT	-1315.9	-555.0
OPBDIT/OI (%)	39.4%	46.2%
PAT/OI (%)	-194.3%	-63.3%
Total outside liabilities/Tangible net worth (times)	-11.2	10.5
Total debt/OPBDIT (times)	64.3	32.2
Interest coverage (times)	0.2	0.3

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:

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 (FY2025)			Chronology of Rating History for the past 3 years		
		Type	Amount Rated (Rs. crore)	Date & Rating in	Date & Rating in FY2024	Date & Rating in FY2023	Date & Rating in FY2022
				Jan 16, 2025	Jan 19, 2024	Jan 20, 2023	Jan 20, 2022
1	NCD I	Long Term	6.60	[ICRA]AAA (CE) (Stable)	[ICRA]AAA (CE) (Stable)	[ICRA]AAA (CE) (Stable)	[ICRA]AAA (CE) (Stable)
2	NCD II	Long Term	1.0	[ICRA]AAA (CE) (Stable)	[ICRA]AAA (CE) (Stable)	[ICRA]AAA (CE) (Stable)	[ICRA]AAA (CE) (Stable)
3	NCD III	Long Term	41.50	[ICRA]AAA (CE) (Stable)	[ICRA]AAA (CE) (Stable)	[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	1.00	[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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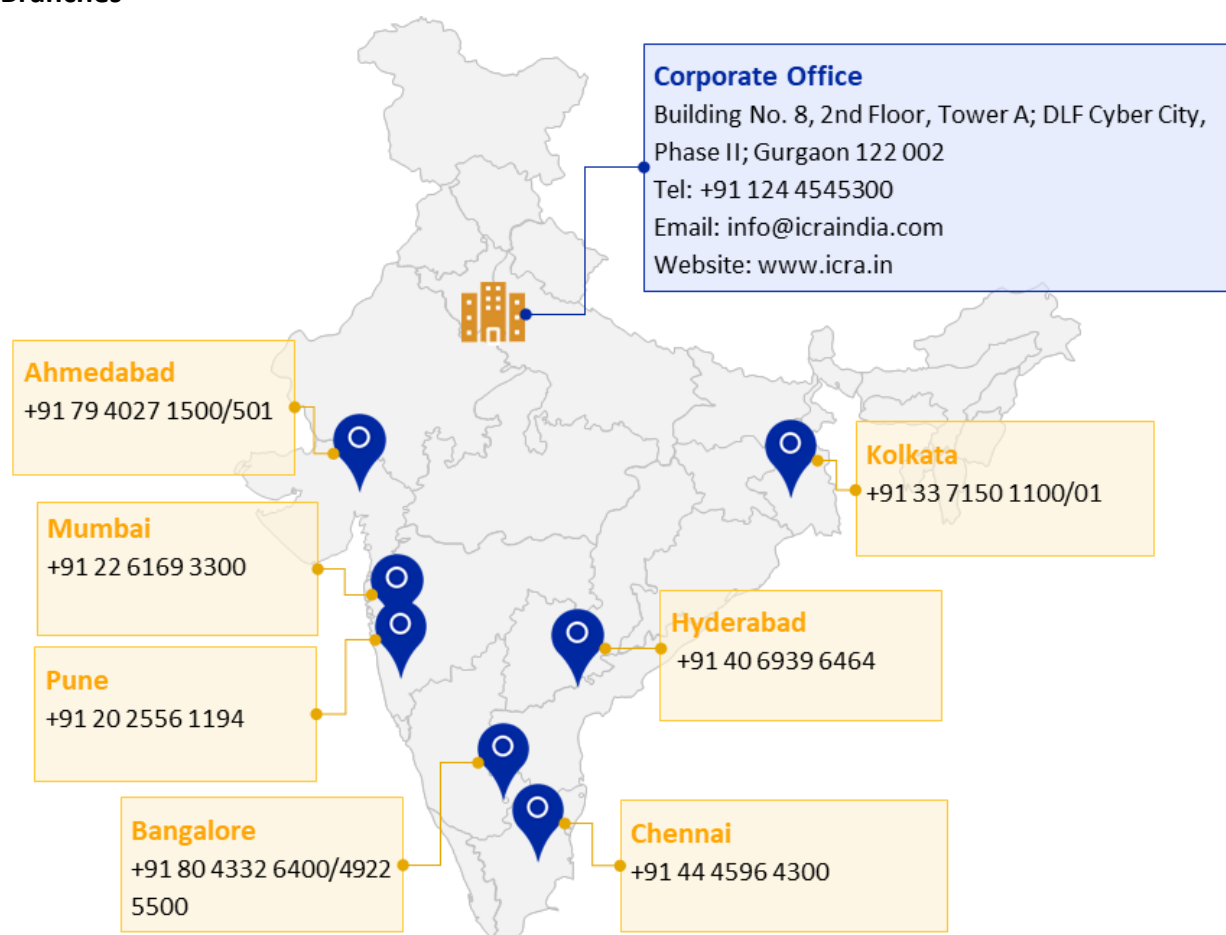
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