

January 11, 2017

## L&T Infrastructure Development Projects Limited

Instrument	Amount	Rating Action
	Rs Crore	
Non Convertible Debentures	250.0	[ICRA]AA+ (S) (Stable); assigned
Non Convertible Debentures	250.0	[ICRA]AA (Stable); withdrawn

\* Instrument Details are provided in Annexure I

### Rating Action

ICRA has assigned a [ICRA]AA+ (S) (pronounced as [ICRA] double A plus S) rating to the Rs. 250 crore<sup>1</sup> proposed Non Convertible Debenture programme of L&T Infrastructure Development Projects Limited (IDPL / “the company”)<sup>2</sup>. The outlook on the rating is Stable. The letter S in parenthesis suffixed to a rating symbol denotes that the rating is supported by a Letter of Comfort.

ICRA has withdrawn the rating of [ICRA]AA (pronounced ICRA double A) outstanding on the proposed NCD programme as there is no amount outstanding against the rated facility.

ICRA also has rating outstanding of [ICRA]AA on the Rs. 1250.0 crore non-fund based facilities, and the Rs. 195 crore non-convertible debentures programme of IDPL. ICRA also has a rating outstanding of [ICRA]AA(SO) (pronounced ICRA double A Structured Obligation) for the Rs. 250 crore term loan programme of the company. The outlook on the long-term rating is stable. These apart, ICRA also has a [ICRA]A1+ (pronounced ICRA A one plus) rating outstanding on the Rs. 1000 crore Commercial Paper programme of the company.

### Rationale

The assigned rating takes into account the credit enhancement provided in the form of a Letter of Comfort from IDPL’s parent company, Larsen & Toubro Limited (L&T, rated [ICRA]AAA with a Stable Outlook) to provide support to IDPL in servicing the Non Convertible Debenture programme. L&T has undertaken to ensure that IDPL is operated and maintained in such a way so as to meet its entire obligations to bondholders under the NCD agreement in a timely manner. While assigning the rating, ICRA has assumed that L&T would have majority control of IDPL during the tenor of the instrument.

IDPL’s standalone credit profile draws strength from its conservative financial profile, the management’s stated intention to limit the extent of leveraging, as well as the operational strengths given that a sizeable number of projects in IDPL’s portfolio are currently operational which provides visibility and stability to future cash flows. In addition, the back-to-back arrangement that IDPL (directly or through its SPVs) enters into with the Engineering, Procurement and Construction (EPC) contractor (generally the construction division of L&T) for meeting the construction obligations as per the respective Concession Agreement (CA) limits IDPL’s risk and liability.

IDPL’s stand-alone ratings are constrained by the existing investment commitment in ongoing projects (some of which are significantly large-sized) over the next two years, which besides increasing company’s funding requirements also exposes it to execution risks in these projects. Also, some of the underperforming projects may require funding support from IDPL to smoothen cash-flow mismatches. Equity/unsecured loan commitment in these projects is expected to be sourced predominantly through the capital infusion by the strategic investor, divestment of mature assets and by upstreaming of surplus cash from its operating SPVs and limited external debt. It is noted that the management has also been actively pursuing avenues for asset divestment – with the last large divestment, that of Dhamra port, achieved in FY 2015 – like direct sale to strategic investors or divestment through the recently announced InvIT route.

<sup>1</sup> 100 lakh = 1 crore = 10 million

<sup>2</sup> For complete rating scale and definitions, please refer to ICRA’s Website, [www.icra.in](http://www.icra.in), or any of the ICRA Rating Publications

In ICRA's view, the key rating sensitivities for IDPL would be the timely execution & the extent of funding support for the Hyderabad Metro project; and, the ability of the company to improve the cash flows of the underperforming road projects. With a project cost upwards of Rs 16,000 crore, the Hyderabad Metro Rail project is by far the largest project in IDPL's portfolio. With the project execution delayed due to alignment disputes with Govt. of Telengana, the project COD is expected to be delayed by 6 to 12 months from the targeted date of June 2017. IDPL's funding commitments towards this project (other than the equity/sub debt commitments which are already tied up) would be towards interest servicing on bank debt and mezzanine debentures, committed cost overrun support and operational funding support. Hence, speedy execution without any further delays/cost overruns as well as targeted ramp up of fare & non-fare revenues post COD would be critical for the credit profile of the SPV and IDPL.

With regards to the underperforming road projects, IDPL has been infusing unsecured loans year on year to support the increasing debt servicing commitments (despite not being contractually obligated). Nevertheless, the management has been looking at various avenues to reduce the cash shortfall in these projects such as limiting traffic diversion, receiving revenue shortfall loans from the Authorities and refinancing of senior debt. The approval received from NHAI for rescheduling the premium payments in two projects and IDPL's termination of concession in three other projects has reduced the debt servicing support requirements projected for these projects significantly. Going forward, the ability of the company to achieve the targeted improvement in the standalone cash flows of these SPVs would be critical in reducing the outgo for IDPL.

### **Key Rating Drivers**

#### **Credit Strengths**

- Operational as well as financial strengths derived from being a part of the L&T Group
- Sizable portion of IDPL's project portfolio is operational as on date
- Equity and Debt Service funding commitment for the next two-three year is expected to be covered on the back of the equity infusion and proposed divestments

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#### **Credit Weakness**

- Large support requirements estimated by ICRA for debt servicing for the Hyderabad Metro project; quick ramp up of fare revenues and receipt of projected advertising/real estate revenues critical
- The projects in the transportation sector are susceptible to traffic risks. Moreover, these projects are exposed to the interest rate risks as the rates have to be reset as per the terms with the lenders.
- In case of certain projects under implementation, support may have to be provided by IDPL in case of cost overruns (up to a maximum of 5% of original project cost for road/metro projects) if covenanted in the agreement with the lenders.

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#### **Description of key rating drivers highlighted above:**

The current portfolio of IDPL consists of 19 major projects; among which there are seventeen road/bridge projects, one power transmission project and one metro project. Out of the 17 projects in the transportation sector, the construction work on fifteen road projects have been completed, thereby eliminating execution and cost overrun risks in these projects. Only Sambalpur-Rourkela and Deccan Tollway stretches are the toll roads under construction (excluding minor works still pending in stretches like KWTL, DHTL & SGTL). The only other under-construction project in the portfolio is Hyderabad Metro. Hence the overall maturity of the portfolio has increased and consequently lower equity commitments are pending on a consolidated basis.

The flagship development project – Hyderabad Metro Rail – with the initial budgeted cost of Rs. 16,375 crore<sup>3</sup> funded through a debt equity of 2.3:1. As such, the project is exposed to risk of time and cost overruns with the current delay expectation being a minimum of six months. Further, given the size of the project entailing a large investment commitment from IDPL, it represents a significant concentration risk for IDPL in the medium term. Nevertheless, these risks are partially mitigated by the strong record of L&T with respect to project execution. L&T Limited has also provided a commitment to infuse upto Rs. 5190 cr as equity / shareholder's loan / subordinate loan as financial assistance as and when required. L&T has also passed a resolution to cover project cost escalation upto 5% as well as provide debt service shortfall coverage for Rs. 504 cr

The weak projects in IDPL's road portfolio include the three GSRDC projects, PNG Tollway and the recently commissioned projects of BPP & SGTL. With the termination of the concessions of Chennai-Tada, Halol-

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<sup>3</sup> As per the latest revised estimates, the project is expected to witness a cost escalation to the tune of Rs. 600 crore

Godhra-Shamlaji & PNG Tollway stretches, the overall support requirements for IDPL have come down sharply. Further the BPP Tollway & Samakhiali Gandhidham projects were selected for NHAI's premium restructuring scheme for stressed projects. As per this scheme, the premium payable to NHAI becomes subordinate to the senior debt servicing and the deferred premium would be payable in the tail years post complete repayment of debt. Consequently, the funding support from IDPL towards the road portfolio is expected to be significantly lower.

IDPL's long term external debt borrowings include the rated NCD issue and NCD of Rs. 150 crore (term loans of Rs. 250 crore to be repaid using the proceeds of the rated NCD issue). The Rs 150 crore NCDs are securitised by cash flows from IDPL's subsidiary – L&T Panipat elevated Corridor Ltd. - and hence the repayment is not dependent on IDPL's standalone revenues. The rated NCD programme is backed by unconditional and irrevocable sponsor support letter from IDPL's parent company, Larsen & Toubro Limited, to provide support to IDPL in servicing the proposed NCD programme. IDPL also has the flexibility to receive ICDs from surplus free cash available with IDPL's subsidiaries. In addition, over the last three years, the company has completed a number of BOT road projects; the future toll or annuity receivables from some of these projects with healthy cash flows can be securitised to generate requisite funds. On a consolidated basis, the total debt stood at Rs 19,450 crore as of March 31, 2016 with the term liabilities of the SPVs contributing the major portion. However, ICRA takes note of the non-recourse nature of the project debt of the SPVs where IDPL's liability is restricted to cost overrun/debt servicing undertakings provided to the lenders.

**Analytical approach:** For the purpose of arriving at the ratings, ICRA has used limited consolidation approach, under which only the proposed equity investments in the subsidiaries' (SPVs) projects, commitments on cost overrun funding and need based support to the relatively weaker SPVs have been considered; debt of SPVs which are project recourse in nature have not been factored in.

The rating takes into account the credit enhancement provided in the form of a Letter of Comfort from IDPL's parent company, Larsen & Toubro Limited (L&T, rated [ICRA]AAA with a Stable Outlook) to provide support to IDPL in servicing the Non Convertible Debenture programme. L&T has undertaken to ensure that IDPL is operated and maintained in such a way so as to meet its entire obligations to bondholders under the NCD agreement in a timely manner.

#### **Links to applicable criteria**

Corporate Credit Rating – A Note on Methodology

<http://www.icra.in/Files/Articles/2009-October-Rating-Corp-Rating-Methodology.pdf>

#### **About the Company**

L&T Infrastructure Development Projects Limited (formerly L&T Holdings Limited) was promoted by Larsen & Toubro Limited (L&T) in February 2001 to act as the holding company for the various infrastructure projects that are being developed by L&T. L&T has a stake of 97.45% in IDPL with the balance being held by overseas financial investor Old lane Mauritius III Limited. In 2010-11, two other Private Equity investors viz., IDFC and JP Morgan, were bought out by L&T. The company has raised Rs 2000 crore equity (CCPS, to be converted to equity as per the specified timelines) from Canadian Pension Plan Investment Board (CPPIB) and hence L&T's stake is expected to get diluted post the conversion.

IDPL has promoted and executed several infrastructure projects through public-private partnership, in the field of highways and expressways, bridges, seaports/terminals, power transmission, airport, water supply, wind energy, real estate development, IT and industrial parks. The current investment portfolio of IDPL consists of 19 major projects; among which there are seventeen road/bridge projects, one power transmission project and one metro project. This apart, IDPL has also developed a 8.7 MW wind power project. All projects, other than the Wind Power project and the Nagpur SEZ project, are being developed in project specific SPVs.

Entity	Sector	IDPL's Stake (%)	Status
L&T Interstate Road Corridor Ltd. (IRCL)	Roads – A	100%	Operational
L&T Transportation Infrastructure Ltd. (TIL)	Roads– T	IDPL - 74% L&T Ltd – 26%	Operational
L&T Vadodara Bharuch Tollway Ltd. (VBTL)	Roads – T	100%	Operational
L&T Krishnagiri Thopur Toll Road Ltd. (KTTL)	Roads – T	100%	Operational
L&T Western Andhra Tollways Ltd. (WATL)	Roads – T	100%	Operational
L&T Devihalli Hassan Tollways Ltd. (DHTL)	Roads – T	100%	Operational
L&T Krishnagiri Walajahpet Tollways Ltd, (KWTL)	Roads – T	100%	Operational
L&T BPP Tollways Ltd. (BPP)	Roads – T	100%	Operational
L&T Sambalpur Rourkela Toll Ltd (SRTL)	Roads – T	100%	Construction
L&T Panipat Elevated Corridor Ltd. (PECL)	Roads – T	100%	Operational
L&T Halol Shamlaji Tollway Ltd. (HSTL)	Roads – T	100%	Arbitration*
L&T Chennai Tada Tollways Ltd. (CTTL)	Roads – T	100%	Arbitration*
L&T Samakhiali Gandhidham Tollway Ltd	Roads – T	100%	Operational
Entity	Sector	IDPL's Stake (%)	Status
L&T Rajkot Vadinar Tollway Ltd. (RVTL)	Roads – T	100%	Operational
L&T Ahmedabad Maliya Tollway Ltd. (AMTL)	Roads – T	100%	Operational
L&T Deccan Tollways Ltd. (DTL)	Roads – T	100%	Construction
PNG Tollways Ltd. (PNG)	Roads – T	48%- IDPL 26%- L&T Ltd. 26%- Ashoka Buildcon	Arbitration*
L&T Metro Rail (Hyderabad) Ltd. (MRHL)	Metro Rail	99%	Construction
Kudgi Transmission Limited	Transmission	100%	Construction

*\*IDPL has terminated the Concession and the matter is currently under arbitration*

#### **L&T's Profile**

Larsen & Toubro Limited (L&T) is a leading engineering and construction company in India with a nationwide as well as international presence. It is headquartered in Mumbai. It has interests in infrastructure, power, metallurgical & material handling, heavy engineering, shipbuilding, electrical & automation, machinery and industrial products and realty. Apart from India, it has a significant presence in the Middle East. Through its subsidiaries, associate companies and joint ventures, the group is involved in hydrocarbon business, IT services, financial services, and infrastructure development ventures.

**Status of non-cooperation with previous CRA:** Not applicable

**Any other information:** Not applicable

**Rating History for last three years:**
**Table: Rating History**

S.No	Name of Instrument	Current Rating			Chronology of Rating History for the past 3 years		
		Type	Rated amount (Rs. Crores)	Month-year & Rating	Month-year & Rating in FY2017	Month-year & Rating in FY2016	Month-year & Rating in FY2015
				January 2017	November 2016	-	-
1	Non-Convertible Debentures	Long Term	250.0	[ICRA]AA+ (S) (Stable)	-	-	-
2	Non-Convertible Debentures	Long Term	250.0	Withdrawn	[ICRA]AA (Stable)		

**Complexity level of the rated instrument:**

ICRA has classified various instruments based on their complexity as "Simple", "Complex" and "Highly Complex". The classification of instruments according to their complexity levels is available on the website [www.icra.in](http://www.icra.in)

**Annexure-1**
**Details of Instrument**

<b>Name of the instrument</b>	<b>Date of issuance</b>	<b>Coupon rate</b>	<b>Maturity Date</b>	<b>Size of the issue (Rs. Cr)</b>	<b>Current Rating and Outlook</b>
Non-Convertible Debentures	Dec 2016	8.6%	Dec 2026	250.00	[ICRA]AA+ (S) (Stable)
Non-Convertible Debentures	May 2012	10.06%	April 2017- Rs 15 cr; April 2018 – Rs 20 cr April 2019 – Rs 20 cr; April 2020 – Rs 25 cr; April 2021 – Rs 25 cr; April 2022 – Rs 30 cr	195.00	[ICRA]AA (Stable)
Term Loans	-	-	-	250.00	[ICRA]AA(SO) (Stable)
Bank Guarantee	-	-	-	1250.00	[ICRA]AA (Stable)
Commercial Paper	-	-	-	1000.00	[ICRA]A1+

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About ICRA Limited:

**ICRA Limited** was set up in 1991 by leading financial/investment institutions, commercial banks and financial services companies as an independent and professional investment Information and Credit Rating Agency.

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