

## L&T Metro Rail (Hyderabad) Limited

September 27, 2018

### Summary of rated instruments

Instrument*	Current Rated Amount (Rs. crore)	Rating Action
Non-Convertible Debenture Programme	250.00	Provisional [ICRA]AAA(SO)(Stable); Assigned
Non-Convertible Debenture Programme	750.00	[ICRA]AAA(SO)(Stable); outstanding
<b>Total</b>	<b>1,000.00</b>	

\*Instrument details are provided in Annexure-1

### Rating action

ICRA has assigned Provisional [ICRA]AAA(SO) (pronounced Provisional ICRA triple A Structured Obligation) <sup>1</sup> rating to the Rs. 250.00-crore<sup>2</sup> non-convertible debenture (NCD) programme of L&T Metro Rail (Hyderabad) Limited (L&T MRHL). The outlook on the long-term rating is Stable.

The letters 'SO' in parenthesis, suffixed to a rating symbol, stands for 'Structured Obligation'. An SO rating is specific to the rated issue, its terms, and its structure. SO ratings do not represent ICRA's opinion on the general credit quality of the issuers concerned.

The ratings assigned are provisional as of now (as denoted by the prefix 'Provisional' before the rating symbol) and are subject to the fulfilment and review of all pending actions/documentation pertaining to the facility rated by ICRA. The final ratings may differ from the provisional ratings in case the completed actions/documentation are not in line with ICRA's expectations.

ICRA also has a rating of [ICRA]AAA(SO)(Stable) outstanding for Rs. 750.00 crore NCD programme of the company.

### Rationale

The assigned provisional rating factors in the strength of the Corporate Guarantee (CG) and Put Option provided by the sponsor, Larsen & Toubro Limited (L&T; rated [ICRA]AAA(Stable)/A1+), and the payment mechanism designed to ensure timely payment on the NCDs, as per the terms of the transaction.

For detailed rationale of L&T, please visit [link](#)

For detailed rationale on the outstanding rating for Rs. 750.00 crore NCD programme, please visit [link](#).

### Outlook: Stable

The Stable outlook on rating of the NCD programme of L&T MRHL reflects the Stable outlook on L&T's rating. The outlook may be revised if there is a change in the outlook of L&T's rating.

<sup>1</sup> For complete rating scale and definitions, please refer to ICRA's website [www.icra.in](http://www.icra.in) or other ICRA Rating Publications

<sup>2</sup> 100 lakh = 1 crore = 10 million

## Key rating drivers

### Credit strengths

**Corporate Guarantee and Put Option provided by sponsor:** The NCDs have a scheduled tenor of 12 years from the deemed date of allotment. The principal amount on the NCDs is payable in a bullet instalment on the maturity date. The coupon amount is payable on an annual basis. The NCDs carry issuer Put/Call Option at the end of 3 years, 5 years and 7 years, respectively from the deemed date of allotment. L&T's obligations under the CG and the Put Option taken together cover all issuer obligations that may arise on the rated NCDs. The sponsor's obligations under the CG/Put Option are unconditional and irrevocable.

**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 CG (for coupon payment) or Put Option (for NCD redemption) 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. The sponsor undertakes that pursuant to the exercise of the Put Option it would deposit the requisite funds in the account of the NCD investors on the option settlement date.

### Credit challenges

**Sizeable funding support anticipated during tenor of SPV's debt:** The lag in physical progress of the project with respect to the original implementation schedule and the financial progress may lead to cost overruns. This, in conjunction with the anticipated initial stabilisation period, results in expectations of sizeable funding support for the project. Though L&T has committed to provide financial support to cover project cost escalation up to 5% as well as provide debt service shortfall coverage for Rs. 503 crore, the shortfall can be significantly higher. However, the payment obligation to the rated NCD investors remains insulated as L&T has extended an unconditional and irrevocable CG and Put option to provide support for coupon repayments and principle repayment respectively.

**Analytical approach:** For arriving at the ratings, ICRA has applied its rating methodologies as indicated below.

#### Links to applicable criteria:

[Approach for rating debt instruments backed by third-party explicit support](#)

### About the company

L&T MRHL, a special purpose vehicle (SPV), was incorporated to undertake the implementation of the Hyderabad Metro Rail Project. The concession agreement (CA) was signed between 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 being developed in 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 is being developed along three corridors spanning 71.16 km in length. The details of the corridors are as given under:

### EXHIBIT 1. Project profile - MRHL

Corridors	Section	Length (Km)	Stations (#)
Corridor 1	Miyapur- LB Nagar	28.87	27
Corridor 2	JBS - Falaknuma	14.78	16
Corridor 3	Nagole - Shilparamam	27.51	23
<b>Total</b>		<b>71.16</b>	<b>66</b>

Source: L&T MRHL

L&T MRHL achieved commercial operations date (CoD) on partial stretches of corridor 1 and 3, covering 24 stations and ~30 Km in track length, on November 29, 2017. The project has seen a steady rise in monthly ridership from February 2018. The cumulative ridership since the CoD (on partial stretches) till July 2018 has been 17 million passengers with total fare collection of Rs. 63.5 crore. The average daily ridership for July 2018 was 82,700 passengers. L&T MRHL has also commissioned a 16 km stretch of elevated metro between Ameerpet and LB Nagar on September 24, 2018.

The SPV is also entitled to commercially develop the parking and circulation areas adjacent to 25 stations (57 acres equivalent) and at the three depots as per CA. The scope of this project shall include construction and procurement of the rail system and transit-oriented development at the site, as well as operation and maintenance of the rail system. The total project cost of Rs 16,375 crore is being funded through promoter's contribution of Rs. 3,439 crore [includes equity of Rs. 2,439 crore (15% of TPC) and unsecured loans of Rs. 1,000 crore (6%)], grant of Rs. 1458 crore (9%) and the remaining through term loans of Rs. 11,478 crore (70%).

### Key financial indicators

	FY2017	FY2018
Operating Income (Rs. crore) *	10.1	62.7
PAT (Rs. crore)	2.8	(58.4)
OPBDIT/OI (%)	41.6%	8.3%
RoCE (%)	-11.8%	-1.8%
Total Debt/TNW (times)	4.4	4.9
Total Debt/OPBDIT (times)	2,125.8	2,041.4
Interest coverage (times)	0.9	0.1

\* Operating Income excludes construction contract revenue of Rs. 1346.1 crore for FY2018 and 1562.9 crore for FY2017

### About the sponsor

Larsen & Toubro Limited (L&T) is a Mumbai-based leading engineering and construction company in India with domestic as well as international presence. It has interests in infrastructure, power, metallurgical and material handling, heavy engineering, shipbuilding, electrical and 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.

## Key financial indicators

	FY2017	FY2018
Operating Income (Rs. crore)	65,723.9	74,462.6
PAT (Rs. crore)	5,453.7	5,387.3
OPBDIT/OI (%)	9.7%	10.0%
RoCE (%)	14.5%	15.1%
Total Debt/TNW (times)	0.23	0.21
Total Debt/OPBDIT (times)	1.65	1.42
Interest coverage (times)	4.86	5.19

For detailed rationale of L&T, please visit [link](#)

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

## Any other information: None

## Rating history for last three years

S. No.	Instrument	Current Rating (FY2019)				Chronology of Rating History for the Past 3 Years							
		Type	Amount Rated (Rs. crore)	Amount Outstanding (Rs. crore)	Date & Rating	Date & Rating	Date & Rating in FY2018	Date & Rating in FY2017	Date & Rating in FY2016				
					September 2018	August 2018	June 2017	March 2017	February 2016	November 2015	July 2015	June 2015	
1	NCD Long Term	750.00	750.00	[ICRA]AAA (SO)(Stable)	[ICRA]AAA (SO)(Stable)	[ICRA]AAA (SO)(Stable)	[ICRA]AAA (SO)(Stable)	Provisional [ICRA]AAA (SO)(Stable)	ICRA]AA (SO)(Stable)	[ICRA]AA (SO)(Stable)	[ICRA]AA (SO)(Stable)	Provisional [ICRA]AA (SO)(Stable)	
					- 750.00	- 750.00	- 750.00	- 750.00	- 250.00	-250.00;	-250.00;	-250.00;	- 1,000.00*
									Provisional [ICRA]AA (SO)(Stable), Withdrawn - 250.00 *	Provisional [ICRA]AA (SO)(Stable)	Provisional [ICRA]AA (SO)(Stable)		
2	NCD Long Term	250.00	-	Provisional [ICRA]AAA (SO)(Stable)	-	-	-	-	-	-	-	-	

\* Out of the Rs. 1000 crore of NCDs rated in June 2015, Rs. 250 crore of provisional rating was withdrawn in February 2016 as the NCDs were not placed

## 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: Instrument Details

ISIN No	Instrument Name	Date of Issuance / Sanction	Coupon Rate	Maturity Date	Amount Rated (Rs. crore)	Current Rating and Outlook
*	NCD	*	*	*	250.00	Provisional [ICRA]AAA(SO)(Stable)
INE128M08011	NCD	18-Jun-15	9.81%	18-Jun-35	250.00	[ICRA]AAA(SO)(Stable)
INE128M08029	NCD	02-Nov-15	9.81%	02-Nov-35	250.00	[ICRA]AAA(SO)(Stable)
INE128M08037	NCD	28-Jan-16	9.85%	28-Jan-36	250.00	[ICRA]AAA(SO)(Stable)

*\*Not placed yet*

*Source: L&T Metro Rail (Hyderabad) Limited*

## ANALYST CONTACTS

**Shubham Jain**

+91 124 4545 306  
[shubhamj@icraindia.com](mailto:shubhamj@icraindia.com)

**Abhishek Gupta**

+91 124 4545 863  
[abhishek.gupta@icraindia.com](mailto:abhishek.gupta@icraindia.com)

**Nitin Kumar**

+91 124 4545 845  
[nitin.kumar2@icraindia.com](mailto:nitin.kumar2@icraindia.com)

**Vibhor Mittal**

+91 22 6114 3440  
[vibhor.mittal@icraindia.com](mailto:vibhor.mittal@icraindia.com)

**Sachin Joglekar**

+91 22 6114 3470  
[sachin.joglekar@icraindia.com](mailto:sachin.joglekar@icraindia.com)

## RELATIONSHIP CONTACT

**L Shivakumar**

+91 22 6114 3406  
[shivakumar@icraindia.com](mailto:shivakumar@icraindia.com)

## MEDIA AND PUBLIC RELATIONS CONTACT

**Ms. Naznin Prodhani**

Tel: +91 124 4545 860  
[communications@icraindia.com](mailto:communications@icraindia.com)

### Helpline for business queries:

+91-124-2866928 (open Monday to Friday, from 9:30 am to 6 pm)

[info@icraindia.com](mailto:info@icraindia.com)

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For more information, visit [www.icra.in](http://www.icra.in)

## ICRA Limited

### Corporate Office

Building No. 8, 2nd Floor, Tower A; DLF Cyber City, Phase II; Gurgaon 122 002

Tel: +91 124 4545300

Email: [info@icraindia.com](mailto:info@icraindia.com)

Website: [www.icra.in](http://www.icra.in)

### Registered Office

1105, Kailash Building, 11th Floor; 26 Kasturba Gandhi Marg; New Delhi 110001

Tel: +91 11 23357940-50

### Branches

Mumbai + (91 22) 24331046/53/62/74/86/87

Chennai + (91 44) 2434 0043/9659/8080, 2433 0724/ 3293/3294,

Kolkata + (91 33) 2287 8839 /2287 6617/ 2283 1411/ 2280 0008,

Bangalore + (91 80) 2559 7401/4049

Ahmedabad+ (91 79) 2658 4924/5049/2008

Hyderabad + (91 40) 2373 5061/7251

Pune + (91 20) 6606 9999

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