L&T Infrastructure Development Projects Limited

May 04, 2017

Ratings

Facilities	Amount (Rs. crore)	Rating[1]	Rating Action
Non-Convertible Debenture Issue	**135 (reduced from 150) (Rupees One hundred and Thirty Five crore only)**	**CARE AA; Stable [Double A; Stable]**	Reaffirmed

Details of instruments/facilities in Annexure-1

Detailed Rationale & Key Rating Drivers

The rating assigned to the NCD issue of L&T Infrastructure Development Projects Limited (LTIDPL) continues to factor in operational and financial benefits enjoyed by LTIDPL being a part of the L&T group which has proven operational track record in the engineering and construction industry, major share of projects in LTIDPL's portfolio being operational and its healthy capital structure and periodic divestment of stake in completed projects.

The rating is however constrained by execution risk associated with large-sized projects under implementation notwithstanding strong project execution track record of the group, traffic and revenue risk associated with its SPV's projects, majority of which are toll-based. The rating also takes note of funding support to some of the SPVs that are faced with cash flow shortfall and largely debt-funded nature of its SPV's projects.

Going forward, ability of SPVs to achieve envisaged traffic growth & become self-sustaining and acquisition of new projects will be the key rating sensitivities.

Detailed description of the key rating drivers

Key Rating Strengths

Benefits derived from being part of L&T

LTIDPL is the holding company for L&T group's various infrastructure project investments. The parent, L&T, with a track record of about seven decades, is an established and dominant engineering & construction major with presence across wide range of industries such as oil & gas, refineries & chemical complexes, industrial projects, power and infrastructure. L&T has strong competencies across the segments and sound track record of executing projects.

Large share of LTIDPL's projects are operational

Of LTIDPL's present portfolio of 19 projects, 13 projects (68%) were operational as on February 28, 2017, two projects are terminated and under arbitration, one project under proposal for SDR and three projects are under implementation. Of the 13 operational projects, 5 projects were operational for a reasonably long time with surplus free cash. The surplus generated in these projects would be available to LTIDPL in the form of loans & advances from subsidiaries.

Favorable capital structure supported by periodic equity infusion and divestments of stake in SPVs

LTIDPL generates regular income from operation & maintenance of projects commissioned by its subsidiaries, providing advisory services on financing and engineering, dividend from associates/ subsidiaries and wind power generation. In addition to the above, from time to time, LTIDPL also generates income from sale of investments. In the past LTIDPL has divested stake in different entities. LTIDPL's healthy net worth of Rs.4,987 crore as on March 31, 2016 was a result of periodic divestments of its stake in completed projects besides infusion of fresh equity from the promoter and investors. Overall gearing stood low at 0.17 times as on March 31, 2016. LTIDPL is also in the process of selling one of its operational SPVs.

Favourable prospects for the construction sector on the back of various initiatives undertaken by government albeit with inherent challenges

The inherent risk involved in the construction industry including aggressive bidding, traffic risk, interest rate risk, volatile commodity prices and delay in project progress due to resistance towards land acquisition and regulatory clearances collectively affecting the credit profile of the developers in past. The government through National Highway Authority of India (NHAI) has taken various steps to revive the road sector.

NHAI has also made few changes in the clauses of model concession agreement which is expected to benefit the industry players including L&T IDPL in the medium term. NHAI has started awarding projects on hybrid annuity model for BOT projects. Hybrid annuity model is expected to reduce the equity requirements of the new BOT projects for the developers in the medium to long term.

Key Rating Weaknesses

Construction risk associated with projects under implementation

[1]*Complete definition of the ratings assigned are available at www.careratings.com and other CARE publications*

LTIDPL as on February 28, 2017, has only two road projects and one metro project which are in various stages of implementation and exposed to project implementation risk. Project implementation risk is to an extent outweighed by the project execution skills of the L&T group. All the SPVs of LTIDPL enter into a back-to-back arrangement with the EPC contractor for meeting the construction obligations of the SPV under the respective concession agreement. Generally, engineering and construction division of L&T takes the EPC contract. However, with respect to the recently secured projects, LTIDPL has taken the EPC contract.

Traffic and revenue risk associated with its toll-based road / metro projects

Except one, all the road projects of LTIDPL portfolio are toll based. Toll based nature of the projects exposes the company to cash flow risk arising out of traffic flow and toll collection over the tenure of the loan facility. Even though sizeable portion of the project portfolio is operational providing revenue visibility and limiting the execution risk, some of the projects were faced with shortfall in cash flow.

Funding Support of LTIDPL towards SPVs

LTIDPL had total investments of Rs.4,913 crore as on March 31, 2016 (including equity investments & mezannine debt in Subsidiaries, associates, joint ventures, other companies) and loans and advances to subsidiaries of Rs.1,184 crore (including preference share, debenture and shortfall funding). During 9MFY17, the company had made equity investments of Rs.130 crore in subsidiaries and associates and Rs.140 crore in the form of preference share and Rs.29 crore in the form of Loans & advances.

Analytical approach:

Standalone considering the commitment/support to SPVs

Applicable Criteria

Criteria on assigning Outlook to Credit Ratings
CARE's Policy on Default Recognition
Rating Methodology: Factoring Linkages in Ratings
Financial ratios – Non-Financial Sector

About the Company

L&T Infrastructure Development Projects Limited (LTIDPL), formerly L&T Holdings Limited is promoted by Larsen & Toubro Limited (L&T) and serves as the holding company for the group's various infrastructure projects. As on March 31, 2016, L&T held 97.45% stake in LTIDPL, while the balance is held by a financial investor - Old Lane. Canadian Pension Plan Investment Board (CPPIB) has invested Rs.2,000 crore in the form of Compulsorily convertible preference shares (CCPS) which will be converted into equity in 2018.

LTIDPL, through various Special Purpose Vehicles (SPVs) has promoted and executed several infra projects through public-private partnership in the field of roads, bridges, seaports, airports and wind power. As on December 31, 2016, LTIDPL's existing portfolio comprises 17 road projects, one metro rail project and one power transmission line project.

During FY16, the company registered net loss of Rs.559 crore on a total operating income of Rs.1,021 crore as against net profit of Rs.399 crore on a total operating income of Rs.1,673 crore in FY15. Losses in FY16 was on account of provision for diminution in the value of investments of Rs.573 crore. For the nine-month ended December 31, 2016, the company registered net profit of Rs.16 crore on a total operating income of Rs.433 crore.

Status of non-cooperation with previous CRA: Not Applicable

Any other information: Not Applicable

Rating History for last three years: Please refer Annexure-2

Note on complexity levels of the rated instrument: *CARE has classified instruments rated by it on the basis of complexity. This classification is available at www.careratings.com. Investors/market intermediaries/regulators or others are welcome to write to care@careratings.com for any clarifications.*

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About CARE Ratings:

CARE Ratings commenced operations in April 1993 and over two decades, it has established itself as one of the leading credit rating agencies in India. CARE is registered with the Securities and Exchange Board of India (SEBI) and also recognized as an External Credit Assessment Institution (ECAI) by the Reserve Bank of India (RBI). CARE Ratings is proud of its rightful place in the Indian capital market built around investor confidence. CARE Ratings provides the entire spectrum of credit rating that helps the corporates to raise capital for their various requirements and assists the investors to form an informed investment decision based on the credit risk and their own risk-return expectations. Our rating and grading service offerings leverage our domain and analytical expertise backed by the methodologies congruent with the international best practices.

Annexure-1: Details of Instruments/Facilities

Name of the Instrument	Date of Issuance	Coupon Rate	Maturity Date	Size of the Issue (Rs. crore)	Rating assigned along with Rating Outlook
Debentures-Non Convertible Debentures	-	10.06%	April 27, 2022	135.00	CARE AA; Stable

Annexure-2: Rating History of last three years

Sr. No.	Name of the Instrument/Bank Facilities	Current Ratings			Rating history			
		Type	Amount Outstanding (Rs. crore)	Rating	Date(s) & Rating(s) assigned in 2017-2018	Date(s) & Rating(s) assigned in 2016-2017	Date(s) & Rating(s) assigned in 2015-2016	Date(s) & Rating(s) assigned in 2014-2015
1.	Debentures-Non Convertible Debentures	LT	135.00	CARE AA; Stable	-	1)CARE AA (26-Apr-16)	1)CARE AA (23-Apr-15)	1)CARE AA (17-Apr-14)

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