

March 28, 2024^(Revised)

LEA Associates South Asia Private Limited: Ratings reaffirmed

Summary of rating action

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Fund-based – Working capital facilities	37.00	37.00	[ICRA]A+(Stable); reaffirmed
Non-fund based facilities	175.00	175.00	[ICRA]A+(Stable)/[ICRA]A1+; reaffirmed
Unallocated limits	13.00	13.00	[ICRA]A+(Stable)/[ICRA]A1+; reaffirmed
Total	225.00	225.00	

*Instrument details are provided in Annexure-I

Rationale

The reaffirmation of the ratings continues to factor in the established presence and track record of LEA Associates South Asia Private Limited (LASA) in providing consultancy services across diverse sectors and its strong client profile. Its established track record enables the company to receive repeat orders from its major customers. The ratings further derive comfort from the company's healthy order book position and an order book/operating income of 2.2 times as on November 30, 2023, aided by steady order intake in the last few years. Hence, the revenue visibility is expected to remain healthy in the medium term. However, the timely execution of the projects remains crucial.

The company's financial risk profile remains healthy with a comfortable capital structure and strong liquidity position. The surplus cash balances have improved with steady execution and limited capex/repayment obligations. The company had free cash balances of Rs. 150.98 crore as on March 31, 2023, which broadly remained at similar levels as on latest date. Further, the fund-based limits of Rs. 37 crore remained minimally utilised as on Feb 29, 2024. The working capital intensity of the company is supported by advances from customers as well as back-to-back payment terms with sub-consultants.

Majority of LASA's revenues are from India, but for its overseas projects, the company's profitability remains exposed to foreign currency fluctuation risk in the absence of a hedging policy. ICRA also notes the employee-intensive nature of the consulting business, the high cost per employee and the challenges of retaining key personnel. In FY2023, the company had paid out higher performance bonus to its employees. This, coupled with competition from smaller players in bidding in domestic projects, has resulted in a decline in operating margins.

The ratings are also constrained by LASA's potential susceptibility to delayed payments as majority of the receivables pertains to Government clients where there have been delays in the recovery of dues. This may impact the company's ability to make timely payments to its sub-consultants due to the back-to-back nature of the contracts. However, this is mitigated by the sizeable free cash balances at the company's disposal which can be utilised to make payments to the sub-consultants, especially since the company does not intend to pay any dividend at this stage. ICRA also notes that with the exception of a few projects, LASA's debtor realisation has been relatively healthy.

The Stable outlook assigned to the company reflects ICRA's expectation that LASA would continue to maintain its credit profile, driven by healthy order inflow and execution, resulting in improved profit margins and a strong liquidity position.

Key rating drivers and their description

Credit strengths

Established track record in consulting business with diversified service profile – LASA has a diversified service profile, offering services in various disciplines such as roads and highways, railways, urban development, traffic and transportation and water resources. It has an experience of more than 30 years in providing engineering and project consultancy services across various project stages - from feasibility studies and engineering designs to project management consulting. LASA's core competency lies in the roads and highway segment, which includes both supervision and highway-DPR, resulting in healthy order book generation. The company's established track record enables it to receive repeat orders from its major clients such as National Highways Authority of India (NHAI). The diversified portfolio protects it from cyclical downturns in a specific industry to some extent.

Healthy order book position provides medium-term visibility – The company has a healthy order book position and an order book/operating income of 2.15 times as on November 30, 2023, aided by steady order intake in the last few years. Hence, the revenue visibility is expected to remain healthy in the medium term.

Strong client profile ensures low counterparty credit risks – LASA's customer profile includes major Government authorities, including the NHAI and Rail Vikas Nigam Limited (RVNL). The company also participates and executes contracts in the overseas market such as Ethiopia, Rwanda, Kenya, Uganda, Mozambique, Tanzania, Malawi, Zambia, Lao PDR, Bangladesh and Oman, which are primarily funded by multilateral agencies such as the World Bank and the African Development Bank. Hence, the credit risk in the overseas projects remains low.

Healthy financial profile – The financial risk profile of LASA is comfortable, reflected in the controlled debt levels with strong leverage indicators and TOL/ TNW of 0.8 times as on March 31, 2023. The company has limited long-term debt and limited utilisation of fund-based working capital facilities. Further, the coverage indicators have remained comfortable over the years. The company's strong liquidity position is evident from its healthy unencumbered cash and bank balances of Rs. 151 crore as on March 31, 2023, which broadly remained at similar levels as on the latest date. The operating margins declined in FY2023 due to the high bonus payout to employees and competitive bidding reducing margins. However, the company may retain cash in the company as and when required, limiting the employee bonus.

Credit challenges

Competitive pressure from established local, multinational and boutique firms - The company faces competition from several large consulting companies, including Consulting Engineering Services (CES), RITES Limited, Louis Berger, Aarvee Associates Engineers & Consultants Private Limited, Intercontinental Consultants and Technocrats (ICT). However, LASA's high technical expertise and its strong track record of operations have supported its revenue growth over the years. Its operating margins have declined to 4.5% in FY2023 from 7.3% in FY2022 due to higher competition from smaller companies who are bidding aggressively and the higher employee bonus payouts by the company.

Employee-intensive nature of consulting business – Employee retention remains crucial, given the high costs associated with training its employees for the execution of projects. The company's ability to retain critical talent remains crucial for maintaining its competitive position as most of the projects are awarded on the basis of the technical expertise of the key personnel and its past track record.

Exposed to forex risks – The lack of hedging mechanisms for overseas operations exposes the company to unfavourable foreign exchange movements. The risk, however, is partially mitigated as majority of the revenue is contributed by the domestic market.

Susceptible to delayed receipt of payments from clients – LASA is susceptible to delayed payments as majority of the receivables pertain to Government clients where recovery is delayed owing to some issues. However, the company’s debtors exceeding six months have reduced over the past few months owing to improved realisation. ICRA also notes that with the exception of a few projects, LASA’s debtor realisation has been relatively healthy.

Liquidity position: Strong

The company’s liquidity position is strong with minimal utilisation of fund-based limits. Also, the company’s non-fund based utilisation remains modest, averaging at ~47% during the January 2023 to December 2023 period with no past instances of BG invocation. Further, LASA had free cash of Rs. 151 crore as on March 31, 2023, which broadly remained at similar levels as on the latest date with limited capital expenditure and minimal repayment obligations. The company has historically met its working capital requirements through internal accruals, while remaining in a cash surplus position.

Rating sensitivities

Positive factors – The ratings could be upgraded if there is a healthy accretion to fresh orders across segments and geographies on a sustained basis, supported by strong order execution and improving operating profitability. Further, improvement in the collection cycle could lead to an upgrade.

Negative factors – Pressure on the ratings could emerge if there is any significant decline in the company’s revenues and profitability. Further, any elongation in the debtor cycle and/or any substantial write-off of debtors, stretching the company’s liquidity position, may result in a downgrade. The ratings could also be downgraded if the interest coverage falls below 5.0 times on a sustained basis.

Analytical approach

Analytical Approach	Comments
Applicable rating methodologies	Corporate Credit Rating Methodology
Parent/Group support	Not Applicable
Consolidation/Standalone	The ratings are based on the standalone financial statements of the company

About the company

LEA Associates South Asia Private Limited (LASA), incorporated in 1993, is a ~99.99% subsidiary of LEA Group Holding Inc, Canada, which is held by employees. LASA provides design consultancy and construction supervision for highways and consultancy related to services such as roads, bridges, flyovers, and railway tracks, etc. In addition, it provides services like planning of urban transportation, traffic, water resources, etc. The company operates from rented premises located in multiple states of India, including New Delhi (corporate office), Andhra Pradesh, Assam, Bihar, Maharashtra, Odisha, etc. Apart from India, the company has its branch offices in Uganda, Ethiopia, Bangladesh, Oman, Tanzania, Kenya, Mozambique, Malawi, Rwanda, Lao PDR, Ghana and Zambia; most of these overseas projects are being funded by reputed financial institutions like the World Bank and African Development Bank.

Key financial indicators (audited)

LASA	FY2022	FY2023
Operating income	356.2	413.1
PAT	16.7	16.2
OPBDIT/OI	7.3%	4.5%
PAT/OI	4.7%	3.9%
Total outside liabilities/Tangible net worth (times)	0.9	0.8
Total debt/OPBDIT (times)	0.1	0.1
Interest coverage (times)	6.7	4.3

Source: Company, ICRA Research; All ratios as per ICRA's calculations; 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

Rating history for past three years

Instrument	Type	Current rating (FY2024)		Chronology of rating history for the past 3 years			
		Amount rated (Rs. crore)	Amount outstanding as on Feb 29, 2024 (Rs. crore)	Date & rating in FY2024	Date & rating in FY2023	Date & rating in FY2022	Date & rating in FY2021
				Mar 28, 2024	Jan 06, 2023	Oct 29, 2021	Oct 07, 2020
1	Fund-based working capital facilities	37.0	-	[ICRA]A+ (Stable)	[ICRA]A+ (Stable)	[ICRA]A+ (Stable)	[ICRA]A+ (Stable)
2	Non-fund based limits	175.0	-	[ICRA]A+ (Stable)/ [ICRA]A1+	[ICRA]A+ (Stable)/ [ICRA]A1+	[ICRA]A+ (Stable)/ [ICRA]A1	[ICRA]A+ (Stable)/ [ICRA]A1
3	Interchangeable limits	-	-				[ICRA]A+ (Stable)
4	Unallocated limits	13.0	-	[ICRA]A+ (Stable)/ [ICRA]A1+	[ICRA]A+ (Stable)/ [ICRA]A1+	[ICRA]A+ (Stable)/ [ICRA]A1	

Complexity level of the rated instruments

Instrument	Complexity Indicator
Long-term fund-based – Working capital facilities	Simple
Non-fund based facilities – Bank guarantee	Simple
Unallocated limits	NA

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	Coupon Rate	Maturity	Amount Rated (Rs. crore)	Current Rating and Outlook
-	Working capital facilities	NA	NA	NA	37.00	[ICRA]A+(Stable)
-	Bank guarantee	NA	NA	NA	175.00	[ICRA]A+(Stable)/[ICRA]A1+
-	Unallocated limits	NA	NA	NA	13.00	[ICRA]A+(Stable)/[ICRA]A1+

Source: Company

[Please click here to view details of lender-wise facilities rated by ICRA](#)

Annexure II: List of entities considered for consolidated analysis – Not Applicable
Corrigendum

Document dated March 28, 2024 has been corrected with the revision mentioned as follows:

Incorrect PAT figure mentioned in the key financial indicators table, which has now been corrected.

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