May 17, 2024

L&T Sargent & Lundy Limited: Ratings reaffirmed

Summary of rating action

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Long term/short term, non-fund based – bank guarantee	20.00	20.00	[ICRA]AA (Stable)/[ICRA]A1+; reaffirmed
Long term/short term, unallocated limits	5.00	5.00	[ICRA]AA (Stable)/[ICRA]A1+; reaffirmed
Long term/short term, interchangeable limits	(5.00)^	(5.00)^	[ICRA]AA (Stable)/[ICRA]A1+; reaffirmed
Total	**25.00**	**25.00**	

**Instrument details are provided in Annexure-I*

^Includes sublimit of bank guarantee - Rs. 5.00 crore cash credit facility, Rs 0.50 crore for Post Shipment Credit in Foreign Currency (PSCFC), Rs. 0.50 crore letter of credit. As such, total utilisation of all limits to remain within total BG limits and should not exceed Rs. 20.00 crore at any point of usage.

Rationale

The ratings reaffirmation continues to favourably factor in the established position of L&T Sargent & Lundy Limited (LTSL) in the engineering and power consultancy space along with operational, technical and financial support available to the company as it a 50:50 joint venture (JV) between Larsen & Toubro Limited (L&T, rated [ICRA]AAA (Stable)/[ICRA]A1+) and Sargent & Lundy LLC (S&L, a globally renowned power consultancy firm). The ratings also factor in the company's comfortable financial profile, characterised by limited dependence on external debt, and a strong liquidity position.

The ratings are, however, constrained by the concentration of the company's operations towards the power sector (mainly coal and gas-based plants). ICRA notes the decline in thermal capacity additions during the recent years, following the Government's increased focus on renewable energy. While this has resulted in moderation in order inflows in the coal-based power sector segment for LTSL, the overall revenues were supported by the increasing share of revenue from the gas-based power sector segment in 9M FY2024. Besides, higher execution of orders from the international market while partnering with S&L along with the benefits accruing from the operating leverage has contributed to improvement of LTSL's operating profit margin to 13.7% in 9M FY2024 against 9.4% in FY2023. Moreover, the company has order book worth Rs. 143.6 crore as on December 31, 2023, which provides revenue visibility in the near term. Going forward, the company plans to further focus on gaining traction from the international market and new sectors including renewables and nuclear, among others. ICRA also notes the substantial dividend payout (Rs. 20 crore per annum) by the company. Despite the low capital-intensive business and the presence of adequate cash and liquid balances, build-up of net worth will be critical from the credit perspective. The ratings are also constrained by the company's exposure to intense competition from domestic as well as international power consultancy players. ICRA also notes that given the high billing towards the year end of every fiscal, the company's receivable position as on fiscal year end is high; however, a significant portion of these receivables are less than 90 days.

The Stable outlook on the [ICRA]AA rating reflects ICRA's opinion that LTSL will maintain its strong liquidity position and financial profile, aided by a pick-up in order inflows as well as LTSL's increased focus on international markets.

Key rating drivers and their description

Credit strengths

Strong parentage The company derives strong support from its parents, L&T and S&L, which hold a ~50% stake each in LTSL. While L&T is a leading engineering and construction company in India, S&L is a renowned player in the power industry worldwide, with a track record of more than 125 years. LTSL has close business linkages with its parents, sales to which contributed ~55% to the company's total revenue in 9M FY2024. The ratings also factor in the likelihood of its parent, L&T, extending financial support to LTSL because of the close business linkages between them.

Established player in the consulting space for power plants – Incorporated in 1995, LTSL is an established consultancy firm in the power sector, with a proven track record in power engineering and designing skills. LTSL provides a complete range of services including engineering and designing of power plants from the concept to the commissioning of open/simple cycle plants, combined cycle plants, cogeneration plants, coal-based plants (both subcritical and supercritical technology) and associated fields. LTSL has also expanded its horizons in the renewable (solar/wind/biomass) energy and nuclear energy spaces.

Robust financial profile – The company has a robust capital structure, with limited dependence on external debt. Besides, its liquid investments of Rs. 54.1 crore as well as unutilised fund-based limits of Rs. 5 crore as on December 31, 2023 support LTSL's liquidity profile.

Credit challenges

Revenue and profitability susceptible to investments in power sector – The company is highly dependent on the power sector (mainly coal and gas-based plants) because of which the order flow and consequently, the revenues remain vulnerable to the fortunes of the said sector. Besides, the profit margin remains vulnerable to order inflow and execution, given that a significant part of the cost structure is fixed. While the order inflow from the coal-based power sector segment for LTSL was lower in 9M FY2024, the overall revenues were supported by the increasing share of revenue from the gas-based power sector segment. Moreover, the company's order book position stood at Rs. 143.6 crore as on December 31, 2023, which provides revenue visibility in the near term. Going forward, the company plans to focus on the international market and new sectors including renewables, nuclear, among others.

Intense competition from domestic and global consultancy players – There is intense competition in the power consultancy or engineering space with presence of various Government entities, private companies, and multinational players. However, LTSL benefits from its association with parents, L&T and S&L, and the resultant technical expertise.

Liquidity position: Strong

LTSL's liquidity is strong with limited reliance on external debt and absence of any repayment obligation. While a large dividend payout could affect the company's liquidity to an extent, steady cash generation, absence of any major capital expenditure (capex) plan, unutilised bank limits of Rs. 5 crore and cash and liquid investments worth Rs. 54.1 crore as on December 31, 2023 provide adequate cushion to the liquidity profile.

Rating sensitivities

Positive factors – Any near-term rating upgrade is unlikely, unless the company demonstrates a substantial growth in revenues and profitability, along with prudent working capital management.

Negative factors – Pressure on the ratings may emerge in case of any weakening of linkage with L&T or weakening of L&T's credit profile. Further, a significant decline in revenues and profitability or a stretch in the working capital cycle or any large dividend outflow, adversely impacting the company's liquidity profile and debt coverage indicators will also be a negative factor.

Analytical approach

Analytical Approach	Comments
Applicable rating methodologies	Corporate Credit Rating Methodology
Parent/Group support	Parent/Group Company: Larsen & Toubro Limited (L&T). The ratings assigned to LTSL factors in the reasonable likelihood of its parent, L&T [rated [ICRA]AAA (Stable)/[ICRA]A1+], extending financial support to it because of the close business linkages between them.
Consolidation/Standalone	Standalone

About the company

Incorporated in 1995, LTSL is an equally capitalised JV of L&T and S&L. L&T is a leading engineering and construction company in India with a nationwide as well as international presence. S&L is acknowledged as a premier engineering company with exclusive focus on the power industry worldwide for over 125 years. LTSL provides a complete range of engineering and design of power plants from the concept to the commissioning of open/simple cycle plants, combined cycle plants, cogeneration plants, coal-based plants (both subcritical and supercritical technology) and associated fields. LTSL has also expanded its horizons in the renewable (solar/wind/biomass) energy, renovation and modernisation, and transmission and distribution space. The company has executed several ultra supercritical, supercritical, and gas-based power plants, including captive and cogeneration plants.

Key financial indicators (audited)

Standalone	FY2022	FY2023	9M FY2024*
Operating income	103.7	90.7	74.1
PAT	18.7	12.1	9.3
OPBDIT/OI	17.8%	9.4%	13.1%
PAT/OI	18.0%	13.4%	12.6%
Total outside liabilities/Tangible net worth (times)	0.4	0.5	-
Total debt/OPBDIT (times)	0.0	0.6	-
Interest coverage (times)	1071.8	24.5	-

*Source: Company, ICRA Research; * Provisional numbers; 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	Current rating (FY2025)				Chronology of rating history for the past 3 years		
		Type	Amount rated (Rs. crore)	Amount outstanding as of Mar 31, 2024 (Rs. crore)	Date & rating in FY2025	Date & rating in FY2024	Date & rating in FY2023	Date & rating in FY2022
					May 17, 2024	-	Mar 03, 2023	Feb 24, 2022
1	Non-fund based – bank guarantee	Long term and short term	20.00	--	[ICRA]AA (Stable)/ [ICRA]A1+	-	[ICRA]AA (Stable)/ [ICRA]A1+	[ICRA]AA (Stable)/ [ICRA]A1+
2	Unallocated limits	Long term and short term	5.00	--	[ICRA]AA (Stable)/ [ICRA]A1+	-	[ICRA]AA (Stable)/ [ICRA]A1+	[ICRA]AA (Stable)/ [ICRA]A1+
3	Interchangeable limits	Long term and short term	(5.00)	--	[ICRA]AA (Stable)/ [ICRA]A1+	-	[ICRA]AA (Stable)/ [ICRA]A1+	[ICRA]AA (Stable)/ [ICRA]A1+

Complexity level of the rated instruments

Instrument	Complexity Indicator
Long term/short term, non-fund based – bank guarantee	Very Simple
Long term/short term, unallocated limits	NA
Long term/short term, interchangeable limits	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	Coupon Rate	Maturity	Amount Rated (Rs. crore)	Current Rating and Outlook
NA	Long term/short term, non-fund based – bank guarantee	-	-	-	20.00	[ICRA]AA (Stable)/ [ICRA]A1+
NA	Long term/short term, unallocated limits	-	-	-	5.00	[ICRA]AA (Stable)/ [ICRA]A1+
NA	Long term/short term, interchangeable limits	-	-	-	(5.00)	[ICRA]AA (Stable)/ [ICRA]A1+

Source: Company

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

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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.

Today, ICRA and its subsidiaries together form the ICRA Group of Companies (Group ICRA). ICRA is a Public Limited Company, with its shares listed on the Bombay Stock Exchange and the National Stock Exchange. The international Credit Rating Agency Moody's Investors Service is ICRA's largest shareholder.

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