

L&T Sargent & Lundy Limited

September 24, 2018

Summary of rated instruments

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Fund Based- Cash Credit	5.00	-	-
Non-Fund Based Bank Guarantee	20.00	20.00	Reaffirmed at [ICRA]AA/A1+; Outlook revised to Stable from Negative
Long term/short term- Interchangeable	0.00	(5.00)^	Reaffirmed at [ICRA]AA/A1+; Outlook revised to Stable from Negative
Long term/short term unallocated	0.00	5.00	Reaffirmed at [ICRA]AA/A1+; Outlook revised to Stable from Negative
Total	25.00	25.00	

*Instrument details are provided in Annexure-1,

Note: ^Includes sublimit of bank guarantee - Rs. 5.00 crore cash credit facility, Rs 0.50 crore for EPC/PCFC, 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. BG is rated on both the scale and would attract a specific rating depending upon the tenure of usage.

Rating action

ICRA has reaffirmed the ratings of [ICRA]AA (pronounced ICRA double A) and [ICRA] A1+ (pronounced ICRA A one plus) for the Rs. 20.00-crore¹ fund-based and non-fund-based limits and the Rs. 5.00-crore long-term/short-term unallocated limits of L&T Sargent & Lundy Limited (L&T-S&L)². ICRA has revised the outlook on the long-term rating to Stable from Negative.

Rationale

The revision in rating outlook factors in the recovery in the company's profitability and subsequent debt coverage indicators emanating from various cost savings measured undertaken in FY2018. This resulted in a recovery in its operating profitability to 7.9% in FY2018 compared to 0.1% in FY2017. ICRA notes that L&T-S&L's cost structure remains mainly fixed in nature and the cost measures undertaken are primarily related to rationalisation of overhead costs. The same is expected to be recurring in nature and is likely to result in higher absorption of overheads costs, with increasing scale going forward. The order orderbook to revenue (FY2018) remained at 1.2 times as of August 31, 2018 indicating good near-term visibility. The rating continues to favourably factor in the established position of L&T-S&L in the engineering consultancy space, in the power domain, and the benefits derived by virtue of being a joint venture of Larsen & Toubro Limited (L&T, rated [ICRA]AAA (stable) by ICRA) and Sargent & Lundy LLC (S&L, a globally renowned power consultancy firm). The ratings also factor in its zero debt levels, coupled with significant liquid investments on books, reflecting its superior liquidity profile.

¹ 100 lakh = 1 crore = 10 million

² For complete rating scale and definitions, please refer to ICRA's website www.icra.in or other ICRA Rating Publications

The ratings are, however, constrained by the company's sole dependence on the power sector (mainly coal and gas-based plants), which has led to vulnerability in order inflow in the past and thus revenues. Further, its modest scale of operations and exposure to stiff competition from domestic as well as international power consultancy players remain a credit concern. Its profit margin is vulnerable to order inflow and execution, given that a significant part of the cost structure remains fixed in nature. Moreover, efficient management of working capital, especially timely collection of receivables, will remain a key rating monitorable.

Outlook: Stable

ICRA believes that L&T-S&L will continue to benefit from its established presence in the power consultancy space and support from L&T and S&L. The outlook may be revised to Positive with a significant increase in order flow and timely execution of order book leading to substantial growth in revenue and profitability, thereby resulting in further strengthening of the financial risk profile. The outlook may be revised to a Negative in case of a substantial decline in revenue and profitability leading to lower-than-expected cash flow due to lower-than-expected order inflow and/or cancellation/deferment of any key orders or in case of any major stretch in the receivables leading to an increase in the working capital intensity. Further, higher-than-expected dividend, which impacts the overall liquidity profile materially, will also be a negative rating trigger.

Key rating drivers

Credit strengths

Established consultancy firm in the power sector; strong support from parents - Incorporated in 1995, L&T-S&L remains an established consultancy firm in the power sector with a proven track record in power engineering and designing skills. Further, the company derives strong support from its parents -L&T and S&L, which hold ~50% each in L&T-S&L.

Robust capital structure with no debt, resulting in strong coverage indicators; strong liquidity profile with significant liquid investments - The company has a robust capital structure because of limited capital requirements and zero debt, coupled with healthy cash accruals. Consequently, the debt coverage indicators continue to remain strong. Further, it had liquid investments worth Rs. 38.1 crore as at FY2018 end.

Healthy order-book position - The order book position as on August 31,2018 remained healthy at Rs. 121.3 crore, which has grown from Rs. 104.6 crore as on March 31,2018, with few major orders expected further during the current fiscal. The orderbook to operating income (FY2018) remained at 1.2 times as of August 31, 2018 indicating healthy near-term revenue visibility.

Credit challenges

Order inflow and revenues remain susceptible to investments in power sector, profitability vulnerable to the quantum of orders executed - The company's operating income (OI) registered a de-growth of 14% in FY2017 and 12% in FY2018 to ~Rs. 112.5 crore in FY2017 and Rs. 98.5 crore in FY2018 from ~Rs. 131.5 crore in FY2016. This was primarily due to reduction in inflow of orders from the parents, L&T and S&L, with critical orders not materialising and subdued outlook in terms of fresh investments in the thermal power sector. Further, the profitability remains vulnerable to the quantum of orders executed, given the fixed overhead nature of cost structure.

Stiff competition from both domestic and international power consultancy players - The competition in the power consultancy/ engineering space remains very high with intense competition from various Government, private companies and multinational players. However, L&T-S&L benefits in terms of its association with parents L&T and S&L, which not only provides it technical expertise but also provides direct orders to the company.

Elongation in receivable cycle - With focus on third-party sales, growing over three to four years, the collection cycle has elongated and stood at 117 days as of FY2018. The working capital intensity, which generally used to be sub 10%, stood at 20% as of FY2018, with stretch in the collection cycle. Though on a liquidity front, the profile remains robust with liquid investments as well as nil utilisation of cash credit limits, better management of receivables, which keeps working capital cycle under check, will be a key rating sensitivity.

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

Links to applicable criteria:

[Corporate Credit Rating Methodology](#)

About the company:

Incorporated in 1995, L&T-S&L is an equally capitalised joint venture of Larsen & Toubro Limited (L&T, India) and Sargent & Lundy LLC (S&L Chicago, the USA). L&T (rated AAA by ICRA) is a USD 16-billion technology, engineering, construction, manufacturing and financial services conglomerate, with global operations. S&L, Chicago, is acknowledged as a premier engineering company with exclusive focus on the power industry worldwide for over 125 years. L&T-S&L offers the complete gamut of power plant engineering and consultancy services ranging from concept to commissioning and beyond encompassing services like detail engineering, owner's engineering, independent / lender's engineer, special engineering, transmission & distribution, renovation & modernization, renewable energy etc. The company has executed several ultra-supercritical, supercritical and gas-based power plants including captive and cogeneration plants.

The company recorded a net profit of Rs. 9.8 crore on an operating income (OI) of Rs. 98.5 crore in FY2018 as against a net profit of Rs. 2.8 crore on an OI of Rs. 112.5 crore in FY2017.

Key financial indicators (audited)

	FY2017	FY2018
Operating Income (Rs. crore)	112.5	98.5
PAT (Rs. crore)	2.8	9.8
OPBDIT/ OI (%)	0.1%	7.9%
RoCE (%)	7.2%	18.4%
Total Debt/ TNW (times)	-	-
Total Debt/ OPBDIT (times)	-	-
Interest Coverage (times)	2.0	693.2

Status of non-cooperation with previous CRA: Not Applicable

Any other information: None

Rating history for last three years:

Instrument	Type	Current Rating (FY2019)		Chronology of Rating History for the past 3 years				
		Amount Rated (Rs. crore)	Amount Outstanding (Rs. crore)	Date & Rating Sep 2018	Date & Rating in FY2018 Sep 2017	Date & Rating in FY2017 Nov 2016	Date & Rating in FY2016 Oct 2015	
1	Long-term/short-term interchangeable	Long term/Short term	(5.00)*	-	[ICRA]AA (Stable)/A1+	-	-	-
2	Non-Fund based limit	Long term/Short term	20.00	-	[ICRA]AA (Stable)/A1+	[ICRA]AA (Negative)/A1+	[ICRA]AA (Stable)/A1+	[ICRA]AA-(Stable)/A1+
3	Unallocated limit	Long term/Short term	5.00	-	[ICRA]AA (Stable)/A1+	-	-	-

*sublimit of BG facility

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

Annexure-1: Instrument Details

ISIN No	Instrument Name	Date of Issuance / Sanction	Coupon Rate	Maturity Date	Amount Rated (Rs. crore)	Current Rating and Outlook
NA	Long-term/short-term interchangeable	NA	NA	NA	(5.00)*	[ICRA]AA(Stable)/A1+
NA	NFB- Bank Guarantee	NA	NA	NA	20.00	[ICRA]AA(Stable)/A1+
NA	Unallocated Limits to be rated on both the scale	NA	NA	NA	5.00	[ICRA]AA(Stable)/A1+

* sublimits of BG

Source: L&T Sargent & Lundy Limited

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