

August 19, 2024

Leapfrog Engineering Services Limited: Rating downgraded and removed from Issuer Non Cooperating category

Summary of rating action

Instrument [^]	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Long-term – Fund-based – Cash credit	6.00	6.00	[ICRA]D; downgraded from [ICRA]C, removed from Issuer Not Cooperating category*
Long-term – Non-fund based – Others	4.00	4.00	[ICRA]D; downgraded from [ICRA]C, removed from Issuer Not Cooperating category*
Total	10.00	10.00	

*Removed from Issuer Not Cooperating on both info and fee

[^]Instrument details are provided in Annexure-I

Rationale

The rating of Leapfrog Engineering Services Limited (LESL) has been removed from the Issuer Not Cooperating category. The rating action follows co-operation from the entity in sharing the required information. ICRA notes that LESL has delayed in debt servicing during the current fiscal on its term loan. The delays are attributable to stretched working capital cycle, amid increasing scale of operations and limited liquidity cushion. Further, delay in payment from customers resulted in cash flow mismatch and high utilisation of working capital limits (average utilisation ~98% for twelve months ending June 2024). The rating is also constrained by its moderate work order book with outstanding work order of ~Rs. 107 crore as of June 2024 (~0.7 times of FY2024 revenue) providing weak revenue visibility. The company is also exposed to sizeable contingent liabilities in the form of bank guarantees, mainly for contractual performance, mobilisation advances and retention money of ~Rs. 14 crore as on June 30, 2024. ICRA takes note of the longstanding experience of the promoter in the construction sector. The company's ability to materially improve its cash conversion cycle and enhance its working capital lines remains crucial to improve its liquidity position going forward.

Key rating drivers and their description

Credit strengths

Longstanding track record in engineering, procurement and construction (EPC) segment – LESL has a long track record of more than 20 years in the EPC business. Over the years, LESL has developed the required expertise and executed projects in electrical, instrumentation and automation systems.

Credit challenges

Modest scale of operations and stretched working capital cycle – LESL's operating income, despite healthy growth of ~51% to Rs. 158 crore in FY2024, continues to remain modest. With increasing scale of operations, the company's working capital requirements have increased significantly. Apart from this, there has been sizeable delays from few counterparties leading to increased working capital requirements. Also, as on July 31, 2024, LESL has an outstanding receivable of Rs. 17.5 crore, where Rs. 16.2 crore worth of receivables are outstanding for more than 6 months.

Delays in debt servicing due to stretched liquidity – As on March 31, 2024, LESL reported a modest net worth of Rs. 22 crore. Moreover, the liquidity position remains weak, given the stretched working capital cycle. It has limited cushion in sanctioned working capital lines with average utilisation ~98% for twelve months ending in June 2024.

Liquidity position: Poor

LESL's liquidity position is poor, as reflected by the delays in debt servicing in the recent past and the near full utilisation of the working capital limits.

Rating sensitivities

Positive factors – ICRA would upgrade the ratings in case of improvement in the company's liquidity position, along with an adequate track record of timely debt servicing.

Negative factors – Not Applicable

Analytical approach

Analytical Approach	Comments
Applicable rating methodologies	Construction Corporate Credit Rating Methodology Policy on Default Recognition
Parent/Group support	Not Applicable
Consolidation/Standalone	Standalone

About the company

Leapfrog Engineering Services Limited (LESL) was incorporated by Mr. Prabhav N Rao in 2005, in Bangalore, Karnataka. It is an EPC player primarily involved in providing solutions in the field of electrical, instrumentation, industrial automation, fire safety, and building automation systems. It has presence in around 8 countries, i.e., India, Dubai, Kuwait, Bahrain, Kurdistan, Bangladesh, Nigeria, Canada and provides solution across various verticals such as oil and gas, food and beverage, fertilisers, refineries, pharma, metals, hotels and institutions, etc.

Key financial indicators (audited)

	FY2022	FY2023	FY2024
Operating income	41.9	104.9	158.7
PAT	0.9	0.3	16.0
OPBDIT/OI	7.8%	3.1%	13.7%
PAT/OI	2.2%	0.3%	10.1%
Total outside liabilities/Tangible net worth (times)	4.9	10.7	1.3
Total debt/OPBDIT (times)	6.1	4.0	0.6
Interest coverage (times)	1.3	1.4	8.4

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	Current (FY2025)			Chronology of rating history for the past 3 years					
	Type	Amount Rated (Rs Crore)	Aug 19, 2024	FY2024		FY2023		FY2022	
				Date	Rating	Date	Rating	Date	Rating
Cash credit	Long term	6.00	[ICRA]D	28-Dec-2023	[ICRA]C; ISSUER NOT COOPERATING	31-Oct - 2022	[ICRA]C; ISSUER NOT COOPERATING	23-Aug-2021	[ICRA]C; ISSUER NOT COOPERATING
Non-fund based	Long term	4.00	[ICRA]D	28-Dec-2023	[ICRA]C; ISSUER NOT COOPERATING	31-Oct - 2022	[ICRA]C; ISSUER NOT COOPERATING	23-Aug-2021	[ICRA]C; ISSUER NOT COOPERATING

Complexity level of the rated instruments

Instrument	Complexity Indicator
Cash credit	Simple
Non-fund based	Very 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	Cash credit	-	-	-	6.00	[ICRA]D
NA	Non-fund based	-	-	-	4.00	[ICRA]D

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

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