

Press Release

Lagan Engineering Company Limited

December 17, 2018

Rating Upgraded



Total Bank Facilities Rated*	Rs. 12.00 Cr.
Long Term Rating	ACUITE B- / Outlook: Stable (Upgraded from ACUITE D)
Short Term Rating	ACUITE A4 (Upgraded from ACUITE D)

* Refer Annexure for details

Rating Rationale

Acuite has upgraded long-term rating to '**ACUITE B-**' (read as **ACUITE B minus**) from **ACUITE D (read as ACUITE D)** and short term rating of '**ACUITE A4**' (read as **ACUITE A four**) from **ACUITE D (read as ACUITE D)** to the Rs. 12.00 crore bank facilities of Lagan Engineering Company Limited (LECL). The outlook is 'Stable'.

The ratings upgrade factors in the company's track record of timely servicing of term debt, and improvement in liquidity backed by funding in the form of unsecured loan by the group company amounting to Rs.15.67 crore as on March 31, 2018. Also, the accruals have improved to Rs.1.26 crore in fiscal year 2018 as against negative accruals of Rs.0.25 crore in the previous year.

LECL was set up in 1955 by James Mackie & Sons located at Belfast (Northern Ireland) for manufacturing Jute Machineries. It was run under the Government of India from 1978 to 2000 and acquired by Kajaria family in 2000. It is engaged in manufacturing of Jute Machinery such as spreaders, carding and drawing machines, spinning and twisting frames. It mainly sells its products in West Bengal and also exports to Bangladesh. It has manufacturing unit in Hooghly district of West Bengal and administrative office in Kolkata.

Analytical Approach

Acuite has taken a standalone view of the business and financial risk profile of LECL to arrive at the rating.

Key Rating Drivers

Strengths

- **Experienced management and long track record of operations**

LECL has long track record of over six decades in the manufacturing of jute machineries. The company is currently managed by the Kajaria family led by Mr. Anirudh Kajaria.

Weaknesses

- **Modest scale of operation**

The scale of operation is modest with revenue of Rs.19.85 crore in FY2018 as against Rs.10.15 crore in the previous year. Though revenue has shown a y-o-y growth of 95.54 percent, still remains modest.

- **Below average financial risk profile**

The financial risk profile is below average marked by low net worth, high gearing and weak debt protection metrics. The net worth stood low at Rs.1.78 crore as on 31 March, 2018 as compare to Rs.1.63 crore in the previous year. The debt-equity stood high at 13.60 times as on 31 March, 2018 compared to 9.60 times in the previous year. The high debt-equity is on account of unsecured loan received from group company to support the business. The interest coverage ratio stood at 1.79 times in FY2018 as compared to 0.50 times in FY2017.

• Working capital intensive nature of operations

The operations are working capital intensive in nature marked by Gross Current Assets (GCA) of 349 days as on 31 March, 2018 as compare to 641 days in the previous year. The high GCA days are on account of high inventory of 326 days as on 31 March, 2018 as compare to 583 days in the previous year.

Outlook: Stable

Acuite believes that LECL will maintain a 'Stable' outlook over the medium term on account of its experienced management. The outlook may be revised to 'Positive' in case LECL registers higher-than-expected growth in revenues and net cash accruals while maintaining better profit margins. Conversely, the outlook may be revised to 'Negative' in case of lower-than-expected growth in revenues and profitability or deterioration in its financial risk profile.

About the Rated Entity - Key Financials

	Unit	FY18 (Actual)	FY17 (Actual)	FY16 (Actual)
Operating Income	Rs. Cr.	19.85	10.15	10.23
EBITDA	Rs. Cr.	2.47	0.69	0.54
PAT	Rs. Cr.	0.16	-1.33	-1.84
EBITDA Margin	(%)	12.43	6.76	5.26
PAT Margin	(%)	0.83	-13.11	-18.01
ROCE	(%)	7.09	-1.40	-2.79
Total Debt/Tangible Net Worth	Times	13.60	9.49	3.84
PBDIT/Interest	Times	1.79	0.50	0.26
Total Debt/PBDIT	Times	9.56	17.73	19.88
Gross Current Assets (Days)	Days	349	641	696

Status of non-cooperation with previous CRA (if applicable)

None

Any other information

Not Applicable

Applicable Criteria

- Default Recognition - <https://www.acuite.in/criteria-default.htm>
- Manufacturing Entities - <https://www.acuite.in/view-rating-criteria-4.htm>
- Financial Ratios And Adjustments - <https://www.acuite.in/criteria-fin-ratios.htm>

Note on complexity levels of the rated instrument

<https://www.acuite.in/criteria-complexity-levels.htm>

Rating History (Upto last three years)

Date	Name of Instrument / Facilities	Term	Amount (Rs. Cr.)	Ratings/Outlook
27-Dec-2017	Cash Credit	Long Term	5.50	ACUITE D (Assigned)
	Term Loan	Long Term	3.86	ACUITE D (Assigned)
	Proposed Long Term Loan	Long Term	1.14	ACUITE D (Assigned)
	Bank Guarantee	Short Term	1.00	ACUITE D (Assigned)
	Letter of Credit	Short Term	0.50	ACUITE D (Assigned)

***Annexure – Details of instruments rated**

Name of the Facilities	Date of Issuance	Coupon Rate	Maturity Date	Size of the Issue (Rs. Cr.)	Ratings/Outlook
Cash Credit	Not Applicable	Not Applicable	Not Applicable	5.50	ACUITE B- / Stable (Upgraded from ACUITE D)
Term loans	Not Applicable	Not Applicable	Not Applicable	3.86	ACUITE B- / Stable (Upgraded from ACUITE D)
Proposed	Not Applicable	Not Applicable	Not Applicable	1.14	ACUITE B- / Stable (Upgraded from ACUITE D)
Letter of credit	Not Applicable	Not Applicable	Not Applicable	0.50	ACUITE A4 (Upgraded from ACUITE D)
Bank guarantee/Letter of Guarantee	Not Applicable	Not Applicable	Not Applicable	1.00	ACUITE A4 (Upgraded from ACUITE D)

Contacts:

Analytical	Rating Desk
Pooja Ghosh Head– Corporate and Infrastructure Sector Ratings Tel: 033-66201203 pooja.ghosh@acuite.in Aniruddha Dhar Rating Analyst Tel: 033-66201209 aniruddha.dhar@acuiterratings.in	Varsha Bist Manager - Rating Desk Tel: 022-67141160 rating.desk@acuite.in

About Acuité Ratings & Research:

Acuité Ratings & Research Limited (*Erstwhile SMERA Ratings Limited*) is a full-service Credit Rating Agency registered with the Securities and Exchange Board of India (SEBI). The company received RBI Accreditation as an External Credit Assessment Institution (ECAI), for Bank Loan Ratings under BASEL-II norms in the year 2012. Since then, it has assigned more than 6,000 credit ratings to various securities, debt instruments and bank facilities of entities spread across the country and across a wide cross section of industries. It has its Registered and Head Office in Mumbai.

Disclaimer: An Acuité rating does not constitute an audit of the rated entity and should not be treated as a recommendation or opinion that is intended to substitute for a financial adviser's or investor's independent assessment of whether to buy, sell or hold any security. Acuité ratings are based on the data and information provided by the issuer and obtained from other reliable sources. Although reasonable care has been taken to ensure that the data and information is true, Acuité, in particular, makes no representation or warranty, expressed or implied with respect to the adequacy, accuracy or completeness of the information relied upon. Acuité is not responsible for any errors or omissions and especially states that it has no financial liability whatsoever for any direct, indirect or consequential loss of any kind arising from the use of its ratings. Acuité ratings are subject to a process of surveillance which may lead to a revision in ratings as and when the circumstances so warrant. Please visit our website (www.acuite.in) for the latest information on any instrument rated by Acuité.