

## Press Release

### Lagan Engineering Company Limited

December 17, 2018



### Rating Upgraded

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

\* Refer Annexure for details

### Rating Rationale

Acuité 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

Acuité 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**

Acuité 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)          |

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|--|---|
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**About Acuité Ratings & Research:**

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