

Kakum Enterprise

February 03, 2022

Ratings

Facilities	Amount (Rs. crore)	Rating ¹	Rating Action
Long Term Bank Facilities	15.00	CARE BB-; Stable; ISSUER NOT COOPERATING* (Double B Minus; Outlook: Stable ISSUER NOT COOPERATING*)	Revised from CARE BB; Stable (Double B; Outlook: Stable) and moved to ISSUER NOT COOPERATING category
Total Bank Facilities	15.00 (Rs. Fifteen Crore Only)		

Details of facilities in Annexure-1

Detailed Rationale & Key Rating Drivers

CARE has been seeking information from Kakum Enterprise (KE) to monitor the rating(s) vide e-mail communications/ letters dated July 13 2021, January 19 2022 among others and numerous phone calls. However, despite our repeated requests, the firm has not provided the requisite information for monitoring the ratings. In line with the extant SEBI guidelines, CARE has reviewed the rating on the basis of the best available information which however, in CARE's opinion is not sufficient to arrive at a fair rating. Further, KE has not paid the surveillance fees for the rating exercise as agreed to in its Rating Agreement. The rating on KE's bank facilities will now be denoted as **CARE BB-; Stable; ISSUER NOT COOPERATING***.

Users of this rating (including investors, lenders and the public at large) are hence requested to exercise caution while using the above rating(s).

The ratings have been revised and placed under issuer not cooperating category on account lack of information and uncertainty around the credit risk profile of the firm. The rating continues to be constrained by its constitution as a proprietorship firm, small scale of operations, significant geographical concentration with single state operation and high dependence on the Government of Arunachal Pradesh, volatility associated with input prices, high competitive intensity on account of low complexity of work involved with slower recovery of the sector, working capital intensive nature of business. However, the aforesaid constraints are partially offset by its experienced proprietor, healthy order book position indicating satisfactory revenue visibility, counterparty risk mitigated to large extent with the firm's focus on government floated tenders.

Rating Sensitivities: Not Applicable

Detailed description of the key rating drivers

At the time of last rating on November 20, 2020, the following were the rating strengths and weaknesses

Key Rating Weaknesses

Constitution as proprietorship firm

KE, being a proprietorship firm, is exposed to inherent risk of proprietor's capital being withdrawn at time of personal contingency and firm being dissolved upon the death/retirement/insolvency of the partners. Moreover, proprietorship firms have restricted access to external borrowing as credit worthiness of proprietor would be the key factors affecting credit decision for the lenders.

Small scale of operation

The scale of operations remained small as compared to its peers with a PAT of Rs.4.38 crore on total operating income of Rs. 65.20 crore during FY20. Further, the total capital employed of the firm increased to Rs.52.10 crore as on March 31, 2020.

Significant geographical concentration with single state operation and high dependence on Government of Arunachal Pradesh

KE operates in the state of Arunachal Pradesh with majority of the projects executed for construction of buildings and roads. In view of its presence in a single state, the firm is exposed to geographical concentration risk to a large extent. Moreover, the firm is majorly dependent on tenders floated by the state government of Arunachal Pradesh. Accordingly, any geo-political turmoil in the state or other macro- economic issues can restrict the growth of the firm in future.

Volatility associated with input prices

Steel, bitumen, cement and pipes are the major inputs for KE, the prices of which are highly volatile. Moreover, the firm does not have any long-term contracts with the suppliers for the purchase of the aforesaid raw materials. Hence, the profitability margins of the firm are exposed to any sudden spurt in the input material prices. In absence of escalation clauses in the majority of contracts (90% of contracts), any increase in input prices will affect the profitability of the firm.

¹Complete definition of the ratings assigned are available at www.careedge.in and other CARE Ratings Ltd.'s publications

*Issuer did not cooperate; Based on best available information

High competitive intensity on account of low complexity of work involved with slower recovery of the sector

The firm has to bid for contracts based on tenders opened by the government departments. Upon successful technical evaluation of various bidders, the lowest bid is awarded the contract. Since the type of work done by KE is mostly commoditized, the firm faces intense competition from other players. The firm receives projects which majorly are of a short to medium tenure (i.e. to be completed within maximum period of 6 months to 24 months). Apart from this, sluggish economic growth during the past years is also having a negative bearing on the construction sector which may also hinder the growth of the firm.

Working capital intensive nature of business

The operations of the entity remained both working capital and labour intensive as the entity executes orders mainly for state government departments and also have to engage large number of workers (mainly contractual labourers) from time to time basis based on the requirement on the sites. The average collection period remained in the range of 262-275 days during FY19-FY20 as the entity majorly executes contracts for PSU's and state government and have to maintain retention money with the departments. Further, the inventory period remained in the range of 17-18 days during FY19-FY20 which are basically the work-in-progress not certified by the departments.

Key Rating Strengths

Experienced Proprietor

The proprietor, Smt Bengia Yanang (aged about 36 years) has around a decade long experience in the civil construction industry. She looks after the overall management of the firm, with adequate support from a team of experienced personnel. Apart from this, KE is class 1A certified civil constructor with the State government and accordingly has good relationships with government entities in the state of Arunachal Pradesh.

Healthy order book position indicating satisfactory revenue visibility

KE has healthy order book position aggregating Rs.178.21 crore (2.73x of FY20 revenue) as on October 31, 2020, executable within the next 24 months, providing a strong long-term revenue visibility.

Counterparty risk mitigated to large extent with the firm's focus on government floated tenders

KE is class 1A certified civil constructor with the State government, the firm has an established relation with the government departments of Arunachal Pradesh and focus largely on government tenders only. Accordingly, the counter party risk remained minimal for the firm.

Liquidity: Not Applicable

Analytical approach: Standalone

Applicable Criteria

[Policy on default recognition](#)

[Financial Ratios – Non financial Sector](#)

[Rating Outlook and Credit Watch](#)

[Policy in respect of Non-cooperation by issuers](#)

[Rating Methodology – Construction sector](#)

About the Company

Established in 2009, KE is a proprietorship entity engaged in civil construction services and trading of construction material. The key services provided by the entity are construction of buildings, water supply & sewerage system, rain water harvesting, construction of wire rope foot suspension bridge, maintenance of roads and other such services. KE is class 1A certified civil constructor with the State government of Arunachal Pradesh. As prevalent in the industry, Kakum Enterprise participates in tender driven bidding process, and on award of contracts, the entity has to deposit Earnest Money Deposit (EMD), which is refunded after successful completion of the project. The tenure of the contracts ranges from 6-24 months. KE has its controlling office located in Papumpare, Arunachal Pradesh. Smt Bengia Yanang (Proprietor) has around a decade long experience in the construction industry, looks after the day to day operations of the firm.

Brief Financials (Rs. crore)	31-03-2019 (A)	31-03-2020 (A)	FY21-9MFY22
Total operating income	60.71	65.20	NA
PBILDT	7.74	7.91	NA
PAT	4.03	4.38	NA
Overall gearing (times)	0.40	0.25	NA
Interest coverage (times)	7.28	10.89	NA

A: Audited; NA: Not Available

Status of non-cooperation with previous CRA: Not Applicable

Any other information: Not Applicable

Rating History for last three years: Please refer Annexure-2

Covenants of rated instrument / facility: Detailed explanation of covenants of the rated instruments/facilities is given in Annexure-3

Complexity level of various instruments rated for this company: Annexure 4

Annexure-1: Details of Facilities

Name of the Facility	ISIN	Date of Issuance	Coupon Rate	Maturity Date	Size of the Issue (Rs. crore)	Rating assigned along with Rating Outlook
Fund-based - LT-Cash Credit		-	-	-	10.00	CARE BB-; Stable; ISSUER NOT COOPERATING*
Non-fund-based - LT-Bank Guarantee		-	-	-	5.00	CARE BB-; Stable; ISSUER NOT COOPERATING*

Annexure-2: Rating History of last three years

Sr. No.	Name of the Bank Facilities	Current Ratings			Rating history			
		Type	Amount Outstanding (Rs. crore)	Rating	Date(s) & Rating(s) assigned in 2021-2022	Date(s) & Rating(s) assigned in 2020-2021	Date(s) & Rating(s) assigned in 2019-2020	Date(s) & Rating(s) assigned in 2018-2019
1	Fund-based - LT-Cash Credit	LT	10.00	CARE BB-; Stable; ISSUER NOT COOPERATING*	-	1)CARE BB; Stable (20-Nov-20)	1)CARE BB; Stable (09-Sep-19)	1)CARE BB; Stable (03-Dec-18) 2)CARE BB; Stable (23-Jul-18)
2	Non-fund-based - LT-Bank Guarantee	LT	5.00	CARE BB-; Stable; ISSUER NOT COOPERATING*	-	1)CARE BB; Stable (20-Nov-20)	1)CARE BB; Stable (09-Sep-19)	1)CARE BB; Stable (03-Dec-18) 2)CARE BB; Stable (23-Jul-18)

* Long Term

Annexure-3: Detailed explanation of covenants of the rated instrument / facilities: Not Applicable

Annexure 4: Complexity level of various instruments rated for this company

Sr. No	Name of instrument	Complexity level
1	Fund-based - LT-Cash Credit	Simple
2	Non-fund-based - LT-Bank Guarantee	Simple

Annexure 5: Bank Lender Details for this Company

To view the lender wise details of bank facilities please [click here](#)

Note on complexity levels of the rated instrument: CARE Ratings Ltd. has classified instruments rated by it on the basis of complexity. Investors/market intermediaries/regulators or others are welcome to write to care@careedge.in for any clarifications.

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