

Kakum Enterprise

December 04, 2024

Facilities/Instruments	Amount (₹ crore)	Rating ¹	Rating Action
Long Term Bank Facilities	15.00	CARE BB+; Negative	Reaffirmed; Outlook revised from Stable

Details of instruments/facilities in Annexure-1.

Rationale and key rating drivers

The rating assigned to bank facilities of Kakum Enterprise (KE) is constrained by its constitution, small scale of operations, geographical concentration risk, exposure to intense competition and tender driven process risk, moderate order book position, susceptibility of operating margin to volatility in input material prices and labour charges and working capital intensive nature of operation.

The rating, however, continues to derive strength from experienced proprietor, satisfactory profitability margin, satisfactory capital structure and low counterparty risk.

Rating sensitivities: Factors likely to lead to rating actions

Positive factors

- Sizable improvement in the total operating income (TOI) above Rs.100 crore while maintaining current level of operating margins on a sustained basis.
- Execution of orders in hand within stipulated time frame and collection of receivables on a timely and regular basis.

Negative factors

- Any sizeable de-growth in TOI below Rs.50 crore on a sustained basis.
- Delays in execution of orders beyond stipulated time frame and delay in receipt of collection of receivables from customers on a sustained basis.
- Deterioration of capital structure due to withdrawal of capital or increase in total levels with gearing of beyond 2.0x.

Analytical approach: Standalone

Outlook: Negative

The outlook has been revised from 'Stable' to 'Negative' due to low order book in hand leading to concern about the revenue visibility of the firm going forward. The outlook may be revised to stable if there is improvement in the order book of the company leading to stable revenues on sustained basis in near to medium term.

Detailed description of key rating drivers:

Key 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as proprietorship firm: KE, being a proprietorship firm, is exposed to inherent risk of proprietor's capital being withdrawn at time of personal contingency and firm being dissolved upon the death/retirement/insolvency of the proprietor. 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 operations: KE is a relatively small player and its scale of operations have moderated from Rs. 61.78 crore in FY23 to Rs. 57.38 crore in FY24. As per management, the moderation has been majorly owing to site clearance issues in the ongoing work. The small size deprives it the benefits of economies of scale and restricts the financial flexibility of the company in times of stress.

Going forward, the scale of operations is expected to remain stable provided the firm is able to garner ample orders to execute.

Moderate order book position: The firm currently has order book position of around Rs.40 crore as on October 31,2024 which is 0.70x of the TOI in FY24. The moderate order book position raises concern about the maintenance of operations and revenues

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

in the near future. However, the firm is under discussion for a new order of around Rs 50 crore which is expected to get finalised by Dec'24. Achieving sufficient orders in hand will remain a key rating monitorable.

Geographical concentration risk: KE has major presence in the state of Arunachal Pradesh as the firm earns majority of revenue from this state only. In view of its presence in a single state, the firm is exposed to geographical concentration risk to a large extent. Accordingly, any geo-political turmoil in the state or other macro- economic issues can restrict the growth of the firm in future.

Working capital intensive nature of business: The operations of firm are working capital intensive due to tender based and long-term nature of contracts. The firm has a high gross current asset (days) of 383 days in FY24. It also has a high collection period of 279 days in FY24 (FY23:285 days). The collection period is high since it majorly executes contracts for PSU's and state governments and have to maintain retention money with the departments. The firm also has high operating cycle of 230 days in FY24 (FY23:201 days) due to nature of operations.

Intense competition and tender driven process risk: The firm has to bid for the contracts based on tenders opened by the various public sector units/governments. Upon successful technical evaluation of various bidders, the lowest bid is awarded the contract. The firm receives projects which majorly are of a short to medium tenure (i.e. to be completed within maximum period of one to two years). Furthermore, orders are generally tender driven floated by government units indicating a risk of non-receipt of contract in a competitive industry.

Susceptibility of operating margin due to volatility in input prices: The basic input materials for execution of construction projects and works contracts are steel, stone chips, bitumen, cement etc. The prices of which are highly volatile. However, current government agencies' works contract has a price escalation clause which mitigates price volatility risk to some extent. Furthermore, the operating margin of the firm is exposed to any sudden spurt in the input material prices along with an increase in labour prices being in labour intensive industries.

Key strengths

Experienced proprietor: The proprietor, Ms. Bengia Yanang (aged about 40 years) has experience of more than a decade 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 1' certified civil constructor with the State government and accordingly has good relationships with government entities in the state of Arunachal Pradesh.

Satisfactory profitability margins: The profitability margins have remained stable in FY24 with PBILDT margin of 10% in FY24 (10.51% in FY23) and PAT margin of 6.84% in FY24 (7.53% in FY23). The PBILDT margins have remained stable even though there is slight decline in scale of operations. The firm is eligible for income tax exemptions under section 10 (26) of the Income Tax Act 1961.

Satisfactory capital structure: The capital structure of the firm continued to remain satisfactory on the back of largely stable total debt levels and gradual increase in networth of the firm due to accretion of profits. Accordingly, the overall gearing and total debt to GCA stood at 0.26x (P.Y.: 0.24x) and 2.68x (P.Y.: 2.09x) as on March 31, 2024, respectively.

Low counterparty risk: The firm, being Government registered Class A contractor, receives order from PSUs and government departments and thereby reduces counterparty risk to a large extent.

Liquidity: Adequate

The liquidity position of the firm remained adequate marked by low repayment obligation of equipment loan vis-à-vis gross cash accruals amounting Rs.4.91 crore in FY24. It has free cash and liquid investment of Rs. 5.67 crore in addition to lien marked investments of Rs.1.25 crore; supported by current ratio above three as on March 31, 2024. Going forward, the liquidity position of the company is expected to remain adequate on account of lower repayment obligation vis-à-vis gross cash accruals in FY25.

Environment, social, and governance (ESG) risks: Not applicable

Applicable criteria

[Definition of Default](#)

[Liquidity Analysis of Non-financial sector entities](#)

[Rating Outlook and Rating Watch](#)

[Financial Ratios – Non financial Sector](#)
[Construction](#)

About the company and industry

Industry classification

Macroeconomic indicator	Sector	Industry	Basic industry
Industrials	Construction	Construction	Civil Construction

Kakum Enterprise, a proprietorship firm, is an Arunachal Pradesh based class 1 certified civil contractor which is engaged in civil construction services since 2009. Kakum Enterprise participates in tender driven bidding process, and on award of contracts, the entity has to deposit Earnest Money Deposit (EMD), which is being refunded after successful completion of the project. The tenure of the contracts ranges from 6 to 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. She is supported by a team of professionals.

Brief Financials (₹ crore)	March 31, 2023 (A)	March 31, 2024 (A)
Total operating income	61.78	57.38
PBILDT	6.50	5.74
PAT	4.65	3.93
Overall gearing (times)	0.24	0.26
Interest coverage (times)	5.06	4.51

A: Audited; Note: these are latest available financial results

Status of non-cooperation with previous CRA: Not applicable

Any other information: Not applicable

Rating history for last three years: Annexure-2

Detailed explanation of covenants of rated instrument / facility: Annexure-3

Complexity level of instruments rated: Annexure-4

Lender details: Annexure-5

Annexure-1: Details of instruments/facilities

Name of the Instrument	ISIN	Date of Issuance (DD-MM-YYYY)	Coupon Rate (%)	Maturity Date (DD-MM-YYYY)	Size of the Issue (₹ crore)	Rating Assigned and Rating Outlook
Fund-based - LT-Cash Credit		-	-	-	10.00	CARE BB+; Negative
Non-fund-based - LT-Bank Guarantee		-	-	-	5.00	CARE BB+; Negative

Annexure-2: Rating history for last three years

Sr. No.	Name of the Instrument/Bank Facilities	Current Ratings			Rating History			
		Type	Amount Outstanding (₹ crore)	Rating	Date(s) and Rating(s) assigned in 2024-2025	Date(s) and Rating(s) assigned in 2023-2024	Date(s) and Rating(s) assigned in 2022-2023	Date(s) and Rating(s) assigned in 2021-2022
1	Fund-based - LT-Cash Credit	LT	10.00	CARE BB+; Negative	-	1)CARE BB+; Stable (07-Nov-23)	1)CARE B+; Stable; ISSUER NOT COOPERATING* (17-Feb-23)	1)CARE BB-; Stable; ISSUER NOT COOPERATING* (03-Feb-22)
2	Non-fund-based - LT-Bank Guarantee	LT	5.00	CARE BB+; Negative	-	1)CARE BB+; Stable (07-Nov-23)	1)CARE B+; Stable; ISSUER NOT COOPERATING* (17-Feb-23)	1)CARE BB-; Stable; ISSUER NOT COOPERATING* (03-Feb-22)

*Issuer did not cooperate; based on best available information.

LT: Long term

Annexure-3: Detailed explanation of covenants of rated instruments/facilities: Not applicable**Annexure-4: Complexity level of instruments rated**

Sr. No.	Name of the Instrument	Complexity Level
1	Fund-based - LT-Cash Credit	Simple
2	Non-fund-based - LT-Bank Guarantee	Simple

Annexure-5: Lender details

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

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

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