

Kakoti Engineering Works
March 15, 2019

Rating			
Facilities	Amount (Rs. crore)	Rating ¹	Rating Action
Long term Bank Facilities	6.00	CARE B+; Stable Issuer Not Cooperating (Single B Plus; Outlook: Stable; Issuer Not Cooperating)	ISSUER NOT COOPERATING; Based on best available information
Short term Bank Facilities	1.25	CARE A4; Issuer Not Cooperating (A Four; Issuer Not Cooperating)	ISSUER NOT COOPERATING; Based on best available information
Total	7.25 (Rupees Eleven Crore and Forty Lakh only)		

Details of instruments/facilities in Annexure-1

CARE has been seeking information from Kakoti Engineering Works to monitor the rating vide letters/e-mails communications dated 11.10.2018, 26.10.2018, 19.11.2019, 25.01.2019 and numerous phone calls. However, despite our repeated requests, the entity has not provided the requisite information for monitoring the ratings. In line with the extant SEBI guidelines, CARE has reviewed the ratings on the basis of the publicly available information which however, in CARE's opinion is not sufficient to arrive at fair ratings. The rating on Kakoti Engineering Works bank facilities will now be denoted as **CARE B+; Stable/A4; 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.

The ratings assigned to the bank facilities of Kakoti Engineering Works (KEW) are constrained by its partnership nature of constitution, small scale of operations with low profitability margins, significant geographical concentration with single state operation, volatility associated with input prices, working capital intensive nature of business, high competitive intensity on account of low complexity of work involved with sluggish economic scenario and leveraged capital structure with moderate debt coverage indicators. However, the aforesaid constraints are partially offset by its experienced partners along with satisfactory track record of operations, moderate order book position indicating satisfactory revenue visibility and reputed clientele.

Detailed description of the key rating drivers

At the time of last rating in March 29, 2018 the following were the rating strengths and weaknesses:

Key Rating Weaknesses

Partnership nature of constitution

Kakoti Engineering Works, being a partnership firm, is exposed to inherent risk of the partner's capital being withdrawn at time of personal contingency and firm being dissolved upon the death/retirement/insolvency of the partners.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

Small scale of operations with low profitability margins

KEW is a relatively small player in the business of providing oil field services with total operating income and net loss of Rs.21.34 crore and Rs.2.15 crore, respectively, in FY17. The total capital employed was moderate at Rs.71.10 crore as on March 31, 2017. This apart, the PBILDT is comfortable at 31.32% in FY17. However, PAT margins were negative during FY17 due to higher capital charge during the period. The firm has achieved sales of around Rs.22.00 crore during 11MFY18. The small size restricts the financial flexibility of the firm in times of stress and it suffers on account of economies of scale.

Significant geographical concentration with single state operation

KEW operates in the state of Assam with majority of the projects executed for structural fabrication, erection, and commissioning works. In view of its presence in a single state, the firm is exposed to geographical concentration risk to a large extent.

Volatility associated with input prices

Steel, bitumen, cement and pipes are the major inputs for KEW, 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 input 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, any increase in input prices will affect the profitability of the firm.

¹Complete definitions of the ratings assigned are available at www.careratings.com and in other CARE publications

Working capital intensive nature of business

KEW's business of providing oil field services is working capital intensive by nature. The average collection period remained in the range of 67-95 days during FY16-FY17. Accordingly, the average utilization of the cash credit limit remained high at about 95% during the last 12 months ended February, 2019.

High competitive intensity on account of low complexity of work involved with sluggish economic scenario

The firm has to bid for contracts based on tenders and upon successful technical evaluation of various bidders, the lowest bid is awarded the contract. Since the type of work done by KEW is mostly commoditised, 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 fifteen to eighteen months). Apart from this, moderate economic growth during the last three years is also having a negative bearing on the construction sector which may also hinder the growth of the firm.

Leveraged capital structure with moderate debt coverage indicators

Capital structure of the firm remained leveraged as on last three account closing dates owing to high working capital intensity of the business. The debt protection indicators remained low marked by high overall gearing ratio of 9.81x and high total debt to GCA of 47.97x in FY17 on account of higher utilisation in the cash credit limit and decrease in cash accruals during the period. Further, interest coverage was moderately satisfactory during last three years and stood at 1.25x in FY17.

Key Rating Strengths

Experienced partners along with satisfactory track record of operations

Mr. Ripendra Prasad Kakoti (aged 64 years) having around four decades of experience in the construction industry. He looks after the overall management of the firm, with adequate support from other partners and a team of experienced personnel. Further, the firm is into business of providing oil field services since 1988 and thus has a long track record of operations of around three decades.

Moderate order book position indicating satisfactory revenue visibility

KEW has healthy order book position with a moderate order book aggregating Rs.28.06 crore (1.31x of FY17 revenue) as on February 28, 2018, executable within the next 24 months, providing a satisfactory long term revenue visibility.

Reputed clientele

KEW as an established relation with the various PSU's like Oil India Limited, ONGC etc. and focus largely on PSU's tenders only. Accordingly, the counter party risk remained minimal for the firm.

Analytical approach: Standalone

Applicable Criteria

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

[Criteria for Short Term Instruments](#)

[Criteria on assigning Outlook to Credit Ratings](#)

[CARE's Policy on Default Recognition](#)

About the Entity

Established in 1988 as a proprietorship concern, Kakoti Engineering Works (KEW) is majorly engaged in the business of oil field services like steel tubular structure, pipeline, O & M of gas compressor and workover and drilling rigs in Sivasagar, Assam. The firm participates in the tender process of various renowned organisations like Oil India Limited, ONGC etc. and has an order book position of Rs.28.06 crore as on February 28, 2018 which is 1.31x of FY17 revenue. Later, in 1999 the firm changes its constitution to partnership nature of entity.

Mr. Ripendra Prasad Kakoti (aged, 64 years), having around four decades of experience in the construction industry, looks after the day to day operations of the firm. He is duly supported by other partners and a team of experienced professionals.

Liquidity

The liquidity position of the entity remained satisfactory marked by current ratio of 1.98x and quick ratio of 1.98x as on March 31, 2018. The Gross cash accruals also remained moderate at Rs.1.35 crore as on March 31, 2018.

Brief Financials (Rs. crore)	FY16 (A)	FY17 (A)
Total operating income	22.54	21.34
PBILDT	7.05	6.68
PAT	-0.28	-2.15
Overall gearing (times)	7.07	9.81
Interest coverage (times)	2.11	1.25

A: Audited

Status of non-cooperation with previous CRA: Not applicable.

Rating History (Last three years): Please refer Annexure-2

CARE has classified instruments rated by it on the basis of complexity. This classification is available at www.careratings.com. Investors/market intermediaries/regulators or others are welcome to write to care@careratings.com for any clarifications.

Analyst Contact:

Name: Soumen Das

Tel: 033-40581907

Mobile: +91- 9830587029

Email: soumen.das@careratings.com

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About CARE Ratings:

CARE Ratings commenced operations in April 1993 and over two decades, it has established itself as one of the leading credit rating agencies in India. CARE is registered with the Securities and Exchange Board of India (SEBI) and also recognized as an External Credit Assessment Institution (ECAI) by the Reserve Bank of India (RBI). CARE Ratings is proud of its rightful place in the Indian capital market built around investor confidence. CARE Ratings provides the entire spectrum of credit rating that helps the corporates to raise capital for their various requirements and assists the investors to form an informed investment decision based on the credit risk and their own risk-return expectations. Our rating and grading service offerings leverage our domain and analytical expertise backed by the methodologies congruent with the international best practices.

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CARE's ratings are opinions on credit quality and are not recommendations to sanction, renew, disburse or recall the concerned bank facilities or to buy, sell or hold any security. CARE has based its ratings/outlooks on information obtained from sources believed by it to be accurate and reliable. CARE does not, however, guarantee the accuracy, adequacy or completeness of any information and is not responsible for any errors or omissions or for the results obtained from the use of such information. Most entities whose bank facilities/instruments are rated by CARE have paid a credit rating fee, based on the amount and type of bank facilities/instruments.

In case of partnership/proprietary concerns, the rating /outlook assigned by CARE is based on the capital deployed by the partners/proprietor and the financial strength of the firm at present. The rating/outlook may undergo change in case of withdrawal of capital or the unsecured loans brought in by the partners/proprietor in addition to the financial performance and other relevant factors.

Annexure-1: Details of Instruments/Facilities

Name of the Instrument	Date of Issuance	Coupon Rate	Maturity Date	Size of the Issue (Rs. crore)	Rating assigned along with Rating Outlook
Fund-based - LT-Cash Credit	-	-	-	6.00	CARE B+; Stable; ISSUER NOT COOPERATING* Issuer not cooperating; Based on best available information
Non-fund-based - ST-Bank Guarantees	-	-	-	1.25	CARE A4; ISSUER NOT COOPERATING* Issuer not cooperating; Based on best available information

Annexure-2: Rating History of last three years

Sr. No.	Name of the Instrument/Bank Facilities	Current Ratings			Rating history			
		Type	Amount Outstanding (Rs. crore)	Rating	Date(s) & Rating(s) assigned in 2018-2019	Date(s) & Rating(s) assigned in 2017-2018	Date(s) & Rating(s) assigned in 2016-2017	Date(s) & Rating(s) assigned in 2015-2016
1.	Fund-based - LT-Cash Credit	LT	6.00	CARE B+; Stable; ISSUER NOT COOPERATING* Issuer not cooperating; Based on best available information	-	1)CARE B+; Stable (30-Mar-18)	-	-
2.	Non-fund-based - ST-Bank Guarantees	ST	1.25	CARE A4; ISSUER NOT COOPERATING* Issuer not cooperating; Based on best available information	-	1)CARE A4 (30-Mar-18)	-	-

CONTACT**Head Office Mumbai****Ms. MeenalSikchi**

Cell: + 9198190 09839

E-mail: meenal.sikchi@careratings.com**Ms. RashmiNarvankar**

Cell: + 9199675 70636

E-mail: rashmi.narvankar@careratings.com**Mr. AnkurSachdeva**

Cell: + 9198196 98985

E-mail: ankur.sachdeva@careratings.com**Mr. Saikat Roy**

Cell: + 9198209 98779

E-mail: saikat.roy@careratings.com**CARE Ratings Limited****(Formerly known as Credit Analysis & Research Ltd.)**

Corporate Office: 4th Floor, Godrej Coliseum, Somaiya Hospital Road, Off Eastern Express Highway, Sion (East), Mumbai - 400 022

Tel: +91-22-6754 3456 | Fax: +91-22-6754 3457 | E-mail: care@careratings.com**AHMEDABAD****Mr. Deepak Prajapati**32, Titanium, Prahaladnagar Corporate Road,
Satellite, Ahmedabad - 380 015

Cell: +91-9099028864

Tel: +91-79-4026 5656

E-mail: deepak.prajapati@careratings.com**BENGALURU****Mr. V Pradeep Kumar**Unit No. 1101-1102, 11th Floor, Prestige Meridian II,
No. 30, M.G. Road, Bangalore - 560 001.

Cell: +91 98407 54521

Tel: +91-80-4115 0445, 4165 4529

Email: pradeep.kumar@careratings.com**CHANDIGARH****Mr. AnandJha**SCF No. 54-55,
First Floor, Phase 11,
Sector 65, Mohali - 160062
Chandigarh

Cell: +91 85111-53511/99251-42264

Tel: +91-0172-490-4000/01

Email: anand.jha@careratings.com**CHENNAI****Mr. V Pradeep Kumar**Unit No. O-509/C, Spencer Plaza, 5th Floor,
No. 769, Anna Salai, Chennai - 600 002.

Cell: +91 98407 54521

Tel: +91-44-2849 7812 / 0811

Email: pradeep.kumar@careratings.com**COIMBATORE****Mr. V Pradeep Kumar**

T-3, 3rd Floor, Manchester Square

Puliakulam Road, Coimbatore - 641 037.

Tel: +91-422-4332399 / 4502399

Email: pradeep.kumar@careratings.com**HYDERABAD****Mr. Ramesh Bob**401, Ashoka Scintilla, 3-6-502, Himayat Nagar,
Hyderabad - 500 029.

Cell : + 91 90520 00521

Tel: +91-40-4010 2030

E-mail: ramesh.bob@careratings.com**JAIPUR****Mr. Nikhil Soni**304, PashupatiAkshatHeights, Plot No. D-91,
Madho Singh Road, NearCollectorateCircle,
Bani Park, Jaipur - 302 016.

Cell: +91 – 95490 33222

Tel: +91-141-402 0213 / 14

E-mail: nikhil.soni@careratings.com**KOLKATA****Ms. PritiAgarwal**3rd Floor, Prasad Chambers, (Shagun Mall Bldg.)
10A, Shakespeare Sarani, Kolkata - 700 071.

Cell: +91-98319 67110

Tel: +91-33- 4018 1600

E-mail: priti.agarwal@careratings.com**NEW DELHI****Ms. Swati Agrawal**13th Floor, E-1 Block, Videocon Tower,
Jhandewalan Extension, New Delhi - 110 055.

Cell: +91-98117 45677

Tel: +91-11-4533 3200

E-mail: swati.agrawal@careratings.com**PUNE****Mr. Pratim Banerjee**9th Floor, Pride KumarSenate,
Plot No. 970, Bhamburda, SenapatiBapat Road,
ShivajiNagar, Pune - 411 015.

Cell: +91-98361 07331

Tel: +91-20- 4000 9000

E-mail: pratim.banerjee@careratings.com**CIN - L67190MH1993PLC071691**