

Kakoti Engineering Works

March 30, 2018

Ratings

Facilities	Amount (Rs. crore)	Rating ¹	Rating Action
Long-term Bank Facilities	6.00	CARE B+; Stable (Single B Plus; Outlook: Stable)	Assigned
Short-term Bank Facilities	1.25	CARE A4 (A Four)	Assigned
Total	7.25 (Rupees Seven crore and twenty five lakh only)	-	

Details of instruments/facilities in Annexure-1

Detailed Rationale & Key Rating Drivers

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.

The ability of the firm to maintain healthy order book position, timely receipt of contract proceeds, ability to execute orders within stipulated time period and ability to manage working capital effectively would be the key rating sensitivities.

Detailed description of the key rating drivers

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- Kakoti Engineering Works, being a partnership firm, is exposed to inherent risk of the partner's capital being withdrawn at time of personal contingency and firm being dissolved upon the death/retirement/insolvency of the partners.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.

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

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.

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, 2018.

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

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

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

[Financial ratios – Non-Financial Sector](#)

[Criteria for Short Term Instruments](#)

About the Firm

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.

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

Any other information: Not Applicable

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

Note on complexity levels of the rated instrument: 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.

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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
Non-fund-based - ST-Bank Guarantees	-	-	-	1.25	CARE A4

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 2017-2018	Date(s) & Rating(s) assigned in 2016-2017	Date(s) & Rating(s) assigned in 2015-2016	Date(s) & Rating(s) assigned in 2014-2015
1.	Fund-based - LT-Cash Credit	LT	6.00	CARE B+; Stable	-	-	-	-
2.	Non-fund-based - ST-Bank Guarantees	ST	1.25	CARE A4	-	-	-	-

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