

Kakoti Engineering Works

May 12, 2020

Ratings

Facilities/Instruments	Amount (Rs. crore)	Rating ¹	Rating Action
Long-term Bank Facilities	6.00	CARE B; Stable; ISSUER NOT COOPERATING* (Single B; Outlook: Stable; ISSUER NOT COOPERATING*)	Revised from CARE B+; Stable; (Single B Plus; Outlook: Stable); Issuer Not Cooperating; based on best available information
Long-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 Seven Crore and Twenty Five Lakh only)		

Details of instruments/facilities in Annexure-I

Detailed Rationale & Key Rating Drivers

CARE has been seeking information from Kakoti Engineering Works to monitor the ratings vide e-mail communications/letters dated May 04, 2020, May 06, 2020, May 07, 2020 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 a fair rating. The rating on entity's bank facilities will now be denoted as **CARE B; Outlook: Stable/CARE A4; ISSUER NOT COOPERATING**. Further, the banker could not be contacted.

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

The ratings assigned to the bank facilities of Kakoti Engineering Works (KEW) are constrained by its partnership nature of constitution, volatility associated with input prices, working capital intensive nature of business and high competitive intensity on account of low complexity of work involved with sluggish economic scenario. However, the aforesaid constraints are partially offset by its experienced partners along with satisfactory track record of operations and reputed clientele.

Detailed Rationale & Key Rating Drivers

At the time of last rating in March 13, 2019 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Kakoti Engineering Works, being a partnership firm, is exposed to inherent risk of the partner's capital being withdrawn at time of personal contingency and firm being dissolved upon the death/retirement/insolvency of the partners.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.

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, 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 commoditized, the firm faces intense

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

*Issuer did not cooperate; based on best available information

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.

Key Rating Strengths

Experienced partners along with satisfactory track record of operations

Mr. Ripendra Prasad Kakoti has 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.

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 on assigning 'outlook' and 'credit watch'](#)

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

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

[Rating Methodology – Construction Sector](#)

[Criteria for Short Term Instruments](#)

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. Later, in 1999 the firm changes its constitution to partnership nature of entity.

Mr. Ripendra Prasad Kakoti 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

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; Revised from CARE B+; Stable; ISSUER NOT COOPERATING* on the basis of 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 2020-2021	Date(s) & Rating(s) assigned in 2019-2020	Date(s) & Rating(s) assigned in 2018-2019	Date(s) & Rating(s) assigned in 2017-2018
1.	Fund-based - LT-Cash Credit	LT	6.00	CARE B; Stable; ISSUER NOT COOPERATING* Issuer not cooperating; Revised from CARE B+; Stable; ISSUER NOT COOPERATING* on the basis of best available information	-	-	1)CARE B+; Stable; ISSUER NOT COOPERATING* (15-Mar-19)	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; ISSUER NOT COOPERATING* (15-Mar-19)	1)CARE A4 (30-Mar-18)

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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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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Our ratings do not factor in any rating related trigger clauses as per the terms of the facility/instrument, which may involve acceleration of payments in case of rating downgrades. However, if any such clauses are introduced and if triggered, the ratings may see volatility and sharp downgrades.

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