

## Riddhi Siddhi Associates

Instrument	Amount	Rating Action
Long-term fund-based bank facilities	Rs. 32.50 crore (Enhanced from Rs.27.50 crore)	[ICRA]B; reaffirmed
Long-term non fund-based bank facilities	Rs. 55.00 crore (Enhanced from Rs.40.00 crore)	[ICRA]B; reaffirmed
Short-term fund-based bank facilities	Rs. 15.00 crore	[ICRA]A4;reaffirmed

ICRA has reaffirmed its long-term rating of **[ICRA]B** (pronounced ICRA B) on the Rs. 32.50<sup>1</sup> crore fund-based facilities (enhanced from Rs. 27.50 crore) and Rs. 55.00 crore non fund-based bank facilities (enhanced from Rs. 40.00 crore) . ICRA has also reaffirmed the short term rating of **[ICRA]A4** (pronounced ICRA A four) on the Rs.15.0 crore short term fund-based of Riddhi Siddhi Associates (RSA)<sup>†</sup>.

ICRA's ratings continues to take into account the experience of RSA's management, in the royalty collection contract business and RSA's operational performance wherein. the firm was able to improve collection volumes during FY16 to meet the guaranteed royalty payments and cover its operational expenses however the surplus collections remained limited, which resulted in thin operating profit margins of 3.00% though improved substantially from 0.89% in FY2015. The profitability was exacerbated by seasonal volatility in collections, given that the royalty installments are paid by the firm to the government as per a fixed schedule. Further, the business is characterized by high capital requirements, which are on account of upfront payment of security deposits, as well as working capital to bridge the cash flow mismatch between actual royalty collection and royalty paid to the government. High capital requirements, coupled with low profitability result in weak return indicators as reflected in RoNW<sup>1</sup> of 1.64% in FY16. Moreover, the revenue visibility for the firm continues to remain limited, given the short duration of the contracts in hand and the unpredictability in securing new contracts. Given the fragmented nature of the royalty contracting business, low entry barriers and, resultant high competition in the sector and susceptibility to government regulations, the firm's operating margins have been subdued. Further, ICRA has also taken into consideration RSA's constitution as a partnership firm, which exposes it to capital withdrawal risks as well as risk of dissolution.

Going forward, the ability of the firm to secure new contracts to maintain revenue visibility, and achieve healthy volumes along with improving profitability metrics, will remain the key rating sensitivities.

### Firm Profile

Formed by Mr. Mahendra Kumar Tak, his family members and business associates in 2009, RSA is an Udaipur (Rajasthan) based partnership firm. The firm commenced operations as a contractor for royalty collection for sand mining and granite mining in Rajasthan. Recently, the firm has also entered into contracts for toll fee collections from road projects in Rajasthan. The promoters have been engaged in similar contracts for royalty collection, toll collection, etc for government departments since 2003.

### Recent Results

RSA reported, on a provisional basis, an operating income (OI) of Rs. 318.93 crore and a profit after tax (PAT) of Rs. 1.90 crore in FY16, as compared to an OI of Rs. 172.42 crore and a PAT of Rs. 1.10 crore in the previous year.

**May 2016**

<sup>1</sup> Rs 1 Crore = Rs 100 Lakh = Rs 10 Million

<sup>†</sup> For complete rating scale and definitions please refer to ICRA's website [www.icra.in](http://www.icra.in) or other ICRA Rating Publications

<sup>1</sup> RONW-Return On Net Worth



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