January 28, 2022

Ritco Logistics Limited: Ratings reaffirmed

Summary of rating action

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Long-term Fund based – Cash Credit	128.75	128.75	[ICRA]BBB+(Stable) reaffirmed
Total	**128.75**	**128.75**	

**Instrument details are provided in Annexure-1*

Rationale

The rating reaffirmation considers Ritco Logistics Limited's (RLL) ability to sustain its scale of operations despite the pandemic-induced disruptions during two Covid-19 waves. RLL's asset-light model helped save the fleet fixed costs and reduce the idle fleet capacity in the event of lower demand due to the ongoing pandemic. The rating also factors in the company's established track record of operations, supported by its widespread network, and the promoters' extensive experience in the road logistics industry. ICRA also notes the company's established customer relationships, resulting in continued business from leading players in the petrochemical industry and modest counterparty credit risks. The incremental business from the existing clientele and its foray into new sectors such as steel and cement industries are expected to support future business growth.

The ratings are, however, constrained by RLL's working capital-intensive nature of operations due to high receivables which stretched further in FY2021 owing to the pandemic. Consequently, lower revenue booking and lower operating profit resulted in higher reliance on working capital debt and pressure on debt coverage indicators. ICRA also considers the susceptibility of the company's profitability to intense competition, exposure of its operations to macro-economic conditions and Government policies. In addition, the increase in fuel prices, toll taxes and other unrecoverable costs, which RLL may not be able to pass on to the customers in its entirety, remain credit concerns.

The Stable outlook on the [ICRA]BBB+ rating reflects ICRA's opinion that RLL will continue to benefit from its vast track record of operations in the industry with an established and reputed customer base. Moreover, an improved demand scenario coupled with planned foray into new sectors augurs well for the company's growth plans.

Key rating drivers and their description

Credit strengths

Established track record of operations with widespread network – RLL has an established operational track record of over a decade and a widespread network across India. The promoters have an extensive experience in the logistics sector, which has supported the business growth in the past.

Asset-light model of operations – The company has an asset-light business model with an in-house fleet of 255 trucks, while about 70–80% of the total requirement is met through fleet hired from the spot market on a daily basis. The asset-light model helps RLL in saving on fleet fixed costs and reduces the idle capacity in the event of business downturns, such as the pandemic restrictions. Moreover, the company is in the process of putting into place a software platform, which will strengthen its ability to avail services of third-party fleet operators across locations.

Strong client profile; sizeable share of long-term contract-based business provides revenue visibility – The company has an established customer base of reputed players including GAIL India Ltd., Indian Oil Corporation Ltd., ONGC Petro Addition Limited, Nestle India Limited, etc. Further, a significant share of its revenues is derived from the contract logistics segment, which not only provides healthy revenue visibility but also shields the company from large adverse variations in fuel prices because of the fuel-escalation clauses embedded in the contracts. ICRA also notes that there has been a healthy demand revival from various end-user industries and that RLL plans to foray into new sectors, which augurs well for its growth plans.

Credit challenges

Pandemic impact on debt coverage metrics ; business prospects remain vulnerable to economic cycles – The company's revenue growth and margins are vulnerable to slowdown in economic activities and goods movement. The nationwide lockdowns resulted in restrictions in inter-state movement, dearth of availability of drivers and lack of return load due to disruption in business activities adversely impacted the company's operations in H1 FY2021. As a result, its debt coverage metrics deteriorated in FY2021 with higher receivables and debt dependence amid lower cash accruals owing to lower revenues. However, after the second Covid wave, the company witnessed a quicker recovery to surpass pre-pandemic levels in FY2022 resulting in an improvement in the credit metrics. Interest cover and TD/OPBDIT improved from 2.3 times and 4.3 times in FY2021 to 2.8 times and 3.3 times, respectively, in H1 FY2022. ICRA notes that the company does not have any capital expenditure (capex) and long-term debt raising plans and with the demand revival, debt coverage is expected to further improve.

Working capital-intensive operations due to high receivable days – The company's operations are working capital intensive, with an elongated receivable and short payables cycle. The working capital intensity increased to 37% in FY2021 (PY: 32%) as the debtor days jumped to 132 days (PY: 110 days) owing to delays in collections due to the pandemic disruptions across sectors. However, the creditors (fuel, road tax) are generally paid upfront. In H1 FY2022, the company managed to improve its collection cycle by bringing down the debtor days to 120 days and lowering the proportion of aged receivables. Nonetheless, the company is expected to have a high working capital intensity at 30-33% in the near to medium term. Given its growth plans, RLL has already received enhancements in its working capital limits, which lends liquidity buffer.

Profitability remains susceptible to market fleet availability and prices – RLL remains exposed to significant fluctuations in hire charges for market vehicles as the rates are primarily dependent on the demand–supply dynamics. As the company started witnessing recovery in H2 FY2021 following the first Covid-19 wave, it also faced some fleet availability-related challenges resulting in impact on margins, which increased further during the second wave in Q1 FY2022. However, the company managed to support its operations through its in-house fleet. The fleet spot prices later came down in Q2 and Q3 FY2022 with better fleet availability resulting in improvement in the margins.

Highly competitive and fragmented market limits pricing ability– The road logistics sector is highly fragmented with most of the business generated by the unorganised segment. While a significant opportunity for organised players to scale-up their businesses exists, especially post GST implementation, the fragmented nature of the industry results in stiff competition, thereby exerting pressure on profitability margins in renewal of contracts. Nonetheless, RLL has been able to mitigate this risk to an extent, benefitting from the established relationships with its customers.

Liquidity position: Adequate

RLL's liquidity profile remains adequate supported by moderate cash accruals, sizeable undrawn sanctioned working capital limits of Rs. 40-50 crore, including recent enhancements and free cash and liquid investments of Rs. 10-15 crore as on December 31, 2021. The debt repayments remain moderate for the upcoming quarters and the capex remains minimal as the company has no fleet purchase plans in the near term.

Rating sensitivities

Positive factors – ICRA could upgrade the rating if the company demonstrates a sustained improvement in revenues and profitability. In addition, RLL's ability to manage its working capital efficiently resulting in an improvement in the receivable cycle may also lead to a positive rating action. In terms of specific credit metrics, an interest cover of more than 5.0 times on a sustained basis would be a positive trigger for the company.

Negative factors – ICRA could downgrade the rating if there is a deterioration in the working capital parameters or if a major debt-funded capex weakens its financial risk profile. Specific credit metrics, such as total debt/OPBIDTA of more than 3.0 times on a sustained basis, would be a negative trigger.

Analytical approach

Analytical Approach	Comments
Applicable Rating Methodologies	Corporate Credit Rating Methodology
Parent/Group Support	Not applicable
Consolidation/Standalone	Standalone

About the company

RLL, incorporated in 2001, provides surface logistics services, including transportation of cargo and warehousing services. The scope of services includes contract logistics, less than truck load (LTL) service and fleet rental services. The company has a pan India presence through its 29 branches. It has seven warehouses and an in-house fleet of 255 trucks and about 1,000–1,200 attached vehicles to support its operations. RLL caters to a wide range of industries such as petrochemicals, steel, textiles, pharmaceuticals, petroleum, and automobile, among others. The company is listed on the SME Platform of BSE. In FY2021, total revenues from its operations were Rs. 492 crore, of which contract logistics service contributed ~87%.

Key financial indicators (audited)

RLL	FY2020	FY2021	H1FY2022*
Operating Income (Rs. crore)	492.8	474.0	261.5
PAT (Rs. crore)	8.8	6.2	6.7
OPBDIT/OI (%)	7.9%	6.7%	7.4%
PAT/OI (%)	1.8%	1.3%	2.6%
Total Outside Liabilities/Tangible Net Worth (times)	1.4	1.3	1.3
Total Debt/OPBDIT (times)	3.4	4.3	3.3
Interest Coverage (times)	3.0	2.3	3.4

*PAT: Profit after Tax; OPBDIT: Operating Profit before Depreciation, Interest, Taxes and Amortisation; *Unaudited results*
Source: Company, ICRA research

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

Rating history for past three years

	Instrument	Current Rating (FY2022)				Chronology of Rating History for the past 3 years					
		Type	Amount Rated (Rs. crore)	Amount Outstanding (Rs. crore)	Date & Rating in	Date & Rating in FY2021		Date & Rating in FY2020		Date & Rating in FY2019	
					Jan 28, 2022	**Jan 29, 2021**	**Dec 31, 2020**	**Jan 31, 2020**	**Dec 31, 2019**	**Feb 15, 2019**	**Sep 07, 2018**
1	Cash Credit	Long-term	128.75	-	**[ICRA]BBB+ (Stable)**	[ICRA]BBB+ (Stable)	[ICRA]BBB+ (Stable)	[ICRA]BBB+ (Stable)	[ICRA]BBB+ (Stable)	[ICRA]BBB+ (Stable)	[ICRA]BBB+ (Stable)
2	Bank Guarantee	Long-term	-	-	-	-	-	-	[ICRA]BBB+ (Stable)	[ICRA]BBB+ (Stable)	[ICRA]BBB+ (Stable)

&= Under watch with developing implications

Complexity level of the rated instruments

Instrument	Complexity Indicator
Long-term Fund-based – Cash Credit	Simple

The Complexity Indicator refers to the ease with which the returns associated with the rated instrument could be estimated. It does not indicate the risk related to the timely payments on the instrument, which is rather indicated by the instrument's credit rating. It also does not indicate the complexity associated with analysing an entity's financial, business, industry risks or complexity related to the structural, transactional, or legal aspects. Details on the complexity levels of the instruments, are available on ICRA’s website: www.icra.in

Annexure-1: Instrument details

ISIN No.	Instrument Name	Date of Issuance	Coupon Rate	Maturity	Amount Rated (RS Crore)	Current Rating and Outlook
NA	Cash Credit	NA	6.5-9.0%	NA	128.75	[ICRA]BBB+ (Stable)

Source: *Company*

Annexure-2: List of entities considered for consolidated analysis – Not applicable

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About ICRA Limited:

ICRA Limited was set up in 1991 by leading financial/investment institutions, commercial banks and financial services companies as an independent and professional investment Information and Credit Rating Agency.

Today, ICRA and its subsidiaries together form the ICRA Group of Companies (Group ICRA). ICRA is a Public Limited Company, with its shares listed on the Bombay Stock Exchange and the National Stock Exchange. The international Credit Rating Agency Moody's Investors Service is ICRA's largest shareholder.

For more information, visit www.icra.in

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