June 30, 2022

Ritco Logistics Limited: Rating reaffirmed; outlook revised to Negative

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+ reaffirmed; outlook revised to Negative from Stable
Total	128.75	128.75	

**Instrument details are provided in Annexure-I*

Rationale

The Negative outlook on Ritco Logistics Limited's (RLL) rating factors in the increased funding requirements on account of the advances paid to fleet owners in H2 FY2022. The company is building a digital platform for which it has been registering vehicles. The platform is expected to enhance the market fleet availability with direct access to a large number of vehicles with better returns. Notwithstanding the expected advantages of the platform, given these advances extended, RLL's liquidity profile is under pressure with minimal buffer in the drawing power for its cash credit limits and increase in its short-term debt. The company is expected to continue onboarding fleet on the digital platform till Q3 FY2023. Thus, the further impact of these advances on its liquidity and debt position remains a key monitorable.

The rating reaffirmation considers RLL'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 the consequent modest counterparty credit risks. In FY2022, RLL registered a healthy growth of 38% on a YoY basis, with a stable operating margin of 7.0%. Further, incremental business from the existing clientele and its foray into new sectors such as the steel and cement industries are expected to support the company's future business growth. Further, RLL continues to operate on an asset-light model, and its digital platform initiative is in line with the same strategy.

The rating is, however, constrained by RLL's working capital-intensive nature of operations due to high receivables though the company showed some improvement in FY2022. While RLL has sustained margins in FY2022, its profitability remains susceptible to intense competition and market fleet availability. In addition, the impact of the increase in fuel prices, adverse policy changes, toll taxes and other unrecoverable costs which RLL may not be able to pass on to the customers in its entirety, remain credit concerns.

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; digital initiative to improve fleet availability – 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 daily. The asset-light model helps RLL in saving on fleet fixed costs and reduces the idle capacity in the event of any business downturns, such as the pandemic restrictions. There are no fleet addition plans in the near term. The company took the initiative of creating a vehicles aggregation platform to improve visibility across the value chain pertaining to payments, fleet availability and pricing. The company started onboarding vehicles from October 2021 and has already registered around ~60,000 trucks.

Strong client profile – RLL has an established customer base of reputed players, including GAIL India Ltd., Indian Oil Corporation Ltd., Nestle India Limited, etc., which results in modest counterparty credit risk. Despite the impact of the second pandemic wave, RLL reported revenues of Rs. 594 crore in FY2022 at a healthy growth of 25% on a YoY basis, which was higher than the pre-pandemic levels. This was primarily led by a continued recovery in the bulk logistics demand with broader business recovery across the petrochemicals, FMCG, and cement sectors. 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 such as the steel and cement industries, which augurs well for its growth and revenue diversity.

Credit challenges

Stretched liquidity owing to limited buffer in drawing power and increased funding requirements – RLL is paying a cash incentive/advance per truck registration on the digital platform, which resulted in the current asset build-up as of March 2022. The company utilised short-term borrowings and existing cash to fund the same. While the company's cash levels and buffer in its limited drawing power decreased significantly, ICRA notes that RLL has also recently received enhancement in the working capital limits. As the incentive payments are expected to continue with further fleet registrations at least till Q3 FY2022, the impact on the liquidity position remains a key monitorable.

Working capital-intensive operations due to high receivable days; increased leverage owing to higher dependence on bank limits to fund digital initiative – The company's operations are working capital intensive, with an elongated receivable and short payables cycles. Although, RLL's debtor days improved to 123 days in FY2022 (PY: 132 days), the working capital intensity increased to 40% (PY:35%) mainly owing to advances related to the digital platform. Consequently, the company's total debt increased to Rs. 172 crore, which resulted in gearing of 1.4 times and TD/OPBITDA of 4.2 times as on March 31, 2022, higher compared with 1.1 times and 4.1 times, respectively, as on March 31, 2021. However, interest coverage improved to 3.1 times over 2.3 times in FY2021, led by growth in OPBITDA. RLL's ability to improve its operating profits and accruals and its impact on its coverage metrics will remain crucial.

Profitability remains susceptible to market fleet availability and prices – RLL remains exposed to the significant fluctuations in hire charges for market vehicles as the rates are primarily dependent on the demand–supply dynamics, and the company hires most of its fleet from the market. RLL's operating margins dropped in Q4 FY2022 owing to the increase in market fleet prices due to some impact from the third pandemic wave. Also, due to the unfragmented nature of the industry, intermediaries/brokers control majority of the fleet and players like RLL need to rely on them for the fleet. The company plans to build direct access to fleet owners through its proposed platform and get better visibility on fleet availability and pricing. These factors apart, adverse policy changes, increasing fuel and related costs impact players' margins in the industry.

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 mitigated this risk to an extent, benefitting from the established relationships with its customers.

Liquidity position: Stretched

RLL's liquidity is stretched owing to the modest free cash levels of Rs. 8 crore and Rs. 6-8 crore of buffer in the drawing power. The company does not have any major fleet addition plans, hence, minimal capex requirements in the near to medium term; however, it has been paying advances for vehicle registrations on its digital platform and has long-term debt repayments of Rs. 10-12 crore for FY2023. Although RLL has a significant buffer of Rs. 60-70 crore in the sanctioned limits, the current liquidity levels are stretched due to its modest drawing power.

Rating sensitivities

Positive factors – Given the Negative outlook, RLL's rating is unlikely to improve in the near term. ICRA, however, could revise the outlook to Stable of the rating if the company has a sustained improvement in revenues and profitability, along with improved liquidity levels.

Negative factors – ICRA could downgrade RLL's rating if there is further stretch in liquidity, deterioration in the working capital parameters, or if a major debt-funded capex weakens its financial risk profile. A specific credit metric for a downgrade is if interest cover is more than 3.5 times, on a sustained basis.

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 shifted to Main Board of the BSE from the SME Platform.

Key financial indicators (audited)

RLL	FY2021	FY2022
Operating income	474.6	594.3
PAT	6.2	16.3
OPBDIT/OI	6.8%	7.0%
PAT/OI	1.3%	2.7%
Total outside liabilities/Tangible net worth (times)	1.3	1.4
Total debt/OPBDIT (times)	3.8	4.1
Interest coverage (times)	2.3	3.1

PAT: Profit after tax; OPBDIT: Operating profit before depreciation, interest, taxes and amortisation; Amount in Rs crore

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

Rating history for past three years

	Instrument	Current rating (FY2023)				Chronology of rating history for the past 3 years				
		Type	Amount rated (Rs. crore)	Amount outstanding (Rs. crore)	Date & rating in FY2023	Date & rating in FY2022	Date & rating in FY2021		Date & rating in FY2020	
					June 30, 2022	Jan 28, 2022	Jan 29, 2021	Dec 31, 2020	Jan 31, 2020	Dec 31, 2019
1	Cash credit	Long term	128.75	-	**[ICRA]BBB+ (Negative)**	**[ICRA]BBB+ (Stable)**	**[ICRA]BBB+ (Stable)**	**[ICRA]BBB+ (Stable)**	**[ICRA]BBB+ (Stable)**	**[ICRA]BBB+ (Stable)**
2	Bank Guarantee	Long-term	-	-	-	-	-	-	-	**[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 I: Instrument details

ISIN	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+(Negative)

Source: *Company*

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

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