January 19, 2023

Ritco Logistics Limited: Ratings reaffirmed; rated limits enhanced

Summary of rating action

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Long-term – Fund-based limits – Cash Credit	128.75	213.75	[ICRA]BBB+ (Negative); reaffirmed/assigned
Long-term – Non-Fund-based limits – Bank Guarantee	0.00	28.00	[ICRA]BBB+ (Negative); assigned
Total	**128.75**	**241.75**	

**Instrument details are provided in Annexure-I*

Rationale

The rating reaffirmation factors into ICRA's expectation that Ritco Logistics Limited (RLL) will continue to benefit from the established customer relationships resulting in continued business from leading players in the petrochemical industry. The company witnessed a 38% revenue growth in H1 FY2023 supported by 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. This apart, the rating factors in RLL's established track record of operations, supported by its widespread network, and the promoters' extensive experience in the road logistics industry. Further, RLL continues to operate on an asset-light model, and its digital platform initiative is in line with the same strategy.

However, the outlook on the rating remains Negative given the continued stretched liquidity position of the company. While the company has ceased extending advances towards new vehicle registrations on its digital platform and has also been able to recover a small portion of the same, its free cash balances and drawing power buffer remain low. RLL's operations are working capital intensive given the need to offer credit to customers and short payable period. Moreover, it also has to offer cash collaterals for its fund-based bank exposure respectively which constrains its liquidity. Although the company is expected to witness healthy revenue growth, the operating margins remained constrained owing to volatility in fleet prices thus constraining the significant improvement in accruals.

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 two decades 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. The company is promoted by Mr M.P.S. Chadha and Mr S.K. Elwadhi, who have been involved in the business of transport and logistics for the last 30 years, respectively.

Asset-light model of operations; digital initiative to improve fleet availability – The company has an asset-light business model with an attached fleet of around 1300 trucks out of which 80-85% of the total requirement is 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, however, renders it dependent on the market fleet. 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 has already registered around ~1 lakh trucks and has also done a soft launch of the platform in December 2022. The platform is expected to give RLL direct access to a large number of fleet owners which would support the company's future growth plans.

Strong client profile mitigates debtor risk; new business acquisition and favourable industry outlook support growth prospects – RLL has an established customer base of reputed players, including Reliance Industries, GAIL India Ltd., Indian Oil

Corporation Ltd., Nestle India Limited, etc., which results in modest debtor risk. The company typically enters long-term agreements with most of its clients which provides good revenue visibility. ICRA expects the road logistics sector to witness healthy growth in FY2023 attributable to strong demand dynamics coupled with the continuation of firm freight rates. Consequently, the company witnessed healthy revenue growth in H1 FY2023 led by increased business from existing clients in the petrochemicals and FMCG sector. RLL has acquired new clientele in the steel and cement industries, which augurs well for its growth and revenue diversity.

Credit challenges

Working capital requirements remain high – The company's operations are working capital intensive, with an elongated receivable and short payable cycle. In H1FY2023, the company managed to marginally improve its collection cycle and recovered Rs. 2-3 crore of advances. However, healthy business growth is expected to keep working capital requirements high rendering RLL highly dependent on debt. Supported by growth in OPBITDA in H1 FY2023, the gearing remained at similar levels of 1.4 times whereas interest coverage marginally improved to 3.4 times. 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 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 remained flattish in H1FY2023 at 6.9% owing to the volatility in market fleet prices. Also, due to the unfragmented nature of the industry, intermediaries/brokers control most 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, from 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. 8-10 crore and Rs. 10-12 crore of buffer in the drawing power. The need to offer cash collateral for its fund-based limits and cash margin on non-fund-based limits also constrains RLL's cashflow position. The company has long-term debt repayments of Rs. 10-12 crore for FY2023 and Rs. 5-8 crore in FY2024 however, it does not have any major fleet addition plans, hence, minimal capex requirements in the near to medium term. The sizeable recovery of the advances extended remains to be seen. While the company has received some limit enhancements, it will require adequate drawing power to utilise the same supported by additional business.

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 the company is unable to improve its liquidity levels or there is 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 less 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	Not Applicable

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 174 trucks and about 1,200–1,300 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 Bombay Stock Exchange (BSE).

Key financial indicators (audited)

	FY2021	FY2022	H1 FY2023
Operating income	474.9	594.6	360.1
PAT	6.0	16.3	12.0
OPBDIT/OI	6.8%	7.1%	6.9%
PAT/OI	1.3%	2.7%	3.3%
Total outside liabilities/Tangible net worth (times)	1.3	1.4	1.4
Total debt/OPBDIT (times)	4.2	4.1	3.7
Interest coverage (times)	2.3	3.2	3.4

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 as of Dec 2022 (Rs. crore)	Date & rating in FY2023		Date & rating in FY2022	Date & rating in FY2021		Date & rating in FY2020	
					Jan 19, 2023	June 30, 2022	Jan 28, 2022	Jan 29, 2021	Dec 31, 2020	Jan 31, 2020	Dec 31, 2019
1	**Cash credit**	Long term	213.75	--	[ICRA]BBB+ (Negative)	[ICRA]BBB+ (Negative)	[ICRA]BBB+ (Stable)	[ICRA]BBB+ (Stable)	[ICRA]BBB+ (Stable)	[ICRA]BBB+ (Stable)	[ICRA]BBB+ (Stable)
2	**Bank Guarantee**	Long term	28.00	--	[ICRA]BBB+ (Negative)	-	-	-	-	-	[ICRA]BBB+ (Stable)

Complexity level of the rated instruments

Instrument	Complexity Indicator
Long-term fund-based – Cash credit	Simple

Long-term Non-fund based – Bank Guarantee	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: Click Here

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	213.75	[ICRA]BBB+(Negative)
NA	**Bank Guarantee**	NA	0.75%	NA	28.00	[ICRA]BBB+(Negative)

Source: Company

[Please click here to view details of lender-wise facilities rated by ICRA]

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

ANALYST CONTACTS

Shamsher Dewan
+91 124 4545328
shamsherd@icraindia.com

Kinjal Shah
+91 022 61143400
kinjal.shah@icraindia.com

Sheetal Sharad
+91 124 4545374
sheetal.sharad@icraindia.com

Dishant Mahajan
+91 9971013432
dishant.mahajan@icraindia.com

RELATIONSHIP CONTACT

Jayanta Chatterjee
+91 80 4332 6401
jayantac@icraindia.com

MEDIA AND PUBLIC RELATIONS CONTACT

Ms. Naznin Prodhani
Tel: +91 124 4545 860
communications@icraindia.com

Helpline for business queries

+91-9354738909 (open Monday to Friday, from 9:30 am to 6 pm)

info@icraindia.com

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

ICRA Limited

Registered Office

B-710, Statesman House, 148, Barakhamba Road, New Delhi-110001
Tel: +91 11 23357940-45

Branches