May 31, 2023

Ritco Logistics Limited: Ratings downgraded to [ICRA]BBB (Stable); outlook revised to Stable from Negative

Summary of rating action

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Long-term Fund-based – Cash Credit	213.75	213.75	[ICRA]BBB (Stable); ratings downgraded from [ICRA]BBB+ (Negative) and Outlook revised to Stable from Negative
Long-term – Non-fund Based – Bank Guarantee	28.00	28.00	[ICRA]BBB (Stable); ratings downgraded from [ICRA]BBB+ (Negative) and Outlook revised to Stable from Negative
Total	**241.75**	**241.75**	

**Instrument details are provided in Annexure-I*

Rationale

The rating downgrade factors the continued modest liquidity position and high leverage of Ritco Logistics Limited (RLL) on the back of growing funding requirements towards working capital and fleet expansion. RLL's operations are working capital intensive, and it also has to offer cash collaterals for its fund-based bank exposure, which constrains its liquidity. While the company has witnessed healthy revenue growth in FY2023, its working capital requirements also remain sizeable resulting in high limit utilisation with accruals being utilised towards business operations and fleet expansion. The company plans to add more vehicles over the next two years funded by long-term fleet loans. Consequently, the company's leverage is expected to remain high resulting in weaker than expected debt coverage metrics as its operating margins are constrained by volatility in fleet prices.

RLL will continue to benefit from its established customer relationships resulting in continued business from leading players in the petrochemical and FMCG[1] industries. The company witnessed a 26% revenue growth in FY2023 supported by incremental business from its clientele and its foray into new sectors, such as steel and cement, is expected to support its future business growth. In addition, 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 with a large part of its revenues coming from the market fleet, and its digital platform initiative being in line with the same strategy.

The Stable outlook on the rating reflects ICRA's opinion that RLL will continue to benefit from new client addition amid an improved demand scenario across end-user sectors.

[1] *Fast Moving Consumer Goods*

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 its business growth in the past. The company is promoted by Mr. MPS Chadha and Mr. SK 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 1,300-1,500 trucks, of which 80-85% of its 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, but at the same time rendering it dependent on the market fleet. However, in FY2023, the company purchased 50-60 new fleet to enter new markets such as the steel sector and is expected to expand its own fleet further by 120-150 trucks over the next two years. Nonetheless, the company would continue to serve most of its clientele through the fleet hired from the market under its asset-light business model. The company is also 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 conducted a soft launch of the platform in December 2022. The platform is yet to witness sizeable adoption and once ramped up would 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 to a large extent; 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 FY2024 attributable to strong demand dynamics coupled with the continuation of firm freight rates. Consequently, the company witnessed healthy revenue growth in FY2023 led by increased business from existing clients in the petrochemicals and FMCG sectors as well as new client acquisitions. RLL has been acquiring new clients from new industries, which augurs well for its growth and revenue diversity, going forward.

Credit challenges

Moderation in coverage indicators and stretched liquidity amid growing working capital requirements and debt-funded fleet addition – RLL's leverage continues to remain high with TD/ OPBITDA at 3.9 times as on March 31, 2023, owing to a high collection cycle, increased security deposits and fuel advances as well as fresh fleet loans contracted in Q4 FY2023. ICRA noted that the company has stopped paying further security advances for new vendor registrations on the digital platform and has recovered 50% of the total paid advances by March 2023 end; however, the benefit was offset by increased security deposits and fuel advances. Consequently, RLL's coverage metrics remained modest with interest cover at 3.3 times in FY2023 as the company's operating margins are constrained by volatility in fleet prices. With new fleet addition plans over the next two years, the debt repayments will increase owing to fresh fleet loans to fund the fleet addition. Consequently, the liquidity position would remain under pressure owing to its modest free cash levels, minimal buffer in its drawing power and sizeable debt-funded fleet addition.

Profitability remains susceptible to market fleet availability and prices – RLL remains exposed to significant fluctuations in hire charges for market vehicles as it hires most of its fleet from the market. RLL's operating margins remained flattish in FY2023 at 7.1%. However, some margin improvement is expected with more business coming from its own fleet. 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, which exerts pressure on profitability margins in the 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. 12-13 crore and minimal 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 results in higher funding requirements. The company has a planned capex of Rs. 48-60 crore over the next two years, which will be funded by a mix of fleet loans and internal accruals. It will have long-term debt repayments of Rs. 10 crore for FY2024 and Rs. 10-13 crore for FY2025-FY2026. ICRA, however, notes that the company has Rs. 50-60 crore of buffer in the sanctioned limits, but it will require adequate drawing power to utilise the same supported by additional business.

Rating sensitivities

Positive factors – ICRA could upgrade the ratings if the company demonstrates a sustained improvement in liquidity position and coverage metrics. A specific credit metric for an upgrade is an interest cover of more than 3.6 times, on a sustained basis.

Negative factors – ICRA could downgrade RLL's rating if the company witnesses further deterioration in liquidity levels or any significant stress in the working capital parameters, or if a major debt-funded capex weakens its financial risk profile. A specific credit metric for a rating downgrade is an interest cover of less than 3.0 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. Its scope of services includes bulk transportation, fleet rentals and warehousing services. The company has a pan India presence through its 29 branches. It has seven warehouses and an attached fleet of around 1,300-1,500 trucks, of which 80-85% of the total requirement is hired from the spot market daily 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 Bombay Stock Exchange (BSE).

Key financial indicators (audited)

RLL	FY2022	FY2023*
Operating income	594.6	752.5
PAT	16.3	24.3
OPBDIT/OI	7.1%	7.1%
PAT/OI	2.7%	3.2%
Total outside liabilities/Tangible net worth (times)	1.4	1.5
Total debt/OPBDIT (times)	4.1	3.9
Interest coverage (times)	3.2	3.3

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

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

Rating history for past three years

	Instrument	Current rating (FY2024)				Chronology of rating history for the past 3 years				
		Type	Amount rated (Rs. crore)	Amount outstanding as of Mar 31, 2023 (Rs. crore)	Date & rating in FY2024	Date & rating in FY2023		Date & rating in FY2022	Date & rating in FY2021	
					May 31 2023	Jan 19, 2023	Jun 30, 2022	Jan 28, 2022	Jan 29, 2021	Dec 31, 2020
1	Cash credit	Long term	213.75	--	[ICRA]BBB (Stable)	[ICRA]BBB+ (Negative)	[ICRA]BBB+ (Negative)	[ICRA]BBB+ (Stable)	[ICRA]BBB+ (Stable)	[ICRA]BBB+ (Stable)
2	Bank Guarantee	Long term	28.00	--	[ICRA]BBB (Stable)	[ICRA]BBB+ (Negative)	-	-	-	-

Complexity level of the rated instruments

Instrument	Complexity Indicator
Long-term Fund-based – Cash Credit	Simple
Long-term – Non-Fund based – Bank Guarantee	Very 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	8.5%-9.0%	NA	213.75	[ICRA]BBB (Stable)
NA	**Bank Guarantee**	NA	0.75%	NA	28.00	[ICRA]BBB (Stable)

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
+91 124 4545812
dishant.mahajan@icraindia.com

RELATIONSHIP CONTACT

L Shivakumar
+91 226 1143406
shivakumar@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

ICRA ratings should not be treated as recommendation to buy, sell or hold the rated debt instruments. ICRA ratings are subject to a process of surveillance, which may lead to revision in ratings. An ICRA rating is a symbolic indicator of ICRA's current opinion on the relative capability of the issuer concerned to timely service debts and obligations, with reference to the instrument rated. Please visit our website www.icra.in or contact any ICRA office for the latest information on ICRA ratings outstanding. All information contained herein has been obtained by ICRA from sources believed by it to be accurate and reliable, including the rated issuer. ICRA however has not conducted any audit of the rated issuer or of the information provided by it. While reasonable care has been taken to ensure that the information herein is true, such information is provided 'as is' without any warranty of any kind, and ICRA in particular, makes no representation or warranty, express or implied, as to the accuracy, timeliness or completeness of any such information. Also, ICRA or any of its group companies may have provided services other than rating to the issuer rated. All information contained herein must be construed solely as statements of opinion, and ICRA shall not be liable for any losses incurred by users from any use of this publication or its contents.