July 06, 2017

Ritco Logistics Private Limited

Summary of rated instruments

Instruments*	Amount Rated (Rs. crore)	Rating Action
Fund-based Long Term	35.00	[ICRA]BBB- (Stable)
Fund-based/Non-fund Based Long Term	5.00	
Total	**40.00**	

*Instrument details are provided in Annexure-1

Rating action

ICRA has reaffirmed the long-term rating for the Rs. 40.00-crore[1] fund-based and non-fund based limits of Ritco Logistics Private Limited (Ritco or the company)[†] at [ICRA]BBB- (pronounced ICRA triple B minus). The outlook on the long-term rating is Stable.

Rationale

The rating reaffirmation takes into account the extensive experience of the management in the logistics industry, and its established relationships with reputed customers. ICRA also notes the company's established track record of operations and its widespread infrastructure, with 125 branch offices spread across various states of India. The rating also draws comfort from the company's asset-light model, which allows it to withstand cost pressures during downturns. However, this also makes it dependent on rented vehicles to service its clients.

The ratings, however, are constrained by Ritco's relatively lower profitability on account of increased competition in various business verticals and subdued freight rates in the recent past. Its margins were affected by the comparatively sharper decline in freight rates than diesel prices in FY2016. The ratings also take into account the company's slightly leveraged capital structure with gearing of 1.37 times as on March 2017 on account of an increase in term loans to partly fund the purchase of vehicles as well as due to a rise in working capital borrowings. The ratings continue to factor in the intense competition in the business owing to the highly fragmented nature of the industry and the exposure of Ritco's operations to macro-economic conditions and government policies.

Key rating drivers

Credit strengths

- Established track record of operations with a widespread network; and long-standing business relationship with a reputed clientele is expected to drive business growth
- High proportion of hired vehicles (more than 90% of fleet strength on road) helps reduce fixed costs

[1] 100 lakh = 1 crore = 10 million
[†] For complete rating scale and definitions, please refer to ICRA's website www.icra.in or other ICRA Rating Publications.

Credit weaknesses

- High client-concentration risk; however, additional customers added during the current year should mitigate the concerns
- Margins vulnerable to fluctuation in hire charges, which are driven by market demand and supply conditions
- Revenue growth and margins vulnerable to slowdown in economic growth; especially amid a highly-fragmented industry structure
- Limited profitability in the bulk cargo segment coupled with increased preference for 3PL over specialised service providers; enhancement of service offerings critical to support long-term business prospects
- Business remains exposed to changes in the macro-economic conditions, exchange, and government policies
- Project risks associated with large capex plans towards expansion of the warehouse segment

Description of key rating drivers

Ritco provides surface transportation of cargo. The company has an established track record in the transport industry, and over the years has built a reputed client base. This mitigates counter-party risk to a certain extent and lends stability to revenues. It also derives a higher revenue share from hired vehicles, which has limited value addition and resulted in low return indicators, as evident from the low operating margins over the years. Fuel accounts for almost 30-40% of the total operating costs, and hence Ritco's profitability remains susceptible to variation in fuel prices. The revenues and margins are likely to remain exposed to cyclical downturns owing to intense competition and limited pricing flexibility. ICRA also notes the company's large capex plans to set up warehouse in the South India. Though the plan is at a nascent stage and the funding mix has not yet been finalised, the company will remain exposed to project-related risks. Further, the ratings remain sensitive to any other large debt-funded capital expenditures, which could impact the company's credit metrics.

Analytical approach

For arriving at the ratings, ICRA has applied its rating methodologies as indicated below.

Links to applicable criteria
Corporate Credit Rating Methodology

About the company

Incorporated in 2001, Ritco provides surface transportation of cargo. The company was promoted by Mr. MPS Chadha and family, and Mr. S.K. Elwadhi. It operates in three divisions – bulk transportation, warehousing and parcel transportation. Of these, bulk transportation is the chief revenue contributor. The company is present across India through its 125 branches. It has 14 warehouses, and an in-house fleet of 83 trucks, and about 4000 attached vehicles to support its operations. The company caters to a wide range of industries, such as petrochemicals, steel, textiles, pharmaceuticals, petroleum, and automobile etc.

In FY2017, on a provisional basis, the company reported a net profit of Rs. 2.79 crore on an operating income of Rs. 323.61 crore. It had reported a net profit of Rs. 1.63 crore on an operating income of Rs. 313.57 crore in the previous year.

Status of non-cooperation with previous CRA

CRISIL Limited has in its rationale published on May 08, 2013, stated the following:

"CRISIL has suspended its rating on the bank facilities of Ritco Logistics Pvt. Ltd. (Ritco). The suspension of ratings is on account of non-cooperation by Ritco with CRISIL's efforts to undertake a review of the ratings outstanding. Despite repeated requests by CRISIL, Ritco is yet to provide adequate information to enable CRISIL to assess Ritco's ability to service its debt. The suspension reflects CRISIL's inability to maintain a valid rating in the absence of adequate information."

Any other information: Not applicable

Rating history for last three years

Table

<table>
<tr><th rowspan="3">S.No</th><th rowspan="3">Name of Instrument</th><th colspan="3">Current Rating FY2018</th><th rowspan="3"></th><th colspan="3">Chronology of Rating History for the Past 3 years</th></tr>
<tr><th>Type</th><th>Amount rated</th><th>Date & Rating</th><th colspan="3">Date & Rating in</th></tr>
<tr><th colspan="2">(Rs. crore)</th><th>July 2017</th><th>FY2017
April 2016</th><th>FY2015
September 2014</th><th>FY2014
May 2013</th></tr>
<tr><td>1</td><td>Fund Based</td><td>Long Term</td><td>35.00</td><td rowspan="2">ICRA BBB- (Stable)</td><td></td><td rowspan="2">ICRA BBB- (Stable)</td><td rowspan="2">ICRA BBB- (Stable)</td><td rowspan="2">ICRA BB+ (Stable)</td></tr>
<tr><td>2</td><td>Fund-based/Non-fund Based</td><td>Long Term</td><td>5.00</td><td></td></tr>
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Complexity level of the rated instrument

ICRA has classified various instruments based on their complexity as "Simple", "Complex" and "Highly Complex". The classification of instruments according to their complexity levels is available on the website www.icra.in

Annexure-1
Instruments details

Name of the instrument	Date of issuance	Coupon rate	Maturity Date	Size of the issue (Rs. crore)	Current Rating and Outlook
Cash Credit	-	-	-	35.00	ICRA BBB- (Stable)
Bank Guarantee/ Cash Credit	-	-	-	5.00	

Source: Ritco

ICRA

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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.

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