Ritco Logistics Limited

September 07, 2018

Summary of rated instruments

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Long-term: Fund Based/Cash Credit	35.00	58.75	[ICRA]BBB (Stable); upgraded from [ICRA]BBB- (Stable)
Long-term: Fund Based/ Non-fund Based	5.00	-	-
Long-term: Non-fund Based	-	10.00	[ICRA]BBB (Stable); upgraded from [ICRA]BBB- (Stable)
Total	**40.00**	**68.75**	

*Instrument details are provided in Annexure-1

Rating action

ICRA has upgraded the long-term rating to [ICRA]BBB[1] (pronounced ICRA triple B) from [ICRA]BBB- (pronounced ICRA triple B minus) for the Rs. 68.50-crore[2] (enhanced from Rs.40.00 crore) fund-based and non-fund based bank facilities of Ritco Logistics Limited (Ritco). The outlook on the long-term rating is Stable.

Rationale

The rating upgrade reflects the sustained improvement in Ritco's operating and financial performance in FY2018. The company reported an improvement in its profit margins supported by the strengthening of its own fleet, cost-rationalisation initiatives, and operational efficiencies derived post implementation of the Goods and Services Tax (GST). Improvement in profitability resulted in improved debt coverage indicators. Interest coverage ratio improved to 4.29 times and DSCR of 2.7 times as on March 31, 2018 from 2.25 times and 2.01, respectively in the previous year. ICRA also takes note of the company's established customer relationships as reflected by continued business from leading players in the petrochemical industry and its continued efforts to diversify its end-user industry base. Ritco's established and reputed customer profile is expected to support future business growth, besides protecting it from counterparty credit risk. The ratings continue to favourably factor in Ritco's established presence and its promoters' extensive experience in the road freight transport industry.

The ratings, however, are constrained by the highly fragmented nature of the industry characterised by unorganised operators. Nonetheless, a likely structural shift in preference for organised fleet operators as a fallout of GST implementation bodes well for the company's growth prospects over the short-to-medium term. The company's modest revenue growth rate in the past five years has limited its business scale. The ratings are also constrained by the moderately high working capital intensity because of the company's elongated receivables and short payables. Further, the company is planning to strengthen its owned fleet in the near-to-medium term, which is to be funded through bank finance. ICRA believes that the increase in Ritco's debt size will continue to constrain the significant improvement in its

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[1] *For complete rating scale and definitions, refer ICRA's website (www.icra.in) or other ICRA rating publications*

[2] *100 lakh = 1 crore = 10 million*

financial risk profile. 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, increase in fuel prices, toll taxes and other unrecoverable costs which the company may not be able to pass on to the customers in its entirety remain credit concerns. ICRA also notes that Ritco has plans for an initial public offering (IPO), primarily to support the funding requirements for strengthening its own fleet, apart from working capital purposes. The launch of the IPO and impact of the same on the company's financial profile will be a rating sensitivity and will be monitored.

Outlook: Stable

ICRA believes that Ritco will continue to benefit from its established position in the market, strong customer base and favourable regulatory developments. The outlook may be revised to Positive if sustained growth in revenues and profitability, and better working capital management strengthen its financial risk profile. The outlook may be revised to Negative if cash accrual is lower than expected, or if there is any material deterioration in profit margins, or if any major debt-funded capital expenditure, or stretch in the working capital cycle weakens liquidity.

Key rating drivers

Credit strengths

Established track record of operations with widespread network: Ritco has an established track record of operations of over a decade and has an extensive network across India. It has a fleet of about 300 owned vehicles and about ~1,000 attached vehicles in the country. The promoters have extensive experience in the logistics sector, which has supported the business growth in the past.

Strong client profile: The company has an established customer base comprising reputed players including Gail India Ltd., Reliance Industries Limited, Brahmaputra Cracker and Polymer Limited, and Indian Oil Corporation Limited etc. Further, a significant share of revenues is derived from the contract logistics segment which not only provides healthy revenue visibility, but also shields the company from adverse variation in fuel prices because of the fuel-escalation clauses embedded in the contracts.

Moderate scale of operations; healthy margins: While ICRA notes the consistent improvement in Ritco's revenues in the past five years, the company's scale of operations remains moderate. The revenues in FY2018 stood at Rs. 343.53 crore compared with Rs. 326.42 crore in the previous year. With the addition to its own fleet, cost-rationalisation initiatives, and efficiencies post implementation of the GST, the company reported a significant improvement in its operating margins to 8.37% in FY2018 from 3.68% in the previous year.

Efficiency gains post GST implementation: Implementation of GST is expected to result in consolidation of warehouse facilities, greater inter-state movement of goods, greater demand for logistic services, and a shift in preference from unorganised to organised logistic service providers due to greater compliance and technology requirements. Besides, it has led to an increase in the distance covered by vehicles due to withdrawal in check posts and thus, improvement in efficiency by 7-8%.

Credit challenges

Sizeable capex in next three years towards addition to own fleet: In FY2018, the company underwent a debt-funded capex towards addition to its owned fleet, which resulted in an increase in the gearing levels to 1.99 times as of March 2018. Further, to strengthen its owned fleet due to higher margins involved, the company is planning to add more vehicles in the near-to-medium term, which is to be funded through bank finance. This is likely to put more pressure on the company's capital structure.

Stretched receivables position exerts pressure on liquidity: Ritco's working capital cycle is generally skewed due to elongated receivables and short payables. Its debtor days increased to 100 days as on March 31, 2018 from 73 days as on March 31, 2017. The company is dependent on continued requirements of working capital loans to fund the high working capital requirements.

Profitability remains susceptible to increase in vehicle-hire charges, Ritco's ability to pass on fuel price fluctuations: The company remains exposed to significant fluctuation in hire charges for market vehicles as the rates are primarily dependent on the demand-supply dynamics. Also, the company remains vulnerable to volatility in fuel prices, and its ability to timely pass-through any variation in fuel prices remains critical in helping it maintain profitability margins.

Highly competitive and fragmented market: The road logistics sector is highly fragmented with most business being generated by the unorganised segment. Nonetheless, Ritco's long relationships with customers translates to numerous repeated orders, which mitigates competition to an extent. While there exists a significant opportunity for the organised players to scale up their businesses, especially post the implementation of the GST, the fragmented nature of the industry results in intense competition. This in turn exerts pressure on profitability.

Business prospects remain vulnerable to slowdown in economy: Ritco's business is susceptible to economic downturns with the volume handled being critical to ensure adequate utilisation of its captive fleet.

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 Logistics Limited 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's footprints are spread across India through its 29 branches. It has nine warehouses and an in-house fleet of 300 trucks, and about 1,000 attached vehicles to support its operations. The company caters to a wide range of industries such as petrochemicals, steel, textiles, pharmaceuticals, petroleum, and automobile among others.

Key financial indicators (audited)

	FY2017	FY2018
Operating Income (Rs. crore)	326.42	343.53
PAT (Rs. crore)	4.04	10.00
OPBDIT/OI (%)	3.68%	8.37%
RoCE (%)	11.71%	18.61%
Total Debt/TNW (times)	1.38	1.99
Total Debt/OPBDIT (times)	4.40	3.33
Interest Coverage (times)	2.25	4.29

OPBDITA: Operating Profit before Depreciation, Interest, Taxes and Amortisation; PAT: Profit after Tax; RoCE: Return on Capital Employed; TNW: Tangible Net worth; ROCE: PBIT/Avg (Total Debt + Tangible Net-Worth + Deferred Tax Liability - Capital Work - in Progress); Source: Financial statements of Ritco; ICRA research

Status of non-cooperation with previous CRA

In May 2013, CRISIL suspended its ratings on the bank facilities of Ritco Logistics Limited (erstwhile Ritco Logistics Private Limited). The suspension of ratings was on account of non-cooperation by Ritco with CRISIL's efforts to undertake a review of the ratings outstanding.

Source: www.crisil.com

Any other information: None

Rating history for last three years

SNo	Name of Instrument	Type	Current Rating (FY2019)			Chronology of Rating History for the Past 3 years		
			Rated amount	Amount outstanding	Month-year & Rating	Month- year and Rating in		
						FY2018	FY2017	FY2015
			(Rs. crore)		September 2018	July 2017	April 2016	September 2014
1	Fund Based	Long Term	58.75	-	[ICRA]BBB (Stable)	[ICRA]BBB- (Stable)	[ICRA]BBB- (Stable)	[ICRA]BBB- (Stable)
2	Fund-based/Non-fund Based	Long Term	-	-	-	[ICRA]BBB- (Stable)	[ICRA]BBB- (Stable)	[ICRA]BBB- (Stable)
3	Non-fund Based	Long Term	10.00	-	[ICRA]BBB (Stable)	-	-	-

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: Instrument Details

ISIN No	Instrument Name	Date of Issuance / Sanction	Coupon Rate	Maturity Date	Amount Rated (Rs. crore)	Current Rating and Outlook
-	Long-term: Fund Based/Cash Credit	-	-	-	58.75	[ICRA]BBB (Stable)
-	Long-term: Non-fund Based	-	-	-	10.00	[ICRA]BBB (Stable)

Source: Ritco

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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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