December 31, 2019

Ritco Logistics Limited: Ratings upgraded

Summary of rating action

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

**Instrument details are provided in Annexure-1*

Rationale

The ratings upgrade takes into account the improvement in Ritco Logistics Limited's (Ritco) operating and financial risk profile in FY2019, which has continued in the current year. Further, the rating favourably factors in the improved liquidity in the company after its successful initial public offering (IPO) in February 2019. The proceeds from the IPO were primarily utilised for funding the working capital requirements, as per the objects of the issue. In addition, the company reported an improvement in its revenues and profit margins supported by the strengthening of its own fleet, renewal of contracts with its key customers, cost-rationalisation initiatives, and operational efficiencies derived, post implementation of the Goods and Services Tax (GST). The company's established position within the organised segment, healthy proportion of contractual business, coupled with its asset light business model, has helped it counter business downturns in the past and maintain a stable financial profile. Thus, even as a sluggishness in economic activity is likely to limit the company's revenue growth prospects in the current fiscal, its growth prospects over the medium term continue to remain healthy. The ratings, however, are constrained by the highly fragmented nature of the industry characterised by unorganised operators. Nonetheless, a structural shift in preference for organised fleet operators, a healthy share of contractual business along with growing end-user industry diversification bodes well for the company's growth prospects over the short-to-medium term. ICRA also notes the moderation in Ritco's operating margins in H1 FY2020 due to an overall sluggishness in economic activity and subdued freight rates. Furthermore, the company's operations remain working capital intensive, characterised by an elongated receivable cycle and short payables. The company's existing bank line utilisations remains high, and as such its ability to avail timely limit enhancement commensurate to its scale of business remains imperative. ICRA would continue to monitor its ability to manage its working capital cycle and liquidity profile, as its operations scale up further. ICRA also takes into consideration the susceptibility of the company's profitability to intense competition, exposure of its operations to macro-economic conditions and Government policies. In addition, the 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.

Key rating drivers and their description

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 304 owned vehicles and about ~1,000-1,200 attached vehicles in the country. The promoters have extensive experience in the logistics sector, which has supported the business growth in the past.

Asset-light model of operations: The company has an asset-light business model with an in-house fleet of 304 trucks, and about 1,000–1,200 attached vehicles to support its operations. A part of the requirement is also met through fleet hired from the spot market. The asset light model helps the company in saving on fixed costs (related to fleet) and reduces the idle capacity in the event of business downturns.

Strong client profile; high share of contracted business provides revenue visibility: 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 Limited etc. Further, a significant share of the revenue 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.

Comfortable financial risk profile: Ritco has comfortable financial risk with comfortable gearing levels. Steady accretion to reserves along with the recent IPO has strengthened the company's net worth, resulting in gearing of 1.19 times as on March 31, 2019. Further, Ritco's debt protection measures have also been at a healthy level due to controlled leverage and healthy profitability.

Credit challenges

Stretched receivables position: The company's operations are working capital intensive characterised by an elongated receivable cycle and short payables. Its debtor days stood high and increased to 103 days as on March 31, 2019 from 73 days as on March 31, 2017. Though the existing bank lines remain highly utilised, the inflow from the IPO has supported the liquidity in the system.

Profitability remains susceptible to increase in vehicle-hire charges: The company remains exposed to significant fluctuation in hire charges for market vehicles as the rates are primarily dependent on the demand-supply dynamics. It is also vulnerable to the volatility in fuel prices, and its ability to tackle a timely pass-through of any variation in fuel prices remains critical in maintaining its profitability margins.

Highly competitive and fragmented market: The road logistics sector is highly fragmented with most business being generated by the unorganised segment. While there exists a significant opportunity for organised players to scale up their businesses, 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, Ritco has been able to mitigate this risk to an extent, benefitting from the established relationships with its customers and gradual adoption of IT[1] infrastructure.

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. The current weak economic scenario has resulted in a tepid demand for the overall logistics sector, with decline in manufacturing and consumption activities leading to moderation in growth of the sector. *(Source: ICRA research)*

Liquidity position: Adequate

The company's liquidity is **adequate** with positive and increased fund flow from operations in FY2019. However, with an increase in business scale, the company's working capital funding requirements are likely to increase. This in turn could result in some reliance on external debt. While Ritco has adequate liquidity to service its debt repayments, its ability to avail of the timely limit enhancement, commensurate to its scale of business, remains imperative.

Rating sensitivities

Positive triggers: ICRA could further upgrade the rating if the company demonstrates a sustained improvement in revenues and profitability. Efficient working capital management on a sustained basis could lead to a positive rating action. In terms of specific credit metrics, an interest cover of more than five times on a sustained basis would be a positive trigger for the company.

Negative triggers: ICRA could downgrade the rating if there is a deterioration in the working capital parameters or if a major debt-funded capital expenditure weakens the financial risk profile. Specific credit metrics, such as total debt/OPBIDTA of more than three times, would be a negative trigger

Analytical approach

Analytical Approach	Comments
Applicable Rating Methodologies	Corporate Credit Rating Methodology
Parent/Group Support	Not applicable
Consolidation/Standalone	Not applicable

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 seven warehouses and an in-house fleet of 304 trucks, and about 1,000-1,200 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. The company completed its IPO and got listed on SME Platform of BSE in February 2019. The proceeds from the IPO were primarily utilised for funding the working capital requirements, as per the objects of the issue.

[1] *IT: Information technology*

Key financial indicators (audited)

	FY2018	FY2019
Operating Income (Rs. crore)	343.53	408.05
PAT (Rs. crore)	10.00	12.15
OPBDITA/OI (%)	8.37%	11.02%
RoCE (%)	18.61%	17.48%
Total Outside Liabilities/Tangible Net worth (times)	2.22	1.26
Total Debt/OPBDIT (times)	3.33	2.44
Interest Coverage (times)	4.29	3.87
DSCR (times)	2.70	2.14

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 past three years

SNo	Name of Instrument	Current Rating (FY2020)				Chronology of Rating History for the Past 3 years			
		Type	Rated amount	Amount outstanding	Month-year & Rating	Month- year and Rating in			
						FY2019		FY2018	FY2017
			(Rs. crore)		Dec 31, 2019	February 15, 2019	September 07, 2018	July 06, 2017	April 01, 2016
1	Fund Based	Long Term	58.75	-	[ICRA]BBB+ (Stable)	[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)
3	Non-fund Based	Long Term	10.00	-	[ICRA]BBB+ (Stable)	[ICRA]BBB (Stable)	[ICRA]BBB (Stable)	-	-

Amount in Rs. Crore

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

Annexure-2: List of entities considered for consolidated analysis: Not applicable

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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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