January 29, 2021

Ritco Logistics Limited: [ICRA]BBB+ (Stable) assigned for enhanced amount

Summary of rating action

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Long-term: Fund Based/Cash Credit	93.75	128.75	[ICRA]BBB+ (Stable); assigned for enhanced amount
Total	**93.75**	**128.75**	

**Instrument details are provided in Annexure-1*

Rationale

The rating continues to factor in Ritco Logistics Limited's (RLL) established track record of operations, supported by its widespread network, and the promoters' extensive experience in the road logistics industry. 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. RLL's established and reputed customer profile is expected to support future business growth, besides protecting it from counterparty credit risk. Additionally, even as the pandemic-induced disruptions and sluggishness in economic activity are likely to limit the company's revenue growth prospects in the current fiscal, the possibility of a gradual improvement in industrial activity resulting in better load availability supports its medium-term growth prospects. Further, while RLL has strengthened its own fleet over the last few years, it continues to operate on an asset-light model with less than 20% of its annual business derived from its own fleet. The asset-light model helps the company in saving on fixed costs and reduces the idle capacity in the event of business downturns, such as the restrictions due to the ongoing Covid-19 pandemic.

The ratings, however, are constrained by the highly fragmented nature of the industry characterised by unorganised operators. Nonetheless, there continues to be a gradual shift in preference towards organised players in the transportation business since the implementation of goods and services tax (GST) and e-way bills (electronic way bill), which is expected to be further accelerated by the pandemic. ICRA also notes the moderation in RLL's revenues and earnings in H1 FY2021 following the impact of the pandemic. While the revenues in the bulk transport segment improved to around 80–90% of the pre-Covid levels in the recent months with partial lifting of lockdown, ICRA expects the accruals for the full year to be constrained due to the weak performance in H1 FY2021. The ratings are also constrained by RLL's working capital-intensive nature of operations due to high receivables and short payables. In addition, there has been a considerable increase in the receivable levels in the recent months due to the pandemic. Nonetheless, with the company's reputed client base, the risk of debtors turning bad remains minimal. However, the delays in recoveries have constrained its financial flexibility, necessitating increased dependence on external working capital debt. Consequently, due to lower absolute profits coupled with higher debt, the capital structure as well as debt coverage indicators weakened in H1 FY2021. In addition, the company's existing bank line utilisations remains high. However, the presence of sufficient cash and bank balances provides comfort. Nevertheless, ICRA would continue to monitor the company's ability to manage its receivables and working capital cycle, as any significant deterioration in the same can impact its liquidity profile or credit metrics adversely. 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.

The Stable outlook on the [ICRA]BBB+ rating reflects ICRA's opinion that RLL will continue to benefit from its vast track record of operations in the industry with an established and reputed customer base.

Key rating drivers and their description

Credit strength

Established track record of operations with widespread network – RLL has an established track record of operations of over a decade and has an extensive network across India. 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, while about 60–65% of the total requirement is met through fleet hired from the spot market on a daily basis. A part of the requirement is also met through attached fleet. 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, such as the restrictions due to the ongoing Covid-19 pandemic.

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., Brahmaputra Cracker and Polymer Limited, ONGC Petro Addition Limited, Nestle India Limited, etc. Further, a significant share of the 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.

Credit challenges

Moderation in revenues and profitability in near term due to extensive impact of Covid-19 related restrictions – The revenue growth and margins of the company are vulnerable to slowdown in economic activity and goods movement. While the company's revenues in the bulk transport segment improved to around 80–90% of the pre-Covid levels in the recent months with partial lifting of lockdown, ICRA expects the accruals for the full year to be constrained by the weak performance in H1 FY2021. In addition, RLL's capital structure as well as debt coverage indicators weakened in H1 FY2021 because of the higher quantum of debt availed to fund its increased working capital requirement coupled with lower absolute profits.

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 149 days as on September 30, 2020 from 103 days as on March 31, 2019 due to the pandemic-led disruptions.

Profitability remains susceptible to increase in vehicle hire charges – The company remains exposed to significant fluctuations 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, RLL 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 – RLL's business is susceptible to economic downturns with the volume handled being critical to ensure adequate utilisation of its captive fleet. ICRA expects the growth in the logistics sector to be impacted in the current fiscal by the Covid-19 pandemic. The implementation of the nationwide lockdown to control the spread of the disease impacted the sector significantly in Q1 FY2021. Freight demand, which was already subdued prior to the onset of the pandemic, sharply contracted further due to the restrictions on manufacturing and construction activities, resulting in lower freight availability. Further, freight movement was disrupted by the restrictions on cross-border movements and large-scale migration of drivers and labour.

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[1] *IT: Information technology*

Liquidity position: Adequate

Despite the performance pressures in FY2020 as well as in the current financial year, RLL's liquidity remains **adequate** on account of its steady cash flow from operations and presence of adequate free cash and bank balances, which stood at Rs. 17.74 crore as on December 2020. Further, the liquidity position has been supported by reduction in the company's debt repayment burden for FY2021 following the moratorium availed by it.

Rating sensitivities

Positive triggers – ICRA could upgrade the rating if the company demonstrates a sustained improvement in revenues and profitability. In addition, RLL's ability to manage its working capital efficiently, such that the receivable cycle normalises to previous levels, may also 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 on a sustained basis, 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 has pan-India presence 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.

Key financial indicators (audited)

KSCPL Standalone	FY2019	FY2020
Operating Income (Rs. crore)	408.1	492.8
PAT (Rs. crore)	12.1	8.8
OPBDIT/OI (%)	11.0%	7.9%
PAT/OI (%)	3.0%	1.8%
Total Outside Liabilities/Tangible Net Worth (times)	1.3	1.4
Total Debt/OPBDIT (times)	2.4	3.4
Interest Coverage (times)	3.9	3.0

*Source: Company, ICRA Research; * Provisional numbers. All ratios as per ICRA calculations*

PAT: Profit after Tax; OPBDIT: Operating Profit before Depreciation, Interest, Taxes and Amortisation

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 (FY2021)					Chronology of Rating History for the Past 3 years					
		Type	Rated amount	Amount outstanding	Date & Rating		Date- year and Rating in					
							FY2020		FY2019			FY2018
			(Rs. crore)		January 29, 2021	December 31, 2020	January 31, 2020	Dec 31, 2019	February 15, 2019	September 07, 2018	July 06, 2017
1	Fund Based	Long Term	128.75	-	[ICRA]BBB+ (Stable)	[ICRA]BBB+ (Stable)	[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)
3	Non-fund Based	Long Term	-	-	-		-	[ICRA]BBB+ (Stable)	ICRA BBB (Stable)	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 click here

Annexure-1: Instrument details

ISIN No	Instrument Name	Date of Issuance / Sanction	Coupon Rate	Maturity Date	Amount Rated (Rs. Crore)	Current Rating and Outlook
NA	Cash Credit	*	-	-	128.75	[ICRA]BBB+ (Stable)

*Source: Company; * limits are as per sanction letters dated October 27, 2020, July 13, 2020, April 18, 2019 and November 12, 2019*

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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