

August 29, 2024

Ritco Logistics Limited: Ratings upgraded to [ICRA]BBB+(Stable)

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); upgraded from [ICRA]BBB(Stable)
Long-term – Non-fund Based – Bank Guarantee	28.00	28.00	[ICRA]BBB+(Stable); upgraded from [ICRA]BBB(Stable)
Total	241.75	241.75	

*Instrument details are provided in Annexure-1

Rationale

The rating upgrade for Ritco Logistics Limited (Ritco or the company) considers the healthy revenue growth demonstrated by the company in FY2024 (with a YoY revenue growth of 24% on a consolidated basis), aided by steady demand from existing customers as well as incremental revenue generation from the newly added clients from the steel and cement sectors. ICRA expects the revenue growth momentum to continue over the near-to-medium term as Ritco continues to onboard new clients and expand its own fleet of trucks to meet the requirements of its clientele. Increasing the share of its own fleet is also expected to result in a gradual margin expansion, going forward. ICRA also notes the fresh equity capital of Rs. 100 crore raised by the company in July 2024 by way of preferential share allotment, which is expected to provide comfort to the capital structure and primarily support its liquidity profile (aiding to the reduction in the working capital banking lines, which correspondingly need a fixed deposit collateral).

Ritco continues to benefit from its established customer relationships, resulting in continued business from leading players in the petrochemical and fast-moving consumer goods (FMCG) industries. The company witnessed a decent revenue growth in FY2024, supported by incremental business from its clientele. Its foray into new sectors such as steel and cement is expected to support its future business growth. In addition, the rating factors in Ritco's established track record of operations, supported by its wide network, and the promoters' extensive experience in the road logistics industry. Further, the company 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, which is in line with the same strategy. ICRA notes a rising capex of Ritco to increase in own fleet. The increase in own fleet will be used to tap business in other industry verticals, which would aid in business diversification.

The ratings continue to remain constrained by the susceptibility of Ritco's profitability to market fleet availability and prices, in line with the nature of the business it operates in. Further, intense competition and a fragmented market may also limit pricing ability, capping the profitability. The company plans to add more vehicles over the next two years, with the said fleet expansion likely to be funded by long-term fleet loans. Availing long-term fleet loans along with working capital-intensive operations are likely to result in high leverage over the near-to-medium term, although raising of fresh equity capital is expected to provide some comfort, going forward.

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

Key rating drivers and their description

Credit strengths

Established track record of operations with widespread network – Ritco has an established operational track record of over two decades and a wide network across India. The promoters have an extensive experience in the logistics sector, which

supported the business growth in the past. The company is promoted by Mr. M.P.S. Chadha and Mr. S.K. Elwadhi, who have been involved in the business of transport and logistics for over 30 years, resulting in well-established relations with the key customers over the years.

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 1,600 trucks out of which 80-85% of the total requirement is hired from the spot market daily. The business model, despite some expansion of own fleet in the recent past, continues to remain asset light, which helps Ritco in saving fleet fixed costs and reduces the idle capacity in case of any business downturn, however, the same model makes it dependent on the market fleet. The company took the initiative of creating a vehicles aggregation platform to improve visibility across the value chain pertaining to payments, fleet availability and pricing. The company has already registered over 1 lakh trucks on the app, and now plans to ramp up this business through subscription-based model. The platform is expected to give Ritco direct access to a large number of fleet owners, which would support the company's future growth plans.

Fresh round of equity infusion to support capital structure and liquidity profile – In order to support its working capital profile and partly fund the expansion of its app business, Ritco raised a fresh equity capital of ~Rs. 100 crore in July 2024 through preferential share allotment. Raising of the said equity share capital is expected to support Ritco's capital structure and liquidity profile, going forward. As a major part of the capital thus raised would be utilised to support the working capital profile, the short-term debt utilisation will moderate and thus remove the encumbrance on fixed deposits (which would be further utilised for business growth).

Strong client profile mitigates debtor risk to a large extent; new business acquisition and favourable industry outlook support growth prospects – Ritco has an established customer base of reputed players, including Reliance Industries Ltd., GAIL India Ltd., Indian Oil Corporation Ltd., Nestle India Limited, etc., which mitigates the debtor risk to a large extent. The company enters long-term agreements with most of its clients, which provide good revenue visibility. The company witnessed a healthy revenue growth in Q1 FY2025 as well (21% YoY revenue growth for the quarter), led by increased business from the existing clients in the petrochemicals and FMCG sectors and incremental revenue generation from the recently acquired clients from steel and cement sectors. Aided by steady revenue growth momentum, Ritco's operating profit margin (OPM) rose to 8.0% in FY2024 from 7.0% in FY2023 (OPM stood at 7.9% in Q1 FY2025).

Credit challenges

Profitability remains susceptible to fleet availability in markets, and prices – Ritco's business model remains exposed to significant fluctuations in hire charges for market vehicles as the rates are primarily dependent on the demand-supply dynamics, and the company hires most of its fleet from the market. Also, due to the unfragmented nature of the industry, intermediaries/brokers control most of the fleet and players like Ritco need to rely on them for the fleet. The company plans to build direct access to fleet owners through its proposed online platform and get better visibility on fleet availability and pricing. These factors apart, any adverse policy changes, and increasing fuel and related costs may 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 a stiff competition, exerting pressure on the profit margins during renewal of contracts. Nonetheless, Ritco has mitigated this risk to an extent, benefitting from the established relationships with its customers.

Debt-funded fleet addition and working capital intensive operations resulting in high leverage – Ritco's capital expenditure outlay in FY2024 (~Rs. 38 crore) remained higher than the historic levels as the company invested in expanding its own fleet during the fiscal. The company may further expand its own fleet in the present fiscal, if required, with a capex outlay of Rs. 30-35 crore. As the fleet expansion initiatives are primarily funded through fleet loans, the said capex and the working capital-intensive operations are expected to result in high leverage over the near-to-medium term. Nevertheless, fresh equity capital

raised in July 2024 is expected to provide some comfort in this regard. ICRA expects the coverage ratio to improve in the near term with total debt / OPBITDA of 2.2-2.6 times in FY2025, compared to 3.5 times in FY2024. In addition, the interest coverage ratio is estimated to improve to 3.6-4.0 times against 3.5 times in FY2024.

Environmental and Social Risks

Environmental considerations: Emission is the key risk for the entity as the company operates in the logistics sector. The company primarily depends on the market fleet (trucks), which use diesel as the key fuel. With the steady transition to BS-VI emission norms, the emissions are expected to reduce per truck though the total emissions would rise with the growing scale of the company. Ritco focuses to opt for new fleet, which support better efficiency and lower emissions. Any significant change pertaining to emission restrictions could result in increase in the fleet costs or impact fleet availability, which could affect the company’s revenue growth as well as margins.

Social considerations: Ritco is exposed to social risks such as driver shortage or fleet availability as the company depends primarily on market fleet. However, the company strives to offer a good work environment, make timely payments to the truck drivers/owners and imparts skill development by conducting routine training programmes as well as awareness camps for drivers. The company has also launched a trucker aggregation platform on which it has already onboarded more than 1 lakh vehicles. This is expected to improve the fleet availability for the company, thus mitigating the risk to some extent.

Liquidity position: Adequate

Ritco’s liquidity profile is adequate, with free cash and liquid investments of ~Rs. 6.0 crore and buffer in the form of undrawn working capital lines, which stood at ~Rs. 21.0 crore as of March 31, 2024. The need to offer cash collateral for its fund-based limits and cash margin on non-fund-based limits result in higher funding requirements. The company has a planned capex of Rs. 100-110 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. 15 crore for FY2025 and Rs. 18-20 crore for FY2026-FY2027. 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. The recently raised fresh equity capital of ~Rs. 100 crore is also expected to support the overall liquidity profile of the company.

Rating sensitivities

Positive factors – ICRA could upgrade the rating if the company demonstrates a sizeable growth in its scale of operations coupled with an improvement in profitability and liquidity profile on a sustained basis.

Negative factors – ICRA could downgrade Ritco’s rating if the company witnesses a sustained decline in earnings, resulting in a deterioration in its liquidity profile, or any significant stress in the working capital parameters, or if a major debt-funded capex weakens its financial risk profile on a sustained basis. A specific credit metric for a rating downgrade includes an interest cover of less than 3.5 times, on a sustained basis.

Analytical approach

Analytical Approach	Comments
Applicable Rating Methodologies	Corporate Credit Rating Methodology
Parent/Group Support	Not Applicable
Consolidation/Standalone	For arriving at the rating, ICRA has considered the consolidated financials of Ritco. The details are given in Annexure-2.

About the company

Ritco, incorporated in 2001, 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 a

pan-India presence through its 29 branches. It has seven warehouses and an in-house fleet of ~360 trucks and 1,200–1,300 attached vehicles to support its operations. Ritco caters to a wide range of industries such as petrochemicals, steel, cement, textiles, pharmaceuticals, petroleum, and automobile, among others. The company is listed on Bombay Stock Exchange (BSE) and National Stock Exchange (NSE).

Key financial indicators

Ritco (Consolidated)	FY2023	FY2024	Q1 FY2025*
Operating Income (Rs. crore)	751.2	933.3	252.2
PAT (Rs. crore)	24.3	32.6	8.6
OPBDIT/OI (%)	7.0%	8.0%	7.9%
PAT/OI (%)	3.2%	3.5%	3.4%
Total Outside Liabilities/Tangible Net Worth (times)	1.5	1.5	NA
Total Debt/OPBDIT (times)	4.0	3.5	NA
Interest Coverage (times)	3.2	3.5	3.4

Source: Ritco, ICRA Research; PAT: Profit after Tax; OPBDIT: Operating profit before depreciation, interest, taxes and amortisation; *unaudited

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

Rating history for past three years

Instrument	Type	Current rating (FY2023)		Chronology of rating history for the past 3 years				
		Amount rated (Rs. crore)	Date & Rating on	Date & rating in FY2024	Date & rating in FY2023		Date & rating in FY2022	
			Aug 29, 2024	May 31, 2023	Jan 19, 2023	June 30, 2022	Jan 28, 2022	
1	Cash credit	Long term	213.75	[ICRA]BBB+ (Stable)	[ICRA]BBB (Stable)	[ICRA]BBB+ (Negative)	[ICRA]BBB+ (Negative)	[ICRA]BBB+ (Stable)
2	Bank Guarantee	Long term	28.00	[ICRA]BBB+ (Stable)	[ICRA]BBB (Stable)	[ICRA]BBB+ (Negative)	-	-

Source: Company

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-1: Instrument details

ISIN	Instrument Name	Date of Issuance / Sanction	Coupon Rate	Maturity Date	Amount Rated (Rs. Crore)	Current Rating and Outlook
NA	Cash Credit	NA	NA	NA	213.75	[ICRA]BBB+ (Stable)
NA	Bank Guarantee	NA	NA	NA	28.00	[ICRA]BBB+ (Stable)

Source: Company

[Please click here to view details of lender-wise facilities rated by ICRA](#)

Annexure-2: List of entities considered for consolidated analysis

Company Name	Ritco Ownership	Consolidation Approach
Ritco Logistics Limited	100.00%	Full consolidation
Logro Sourcing Private Limited	76.00%	Full consolidation

Source: Ritco

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