Ritco Logistics Limited

January 05, 2021

Ratings

Facility/Instrument	Amount (Rs. crore)	Rating[1]	Remarks
Long-term Bank Facilities-Fund Based-CC	50.00	**CARE BBB+; Stable (Triple B Plus; Outlook: Stable)**	**Reaffirmed**
Total facilities	**50.00 (Rupees Fifty crore only)**		

Details of instruments/facilities in Annexure-1

Detailed Rationale & Key Rating Drivers

The rating assigned to the bank facilities of Ritco Logistics Limited (RTL) continues to derive strength from the extensive experience of the promoters, RTL's pan-India presence with balanced mix of own fleet and third party vehicles, established and diversified customer portfolio as reflected by its continued business from leading players in the petrochemical industry and its continuous efforts to diversify its end-user industry base and moderate financial risk profile. The ratings, however, remain constrained by working capital intensive operations marked by stretched collection period, competitive and fragmented nature of logistics industry and vulnerability of profitability to trade cycle and competition.

RTL sought moratorium for the debt servicing of its vehicle loans for the periods April 2020 to August 2020 from its lenders as a part of the COVID-19 - Regulatory Package announced by the RBI on March 27, 2020 and May 22, 2020. The moratorium has been approved by the bankers of RTL. CARE has not recognized this instance as a default, as the same is permitted by the RBI as part of the relief measures announced recently. The non-recognition of default in this case is as per the guidance provided by the SEBI circular SEBI/ HO/ MIRSD/ CRADT/ CIR/ P/ 2020/ 53 dated March 30, 2020.

Key Rating Sensitivities:

Positive factors:

- Ability of the company to increase its scale of its operations annually by 20% or more as compared to past trend on a sustained basis going forward while maintaining the profitability margins.
- Ability of the company to enhance its overall profitability to more than 12% on a sustained basis from the current levels by expanding its sectorial presence and offering more value added services.

Negative factors:

- Any sizeable capex undertaken by the company adversely impacting its capital structure with overall gearing of more than 2.0x on a sustained basis.
- Any elongation in the collection period leading to further stretch in operating cycle of more than 130 days on a sustained basis.

Detailed description of the key rating drivers

Key Rating Strengths

Experienced Promoters and management team

RTL is promoted by Mr. Manmohan Pal Singh Chadha, Chairman and CFO and Mr. Sanjeev Kumar Elwadhi. Mr. Chadha has been in the supply chain business since 1989 and has an experience of three decades in the field of finance as well as in transportation and logistics. He has contributed significantly towards redesigning of process monitoring & analysing trends' establishing forecast models to ensure greater financial control in the company. Mr. Sanjeev Elwadhi is a Commerce graduate from Delhi University and has over 30 years of rich experience in the field of transportation and logistics and has played a crucial role in business development particularly related to contract logistics and fleet management. Further, the promoters are assisted by a team of professionals who have substantial experience in the logistics domain.

Integrated logistics player with Pan-India presence and balanced mix of own fleet and third party vehicles

RTL caters to a widely distributed Indian market through its 300+ locations (branches: 30, fleet hubs: 6). The company has its own fleet size of approximately 304 dedicated vehicles as on September 30, 2020 and 1.5 lakh sq/ft. of warehousing area across 9 locations in the country (on lease). RTL has a dedicated fleet of 1200+ trucks from the market and also hires from the spot market on need basis.

RTL has deployed adequate technology infrastructure through in-house software which enables it and its customers to track their consignments real time. RTL has adopted 'cash-less' system across its logistics services by adopting route

[1]*Complete definitions of the ratings assigned are available at www.careratings.com and in other CARE publications.*

expense cards, fuel cards and toll tag cards. These steps help to improve the operational performance of the fleet centres and increase the profitability per load.
Further, RTL has employed two programs in which the company has outsourced its maintenance activities to Original Equipment Manufacturers (OEMs) (for its owned fleet). For tyre maintenance, RTL has entered into an agreement with JK Tyre and Industries Limited and for vehicles' annual maintenance cost (AMC) program, it has partnered with Ashok Leyland Limited (ALL). JK tyre provides tyre on lease basis and provides services such as procurement of new and retreaded tyre, fitment and repair tyre, wheel alignment, etc. Further, the AMC from Ashok Leyland is for the period of 8 years from the date of purchase of the truck, under which RTL avails preventive, maintenance and repair services at ALL's workshops/dealer across Pan-India. These programs avoid costly on-road repairs and reduce inventory and transportation costs of spare parts and enhance the resale value of fleets, better fuel efficiency and reduced accident risk. Further, it also reduces maintenance costs compared to small competitors and other minor spare part thefts.

Established and diversified customer portfolio
The company has developed established relationship with several reputed customers across varied industries over the period which includes several leading multi-nationals and domestic companies such as MCPI Private Limited, Fine Tech Corporation Private Limited, Brahmaputra Crackers Private Limited, ONGC Petro Addition Limited, GAIL India Limited, Haldia Petrochemical Limited, etc. The established relationship with the reputed customers helps the company in getting repeat orders, which also provides revenue visibility and also minimizes counterparty credit risk. Moreover, the company has agreement of 1 to 3 years with all its major customers and the agreement includes the fuel escalation clause to shield the company against adverse variation in the fuel prices.
The customer base of the company mainly includes petrochemicals, contributing ~49% to the total operating income during FY20. The company initially was concentrating mainly on petrochemicals sector and hence has a strong customer base of both private and government customers. However, in the recent years, the company is making efforts to diversify its sectorial presence and garner market share in other sectors including FMCG, tyres, textiles, fertilizers etc.

Comfortable financial risk profile marked by growing scale of operations and moderate solvency
During FY20 (refers to period from April 01 to March 31), the total operating income of the company witnessed a growth of 21% at Rs. 494.38 cr as compared to Rs. 408.71 cr during FY19. The increase is majorly on the account of the growing business from the existing clients and addition of new clients mainly pertaining to FMCG and tyres sector. However, the profitability margins of the company declined to 8.26% during FY20 as against 11.13% during the previous year due to the higher cost of services at Rs. 438.42 cr (~89% of total operating income) during FY20 as compared to Rs. 353 cr (~86% of total operating income) during FY19. The service cost increased on account of the withdrawal of the diesel discount offered by Indian Oil Corporation Limited (IOCL) during July 2019. In addition to this, RTL also hired new drivers for the specialized vehicles used for FMCG business, leading to increase in employee cost. RTL also incurred higher selling expenses and accepted FMCG contracts at lower margins to initially capture the market. Further, with the outbreak of COVID-19 during March 2020 and subsequent imposition of lockdown restrictions and labour shortage, the company witnessed loss of revenues and higher hiring cost.
During H1FY21, the company accrued total operating income of Rs. 183.18 cr, ~24% lower than the income of Rs. 241.37 cr accrued during H1FY20. The same is on account of the sluggish operations witnessed in Q1FY21 with delayed bookings and deliveries and movement of goods allowed only for essential items. The company faced challenges of vehicles (owned and attached) being standstill at fleet yards, severe shortage of labour with reverse migration. However, the operations of the company picked up significantly starting from Q2FY21 onwards, with the company achieving monthly sales of pre-COVID levels during H2FY21.
The overall gearing of the company increased to 1.32x as on March 31, 2020 as compared to 1.19x as on March 31, 2019 on account of the increased utilization of the working capital limits in face of delayed collections from the customers with the disrupted deliveries and restricted movement of goods with the lockdown restrictions during March 2020. The working capital borrowings of the company stood outstanding at ~Rs. 83 cr as on March 31, 2020 as compared to ~Rs. 45 cr as on March 31, 2019. The debt equity ratio of the company improved to 0.51x as on March 31, 2020 as compared to 0.70x as on March 31, 2019. The total debt as on March 31, 2020 was Rs. 134.07 cr which constituted of vehicle loans of Rs. 51.25 cr and working capital borrowings of Rs. 82.83 crore. The solvency indicators of the company moderated in FY20, however, continued to remain comfortable with interest coverage ratio of 3.10x and total debt to GCA of 5.53x.

Adequate Liquidity
The liquidity profile of RTL is adequate with current ratio of 2.01x (PY: 2.34x) and cash and cash equivalents of Rs. 32.80 cr as on March 31, 2020 (free: Rs. 29.35 cr) comprising of ~Rs. 31.78 cr as cash and bank balances and ~Rs. 1.02 cr as mutual funds. The overall gearing of the company stood at 1.32x as on March 31, 2020 with no major capex commitments in the near term. Further, RTL has availed moratorium for the scheduled payments and interest servicing from its lenders for the vehicle loans (not rated by CARE) as part of COVID-19 - Regulatory Package announced by the RBI on March 27, 2020 and further extension on May 22, 2020 for the periods April 2020 to August 2020, however, it has been regularly servicing the

interest due on its working capital limits. RTL has scheduled repayments of ~Rs. 9 cr vis-à-vis projected GCA of ~Rs. 22 cr during FY21. The operations of the company remain working capital intensive on account of lower credit period being extended by the creditors and higher credit period offered to its clients. The working capital intensive operations of the company are funded largely through working capital facilities. RTL has the sanctioned working capital limits of Rs. 157.25 cr (including CC limits of Rs. 126.25 cr and non-fund based limits of Rs. 31 cr) for the business operations. The fund based working capital utilization of the company stood at ~80% at a maximum level for the twelve months ending October 2020, while the average maximum utilization of the non-fund based limits stood at 89.52% for the last twelve months ending October 2020.

Key Rating Weaknesses

Working Capital Intensive Operations

RTL derives majority of its revenue from corporate clients thus leading to low bargaining power. The company provides a credit period of around 90-120 days from the delivery of consignment. As the company is engaged in deliveries across the country, the delivery time adds up to the receivable cycle of the company. Further, with respect to the creditor, RTL has to make majority of payments to its vendors in advance for fuel. In addition to this, the business of the company is working capital intensive on account of huge upfront expenses incurred in conducting operations through own fleet of vehicles as well as hired vehicles. The time gap in collection of receivables and upfront outflow of expenses results in large working capital requirement. During FY20, the operating cycle of the company increased to 95 days as compared to 87 days for FY19 on account of the elongation in the collection cycle to 96 days during FY20 as compared to 92 days during FY19. This is attributed to the delayed collections from the clients during March 2020 with the disrupted deliveries and restricted movement of goods and people with the lockdown restrictions to contain the spread of COVID-19. However, with the gradual relaxation of the lockdown restrictions, the company has been undertaking concentrated efforts for faster collection to reduce working capital intensity.

Competitive and fragmented nature of the freight logistics industry

Around 80-85% of the road freight transport industry consists of small transport operators that own less than five trucks. The highly fragmented and unorganized nature of the industry results in intense price competition and may lead to pressure on the company's profitability in case of adverse situations. However, the players with superior quality of service and presence in different locations across country and clientele across various industries would enjoy competitive edge and would be able to garner more business and long term contracts. On account of RTL's foray into end to end freight service, the company is well placed vis-à-vis competition. While there exists a significant opportunity for the organized players to scale up their businesses, especially with the implementation of the GST, the fragmented nature of the industry results in stiff competition, thereby exerting pressure on profitability margins in renewal of contracts. Nonetheless, RTL has been able to mitigate this risk to an extent, benefitting from the established relationships with its customers and gradual adoption of IT infrastructure.

Vulnerability of profitability to trade cycle and competition

Logistics operations are dependent on the overall economic condition of the country. Higher economic activity translates into higher freight movement which drives demand for road freight transport industry. However, RTL's major exposure to sectors like petrochemical and FMCG partially mitigates risk arising from inherent cyclicality in logistics sector on account of stable demand from both these sectors. RTL 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.

Industry Outlook

With the onset of COVID-19 pandemic in China during H2FY20 and subsequent spread to the rest of the world, the scenario was characterized by lockdowns and border closures that restricted the movement of goods and additional protocols (such as social distancing at warehouses) were introduced to ensure the safety of workers contributed to bottlenecks for freight. Operational constraints led to delivery delays, congestion, shortage of truck drivers and higher freight rates. The government responded to the crisis by designating ports, shipping, and trucking services as essential—and thereby exempt from lockdown measures. However, labour shortages, cargo capacity challenges, a manufacturing slowdown, order delays and stuck shipments, demand and supply shocks created a challenging environment for the industry especially during Q1FY21.

However, with the gradual relaxation in the lockdown restrictions and the subsequent revival in the consumption demand with strong e-commerce growth and inventory rebuilding, the lead indicators for Q2FY21 have pointed towards a strong pick-up in the logistics sector. The strong pick-up in freight is also visible in the express market, with the gradual improvement of economic activity with easing of restrictions that were imposed during the lockdown and normalization of trucking activity at the ports. Similarly, supply chain management (SCM) division is expected to normalize in coming months as the segment is largely dominated by the auto sector while it is showing revival (first mile, warehousing and last mile).

Analytical approach: Standalone

Applicable Criteria
Criteria on assigning 'outlook' and 'credit watch' to Credit Ratings
CARE's Policy on Default Recognition
Financial Ratios - Non-Financial Sector
Liquidity Analysis of Non-Financial Sector Analysis
Rating Methodology - Service Sector Companies

About the Company
Ritco Logistics Limited (RTL) was incorporated in 2001. Prior to incorporation of RTL, the group was providing logistics services through a private limited company- Ritco Kirti Associates Pvt Ltd since 1996. RTL is an ISO 9001:2000 certified company and is third-party logistics (3PL) service provider providing logistics services including transportation of cargo and warehousing services. The scope of services includes contract logistics, liquid logistics, less than truck load (LTL) service, multi-model movement (road-rail-road) and warehouse and distribution services. The company caters to a wide range of industries such as petrochemicals, FMCG, steel, textiles, pharmaceuticals, petroleum and automobile among others. The company successfully completed its IPO and got listed on SME Platform of BSE with effect from February 7, 2019 by raising Rs. 48.18 crore. The IPO proceeds were majorly utilized to meet working capital requirements and for warehouse development and technology upgradation.

Brief Financials (Rs. crore)	FY19 (A)	FY20 (A)
Total operating income	408.71	494.38
PBILDT	45.50	40.83
PAT	11.89	8.83
Overall gearing (times)	1.19	1.32
Interest coverage (times)	3.92	3.10

A: Audited

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.

Any other information: Not Applicable

Rating History for last three years: Please refer Annexure-2

Covenants of rated instrument / facility: *Detailed explanation of covenants of the rated instruments/facilities is given in Annexure-3*

Complexity level of various instruments rated for this company: Annexure 4

Annexure-1: Details of Instruments/Facilities

Name of the Instrument	Date of Issuance	Coupon Rate	Maturity Date	Size of the Issue (Rs. crore)	Rating assigned along with Rating Outlook
Fund-based - LT-Cash Credit	-	-	-	50.00	CARE BBB+; Stable

Annexure-2: Rating History of last three years

Sr. No.	Name of the Instrument/Bank Facilities	Current Ratings			Rating history			
		Type	Amount Outstanding (Rs. crore)	Rating	Date(s) & Rating(s) assigned in 2020-2021	Date(s) & Rating(s) assigned in 2019-2020	Date(s) & Rating(s) assigned in 2018-2019	Date(s) & Rating(s) assigned in 2017-2018
1.	Fund-based - LT-Cash Credit	LT	50.00	CARE BBB+; Stable	-	1)CARE BBB+; Stable (24-Dec-19)	-	-

Annexure-3: Detailed explanation of covenants of the rated instrument / facilities

Name of the Instrument	Detailed explanation
A. Financial covenants	
Fund-based limits	The limits are secured by: • First pari passu charge by way of hypothecation on entire current assets of the company (both present and future). • Unconditional and irrevocable personal guarantee of Mr. Manmohan Pal Singh Chadha and Mr. Sanjeev Kumar Elwadhi
B. Non-financial covenants	
1. Cash Credit	Debtors up to 120 days to be considered
2. Guarantees	10% cash margin on facility

Annexure 4: Complexity level of various instruments rated for this company

Sr. No.	Name of the Instrument	Complexity Level
1.	Fund-based - LT-Cash Credit	Simple

Note on complexity levels of the rated instrument: *CARE has classified instruments rated by it on the basis of complexity. This classification is available at www.careratings.com. Investors/market intermediaries/regulators or others are welcome to write to care@careratings.com for any clarifications.*

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About CARE Ratings:
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