

## Ritco Logistics Limited

February 13, 2023

| Facilities/Instruments    | Amount (₹ crore) | Rating <sup>1</sup> | Rating Action  |
|---------------------------|------------------|---------------------|--|
| Long Term Bank Facilities | -                | -                   | Rating continues to remain under ISSUER NOT COOPERATING category; Reaffirmed at CARE BB+; Stable; ISSUER NOT COOPERATING* (Double B Plus; Outlook: Stable ISSUER NOT COOPERATING*) and Withdrawn |

\*Details of instruments/facilities in Annexure-1.

### Rationale and key rating drivers

CARE Ratings Ltd. has reaffirmed the ratings of 'CARE BB+; Stable Issuer not Cooperating' [Double B Plus; Outlook: Stable] assigned to the bank facilities of Ritco Logistics Limited (RTL) and simultaneously withdrawn with immediate effect. The above action has been taken at the request of RTL and 'No Objection Certificate' received from the lenders that have extended the facilities rated by CARE Ratings Ltd.

CARE had, vide its press release dated March 31, 2022, placed the ratings of Ritco Logistics Limited (RTL) under the 'issuer non-cooperating' category as RTL had failed to provide the information to monitor the ratings. RTL continues to be non-cooperative despite repeated requests for submission of information to monitor the ratings through phone calls, and emails dated August 30, 2022, September 07, 2022, and September 20, 2022, etc. In line with the extant SEBI guidelines, CARE has reviewed the rating based on the best available information which, however, in CARE's opinion is not sufficient to arrive at a fair rating.

**Users of this rating (including investors, lenders and the public at large) are hence requested to exercise caution while using the above ratings.**

### Detailed description of the key rating drivers

At the time of last rating on September 30, 2022, the following were the rating weaknesses and strengths:

#### 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. 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.

##### 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

<sup>1</sup>Complete definition of the ratings assigned are available at [www.careedge.in](http://www.careedge.in) and other CARE Ratings Ltd.'s publications

petrochemical and FMCG partially mitigates risk arising from inherent cyclicity 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.

### **Key rating Strength**

#### **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 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). These programs avoid costly on-road repairs and reduce inventory and transportation costs of spare parts and enhance the resale value of fleets. 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 2 CARE Ratings Ltd. Press Release 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.

#### **Moderate financial profile**

The company generated healthy cash accruals of Rs. 18.04 crore during FY21 and has cash and bank balances of Rs. 27.93 crore as on March 31, 2021. The capital structure of the company remained comfortable with an improved overall gearing of 1.14x (PY: 1.32x) as on March 31, 2021. However, the interest coverage ratio of the company declined to 2.45 times (PY: 3.10 times) on account of lower profitability during FY21. The profitability and profitability margins of the company declined during FY21 as compared to FY20. The PBILD stood at Rs. 34 crores (PY: Rs. 40.83 crore), PAT at Rs. 6.23 crore (PY: Rs. 8.83 crore) and PBILD margins at 7.14% (PY: 8.26%) during FY21.

#### **Liquidity: Adequate**

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 3 CARE Ratings Limited Press Release 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.

### Analytical approach: Standalone

### Applicable criteria

[Financial Ratios – Non financial Sector](#)

[Liquidity Analysis of Non-financial sector entities](#)

[Policy in respect of Non-cooperation by issuer](#)

[Policy on default recognition](#)

[Policy on Withdrawal of Ratings](#)

[Rating Outlook and Credit Watch](#)

[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 (₹ crore) | March 31, 2021 (A) | March 31, 2022 (A) | 9MFY23 (UA) |
|----------------------------|--------------------|--------------------|-------------|
| Total operating income     | 473.84             | 593.29             | 556.16      |
| PBILDT                     | 31.42              | 41.10              | 39.82       |
| PAT                        | 6.05               | 16.28              | 20.38       |
| Overall gearing (times)    | 1.28               | 1.39               | NA          |
| Interest coverage (times)  | 2.26               | 3.09               | 3.41        |

A: Audited; UA: Unaudited; NA: Not Available

### Status of non-cooperation with previous CRA: NA

### Any other information: NA

### Rating history for the last three years: Please refer Annexure-2

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

### Complexity level of the various instruments rated: Annexure-4

### Lender details: Annexure-5

**Annexure-1: Details of instruments/facilities**

| Name of the Instrument      | ISIN | Date of Issuance (DD-MM-YYYY) | Coupon Rate (%) | Maturity Date (DD-MM-YYYY) | Size of the Issue (₹ crore) | Rating Assigned along with Rating Outlook |
|-----------------------------|------|-------------------------------|-----------------|----------------------------|-----------------------------|---|
| Fund-based - LT-Cash Credit |      | -                             | -               | -                          | 0.00                        | Withdrawn                                 |

**Annexure-2: Rating history for the last three years**

| Sr. No. | Name of the Instrument/Bank Facilities | Current Ratings |                              |        | Rating History  |   |   |   |
|---------|--|-----------------|------------------------------|--------|---|---|---|---|
|         |  | Type            | Amount Outstanding (₹ crore) | Rating | Date(s) and Rating(s) assigned in 2022-2023             | Date(s) and Rating(s) assigned in 2021-2022             | Date(s) and Rating(s) assigned in 2020-2021 | Date(s) and Rating(s) assigned in 2019-2020 |
| 1       | Fund-based - LT-Cash Credit            | LT              | -                            | -      | 1)CARE BB+; Stable; ISSUER NOT COOPERATING* (30-Sep-22) | 1)CARE BBB; Stable; ISSUER NOT COOPERATING* (31-Mar-22) | 1)CARE BBB+; Stable (05-Jan-21)             | 1)CARE BBB+; Stable (24-Dec-19)             |

\*Long term/Short term.

**Annexure-3: Detailed explanation of the covenants of the rated instruments/facilities: NA****Annexure-4: Complexity level of the various instruments rated**

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

**Annexure-5: Lender details**

To view the lender wise details of bank facilities please [click here](#)

**Note on the complexity levels of the rated instruments:** CARE Ratings has classified instruments rated by it on the basis of complexity. Investors/market intermediaries/regulators or others are welcome to write to care@careedge.in for any clarifications.

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