Ritco Logistics Limited

March 07, 2024

Facilities/Instruments	Amount (₹ crore)	Rating[1]	Rating Action
Long Term / Short Term Bank Facilities	357.00	CARE BBB; Stable / CARE A3+	Assigned

Details of instruments/facilities in Annexure-1.

Rationale and key rating drivers

The ratings assigned to the bank facilities of Ritco Logistics Limited (RLL) derive strength from the company being an integrated player with a Pan-India presence catering to more than 300+ locations and established relationships with several reputed customers across varied industries over the years. The ratings further take comfort from the long-standing experience of its promoters in the logistics industry and satisfactory financial risk profile characterized by the growing scale of operations and moderate coverage indicators. The ratings also take note of the continuous thrust of the company on innovation for vehicles aggregation which will reflect the fleet availability, pricing and the payment status to all the registered fleet owners. The ratings however, are constrained by the working capital-intensive nature of operations leading to high utilization of its working capital limits, competitive and fragmented nature of the freight logistics industry and vulnerability of its profitability margins to trade cycle and competition.

Rating sensitivities: Factors likely to lead to rating actions

Positive factors

- Efficient management of working capital cycle with improvement in collection period to below 90 days and resultant improvement in liquidity position with sufficient buffer in working capital limits.
- Improvement in TOI of the company to above Rs.1000 crore on a sustained basis while sustaining PBILDT margins above 8%.

Negative factors

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

Analytical approach: Consolidated. Consolidated with Logro Sourcing Private Limited and Trucksup Solutions Private Limited (Wholly owned subsidiary of Logro Sourcing Private Limited) as these entities are involved in a similar line of business and have common management. The detailed list of entities whose financials have been considered in RLL's consolidated financials are mentioned in Annexure 6.

Outlook: Stable

The Stable outlook on RLL's reflects CARE's opinion that company will continue to benefit from vast experience of promoters and long track record of operations in logistics industry with reputed customer base.

Detailed description of the key rating drivers

Key strengths

Integrated logistics player with Pan-India presence

RLL caters to a widely distributed Indian market through its 300+ locations with 50 branches, and 8-9 fleet hubs. The company has its own fleet size of approx. 296 dedicated vehicles as on September 30, 2023 and 3 lakh sq/ft. of warehousing area across 6 states in the country (on lease). RLL has a dedicated fleet of 1600+ trucks from the market and also hires from the spot market if required (through brokers). The dedicated freight is the most preferable mode as it carries a fixed rate with no minimum guarantee involved of the trucks on road. However, RLL needs to maintain its own fleet of vehicles to retain bargaining power and control market share in the industry. RLL has undertaken concentrated efforts to integrate updated technology with the operational processes to save costs and improve efficiency. It has deployed adequate technology infrastructure through in-house software which enables it and its customers to track their consignments in real time. Further, the company is also developing vehicles aggregation software which aims to reflect the fleet availability, pricing, and the payment status to all the registered fleet

[1]Complete definition of the ratings assigned are available at www.careedge.in and other CARE Ratings Ltd.'s publications

owners. RLL has registered ~1 lakh trucks and has successfully concluded a soft launch of the same in December 2022. The final deployment is yet to be achieved and with the launch of this software operational efficiency of the group is expected to improve in the near future.

Established and diversified customer portfolio

The company has established relationship with several reputed customers across varied industries over the years, including several leading multi-nationals and domestic companies in the polymer sector, FMCG sector and Tyre sector. Further, the company has also ventured into the infrastructure sector by onboarding reputable clients. The established relationship with reputable customers helps the company in getting repeat orders, which also provides revenue visibility, minimizes counterparty credit risk and is expected to drive the business forward. Moreover, the company has an agreement spanning 1 to 3 years with all its major customers and the agreement includes an escalation clause based on a change in the diesel cost.

Satisfactory financial risk profile marked by growing scale of operations and moderate coverage indicators.

The financial risk profile of RLL is satisfactory as characterised by its growing scale of operations during the past 5 years while maintaining its PBILDT margins. The TOI of the company increased to Rs. 751.15 crore during FY23 from Rs. 408.71 crore during FY19 exhibiting a CAGR growth rate of 12.95% over the past 5 years. The PBILDT margin remained range bound between 6.60-7.60% during this period. During FY23, the total operating income of the company witnessed significant growth of 26.60% majorly on the account of the growing business from the existing clients and addition of new clients mainly pertaining to infrastructure sector. The capital structure indicators of RLL stood moderate as characterised by overall gearing of 1.39 times as on March 31, 2023. The debt profile of the company majorly includes working capital borrowings. As on September 30, 2023, the overall gearing of the company has moderated to 1.60 times due to increased term loan borrowing which were utilized to increase owned fleet size which increased from 236 trucks as on March 31, 2023, to 296 trucks as on September 30, 2023. The additional trucks will be used to cater for demand from new clients added in the infrastructure sector. Further, the coverage indicators of company as marked by interest coverage and TD/PBILDT stood moderate at 3.20 times and 3.92 times respectively as on March 31, 2023.

Experienced Promoters and management team

RLL 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 experience of three decades in the field of finance as well as in transportation and logistics. He has contributed significantly towards redesigning the process monitoring & analyzing 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.

Key weaknesses

Working capital intensive nature of operations

The operations of the company are working capital intensive on account of the lower credit period being extended by the creditors and higher credit period offered to its clients. RLL derives the 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 the 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, RLL has to make the majority of payments (approx. 85%) to its vendors in advance for fuel. The time gap in collection of receivables and upfront outflow of expenses results in large working capital requirement. The working capital intensive operations of the company are funded largely through fund-based working capital facilities backed by cash-based collaterals. However, this risk is mitigated to some extent with long-term relationships with reputed corporate clientele across various sectors.

Vulnerability of profitability margins 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, RLL'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. RLL 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.

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 RLL'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, RLL has been able to mitigate this risk to an extent, benefitting from the established relationships with its customers and gradual adoption of IT infrastructure.

Liquidity: Adequate

The liquidity profile of the company remains adequate as characterized by sufficient cushion in cash accruals vis-à-vis nominal scheduled term loan repayments in FY24. The company is expected to generate a GCA of ~Rs. 43.46 crore against repayment obligation of Rs. 10.29 crore during FY24. The average maximum utilization of its fund based working capital remains at 96.69% over the past twelve months ending September 2023. It is noteworthy that RLL has a significant buffer in their sanctioned working capital limits, which can be utilized to fuel the future growth of the company. RLL's NFB limits are utilized as performance bank guarantee, and it remains moderately utilized at 62.65% for the past nine months ending September 2023. Additionally, the company has free cash and cash equivalents of ~Rs. 10-12 crore as on December 31, 2023, to support their working capital requirement from time to time.

Applicable criteria

Definition of Default
Liquidity Analysis of Non-financial sector entities
Rating Outlook and Rating Watch
Financial Ratios – Non financial Sector
Service Sector Companies
Short Term Instruments
Consolidation

About the company and industry

Industry classification

Macro Economic Indicator	Sector	Industry	Basic Industry
Services	Services	Transport Services	Logistics Solution Provider

Ritco Logistics Ltd (RLL) was incorporated in 2001. Prior to incorporation of RLL, the group was providing logistics services through a private limited company- Ritco Kirti Associates Pvt Ltd since 1996. RLL is an ISO 9001:2000 certified company and is a 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 has its own fleet size of approximately 296 dedicated vehicles and has warehousing area across 13 locations in the country.

Brief Financials (₹ crore)	March 31, 2022 (A)	March 31, 2023 (A)	9MFY24 (UA)
Total operating income	593.29	751.15	684.15
PBILDT	41.10	52.77	58.02
PAT	16.28	24.71	23.99
Overall gearing (times)	1.39	1.39	NA
Interest coverage (times)	3.09	3.20	3.64

A: Audited UA: Unaudited; NA: Not Available; Note: 'the above results are latest financial results available'

Status of non-cooperation with previous CRA: Not Applicable

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: 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/ ST-Working Capital Limits		-	-	-	329.00	CARE BBB; Stable / CARE A3+
Non-fund-based - LT/ ST-BG/LC		-	-	-	28.00	CARE BBB; Stable / CARE A3+

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 2023-2024	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
1	Fund-based - LT-Cash Credit	LT	-	-	-	1)CARE BB+; Stable; ISSUER NOT COOPERATING* (13-Feb-23) 2)Withdrawn (13-Feb-23) 3)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)
2	Fund-based - LT/ ST-Working Capital Limits	LT/ST*	329.00	CARE BBB; Stable / CARE A3+				
3	Non-fund-based - LT/ ST-BG/LC	LT/ST*	28.00	CARE BBB; Stable / CARE A3+				

*Long term/Short term.

Annexure-3: Detailed explanation of covenants of the rated instruments/facilities: Not Applicable

Annexure-4: Complexity level of the various instruments rated

Sr. No.	Name of the Instrument	Complexity Level
1	Fund-based - LT/ ST-Working Capital Limits	Simple
2	Non-fund-based - LT/ ST-BG/LC	Simple

Annexure-5: Lender details

To view the lender wise details of bank facilities please click here

Annexure-6: List of all the entities consolidated

Sr No	Name of the entity	Extent of consolidation	Rationale for consolidation
1	Logro Sourcing Private Limited	Full	Involved in a similar line of business and have common management.
2	Trucksup Solutions Private Limited (Wholly owned subsidiary of Logro Sourcing Private Limited)	Full	Involved in a similar line of business and have common management.

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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About us:

Established in 1993, CARE Ratings is one of the leading credit rating agencies in India. Registered under the Securities and Exchange Board of India, it has been acknowledged as an External Credit Assessment Institution by the RBI. With an equitable position in the Indian capital market, CARE Ratings provides a wide array of credit rating services that help corporates raise capital and enable investors to make informed decisions. With an established track record of rating companies over almost three decades, CARE Ratings follows a robust and transparent rating process that leverages its domain and analytical expertise, backed by the methodologies congruent with the international best practices. CARE Ratings has played a pivotal role in developing bank debt and capital market instruments, including commercial papers, corporate bonds and debentures, and structured credit.

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