Ritco Logistics Limited

September 16, 2024

Facilities/Instruments	Amount (₹ crore)	Rating[1]	Rating Action
Long Term / Short Term Bank Facilities	357.00	CARE BBB+; Stable / CARE A2	Revised from CARE BBB; Stable / CARE A3+

Details of instruments/facilities in Annexure-1.

Rationale and key rating drivers

The revision in ratings assigned to the bank facilities of Ritco Logistics Limited (RLL) factors in the improvement in the capital structure and liquidity position of the company post infusion of Rs. 100.00 crore in the form of equity via preferential issue in July 2024. The revision in ratings also factor in the growth in total operating income and profitability during FY24 (refers to the period April 01 to March 31) and Q1FY25 (refers to the period April 01 to June 30) on account of growing business from the existing clients as well as addition of new clients mainly pertaining to infrastructure sector. The ratings continue to derive strength from the company being an integrated player with a Pan-India presence catering to more than 300+ locations and established relationship with several reputed customers across varied industries over the years. The ratings also continue to take comfort from the long-standing experience of its promoters in the logistics industry and improving financial risk profile. 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, continue to remain constrained by the working capital-intensive nature of operations, which has been partially offset by the infusion of funds for working capital purposes, 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

- Increase in TOI of the company to above Rs. 1300 crore with PBILDT margins above 9.0% on a sustained basis.
- Efficient management of working capital cycle with operating cycle improving to below 90 days.
- Total Debt/PBILDT < 2.5x on a sustained basis.

Negative factors

- Decrease in TOI of the company to below Rs.950 crore along with PBILDT margins below 7% on a sustained basis.
- Decline in interest coverage ratio <3.30x.
- Any elongation in the collection period leading to further stretch in the operating cycle of more than 120 days on a sustained basis.
- Overall gearing exceeding 1.20x 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 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, as well as improved liquidity post the fund infusion.

Detailed description of key rating drivers:

Key strengths

Improvement in financial risk profile supported by infusion of funds

The financial risk profile of RLL has improved on account of infusion of funds in the form of equity, via preferential issue, of ~Rs. 100 crore in July 2024, 80% of which has been utilized for working capital purposes of the company and 20% transferred to subsidiary for development of Logistics Aggregator platform. Infusion of funds has resulted in significant improvement in capital

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

structure as well as liquidity position of RLL, with overall gearing improving from 1.42x as on March 31, 2024 to ~0.68x on July 31, 2024 (post infusion).
Further, during FY24 (refers to the period April 01 to March 31), TOI of the company increased to Rs. 933.30 crore from Rs. 751.15 crore during FY23, exhibiting growth of 24% during the year, majorly on the account of the growing business from the existing clients and addition of new clients mainly pertaining to infrastructure sector. The PBILDT margin also improved to 8.04% in FY24 from 6.96% in FY23. Further, the coverage indicators of company stood moderate marked by interest coverage and TD/PBILDT of 3.46 times and 3.46 times respectively as on March 31, 2024. During Q1FY25 the company reported PBILDT of Rs.19.88 crore on a total operating income of Rs.252.23 crore as against PBILDT of Rs.16.83 crore on a total operating income of Rs.207.86 crore reported during similar period previous year.

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 cement and steel 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.

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. 339 dedicated vehicles as on June 30, 2024 and 3 lakh sq/ft. of warehousing area across 6 states in the country (on lease). RLL has a dedicated fleet of 1700+ 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 has also developed vehicle aggregator platform which aims to reflect the fleet availability, pricing, and the payment status to all the registered fleet owners. RLL has started the inhouse use of the platform, with revenue generation expected to start from Q3 of this year.

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 continue to be 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 infusion of funds has largely been utilized for reducing the working capital utilization of the company, however the operations continue to be working capital intensive. This risk is mitigated to some extent with long-term relationships with reputed corporate clientele across various sectors.

Tendency to enter debt funded fleet addition
The company has availed additional term debt during FY24, with outstanding long-term debt as on March 31, 2024 at Rs. 64.38 crore, against Rs. 26.55 crore as on March 31, 2023. Recent work contracts with large players, mostly stipulate use of owned vehicles, leading to the company availing term debt in order to increase their fleet size. Vehicle acquisition is financed mostly by CV loans which impacts the leverage position of the company. Going forward as well, the company may need to expand it's fleet,

which is expected to be financed by further CV loans. Any significant increase in debt levels resulting in overall gearing above 1.20x shall remain key rating sensitivity.

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 FY25. The company is expected to generate a GCA of ~Rs. 54.45 crore against repayment obligation of Rs. 14.92 crore during FY25. The average maximum utilisation of its fund based working capital remains moderate at 90.23% over the past 12 months ending July 2024.
Further, post the infusion of funds during July-24, overall gearing has improved to 0.68 times against 1.42 times at end of FY24. Liquidity has significantly strengthened, marked by FB WC utilisation at 62% in Jul-24, against 92% in preceding 12 months.

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

Macroeconomic 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 339 dedicated vehicles and has warehousing area across 13 locations in the country.

Brief Financials (₹ crore)	March 31, 2023 (A)	March 31, 2024 (A)	Q1-FY25 (UA)
Total operating income	751.15	933.30	252.23
PBILDT	52.77	76.55	19.88
PAT	24.71	34.09	8.64
Overall gearing (times)	1.39	1.40	1.41
Interest coverage (times)	3.20	3.52	3.41

A: Audited UA: Unaudited; Note: these are latest available financial results

Status of non-cooperation with previous CRA: Not Applicable

Any other information: Not Applicable

Rating history for last three years: Annexure-2

Detailed explanation of covenants of rated instrument / facility: Annexure-3

Complexity level of 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 and Rating Outlook
Fund-based - LT/ ST-Working Capital Limits		-	-	-	329.00	CARE BBB+; Stable / CARE A2
Non-fund-based - LT/ ST-BG/LC		-	-	-	28.00	CARE BBB+; Stable / CARE A2

Annexure-2: Rating history for 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 2024-2025	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
1	Fund-based - LT-Cash Credit	LT	-	-	-	-	1)Withdrawn (13-Feb-23) 2)CARE BB+; Stable; ISSUER NOT COOPERATING* (13-Feb-23) 3)CARE BB+; Stable; ISSUER NOT COOPERATING* (30-Sep-22)	1)CARE BBB; Stable; ISSUER NOT COOPERATING* (31-Mar-22)
2	Fund-based - LT/ ST-Working Capital Limits	LT/ST	329.00	CARE BBB+; Stable / CARE A2	-	1)CARE BBB; Stable / CARE A3+ (07-Mar-24)	-	-
3	Non-fund-based - LT/ ST-BG/LC	LT/ST	28.00	CARE BBB+; Stable / CARE A2	-	1)CARE BBB; Stable / CARE A3+ (07-Mar-24)	-	-

*Issuer did not cooperate; based on best available information.
LT: Long term; ST: Short term; LT/ST: Long term/Short term

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

Annexure-4: Complexity level of 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 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 complexity levels of rated instruments: CARE Ratings has classified instruments rated by it based on complexity. Investors/market intermediaries/regulators or others are welcome to write to care@careedge.in for clarifications.

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