Ritco Logistics Limited

March 31, 2022

Ratings

Facilities/Instruments	Amount (Rs. crore)	Rating	Rating Action
Long Term Bank Facilities	50.00	CARE BBB; Stable; ISSUER NOT COOPERATING* (Triple B; Outlook: Stable ISSUER NOT COOPERATING*)	Revised from CARE BBB+; Stable (Triple B Plus; Outlook: Stable) and moved to ISSUER NOT COOPERATING category
Total Bank Facilities	**50.00 (Rs. Fifty Crore Only)**		

Details of instruments/facilities in Annexure-1

Detailed Rationale & Key Rating Drivers

CARE Ratings Ltd. has been seeking information from Ritco Logistics Limited (RTL) to monitor the rating(s) vide e-mail communications dated March 07, 2022, March 02, 2022, March 01, 2022 and numerous phone calls. However, despite our repeated requests, the company has not provided the requisite information for monitoring the ratings. In line with the extant SEBI guidelines, CARE Ratings Ltd. has reviewed the rating on the basis of the best available information which however, in CARE Ratings Ltd.'s opinion is not sufficient to arrive at a fair rating. The rating on RTL long term bank facilities will now be denoted as CARE BBB (stable) **ISSUER NOT COOPERATING**

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

The rating 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.

Detailed description of the key rating drivers

At the time of last rating on Jan 5, 2021, the following were the rating strengths and weaknesses (updated for the information available from Ritco's website and stock exchange reports).

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 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

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 PBILDT stood at Rs. 34 crores (PY: Rs. 40.83 crore), PAT at Rs. 6.23 crore (PY: Rs. 8.83 crore) and PBILDT margins at 7.14% (PY: 8.26%) during FY21.

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 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
The growth of the logistics sector is critically linked to the growth of trade and economic activities in the country.
There has been an exponential growth in last mile deliveries and the industry has gone through an end-to end transformation. Adoption of WMS (warehouse management system), big data analytics, self-driving carrier trucks, use of automated vehicles, drones and EV have been certain important trends of the industry. With the Gati-Shakti, the government aims to fill the gaps in the existing logistics ecosystem of the country, thereby, improving the logistics infrastructure which ensures a seamless movement of people, goods and services.

Analytical approach: Standalone

Applicable Criteria
Policy in respect of Non-cooperation by issuer
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)	FY20 (A)	FY21 (A)	9M FY22
Total operating income	494.38	476.45	N.A
PBILDT	40.83	34.00	N.A
PBT	11.27	8.29	N.A
PAT	8.83	6.23	N.A
Overall gearing (times)	1.32	1.14	N.A
PBILDT Interest coverage (times)	3.10	2.45	N.A

A: Audited; NA: Not available.

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	ISIN	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; ISSUER NOT COOPERATING*

**Issuer did not cooperate; Based on best available information*

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 2021-2022	Date(s) & Rating(s) assigned in 2020-2021	Date(s) & Rating(s) assigned in 2019-2020	Date(s) & Rating(s) assigned in 2018-2019
1	Fund-based - LT-Cash Credit	LT	50.00	CARE BBB; Stable; ISSUER NOT COOPERATING*	-	1)CARE BBB+; Stable (05-Jan-21)	1)CARE BBB+; Stable (24-Dec-19)	-

^Long Term / Short Term
**Issuer did not cooperate; Based on best available information*

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 instrument	Complexity level
1	Fund-based - LT-Cash Credit	Simple

Annexure 5: Bank Lender Details for this Company

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

Note on complexity levels of the rated instrument: CARE Ratings Ltd. 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 CARE Ratings Limited:
Established in 1993, CARE Ratings Ltd. is one of the leading credit rating agencies in India. Registered under the Securities and Exchange Board of India (SEBI), it has also been acknowledged as an External Credit Assessment Institution (ECAI) by the Reserve Bank of India (RBI). With an equitable position in the Indian capital market, CARE Ratings Limited provides a wide array of credit rating services that help corporates to raise capital and enable investors to make informed decisions backed by knowledge and assessment provided by the company.
With an established track record of rating companies over almost three decades, we follow a robust and transparent rating process that leverages our domain and analytical expertise backed by the methodologies congruent with the international best practices. CARE Ratings Limited has had a pivotal role to play in developing bank debt and capital market instruments including CPs, corporate bonds and debentures, and structured credit.

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