Ritco Logistics Limited

December 24, 2019

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)**	**Assigned**
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) derives strength from extensive experience of the promoters, comfortable financial risk profile marked by growing scale of operations along with healthy profitability margins and comfortable solvency with no significant capex planned in the near-term. Rating assigned also takes into account 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.

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.

Going forward, the ability of the company to profitably scale up its operations while maintaining its capital structure and liquidity position, along with revenue diversification shall be the key rating sensitivities.

Key Rating Sensitivity:

Positive Sensitivity:

- Ability of the company to profitability scale up its operations by more than 30% over FY19 total operating income by adding clientele from different industries.
- Improvement in the PBILDT margins over 13% of RTL on a sustained basis.

Negative Sensitivity:

- Any sizeable capex undertaken by the company impacting its capital structure with overall gearing of more than 2.0x on a sustained basis
- Any further stretch in operating cycle of more than 95 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. MP 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 approx 304 dedicated vehicles as on March 31, 2019 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 as & when required.

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 OEMs (for its owned fleet). Under tyre maintenance RTL has entered into an agreement with JK Tyre and Industries Ltd and under vehicle annual maintenance cost (AMC) program it has agreement with Ashok Leyland Ltd. JK tyre will provide tyre on

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

lease basis and provide services such as procurement of new and retreaded tyre, fitment and repair tyre, wheel alignment, etc. Further, the AMC from Ashok Leyland which is for a period of 7.5 years from the date of purchase of the truck will provide preventive, maintenance and repair service at its workshops/dealer across Pan-India.
These programs would 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 would also reduce 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 Ltd, Fine Tech Corporation Private Ltd, Brahmaputra Crackers Private Ltd, ONGC Petro Addition Ltd, GAIL India Ltd, Haldia Petrochemical Ltd, etc. Established relationship with the reputed customers helps the company in getting repeat orders, which also provides revenue visibility and is expected to drive business going forward. 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 ~63% of the total operating income during FY19. 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 past 3-4 years RTL expanded its scope to other sectors like FMCG, Tyres, pharma, etc.

Comfortable financial risk profile marked by healthy profitability margins and comfortable solvency
The total operating income increased at a compounded annual growth rate (CAGR) of 11.85% during FY17-FY19 (refers to the period from April 1 to March 31). Further in FY19 the total operating income witnessed a significant growth of 19% to reach Rs. 408.71 crore vis-à-vis Rs. 343.91 crore in FY18 primarily due to growing scale of business, addition to owned fleet and continuous diversification in the end user industry base by RTL.
The PBILDT margin also has improved significantly from 3.76% in FY17 to 11.20% in FY19 which is majorly on account of addition of owned fleet and freight discount received for hired fleet. RTL added 125 and 99 trucks in FY18 and FY19 respectively due to voluminous size of FMCG business.
The capital structure of RTL improved significantly in FY19 on account of IPO issue and continues to remain moderate with overall gearing of 1.19x as on March 31, 2019. The total debt as on March 31, 2019 was Rs. 109.89 crore which constituted of vehicle loans of Rs. 64.57 crore and working capital borrowings of Rs. 45.32 crore. Other solvency indicators continued to remain moderate in FY19 with interest coverage ratio of 3.94x and total debt to GCA of 3.91x.
Also, on account of subdued economic and demand scenario, the company is not planning any significant capex in the near term.
Further, in H1FY20, RTL has achieved 16% growth in total operating income to reach Rs. 241.37 crore vis-à-vis Rs. 208.60 crore in H1FY19. The PBILDT and PAT margin stood at 10.69% and 2.91% respectively in H1FY20.

Adequate Liquidity
The liquidity profile of RTL is adequate with current ratio of 2.34x in FY19. The current ratio improved in FY19 on account of IPO issue in FY19 which resulted in reduced working capital borrowings and increase in cash & bank balance. The net operating cycle stood at 87 days during FY19 on account of upfront payment for fuel resulting in negligible creditors and high debtor collection days of around 80-90 days. Further, the maximum utilization for the working capital borrowing stood at 66.17% during the 12 month period ending September 2019. The company had cash and bank balance of Rs. 26.80 crore (unencumbered/free balance of Rs. 20.02 crore) and liquid investments of Rs. 1.18 crore as on March 31, 2019 and the cash & bank balance stood at Rs. 28.58 crore as on September 30, 2019.

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 60-90 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 (approx 85%) to its vendors in advance for fuel. 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. These requirements are funded largely through working capital facilities and through IPO proceeds as well in FY19. Consequently, the working capital utilization was at around 66.17% for the 12 month ended September 2019. The operating cycle has been increasing from 69 days in FY17 to 87 days in FY19. Any additional stretch in the collection period would remain the key monitorable factor.

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 intense competition. This in turn exerts pressure on profitability. Sustenance of improving profitability will remain a key monitorable.

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.
Further, lorry hire charges, being the major expense for the company is directly linked to the changes in the diesel prices. As a result, the company's margins are vulnerable to price hike of diesel. However, the risk is mitigated to a large extent with presence of fuel linked price escalation clause in majority of its contracts.

Analytical approach: Standalone

Applicable Criteria
[Criteria on assigning 'outlook' and 'credit watch' to Credit Ratings]
[CARE's Policy on Default Recognition]
[CARE's methodology for service companies]
[CARE's methodology for financial ratios (Non Financial sector)]

About the Company
Ritco Logistics Ltd (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)	FY18 (A)	FY19 (A)
Total operating income	343.91	408.71
PBILDT	29.13	45.76
PAT	10.00	12.15
Overall gearing (times)	1.99	1.19
Interest coverage (times)	4.34	3.94

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

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 2019-2020	Date(s) & Rating(s) assigned in 2018-2019	Date(s) & Rating(s) assigned in 2017-2018	Date(s) & Rating(s) assigned in 2016-2017
1.	Fund-based - LT-Cash Credit	LT	50.00	CARE BBB+; Stable	-	-	-	-

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

Name of the Instrument	Detailed explanation
A. Financial covenants	1. Total Debt/EBITDA of 4.00x 2. (Total Liabilities-Networth)/(Networth-Investments and Loans and advances) of 2.00x 3. Minimum rating of BBB
B. Non-financial covenants	
1. Cash Credit	Debtors upto 120 days to be considered
2. Guarantees	The guarantee shall contain limitation clause and commitments under guarantee would be honored by RTL from their own resources.

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.

Contact us

Media Contact
Name: Mradul Mishra
Contact no: +91-22-6837 4424
Email ID: mradul.mishra@careratings.com

Analyst Contact
Name: Ravleen Sethi
Contact no: +91-11 - 4533 3278
Email ID: ravleen.sethi@careratings.com

Business Development Contact
Name: Swati Agrawal
Contact no: +91-11-4533 3200
Email ID: swati.agrawal@careratings.com

About CARE Ratings:
CARE Ratings commenced operations in April 1993 and over two decades, it has established itself as one of the leading credit rating agencies in India. CARE is registered with the Securities and Exchange Board of India (SEBI) and also recognized as an External Credit Assessment Institution (ECAI) by the Reserve Bank of India (RBI). CARE Ratings is proud of its rightful place in the Indian capital market built around investor confidence. CARE Ratings provides the entire spectrum of credit rating that helps the corporates to raise capital for their various requirements and assists the investors to form an informed investment decision based on the credit risk and their own risk-return expectations. Our rating and grading service offerings leverage our domain and analytical expertise backed by the methodologies congruent with the international best practices.

Disclaimer
CARE's ratings are opinions on the likelihood of timely payment of the obligations under the rated instrument and are not recommendations to sanction, renew, disburse or recall the concerned bank facilities or to buy, sell or hold any security. CARE's ratings do not convey suitability or price for the investor. CARE's ratings do not constitute an audit on the rated entity. CARE has based its ratings/outlooks on information obtained from sources believed by it to be accurate and reliable. CARE does not, however, guarantee the accuracy, adequacy or completeness of any information and is not responsible for any errors or omissions or for the results obtained from the use of such information. Most entities whose bank facilities/instruments are rated by CARE have paid a credit rating fee, based on the amount and type of bank facilities/instruments. CARE or its subsidiaries/associates may also have other commercial transactions with the entity. In case of partnership/proprietary concerns, the rating /outlook assigned by CARE is, inter-alia, based on the capital deployed by the partners/proprietor and the financial strength of the firm at present. The rating/outlook may undergo change in case of withdrawal of capital or the unsecured loans brought in by the partners/proprietor in addition to the financial performance and other relevant factors. CARE is not responsible for any errors and states that it has no financial liability whatsoever to the users of CARE's rating.
Our ratings do not factor in any rating related trigger clauses as per the terms of the facility/instrument, which may involve acceleration of payments in case of rating downgrades. However, if any such clauses are introduced and if triggered, the ratings may see volatility and sharp downgrades.

****For detailed Rationale Report and subscription information, please contact us at www.careratings.com**