

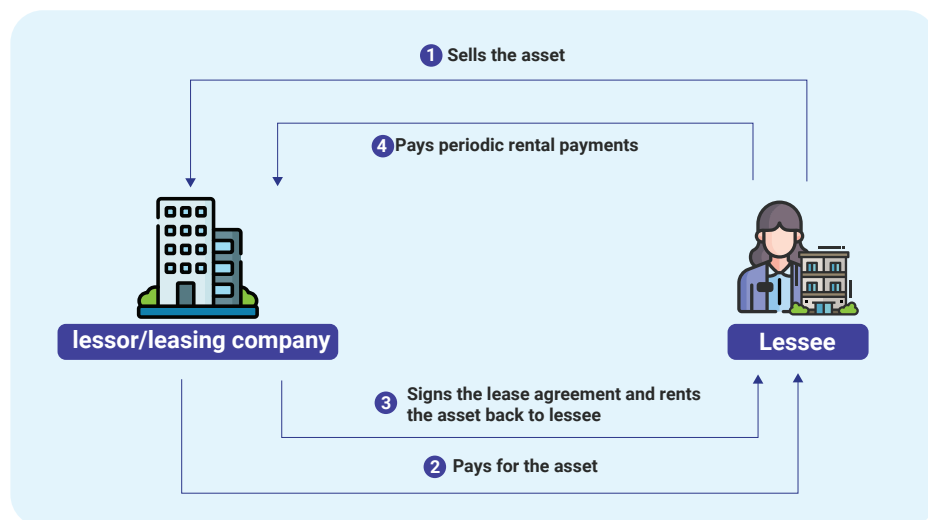
# Decoding Asset Leasing

## CASE STUDY #5



## Introduction

In this case study, we delve into Sale & Leaseback model of asset leasing wherein the lessee (seller/end-user of the asset) sells the asset (existing/new) and enters a leaseback arrangement with the lessor (buyer/owner of the asset). The lessee, which we are referring to as ABC Ltd. will pay rentals to the lessor for using the asset during the lease period.



This type of leasing arrangement is advantageous to asset-intensive enterprises that have large incremental debt requirement as it replaces the high-cost debt of owning the asset with low-cost lease liability. The tenure of the lease depends on the nature of the asset and typically is in the range of 5-7 years. Based on the clause that Vivriti has established internally, the lessee buybacks the asset at the end of the lease term.

This case study outlines the key findings from our due diligence on ABC Ltd. and presents the basis for our recommendation.

## Company Background

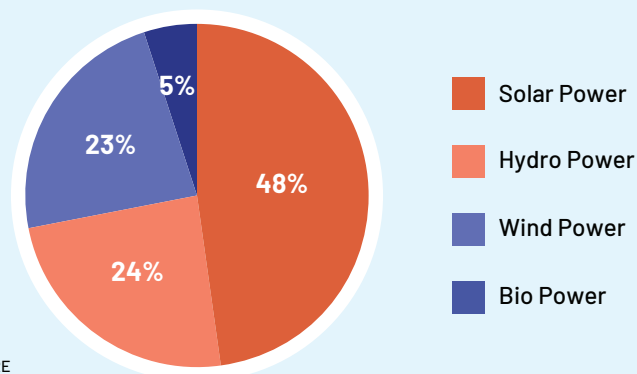
ABC Ltd. is a family-owned company and has a market presence of nearly two decades. It is based out of a tier-2 metro city and operates in the renewable energy sector. It started its operations as an Independent power producer (IPP) and later expanded to Captive Power Plant (CPP) segment.

Following the announcement of India's National Wind-Solar Hybrid Policy, the company also started undertaking setup, ownership and operation of hybrid power projects under its IPP and CPP segments to take advantage of incentive programs announced under the policy. Under the CPP segment, it provides operations and maintenance (O&M) services to CPP producers. The company also sells Industrial plots for turnkey projects.

## Industry Outlook

- India's energy-based electricity generation capacity from renewable sources includes solar energy, wind power, hydro power, and Bioenergy. Solar energy has been the largest contributor to the growth in renewable energy capacity in FY25.

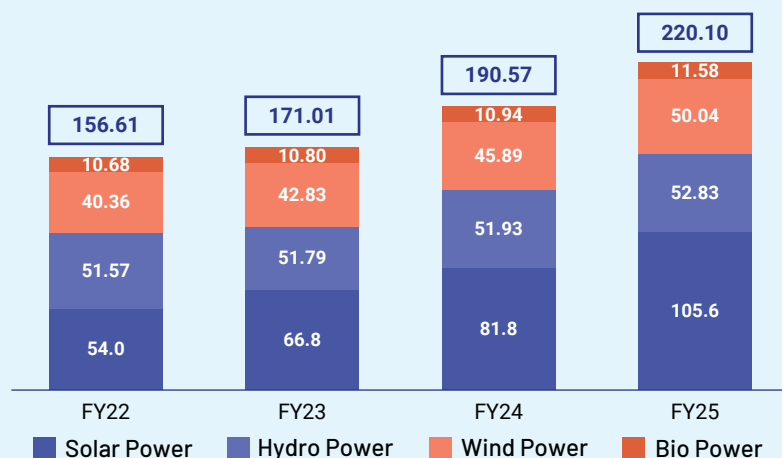
Sources of renewable energy



Source: MNRE

- Renewable energy sector witnessed a record annual capacity addition of 29.52 GW to 220.10 GW in FY25, surpassing a significant milestone of 200 GW. By 2030, India aims to achieve an ambitious target of 500 GW of renewable energy capacity.

Renewable installed capacity by source (GW)



Source: MNRE, CEA & NPP

- The share of renewable energy in total energy generation has increased from 38% in 2022 to 46% in 2025 while the share of non-renewable energy segment (coal, gas, and others) has reduced from 62% in 2022 to 53% in 2025. This decline in conventional sources of energy highlights India's growing adoption of renewable energy.
- The growth in the renewable energy segment is driven by government initiative such as the National Solar Mission, National Wind-Solar Hybrid Policy, and Production Linked Incentive (PLI) schemes. Steady increase in FDI inflows and the adoption of advanced technologies is also supporting renewable energy growth.
- Large Indian corporations such as Tata Power, Suzlon Energy, Renew, Adani Green Energy, JSW Steel, Hindustan Zinc Limited, ACC Limited, and Ambuja Cements among others are implementing initiatives and increasingly integrating renewable energy into their operations.
- According to the Ministry of New and Renewable Energy (MNRE), India has tendered 65.06 GW of renewable energy projects, and 169.40 GW of projects are under implementation. This also includes 65.29 GW of projects from emerging solutions such as hybrid systems, round-the-clock (RTC) power, peaking power, and thermal + RE bundling projects.

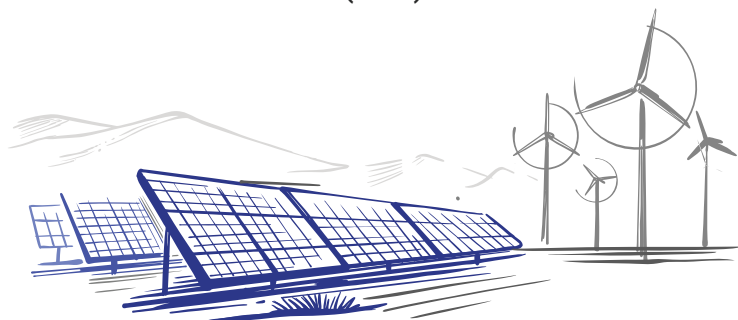
Our outlook for the renewable energy sector is favourable given its increasing share in total electricity generation and India's growing commitments to meet clean energy targets under the Paris Agreement.

## Credit Profile

**External Rating:** ABC Ltd. external credit rating has been revised upward to A due to the improvement in its profitability and debt metrics, among others. While this demonstrates a low default risk, the company is still vulnerable to adverse economic changes.

**Internal Rating:** The company has an internal rating of BBB+.

**Financiers:** The company has a lender base of over five tier-1 public and private sector banks and two non-banking financial institutions (NBFCs). Moreover, ABC Ltd. also raised equity through Qualified Institutional Placement (QIP).



## Key Credit Committee Recommendations

Our recommendation to onboard ABC Ltd. for asset leasing is based on the following factors:

**Promoter Experience:** The promoter has extensive experience of over two decades in diversified renewable energy sector including solar and wind energy space and power plant setting up activities.

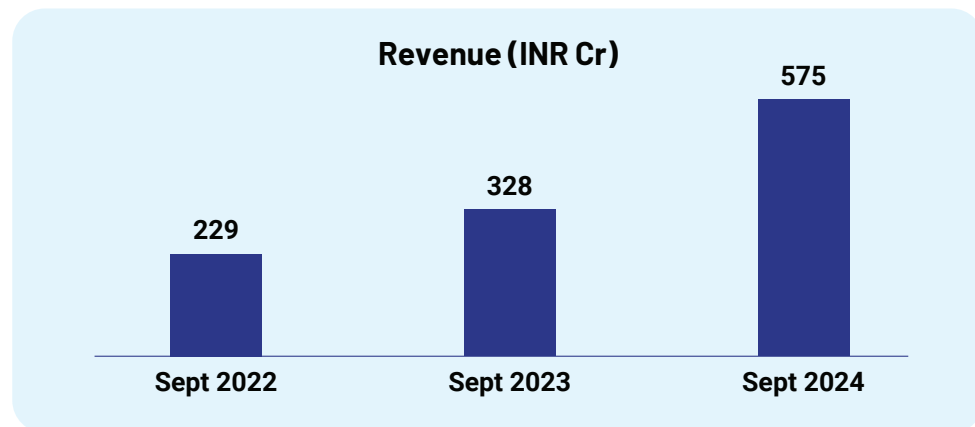
**Strong Order Book:** The company has a substantial incremental debt requirement and has a pipeline of IIP and CPP projects that are expected to generate over 2 GW of energy within the next 2 years, this includes procurement of energy by well established companies that are backed by the government.

**Revenue Visibility:** ABC Ltd. has entered into a long-term Power Purchase Agreement (PPA) with highly rated, reputed and financially strong counterparties in both IIP and CPP segment with history of timely payment in bills. Furthermore, due to higher demand, the company enjoys assured O&M revenue from CPP.

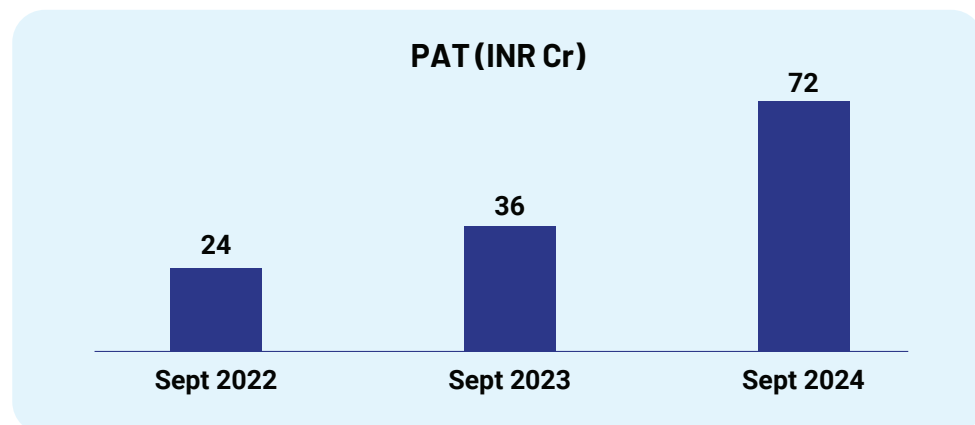
**Supportive Regulatory Landscape:** Regulations and policies such as simplified setup process for CPPs, incentives and financial support from government and push towards renewable energy integration among others are facilitating the growth in CPP segment.

## Financial Strengths:

- The company's top line grew 75% YoY, demonstrating a remarkable growth in FY25.



- ABC Ltd. has an adjusted tangible net worth (ATNW) of over 1800 Cr as of September 2024.
- The company has been profitable for the last three years and the PAT has nearly doubled in Sept 2024 from the corresponding period last year.



- The company's leverage (Debt/Equity) ratio is less than 1 as of Sept 24.

## Conclusion

The company is involved in large scale energy generation, and it requires various equipment's such as solar panels, transmission systems, battery storage systems and so on to operate efficiently. Furthermore, the company requires substantial working capital due to high inventory and debtor days. By entering the leasing arrangement, the company can free substantial capital for its working capital requirements. For this reason, ABC Ltd. has approached Vivriti Capital for sale & leaseback solution.

The company's large order book, consistent growth in profits, robust financial growth, healthy debt coverage metrics followed by government impetus towards renewable energy made it an ideal candidate for onboarding. The proposed facility is at the lower end of the internal leasing range of INR 10 crore to 75 crores.

### Disclaimer:

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