

Decoding Asset Leasing

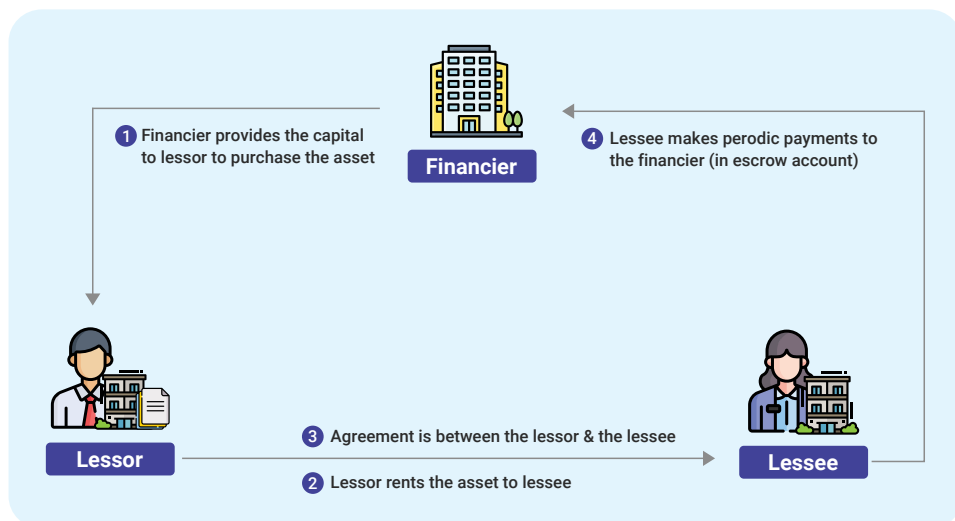
CASE STUDY #6



Introduction

Asset leasing is a contractual agreement between the lessor/leasing company (owner) and the lessee. This enables the enterprise (lessee) to use the required asset without having to purchase it upfront.

In this case study, we explore lease rental discounting model, where Vivriti Capital (VCL) acted as a financier to XYZ Ltd. (the lessor), which has entered into a leasing agreement with ABC Ltd. (the lessee). The ownership of the asset lies with the lessor, and the leased asset is recorded in the books of the lessor. As per the arrangement, the lessee will make the periodic rental payments to VCL (the financier) instead of the lessor. At the end of lease period, the lessee can choose to return the asset, extend the lease term, or buy the asset from the lessor.



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 based out of Tier-1 metro city and operates as an Engineering, Procurement, and Construction (EPC) contractor in diverse segments. The company specializes in irrigation, water management, power generation, and infrastructure projects such as roadways, tunnels and flyovers. Apart from this, the company manufactures pipes, which it sells to its subsidiaries or its clients.

ABC Ltd. is a family-owned business with the vintage of over 15 years. The promoters of the company have over three decades of experience in the execution of various engineering projects in the areas of structural construction, irrigation, water treatment, turbine cooling system for thermal power, among others.

Industry Outlook

- Engineering, Procurement, and Construction (EPC) sector is playing a key role in facilitating the development of infrastructure in India. The Indian EPC industry operates across multiple sectors, including **infrastructure** (roads, bridges, irrigation, ports, railways, airports and telecommunications), **energy** (solar, thermal, power, oil & gas and nuclear), **industrial** (manufacturing, mining, cement and petrochemicals) and **construction**.

- The EPC sector in India witnessed a revenue growth of 8%-10% YoY in FY25 and is expected to grow at 10%-12% YoY in FY26, as per India Ratings and Research (Ind-Ra). The growth in the EPC industry is driven by government's initiatives on infrastructure building, increasing focus on renewable energy, and technological advancements.
- The EPC market is highly competitive and is largely dominated by established players. The top players in the Indian EPC industry include Larsen & Toubro (L&T), Tata Projects, and Sterling and Wilson Renewable Energy.
- Some of the challenges faced by the EPC sector are fluctuations in raw materials and commodity prices, regulatory complexities, and shortage of skilled labour.

While the challenges exist, growing demand for infrastructure development and renewable energy is expected to drive the growth of EPC sector.

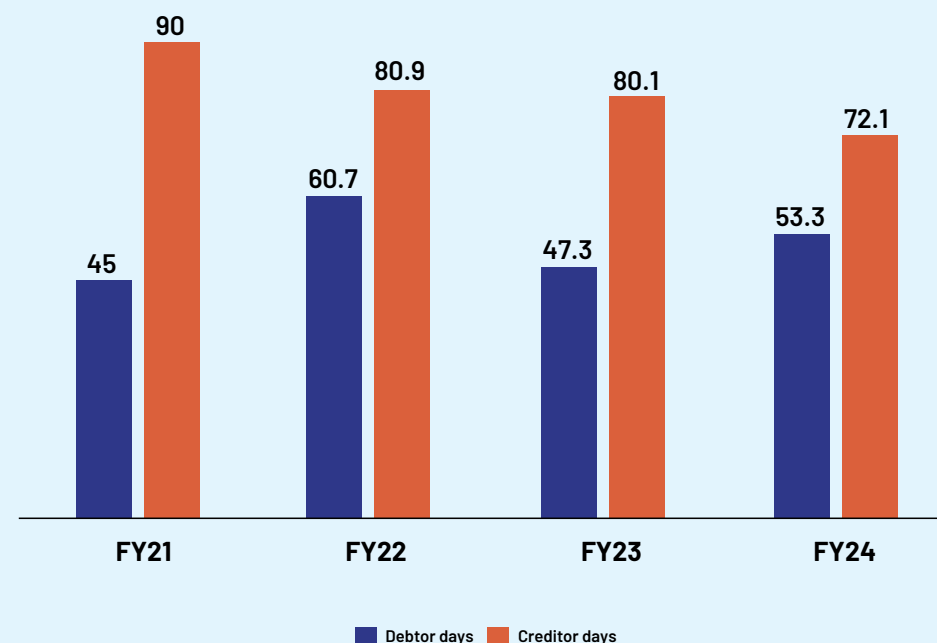
Credit Profile

External Rating: ABC Ltd. has an external rating of AA, highlighting a stable financial position.

Financiers: The company's lender base is a consortium of five to six banks including top tier public and private sector banks.

Rating Rationale: While the company has a large order book, some of the projects are moving at a slower pace. The overall liquidity is under pressure with higher utilization ratio of banking credit lines. However, the company has shorter debtor days than creditor days, which positively impacts its cash flow cycle. Going ahead, ABC Ltd. aims to undertake projects with clear visibility on budget and timelines to manage costs and ensure timely execution.

Key Drivers of Working Capital



Key Credit Committee Recommendations

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

Well Established Business: Both the promoters of the company have significant expertise in execution of EPC projects. The company has diverse business profile and generates revenue from various segments such as irrigation, road and water and manufacturing segments such as pipes and electric vehicles.

Diversified Order Book: ABC Ltd. has demonstrated a strong track record of executing projects in various sectors and geographies, and across diverse political landscape. It also has an international project in pipeline which is supported by the government of India.

Multiple Commercial Assets: The company has several monetizable assets which can be leveraged to generate funds during unexpected situations or financial shortfalls.

Diversified Customer Base: The customers of ABC Ltd. operate in various sectors such as irrigation, roadways, power generation, drinking water management, and hydrocarbon.

Financial Strengths:

1. ABC Ltd. has been profitable for the last three years, EBDITA margin (Earnings Before Interest, Taxes, Depreciation, and Amortisation) is within the range of 15%-20%.
2. The revenue of the company has steadily increased year-on-year, with a 3-year CAGR of 13%.
3. The company has consistently kept its gearing ratio below 1 for the past three years.

Conclusion

ABC Ltd.'s solid business vintage highlights its stability and market expertise. The trajectory of the EPC industry appears to have considerable growth potential.

The company requires essential heavy-duty vehicles to undertake its infrastructure projects which requires significant upfront costs. The asset leasing solution will help ABC Ltd. freeing up capital base for other business purposes.

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