

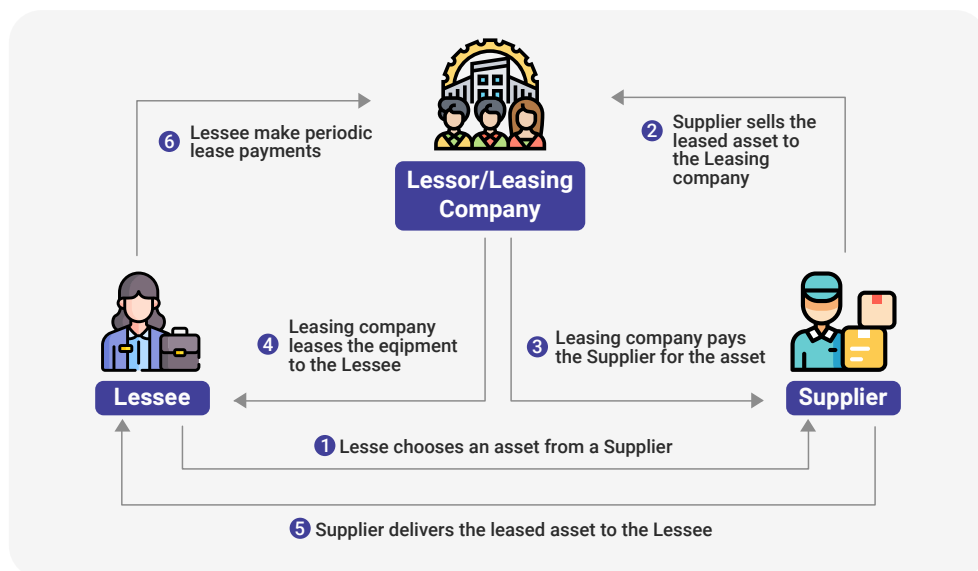
Decoding Asset Leasing

Case Study #3



Introduction

This case study explores asset leasing solution for an enterprise, which we are referring to as ABC Ltd. The asset leasing is a contractual agreement between the lessor/leasing company (owner) and the lessee. In this arrangement, the lessor or owner of the asset offers it to the lessee in exchange for periodic rent, which can either be fixed or flexible depending on terms of the contract. Leasing allows enterprises (lessee) to use the required asset without having to purchase it upfront, helping them to preserve capital and manage cash flows. At the end of the lease term, depending on the type of lease, the lessee has an option to either purchase the asset or return it to 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

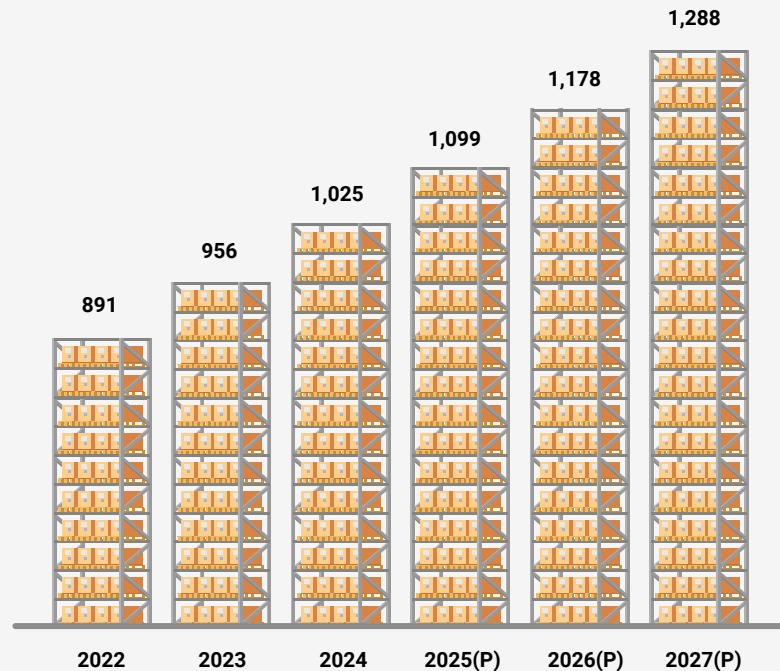
ABC Ltd. is based out of a Tier-1 metro city, founded by three industry veterans with an experience of over two decades. With a market presence of 10+ years, the company operates in the logistics and warehousing industry, specifically catering to the retail and automobile segment.

The promoters of the company hold ~40% of the stake in the company while the remaining shares are held by non-promoters. The company has raised equity till Series C from institutional as well as private investors and is planning to further raise another round of funding in the next year.

Industry Outlook

- The demand for warehousing space is projected to reach 1.2 billion sq. ft by 2027. The growth will be driven by an increase in demand from the third-party logistics (3PL) (account for ~40% of the total leases) and manufacturing sectors followed by e-commerce.

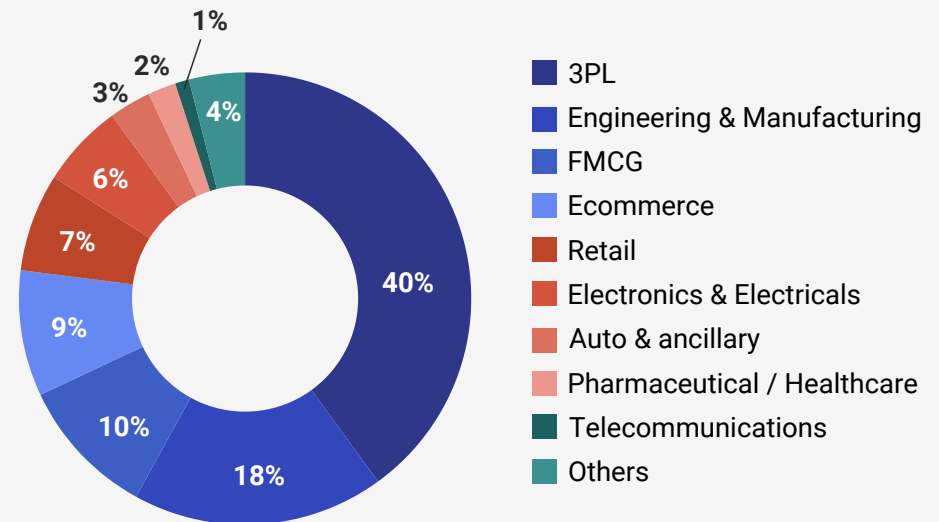
Demand for warehousing space (in billion sq. ft)



Source: JLL data

- The logistics market is valued at ~US\$250 billion and is estimated to reach ~US\$400 billion by 2025 led by digitization in the sector.
- Private equity inflows in the warehousing sector increased twofold year-over-year to ~US\$900 million in 2023.
- In FY24, the share of third-party logistics (3PL) in the total warehousing capacity grew to 40% from 36% in FY21.

Share of sectors in the warehousing space (as of H1FY24)



Source: CBRE Research Q2 2024

- India's top markets for logistics and warehousing includes Mumbai, Pune, the National Capital Region (NCR), Bengaluru, Hyderabad, Chennai, Kolkata, and Ahmedabad. In FY25, the industrial and warehouse logistics park (IWLP) supply in these eight primary markets is estimated to grow by 13-14% YoY (ICRA). Furthermore, with increase in demand, the warehouse occupancy level in the eight primary markets is estimated to be 90% in FY25, almost the same as in FY24.

Our outlook for the sector is favourable given the industry's growth trajectory.

Credit Profile

- **Internal Rating:** BBB+ (as of March 2024)
- **Lending Sources:** The company recently sourced credit lines from two to three privately-owned non-banking financial institutions, part of which was utilised to retire its entire bank debt.
- **Fundraising History:** ABC Ltd. has raised debt for both short and long term from various sources. The company has also raised multiple rounds of equity from private and institutional investors. The company further wants to raise another round of funding in FY25.

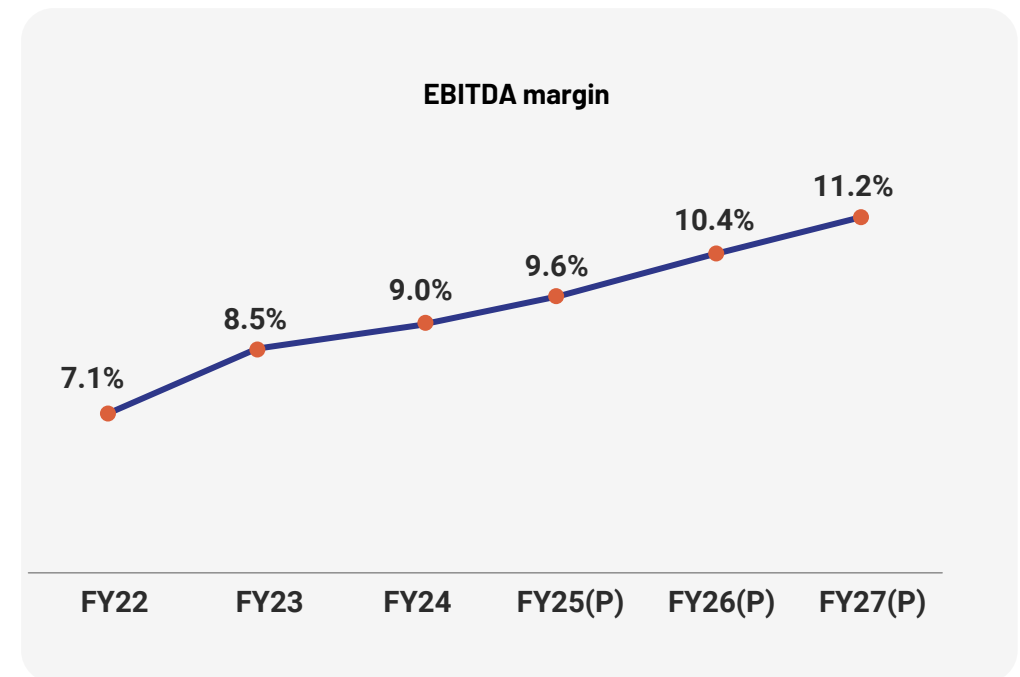
Key Credit Committee Recommendation

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

- **Management Expertise:** All the three promoters of the company have an industry experience of 15-20 years. Furthermore, the second line of management also brings in an experience of 4-6 years.
- **Diverse Presence:** The company has facilities and operations spread across India, specifically in the northern and the western regions.

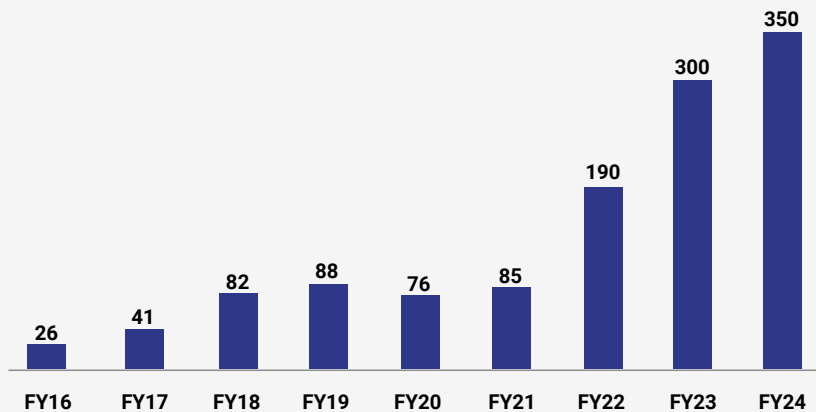
- **Customer Network:** ABC Ltd. has a customer base of top reliable companies. Moreover, they are expanding the customer base and have recently started working with emerging businesses.
- **Revenue Mix:** The company generates ~55% of revenue from its retail segment and ~45% from the automotive segment. A diversified revenue base helps businesses thrive in turbulent times, reduces risk and gives room for growth.
- **Financial Strengths:**

1. The company has been profitable for the past three consecutive years



2. The topline of the company grew more than 3x from FY16 to FY19. After an almost flat growth for the following two years, the company has grown at a CAGR of ~43% between FY21 to FY24.

Revenue (INR Cr)



Conclusion

The growth trajectory of the industry ABC Ltd. operates in looks promising and the promoters bring in extensive industry experience. ABC also has a decent financial position, scale of operations and healthy customer base. Considering these parameters, Vivriti Capital has considered ABC Ltd. for leasing. The proposed amount is at the upper level of the internal ticket size of INR 5-40 crore.

Disclaimer:

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