

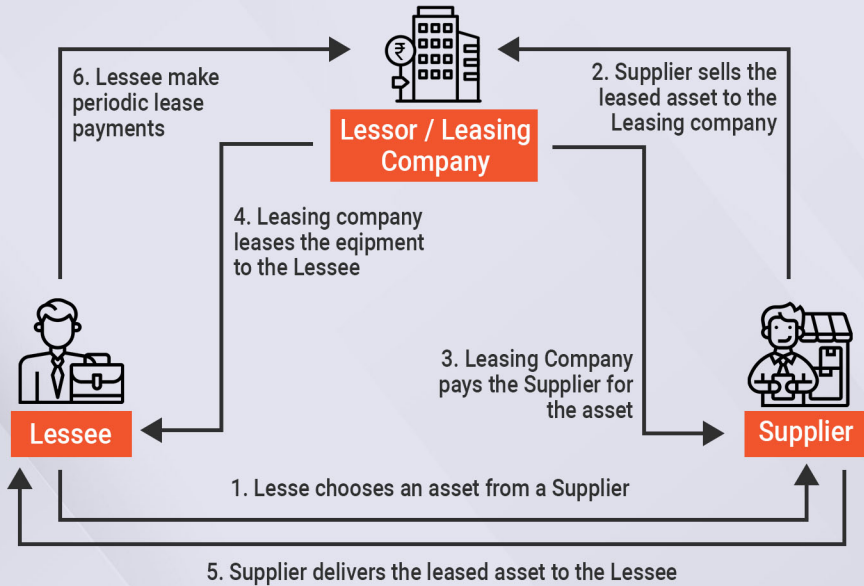
# Decoding Asset Leasing

## Case Study #1

### Introduction

In today's case study, we explore an asset leasing where Vivriti acted as the **lessor/leasing** company to the **lessee**, which we are referring as ABC Pvt Ltd, to help them conserve capital, monetize their existing capital investments, manage cash flows, and accelerate technology upgrade cycle.

A lease is a contractual agreement in which the owner (lessor) of an asset (the leased asset) offers it to the lessee for use in exchange for rent, which can be either a fixed amount or based on variables. This arrangement spans a defined period, which can be fixed or flexible. It includes an understanding that at the end of this period, the asset will either be returned to the lessor or disposed of according to the lessor's instructions, depending on embedded lease options.



Below we present the key findings of the diligence process about the company and argue in favour of ABC for leasing.

## Company background

### History

ABC Pvt Ltd, based out of a Tier-1 metro city, is a rental platform that offers a diverse range of household products ranging from appliances to furniture.

Backed by prominent venture capital and private equity firms in India and abroad, the company last raised equity till Series C since it was founded. It has a strong presence in the industry for ~10 years, mainly in Tier 1 cities.



## Industry

India's economy is experiencing a significant shift towards the rental or shared economy, which has inadvertently affected the country's robust manufacturing sector. This transformation highlights the changing preferences of Indian consumers, particularly among the younger generation.

The market is expected to continue its upward trajectory, presenting opportunities for both existing and new entrants to tap into the growing demand for rental furniture in India.

- India's rental economy, also known as the shared economy, is growing rapidly. It encompasses various sectors, including furniture, electronic appliances, bikes, and even clothing.
- In 2019, the segment was estimated to be about USD 1.5 billion in size in India and is expected to generate significant revenue globally, with an estimated \$335 billion potential by 2025, according to PricewaterhouseCoopers.
- Surveys indicate that renters of furniture and home appliances typically fall within the 22-35 age group, have incomes over INR 4-7 lakh, and are predominantly based in major cities or tier-1 urban areas.

- Over the last few years, only around 80-120 online rental service providers have emerged, catering to diverse demands, ranging from vehicles and books to clothing, toys, and even diamond jewellery for rent.

*We hold a favourable outlook on the sector in the current scenario.*



### Credit rating

The shortlisted entity has an internal credit rating of BB+ and bears no rating by an external rating agency.



### Credit profile

ABC has a well-diversified lender base with 5-10 lenders onboard and has a healthy resource raising ability.

In FY23, the company secured debt from various sources and received interest from potential lenders. They aim to raise significant debt in FY24 to expand their assets under management (AUM). The company prefers on-book debt over leases due to its favorable impact on the profit and loss statement. They also have operating leases with repayments scheduled over the next few years. The company maintains a comfortable cashflow-to-repayment ratio and intends to sustain it in the future.



## Other factors

The company has also been considered in positive light for the following reasons:

- Solid business vintage, with no change in board and management since incorporation.
- Demonstrated ability to generate cash flows for the last year.
- Profitable in newer cities at low monthly revenues of less than INR 10 lakhs.
- Turned profitable recently.

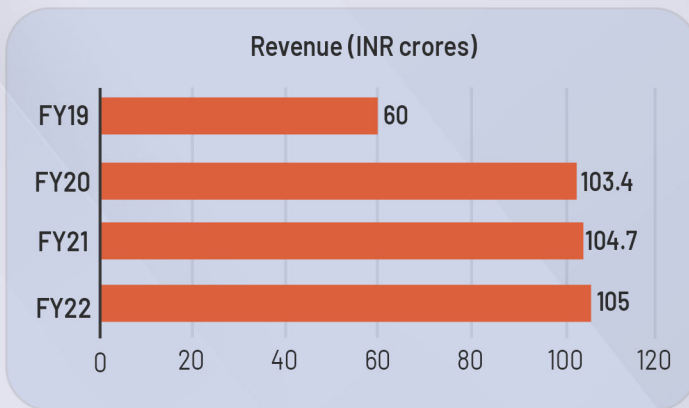
## Why ABC Pvt Ltd was chosen?

After the company passed all the key profiling criteria, Vivriti Capital considered to explore leasing with ABC on the following criteria:

- ABC Pvt Ltd has been in the market nearly a decade and is one of India's leading furniture and appliance rental industry player.
- The company is in discussion with investors for INR 100-200 crores of equity raise.



- The company has maintained unencumbered cash of INR 20-30 crores and a cash balance of over INR 20 crores in FY23, both of which complied with Vivriti's covenant requirements.
- Their Debt Service Coverage Ratio (DSCR) met Vivriti's criteria of over 1.1x.
- ABC witnessed a CAGR of 10-20% in revenue.



## Conclusion

Vivriti Capital has considered ABC Pvt Ltd for leasing due to its credibility and vintage, market presence, scale of operations and business growth. The ticket size set internally for leasing range from INR 5-40 crores and the amount proposed to ABC Pvt Ltd is at the lower limit.

### **Disclaimer:**

The financial data provided in the report is only for representation and are not exact values reported by the company.