

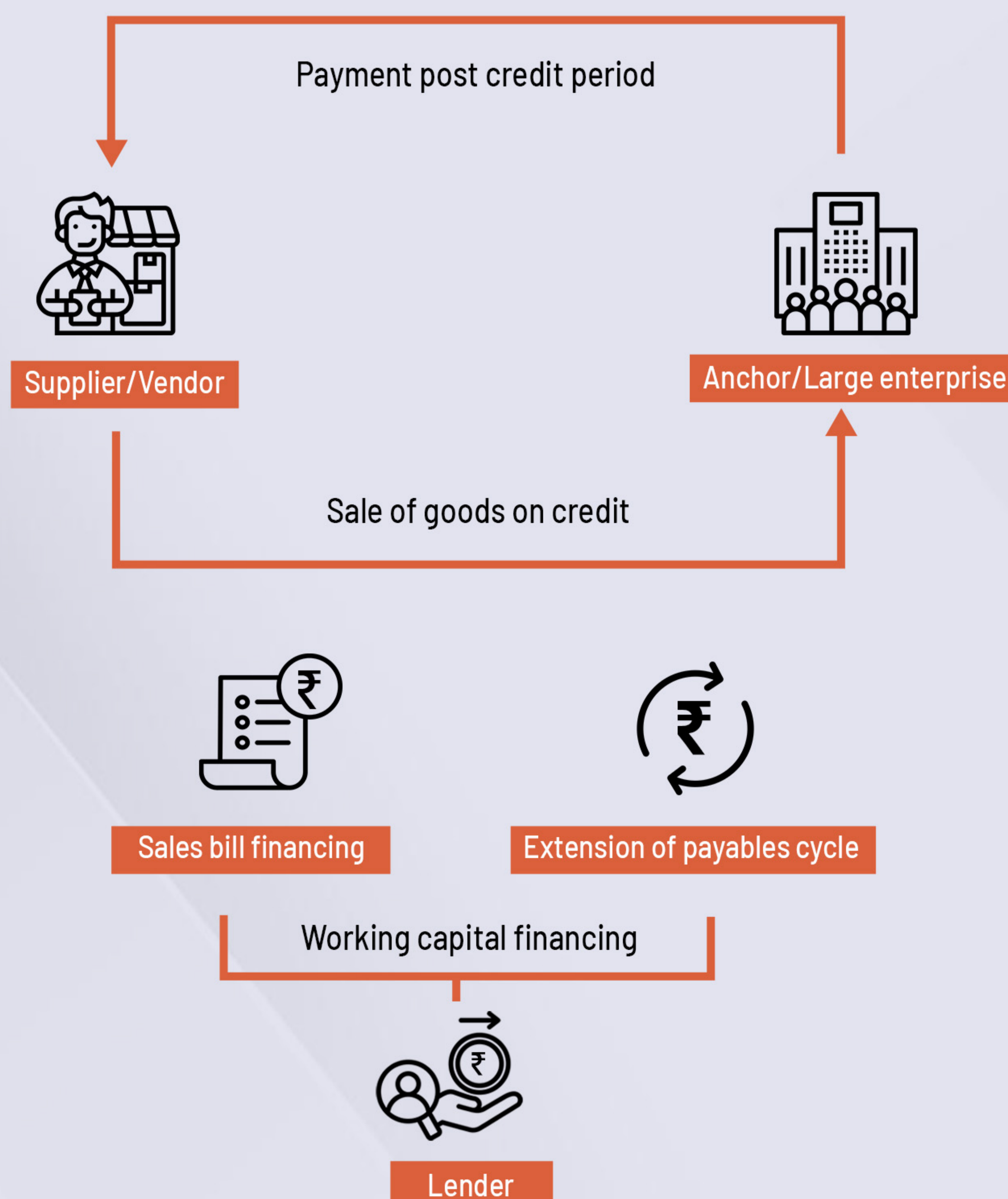
Understanding Supply Chain Finance | Part 3

A Case Study

Introduction

Vivriti Capital follows an anchor-driven approach in supply chain finance to optimize working capital for mid-market enterprises, as well as large corporates. In today's case study, we explore an Anchor purchase bill discounting (Anchor PBD) where Vivriti acted as the **Financier/Lender** to the anchor, which we are referring as ABC Ltd, to manage their working capital and payables cycle better.

Anchor PBD is a vendor financing arrangement where an anchor, typically a large and creditworthy buyer or corporate, is provided immediate access to the money they owe to their suppliers and is primarily responsible for repaying the loan. This is an on-balance sheet financing where the lender is listed on the balance sheet of the anchor.



The other route in Vendor Financing arrangement that Vivriti takes is Sales Bill Financing of vendors which takes in the form of off-balance sheet financing. In such a program, the targeted number of borrowers are at least 10-15 vendors and the ticket size of loans range between INR 3-5 crores.

In both the cases, the ticket size of loans and pricing can vary based on the external and internal credit rating of the entity.

Below we present the key findings of the diligence process about the company and argue in favour of ABC to onboard them.

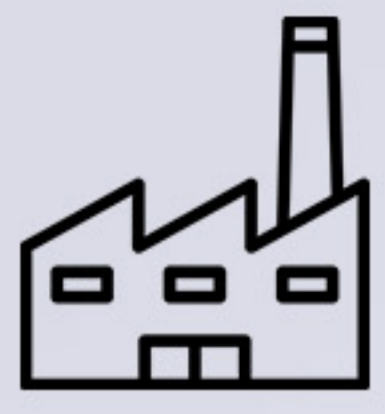
Company background

History

ABC Ltd, based out of a Tier-1 metro city, operates in the edible oil segment and offers a diverse range of products, catering to various consumer preferences.

A family-managed business with a strong presence in the industry for 10-15 years, the company has successfully established itself as one of India's leading edible oil manufacturers. ABC has not engaged in any fundraising activities so far and remains closely held by its promoters, indicating their confidence in the company's financial stability and growth prospects.

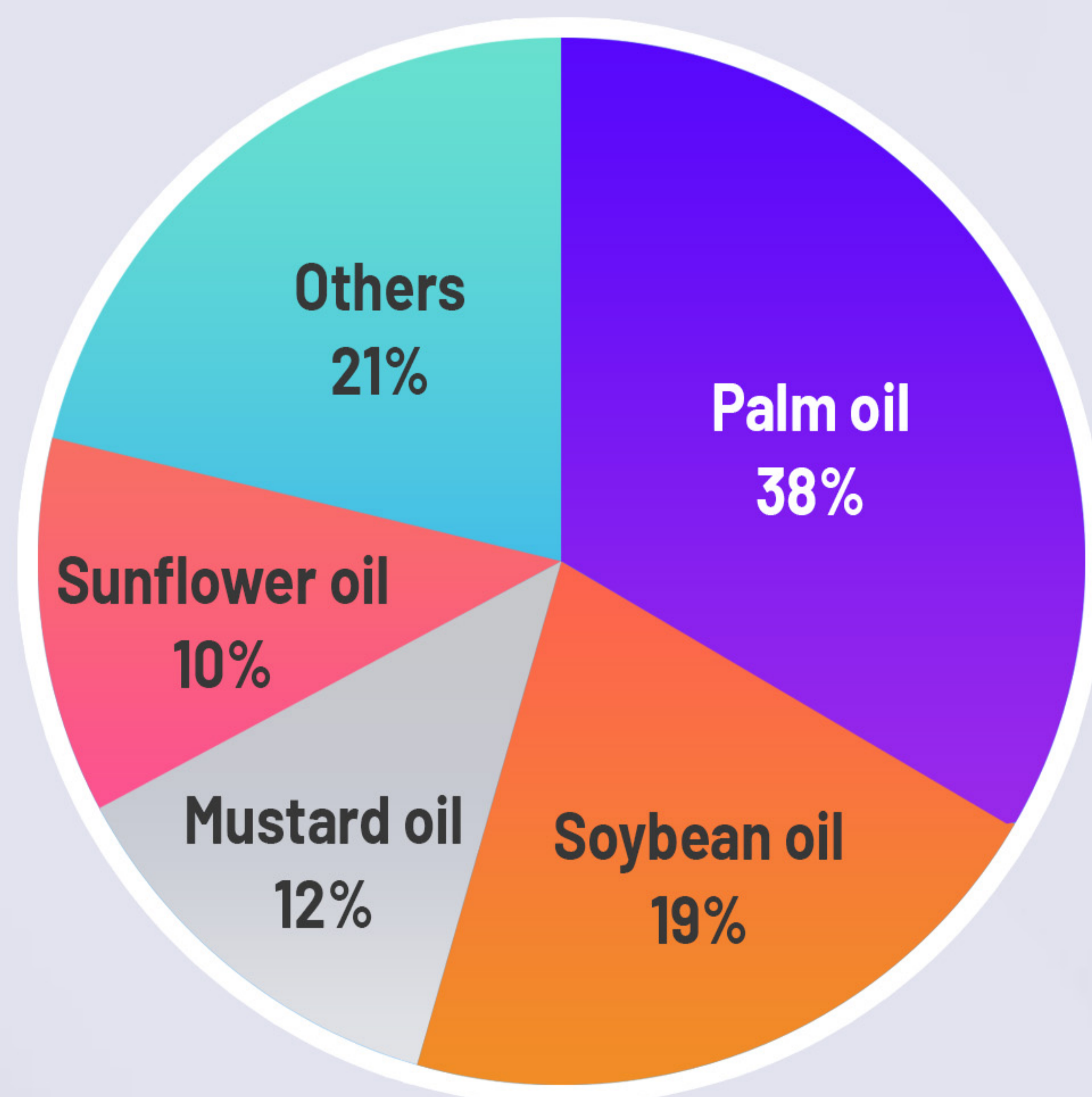
Overall, ABC's strong vintage, extensive experience in the edible oil industry across the value chain, and sound credit risk profile position it as a promising player in the competitive market of edible oils.



Industry

India is the largest importer of edible oil (15% globally) and import values ranges from INR 66,000 to INR 1,41,000 crores. The country's annual edible oil consumption, at 16-17 kg, remains lower than the global average of 24 kg. However, with a growing population and increasing per capita consumption, the category is expected to witness growth.

Edible oil consumption by type in India: FY 2022



The implementation of GST has improved trade practices and reduced food adulteration in the informal oil trade. Moreover, the government's supportive policies, including 100% FDI allowance in the food processing industry and the Production Linked Incentive Scheme for Food Processing Industry (PLISFPI) with a budget of INR 10,900 crores, further boost the sector's prospects.

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



Credit rating

The company's credit risk profile is robust, meeting Vivriti's requirement for a minimum rating of BBB+ and above for extending SCF lending solutions.



Credit profile

The company has a well-diversified lender base with 4-8 public sector banks. The company has a successful track record of raising debt capital for both short-term and long-term borrowings. The promoters have also consistently infused equity funds as and when required.



Other factors

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

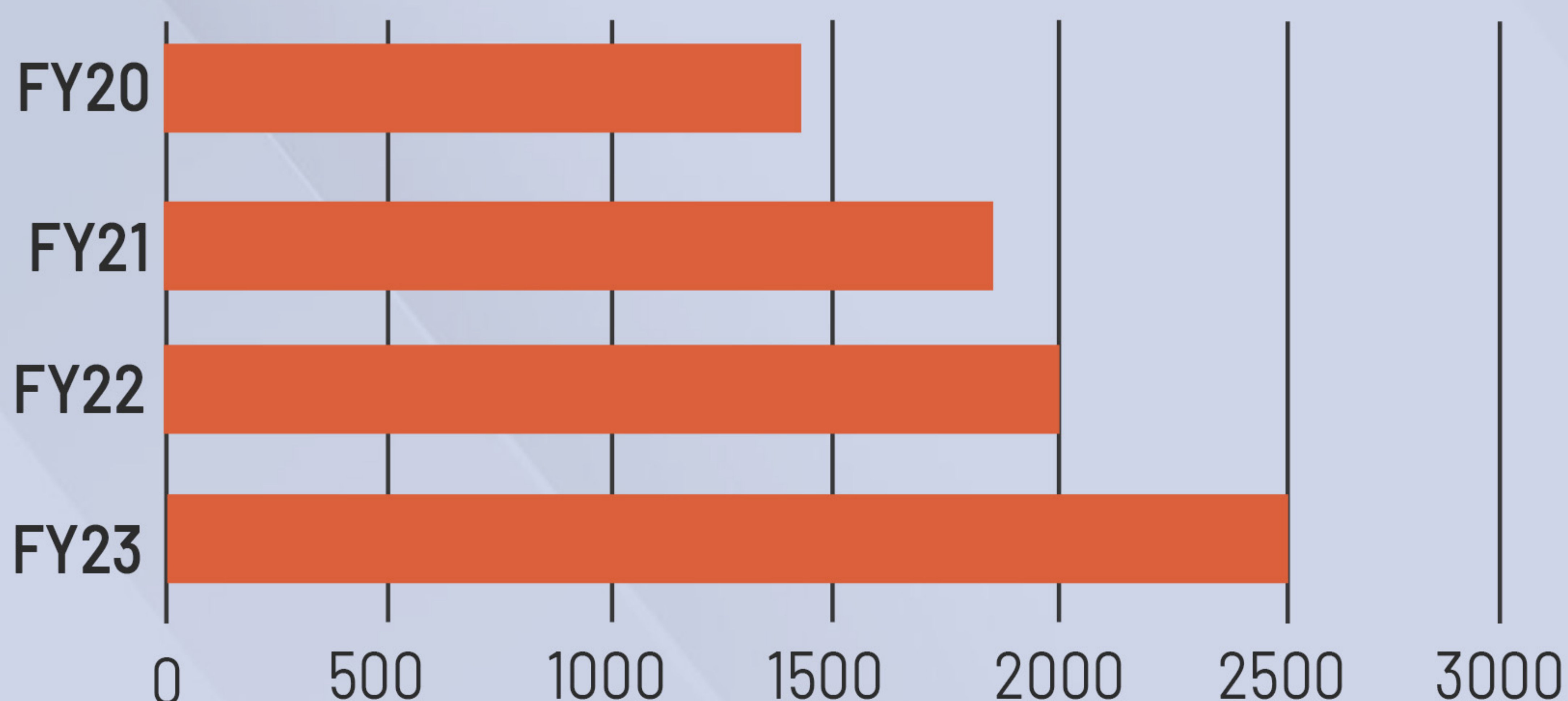
- Promoters have an overall experience of more than two decades across the value chain in the edible oil market.
- Diversified product portfolio with strong market presence in Northern India.
- Penetration into tier 2 and 3 markets in the states of Delhi, UP and elsewhere which are mainly dominated by unorganised players such as kirana shops.
- Healthy growth in operations.
- Steady growth in net worth
- Comfortable cash conversion cycle

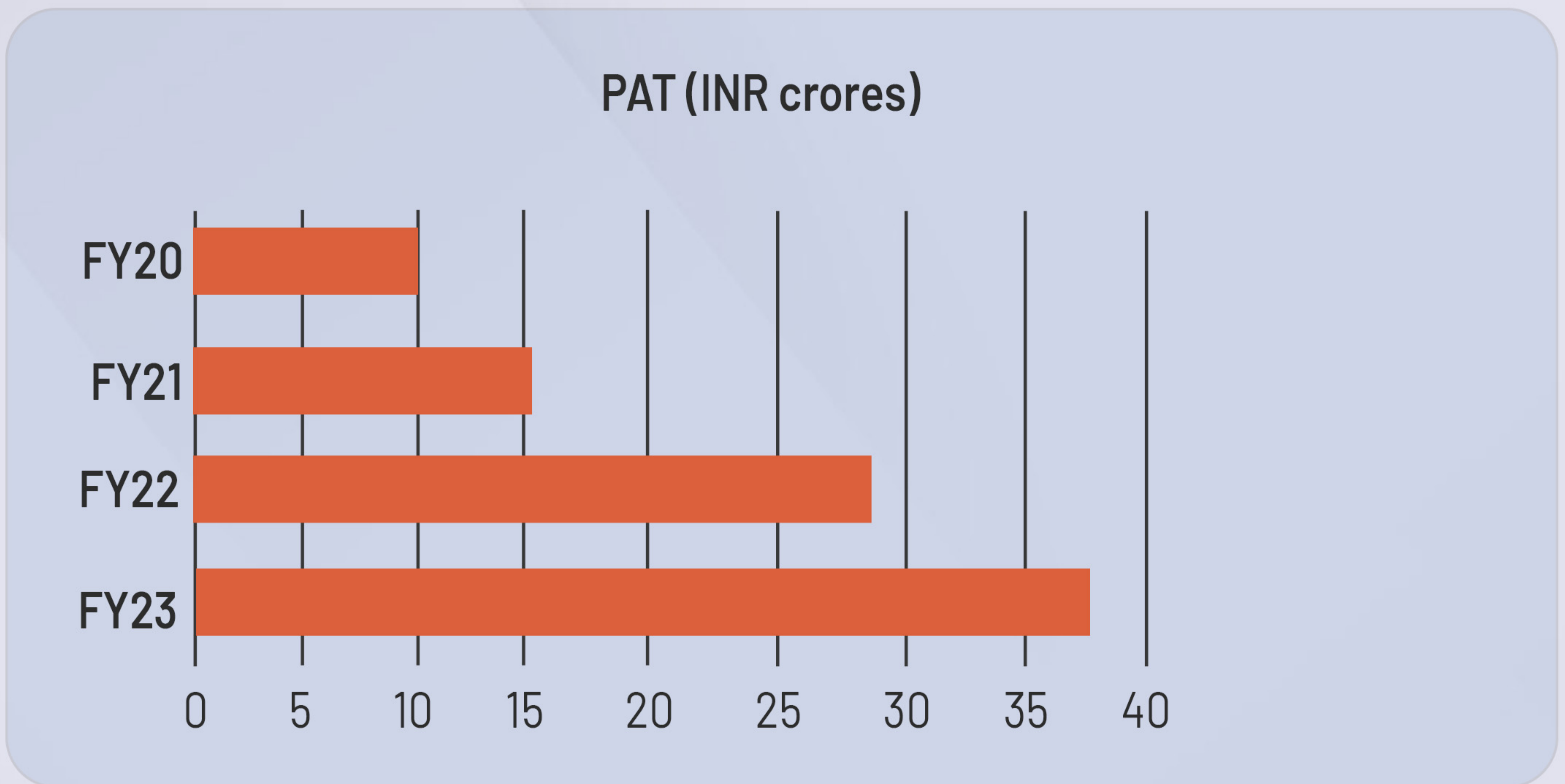
Why ABC Ltd was chosen?

After the company passed all the key profiling criteria, Vivriti Capital considered to onboard ABC for Anchor PBD based on the following rationale:

- ABC Ltd has been in the market for close to two decades and is predominantly a known name in Indian households across the northern region.
- They began with trading of edible oils and later, started their own refinery to have direct import and deeper penetration.
- The company operates in both B2B and B2C models where they do bulk sales to namkeen institutional buyers (snacks industry) and operates through a multi-brand distributorship model, with a network of ~2000 distributors spread across.
- ABC witnessed a CAGR of 15-20 % in revenue and 35-40% in PAT over FY20 to FY23.

Revenue (INR crores)





Conclusion

Vivriti Capital has considered ABC Ltd for Anchor PBD in vendor financing arrangement and the proposed loan amount is at the upper limit of loan ticket size set internally. This is based on several parameters as discussed above that include the promoter's history and credibility, market presence, and business growth among other factors.

Disclaimer:

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