

Understanding Supply Chain Finance

CASE STUDY # 8

on Purchase Order Financing



Introduction

This case study examines a Purchase Order Financing solution that enables a dealer to avail funds against purchase orders placed with the anchor, a large enterprise. This is an off-balance sheet financing arrangement for the anchor that ensures its timely sales realisation. At the same time, the solution provides dealer with the flexibility to manage its payment obligations, enabling them to scale their orders.

5 Delivers the goods as per the purchase order

1 Places an order

2 Accepts the order

4 After reviewing the creditworthiness of the dealer, financier makes the payment

Anchor (Seller)

3 Applies for purchase order financing

6 Settles dues as per payment schedule

Dealer (Buyer)

Financier

The purchase order (PO) financing solution discussed in this case study would enable the dealer (referred to as ABC Pvt Ltd.) to raise financing against the order placed with the Anchor (supplier). The limit sanctioned by Vivriti to the anchor, which is a multinational mining company, for its dealers is in the range of INR 2 - 4 Cr.

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

Company Background

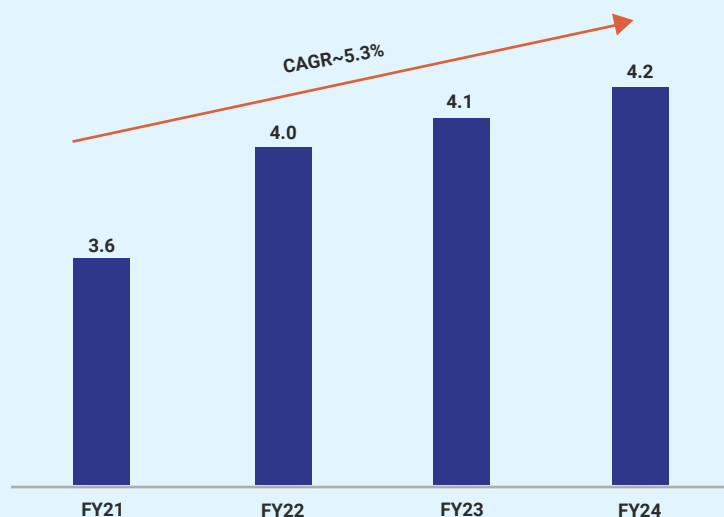
ABC Pvt Ltd. based out of tier 1 metropolitan city is a family-owned business with a strong vintage of over four decades in the industry. The company specialises in manufacturing of highly essential and complex aluminium profiles in diverse shapes, sizes and finishing. It addresses the needs of various industrial sectors such as automotive, architecture, transportation, aviation, and solar.

The promoter's father built a strong business vintage by setting up the company over three decades ago. To cater to the additional industrial segments, ABC Pvt Ltd. was established two decades ago and is solely managed by the promoter. The promoter holds nearly 50% of the stake in the company.

Industry Outlook

- India is the second largest producer of aluminium and contributes ~6% to the total global aluminium production. It is the second-most used metal after steel in the world. The Indian aluminium market was valued at over INR 1 Lakh Cr in 2024. Hindalco, National Aluminium Company and Vedanta are the key players in the industry.

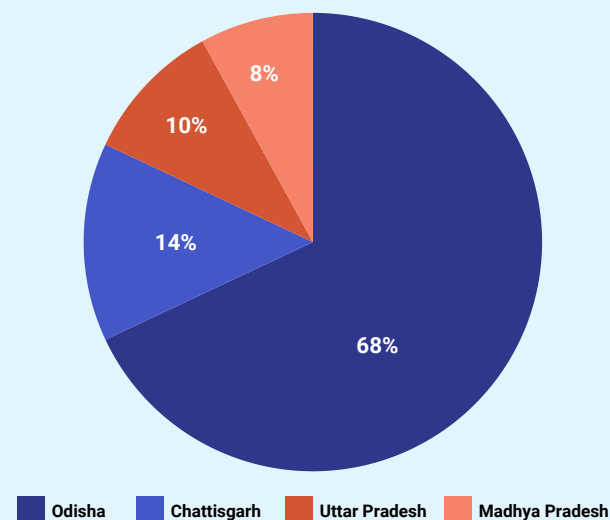
Aluminium Production - million tonnes (MT)



Source: JMK Research & Analytics

- The Aluminium industry consists of two basic segments: upstream and downstream. The upstream segment is involved in producing the primary aluminium that involves mining bauxite. It is a capital-intensive process and the players involved in this are usually well-established companies. The downstream segment is involved in processing the aluminium into semi-finished goods such as rods, bars, rolled products, and extrusions among others.
- Odisha is the largest producer of primary aluminium in India because of the abundant availability of bauxite, followed by Gujarat and Jharkhand.

Statewise Share of Aluminium Smelters



Source - Council on Energy, Environment and Water (CEEW)

- High energy costs, environmental concerns, infrastructure gaps and import competition are some of the challenges faced by aluminium industry in India. However, increase in domestic production of aluminium, electric vehicles manufacturing, and growing demand for infrastructure and power transmission projects along with government initiatives such as National Mineral Policy (NMP), Faster Adoption and Manufacturing of Electric Vehicles (FAME) and Production-Linked Incentive (PLI) Scheme are expected to drive the growth of the aluminium sector. The market is expected to grow at the CAGR of 4-7% in the next five years and nearly double by 2030.

Credit Profile

Internal Rating: Average risk

Funding History: ABC Pvt Ltd. has a lender base of private banks, non-banking financial companies (NBFC), and government-backed financial institution.

Rating Rationale: The company is focusing on automation and has invested in latest machineries which led to a high leverage in FY24. It used majority of its loan proceeds from institutions for investment in plant and machinery. However, there are no short-term plans for further investment in machinery and over time, the company aims to strengthen its capital position.

Key Credit Committee Recommendations

Our recommendation to onboard ABC Pvt Ltd. for PO financing is based on several positive factors:

Promoter Expertise: The company is owned by veteran leader with an industry experience of over two decades. He plays a key role in overseeing management and driving the company's strategic expansion.

Strong Asset Base: ABC Pvt Ltd. operates from a self-owned land where it has its office. It also owns warehouses, plant and machinery used in its day-to-day operations. This acts as a collateral strengthening the creditworthiness of the company and lowers operational risks.

Strong Customer Base: The company serves customers in the domestic market as well as overseas. Nearly three quarters of its orders are from repeat clients on monthly basis.

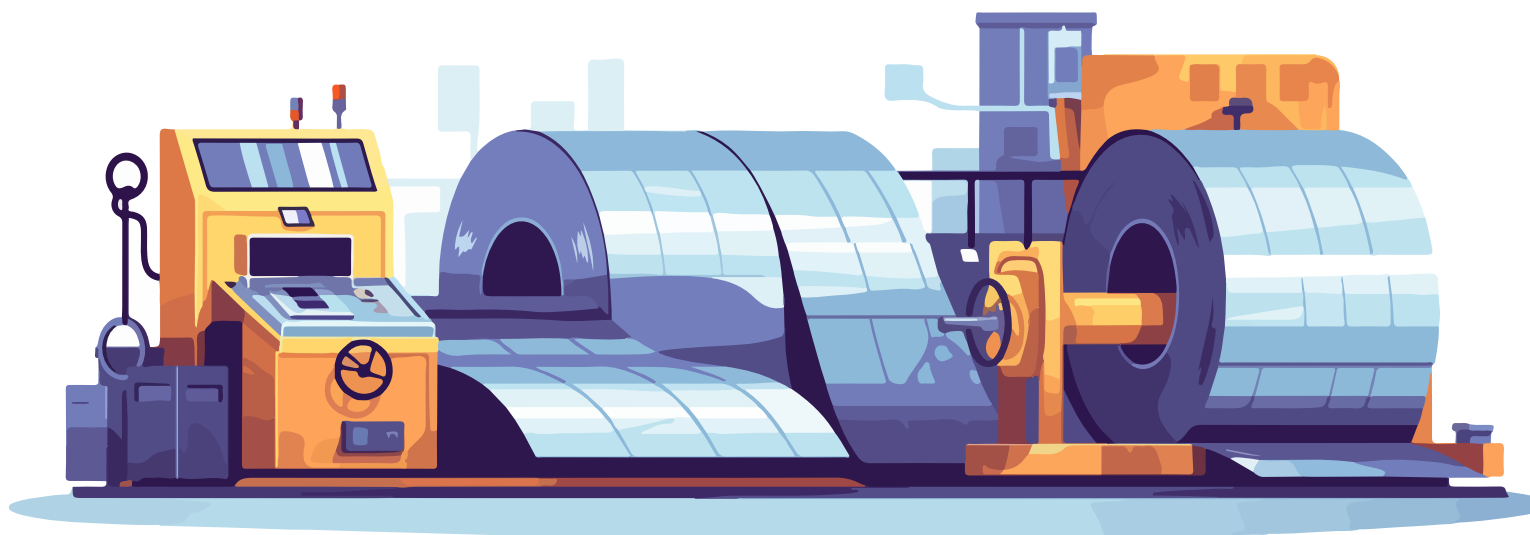
Regulatory and Banking Conduct: The company has a track record of timely statutory compliance and a history of clean banking conduct.

Financial Strengths:

- The company's revenue grew at a double-digit rate (3-year CAGR) of ~16% from FY23 to FY25.
- ABC has been consistently profitable, registering an average EBITDA and PAT margins of ~2% and ~1%, respectively from FY23 to FY25.
- Its operating cashflow has been positive from FY23-FY25.

Conclusion

ABC is a well-established business with reliable supplier and customer base along with strong financials. Earlier ABC use to procure majority of raw materials from its group company. However, lately, it has been increasing its share of raw material procurement from the anchor to improve the quality of output. The anchor's policy mandates advance payment. In order to support ABC with this requirement, Vivriti Capital has considered them for PO financing.



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