

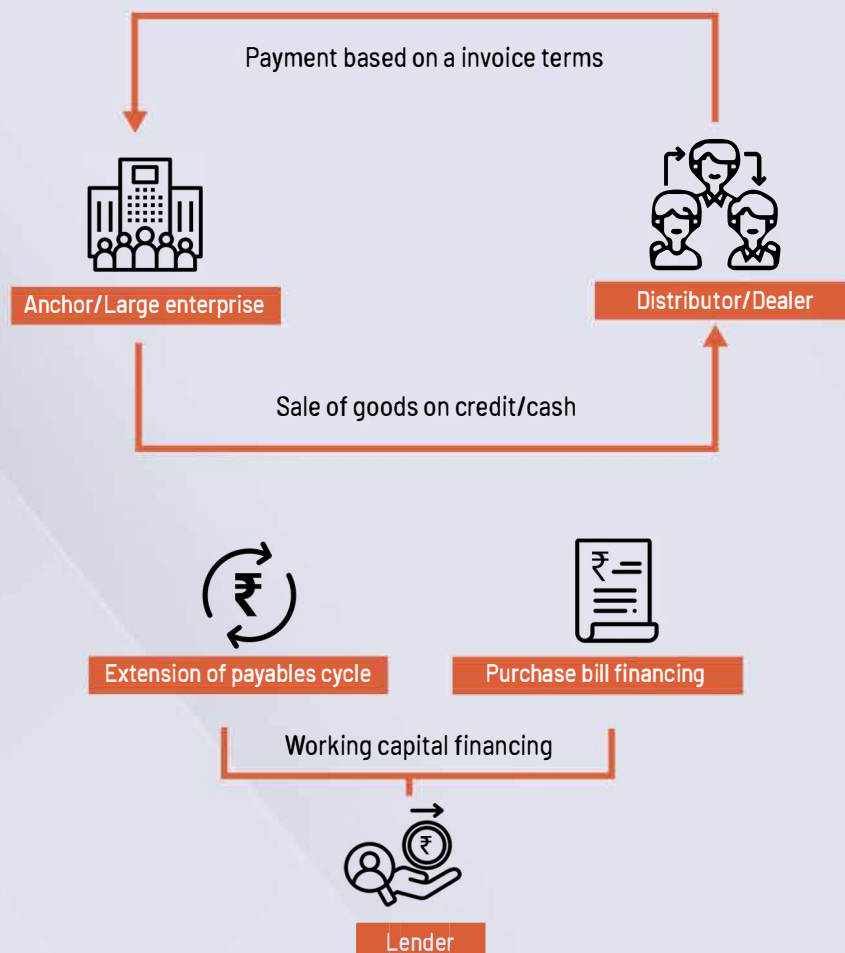
Understanding Supply Chain Finance

Case Study #2

Introduction

In today's case study, we explore a purchase bill discounting (PBD) where Vivriti acted as the financier/lender to the dealer, which we are referring as ABC Pvt Ltd, to manage their working capital and payables cycle better.

PBD is a dealer financing arrangement where the buyer of a large and creditworthy anchor or corporate, is provided immediate access to the money they owe to their suppliers and is primarily responsible for repaying the loan. Here, while the primary repayment obligation lies with the dealer, the anchor may provide first loss guarantee and take the responsibility of paying the lender back. In this arrangement, the ticket size of loans range between INR 20 lakhs-10 crores.



The other route in Dealer Financing arrangement that Vivriti takes is Anchor Sales Bill Financing of corporates which takes in the form of on-balance sheet financing. In such a program, the targeted borrower is a large corporate or enterprise and the ticket size of loans are up to INR 40 crores.

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 Pvt Ltd, based out of a Tier-1 metro city, operates in the aluminium industry and offers a diverse range of products from rods, bars to wire rods.

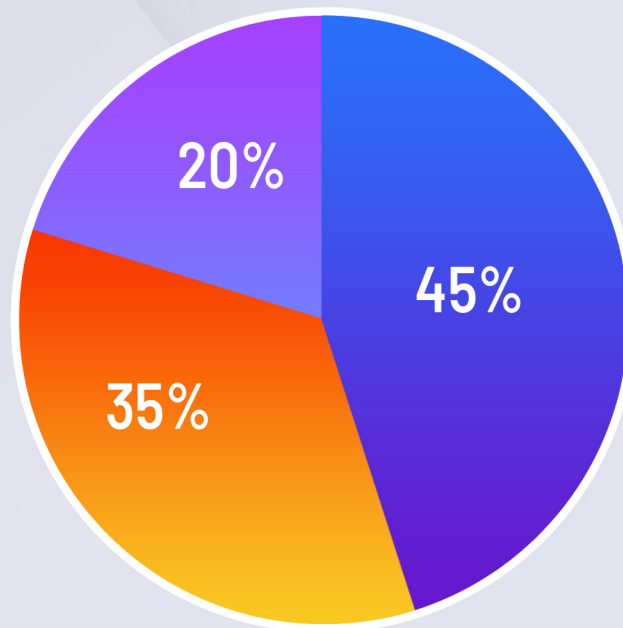
A family-managed business with a strong presence in the industry for ~20 years, the company is one of the primary dealers of an Indian multinational mining company, XYZ Ltd. ABC has not engaged in any fundraising activities so far and about 70-80% of its shares remain closely held by its promoters.



Industry

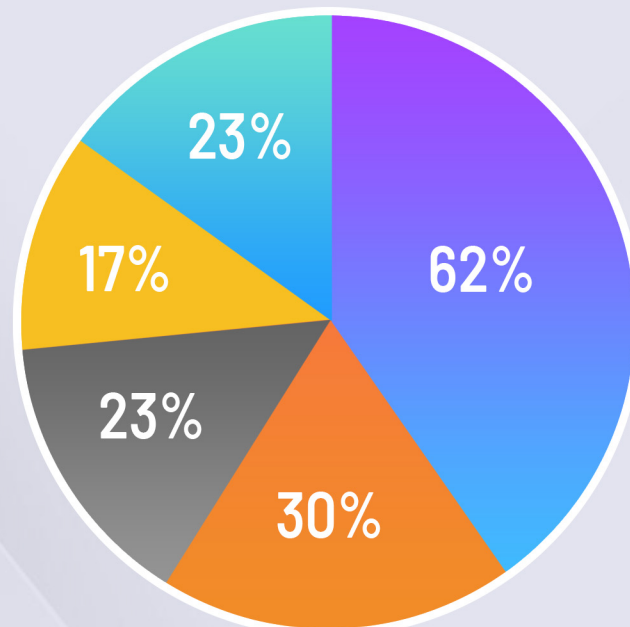
The India aluminium extrusion market size was valued at \$1.3 billion in 2019 and is projected to reach \$2.5 billion by 2027. The market is expected to clock a CAGR of about 8%.

Market Share By Product Type



■ Mill Finished ■ Anodized ■ Powder Coated

Market Share By End User



■ Building & Construction ■ Electrical & Electronics ■ Automotive & Transportation
■ Industrial ■ Others

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



Credit rating

The shortlisted entity has no credit rating available.



Credit profile

The company has a strong lender base with 2-3 top private sector banks for term financing and a credit facility of up to ~INR 5 crores.

Currently, ABC has closed all its limits with one of the banks and going forward, its entire dealer financing will be handled by Vivriti.



Other factors

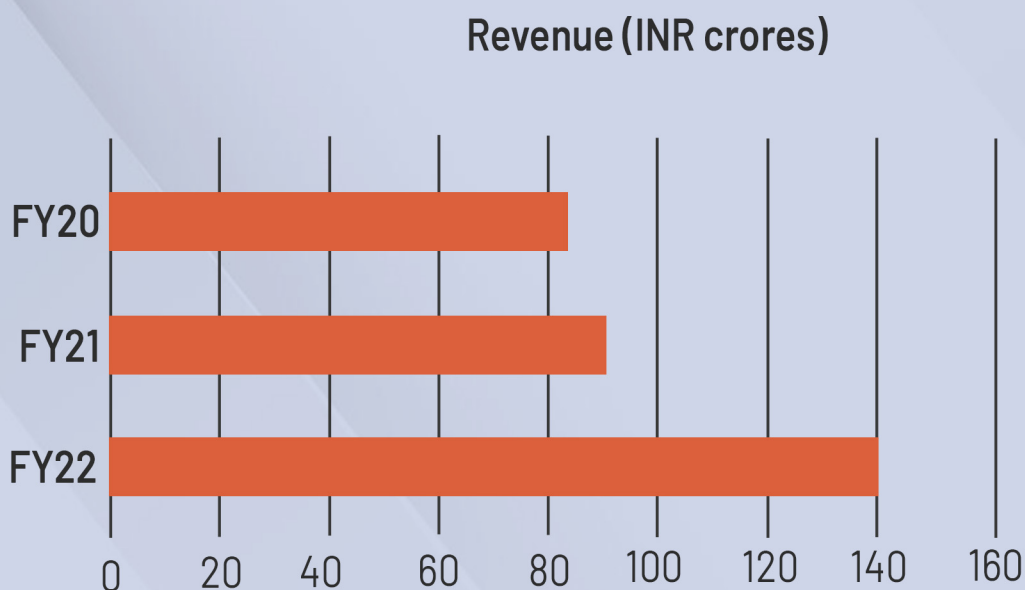
The company has also been considered in positive light for the following reasons:

- Solid business vintage, with no change in board and management since incorporation.
- There are no instances of overdue or delinquency observed in either individual or commercial CIBIL records.
- Healthy YoY growth in top line and net worth.
- Positive recommendation received from the anchor.

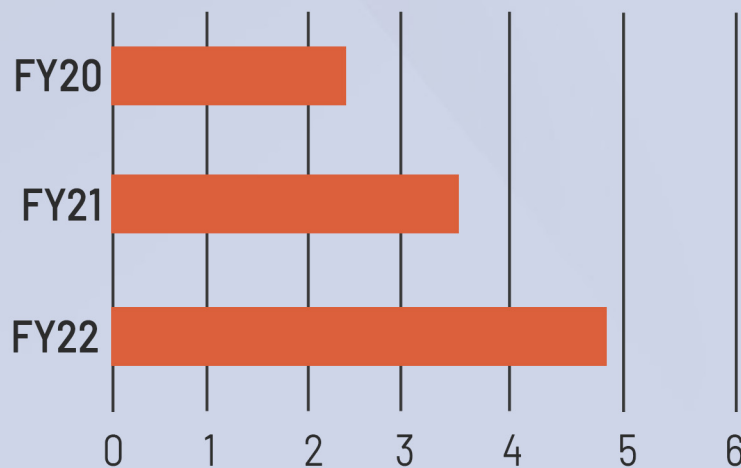
Why ABC Ltd was chosen?

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

- ABC Pvt Ltd has been in the market for close to two decades and has been XYZ's primary dealer for 5-10 years.
- The minimum turnover of the company is INR 100-150 crores, meeting Vivriti's criteria of INR 1 crore for dealers.
- The tangible net worth has grown from INR 7-10 crores in FY20 to INR 13-16 crores in FY22 and is expected to grow further.
- Positive payment history as confirmed by the anchor. This indicates that the company has maintained a clean track record without any overdue payments exceeding 60 days in the last year.
- ABC witnessed a CAGR of 15-20% in revenue and 40-45% in PAT over FY20 to FY23.



PAT (INR crores)



Conclusion

Vivriti Capital has considered ABC Pvt Ltd for PBD in dealer financing arrangement and the proposed loan amount is at the upper limit of loan ticket size set internally. Over and above this, upon request by the dealer, an additional limit of INR 2-3 crores may be disbursed for a period of 75 days, at Vivriti's discretion.

This is based on several parameters as discussed above that include the anchor's credibility and recommendation, promoter's history, market presence, and business growth.

Disclaimer:

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