

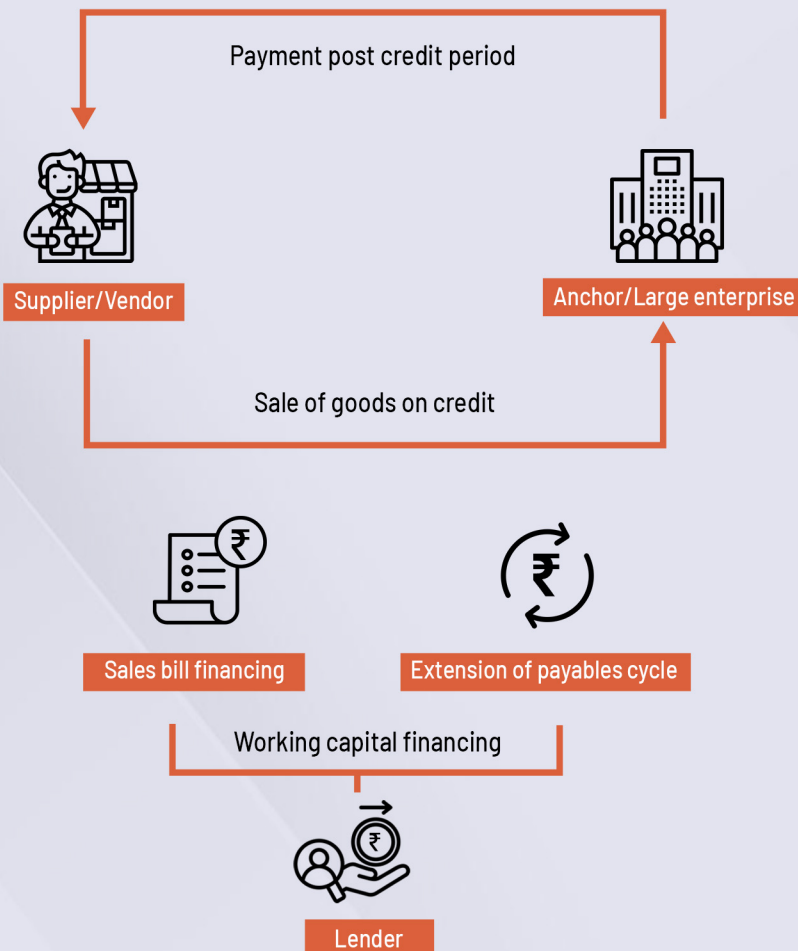
Understanding Supply Chain Finance

Case Study #3

Introduction

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 Pvt 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.



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-2 city, operates in the solar photovoltaic (PV) manufacturing and renewable energy (RE) segment, offering products that cater to independent power producers and distributors.

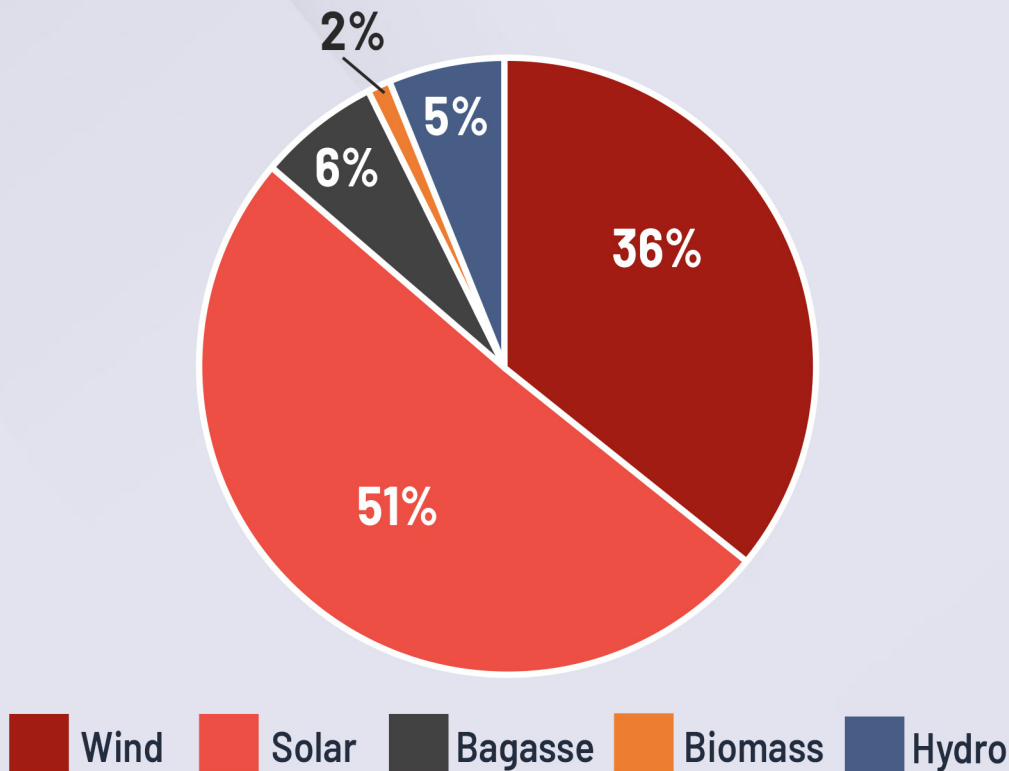
A family-managed business with a strong presence in the industry for 10-15 years, the company has successfully established itself as one of India's leading solar PV module manufacturers. ABC has not engaged in any fundraising activities in the last 5-10 years and remains closely held by its promoters, indicating their confidence in the company's financial stability and growth prospects.

Overall, ABC's strong vintage, extensive experience in the industry, and sound credit risk profile position it as a promising player in the competitive market of PV solar modules.

Industry

India's renewable energy sector has achieved a notable 14% growth rate over the span of five years, from FY17 to FY22. This expansion has enabled the country to attain a noteworthy achievement, clocking a total renewable energy capacity of 114 GW by September 2022.

Mix in RE Generation - FY23



Source: Central Electricity Authority

The proportion of solar installations in India has seen a substantial compound annual growth rate (CAGR) over the past decade. It has increased from 4% in FY 2012 to 51% as of September 2022. This significant rise in solar adoption has solidified India's position as a key player in the global solar energy sector.

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



Credit rating

The company's credit risk profile is robust. The shortlisted entity has BBB rating both internally and externally.



Credit profile

The company has a well-diversified lender base with 5-10 public and private sector banks and rest roughly five NBFCs. They have 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:

- Over a decade experience in the manufacturing of PV solar modules
- Stable order book
- Government support towards the solar energy sector
- Healthy growth in scale of operations.

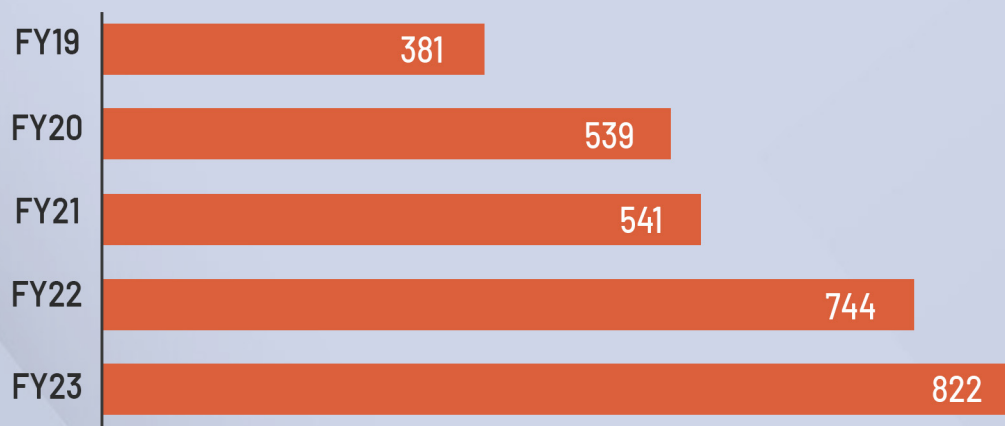
Why ABC Ltd was chosen?

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

- ABC Pvt Ltd has been in the market for over a decade and is headquartered in western India.

- The company is predominantly known in the northern and western regions due to the promoter's reputation and will be expanding down south.
- The company started a subsidiary entity few years ago and has witnessed a decent growth in topline in the last financial year.
- ABC witnessed a CAGR of 15-20% in revenue and 20-25% in PAT over FY19 to FY23.

Revenue (INR crores)



PAT (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.

Disclaimer:

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