

# Understanding Supply Chain Finance

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## Case Study #4



## Introduction

This case study examines a **Dealer Financing** solution for a large enterprise, referred to as the **Anchor**. Dealer Financing is an off-balance sheet arrangement that helps the Anchor bridge working capital gaps from credit sales to its dealers. Typically, the Anchor sells goods to its dealers and raises invoices, expecting future payment from the dealers. To mitigate the working capital gap resulting from delayed payment, a supply chain loan is extended directly to the dealer (referred to here as **ABC Ltd**), who bears the primary repayment responsibility. Loan ticket sizes in Dealer Financing range between **INR 30 lakh to INR 10 crore**.

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

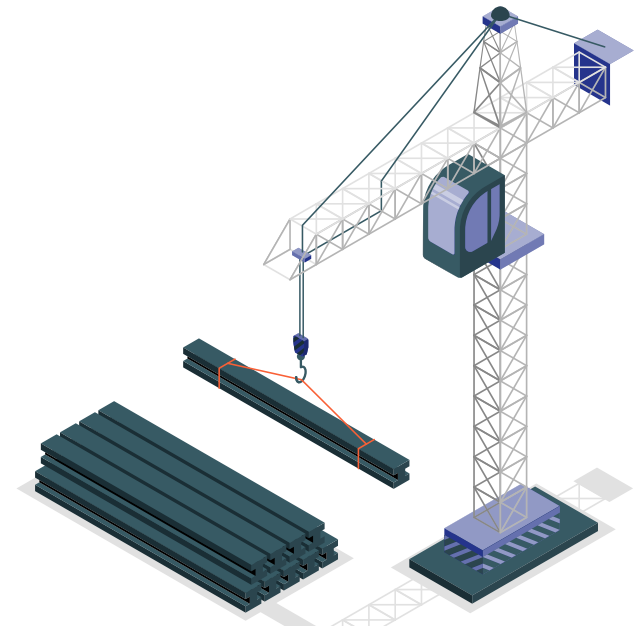


## Company Background

**ABC Ltd.**, based in a Tier-1 metropolitan city, is a family-managed business in the **Iron and Steel Products** industry, specializing in the manufacture and export of steel pipes and tubes for various applications.

With a strong market presence and a history of over 40 years, ABC Ltd. is recognized as a leading manufacturer in its segment. Although the promoters hold a controlling stake, the company recently raised **INR 5 crore** from the public market.

ABC Ltd.'s long-standing experience and strong credit risk profile underscore its competitive positioning within the industry.



## Industry Outlook

- India ranks among the top three global manufacturing hubs for steel pipes and tubes, a vital subset of the **Iron and Steel Products** industry, consuming **8-10% of India's steel production**.
- The market size for steel pipes and tubes in India is estimated at **INR 50,000-60,000 crore**, with Electric Resistance Welded (ERW) pipes comprising approximately 50% of this.
- The global steel pipe market is valued at around **USD 100 billion** and is projected to grow at a **CAGR of 3-4%** over the next decade, driven significantly by demand in the **Oil & Gas** sector.
- Our outlook for the sector is favourable given the industry's growth trajectory and strong domestic demand.



## Credit Profile

ABC Ltd. boasts a strong credit profile:

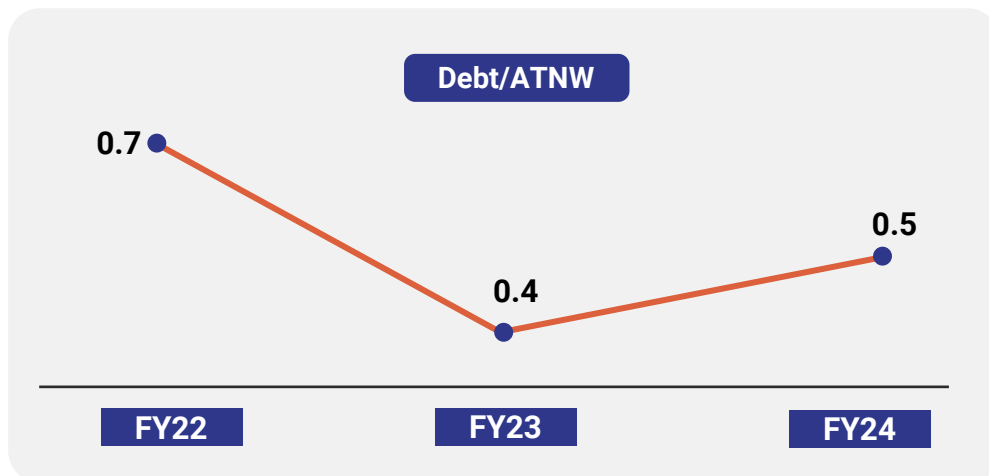
- **External Credit Rating:** BBB with a stable outlook.
- **Internal Rating:** Medium risk.
- **Funding Sources:** The company has a diversified lender base, including 2-3 public and private sector banks and 1-2 NBFCs.
- **Capital Raising History:** ABC Ltd. has successfully raised both debt and equity capital for various tenors, with promoter contributions when needed, illustrating robust financial support and flexibility.

## Key Credit Committee Recommendation

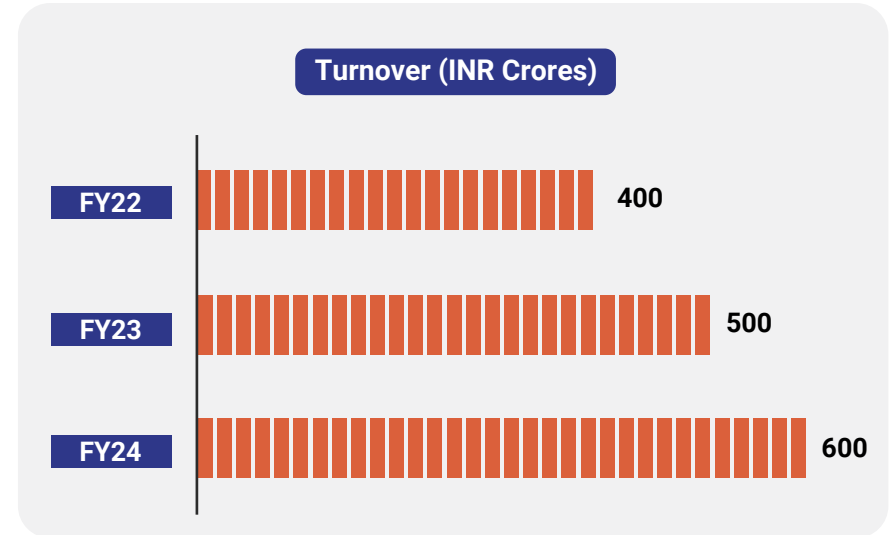
Our recommendation to onboard ABC Ltd. for dealer financing is based on several positive factors:

- **Established Business Vintage:** ABC Ltd. has a long operational history and stable management structure, far exceeding Vivriti Capital's minimum requirements.

- **Strong Industry Ties:** The company has well-established supplier relationships with top-tier players and a diverse customer base.
- **Anchor Procurement Relationship:** ABC Ltd. has a solid procurement relationship with the Anchor, ensuring reliability in the supply chain.
- **Banking Reliability:** A prominent public sector bank acts as the lead banker, with satisfactory banking conduct noted.
- **Financial Strengths:**
  1. Profitable performance over the last three years.
  2. Consistent double-digit revenue growth.
  3. Leverage ratio (Debt/Adjusted Tangible Net Worth) below 1 over the last three years.



4. Annual turnover surpassing Vivriti Capital’s minimum threshold



## Conclusion

Given ABC Ltd.’s strong market positioning, financial health, and established relationships, Vivriti Capital recommends approving a Dealer Financing facility for ABC Ltd. The proposed facility approaches the maximum loan ticket size, designated strictly for inventory purchases from the Anchor. Financing will be disbursed upon verification and approval of purchase orders by the Anchor, ensuring alignment with Vivriti Capital’s risk mitigation framework.

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