

Understanding Supply Chain Finance

Case Study #5

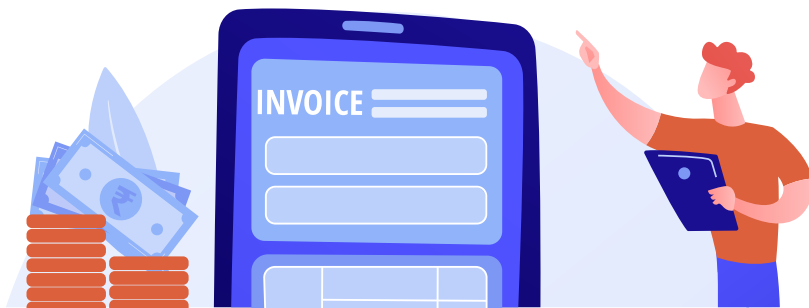


Introduction

This case study examines a Dealer Financing solution, which enables dealers to avail extended credit periods to finance their purchases from anchors and boost their sales. On the same note, it ensures timely sales realisation for the anchor. This optimizes cash flow for the anchor and provides the dealer with flexibility in managing their payment obligations.

The dealer financing solution discussed in this Case Study involves the financing of purchase order raised by the dealer (borrower, named ABC) against the invoice approved by the Anchor (supplier). Generally, loan ticket sizes in Dealer Financing range between INR 30 lakh to INR 10 crore. However, in this case, the limit sanctioned by Vivriti to the Anchor, which is a mining major, for its dealer network is INR 4 crore with an ad-hoc limit of INR 1 crore.

This case study outlines the key findings from our due diligence on ABC, which is a partnership firm, and presents the basis for our recommendation.



Company Background

ABC, based out of Tier 2 metropolitan city, is a family-owned business run by two brothers. The company has a market presence of nearly two decades and operates in the Manufacturing industry, specialising in wires and cables.

Among the two brothers, the elder one has nearly two decades of experience in the industry and looks after the overall management of the business while the younger one manages daily activities. Both the promoters have equal ownership in the business.

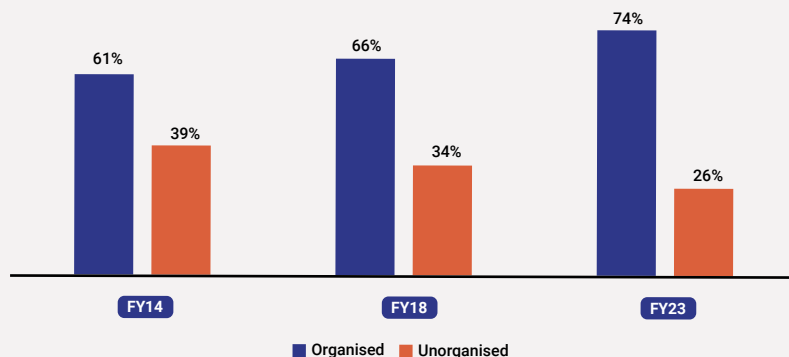
ABC's expertise in the industry and strong creditworthiness highlights its competitive position within the industry.



Industry Outlook

- The Indian wires and cables industry was valued at ~INR 1000 Cr in 2024 and is further estimated to grow at a CAGR of ~12% from FY24-27.
- Government initiatives like Housing for All and Make in India, infrastructural development, higher demand for electricity in urban and rural areas, and investments in renewable energy projects are expected to drive the growth in wires and cables industry in India.
- The share of organised players (branded market players) vis-à-vis unorganised players (small regional players) has steadily increased over the past decade due to consumer awareness towards safety and quality and increased trust in the established players of wires and cables industry.

Market share of players



- Since FY20, India became a net exporter of cables and wires due to significant improvement in its manufacturing capabilities. The demand for exports results from increasing push for renewable energy and electric vehicles as well as remodelling of power grids.
- Copper and Aluminium are the primary raw materials used in the production of wires and cables and account for ~75% of the total raw material cost. The cost fluctuations in these materials directly affect the production and cost of wires and cables in India.

Our outlook for the sector is favourable given the industry's growth trajectory and rise in exports.

Credit Profile

ABC boasts a strong credit profile.

Internal Rating: Low risk.

Funding Sources: The company has a lender base of one to two tier-1 private sector banks and one to two tier-1 public sector banks.

Financing History: The promoters of the company have infused capital when required.

Repayment History: The company has a track record of managing finances in a reliable and responsible manner along with timely payments of interest and borrowings.

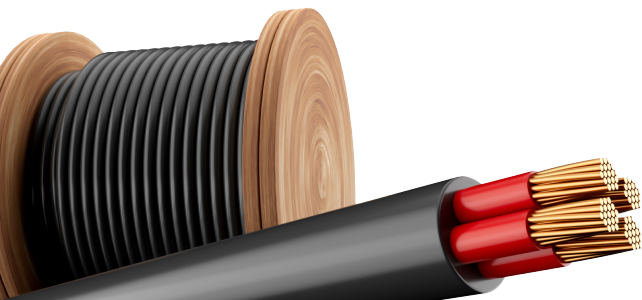
Key Credit Committee Recommendation

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

Veteran Management: The company is being led by second generation of leaders with an industry experience of nearly two decades.

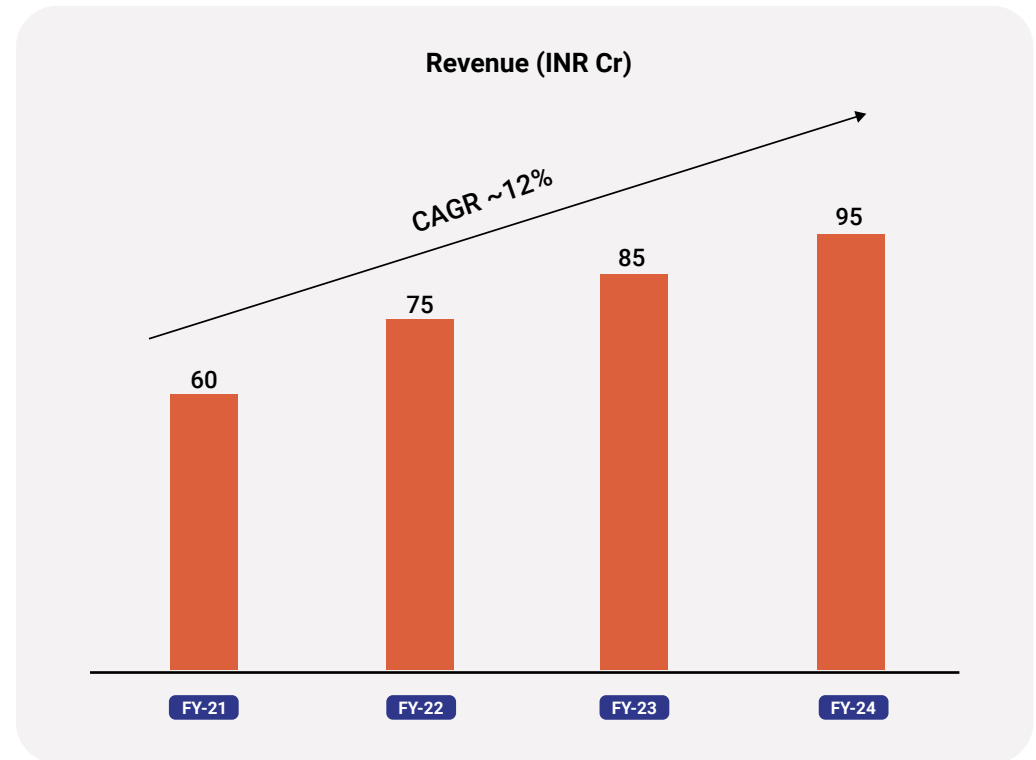
Strong Customer Base: ABC has a strong customer base with majority of them hailing from automotive industries, including some reputed OEMs. As production in the automotive industry remains steady, demand for wires and cables remains stable.

Strong Anchor Relationship: ABC has been one of the prime customers of the Anchor for over a decade.



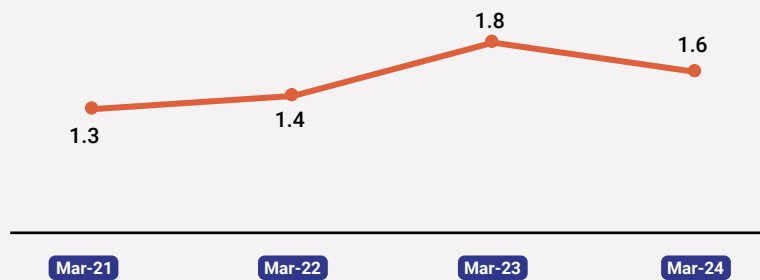
Financial Strengths:

1. The company's EBITDA remained consistent in the range of 5%-7% in the past 4 years
2. Over the last four years, ABC's revenue grew at a double-digit annual rate.



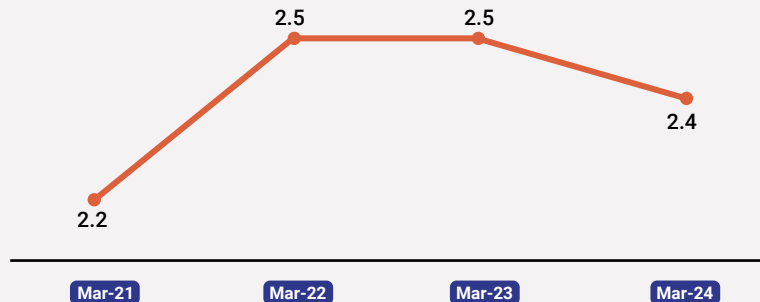
- From FY21-24, the company's current ratio has been in the range of 1.2 to 2, suggesting the company's current liabilities are well covered.

Current Ratio



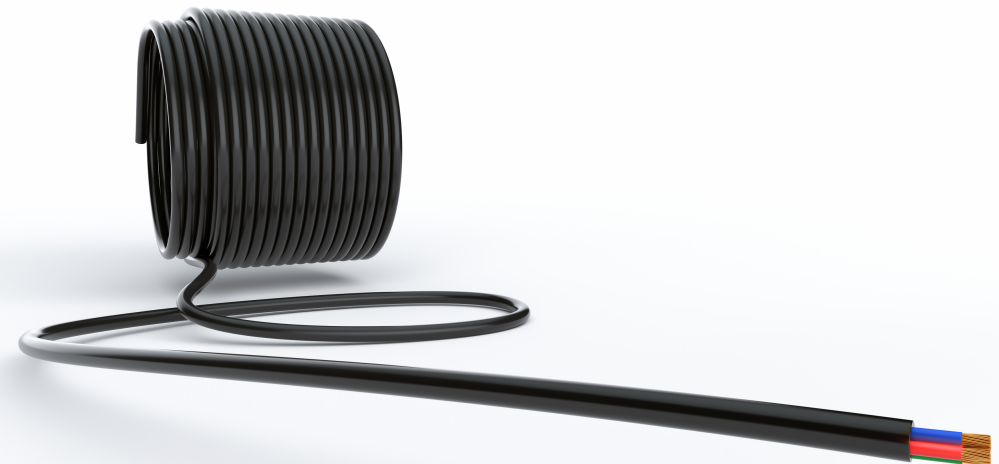
- During FY21-24, the company's Debt service coverage ratio (DSCR) remained above 2, demonstrating the company's ability to fulfil its debt obligations.

DSCR Ratio



Conclusion:

ABC is at the lower end of the credit risk spectrum as per internal rating. Moreover, with well-established business, stable supplier base, healthy customer relations, strong financial position, and consistent growth in profits, Vivriti Capital has considered ABC for dealer financing. The proposed credit facility is at the upper end of the maximum loan ticket size set internally.



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