

Understanding Supply Chain Finance | Part 7

A CASE STUDY

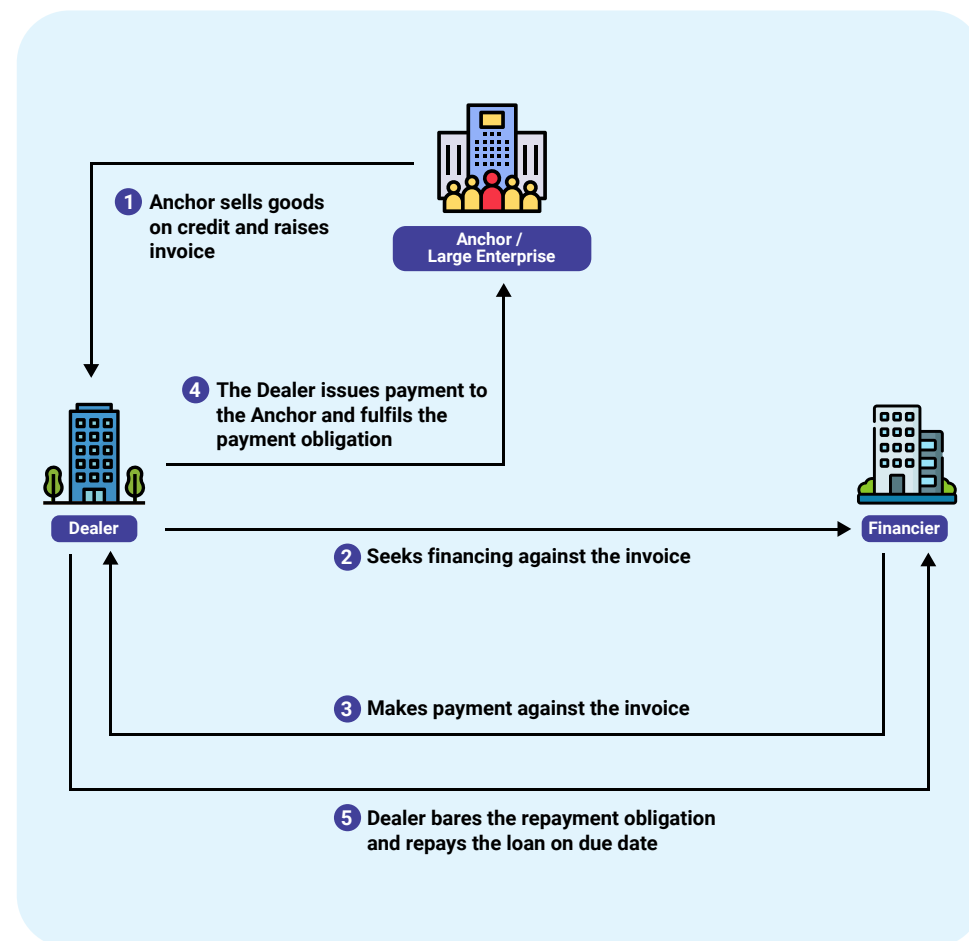


Introduction

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.

The dealer financing solution discussed in this case study involves the financing of purchase order raised by the dealer (borrower, named ABC Pvt Ltd.) against the invoice approved by the Anchor (supplier). This optimizes cash flow for the anchor as it ensures timely sales realisation and provides the dealer with flexibility to manage their payment obligations.

Generally, loan ticket sizes in dealer financing range between INR 30 lakh to INR 10 crore. In this case, the limit sanctioned by Vivriti to the Anchor, for its dealer network is closer to middle limit with an ad-hoc limit of INR 1 crore to ensure that it can meet their ad-hoc requirement basis working capital gap.



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



Company Background

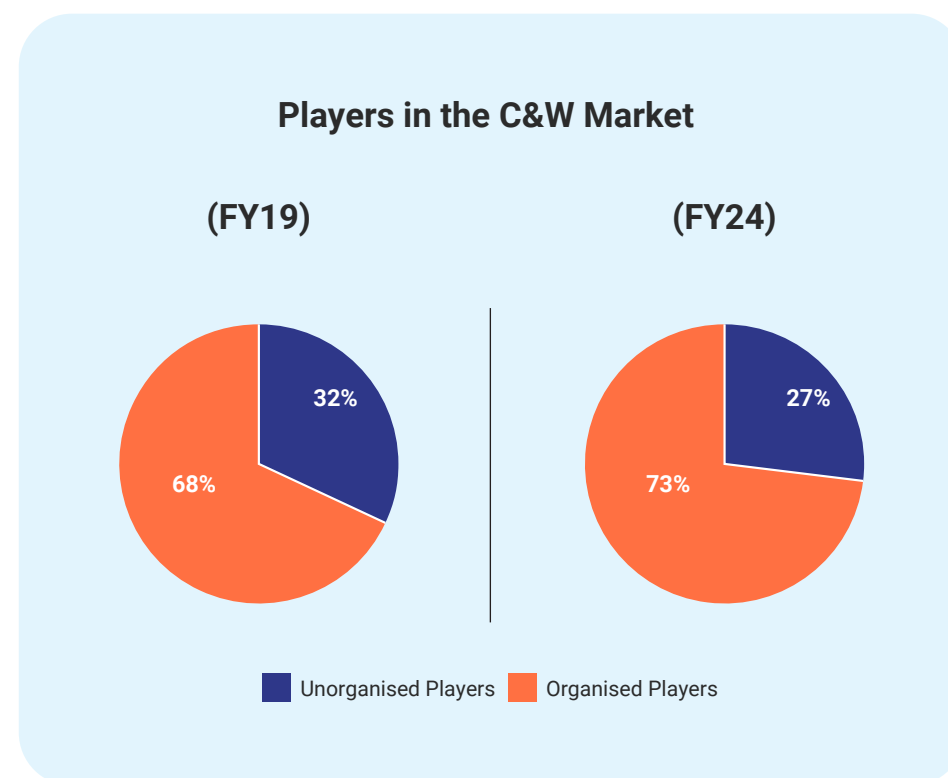
ABC Pvt Ltd. manufactures cables, wires, and conductors and supplies mostly to electricity distribution Public Sector Undertakings (PSUs) via direct and indirect channels. It is a family-owned business and is currently managed by the second-generation industry veteran.

The company is based out of tier-2 metropolitan city with a market presence of over four decades. The company purchases 50% of its raw materials from anchor and two other similar companies.

Industry Outlook

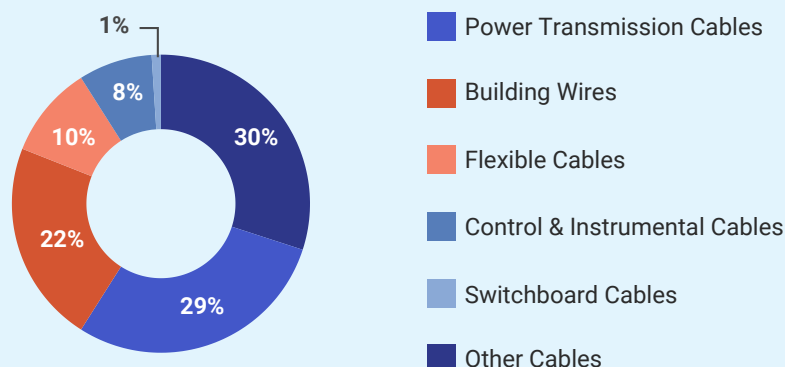
- The Indian wires and cables market is fragmented with organised (branded/large-listed) and unorganised (small regional/unlisted) players. Polycab, KEI and Havells are the top three players in the cables segment with a combined market share of ~40% while Finolex, RR Kabel and Polycab are the top three players in the wires segment with a combined share of ~37%. The size of the market is estimated at nearly ~INR 2 lakh crore in 2024.

- The organised players in the Indian wires and cables industry have outgrown unorganised players over the years. The share of organised players has increased from 68% in FY19 to 73% in FY24 driven by technological innovation, favourable regulatory landscape, and entry of big players.



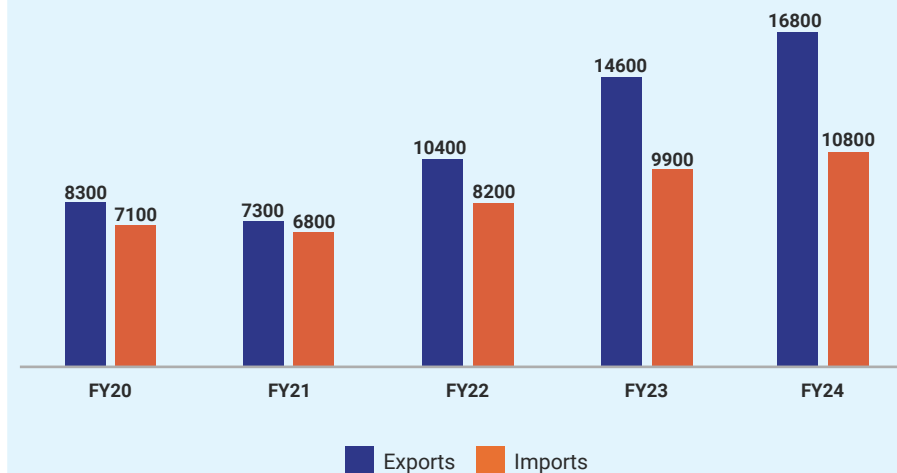
- Product wise, power transmission cables and building wires dominates the overall wires and cables industry in India accounting for ~50% of the market.

Cables and Wires Industry: Market Breakdown (FY24)



- One of the key challenges faced by the wires and cables industry is the volatility in raw material prices. Raw material costs account for ~85% of the total costs of cable and wire industry. Copper, the primary raw material, accounts for 55-60% of overall costs.
- Indian export volumes have increased consistently since FY20 due to increase in demand for digital infrastructure, ability to manufacture and export low cost but specialised cables, adherence to global quality standards, and China+1 strategy being adopted by many countries giving Indian manufacturers preference over their Chinese counterparts.

Exports and Imports of Wires and Cables (INR Cr)



Source: MOFSL, Industry

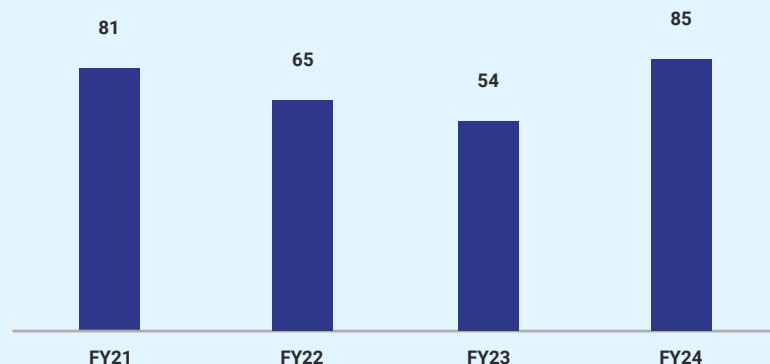
- Along with the above-mentioned factors, increase in electrification in rural areas, higher demand from power transmission and distribution, investments in renewable energy projects, and transition to electric vehicles are expected to drive the growth in cables and wires industry. Government initiatives such as Make in India and production-linked incentives (PLI schemes) are expected to act as a catalyst to the growth. The Indian wires and cables industry is estimated to grow at a CAGR of 10-15% from FY24-FY27.

Credit Profile

Internal Rating: Medium risk

Basis for Rating: Lately, ABC witnessed an increase in working capital cycle (WCC) due to increase in inventory and receivable days. However, the company's WCC remained below the threshold limit set by Vivriti Capital.

Working Capital Days



Financiers: ABC Pvt Ltd. has a lender base of one to two tier-1 private sector banks and two NBFCs.

Promotor Led-Financing: The promoters of the company have infused capital and reinvested profits into their business when required.

Key Credit Committee Recommendations

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

Business Vintage: The company has an operational history of over four decades and is currently being led by second generation leader with an industry experience of over three decades.

Promoter Expertise: The promoters extensive industry experience has been ideal in ensuring steady growth of the company over the years while effectively navigating market challenges.

Strong Customer Base: The customers of ABC Pvt Ltd. are Public Sector Undertakings (PSUs) and well-established top-tier players ensuring payment reliability.

Bank Reliability: The company's CIBIL repayment history shows no default with a history of clean banking conduct.

Financial Strengths:

- ABC Pvt Ltd. has been profitable since the last 4 years.
- The company's revenue growth has transitioned from double-digit in FY21 to triple-digit in FY24.
- The company has consistently kept its leverage (Total Debt/Adjusted Tangible Net Worth) ratio below 2 for the past four years.

Conclusion

The company faces wide fluctuations in working capital due to delay in realisation of bulk payment from the Public Sector Undertakings (PSUs). However, the realization of payments is generally higher at the end of the year, keeping the WCC in check. To tackle the short-term working capital needs and manage the working capital cycle effectively, we have provided dealer financing solution (non-recourse to anchor) to ABC Pvt Ltd.

Disclaimer:

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