

Term Loan for an Apparel Maker Case Study #1

Introduction

In today's case study, we explore a term loan (TL) transaction where Vivriti acted as the lender/financier to the client, which we are referring as ABC Ltd, to finance their capital expenditure and expansion needs.

Below we present the key findings of the diligence process about the company and argue in favour of ABC for term financing.

Company background



History

Headquartered in a Tier-1 metro city, ABC Ltd is one of India's leading apparel makers offering an extensive collection of men's casual apparel and accessories. Established under the umbrella of its parent company XYZ, ABC initially operated as a contract manufacturing segment. Later, the company emerged as a separate listed entity, solidifying its presence in the apparel industry.

With nearly two decades of industry presence, the company operates as a family-managed business, with approximately 30-40% of its shares closely held by the promoter group, while the remainder is owned by external investors.

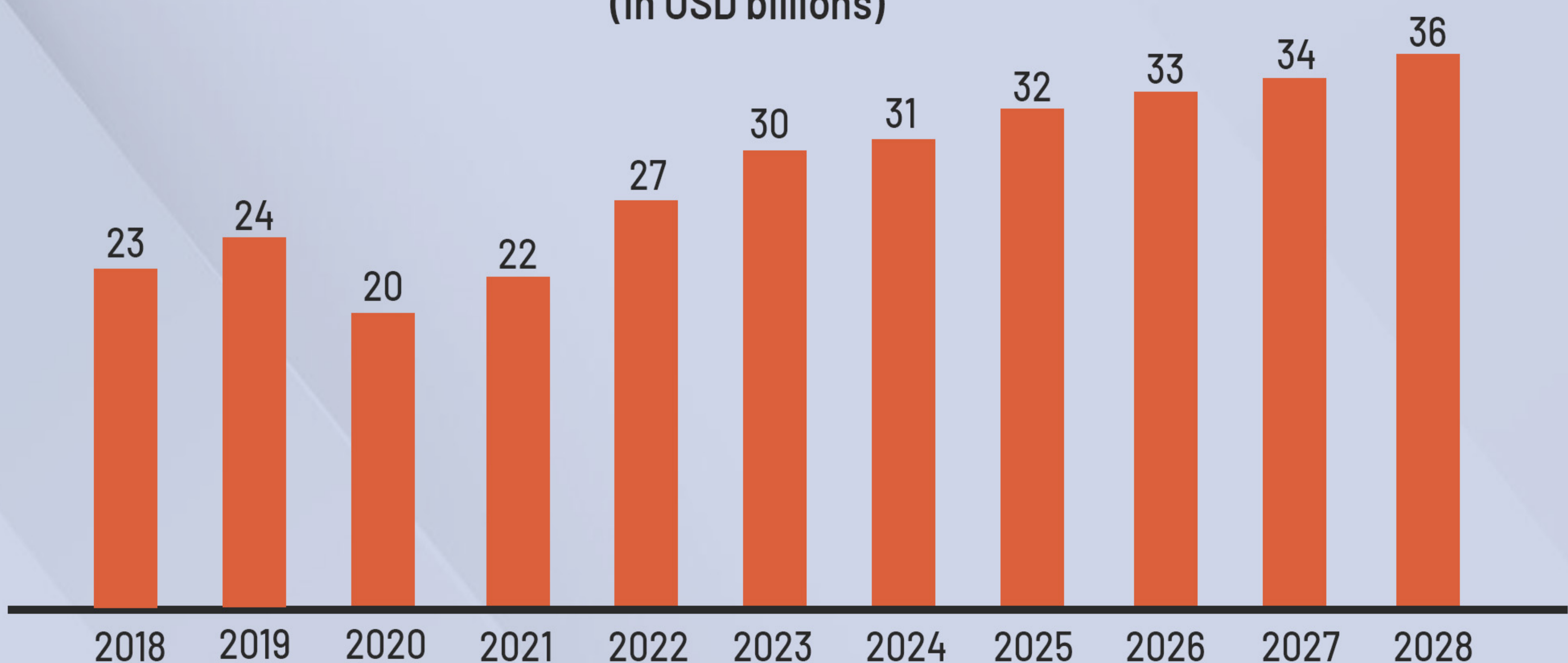


Industry

The men's apparel industry encompasses various categories such as active wear, formal wear, essentials, casual wear, and outerwear. India stands as one of the world's leading textile producers, with a vast and diverse fashion and apparel industry encompassing high-end luxury brands and mass-market retailers alike. In 2024, the revenue of the men's apparel market in India stood at ~US\$31 billion, with a projected annual growth rate of 4% from 2024 to 2028. While the United States leads in revenue generation, reaching US\$114 billion in the same year, India's per person revenue stands at about US\$22.

Customer preferences play a crucial role in shaping this sector, alongside manufacturing costs. For example, in India, there is a growing preference for traditional clothing like kurta-pajama and sherwanis among men's apparel choices. Profitability is also influenced by factors including geographic focus, product specialization, operational efficiency, and marketing partnerships.

Revenue of the Men's Apparel Industry in India
 (in USD billions)



Source: Statista

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



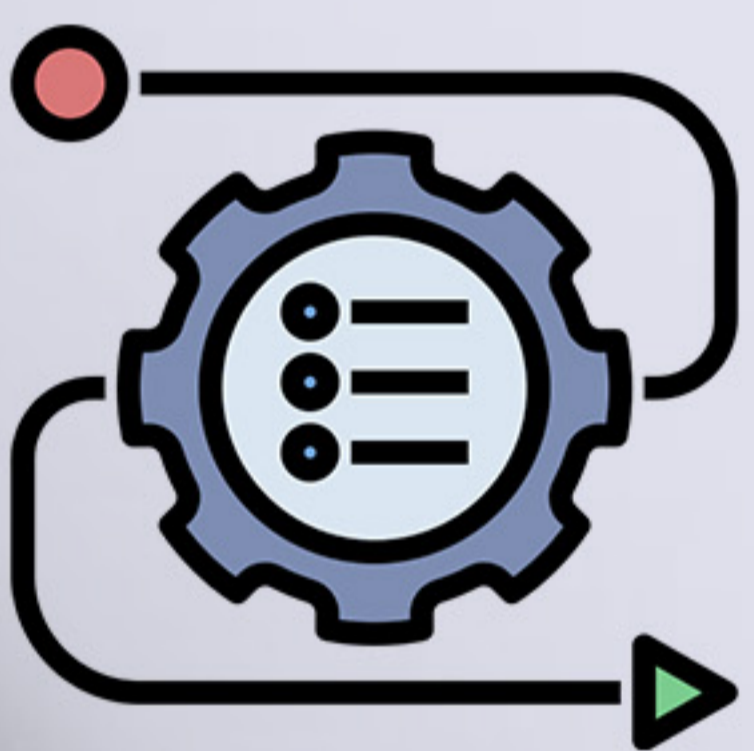
Credit Rating

ABC has internal and external credit ratings of BBB. The company's operations have improved post the pandemic-induced disruptions, but it is expected to be impacted by raw material price hikes limiting the room for expansion in operating margin in the near term.



Credit Profile

The company has a successful track record of raising debt capital primarily for long-term borrowings from existing lenders, a public sector bank and a leading non-bank lender. The promoters have also consistently infused equity funds as and when required.



Other Factors

Few other reasons that the company has been considered in positive light are:

- Strategically opts for contract manufacturing to minimize initial capital expenditure and operational costs while maintaining quality control.
- ABC has created a strong recall in the men's casual wear segment.
- With over 30 years of experience in the garment industry, the promoter brings valuable expertise to ABC Ltd.
- ABC maintains a low debt-equity ratio.

Why ABC Ltd was chosen?

After the company passed all the key profiling criteria, Vivriti Capital considered to explore term financing with ABC on the following criteria:

- Post the pandemic, the company's operations have shown gradual improvement, bolstered by an uptick in discretionary spending and increased foot traffic across distribution channels.
- ABC's revenue doubled in H1 FY2022-23 compared to the corresponding period in FY2021-22
- Despite competition from domestic and international brands in Indian market, ABC's strong presence and growth prospects are likely to drive the business.
- Apparel makers like ABC requires high working capital towards stocking garments across a wide range of products in outlets and it is going to increase further with an expected recovery in demand to pre-Covid levels.

Conclusion

Vivriti Capital has considered ABC Ltd for term financing and the proposed loan amount is of moderate size set internally.

This is based on several parameters as discussed above that include the promoter's credibility in the apparel market, the company's credit profile, operating performance, and industry conditions such as the intense competitive landscape, etc.