

Working Capital Demand Loan for Mid-Market Enterprises Case Study #2



Introduction

This case study examines Working Capital Demand Loan (WCDL) solution for a mid-market enterprise, which we are referring to as ABC Ltd. For mid-market enterprises, seasonal slumps, unexpected expenses, and sudden growth spurts can strain even the most stable budget. This is where WCDL steps in. It offers on-demand access to funds, helping the business to meet their short-term cash flow requirements to manage day-to-day operations smoothly, support inventory turnover, and seize new growth opportunities. The ticket size of our WCDL range from INR 5 crore to 50 crores.

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. is a decade old company founded by two industry veterans based out of a Tier-1 metro city and operates in the telecom tower and EPC industry. It started with manufacturing of telecom towers and later expanded to engineering, procurement, and construction (EPC) projects for both telecom and solar, Operation & Maintenance, Optical Fibre Cable (OFC), and other diversified businesses.

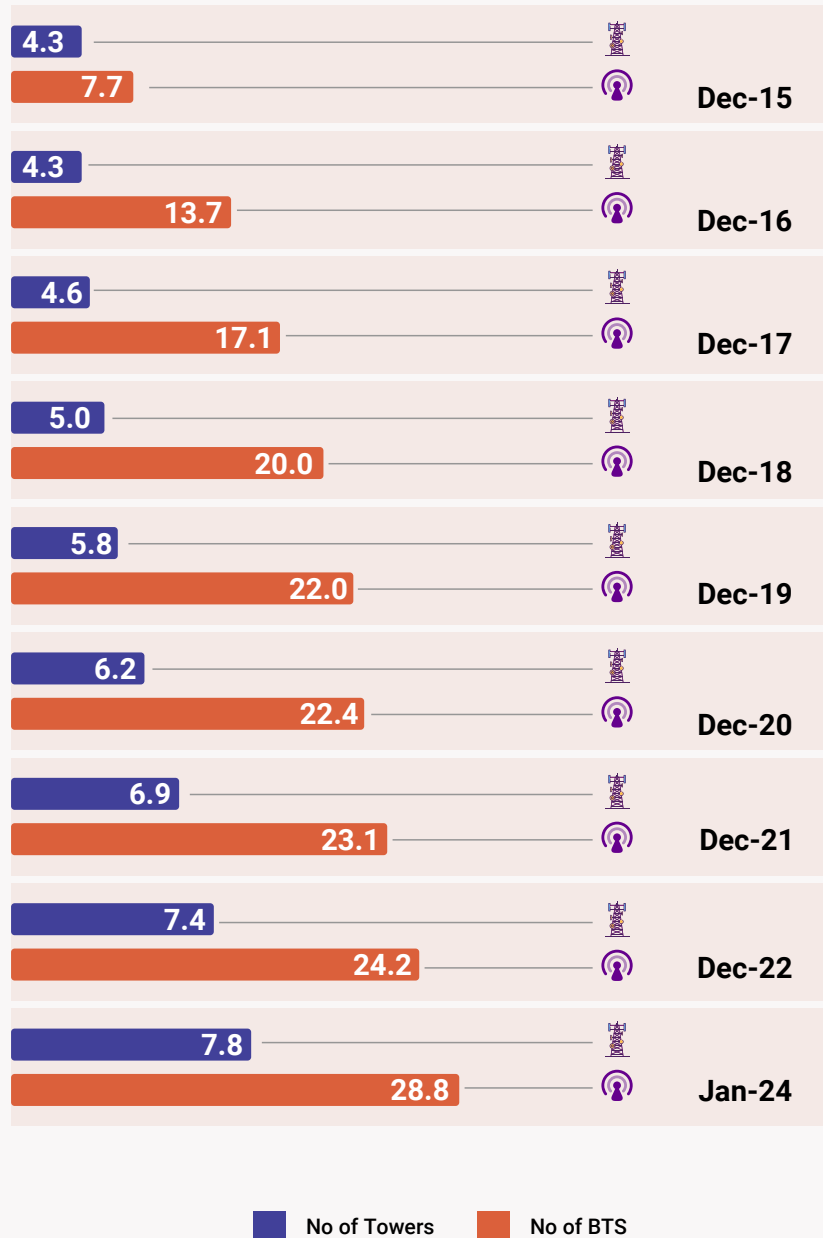
While the company went public a year ago, majority, over 60% of the company's shares are closely held by its promoter group and the remaining shares are held by non-promoters.

Industry Outlook

Telecom Tower:

- Telecom towers are an essential part of telecom network, serving as the foundation to hold equipment that is needed for transmitting the telephone signal. The growth in telecom tower is driven by the growth in subscriber base, 5G rollout, and the impetus from the government.
- Wireless Telecom subscribers in India grew at an annual rate of 2% from ~96 crores in March 2015 to ~116 crores in March 2024.

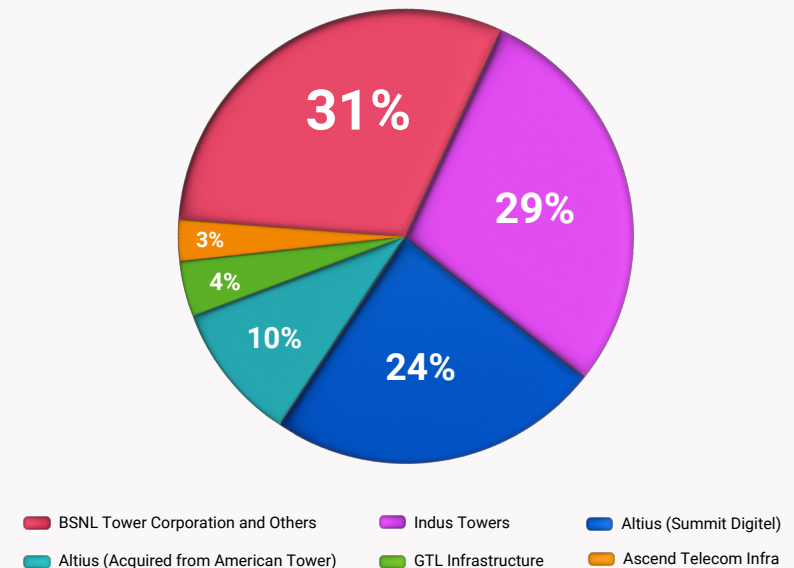
Telecom Towers and BTS growth in India (Lakh)



Source: Department of Telecommunications

- The total number of telecom towers in India increased from 4.3 lakh in Dec 2015 to 7.8 lakh in Jan 2024.
- The number of Base Transceiver Station (BTS), which sends and receives radio signals to mobile devices, grew from 7.7 lakh in Dec 2015 to 28.8 lakh in Jan 2024. With speedy rollout of 5G in India, the number of 5G BTS has crossed over 4.6 lakhs in October 2024.
- Indus Towers, Altius (Summit Digitel), and Altius (acquired from American Tower), are the top three players in the Indian telecom market, accounting for ~63% of the total base of installed towers.

Telecom Tower operators in India (as of Q3 2024)



Source: TowerXchange

Optical Fibre Cables (OFC) Industry:

- The growth in the telecom tower industry is fuelling the growth of its ancillary industry – Optical Fiber Cables (OFCs).
- Telecom service providers primarily rely on OFCs for their connectivity infrastructure needs.
- As of July 2024, the fiberisation (conversion of non-OFCs to OFCs) stands at 44% compared to 35% in July 2022. Under its National Broadband Mission, India aims to achieve 70% tower fiberisation by FY25.

Our outlook for the sector is favourable given the industry's growth trajectory and strong domestic demand.

Credit Profile

- **Credit Rating:** The shortlisted entity has an internal and external credit rating of BBB with a Positive outlook.
- **Funding Sources:** The company has a decent lender base consisting of two to three tier-1 private sector banks.
- **Rating Rationale:** The company has a concentrated order book, but this is to some extent balanced by the strong visibility of revenue that offers a level of stability.

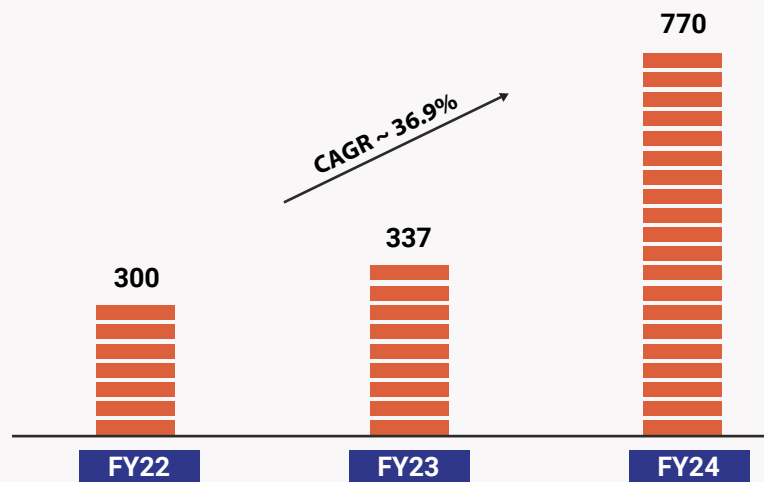
Key Credit Committee Recommendations

Our recommendation to onboard ABC Ltd. for is based on following factors:

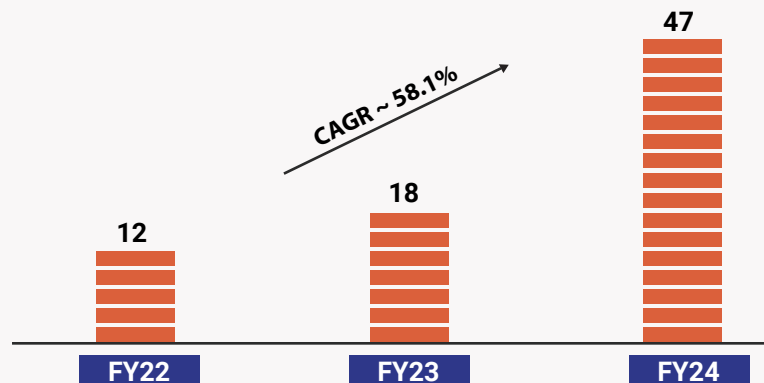
- **Proficient Management:** The promoters of ABC Ltd. have over two decade of industry experience and solid understanding of the market.
- **Robust Customer Base:** ABC Ltd. does projects with top reliable companies that contribute to the company's financial stability and growth.
- **Diverse Business Operations:** Apart from the telecom tower and EPC business, the company has diversified business into uPVC and AAC blocks among others and has manufacturing hubs in predominantly southern regions of India.
- **Financial Strengths:**
 1. The company has been profitable over the last three years.
 2. As of Mar 24, the company's leverage (Debt/Net worth) ratio is less than 1.

3. Over the last five years, the company's current ratio has been consistent at ~2, suggesting that the company can meet its obligations under unforeseen circumstances.

Revenue (INR Crore)



PAT (INR Crore)



Conclusion

Considering the industry ABC Ltd. operates in, receivables are collected either post-project completion or after a specific project stage. Hence, Vivriti Capital considered the Working Capital Demand Loan as an ideal debt solution for the smooth operations of the company by mitigating the working capital demand gap. The proposed facility is approximately half of the loan ticket size limit set internally.

Disclaimer:

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