

Working Capital Demand Loan for Mid-Market Enterprises Case Study #1

Introduction

In today's case study, we explore a working capital demand loan (WC DL) transaction where Vivriti acted as the lender/financier to the client, which we are referring to as ABC Ltd, to meet their working capital financing needs.

For mid-market enterprises, seasonal slumps, unexpected expenses, and sudden growth spurts can strain even the most stable budget. This is where a working capital demand loan steps in. It offers on-demand access to funds, helping the business run smoothly through peaks and troughs, all with the flexibility and cost-effectiveness you need to seize opportunities and navigate challenges.

Below we present the key findings of the diligence process for the company and argue in favour of ABC for WC DL.

Company background



History

ABC Ltd, based out of a Tier-1 metro city, manufactures Aluminium Clad Steel wire (ACS) and other fabricated tools for electricity transmission. The company has a strong presence in the industry for almost two decades. ABC also operates a joint venture with a manufacturing company based outside India.

A family-managed business, about 70-80% of the company's shares remain closely held by its promoter group and the remaining is held by external investors. The company became publicly listed almost five years ago.



Industry

Aluminium-clad Steel Wire (ACSW) combines the best of both worlds: the sturdy, durable core of steel for exceptional strength and the lightweight, corrosion-resistant aluminium cladding for efficient conductivity and reduced sag. This thermal-stable wonder material shines in diverse applications - power lines, automotive components, even aerospace structures. ACSW reigns supreme in challenging environments like long-span lines, coastal areas, and salt fog regions, where its corrosion resistance reigns supreme.

Market segments like Optical Ground Wire (OPGW) and Optical Phase Conductor (OPPC) leverage ACSW's unique blend of features for both power transmission and communication needs.



Globally, the ACSW market size is forecasted to reach ~US\$1 billion by 2030, reflecting a CAGR of ~10% over 2023-2030. The rising demand for lightweight and high-strength wires in industries, including automotive and aerospace, is leading to the market growth of ACSW. Its demand is expected to boost with rising investments in construction and infrastructure development projects, mainly in emerging economies.

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



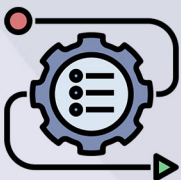
Credit Rating

The company's credit risk profile is robust. The shortlisted entity has an external credit rating of BBB and internal rating of BB.



Credit Profile

ABC has a concentrated lender base with about 50% occupied by three private lenders and the remaining share held by a public sector bank and NBFCs. They have a successful track record of raising debt capital for both short-term and long-term borrowings.



Other Factors

The company has also been considered in positive light for the following reasons:

- Promoters' reputation in the industry and experienced management team.
- Healthy order book and revenue visibility over next 2 years.

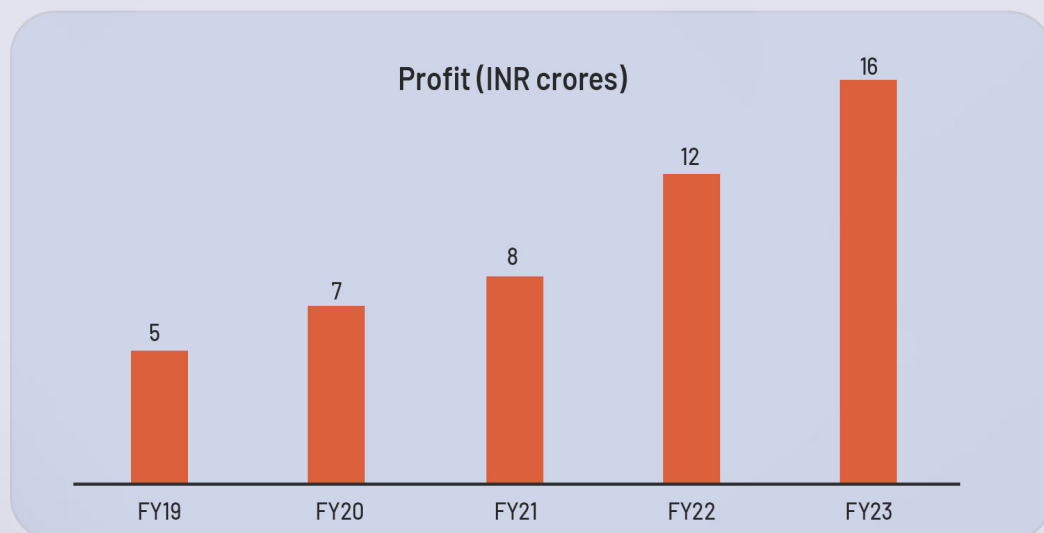
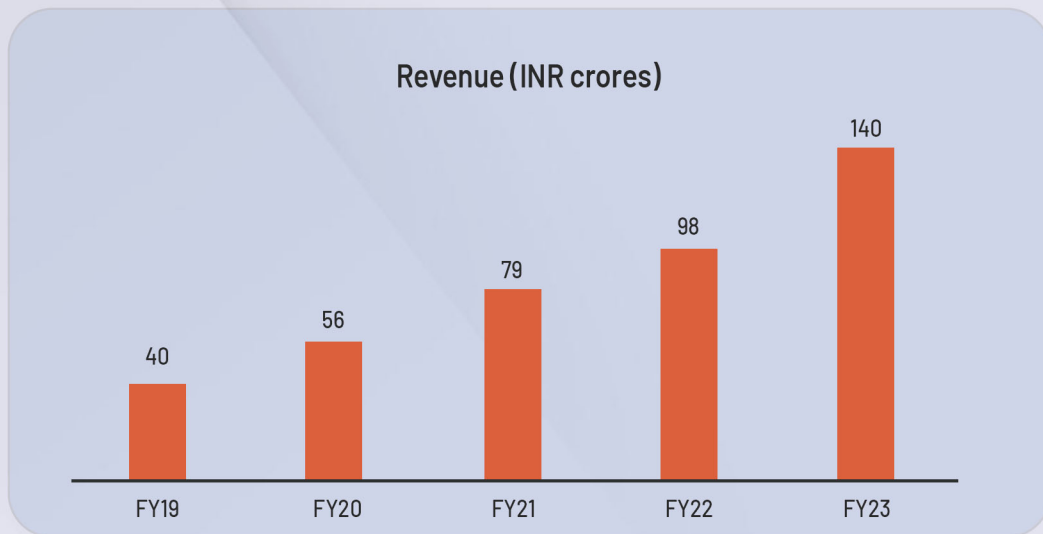
Strong margin and profitability.

- Favourable demand prospects driven by sizeable investments in end-user industries.
- Reputed customer profile, low counterparty credit risks.

Why ABC Ltd was chosen?

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

- The company has maintained better working capital management with gross current assets improving to below 150 days.
- The EBITA margins has remained healthy for the company and has grown from ~15% in FY21 to ~20% in FY23.
- ABC witnessed a CAGR of 35-40% in revenue and 30-35% in profit from FY19 to FY23.



Conclusion

Vivriti Capital has considered ABC Ltd for WCDL, and the proposed amount is at the higher limit of loan ticket size set internally.

This is based on several parameters as discussed above that include the promoter's credibility in the market, industry experience of the management, and healthy levels of profitability.

Disclaimer:

The financial data provided in the report is only for representation and are not exact values reported by the company.