

Case Study

Vega Air Travels

Working capital and Credit flow challenges

Introduction

The travel, tourism, and hospitality industry is the largest service industry in India, contributing a significant 6.23% to the country's GDP and emerging as one of its biggest growth drivers among the services sector. But this is also one of the most competitive markets, with several new players emerging in the scenario with more attractive deals and experiences every other day. Amidst such intense competition, being in the travel agency business comes with its own set of challenges. And not being able to manage working capital can result in businesses not being able to meet the demands, thus losing a significant share of its customers to its competitors. This is where solutions like term loans come in the picture, offering these businesses the value proposition that they need to cater to their urgent requirements, fulfil demands, expand, upgrade, and grow their business.

Indifi is one of India's leading platforms for SME funding offering digital lending services like term loans, line of credit, invoice discounting, and merchant cash advance. Since its inception, the platform has successfully disbursed 15,000+ loans to small businesses in 200+ cities across the country. Indifi offers short-term term loans of up to INR 50 lakhs at a highly feasible interest rate starting from 1.5% per month for a tenure of up to 36 months. Moreover, unlike traditional lenders that ask for collaterals to underwrite short term business loans against, Indifi evaluates the creditworthiness of these businesses on the basis of their transactions and provides them with unsecured business loans. Through such a solution catering specifically to the specific business type, Indifi has been helping thousands of small businesses belonging to different industries across the country grow.

Let us understand this better through a successful case in which Vega Air Travels, a Bengaluru-based travel agency, partnered with Indifi and availed their term loan offering to address its credit woes and to expand its business further.

Vega Air Travels: A brief background

Vega Air Travels is a travel agency that offers both domestic as well as international ticketing and packages, visa processing, support for passport generation, reservation services, and guided tours. Founded in 2008, the agency is based out of Bengaluru and has a dedicated team of seven employees. Catering to both individuals as well as corporates, Vega has a notable corporate clientele including names like the Bar Council of India, Spur Microwave Inc and Vydehi Institute of Medical Sciences & Research Center, to name a few. Within over a decade since its inception, Vega Air Travels has succeeded in carving a place for itself among the top service providers in India.

Key challenges faced

Over the past few years, Vega Air Travels observed how it facing credit cycle-related issues owing to challenges such as decreasing credit period from travel partners and increasing credit cycles from its corporate clients. For instance, while the travel partners of Vega would earlier provide a feasible credit timeline of 30 days, it narrowed down to 15 days and then to as little as 7 days over the years. If the payment would get delayed even by a day amidst such a scenario, ticketing aggregators would either block the account or simply stop ticketing. Therefore, in order to meet with the stringent

payment deadlines, Vega needed to have a ready availability of funds. But with a longer credit period given to corporates, it became increasingly difficult for the agency.

Moreover, Vega also dealt with reducing commissions from airlines and ticketing partners. When the agency was founded, the commission used to be 9% but it soon got reduced to 7%, then 5%, and has come down to an all-time low of 2% at present. Such low commission rates do not leave the agency with adequate working capital to even function smoothly, let alone focus on the impending need to increase the volumes. And with new online travel booking agents emerging in the market, Vega Air Travels ended up losing many of its key corporate as well as individual clients owing to the lower fares offered by these online players.

Partnership with Indifi and the impact

When the challenges faced by Vega Air Travels got communicated to one of its prominent booking partners Travel Booking Online (TBO), they suggested Vega to seek assistance from Indifi. Indifi offered the agency a term loan of INR 15 lakhs. Upon having sufficient funds as its working capital, Vega was able to re-extend its credit period back to 30 days from 7 days. Moreover, the money was transferred to the travel consolidator's account instead of directly being transferred to the travel agent. An increased credit limit and payments made in the consolidator's account helped the agency manage its finances and make timely payments, thereby giving it an opportunity to offer better credit period. As a result, Vega also succeeded in retaining the corporate clients that it previously lost.

Vega did not only retain its old clients but also observed a notable increase of 30-40% in its customer base after availing the term loan. Its profit margins also improved, and the revenue increased. The agency further realized how post adoption of this business loan, they could easily settle credit amounts of travel partners, EMIs, and interest costs with the increased revenue. Resultantly, Vega was able to leverage a major portion of the amount earned, which would previously get exhausted in the above-mentioned settlements, to expand and grow. For instance, the agency succeeded in opening another office in Ahmedabad. Therefore, availing term loan from Indifi enabled Vega Air Travels to expand its business, manage better working capital, and secure more profits.

What marks Indifi apart?

The elements that differentiated Indifi from other market lenders included the fact that the interest rates were comparatively low, enabling Vega to manage its finances more effectively. Moreover, the process was a lot faster when compared to Indifi's contemporaries, as the agency did not have to go through an excruciatingly long process for the funds that it urgently needed.

In a hyper-competitive space like the travel industry, it is imperative for a player to maintain a good grip on their finances in order to manage both the demands as well as the competition. Indifi did not just cater to the urgent needs but also had a rich know-how of the industry, thereby understanding business well. This is why their loan proved to be the best fit for our requirement while facilitating better working capital management, increased revenue, and better profit margins for the firm.. Further, because of convenient repayment terms, firms are able to lay more emphasis on their growth and expansion prospects.

The road ahead

Through provision of term loan, Indifi has provided a great solution for businesses that are on the lookout for a one-time short-term loan that enables them to cater to their urgent needs, expand, upgrade, and reach out to a bigger customer base. The success story of Vega Air Travels stands as a

prime example. This case also signifies how the emergence of digital lending platforms like Indifi has been a boon for small businesses belonging to different industries in India. Through its innovations-driven approach, supplemented by a deep understanding of each industry and their particular challenges, Indifi has been striving towards bridging the credit gap for small businesses while treading on its path towards helping achieve inclusive growth in India.