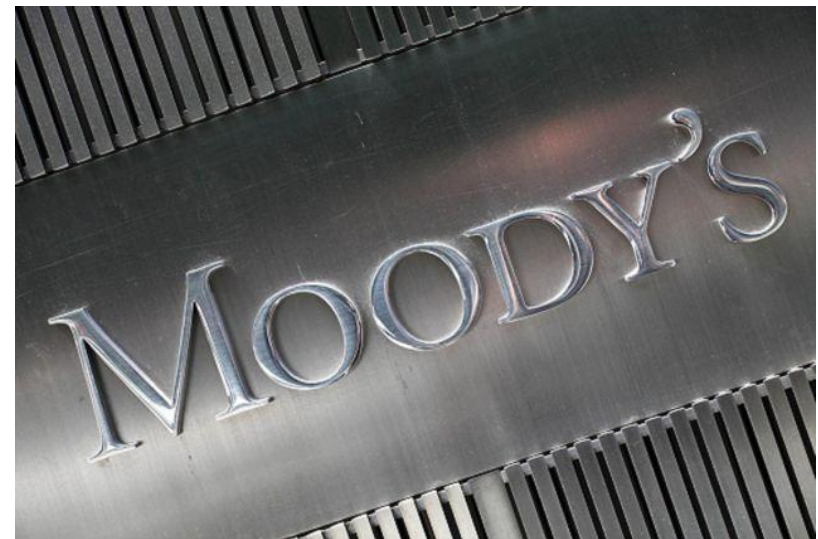


# Sustainable Development of MSMEs

**Factoring – An alternate mode of  
raising working Capital**

IFCI Factors Limited  
October 2012

# Macroeconomic scenario



## MSME Sector – Highlights

- 45% of the total industrial output
- 22 % of India's GDP in 2012
- 40% of the total exports
- 69 million people employed
- 30 million units across the country
- 8000 products and more

# Sustainability

**“Ability to maintain the business without affecting the quality of the product/service, with consistency in increasing turnover and profitability”**



# Challenges faced by MSMEs

- Adequate and timely finance
- Availability of suitable technology
- Production capacity
- Ease of modernization & expansion
- Availability of highly skilled labor
- Policy constraints

# **Access to finance**

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“Survey\* reveals that the most important reason for sickness in the sector is the **absence of time bound programme for credit dispensation, (reported by 71% of sick units), shortage of working capital (48%), marketing problems (44%), power shortage (21%), non-availability of raw material (15%), equipment problems (10%), labour problems (7%) and management problems (5%)**”.

***“Spreading sickness in SME Sector” – ASSOCHAM***

*\*Survey was undertaken in Uttar Pradesh, Haryana, Punjab, West Bengal, Rajasthan, Madhya Pradesh, Bihar, Himachal Pradesh, Jammu & Kashmir, Uttarakhand and Delhi*

# Working capital (WC)

## Importance of WC

- Life-line of a SME, imperative for growth
- Gets locked up in receivables and payables, impacting cash flow

## Traditional sources of WC



# Challenges in raising WC

**Performance history**

**Debt service track record**

**Market information**

**Availability of collateral**

# FACTORING – WHAT

# What is Factoring?

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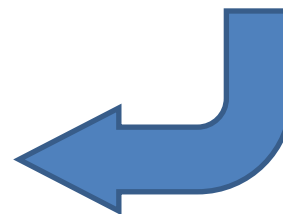
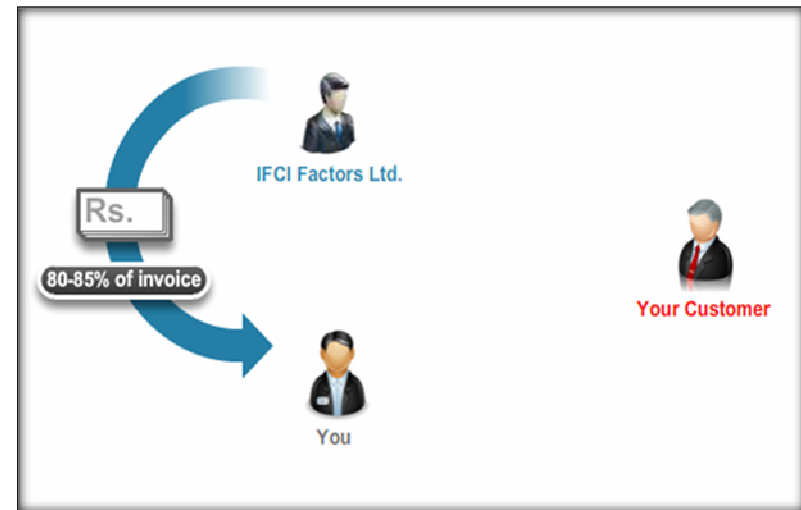
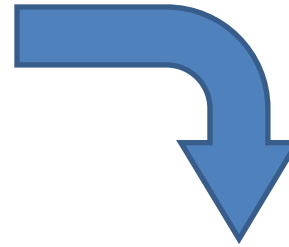
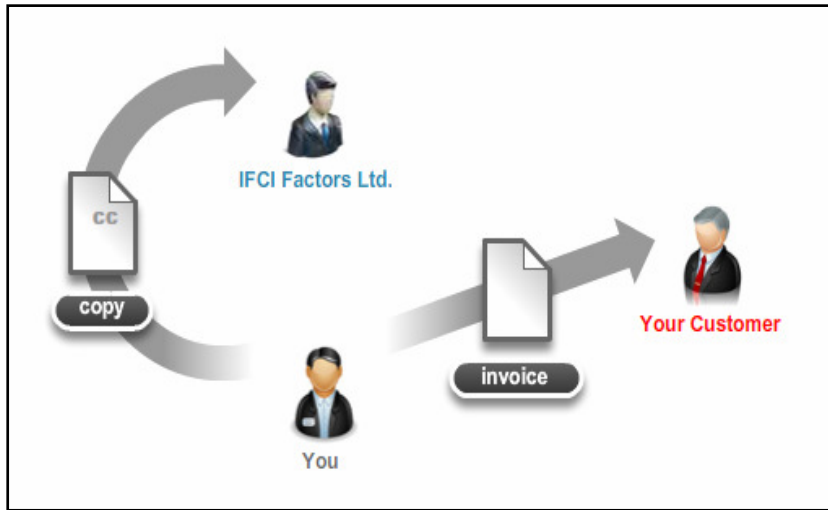
Factoring is a continuing financing arrangement where a business concern assigns its accounts receivable to a third party called a “factor”, at a discount and an agreed factoring fee, which typically provides immediate liquidity to finance the operations of the business concern.

## Factoring – Why & Who?

- Factoring provides funds based on the **strength of the transaction** between the **client and its debtor** rather than on collaterals and strong financials of the borrower
- Factoring is ideal for **SMEs in growth phase** dealing with larger entities in capacity of supplier or customer

# FACTORING – HOW

# Factoring – How



# Factoring – How (contd.)



# FACTORING – WHY

# Factoring Vs. Bill Discounting

| Parameter                  | Bill Discounting                      | Factoring                            |
|----------------------------|---------------------------------------|--------------------------------------|
| <b>Funding</b>             | 50 – 70 %                             | 85 – 90 %                            |
| <b>Disbursement</b>        | Periodically<br>(monthly/fortnightly) | Instantly, against each invoice      |
| <b>Credit Period</b>       | 60 – 90 days                          | 30 – 180 days                        |
| <b>Grace Period</b>        | Nil                                   | 15 – 30 days                         |
| <b>Discounting Charges</b> | Upfront                               | Monthly, based on amount outstanding |
| <b>Collection</b>          | No service provided                   | Follow up                            |

# Factoring is best suited in..

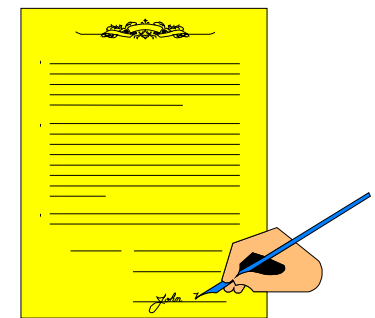
**Situation Of  
Open Account Sales**



**Involving  
Continuing  
Relationships**



**Assignment Of  
Whole Turnover**



# EXPORT FACTORING

# Export Factoring is

A **complete financial package** that combines export working capital financing, credit protection, foreign accounts receivable bookkeeping and collection services

.. the sale of your short-term foreign accounts receivable at a discount to an export factoring company for immediate cash

# FACTORING IN INDIA

# Inception of Factoring in India

**Recommendations of the Kalyansundaram Committee (1988)**

**The express objective was to support SMEs**

**Absence of the appropriate legal framework – sluggish growth**

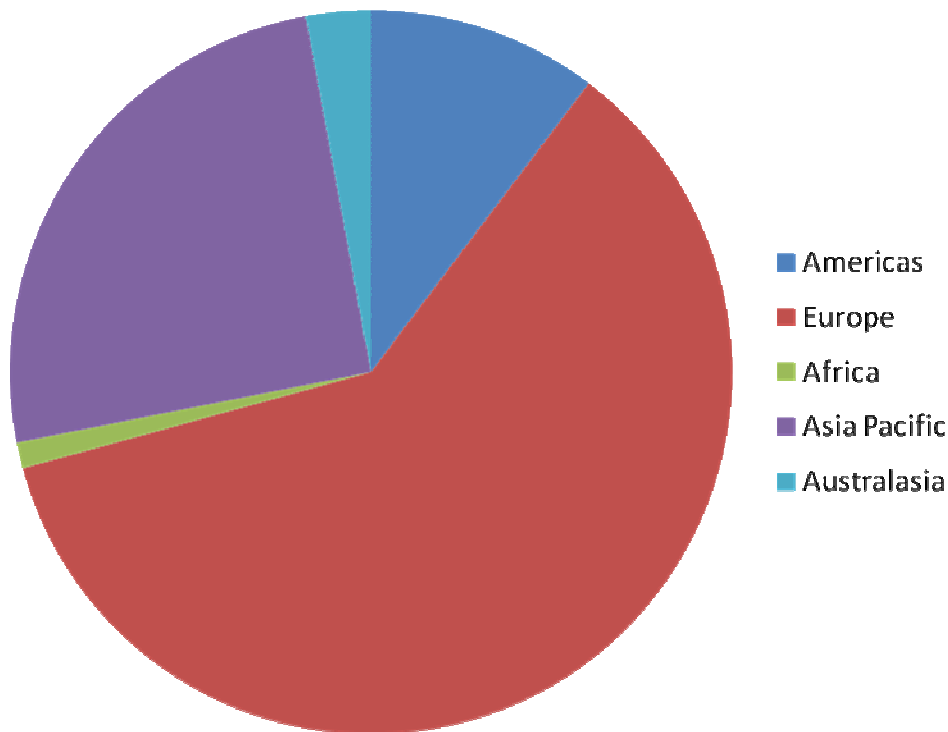
**Players – Banks, Subsidiaries of Institutions/Banks, NBFCs**

# Factoring – International

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## Scenario

Factoring Volume in 2011



### Global factoring market

- Worldwide factoring volume increased from 724 billion Euro in 2002 to 2015 billion Euro in 2011
- Asia's factoring volume accounts for approx 25% of global factoring volume
- India share in total factoring business of Asia is only 0.6%

# FACTORING REGULATION ACT, 2011

# Factoring Regulation Act, 2011

- Registration of Factors with RBI
- Amendment to Section 8 of Indian Stamp Act, 1889 -Waiver of Ad-valorem Stamp Duty on Assignment
- Assignment of Receivables – Notice of Assignment
- Rights and obligations of parties to contract for Assignment of Receivables define
- Registration of Assignments – Central Registry



# Challenges for factoring companies



Factoring co-existing Working Capital Banker by demarcation of charge on factored receivables

Classification of factoring funds advanced to MSMEs as Priority Sector Lending

**IFCI FACTORS LTD.**

# IFCI Factors – About

## Strengths

- Pioneers of factoring
- Member of Factors Chain International
- Pan-India presence
- Part of IFCI group
- Deep understanding of SMEs

## Products

- Factoring
  - Domestic sales & purchase bill
  - Export & import
- Pre-shipment financing
- Advance against future receivables
- Short term corporate loan

## Industries

- Automotive
- Metal/Steel
- Engineering
- Pharmaceuticals
- Textile
- Real estate
- Chemicals
- Infrastructure
- Electrical
- Power
- Hospitality
- Services
- Education
- Logistics

# Contact Information

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