FACTORING….

SBIGFL

SBI Global Factors Limited

What is Factoring ?

FACTORING is funding of Account Receivables against their Assignment in favour of a 'Factor', on "with" or "without" recourse basis !

It covers Domestic as well as Export Sales

Factoring Services include….

*** Financing of receivables**

- **Collection & follow up**
- **Invoice Management & MIS for Clients**

In other words….

FACTORING transfers risk from seller to (specially MSME sector) relatively stronger corporate buyers, thereby offering, a less-risky option for funding sale of goods and services

Benefits of Factoring…….

- ✓ Improves Liquidity
- ✓ Not linked to collateral security
- ✓ Helps reduce ‘Operating Cycle’, resulting in higher Production ,Sales, & Profit
- ✓ Promotes business on Open Account Terms & Invoice wise follow-up by Factor with debtor
- ✓ Follow-up for Receivables by Factor
- ✓ MIS Reports give debtor-wise payment history for reforming future terms of sale

Factoring is different from Banking……(1)

Banks provide collateral-based financing

- Factors provide funding against Assignment of Receivables

Banks assess client’s credit-worthiness

- Factors assess Debtors’ ability to pay bills

Loans from Banks appear on clients’ Balance Sheets

- Funding from Factors is ‘off Balance Sheet’

Banks calculate Drawing Power on periodical Statement of Current Assets

- Factors provide funding based on individual invoices

Banks have full recourse against client

- Factoring can be with/without recourse

Factoring is different from Banking ……(2)

Banks do not follow up for settlement of client's Book Debts

- Factors have 'Notice of Assignment of Receivables' received by the Debtors and maintain entire Sales Ledger on behalf of clients.

Banks have elaborate processes/ committees for sanction/enhancement

- Factors are leaner outfits with faster TATs

Banks usually stipulate 20-25% margin

- Factors stipulate lower margin

Banks stipulate Uniform Cover Period for all Debtors

- Factors are flexible and consider different cover period for different Debtors

Banks have uniform Rate of Interest for entire Working Capital facility

- Factors have differential pricing for individual Debtors based on their rating

Factoring is Best Suited when:

Situation Of Open Account Sales

Involving Continuing Relationships

Assignment Of Whole Turnover

Buyer agree to Seller Assigning Receivables in favour of Factor by accepting NAR

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Trade Finance Application Form Submitted by Client

Offer Letter sent to the Client (NBO)

Client Appraisal

Office / Plant visit of the Client

Survey at Clients Organization (Sales Ledger Analysis)

SPREAD (Balance Sheet Analysis) & KYC verification

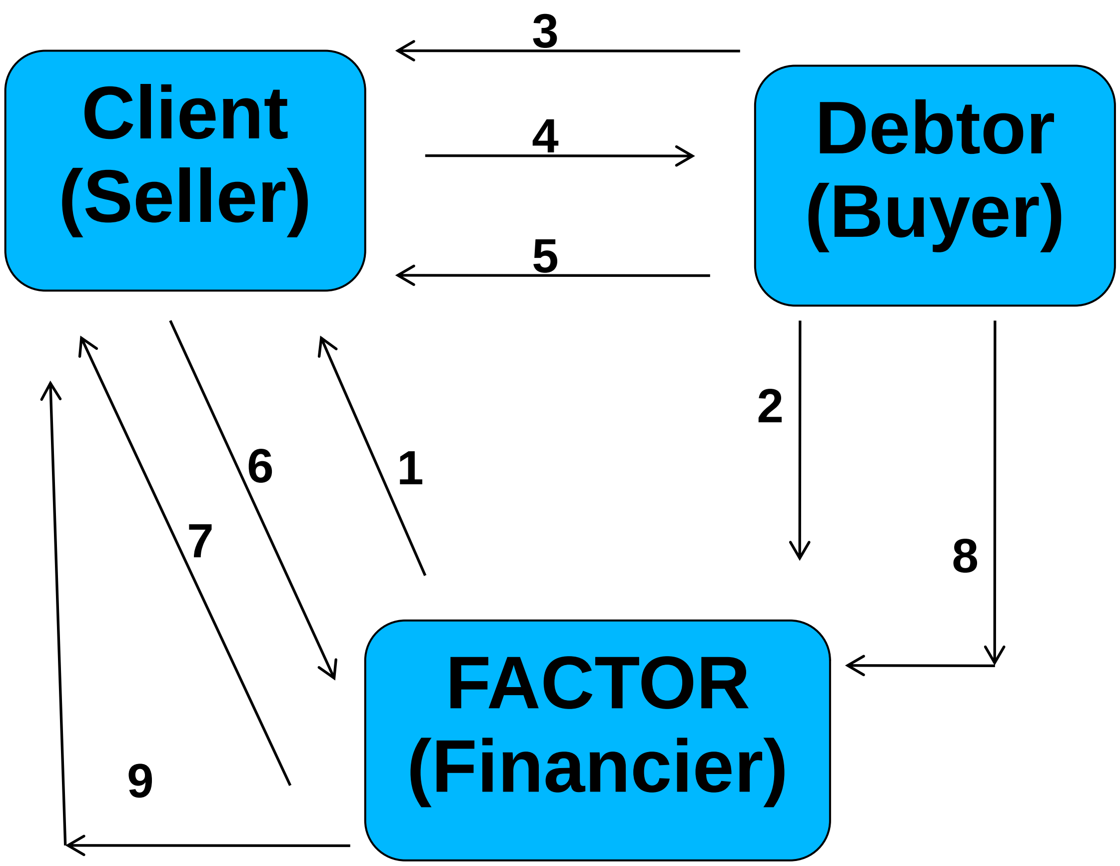
Credit Information Report from CICs / Banks

Proposal submitted to Credit : Client Analysis & Debtor Analysis

Final Sanction :
Document Execution by client. & Plant visit of client by BDM
Debtor visit (for Domestic Factoring) & NAR served to debtor

Client can utilize factoring Facilities

Process of Domestic Factoring



1. Limit Sanctioned by Factor
2. NAR Accepted by Debtor
3. PO raised by debtor (Buyer)
4. Material supplier by client (seller) to debtor and invoices raised
5. Material received by debtor
6. Document submitted to Factor by client
7. Disbursement to client's working capital bank A/c by Factor up to 90% of invoice
8. Remittance on due date by debtor to Factor Bank A/c as per NAR
9. Margin released by Factor to client

TRANSACTION STRUCTURE

Domestic Factoring

- ❖ Strong debtors.
- ❖ Documents underlying the invoice to evidencing supply of goods/ delivery of service e.g.
  - •Evidence of delivery of goods.
  - •Written communication from the debtor for the amount payable (service related invoices).
  - •Debtor’s GRN.
  - •Third Party Inspection report.
  - •Debtor’s B2B portal
  - •BOE/ PDCs
- ❖ Debtors remittance advices.

Why Factoring didn't take off in India

- ✓ Large Corporate buyers do not acknowledge Factors as party to the dealings with their suppliers
- ✓ Reluctance of debtors to accept Factors provides scope to unscrupulous clients to defraud Factors
- ✓ Factoring is EXPENSIVE as compared to bank finance
- ✓Factors don't have access to any cheaper source of funding
- ✓Factors do not have any faster recovery mechanism for their dues in case of delinquency
- ✓Banks view Factors as their competitors, and are unwilling to share securities / Credit Information
- ✓Non availability of Trade Credit Insurance to Factors for covering risk of default by debtors
- ✓Bulk of the working capital finance is granted as Cash Credit by Banks with lax controls

Trade Receivable Discounting System (TReDS)

- TReDS is an automated system driven platform set up to benefit MSMEs. It enables them to auction their trade receivables at competitive market interest rates through a transparent bidding process in which multiple financiers participate.

- The 3 RBI approved entities operating are :-
  1. Receivable Exchange of India (RXIL) promoted by SIDBI, NSE, SBI & Others.
  2. Mynd Online National Exchange (MI) promoted by Mynd Solutions Pvt. Ltd.
  3. A Trades Ltd (also Known as Invoice Mart) promoted by Axis Bank.

- TReDS platform offer robust, secure, safe digital infrastructure aiming to provide hassle free supply chain financing. All the participants (Seller / Buyer and Financier) are on the same platform and bidding process is transparent & on real time basis.

Thank You !

SBI Global Factors Limited

was created in after merger of

SBI Factors & Commerical Service Pvt Ltd

&

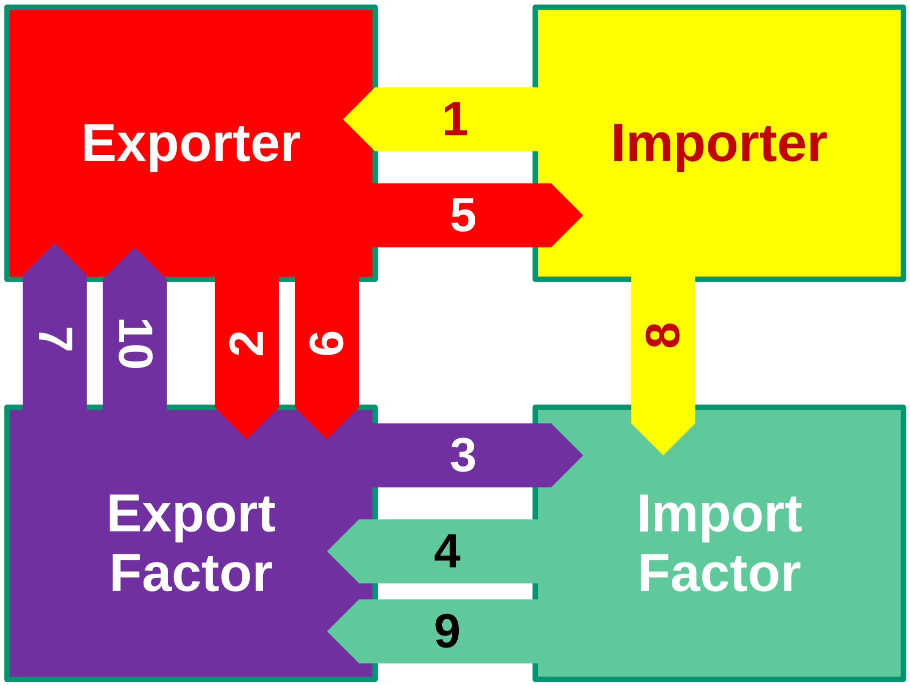
Global Trade Finance Ltd.

Which commenced operations as a Subsidiary of **SBI** in the year **1991**

Which was promoted by Joint Venture - EXIM Bank, West LB, IFC & Bank of Maharashtra in the year **2001**.

Post amalgamation in 2010, SBI holds 86.18% Equity of SBIGFL(SIDBI, Union Bank & Bank of Maharashtra being other share holders)

Two-way Export Factoring System



1. Exporter receives Purchase Order
2. Exporter Sends importer's information for credit approval.
3. Export Factor Checks the importer's credit worthiness through FCI partner
4. Import Factor evaluates the importer and approves a credit limit
5. Exporter makes shipment to importer

6 Exporter submits invoice details and supporting documents
7 Export Factor makes cash advance up to 90 of factored invoices.
8 Collections are carried out by the Import Factor
9 Import Factor remits funds to Export Factor
10 Export Factor remit 10% remaining balance to Exporter's account less any charges

Factoring Life Cycle…..

- MARKETING
- SANCTIONING
- OPERATIONS
- COLLECTION / RECOVERY

Marketing…..


Direct Marketing
Leads from SBI
Inquiries from Website
Leads from Seminars / Conferences
Reference from Clients / Debtors
Sources of Business

Initial Due Diligence of Prospects…

- ✓ Collection of Application for Factoring
- ✓ Issuance of Non-Binding Offer
- ✓ Verification of KYC documents
- ✓ Credit Information Report from Banks
- ✓ Initiating Field Survey (Sales Ledger Audit)
- ✓ Office Visit / Plant Visit of the client
- ✓ Initiating Import Factor Cover (in case of Export Factoring under 2-Factor model)

Sanction Process……….

- Analysis of Financial Statements
- Client / Debtor ratings arrived at
- External Rating of the Client / Debtors verified
- Proposal submitted to appropriate Sanctioning Committee

Post Sanction Process

- Legal documents executed
- Notice of assignment of receivable served on Debtor

Operation Process

- Documents such as Invoices, Purchase Order, Proof of Delivery etc are received from the client, verified and funded
- On receipt of payment from the debtor, the factored invoices are marked-off

Collection Process

- Overdue invoices are followed up by way of phone calls, email / letters to the Debtors
- If transaction backed cheques are available the same are lodged on due dates

Recovery / Legal Proceedings

- In case of default, the FIU cheques are deposited for recovery of dues
- Notices are sent in case of bounced cheques and if required, cases under Sec 138 are filed
- In case there is no recovery and the account turns NPA, the facility is called up.
- Thereafter legal measures such as Arbitration, Civil suit etc are initiated.
- Wherever the collateral security is available, our security interest is enforced through Courts.
- Wherever the activity is going on, we prefer company petition
- We also notify the company/its directors as wilful defaulters with the Credit Information Companies besides informing the working capital bankers