EXPLORING FACTORING **SERVICES IN INDIA**

Author:
BINITA SHAH
Head Global Strategic Alliances

Assisted By:
MANASI TIWARI
HIMAXI JAIN

Foreword

With over 12 years of industry experience and a core team boasting a cumulative working capital & trade finance expertise of 100+ years, 360tf has firmly positioned itself as a trusted financial partner, dedicated to supporting corporates on their financial journeys. Beyond mere guidance, 360tf actively assists businesses in navigating the complexities of Trade Finance and surmounting the challenges associated with acquiring and effectively leveraging Trade Finance to drive enhanced business outcomes and scalable operations.

In an effort to comprehensively understand the unique needs of corporates in India, 360tf embarked on a pioneering project in collaboration with FCI. The nationwide survey on Factoring Services in India conducted by the esteemed partnership has yielded invaluable insights into corporates' perceptions of Factoring, as well as the impediments faced by businesses when exploring this financing avenue to fuel their growth ambitions.

Drawing upon the knowledge, expertise, and insights accumulated by 360tf's experienced team over their careers, this report on Factoring Services in India combines their profound industry acumen with the substantive findings derived from the Factoring Research Report. This cohesive blend of expert analysis, derived from a wealth of global experience, and meticulous primary research offers a distinctive perspective on the challenges, opportunities, and prevailing trends surrounding export finance, with specific emphasis on Factoring Services in India.

In the interconnected global economy of today, businesses engaged in international trade require access to reliable and adaptable financing solutions. Factoring, a widely embraced trade finance tool, presents an effective means for companies to adeptly manage Working Capital, mitigate risks, and optimize Cash Flow by expediting the conversion of trade receivables into immediate Liquidity.

The core objective of this report is to illuminate the present state of Factoring in India and contribute to the development of effective policies and practices that will propel the growth of export finance within the country. We hope that the discerning insights and actionable recommendations, brought forward by the report can be useful tools for stakeholders, policymakers, financial institutions, and businesses to synergistically collaborate to drive positive transformations and unlock new vistas of opportunity in the dynamic realm of export finance in general and Factoring services in particular.

TABLE OF CONTENTS

1. INTRODUCTION

Managing receivables is a vital aspect of financial operations for companies across industries. Receivables, which encompass outstanding payments owed to a company by its customers or clients, constitute a significant portion of current assets. Effectively handling receivables is crucial to maintain a healthy Cash Flow[2], minimize Liquidity[14] risks, and ensure financial stability. In the current business landscape, where optimizing Working Capital[21] is paramount, businesses are seeking efficient solutions to streamline their receivables management processes.

1.1 THE ROLE OF WORKING CAPITAL:

Working Capital[23] plays a pivotal role in the financial health and operational efficiency of companies. It represents the capital available for day-to-day operations and is essential for meeting short-term financial obligations. In today's business environment, where minimizing investments in Fixed Assets[12] is emphasized, companies rely heavily on Working Capital[21] to cover Operational Expense[15], manage Cash Flow[2] fluctuations, and seize growth opportunities. The efficient management of Working Capital[21], in conjunction with receivables, is crucial for sustainable business growth.

1.2 IMPORTANCE OF RECEIVABLES MANAGEMENT:

Effective receivables management is essential for optimizing financial performance and mitigating associated risks. By implementing robust receivables management practices, companies can achieve several benefits, including:

Steady Cash Flow[2]: Proactive management of receivables ensures a regular inflow of cash, allowing companies to meet their financial obligations[11], invest in growth initiatives, and maintain Liquidity[14].

Risk Mitigation: Timely collection of receivables reduces the risk of Bad Debts[1] and potential write-offs[22], safeguarding the financial stability of the company.

Enhanced Customer Relationships: Efficient receivables management fosters positive customer interactions, leading to improved customer satisfaction and loyalty.

1.3 FACTORING: AN EFFECTIVE RECEIVABLES MANAGEMENT SOLUTION

Factoring[9] is a powerful receivables management solution that offers significant advantages for businesses seeking efficient cash flow[2] management and improved financial stability. It involves selling outstanding invoices to a specialized financial institution known as a factor at a discounted rate in exchange for immediate funds to support its operations. It can be an exceptionally valuable financial tool for small enterprises, assisting them in overcoming resource limitations, delayed payments, and receivables management providing:

Improved Cash Flow[2]: Factoring[9] provides an immediate injection of cash into the business, as the factor advances a percentage (typically 70-90%) of the invoice value upfront. This infusion of Working Capital[21] allows companies to meet immediate financial obligations, such as paying suppliers, employees, or investing in growth opportunities. By converting receivables into liquid funds, Factoring[9] helps maintain a steady Cash Flow[2], mitigating the impact of delayed customer payments.

Outsourcing[1] Receivables Management: One of the key advantages of Factoring[9] is the transfer of receivables management responsibilities to the factor. The factor assumes the task of collecting payments from customers, relieving businesses from the time-consuming and sometimes challenging process of tracking and pursuing outstanding invoices. This allows companies to focus on core business operations and reduces administrative burdens associated with receivables management.

Mitigation of Credit Risk[6]: Factoring[9] also provides a valuable mechanism for mitigating Credit Risk[6]. Factors[10] conduct thorough credit assessments of the customers, reducing the potential for Bad Debts[1]. By partnering with a reputable factor, companies benefit from their expertise in Credit Analysis[3] and gain access to valuable insights on customer payment behaviours and creditworthiness. This helps companies make informed decisions regarding extending credit to customers, minimizing the risk of non-payment or default.

Flexible Financing Option: Factoring[9] is a flexible financing solution that can adapt to the evolving needs of businesses. Unlike traditional bank loans, Factoring[9] arrangements are not based on the company's creditworthiness, but rather on the creditworthiness of its customers. As a result, Factoring[9] is accessible to companies with limited Credit History[5] or lower credit ratings. Additionally, Factoring[9] financing typically grows in tandem with the company's sales, allowing businesses to access increasing Working Capital[21] as their revenue and Receivables Portfolio[18] expand.

Receivables Management Expertise: Factors[10] bring industry-specific expertise and experience in managing receivables efficiently. They employ dedicated professionals who specialize in Credit Analysis[3], collections, and accounts receivable management. Leveraging the knowledge and resources of the factor, businesses can benefit from best practices and guidance in optimizing their receivables processes. This expertise contributes to streamlining operations, reducing payment delays, and enhancing overall receivables management efficiency.

1.4 SERVICES COVERED BY FACTORING

Factoring[9] typically encompasses a comprehensive range of services designed to address various aspects of receivables management. These services include:

Purchasing Accounts Receivable:

Factoring[9] involves the outright purchase of accounts receivable by the factor. The factor buys the outstanding invoices from the seller at a discounted rate, providing immediate Cash Flow[2] to the business. By acquiring the receivables, the factor assumes the responsibility of collecting payments from the customers, allowing the company to access funds without waiting for the customers' payment.

Guaranteeing the Seller against Customer Credit Failures (Without Recourse Factoring):

In some Factoring[9] arrangements, known as without recourse Factoring[9], the factor assumes the risk of customer credit failures. This means that if a customer fails to make payment, the factor absorbs the loss, relieving the seller from the financial impact. This guarantee provides an additional layer of protection for the seller, reducing the Credit Risk[6] associated with the receivables.

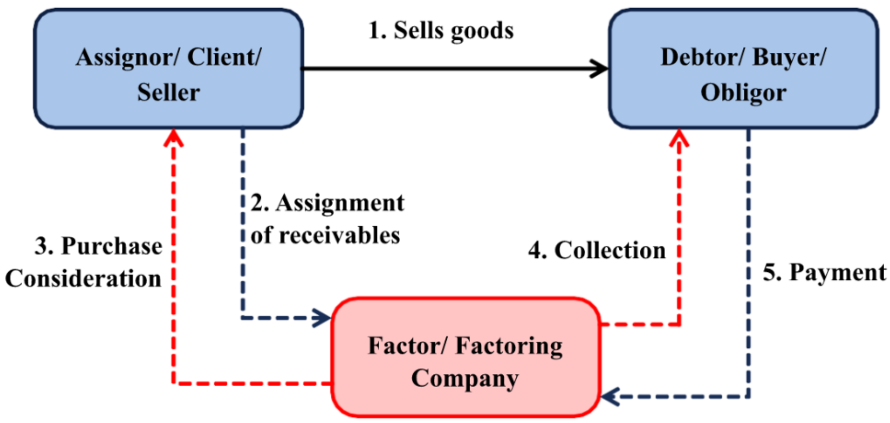
Billing, Ledgering, and Collecting the Receivables:

As part of the Factoring[9] service, the factor takes over the tasks of billing, Ledgering, and collecting the receivables. This relieves the seller of the administrative burden and time-consuming process of managing invoices, tracking payments, and pursuing Overdue Accounts[17]. The factor handles the entire receivables management process, ensuring timely and efficient collection of payments from customers.

Financing Clients' Operations:

Factoring[9] provides financing options to support the ongoing operations of the seller. The factor may offer advances before maturity against the accounts purchased, allowing the seller to access a portion of the invoice value upfront. These advances provide immediate Working Capital[21] that can be used to cover Operational Expense[15Outsourcing16], invest in growth initiatives, or meet immediate financial obligations[11]. Additionally, the factor may provide loans to the seller, further enhancing the financial flexibility and Liquidity[14] of the business.

1.5 THE FACTORING PROCESS FLOW



- The exporter sells goods to the importer and raises invoice on the importer.
- The importer agrees to pay the exporter at the end of the agreed credit period.
- The exporter sells the receivables to an export factor without recourse and receives a certain percentage of the invoice value upfront.
- At the end of the maturity period, the export factor collects the payment from the importer.

1.6 BENEFITS OF FACTORING TO EXPORTERS

1) **Preservation of Equity[8]:**
Factoring[9] transactions offer a distinct advantage over traditional bank lending in terms of Equity[8] preservation. Unlike bank loans that often require a minimum Equity[8] threshold for Working Capital[21] gaps, Factoring[9] transactions do not impose such Equity[8] requirements. This allows businesses to access the necessary funds without compromising their Equity[8] positions.

2) **Improvement in Current Ratio:**
Factoring[9] provides a means to unlock the funds tied up in accounts receivable, which can then be utilized to pay off current liabilities. This has a positive effect on the client's current ratio, as the release of funds improves their ability to meet short-term obligations and demonstrates stronger financial health.

3) **Reduction of Short-Term Debt Burden:**
By leveraging Factoring[9], clients can avoid increasing their short-term debt burden. Rather than relying on loans or credit extensions[4], Factoring[9] enables businesses to convert their receivables into immediate cash, reducing their reliance on debt financing and allowing for improved return on capital.

4) **Potential Reduction in Purchase Cost of Raw Materials:**
The accelerated payment made possible through Factoring[9] enables businesses to negotiate more favourable terms with their suppliers. By being able to make faster payments, clients can potentially secure discounts or negotiate better pricing for raw materials, resulting in cost savings and improved profitability.

5) **Off-Balance Sheet Source of Funding:**
Factoring[9] provides an off-balance sheet source of funding for businesses. Since Factoring[9] involves the sale of receivables, it does not appear as debt on the balance sheet. This results in a lighter balance sheet, enhancing the company's financial flexibility and potentially improving its creditworthiness.

6) **Minimization of Buyer's Risks through Credit Investigation:**
Factors[10] often offer credit investigation services to mitigate the risks associated with collections. Through thorough credit assessments, Factors[10] gather reliable data on buyers' reputations and financial strengths. This valuable information allows sellers to reduce collection risks and curate a high-quality list of customers, enhancing overall risk management.

7) **Non-Recourse Factoring:**
Non-recourse Factoring[9] provides an added layer of protection against Bad Debts[1]. In such arrangements, the factor assumes the Credit Risk6 associated with the receivables, providing upfront payment to the seller. This safeguards the seller from potential losses due to non-payment by buyers, acting as an insurance cover for their receivables.

8) **Reduction in Collateral Requirements:**
In Factoring[9] transactions focused on buyer risk or import Factors[10], there is often no requirement for the exporter to provide collateral. Since the transaction primarily revolves around the creditworthiness of the buyer, the burden of blocking capital with collateral is lifted from the exporter. This allows businesses to free up capital and allocate resources more efficiently.

2. RISKS INVOLVED IN FACTORING BUSINESS

While Factoring[9] can be an invaluable tool for corporates & business offering numerous benefits, it is important to recognize that there are inherent risks involved for both Factors[10] (financial institutions providing Factoring[9] services) and corporates (businesses utilizing Factoring[9]). Understanding and effectively managing these risks is crucial. Let's explore the key risks associated with Factoring[9] for both parties.

2.1 FOR BANKS/FACTORS:

- **Default Risk -** Banks providing financing are exposed to the Credit Risk[6] associated with the buyer and supplier involved in the transaction. If the buyer defaults on payment, it can impact the bank's ability to recover the funds provided to the supplier.

- **Legal Risk -** Banks are subject to legal and regulatory constraints. Know your customer (KYC), anti-money laundering (AML), and other regulations breaches can result in fines, legal action, and reputational harm.

- **Market and Liquidity risk -** A variety of market Factors[10], such as changes in interest rates, the volatility of the global currency market, or Liquidity[14] restrictions, can have an effect on the profitability and Liquidity[14] position of banks involved. The capacity of the bank to receive funds or efficiently manage its Liquidity[14] may be impacted by sudden changes in market conditions.

- **Risk of Fraud -** The bank may suffer losses due to fraudulent operations, including false invoices, duplicate financing, or cooperation between the buyer and the supplier. To reduce the risk of fraud, thorough due diligence, reliable risk management systems, and monitoring procedures are essential.

2.2 FOR CORPORATES

- **Increased Cost of Financing -** Factoring[9] services sometimes have greater charges than conventional bank loans or other forms of finance. The company's overall profit margin may be impacted by Factoring[9] fees, which are often calculated as a percentage of the invoice amount. It is important for companies to thoroughly assess and compare the cost of Factoring[9] services with other accessible financing options.

- **Restrictive Agreements -** Factoring[9] contracts sometimes have limitations and constraints, such minimum volume commitments, limits, payable & Receivable Outstanding, notice windows. These limitations may reduce a business's flexibility in managing its finances, looking for alternate sources of funding, or making operational adjustments. To make sure that the conditions of the Factoring[9] agreement are in line with their corporate goals and demands, businesses should carefully analyse and negotiate them.

- **Impact on Customer Relations** - When a business uses Factoring[9], the factor assumes responsibility of its accounts receivable and manages direct customer collections. Consumers may view the inclusion of a factor as a sign of financial difficulties or a lack of trust, which might possibly damage relationships with consumers as a result of this change in the payment process.

- **Confidentiality of Financials** - Factoring[9] agreements include exchanging customer and financial information with the factor, which might compromise confidentiality. A breach or improper management of sensitive corporate information might damage the company's brand and competitive advantage; thus, maintaining confidentiality and preserving it is crucial. Protecting sensitive data requires careful consideration of a reliable and trustworthy element as well as robust data security procedures.

3. OVERVIEW OF FACTORING GLOBALLY

Factoring[9] is a widely recognized financial solution utilized by businesses globally. It has gained popularity as a flexible and efficient means of managing Cash Flow[2] and optimizing Working Capital[21].

Here is an overview of Factoring[9] on a global scale:

FCI 2021 Data Global Factoring statistics & market share by region

	2020	2021	Group rate % Change
Europe	1,844,721	2,118,041	14.8%
North America	66,598	97,000	45.7%
South America	83,559	86,048	3%
Africa	25,242	32,345	28.1%
Asia- Pacific	697,093	751,096	7.7%
Middle East	9,516	9,176	-3.6%
Total	**2,726,728**	**3,093,706**	**13.5%**

3.1 OVERVIEW OF THE FACTORING LANDSCAPE ACROSS OTHER MAJOR ECONOMIES

United States of America (US):

The Factoring[9] services industry in the United States operates under the Uniform Commercial Code (UCC) and is regulated by distinctions between true sales of receivables and loans secured by receivables. The industry is supported by associations like the International Factoring[9] Association (IFA), providing resources and networking opportunities. The US Small Business Administration (SBA) offers the "Accounts Receivable Financing" program to aid small businesses. The US Factoring[9] services market was valued at USD 147.40 billion in 2021, with a projected CAGR of 8.1%. The domestic segment held a 77.2% market share driven by electronic invoices, while the international segment is expected to grow at a CAGR of 8.8%. Recourse Factoring[9] holds the largest market share at 61.2%, and the banking segment dominates with an 85.1% market share. Non-Banking Financial Institutions (NBFIs) are projected to grow at a CAGR of 9.1%.

European Union (EU):

In Europe, Factoring[9] plays a crucial role in the financing landscape for small and medium-sized enterprises (SMEs). The European Union (EU) has recognized the significance of Factoring[9] and has implemented initiatives to support its growth. The Capital Markets Union (CMU) Action Plan, introduced by the EU, aims to enhance access to alternative financing sources, including Factoring[9], for SMEs. To represent the Factoring[9] and commercial finance industry in the EU, the EUF (European Union Factoring[9]) serves as the representative body. It consists of 13 national industry associations and the global representative organization FCI, collectively accounting for approximately 97% of the EU industry turnover. The EUF actively engages with government bodies, regulators, and legislators to promote finance availability, with a specific focus on the SME sector, which is crucial for economic

Address
09-07, Shenton House, 3 Shenton Way, Singapore – 068805
Office 118, Level 1, Gate Village 3, DIFC, Dubai, United Arab Emirates
2nd Floor, 5-E, Jhalana Institutional Area, JLN Marg, Jaipur, Rajasthan 302004
Unit No -1107, BIFC, 11th Floor, Building No- 14A, Block -14, Zone1, Gift City Gandhinagar, Gift SEZ- 382355
www.360tf.trade
/360tf

growth. By bringing together national experts to advocate for the industry, the EUF acts as a platform to provide essential industry insights to influence and shape finance legislation. The EUF's objective is to ensure the continued provision of well-structured, reasonably priced, and prudent financing options to businesses throughout the EU.

United Kingdom (UK):

The UK on the other hand is making significant strides towards embracing electronic trade document transfer through the introduction of the Electronic Trade Documents Bill (HL Bill 57) in the UK Parliament. This bill aims to grant digital trade documents the same legal status as their paper-based counterparts, providing UK businesses with increased flexibility and options in their trading practices. By modernizing existing legislation like the Bills of Exchange Act 1882 and the Carriage of Goods by Sea Act 1992, the UK aims to position itself as a leading global trading country that recognizes and legalizes electronic trade documents. The use of electronic trade document transfer technology has faced challenges related to legislation, regulations, and compliance. However, the introduction of this bill marks a significant step towards overcoming these barriers. The Model Law on Electronic Transferable Records (MLETR) developed by the United Nations Commission on International Trade Law (UNCITRAL) plays a crucial role in facilitating the acceptance and legal use of electronic transferable records. While the adoption of MLETR has been limited to a few countries, the UK's potential legislation demonstrates its commitment to trade digitalization. By acknowledging the validity of electronic documents, countries can expedite the shift towards digital trade and harness its numerous benefits. The introduction of the Electronic Trade Documents Bill in the UK Parliament is a significant milestone towards the legalization and acceptance of digital trade documentation.

3.2 KEY DETERMINANTS OF FACTORING SERVICES GLOBALLY

Political Factors:

- **Regulatory Environment**: Government regulations and policies regarding Factoring[9] can significantly impact the industry. Factors such as licensing requirements, legal frameworks, and compliance standards set by regulatory authorities can influence the operations and growth of Factoring[9] companies.

- **Political Stability**: Political stability in a country is important for the stability and confidence of the Factoring[9] industry. Political unrest, changes in government, or unstable economic policies can create uncertainties that affect the industry's performance.

Economic Factors:

- **Economic Conditions:** The overall economic health of a country has a direct impact on the Factoring[9] industry. Factors such as GDP growth, inflation rates, interest rates, and currency stability influence the demand for Factoring[9] services and the financial viability of Factoring[9] transactions.

- **Business Cycle:** The stage of the business cycle, whether it's an expansion, recession, or recovery, can affect the volume and quality of receivables available for Factoring[9]. During economic downturns, companies may face financial difficulties, impacting their ability to pay invoices and increasing the risk for Factoring[9] companies.

Technological Factors:

- **Digital Transformation:** Technological advancements have transformed the Factoring[9] industry, enabling online platforms, automation, and improved risk assessment capabilities. Factors[10] that adopt and leverage technology effectively can gain a competitive advantage, while outdated technological infrastructure can hinder growth and operational efficiency.

- **Cybersecurity:** The increasing reliance on technology in the Factoring[9] industry exposes it to cybersecurity risks. Protecting sensitive financial and customer data is crucial to maintain trust, prevent fraud, and safeguard the industry's reputation.

Legal Factors:

- **The legal environment,** including contract laws, bankruptcy laws, and regulations specific to the Factoring[9] industry, can significantly impact its operations. The clarity, enforceability, and stability of legal frameworks governing Factoring[9] transactions can influence market growth and investor confidence**.**

3.3 ADDRESSING CRITICAL GAPS IN THE FACTORING MARKET

The Factoring[9] market in India has experienced significant growth in recent years, driven by the need for Working Capital[21] financing and the increasing recognition of Factoring[9] as an effective financial solution. There do however remain some critical gaps that need to be addressed to fully unlock the potential of the Factoring[9] industry in India.

- **Awareness and Education:**
  One of the primary gaps in the Indian Factoring[9] market is the lack of awareness and understanding among businesses regarding the benefits and mechanics of Factoring. Many small and medium enterprises (SMEs) are unaware of how Factoring[9] can help them manage Cash Flow[2], improve Liquidity[14], and mitigate Credit Risk[6]. Therefore, there is a need for extensive awareness campaigns and educational initiatives to bridge this knowledge gap and promote the adoption of Factoring[9] among businesses of all sizes.

- **NBFCs in the shadow of banks:**
  NBFCs face unique challenges compared to banks when it comes to Factoring[9] services. These challenges can impact their ability to effectively engage in Factoring transactions.
  - ✓ As compared to banks, NBFCs have higher cost of capital due to relatively limited access to Liquidity[14].
  - ✓ Banks facilities are fully secured whereas, Factoring[9] companies mostly offer unsecured funding.
  - ✓ Higher operations costs for Factoring[9] companies as compared to banks
  - ✓ Some banks do not prefer parallel lines of funding from Factoring[9] companies dissuading clients to approach Factoring[9] companies

  While these challenges exist for NBFCs in the Factoring[9] domain, it is worth noting that many NBFCs have successfully carved a niche for themselves and play a significant role in providing Factoring[9] services to specific market segments. By leveraging their agility, niche expertise, and innovative approaches, NBFCs can overcome these challenges and thrive in the Factoring[9] landscape, offering tailored solutions to meet the unique financing needs of businesses.

- **Regulatory Framework:**
  While significant progress has been made in establishing a regulatory framework for Factoring[9] in India, there are still areas that could benefit from further development. Clearer guidelines and regulations pertaining to the operations of Factors[10], the rights and responsibilities of all parties involved, and the protection of businesses' interests are crucial for fostering a healthy and transparent Factoring[9] ecosystem could go a long way in addressing these gaps. Continued efforts by regulators to enhance the regulatory framework will provide a solid foundation for the growth of the Factoring[9] market.

- **Non-availability of credit insurance**
  - ✓ Credit insurance is prevalent internationally for Factoring[9] to mitigate the risk and exposure on clients;

- **Limited players**: The Factoring[9] market in India is characterized by a limited number of players offering Factoring[9] services. While this presents challenges in terms of limited competition, accessibility, customization, and potential pricing impact, it also creates opportunities for new entrants and existing players to address the unmet needs of businesses seeking Factoring[9] solutions. As the demand for Working Capital[21] financing continues to grow, it is essential for the Factoring[9] industry to expand and diversify to meet the evolving requirements of businesses across India.

4. FUTURE OF FACTORING IN INDIAN SMES

Small and Medium Enterprises (SMEs) in India have seen exponential growth over the last decade. According to the latest reports by the SME Chamber of Commerce and the Ministry of Micro, Small and Medium Enterprises, India currently has more than 48 million SMEs. These SMEs contribute more than 45% of India's industrial output, 40% of the country's total exports. Yet, these SMEs continue to struggle on multiple accounts. While some are challenged by credit and finance issues, others are struggling to cope with stringent regulatory environment.

Factoring[9] offers an alternative as it provides funds based on the transaction strength rather than merely collaterals and strong financials of the borrower. Timely payments from customers will help SMEs in reducing their Working Capital[21] requirements leading to lower interest costs, improved profitability and a positive impact on the long-term health and sustainability of India's SME sector. Delays in settlement of dues adversely affect the recycling of funds and business operations of the SME units. It is, therefore, critical to ensure that the small entities are able to raise Liquidity[14] against their receivables.

This problem can be institutionally tackled by Factoring[9], which provides Liquidity[14] to SMEs against their receivables and can be an alternative source of Working Capital[21]. World over, Factoring[9] is a preferred route of accessing Working Capital[21] for SMEs and even larger organisations.

5. ANNEXURE:

5.1 AN OVERVIEW OF THE DIFFERENT STRUCTURES UNDER EXPORT FINANCING

	Forfaiting	Bank Financing/Bill Discounting	Factoring
Definition	Purchase of medium- to long-term future payment obligations represented by financial instruments (e.g., letter of credit, promissory note, etc.),by a financial institution at a discount in return for a financing charge. At maturity, the buyer pays the face value to the financial institution	Loan to a seller that is repaid through funds generated from current or future receivables. This transaction is typically made against the security of such receivables, but in some cases, can be unsecured. At maturity, the seller repays the financial institution.	A Factoring[9] A financial institution purchases individual or multiple receivables from a seller of goods and services at a discount. The financial institution also takes responsibility for managing the debtor portfolio and collecting the receivables. At maturity, the buyer pays the invoice proceeds to the financial institution
Distinctive features	Only applies to international transactions ✓ Purchase of receivables typically without recourse ✓ Requires an underlying financial instrument (e.g., letter of credit) ✓ Up to 100% of the face value of the financial instrument is typically paid upfront	✓ It is a secured loan collateralized by current or future receivables ✓ It is extended to sellers with a strong credit rating ✓ It is usually extended against unapproved invoices by banks with recourse to the supplier.	✓ Purchase of receivable either with recourse or without recourse ✓ Unlike receivables discounting, the factoring agreement must be disclosed to the buyer as the financial institution will need to engage directly with buyers for collection ✓ Higher total fees as compared to receivables discounting with financing rate, service charge, signup fee and other charges ✓ Up to 80% of the face value of the receivable is typically paid upfront

5.2 CURRENT REGULATIONS AND PRACTICES

Factoring Regulation Act, 2011	https://lddashboard.legislative.gov.in/actsofparliamentfromtheyear/Factoring-regulation-act-2011
RBI guidelines for Factoring companies.	https://www.rbi.org.in/Scripts/NotificationUser.aspx?Id=9965&Mode=0

6. GLOSSARY

1. **Bad Debts[1]:** a debt that is not collectible and needs to be written off
2. **Cash Flow[2]**: Cash flows are inflows and outflows of cash and cash equivalents.
3. **Credit Analysis[3]**: the process that a business credit manager goes through to determine a customer's creditworthiness after they apply for a line of trade credit
4. **Credit Extensions[4]**: It means the right to defer payment of debt or to incur debt and defer its payment offered or granted primarily for personal, family, or household purposes.
5. **Credit History[5]**: a record of how promptly a person pays back loans, credits, etc, over time
6. **Credit Risk[6]**: the risk that a borrower or obligor will default on any type of debt or contractual obligation by failing to make required payments
7. **Current Ratio[7]**: the ratio between current assets and current liabilities
8. **Equity[8]**: equity is the sum of your assets, for example the value of your house, once your debts have been subtracted from it.
9. **Factoring[9]**: a defined SCF technique herein as a form of Receivables Purchase, in which sellers of goods and services sell their receivables (represented by outstanding invoices) at a discount to a finance provider (commonly known as the 'factor'). A key differentiator of Factoring is that usually the finance provider becomes responsible for managing the debtor portfolio and collecting the payment of the underlying receivables
10. **Factors [10]**: a financial institution providing factoring facilities
11. **Financial Obligations[11]**: money that a person or company owes and must pay at a particular time
12. **Fixed Assets[12]**: asset held with the intention of being used for the purpose of producing or providing goods or services and is not held for sale in the normal course of business.
13. **Forfaiter[13]**: a provider of forfaiting services, either being a bank or a non-bank financial institution
14. **Liquidity[14]**: a company's liquidity is the amount of cash or liquid assets it has easily available
15. **Operational Expense[15]**: Operating expenses are expenses related to carrying out normal business activities.
16. **Outsourcing[16]**: the act of buying in (components for a product) rather than manufacturing them
17. **Overdue Accounts[17]**: Overdue sums of money have not been paid, even though it is later than the date on which they should have been paid
18. **Receivables Portfolio[18]**: the part of the assets of a business represented by accounts due for payment
19. **Recourse and Non-Recourse Factoring[19]**: a variation of Factoring defined herein, in which the receivables to be financed are subject to a 'true sale', and the Finance Provider does not have recourse to the seller in the case of buyer default. Factoring is usually conducted on a recourse basis
20. **Risk Mitigation[20]**: : Prioritizing, evaluating, and implementing the appropriate risk-reducing controls/countermeasures recommended from the risk management process.
21. **Working Capital[21]**: the financial resources invested by a business in financing its current trading operations usually expressed as the difference between Current Assets (receivables, inventory and operating cash balances) and Current Liabilities (payables and short term debt
22. **Write-offs[22]**: A write-off is the decision by a company or government to accept that they will never recover a debt or an amount of money that has been spent on something.

7. SOURCES

Working Capital- SBA USA

US Factoring services market report – Grand View Research

Annual Factoring Data- EUF

EBA Europe

UK Electronic Legislation- Shipping & Freight Resource