

TOPIC

Mentoring Think Tank @BFSICM –Innovations in
Financial Markets

Corporate Finance –Factoring Services

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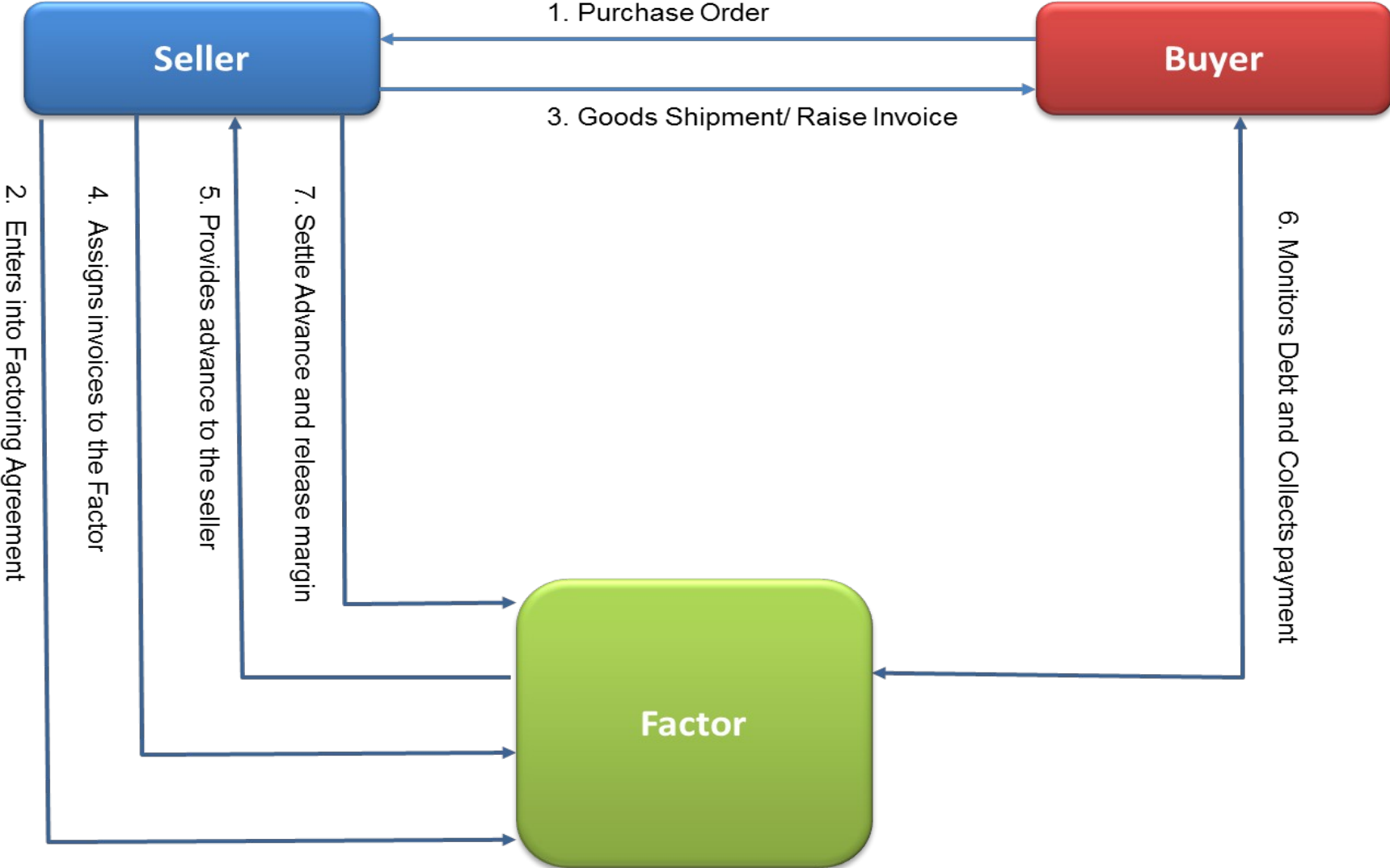
Factoring Solution

Presented By
Alekh Gandhi, Vice
President
India Factoring and

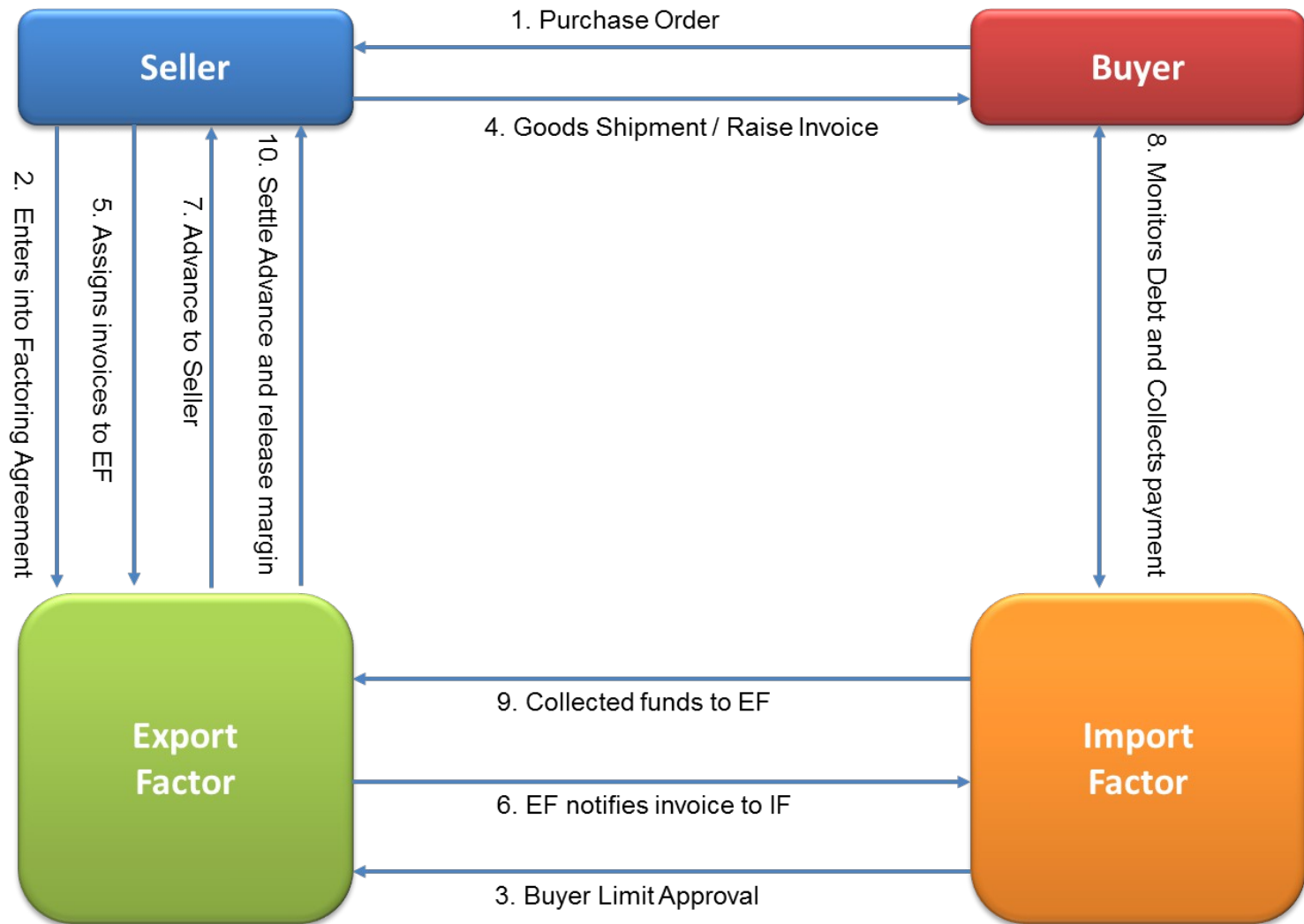
Financial Solutions Private Limited

What is Factoring?

Domestic Factoring



International Factoring – Two Factor



How does it help - clients

Benefits

- Covers the fundamental requirements of open account transactions
 - ***Increasingly insisted by counterparties***
- Mobilizes ***cash*** tied up in receivables
 - ***Unlocks*** cash flow – frees up working capital
 - Debt is converted to Cash
 - Cleans up the balance sheet – with only contingent liability
- Credit protection through this arrangement
 - Client is protected against losses arising solely from buyer credit issues (default and insolvency)*
 - For non-recourse structures only
 - Cleans up balance sheet – no contingent liability as well

How does it help - clients

Benefits

- Alleviates clients' internal administration work
 - ledger management services by the Factor
 - Client can focus on business generation
 - A **cost** benefit
- Usually no tangible security required
- Primarily based on quality of receivables
 - Vs.
- Usual banking facilities – Balance sheet strength

Without – Recourse Structure

Additional Features

- Recourse is only to the Buyer
- Accepted Invoices for payment and quality
- Disputes, if any, recourse on seller
- Value added premium service
- Domestic and Export

Benefits

- Buyer contact – a prerequisite
- Apart from usual benefits, the Non-recourse structure provides additional balance sheet cleaning feature – no contingent liability
- Improve your balance sheet ratios

Without – Recourse Structures – Example

Liabilities		Assets	
Creditors	1,200,000	Debtors	1,000,000
		Cash	200,000
Total	1,200,000		1,200,000

Liabilities		Assets	
Creditors	1,200,000	Debtors*	-
		Cash	1,200,000
Total	1,200,000		1,200,000

*Contingent Liability: INR
1.0 M

Liabilities		Assets	
Creditors	1,200,000	Debtors	-
		Cash	1,200,000
Total	1,200,000		1,200,000

Clean Balance Sheet

Reverse Factoring

Basically, Reverse Factoring refers to arrangement whereby the Bank has a formal arrangement with the corporate Buyer to finance, collect and / or protect (*without recourse*) the debts owed by the Corporate Buyer to its suppliers

Anchor Corporate

- Introduction of Suppliers / Sellers
- Full Acceptance of Invoices for payment and quality before financing
- Disclosed to the Anchor Corporate / Buyer

Benefits – Supplier / Seller / Client

- NOA accepted and enforced by the Corporate

Benefits – Corporate

- All benefits as usual to Factoring clients

Thank you