

IFCI Factors Limited

SME: Finance

-Challenges & Opportunities-

Factoring Services- A non-conventional option

Indian SMEs account for almost 45 percent of industrial output and 40 percent of India's total exports.

SMEs developed in a manner, which made it possible for them to achieve the objectives of:

1. High contribution to domestic production
2. Significant export earnings
3. Low investment requirements
4. Operational flexibility
5. Low intensive imports
6. Capacity to develop appropriate indigenous technology
7. Import substitution
8. Technology-oriented industries
9. Competitiveness in domestic and export markets

Key strengths of Indian Economy... **IFCI**

Due to the recent Economic Slowdown most of the western countries were effected unlike India which was relatively less hurt as the whole dynamics of our economy is different from other countries i.e.,

- Large domestic market
- Less dependency on exports
- Leveraging

- Contributes 45% of the total industrial output.
- Contribution to national GDP is projected to go up by a minimum of 5 per cent and touch 22 per cent share of India's GDP by 2012.
- 40% of the total exports.
- Employs 42 Million people and creates 1 Million jobs every year.
- Produces more than 8000 products.

- Non-Availability of adequate/timely funds specially for growing SMEs.
- Delayed payments.
- Lack of R&D.
- Fluctuations in the cost of production; especially raw materials like steel, aluminium, polymers
- Lack of proper market information
- First to get affected from economic slowdown
- Poor adaptability to changing trade trends
- Non-availability of technically trained human resources & lack of management skills
- Lack of access to technological information and consultancy
- Limited generation of surplus funds for re-investment due to tight working capital cycle

- Existing shareholders and directors funds (“owner financing”)
- Overdraft financing
- Trade credit
- Equity finance
- Business angel financing
- Hire purchase and leasing

Problems in raising funds...



- Absence of history/successful track record.
- Traditional finance normally available subject to adequate security/collateral.
- Perceived to be high risk
- Lack of market information

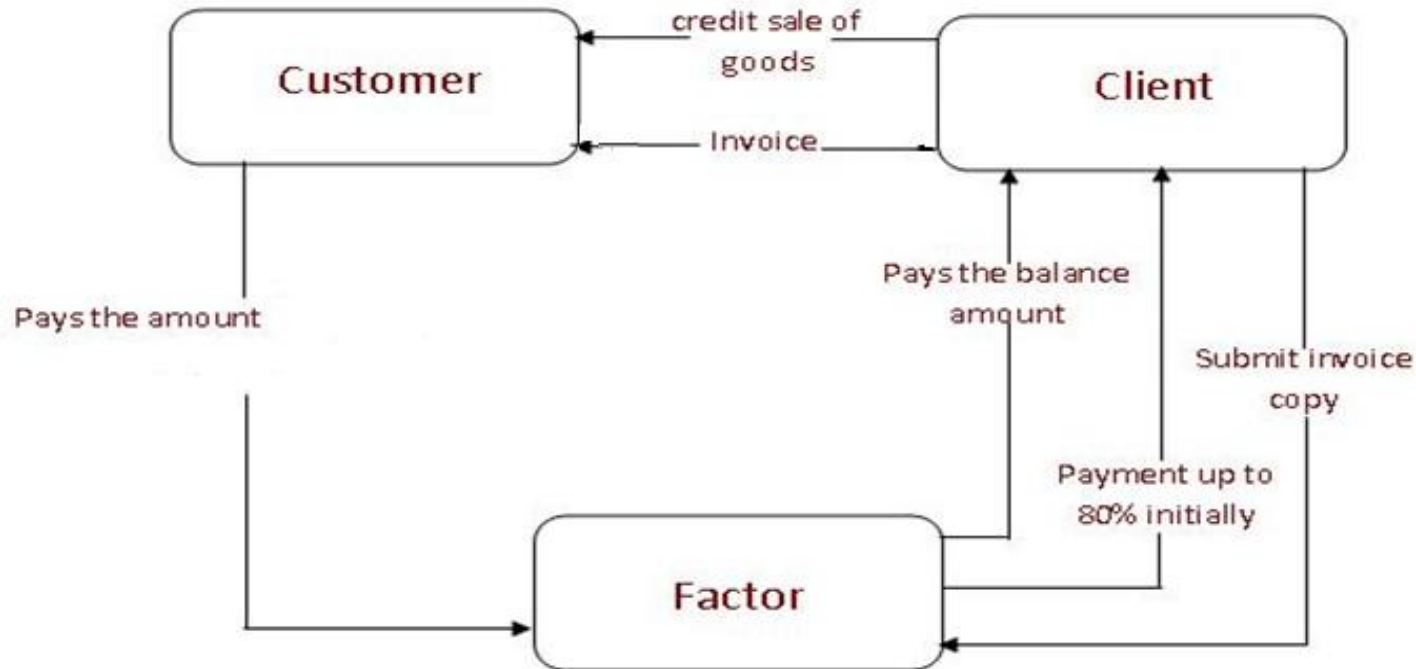
Factoring an alternative...



Factoring offers an alternative as it provides funds based on the transaction strength rather than merely collaterals and strong financials of the borrower.

Factoring...

A flexible alternative to traditional forms of funding. Client makes a sale, delivers the product or service and generates an invoice. The factor buys the right to collect on that invoice and allow funding, usually 80%-90% of the invoice value.



Development of Factoring Services...



- Started in USA in 1920s and introduced to other parts of world in 1960s.
- Presently, over 900 companies in more than 60 countries all over the world.
- Kalyanasundaram Committee 1988.
- In 1991, RBI permitted SBI and Canara Bank to start factoring services through their own subsidiaries.
- In 1993, RBI allowed all the scheduled commercial banks to introduce factoring services either departmentally or through a subsidiary set-up.

Advantages of Factoring Services....



Factoring as a financial services product is superior to the conventional Bank finance in terms of its :

- An easy and fast method of turning accounts receivables into cash.
- Offer funding up to 90% of invoice value.
- No geographical limits.
- Collateral security usually not required.
- Value added services in the form of sales ledger administration, collection & credit protection
- Credit screening cum Credit monitoring and early detection and warning of customer service problems.

Opportunities for Factoring...



- India and China are becoming manufacturing hub for the entire world.
- Financial Sector is becoming more strong and diversified.
- India's share in total factoring business of Asia is only 2.2%.
- Global Factoring business is growing at more than 15.00% CAGR.
- Alternative Product for SME & Emerging High Growth companies.

- A Subsidiary of IFCI Ltd.

- IFCI Factors offer a bouquet of products including:
 - Domestic Sales Bill Factoring
 - Export Factoring
 - Reverse Factoring
 - Pre-shipment Financing
 - Import Factoring
 - Maturity Factoring
 - Silent Factoring
 - Advance against future receivables.

Eligibility criteria for a client...

S. No.	Particulars	Standard
1	Minimum borrower's net worth of	Rs.1.00 crore
2	Maximum TOL/TNW ratio	6:1
3	Current ratio as per industry norm	-
4	Company in existence (Minimum)	3 years
5	Operations for past years	Profit making for last 2 Years

Credentials...



- Pioneer of factoring business in India.
- Member of Factors Chain International.
- First Private company to initiate export factoring.
- IFCI as a group can provide term finance, venture capital funds, advisory services and working capital finance through Single Window Concept.