

## SBI Global Factors Limited Contribution to Indian Factoring Business an Outline

Siraj Basha Mohammed<sup>a</sup>, and Dr. Venkateswara Rao.Podile<sup>b</sup>

<sup>a</sup>Research Scholar, KL Business School, KL Deemed to be University, Vaddeshwaram, Andhra Pradesh,

<sup>b</sup>Professor at Management, KL Business School, KL Deemed to be University, Vaddeshwaram, Andhra Pradesh.

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**Abstract:** Factoring has been a popular method of financing of companies in India. Since its inception, factoring business has made a significant progress in India. The total factoring volume has increased in the past nine years. Yet it is found that in its present improved format, factoring is still not the preferred solution for most of the Indian Companies. But around the world, factoring is a popular option to access working capital in the case of small or even large businesses, among eleven companies, which are providing the factoring business in India, only State Bank of India Global Factors Limited (SBIGFL) is providing domestic as well as International Factoring services under one roof. S BIGFL is a member of Factors Chain International (FCI), an Umbrella Organization of worldwide factoring companies. The aim of this study is to know the concept of factoring and the products, services, role of the SBIGFL in the factoring business in India.

**Keywords:** Finance, Account receivables, Working capital, Factoring, Financial services.

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### 1. Introduction

The idea of introducing factoring services in India was first floated by the Vaghul working group. The Reserve Bank of India subsequently constituted a study group under the chairmanship of Mr. C. S Kalyanasundaram to examine the feasibility of introducing the factoring services in India. In the year 1994, the RBI has permitted all the banks to enter into factoring business departmentally. The factoring services was first introduced in India by the State Bank of India in association with the Small Industries Development Bank of India. The pioneering factoring company founded by the SBI is called “SBI Factors and Commercial Services Private Limited (SBIFACs).

Factoring is a service provided by specialized agents to help producers and traders to manage their receivables. It is a process of selling receivables to a third party on a discount. The requirement for factoring in India has grown due to the limitations of the banking sector. The factoring is a much needed system of collecting the debts on time from the debtors and protecting the firms from shortage of working capital (SGurusamy, 2009).

### 2. Objectives of the Study

- To study the concept of factoring business in India.
- To study the services provided by the SBIGFL in India.

### 3. Review of Literature

#### 3.1 Factoring

The statement “Factor” has been derived from the Latin word “Facere” which means “to construct otherwise to do” (M.Y.Khan, 2012).

Factoring is a simultaneous arrangement between a financial institution (the factor) and a Business firm (the client), which sells goods to customers on credit. In this arrangement the factor buys the clients debts including accounts receivables” (Bharati V. 2010).

#### 3.2 The Origin of Factoring

The modern factoring came into effect in the 1920s. The UK is the first country, which has given the boost to the factoring services in the world. In the United Kingdom, factoring came into effect as the form of invoice discounting. The leading companies of the UK formed the Association of British Factors (ABF) in the year 1976 (Vasant Desai, 2019).

#### 3.3 Definition

“**Factoring** means an arrangement between a factor and his client which includes at least two of the following 1. Finance 2. Maintenance of accounts 3. Collection of debts 4. Protection against Credit Risks” (K. Nirmala Prasad, 2006).

#### **4. SBI Global Factors Limited**

SBI global Factors Limited is a non-banking financial company, regulated by Reserve Bank of India. It is a subsidiary of State Bank of India. The SBIGFL came into existence in the year 2010. SBIGFL is a member of Factors Chain International (FCI). The FCI network has 273 factors in 75 countries, actively engaged in more than half of the world's cross border factoring volume.

#### **4.1 Products of SBIGFL**

##### **4.1.1 Domestic Factoring**

Homegrown factoring is a cycle of records receivables produced out of deals inside the nation,

##### **4.1.2 Export factoring / International factoring**

In this type of factoring the factor provides the finance to the clients for exporting of products internationally.

##### **4.1.3 Dealership factoring facility**

The concept of dealership factoring has been extended by SBIGFL to the dealers' i.e buyers of industry majors' i.e sellers within India.

##### **4.1.4 Vendor factoring facility**

Of late a lot of manufacturing companies are outsourcing their component manufacturing / services with the idea of maintain cost effectiveness and inventory management etc.

##### **4.1.5 Discounting of Domestic & Export Bills under letter of credit**

The idea is intended to be broadened both for homegrown and trade exchanges dependent on letter of credit opens by top notch banks. The installments under them letter of credit supported offices will be finished by SBIGFL each time subsequent to guaranteeing the legitimacy of the letter of credit and acknowledgment and affirmation by the opening or paying banks of archives being all together.

#### **4.2 SBIGJL Services**

##### **4.2.1 Advantages to sellers**

###### **Value for money**

NBFCs are factors take-up transactions on the basis of the quality of the receivables in the contrast to banks, who take credit decisions on the basis of customers' financial record of the past of cash flow in collateral.

###### **Ability to sell on open account terms**

Factoring helps deals on open record terms and gives assets to the merchant against deals in homegrown and International markets. The purchaser is hence kept from the dull cycle of opening LCs and the vender foregoes the expense of LCs (which the purchaser ordinarily gives to him under LC exchanges)

###### **Improvement in cash flows**

SBIGFLs services facilitates clients (the seller) to receive the amounts instantly upon shipment rather than having to wait till the payment dates agreed with buyer.

###### **Increase in clientele**

Greater liquidity helps the seller to expand his clientele.

###### **Options of competitive interest rates**

Small and mid-sized enterprises with weak financial ratings are usually not able to bargain for favorable

interest rates from banks and FIs. However SBIGFL is helping such entities in offering competitive rates of interest by considering the ratings of their debtors.

#### **Basic security/collateral**

The facility SBIGFL is accommodative and linked directly to the clients' sales and the quality of the buyer.

#### **Follow up and collection from debtors**

SBIGFL services of collection of receivables benefits its clients by following up and collecting factored invoices.

#### **Better bargaining power**

The flexible payment choices available in factoring services places the seller on a strong footing to bargain for increased business volumes.

#### **Options of currency**

SBIGFL provides choice to its export factoring clients of choosing funding either in EURO, USD, INR etc.

#### **4.2.2 Advantages to Buyers**

##### **Scope for flexibility in terms of purchase:**

Better cash flows of the seller gives him a stronger footing to offer better terms of trade to the seller

##### **Unhindered supplies to the buyer**

Factoring helps the customer (vender) ensure consistent supplies to the purchaser for his unhindered creation. The purchaser won't need to experience the repetitive cycle of opening LCs or bear extra expenses for the equivalent.

##### **Self-Revolving line**

Cutoff points endorsed by factor in regard of every purchaser is naturally reestablished on receipt of installment from the purchaser on the due date. At the end of the day, it is a spinning office and can pivot 4 to multiple times in a year.

##### **Improved cash flow management**

In this arrangement the buyer gets the benefit of extended credit period. Thus helping in a smooth cash flow management.

##### **Strong purchaser-seller relationship**

The adaptability in the method of money accessibility given by SBIGFL against receivables facilitates the liquidity position and props up the buying influence there by reinforcing the connection between the purchaser and vender. Quality purchasers with solid financials would thus be able to pull in different dealers, who are hence major parts on the lookout and orchestrate them merchant figuring office.

#### **5. Conclusion**

Factoring is one of the rapidly growing financial services in India. The Reserve Bank of India has issued the directions to all the banks to provide factoring services. The factoring companies are helping the business organizations in collection of book debts and maintain the sales ledgers of the clients. In general it helps the small scale and medium size business organizations and in particular large size business organizations to maintain sufficient working capital and cash flows in their day to day business transactions. SBI Global Factors Limited is a pioneer factoring company in India, which has 9 branches all over India. SBIGFL is the provider of domestic as well as export financing services under one roof. SBI Global factors Limited is occupying a significant share in total finances of factoring companies in India.

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