

Financial Services
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Factoring services

BY
B.KRISHNAVENI
LECTURER IN COMMERCE
GOVERNMENT DEGREE COLLEGE (W)
HINDUPUR
ANANTAPUR DISTRICT

WELCOME

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Learning Objectives

This presentation is aimed at familiarizing the student with the concept of factoring services and forfeiting services

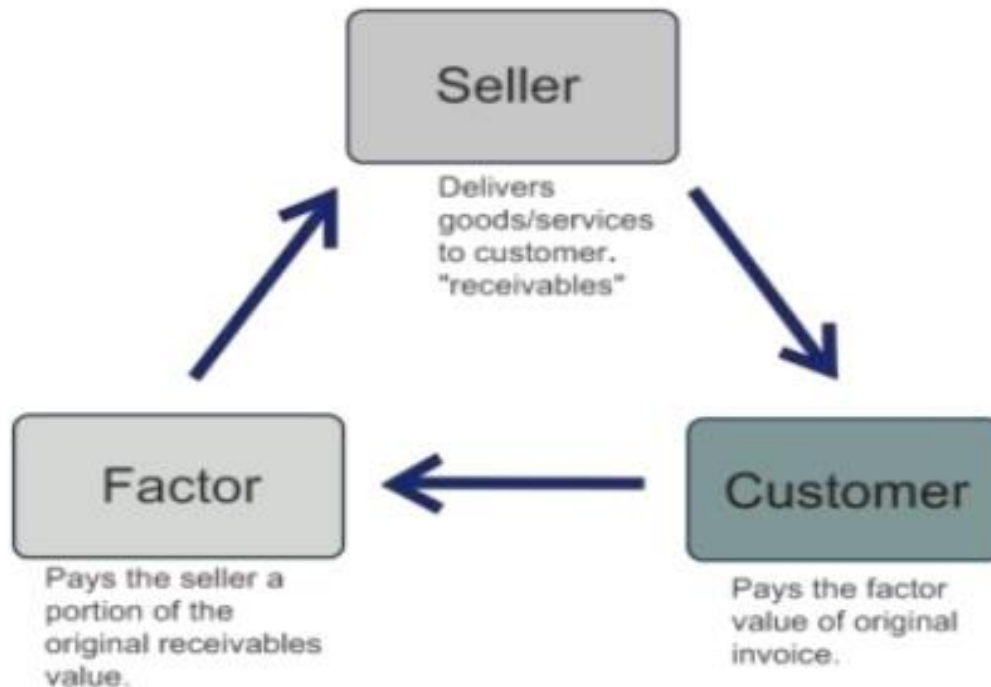
Meaning of Factoring

- The term factor has its origin from the Latin word, Facere which means to get things done. The dictionary meaning for factor is an agent particularly a mercantile agent.
- Factoring is the sale of book debts by a firm (client) to a financial institution (factor) on an understanding that the factor will pay for the book debts as and when they are collected on a payment date.

Mechanism of Factoring

Factoring

- Factoring is a financial service covering the financing and collection of receivables in domestic as well as international trade.



HOW INVOICE FACTORING WORKS

Turning Receivables into Cash

SELL TO A CREDITWORTHY CUSTOMER

Whether you offer goods or services a key to success is reducing bad debt and improving cash flow.



SELL YOUR INVOICES TO A FACTOR

Clients choose which customers and which invoices to factor based on their need for either cash or credit protection.

RECEIVE UP TO 80% OF YOUR CASH FAST!

Shorten the cashflow cycle by receiving cash for your invoices. The average transaction takes as little as 24 hours to fund



GROW YOUR BUSINESS

With cash on hand you can take full advantage of opportunities to grow. When the funds are paid to the factor, you receive your remaining money, minus a fee.

SIMPLE, FAST, STRAIGHTFORWARD, FLEXIBLE
PRESTIGE CAPITAL CORPORATION

Read more 
prestigecapital.com

Types of Factoring

Recourse and non – recourse

Disclosed and undisclosed

Advance and matured

Domestic and Export Factoring

Full factoring



Advantages of Factoring

- ✓ Conversion of accounts receivable/ debtors into cash.
- ✓ Burden of collection is shifted to the factor.
- ✓ Cash flow pattern becomes simple.
- ✓ Cash flow forecasting and budgeting becomes easier.
- ✓ No requirement of collateral
- ✓ Sale not a loan
- ✓ Customer analysis

Limitations of Factoring

Reduction of profit

Reliability of customer's credit

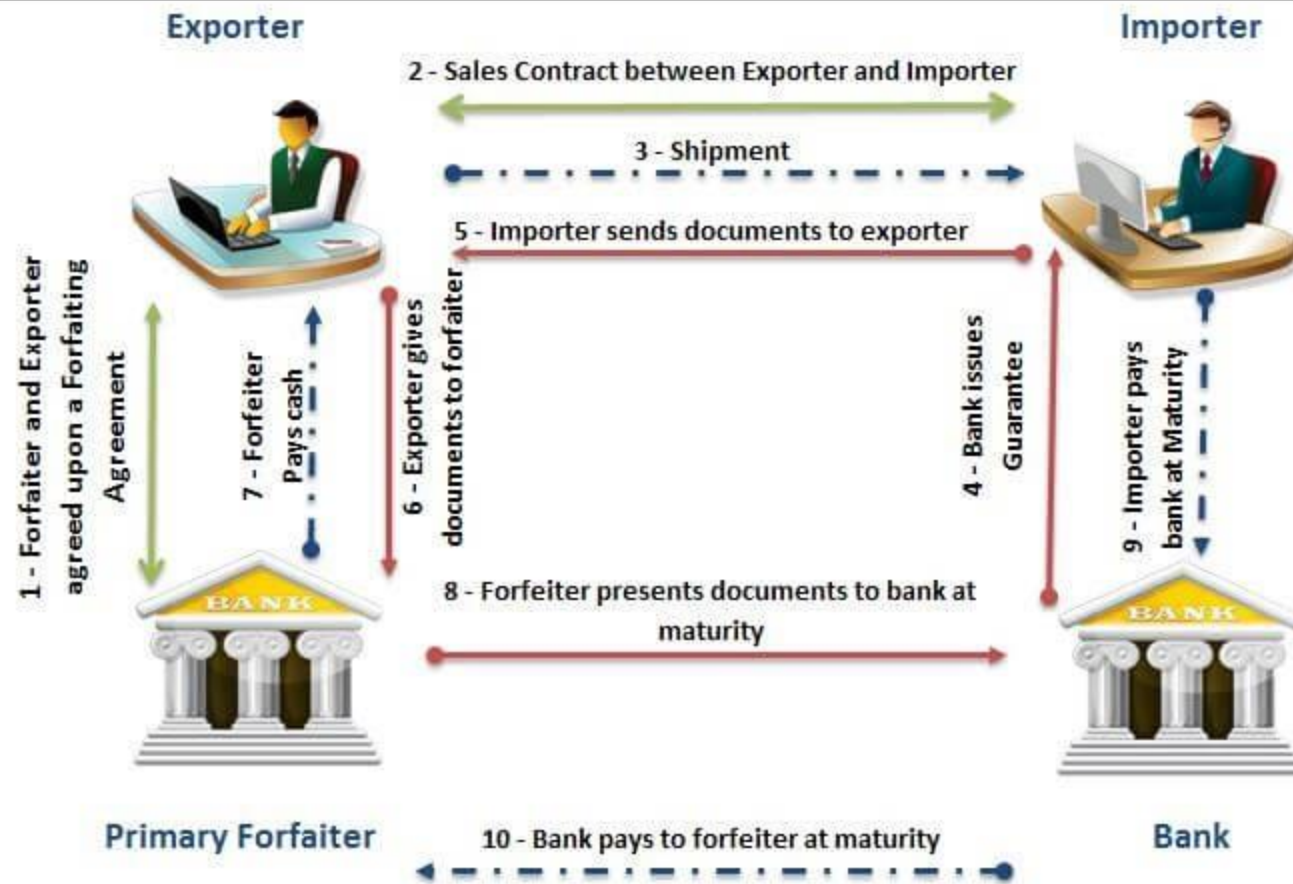
Presence of contingent liability

Higher finance charges

Loss of personal touch

Forfaiting

Basic Forfaiting Transaction

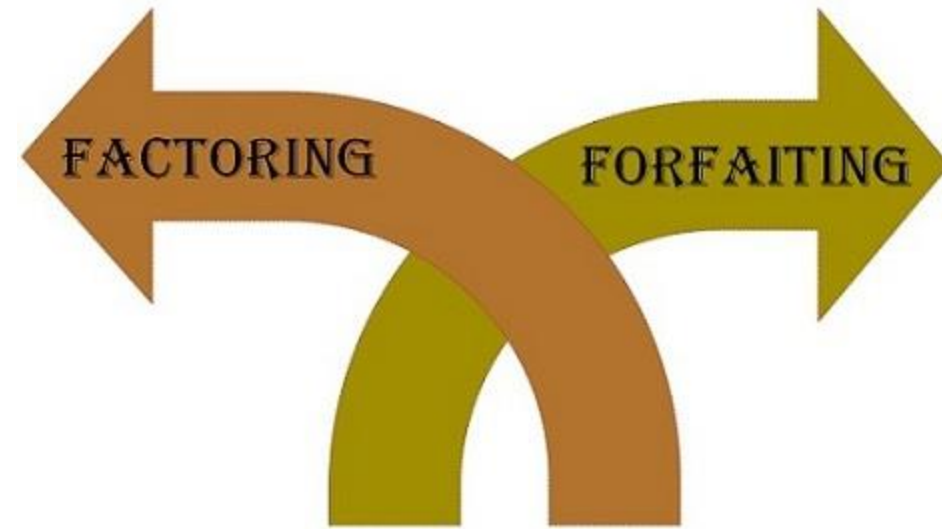


- Forfaiting is a means of financing that enables exporters to receive immediate cash at discount by selling their medium and long term receivables – the amount an importer owes to the exporter.
- Forfaiting is a form of financing of receivables in international trade.
- It denotes the purchase of trade bills or promissory notes by the factor which may be a bank or financial institution without recourse to the seller.
- There are five parties in a transaction of forfaiting – exporter, exporter's bank, importer, importer's bank and forfeiter.

Factoring Vs Forfeiting

In both these cases receivables are converted into ready cash. However, the following differences exist in certain issues-

- Maturity of receivables
- Finance
- Goods dealt with
- Recourse or non- recourse
- Cost
- Dealing in negotiable instruments
- Dealing in second market



Factoring in India

Factoring services initiated based on the recommendations of Kalyana Sundaram Study Group in the year 1991.

Banking Regulation Act, 1949 was amended in 1991 for banks setting up factoring services.

Factoring business is dominated by public sector banks and financial institution in India.

RBI has permitted banks to undertake factoring services through subsidiaries.

There is no codified legal framework to regulate the factoring services in India. Factoring contract like any other sale purchase agreement is regulated under the law of contract.

The legal relationship between factor and a client is largely determined by the terms of factoring contract entered into by the parties before the factoring process starts.

India still has limited number of players engaged in providing factoring services.

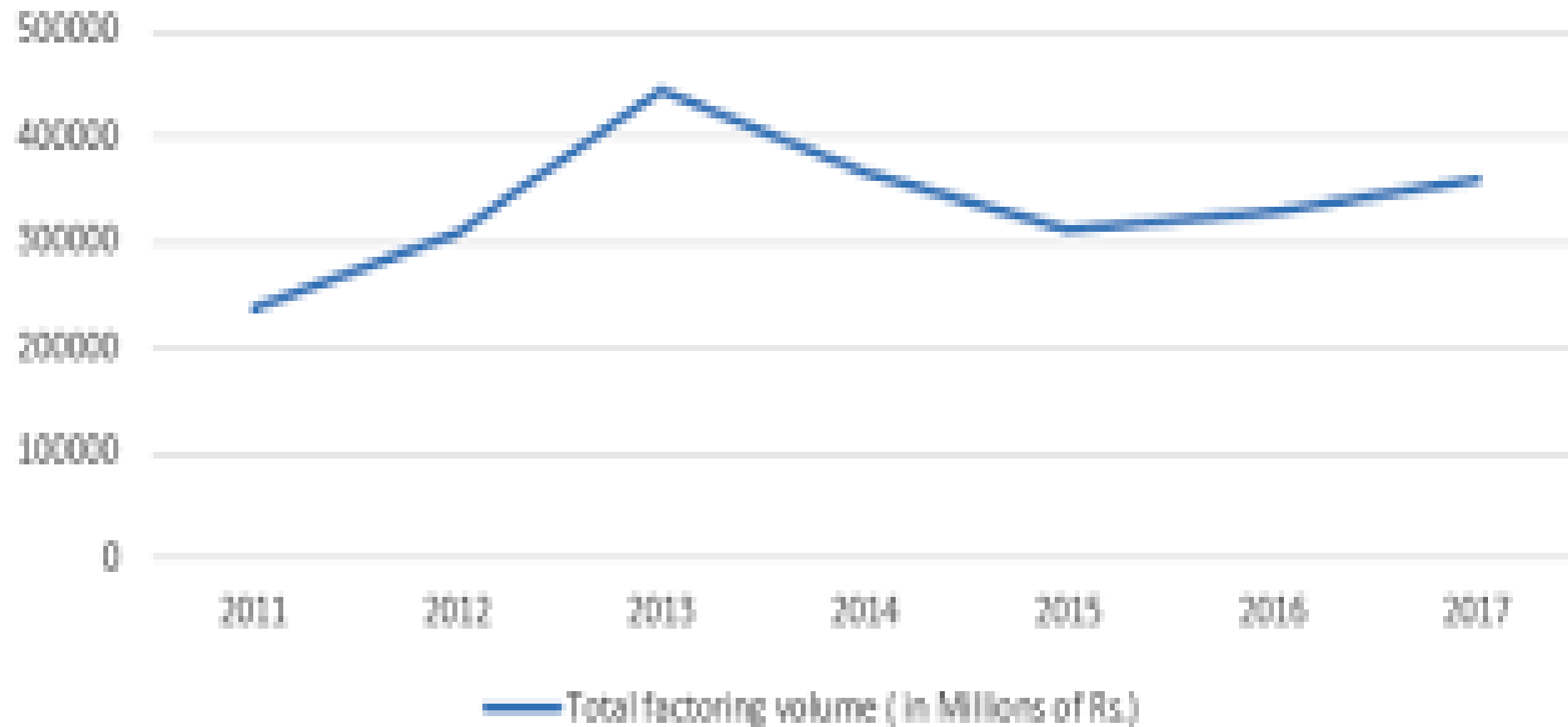
Most of the players engaged in providing factoring services currently are SBI

Global Factors, Canbank Factors and IFCI Factors; Private commercial banks-

HSBC, ICICI Bank and Axis Bank; Specialized financial institutions – ECGC.

EXIM Bank which was established by an Act of Parliament in 1982 was the first to start forfaiting in India in 1992.

Total factoring volume (in Millions of Rs.)



Conclusion

From the previous slides it can be concluded that the benefits of factoring and forfaiting outweigh the limitations. The regulatory authorities can take certain measures to counter the challenges and accelerate the trading activities. India has yet to go a long way to stand on par with developed economies with respect to factoring and forfaiting services.

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THANK YOU