



Factoring Business –A Financial Revival Strategy

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ABSTRACT

Factoring is a process of converting accounts receivables into cash. Customers do not prefer cash sales. To increase the customer convenience the institutions are going for credit sales. If these credits are not recovered then it would increase the level of nonperforming assets and thus it results in financial crunch of the organization resulting in liquidation of company. So these institutions are entering into contracts with factors prior planning for credit sales. Thus they are fixing high margins for the products which include the factoring commission. This is the real reason for gaining demand for the factors. These factors are adopting unfair methods for collecting the bad debts which would tamper the image of the institutions and corporate hiring factors. Some of the factors assist the companies in maintain accounts, sales ledgers, understanding the credibility of buyers, export documentation, credit administration.

Keywords: credit administration, bad debts, nonperforming assets

INTRODUCTION

Factoring is a financial option for the management of receivables. In simple definition it is the conversion of credit sales into cash. In factoring, a financial institution (factor) buys the accounts receivable of a company (Client) and pays up to 80% (rarely up to 90%) of the amount immediately on agreement. Factoring company pays the remaining amount (Balance 20% minus finance cost minus operating cost) to the client when the customer pays the debt. Collection of debt from the customer is done either by the factor or the client depending upon the type of factoring. We will see different types of factoring in

this article. The account receivable in factoring can either be for a product or service

OBJECTIVES OF STUDY

- ❖ To study about reasons for corporate to prefer factoring business
- ❖ To study about future prospects of factoring business in detail.
- ❖ To study about functions of international factoring
- ❖ To study about the pitfalls of factoring business

METHODOLOGY OF STUDY

We have used the educate professionals as the sample for the survey. Most of the data is collected based on secondary sources. Some help is also from primary data.

ANALYSIS AND INTERPRETATION

- ❖ Factoring a survival game

S.NO	ATTRIBUTE	PERCENTAGE OF RESPONDENTS
1.	Saves from liquidation	47
2.	Allows the company for credit sales	53
	BOTH 1	
	TOTAL	100

Interpretation; Most of the respondents are of opinion that factoring helps the organization to survive. It increases the financial credibility of organization. Most of the companies prefer credit sales only because of availability of factors. Customers are also willing to have a credit purchase rather than cash purchases.

❖ Reason for preferring factor business in India

S.NO	ATTRIBUTE	PERCENTAGE OF RESPONDENTS
1.	Maintain Accounts, Sales Ledgers	22
2.	Understanding The Credibility Of Buyers	11
3.	Converting Accounts Receivables Into Cash	67
	TOTAL	100

Interpretation: Many of the corporate use the factors for converting account receivables into cash. They rarely use the factors for other purposes like maintaining of accounts and sales ledgers along with understanding the credibility of seller

❖ Major pitfall of factoring business

S.NO	ATTRIBUTE	PERCENTAGE OF RESPONDENTS
1.	Recovery methods	32
2.	High commission	68
3.	Both 1 &2	
	TOTAL	100

Interpretation: many say that customers are dissatisfied with the recovery methods used by factor. The corporate do not want to employ factors because of factoring commission. In spite of this fear corporate employ the factor to prevent from piling up of nonperforming assets.

❖ Increasing role of factoring in global trade

S.NO	ATTRIBUTE	PERCENTAGE OF RESPONDENTS
1.	Credit administration	22
2.	Export documentation	11
3.	Accounting and audit assistance	13
4.	Credit recovery	42
5.	Credibility Assessment	12
	Total	100

Interpretation. Many people knew that factoring is used for credit recovery. Apart from this factoring is also employed for many other aspects like Credibility Assessment, Export documentation, Accounting and audit assistance, Credit recovery, Credit administration etc

❖ Companies relying on factors completely

S.NO	ATTRIBUTE	PERCENTAGE OF RESPONDENTS
1.	Yes	79
2.	No	21
3.	Partially	
	Total	100

Interpretation: Yes most of the companies completely depend on the factors. In absence of the factoring business most of the enterprises have to shut down.

❖ Future of factoring business in India

S.NO	ATTRIBUTE	PERCENTAGE OF RESPONDENTS
1.	Good	87
2.	Bad	13
	Total	100

Interpretation: There is an evergreen market for factoring business globally. There is no inflationary

impact on factoring business. Factoring business is slowly registering the growth in India when compared to other countries

REVIEW OF LITERATURE

Mumbai, May 5 () A senior Reserve Bank official today said very high level of bad loans are hampering the faster growth of the factoring segment. Noting that despite the enactment of the Factoring Regulation Act in 2011, the industry has not taken off as desired, Sudarshan Sen, an executive director at the central bank said that due to this the Rs 3,200 crore industry has not grown in recent years. "What is of concern also is the high NPAs in the factoring sector with a gross NPA of 29 per cent and net NPA ratio of 11 per cent, which is alarming as it has led the players with negative RoA (return on assets) and RoE (return on equity). So these areas need to be addressed. Six NBFC factors got registered with the RBI of which three are systemically important.

One of impediments in the healthy functioning of factoring industry is the non-availability of recourse under the provisions of the Securitisation and Reconstruction of Financial Assets and Enforcement of Security Interest (SARFAESI) Act. Its provisions were extended to all systemically important NBFCs including NBFC factors last year. "This is expected to improve recovery by factors and reduce their NPA levels," adding RBI's trade receivables discounting system (TReDS) can come handy for them as it will facilitate discounting of invoices and bills of exchange.

This can also be a huge source of information to tap potential clients. On the issue of allowing factors to identify wilful defaulters, he said the matter is with the Supreme Court now. On the just cleared NPA Ordinance, this move approved by the President will define the way forward in tackling the bad loans issue. "The ordinance has just received Presidential assent. We'll continue to make all efforts to resolve the NPA problem and this ordinance is one more chapter," he said, adding the RBI is "determined to solve it". BEN DK DK

FINDINGS OF STUDY

- ❖ Factoring is a process of converting accounts receivables into cash. Customers do not prefer cash sales. To increase the customer convenience the institutions are going for credit sales.
- ❖ If these credits are not recovered then it would increase the level of nonperforming assets and thus it results in financial crunch of the organization resulting in liquidation of company.
- ❖ So these institutions are entering into contracts with factors prior planning for credit sales. Thus they are fixing high margins for the products which include the factoring commission.
- ❖ This is the real reason for gaining demand for the factors. These factors are adopting unfair methods for collecting the bad debts which would tamper the image of the institutions and corporate hiring factors.
- ❖ Some of the factors assist the companies in maintain accounts, sales ledgers, understanding the credibility of buyers, export documentation, credit administration.

CONCLUSION:

Though factoring is almost absent in India yet there is possibility for future growth in India. Most of the companies need the factoring. This is the real reason for survival of any organization.

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