

# Export Factoring Facility for MSMEs

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The MSME sector has, for decades, been the growth driver of the Indian economy. Its pivotal role in guaranteeing the upward trajectory and resiliency of the country's macroeconomic dynamics cannot be denied. A look back at the state of affairs sheds light on the many miles the segment has covered. Today, MSMEs don't just account for 40% of India's exports but are also instrumental stakeholders in helping the country meet its ambitious target of achieving \$1 trillion in exports by 2030.

However, the segment remains marked by uneconomical and, at times, unstructured trade practices. Moreover, the segment is simultaneously hobbled by stunted credit flows and uncooperative banks and formal institutions, which forces small players to rely on disreputable sources of finance. Alleviating these credit issues requires sustained efforts powered by comprehensive and exhaustive policies that make it profitable and lucrative for financing stakeholders to enthusiastically back robust and sound MSME players.

In any case, India's expanding MSME prowess makes the case for revamping the credit landscape even stronger. In FY22, India's exports, fuelled by MSMEs, touched an all-time high of \$ 419 billion. India's contribution to global trade in the FY was a respectable 3%. Considering India's entrepreneurial rigor and stamina, our share will only multiply from here on forth, provided we lay down and sincerely execute a detailed blueprint chalking out MSME growth.

Tough as leather

There, perhaps, is a reason why the idiom tough as leather has been

used for ages. The saying fits perfectly to the Indian leather industry MSME segment. The Indian footwear, leather, and leather products industry has been weathering the ups and downs of the Indian economic landscape. Throughout its long-lived course, it has not just been a consistently reliable performer but also an outlier. This is evidenced by the industry's stellar performance in FY21, clocking in a whopping \$3.68 billion in exports. Moreover, the industry provides employment to over 4.42 million workers, mostly women. It is the leather industry's unique distinction that it can claim to be a feather in India's exports cap. Thanks to the industry's capabilities, India currently ranks second on the list of the largest exporter of leather garments, third-largest on the list of saddlery & harness exporters and the fourth largest exporter of leather goods.

Despite the industry's numerous achievements, it suffers from some ills that cripple the more significant MSME segment. Access to credit facilities is equally deplorable as it is with the other industries within the MSME fold. A deficit in financing avenues hamstring the exponential growth that the industry can log and forces it to survive with limited resources rather than thrive and expand with leveraged credit facilities.

Another critical factor that could unbox the latent potential of the leather industry would be the building of scale for MSMEs at the cluster level, which is to say that customers should enjoy a choice of thousands of suppliers across product categories. This initiative can be supplanted in the leather, footwear & bags industry, processed food, handicrafts, packaging, toys industry, and many others. Additionally, there should be greater emphasis on replicating success stories like the government's textile park scheme in Tirupur.

At this juncture, we must also reflect on one key reason why MSME growth has scuttled over the previous years. As a country, we have been remiss when building MSME manufacturing clusters that contain residential facilities and other amenities within their ambit. Sans these facilities, these clusters are not as livable and therefore fail in attracting local talent. Hopefully, strategies will be formulated to mirror the elevated facilities provided in Chinese SEZ manufacturing clusters, which unfortunately are missing in many of our domestic notable exports zone like Ankleshwar (pharma), Morbi (tiles) and Tirupur (apparels).

Several pockets in Tamil Nadu rule the domestic industry and set high standards for leather goods exports. In Tamil Nadu alone, Chennai, Ambur, Ranipet, Vaniyambadi, Vellore, Pernambut, Trichy, Dindigul, and Erode are robust and redoubtable local production hubs.

The many ways in which MSMEs are suffering

MSMEs have suffered through several disruptions over the last few years. First, the pandemic sucked out all the liquidity from the markets and brought



trade activity to a screeching halt. Then, credit cycles for MSMEs stood suspended, and logistical supply chains ground to a halt while demand from financiers started piling up. Now, even when the shadow of the pandemic is behind us, quite a few problems continue to bedevil the MSMEs.

For one, MSMEs are still reeling from a crunch of working capital and business expansion loans. Limited access to financial resources translates into sub-par production capabilities, low retention of higher-grade talent, and restriction of operational capacities.

New solutions are apparent on the business horizon for MSMEs. Trade finance is fast emerging as a cure-all resolution to several credit pains of business stakeholders. Supply chain financing and export factoring are the two key branches of trade finance.

Supply chain finance refers to a set of tenets and practices that helps shorten the working capital cycle and the movement of funds from the buyer to the seller while simultaneously reducing the risk for all the parties involved across the financial value chain. Export factoring, also known as invoice or accounts receivable financing, is when an intermediary financially steps into a sale and purchase transaction and advances funds to the seller based on the receivables. Interestingly, this type of financing does not qualify as debt or is treated as debt on the company's balance sheet. Moreover, export factoring helps release critical working capital funds to an MSME seller while he awaits payment from a large MNC or government company. The payment cycles of large organizations and companies are notoriously long-winded, which is to say, they can run as long as 3-4 months. Small MSMEs cannot afford to wait for these

payments. When forced to wait for these funds, small firms are shorn of critical funds to purchase raw materials and inventory, and consequently, their top line suffers.

#### Credlix's transformative technology

New-age firms like Credlix can help smoothen the flow of funds to MSMEs, ensuring their growth engine continues chugging undisturbed. Credlix has disbursed over Rs 1600 crore via discounting of 65,000 invoices and holds an impressive track record of financing over 4,500 MSMEs.

Automated credit solutions are scripting solutions for small firms and the ecosystem alike. It is a win-win solution that keeps the seller, the buyer, and the financier happy. Firms with the promise of appetite, innovation, and resourcefulness will no longer have their wings clipped for want of credit. Industrious MSME firms will now be able to expand their business ties dramatically, cater to new parties, and strengthen their top and bottom line without worrying about exploitative interest rates.

Innovative, tech-enabled solutions are flexible and scalable; the more invoices businesses receive, the more financing grows accordingly. Further, these supply chain financing solutions are self-liquidating in nature. The primary purpose is to empower MSMEs to remain financially healthy, accelerate cash flow, maintain low-debt operations, and strive toward economic growth, thus contributing to the overall goal of the Indian economy. However, banks traditionally rely on collateral-based funding, which abysmally falls short of MSMEs' financing needs. Compared to the annual factoring volume of over \$ 400 Billion (CY 2020), as per FCI, the overall factoring volume in India is less than USD 5 Billion (1% of China). The lack of vibrant factoring-led financing for MSMEs is a crucial bottleneck for access to capital for MSMEs.

Technology, too, has a significant role to play here in building scalable yet sustainable enterprises. AI/ML and cloud might, prima facie, appear to only be affordable for large MNCs, but that is not the case. SMBs, too, are benefiting greatly from these tools and moving towards data-driven decision-making in each aspect of manufacturing, logistics, and sales. With our country at the onset of a 5G revolution, associated tech like the IoT is likely to be holistically imbibed and benefits gained for the entire industry and society. For example, High-frequency data points can be used for effective and timely disbursement of financing for MSMEs. It is explicit, by now, that the key to the progress of the Indian economy lies in MSME growth.

#### How Credlix streamlines an export factoring transaction?

An export factoring transaction, in alliance with Credlix, ensures convenience and the least amount of paperwork for all the parties involved. The singular focus of Credlix is on maintaining the flow of business activities between the parties, and Credlix is happy to play the role of a credit facilitator.

On day 0, the supplier ships goods and invoices the buyer. On the same day, the buyer approves the invoice digitally, and Credlix steps into the dynamic by purchasing the invoice and funding 90% of the value. Now, leapfrog to the 90th day from the date of invoicing, when the buyer is required to pay 100% invoice on the due date, and the supplier receives the balance amount, effectively culminating into a harmonized, well-controlled transaction.

Not only do we fund 90% of the value of the export factoring transaction, but we also have a very healthy track record of serving manufacturers and exporters with a business history of more than six months. Many of our current clients are names that have been in the business for over a year, and we are building loyalty for our brand by building repeated engagement.

We are also operational in several developed countries, including the US, the UK, the EU, Canada, and Australia. Moreover, we have not faced significant quality issues or rejections in the past, and we follow

a policy of non-recourse to suppliers or the exporter.

For those who are into raw material supplies, Credlix only requires that the customer should be an existing export factoring customer and should have a track record of anywhere between 2-3 months in that business segment. As a customer, you can avail of up to 30% of the order financing 60 days before the shipment.

### **The final word**

The business world beckons and welcomes India's business entrepreneurial skills and talent. There are quite a few large companies and blue-chip firms that are making a name for India across the globe. However, the primary responsibility of advancing India's progress and prosperity falls squarely on the shoulder of India's over 6.33 crore MSMEs. These MSMEs will chalk out a new narrative of financial well-being and development for millions in India. Therefore, boosting the growth of MSMEs and giving them an unprecedented growth fillip should be a primary priority for the government.

## GREEN CHAMPION AWARD FOR RANITEC CETP



RANIEC CETP was conferred with the GREEN CHAMPION AWARD 2021 of Tamil Nadu Pollution Control Board by Thiru M.K.Stalin, Hon'ble Chief Minister of Tamil Nadu on the event of World Environment Day on 4th June 2022 at the Secretariat in Chennai