Factoring companies target MSMEs

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Micro, small and medium enterprises in the northern region have emerged as a key target for factoring companies, which are eyeing them as potential future growth drivers. With the Lok Sabha also having passed a bill to regulate the factoring business last week, it is expected to offer MSMEs another financing option.

The Lok Sabha passed the Regulation of Factors (Assignment of Receivables) Bill 2011 on 21 December.

Factoring is a financial transaction whereby a business job sells its accounts receivable or invoices to a third party (or 'factor') at a discount. The factor provides financing to the seller of the accounts in the form of a cash advance, often amounting to 70-85 per cent of the purchase price of the accounts. The balance of the purchase price is paid, net of the factor's discount fee (commission) and other charges, upon collection.

It is expected that as the markets evolve in India, factoring services will benefit small entrepreneurs by providing them with liquidity which is not linked to their balance sheets, as well as professional debt administration and collection services. This will enable SMEs to control and use their receivables more efficiently.

After SBI Global Factors Limited, which has had a presence in the region from some years now, India Factoring & Finance Solutions Private Limited has plans to set up base in the region. India Factoring is a joint venture of state-owned Punjab National Bank (PNB), Malta-based FIMBank Group, Italy-based Banca IFIS and Blend Financial Services, Mumbai.

Vinod Singla, vice president, SBI Global Factors Limited (Chandigarh), believes that with SMEs accounting for a major chunk of industrial activity in Punjab, it is natural for factoring companies to focus on SMEs. SBI Global offers factoring services to around 50 SMEs, he added.