



ORIGINAL RESEARCH PAPER

Commerce

FACTORING SERVICES IN INDIA - WITH REFERENCE TO CANBANKACTORS LIMITED

KEY WORDS: Factors, NBFCs, Receivables, Domestic and Global factoring

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ABSTRACT

Factoring means the conversion of credit sales into cash. The institution called "Factor" undertakes the task of realizing accounts receivables such as book debts, bills receivables and managing sundry debts and sales ledgers. At present, the factoring business can be carried out by either banks or NBFCs. The Reserve Bank of India (RBI) is the regulatory body supervising the factoring business. Banks can undertake factoring business without the prior approval of RBI. The global factoring industry has been growing at nearly 14% per annum over the past 15 years. This includes both domestic and international cross border factoring volumes. CANARA BANK, a leading Public Sector Bank, reputed for its diversified and professional services. Canbank Factors Ltd. incorporated in the year 1991, with Small Industries Development Bank of India (SIDBI) and Andhra Bank as co-promoters.

INTRODUCTION

Factoring is a financial service, where by a firm converts its receivables into cash by selling them to a factoring organization. In simple definition it is the conversion of credit sales into cash. The institution called "Factor" undertakes the task of realizing accounts receivables such as book debts, bills receivables and managing sundry debts and sales ledgers of commercial and trading firms in the capacity of an agent, for a commission known as "Factoring charges".

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%-finance cost-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.

According to Peter. M. Biscos – "A continuous legal relationship between a financial institution (the factor) and a business concern (the client) selling goods or providing services to trade customers, whereby the factor purchase the clients book debt, either with or without recourse to the client, and in relation there to, controls the credit extended to customers, and administers the sales ledger".

Factoring – Indian Scenario

An important development in the Indian factoring services took place with the RBI setting up a study group under the chairmanship of Shri. C.S. Kalyanasundaram in January, 1988. The group submitted its report in January 1989. Various formalities, implications and the importance of promoting factoring in the country, with the participation of banking and non-banking financial institutions (NBFCs) like merchant banks, banks etc., were examined by the group.

At present, there are only 7 NBFC factors registered with RBI. They are Canbank Factors Limited, IFCI Factors Ltd., Bibby Financial Services (India) Pvt. Ltd., SBI Global Factors Ltd., India Factoring & Finance Solutions Pvt Ltd, Siemens Factoring Private Limited and Pinnacle Capital Solutions Private Limited.

Global Scenario

The global factoring industry has been growing at nearly 14% per annum over the past 15 years. This includes both domestic and international cross border factoring volumes. Three major forces have underpinned this growth (2.2 times higher), trade LCs issued (16 times higher), and even world factoring volumes (1.5 times higher). All figures above, excluding cross border factoring, include domestic business, as it accounts for the vast majority of trade transactions in all

categories. In summary, LCs are still today the dominant form of financing of international trade, but the product is a mature instrument, with little growth over the past decade. However, the growth in open account trade has accelerated the take up of credit insurance and international cross border factoring in particular.

Factoring in India

At present, the factoring business can be carried out by either banks or NBFCs. The Reserve Bank of India (RBI) is the regulatory body supervising the factoring business. Banks can undertake factoring business without the prior approval of RBI. However, NBFCs intending to carry out factoring business as their principal business are required to obtain a prior approval from RBI. Further, the Factoring Regulation Act, 2011, states that the NBFCs which intend to engage itself in the factoring business have to fulfill the principal test. To determine whether the principal business of the NBFC is factoring, it needs to fulfill the following conditions.

- (a) if its financial assets in the factoring business are more than fifty per cent of its total assets or such per cent as may be stipulated by the Reserve Bank; and (b) if its income from factoring business is more than fifty per cent of the gross income or such per cent as may be stipulated by the Reserve Bank.

Canbank Factors Ltd.

It is a subsidiary of CANARA BANK, a leading Public Sector Bank, reputed for its diversified and professional services. Incorporated in the year 1991, with Small Industries Development Bank of India (SIDBI) and Andhra Bank as co-promoters. A Non-Banking Financial Company and one of the leading factoring industry in INDIA, with a Factored Turnover of Rs.3734.57 crores (as on 31st March 2010) and it is governed by the regulatory norms of RBI.

This company continues to enjoy the highest rating of "P1+" by CRISIL for its Short Term Debt Programme of Rs. 400 crores. The assigned ratings reflect Canbank Factors Limited's (CBF) strong market position in the domestic factoring business and its comfortable earnings profile. While the inherent vulnerability of its asset portfolio (on account of the dominant exposure to small and medium enterprises) moderates CBF's credit profile, the company's demonstrated ability to maintain low delinquency levels is a key factor supporting the rating. The rating also reflects the strengths that CBF derives from its majority ownership by Canara Bank.

Services offered by the Canbank factors ltd.

- With recourse factoring with prepayment facility
- Undisclosed factoring
- Export factoring

- Invoice factoring

Objectives of the Study

- To study the concept of factoring business in India.
- To study the growth and profitability of CANBANK Factors Ltd.

Research Methodology

This study is based on secondary data. The required data were collected from the annual reports of CANBANK Factors Ltd.

Period of Study

The study period covers five years from 2017-18 to 2021-22.

Tools used

For the purpose of the analysis mean, standard deviation and compound annual growth rate were used.

Performance Analysis of CANBANK Factors Ltd.

Following table shows the financial performance of Canbank Factors Ltd.

Table 1 Financial Performance of Canbank Factors Ltd
(Rs.in lakhs)

Year	Income from Operations	Other Income	Total Expenses	Financial Expenses
2017-18	4844.58	67.66	9788.10	2452.72
2018-19	4202.32	76.66	4166.99	2270.09
2019-20	3558.31	2099.89	5099.32	2026.02
2020-21	3509.10	8137.32	11282.20	1636.46
2021-22	4339.56	5631.90	10798.01	2020.81
Total	20453.87	16013.43	41134.62	10406.1
Mean	4090.774	3202.686	8226.924	2081.22
SD	502.88	3195.88	2988.22	275.02
CAGR	-2.18	142.14	1.98	-3.80

Source : Annual Report of Canbank Factors Ltd.

Table 1 shows that the other income had the highest CGAR of 142% during the study period since collection of NPA contributes major source of other income. It was increasing from 2019-20 onwards.

Table 2 Profitability of Canbank Factors Ltd.
(Rs.in lakhs)

Year	Profit before Tax	Profit after Tax	Earning per share
2017-18	-4865.86	-5035.50	-25.18
2018-19	111.89	-160.35	1.36
2019-20	558.88	443.62	2.22
2020-21	364.22	255.35	1.28
2021-22	-826.55	-705.85	-3.53
CGAR	-29.85%	-32.49%	-32.50%

Source: Annual Report of Canbank Factors Ltd.

Table 2 shows that CGAR of profitability was negative for the study period due to highest fluctuations in profitability. Profits are decreased due to increase in NPAs of the same period. Earnings per share also showed a negative growth rate. It was positive during the year 2018-19 to 2020-21.

Table 3 Short Term Solvency Ratio of Canbank Factors Ltd.
(Rs.in lakhs)

Year	Current Assets	Current Liabilities	Current Ratio
2017-18	50939.59	44189.57	1.15
2018-19	60221.24	53437.91	1.13
2019-20	47160.85	39513.33	1.19
2020-21	46889.74	38940.22	1.20
2021-22	55942.17	63083.35	0.89
CGAR	1.89%	7.38%	

Source: Annual Report of Canbank Factors Ltd.

Table 3 showed that the current ratios during the study period, it was higher during 202-21 and the current assets had a CGAR of 1.89% it was less than current liabilities. It depicts poor liquidity position of the company during the same period.

Table 4 Table showing Non-Performing Assets of Canbank Factors Ltd.

Year	NPA	Percentage of inc./dec to the previous year
2017-18	5083.15	-
2018-19	3018.15	-40.62
2019-20	3677.62	21.85
2020-21	1300.21	-64.65
2021-22	847.25	-34.84
CGAR	-30.12%	

Source: Annual Report of Canbank Factors Ltd.

Table shows the details of NPA, it was decreased during 2018-19 and 2021-22 it showed that the NPAs were collected by the institution and it was increased during 2019-20 due poor analysis of credit worthiness of clients.

Problems in factoring in India

- There is no proper system of evaluating risk.
- Lack of common source of information.
- No proper legal protection of the factors.
- Limited funding sources.
- Expensive in nature because of its high operational cost, high stamp duty etc.,
- No proper credit evaluation system of clients.
- Not suitable for companies selling large members of small products to various types of peoples.
- Not suitable for speculative business, companies having larger bad debts, companies selling specialized items etc.,

Challenges faced by global factors operating in India

Indian Market is attractive ,but to get into it is not so easy for foreign markets There are various reasons for this .

- Factoring is a new concept which is not widely known among Indian business community . Because of the banks' failure to "educate" potential customers on its benefits.
- Debt recovery is very slow in India as compared to other developed countries comparison of duration of debt recovery case resolution in (calendar days).India – 1420 days where as on Average OECD – 351 days.
- Huge competition from Indian banks in this field .
- Increased interest rates impact sales either through increased financing costs or through reduced sales. Foreign factors faces lot of risk through a higher cost of capital and increased business risk as the credit risk of customers increases.
- In India assignment of debt is a very complicated process and involves stamp duty .Stamp duty varies from state to state in India . As a result the process becomes expensive by nature.
- No clear laws exist in India regarding transfer/assignment of debt, bankruptcy ,debt recovery etc as in other countries, so foreign operators have to face lots of problems.
- Also proper information access is very slow in India. NBFC operating as factors is a difficult proposition in India as compared to banking sector as there is no protection under Debt Recovery Tribunal or securitization act.

SUGGESTIONS AND CONCLUSION

Any one of the agencies approved by the government of India should take the responsibility of maintaining the database, which will be common to all institutions. Rescheduling the rules and regulations of factoring business to protect the

factors from legal problems and their investments. The government has to take the measure for reducing operational cost and stamp duty and other charges, if possible many companies may be involved with factoring business. Creditworthiness of the client should be examined before lending financial assistance.

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