A STUDY ON FACTORING WITH REFERENCE TO SBI GLOBAL FACTORS LIMITED

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ABSTRACT

Using the fundamental analysis, we have shown how factoring is beneficial to a company. There are very few concerns providing factoring services in India. The main objective of this study is to show that factoring is beneficial. We have used the ratio analysis and cashflow statement as a tool to find whether the company SBI global factors ltd limited has a good financial position or not. Fundamental Analysis (FA) is an approach to know about a business. If an investor wants to invest in a business for the long term, it becomes very essential to understand the business from various perspectives. In order to develop factoring in India one has to know its benefits and the profitability of the concern providing factoring services in long run. For this purpose, SBI Global Factors Ltd has been taken as an example to show the benefits of factoring by using its financial statements

Keywords: Factoring, Ratio Analysis, Cashflow Statement.

INTRODUCTION:

"Factoring means an arrangement between a factor and his client which includes at least two of the following services to be provided by the factor: Finance, Maintenance of debt, Collection of debts, Protection against credit risk".

However, the above definition applies only to factoring in relation to supply of goods and services: (i) across national boundaries; (ii) to trade or professional debtors; (iii) when notice of assignment has been given to the debtors. Domestic factoring is not yet a well-defined concept and it has been left to the discretion of legal framework as well as trade usage and convention of the individual country.

In India factoring is undertaken by different bank subsidiaries like SBI Global Factors Ltd and Commercial Services Ltd. Promoted by SBI and Canara Bank Factors Ltd. promoted jointly by Canara Bank, Andhra Bank and SIDBI.

ABOUT SBI GLOBAL FACTORS LTD:

SBI Global Factors Ltd., a non-banking financial company, provides factoring services in India. It services also include domestic and export factoring, dealership factoring, vendor factoring, and discounting of domestic and export bills under letter of credit. The company offers finance against receivables, credit protection, collection, and professional sales ledger management and MIS services, as well as e-platform, an online portal to upload invoices on the systems, acknowledge invoices online, and raise disputes. SBI Global Factors Ltd. was formerly known as Global Trade Finance Ltd. and changed its name to SBI Global Factors Ltd. in May 2010. SBI Global Factors Ltd. operates as a subsidiary of State Bank of India.

SCOPE OF THE STUDY:

This study focuses on the performance of factoring company and their position in Indian market. A factoring company has been taken as a sample and analysis has been made using financial tools.

OBJECTIVES:

- To evaluate the performance of a factoring company in India – SBI Global Factors Limited.
- To analyse the benefits of factoring.
- To analyse the working and SWOT of Factoring company

SOURCE OF DATA:

The present study is primarily based on secondary data. The data collected has been properly classified and analyzed with the help of financial tools such as working capital and ratio analysis, to make the present evaluation meaningful.

PERIOD OF THE STUDY:

A period of 2 years has been taken for the study 2017 and 2018.

TOOLS USED FOR THE STUDY:

The following tools have been applied in the study

- Cash Flow Statement
- Ratio Analysis

LIMITATIONS:

The Data available for the study are subject to a few limitations which are as follows:

➢ The study in the view point of client has been made on projection basis which will not be accurate.

➢ The study is only for the periods from 2017-18; the changes that took place before and after this period were not taken into consideration.

➢ This project is based on secondary data therefore it may not be reliable.

➢ The study is not futuristic it is framed based on situation that has happened (Pre-historic situation)

REVIEW OF LITERATURE:

➢ HIMACHALAM, J. JANARDHANAM, M. SHANKARA AND M. MADHUSUDHANA (2000) studied the problems faced in factoring services. It includes a bsence of professional management, ascertainment of reliable information, collection of dues from clients, inadequate legal provisions for recovery. It was further observed that spread of information about the usefulness of the factoring services among the industrial community so as to make themselves to use this facility on a wider scale.

➢ K. MITTAL(1997)found that factoring services are yet to be fully ingrained in the Indian financial systems. The study further reveals that there is need to extend the service on non-recource basis. The study indicates that lot of promotional effort are needed to popularise the services

ANALYSIS:

RATIO ANALYSIS:

A ratio analysis is a quantitative analysis of information contained in a company's financial statements. Ratio analysis is used to evaluate various aspects of a company's operating and financial performance such as its efficiency, liquidity, profitability and solvency.

DEBT EQUITY RATIO: The Debt/Equity (D/E) Ratio is calculated by dividing a company's total liabilities by its shareholder equity. These numbers are available on the balance sheet of a company's financial statements. The ratio is used to evaluate a company's financial leverage. The debt/equity ratio is also referred to as a risk or gearing ratio. The formula for calculating the D/E ratio is: TOTAL LIABILITIES/ TOTAL SHAREHOLDER EQUITY

TABLE: 1

Table Showing Debt Equity Ratio of SBI Global Factors Ltd

Particulars	2018	2017

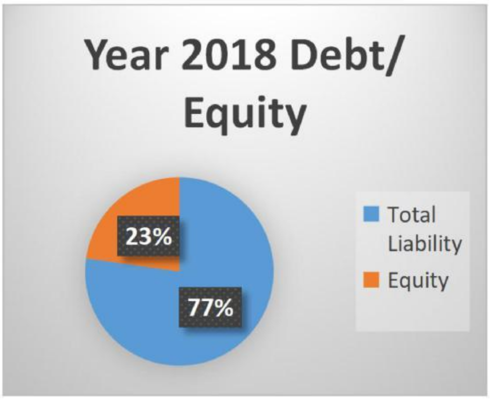
Total liabilities	108706	85558
Total Shareholder's Equity	32058	32382
Debt/ Equity Ratio	3.39	2.64

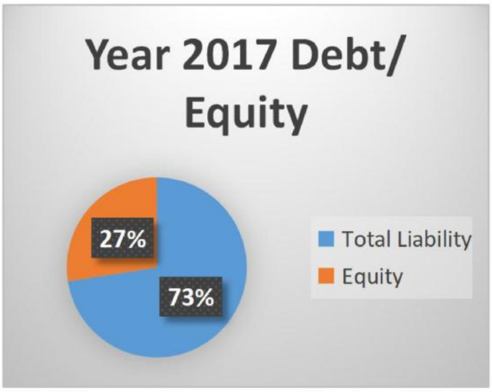
INTERPRETATION:

It is clear from the table that the Debt Equity Ratio is less than 4 as per the norms. Having a 7debt equity ratio less than 4 shows that the company is performing well. In the year 2017 the debt equity ratio was 2.64 and in the year 2018 the ratio has been increased to 3.39 which shows a good financial position of the company.

CHART: 1

Chart Showing Debt Equity Ratio of SBI Global Factors Ltd





LONG TERM LIABILITY MIX:

Long-term liabilities are financial obligations of a company that become due more than one year. In accounting, they form a section of the balance sheet that lists liabilities not due within the next 12 months including debentures, loans, deferred tax liabilities and pension obligations. The current portion of long-term debt is excluded to provide a more accurate view of a company's current liquidity and the company's ability to pay current liabilities as they become due.

TABLE: 2

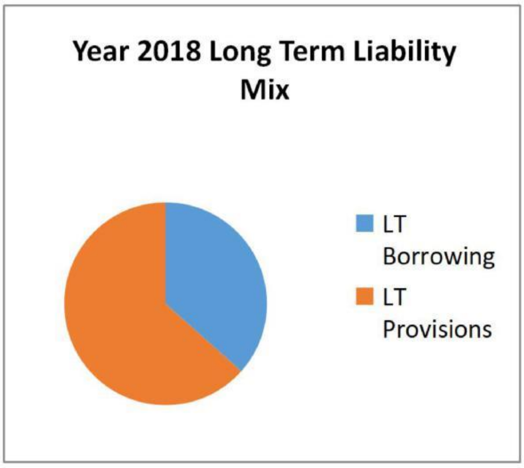
Table Showing Long term liability mix of SBI Global Factors Ltd

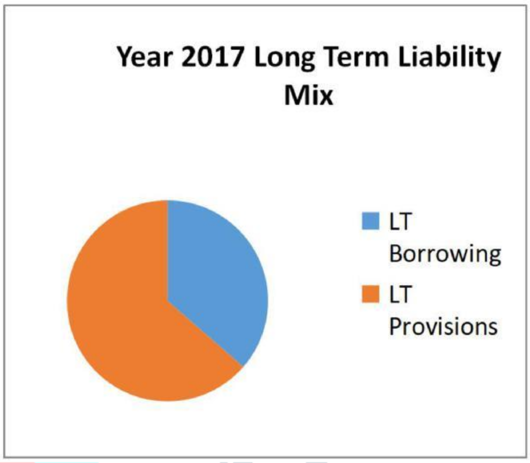
Particulars	2018	2017

Long Term Borrowing	15000	15000
Long term provisions	26009	26200

CHART: 4.2

Chart Showing Long Term Liability Mix of SBI Global Factors Ltd





Where the Long term borrowing of the company is the unsecured loan received as debentures which is not repayable immediately. Long term provisions are made for the following:

i) Bad and doubtful debts on non-performing assets

ii) Bad and doubtful debts on non performing investments

iii) Provision against standard assets

iv) Provision for leave encashment

These provisions are ought to be made mandatorily as per the banking norms. **CASHFLOW**

STATEMENT

The purpose of the cash flow statement is to show where an entities cash is being generated (cash inflows), and where its cash is being spent (cash outflows), over a specific period (usually quarterly and annually). It is important for analysing the liquidity and long-term solvency of a company. The cash flow statement uses cash basis accounting instead of accrual basis accounting which is used for the balance sheet and income statement by most companies. This is important because a company may accrue accounting revenues but may not actually receive the cash. This could produce profits and taxes payable but not provide the resources to stay solvent.

The cash flow statement components provide a detailed view of cash flow from operations, investing, and financing.

TABLE: 3

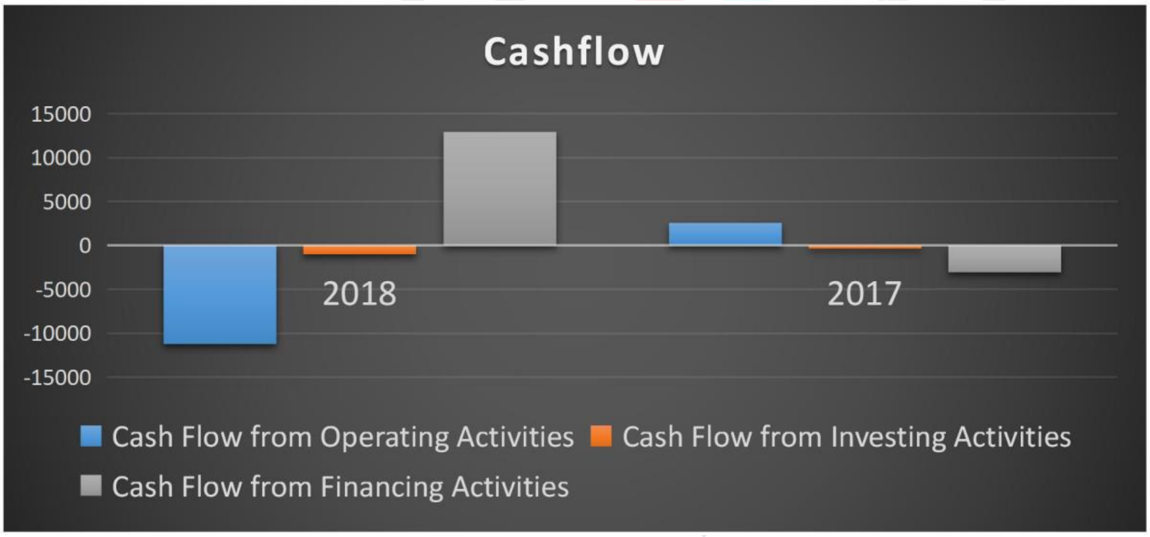
Table Showing Cash Flow Statement of SBI Global Factors Ltd

Particulars	2018	2017
Cash Flow from Operating Activities	-11188	2543
Cash Flow from Investing Activities	-979	-324
Cash Flow from Financing Activities	12956	-3077

It is clear from the table that the financing activities of the SBI Global Factors Ltd has increased from -3077 to 12956 which shows that the company has a very good cash inflow from financing activities.

CHART: 3

Chart Showing Cash Flow Statement of SBI Global Factors Ltd



FINDINGS AND SUGGESTIONS

FINDINGS:

- Debt Equity Ratio - The Debt /Equity ratio is less than 4 as per the norms in all the years the company is performing well.
- Long Term Liability Mix - The Long term borrowing of the company is the unsecured loan received as debentures which is not repayable immediately.

- Cash flow statement - It can be noted that the net cash flow from financing activity shows an increase from negative cash (3077) to positive (12956) which indicates that the company has enough fund received from its investors

SUGGESTIONS:

- SBI Global Factors Ltd has a very good profitability position so it can encourage more customers to undertake factoring services by giving various concessions to its customers.
- Instead of operating purely as standalone outfits, Factors should consider joining hands with entities where mutually beneficial product solutions can be designed and offered. For instance, alliance with smaller banks for funding receivables of their small clients can be done. The bank can continue to fund against stocks and get all receipts into the current account. The factors can fund receivables (fully or partially) with some fee sharing. The bank would get the added benefit of collection services from the factor and cross sell services like CMS.
- Factors need build technology platforms to offer a seam receivables finance services. E commerce majors like Flipkart, Snapdeal, Amazon etc. already have dedicated divisions for financing vendors. High time that the Factoring companies got in. The future lies here.

CONCLUSION:

From the above analyse it is understood that factoring is more beneficial be it in factoring company point of view or customers point of view. There have been various measures undertaken recently in trying to address the challenges faced by the factoring industry, and increase the scope for factoring across the country. The Enactment of the Factoring Regulation Act, 2011, was done with the aim of regulating assignment of receivables in favour of factors, and delineating the rights and obligations of parties to assignment of receivables. The RBI has introduced factors as a new category of non-banking financial company (NBFC).

SWOT ANALYSIS

STRENGTH:

- This type of finance shortens the cash collection cycle. It provides swift realization of cash by selling the receivables to a factor.
- By selling off invoices, business managers can feel stress-free of the task of collection from the customers.

- Factoring companies offer quicker application, lesser documentation and swifter realization of funds as compared to other financial institutions.

WEAKNESS:

- The factor assesses and evaluates credit wellness of the party who owes bills receivables. A factor may refuse to extend advances due to poor credit ratings of the concerned party.
- Factors usually deduct 2% to 4% of the total amount involved as their fees for the duration of 45-60 days. Computing it annually, the cost of finance turns out to be around 18% to 24% p.a.

OPPORTUNITIES:

- Banks are usually willing to provide factoring companies with a warehouse line of credit in order to engage in business focused lending activities.
- Once an on-going relationship is developed, the risks associated with purchasing invoices are significantly ameliorated.

THREATS:

- The regulatory environment regarding lending is constantly changing. Again, as factoring companies deal with businesses, no much is expected to change in regards to this type of lending and financing. The primarily risk faced by these companies stems from competitive issues from banks that frequently provide asset based lending.
- External fraud by clients: fake invoicing, misdirected payments, pre-invoicing, not assigned credit notes, etc. A fraud insurance policy and subjecting the client to audit could limit the risks.
- Operational risks, such as contractual disputes.

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