CHAPTER - III

PROFILE OF SBI FACTORS & COMMERCIAL SERVICES PRIVATE LIMITED AND CANBANK FACTORS LIMITED

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SBI FACTORS

SBI, the premier bank in India, responding to the call given by RBI started its factoring subsidiary in 1991. SBI factors and commercial service Private Limited was jointly promoted by SBI and two of its associated banks (State Bank of Indore and State Bank of Saurashtra) along with Small Industries Development Bank of India and Union Bank of India. SB! Factors being the pioneers of factoring in India has played a pivotal role in popularizing the concept of factoring in India.

➢ Goal

SBI Factors aims to be the best and most successful factoring company in India.

➢ Focus

SBI Factors focuses its attention on Client Satisfaction. The company’s next big thing is increasing business and profits.
➢ Strategy

The company desires to do everything in a professional way and hence framed the strategy “Do things in a professional way”. It is a call to all the individuals and groups working in the company.

➢ Motto

SBI Factors believes that progress and prudence should go together. Thus the motto “Progress with prudence” was framed.

❖ FACTORING

Factoring is a collection and financing service designed to improve the client’s cash flow, turning the client’s credit sales invoices into ready cash.

Through factoring, SBI Factors agrees to:

- Factor the clients invoices on a continuing basis:
- Pre-pay upto 80% of the value of the invoices immediately;
- Perform the accounting function of sales ledger maintenance and
- Function and realizing invoices factored.
❖ BRANCHES

Reserve Bank of India permitted “State Bank of India”, jointly with State Bank of Indore, State Bank of Saurashtra, Small Industries Development Bank of India and Union Bank of India to start factoring services in northern region.

At present SBI Factors has ten branches at Mumbai, Vadodara, Pune, Delhi, Coimbatore, Chennai, Hyderabad, Ludhiana, NarimanPoint-Mumbai, and Bangalore. It has so far financed over 1106 clients out of which about 40% of clients are from small scale Industries.

❖ FACTORING CHARGES

➢ Finance Charge

· Finance charge is computed on the pre-payment outstanding in the clients account at monthly intervals. Factoring can be a cheap source of funds provided clients organize their drawls from factors.

➢ Service Fee

Service charge is a nominal charge levied at monthly intervals to cover the cost of service, viz., Collection, sales ledger management and
periodical MIS reports. It ranges from 0.1% to 0.3% on the total value of invoices factored / collected by factors.

For 30 days = 0.1%
60 days = 0.2%
90 days = 0.3%

➢ Lending at preferential rates

SBI Factors has recently launched factoring facilities at highly competitive rates i.e. at the finest rates matching the Prime Lending Ratio (PLR) of banks to top rated corporates. It has raised the capital for lending to these corporates from Rs.6 crores to Rs.7.50 crores.

For delayed payments beyond the approved credit period, a penal charge of 1% for the first 30 days and 2% for delay beyond 30 days on the entire outstandings over and above the finance charge is levied.

❖ SBI FACTORS - NORMAL REQUIREMENTS

✓ Satisfactory opinion report on the customers should be proposed to SBI Factors from their banks.
✓ Letters from customers agreeing to make direct payment to SBI factors.
Letter of disclaimer from working capital banker (consortium leader, where applicable) releasing the charge on the receivables of the customers proposed for factoring.

Normally one or more of the following securities are stipulated:

- Charge on debt of the factored customers (to be registered with Registrar of Companies).
- Second charge on current assets / suitable collateral.
- Personal guarantees of the promoters.

**CREDIT RATING AND RESOURCES MOBILISATION**

ICRA continues to assign the highest rating of “AI+” for short-term debt instruments issued by the company, which indicates the highest degree of safety with regard to timely payment of principal and interest. The surveillance by ICRA for credit rating was carried out periodically. In order to diversify the borrowings, the company has gone in for a higher amount of rated borrowing programme. For augmentation of TIER-II capital, company has obtained credit rating from ICRA as well as CARE. ICRA has assigned LAAA and CARE has assigned AAA, which are the highest rating for such a float.
CONSERVATION OF ENERGY, TECHNOLOGY UPGRADATION & FOREIGN EXCHANGE EARNINGS & OUTGOINGS

Since the company is engaged in providing financial and allied services and has no activity pertaining to manufacturing, furnishing of details pertaining to conservation of energy and technology upgradation outgoings is not applicable. As regards Technology upgradation, the company has decided to change the software with a distributed database to a centralized database with on-line connectivity between the corporate office and the branches.

INTERNAL CONTROL AND AUDIT

An internal team of the Company conducts internal audit of the Branches/Corporate Office to cover areas such as internal control, documentation, credit management, compliances, systems and procedures and adequacy thereof, etc., at quarterly intervals. These reports are focused and comprehensive and the deficiencies pointed out therein have been attended to and rectified to a very large extent.
CORPORATE GOVERNANCE

The Board of Directors has ensured compliance by the Company with the various legal requirements and the directives of the regulatory authorities. The systems and procedures of the Company are being continuously reviewed to ensure efficient and effective operations facilitating customer satisfaction, internal control and monitoring and the business growth. Audit findings and actions thereon are regularly reported to and reviewed by the Audit Committee of Directors.

➢ BUSINESS OUTLOOK AND FUTURE PROSPECTS

Interest rate outlook has undergone a significant change over the years with hardening of interest rates. Liquidity position in the market has tightened very considerably raising cost of bank, market borrowings, interest rate spread has come down even though contribution has been higher due to volume growth.

SBI Factors plans for increasing focus on SME segment by opening at least 2 to 3 new branch offices. They aim at reducing NPA levels further through recoveries. To minimize fresh NPAs, credit processes are being strengthened and criteria for customer selection are being streamlined.
CANBANK FACTORS LIMITED

Canbank Factors is a pioneer in the field of factoring service in India. It was incorporated in the year 1991. Canbank Factors is the subsidiary of Canara Bank, a leading public sector bank reputed for its diversified and professional services. Andhra Bank and Small Industries Development Bank of India are the co-promoters. Canara bank has 70% market share in the business.

Canbank Factors has a place in southern region and there is another factoring company which is providing the service in eastern region as a subsidiary of United Commercial Bank, United Bank of India and Allahabad Bank.

Mission is “to enhance your cash flow and assist your business thrive and grow”.

Business is “to convert your accounts receivable into instant cash as soon as you bill your customers”.

Commitment is “to continue to remain in the forefront by constantly upgrading our products and bettering our services to meet the demands of our clients.”
❖ BASIC COMPONENTS OF SERVICES OF CANBANK FACTORS

- The company finances generally up to 80% of the invoice value and in exceptional cases up to 100% of the invoice value.
- Sales ledger administration.
- Debt collection services and credit.

❖ BRANCHES

Reserve Bank of India permitted Canara Bank, Andhra Bank and SIDBI to start factoring services in southern region. So Canbank Factors has the place in southern region.

Presently Canbank Factors operates from Bangalore and it has registered office and branches at Chennai, Hyderabad, Coimbatore, Hosur, Mumbai, Pune and New Delhi. It has a plan to expand its business by opening branches at potential centers like Chandigarh.

➢ TURNOVER AND FUNDS-IN-USE

Canbank Factors has crossed the Rs. 1000 crores mark in turnover in a single year and achieved a turnover of Rs. 1026 crores in 2001-02. It
is pertinent to note that this feat has been achieved by the company despite the slowdown/recessionary trends.

The funds deployed in the business i.e., funds-in-use also registered growth and it stood at a higher level of Rs. 176.45 crores registering a growth of 12%.

The average deployment of funds i.e., average funds-in-use, which is the barometer of the growth in consistent deployment of funds has increased and stood at a higher level of Rs. 134.67 crores registering an increase of 11%.

The economic slowdown had affected many sectors of the economy and there was stiff competition from banks. Despite this, the company, due to the aggressive marketing efforts, has been able to add up new clients of 685 members.

Canbank factors continues to remain the NUMERO UNO position in the industry. The company is in the number one position in case of turnover and funds-in-use.
Service Fee

Service charge is a nominal charge levied at monthly intervals to cover the cost of service, viz., Collection, sales ledger management and periodical MIS reports. It ranges from 0.10% to 1.00% on the total value of invoices factored / collected by factors.

For 30 days = 0.1%
60 days = 0.2%
90 days = 0.3%

The macro economic conditions of the economy necessitated RBI to increase the policy rates and reserve ratio twice to contain the inflation in the economy. This has further affected the money supply and the interest rate had started moving northwards swiftly. The market witnessed very volatile interest rate situation and were offered by Banks for bulk deposits.

In general the money market was flush with funds and Business / Industry were able to tap cheap sources of funds through commercial paper, unsecured bonds FCCR loans, MIBOR linked loans etc. coupled
with this the commercial banks have become very aggressive in structuring loan products and offer attractive rates of interest. In view of economic recession experienced in the economy, there were a few good borrowers. Most of the funding institutions lured them with attractive offers. This has prompted the borrowers to demand super fine interest rates for their requirements.

In this scenario the popular money market debt instruments like short term non convertible debenture, commercial paper and corporate loans from banks had become very scarce or if available it was priced very high. All the Public Sector Banks and Private Sector Banks have increased their lending rates. Despite these macro economic developments, the clients in general are unwilling to accept the increase in the charge structure and expressed stiff resistance to the increase in the rates.

➢ RESOURCES AND DEVELOPMENT

Canbank Factors continues to source funds through cheaper avenues. It has sourced funds by issue of paper at competitive rates to the extent of Rs.40 crores and the issues were subscribed by leading public sector banks. The company has also sourced funds through foreign
currency loan of US $ 4 million sanctioned by Canara Bank at 6 months LIBOR+1%.

The company continues monitoring of mobilization of funds and the effective day-to-day management of transaction helped Canbank Factors to reduce the cost of funds which has resulted in maintaining the spread of the company, despite the reduction in yields on discount/service charge on account of the rationalization exercise carried out by the company.

Canbank Factors continues its focus on financial management and it proposes to tap other avenues like MIBOR linked borrowings, issue of bonds / debentures, etc.

➢ RESERVES AND SURPLUS

Canbank Factors always maintains an adequate amount as reserves. The reserves include transfer from profit and loss account. Canbank Factors has statutory reserve and also reserve for contingencies. The reserves and surplus increase year after year.
NEW PRODUCT AND BRANCH EXPANSION

Canbank Factors introduced invoice discounting, a variant of "undisclosed factoring" during October 2001. The product has been very successful and accepted by the clients. This product has been offered by the Chennai, Bangalore, Mumbai, New Delhi and Coimbatore branches.

The export factoring activity gained momentum and has done a total business of US $3.34 million. The exports were mainly to Czech Republic, Italy and USA.

REGISTRATION WITH RBI, CREDIT RATING AND PRUDENTIAL NORMS

The Canbank Factors has terminated the scheme of Acceptance of Deposits from the public and thereby converted itself to the status of a "Non Deposit Taking-Category B Company" by the Reserve Bank of India. The company has been registered with the Reserve Bank of India under the registration number 02.0004 dated 01.12.1997. The rate assigned to company's Short-term Debt programmes is being continued as "P1+" by CRISIL.
Canbank has been rated "FAA+" by CRISIL indicating high degree of safety. At present, it offers interest at 6.75% p.a compounded monthly and deposits are accepted for 12 months and 7% for deposits for 15, 18, 21 and 24 months.

Canbank factors issues Commercial Paper for Rs.500 million short-term debt programme, it has been rated P1+ by CRISIL indicating highest safety (very strong). For Rs.250million non-convertible debenture programme, Canbank factors has been rated AA indicating high degree of safety by CRISIL.

REGULATIONS OF NON BANKING FINANCIAL COMPANIES

In order to provide effective supervision and control over Non Banking Financial Companies, RBI brought into force a new regulatory framework to protect the interest of the depositors. The thrust of the regulations was on prudential norms, capital adequacy and provisional requirements of Non-Banking Financing Companies.
A brief note on them includes:

- An exclusive identity for factoring in the company being placed alongside a number of Non-Banking Financial Companies in this field.

- Canbank factors predominantly finances receivables and effectively acts as a complementary body to financing Banks, taking in only a small portion of post sale credit dispensation.

- Recourse to Banks / Financial Institutions is not included the company in the RBI Regulations / Guidelines.

- Canbank Factors is taking up appropriate level.

Canbank Factors has planned to expand its business by opening branches at potential centers like Chandigarh and Ahmedabad. Canbank factors is contemplating to strengthen the long term requirements of capital by issuing rated unsecured bonds to provide necessary support for the business expansion plan envisaged by the company.
CONCLUSION

Globally many businesses with millions of customers avail the facilities provided by Factoring Companies to settle their trade receivables. Factoring provides them the benefit of continuous cash flow, reduced administration cost with credit protection. Selling international accounts receivable to "Factors" is a flexible way of managing trade debts. The goods can be sold on open account terms and factor provides professional help with credit control, debt collection and sales accounting.

SBI and Canbank factors are the pioneers in rendering factoring services in India. They introduced innovative financial services to SSI, SME and Other business enterprises both in India and in abroad. Both the factors maintain an adequate amount of reserves and also they provide necessary support for the business expansion of their clients.