CHAPTER -V

FACTORING SERVICES IN INDIA: LESSONS FOR BANGLADESH
This chapter aims at analyzing and evaluating the operational and financial performance of factoring companies in India in order to draw lessons for Bangladesh.

Bangladesh has common regional and economic characteristics with India. The experience of India might work as a model for Bangladesh to introduce factoring services, of course, within her own socio-economic frame. The factoring services made an entry into India with deliberate attempt supported by the industrial organisations and academicians as a step forward to upgrade economy, in the year 1991. To introduce these services, for the first time, ‘Working group on Money Market’ popularly known as ‘Vaghul Committee’ was constituted in 1987 which strongly recommended for developing a system of factoring the sales, particularly of small scale units (Sengupta et. al. 1991, p.29). Later, the ‘Study Group for Examining Introduction of Factoring Services in India’ popularly known as Kalyanasundaram Committee, which was appointed by RBI in 1988, found an abundant scope for factoring services and strongly advocated for the introduction of these services in India (Kuvalkar 1997, p.1). The said committee viewed that only four or five banks either individually or jointly could be allowed to start these services on zonal basis. The RBI accepted the findings of the committee and permitted both the State Bank of India and Canara Bank to start factoring services through their subsidiaries. Accordingly, two factoring companies in India i.e. SBI Factors and Commercial Services Limited¹, and Canbank Factors Limited sponsored by the State Bank of India and Canara Bank, respectively, commenced operations in 1991. Subsequently, Integrated Finance Company Limited, and Foremost Factors Ltd. also started factoring business. But their activity is too small to take any cognizance of. However, SBI Factors and Canbank Factors Limited are the market leaders as the companies are promoted by major banks.

¹. For short, in the text, only 'SBI Factors' has been used in place of 'SBI Factors and Commercial Services Limited'
In order to achieve the main objective of this chapter stated above, the chapter deals with the operational and financial performance of factors in India (Part I), and the Indian experiences on organizational, strategic, operational, and policy aspects of the factoring business (Part II).

**Part I**

1. The keenness of implementing a financial service mostly depends on uniqueness of this service. The uniqueness reflects in the operational performance, risk management ability, and profitability performance of the financial institutions, which render this service. Cooper (1995, p. 21) in his work on 'how to launch a new product successfully' has expressed the same view. India introduced this service way back in 1991. Nine years is a good period to evaluate the operational performance, risk management ability, and profitability performance of the factoring companies.

2. Operational Performance

2.1. Operational performance is a labor room for profitability and risk management of a financial institution like other organisations. Data and relevant calculations on various aspects of operational performance of SBI Factors and Canbank Factors Limited like turnover, debt purchase outstanding, collections, and industry-wise exposure are placed in Table 5.1 and Graphs 5.1, 5.2, 5.3, 5.4(a), 5.4(b), respectively.

2.2.1. Turnover

SBI Factors has achieved turnover of Rs. 471.80 crores in 1998-1999 as against Rs. 119.7 crores in 1992-1993 with annual average of Rs. 327.04 crores. In 1995-1996, it recorded an impressive growth rate of
## TABLE 5.1

### Operational Performance of SBI Factors and Commercial Services Ltd. and Canbank Factors Ltd.

<table>
<thead>
<tr>
<th>Years</th>
<th>Turnover (Rs in Crores)</th>
<th>Debt Purchase Outstanding (Rs in Crores)</th>
<th>collection (Rs in Crores)</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>SBI Factors and</td>
<td>SBI Factors and</td>
<td>SBI Factors and</td>
</tr>
<tr>
<td></td>
<td>Commercial Services Ltd.</td>
<td>Commercial Services Ltd.</td>
<td>Commercial Services Ltd.</td>
</tr>
<tr>
<td></td>
<td>Amount</td>
<td>Index</td>
<td>Amount</td>
</tr>
<tr>
<td>1992-1993</td>
<td>119.70</td>
<td>100.00</td>
<td>162.36</td>
</tr>
<tr>
<td>1993-1994</td>
<td>162.55</td>
<td>135.80</td>
<td>315.00</td>
</tr>
<tr>
<td>1994-1995</td>
<td>202.51</td>
<td>169.18</td>
<td>475.00</td>
</tr>
<tr>
<td>1995-1996</td>
<td>434.00</td>
<td>362.57</td>
<td>493.43</td>
</tr>
<tr>
<td>1996-1997</td>
<td>438.14</td>
<td>366.03</td>
<td>476.00</td>
</tr>
<tr>
<td>1997-1998</td>
<td>460.58</td>
<td>384.15</td>
<td>468.00</td>
</tr>
<tr>
<td>1998-1999</td>
<td>471.80</td>
<td>394.15</td>
<td>581.0</td>
</tr>
<tr>
<td><strong>Annual average</strong></td>
<td>327.04</td>
<td>394.15</td>
<td>581.0</td>
</tr>
<tr>
<td><strong>Average per annum growth rate (%)</strong></td>
<td>30.53</td>
<td>27.93</td>
<td>32.97</td>
</tr>
<tr>
<td><strong>Compound growth rate (%)</strong></td>
<td>27.98</td>
<td>17.77</td>
<td>30.57</td>
</tr>
</tbody>
</table>


**Sources:**
1. Annual Reports of various years of SBI Factors and Commercial Services Ltd., and Canbank Factors Ltd.
2. Various booklets of SBI Factors and Commercial Services Ltd., and Canbank Factors Ltd.
Graph 5.1
Year-wise Turnover of SBI Factors and Commercial Services Ltd., and Canbank Factors Ltd. (During Last Seven Years)
114.31 per cent over the year 1994-1995. Turnover has gone up by 3.94 times during the reference period. Average per annum growth rate of turnover comes to 30.53 per cent and compound growth rate comes to 27.98 per cent for SBI Factors.

Canbank Factors Ltd. has recorded turnover of Rs. 581.00 crores in 1998-1999 as against Rs. 162.36 crores in 1992-1993, with annual average of Rs. 424.4 crores. It has registered a remarkable growth rate in the two consecutive years namely 94.01 per cent in 1993-1994 and 50.79 per cent in 1994-1995 over the previous year. Average per annum growth rate stands at 27.93 per cent and compound growth rate at 17.77 per cent.

It is revealed that both the companies have booked a good volume of turnover with an impressive growth rate before 1995-1996, thereafter it is either a very slow growth rate or a negative growth rate.

The Mann-Whitney’s U test shows that year-wise turnover of SBI Factors and Canbank Factors Ltd. over the entire period of analysis is same.

2.2.2. Debt Purchase Outstanding

The average debt purchase outstanding of SBI Factors stands at Rs. 79.78 crores during the period 1992-1993 to 1998 to 1999 and the amount varies from Rs. 28.52 crores in 1993-1994 to Rs.132.36 crores in 1998-1999. SBI Factors registers average per annum growth of 32.97 per cent and compound growth rate of 30.57 per cent. For Canbank factors, the range of debt purchase outstanding is between Rs. 45.29 crores in 1992-1993 and Rs.170.49 crores in 1998-1999 with annual average at Rs. 98.82 crores. It achieves average per annum growth of 26.59 per cent and compound growth rate of 19.35 per cent. In addition, debt-purchases have gone up by 4.15 times and 3.76 times over the period for SBI Factors and Canbank Factors Ltd., respectively.
Graph 5.2
Year-wise Debt-purchase Outstanding of SBI Factors and Commercial Services Ltd., and Canbank Factors Ltd. (During Last Seven Years)
The U test shows that there is no difference between the year-wise debt purchase outstanding of SBI Factors and that of Canbank Factors.

2.2.3. Collections

SBI Factors has recorded Rs. 301.42 crores for average collection amount during the period 1992-1998-1999. The amount of collections varies from a maximum Rs. 438.82 crores in 1998-1999 to a minimum of Rs. 82.55 crores in 1992-1993. This amount has gone up by 5.31 times during the period and maintains a good upward growth trend with an average per annum growth rate of 40.85 per cent and a compound growth rate of 32.69 per cent.

For Canbank Factors, the average collection amount stands at Rs. 403.75 crores during the period whereas year-wise amount of collection varies from Rs. 143.07 crores in 1992-1993 to Rs. 521.11 crores in 1998-1999. It achieves collection amounts 3.64 times more in 1998-1999 as against 1992-1993. The average per annum growth rate and compound growth rate is 29.01 per cent and 26.93 per cent respectively.

It is revealed that the collection machinery is doing better in the case of SBI Factors as compared to Canbank Factors due to the systematic and vigorous collection system of SBI Factors. But according to the U test, there is no statistically significant difference between the performance of SBI Factors and that of Canbank Factors Ltd. on this criterion.

2.2.4. Industry-wise Exposure

The diversified portfolio of a financial institution ensures certainty about returns. Industry-wise exposure of SBI Factors consists of manufacturing, trading, and service sectors (Graph 5.4(a)). These sectors...
Graph 5.3
Year-wise Collection of SBI Factors and Commercial Services Ltd., and Canbank Factors Ltd. (During Last Seven Years)
Graph 5.4(a)
Industry-wise Exposure of SBI Factors and Commercial Services Ltd.
(As at March 31, 1999)
include chemicals and fertilizers; plastic / polypropylene / packaging; metal containers / extruded parts / auto ancillaries; trade and services; consumer durable; printing inks / paints; and miscellaneous. Of them, chemical and fertilizers (21%), plastic / polypropylene / packaging (18%) and metal containers / extruded parts / auto ancillaries (17%) hold the maximum share of total exposure. Trade and service sector, which is being covered since 1994-1995, holds a considerable share i.e. 14 per cent of the total exposure. The clients of Canbank Factors are mostly from auto ancillaries; bulk drugs; cable; automobile; chemicals; distilleries, paper; engg-gen; packaging; textile; steel; electronics; trading and others {Graph 5.4 (b)}. Of them, engg-gen (18.72 per cent), elec/E/mcs (12.36 per cent); auto ancillaries (17.76 per cent) hold a double figure percentage of the total exposure. As against these, trading sector takes only 2.5 per cent whereas service sector has no figure till now.

It emerges from the analysis that industry- wise exposure of Canbank Factors Ltd. is more diversified than that of SBI Factors. However, SBI Factors has mentioned in its annual report that with a view to having a well- diversified portfolio of assets, the company takes care to select clients from a wide range of industries. Moreover, SBI Factors is doing well in the trade and service sector with 14.00 per cent of the total exposure as compared to Canbank Factors, which has 2.5 percent of the total exposure, that too only for the trade sector.

2.3 In brief, it is seen that the portfolio of Canbank Factors is more diversified than that of SBI Factors whereas collection performance is better for SBI Factors as compared to Canbank Factors Ltd. In case of turnover and debt purchase outstanding they show almost the same picture – during the reference period. However, both the companies have shown better performance till 1995-1996, thereafter they follow a slow growth trend.
Graph 5.4(b)
Industry-wise Exposure of Canbank Factors Ltd.
(As at March 31, 1999)

- Bulk Drugs: 12%
- Automobiles: 10%
- Trading: 9%
- Steel: 7%
- Packaging: 6%
- Paper: 4%
- Chemical: 2%
- Auto Ancillaries: 3%
- Cable: 4%
- Others: 19%
- Elec/ Elec/ Nics/ Comp: 2%
- Textile: 4%
- Engg-Gen/ PDRY: 3%
- Distilleries: 6%
- Cement: 2%

Industry-wise Exposure of Canbank Factors Ltd.
(As at March 31, 1999)
3. Risk Management

3.1. Risk Management is an integral part of the management of financial institutions’ funds. Financial institutions must make sure that they are compensated with earnings proportionate to the risk they expose to, and they must balance the levels of risk that exists within and among their various portfolios. Financial institutions, should, therefore, consider how much risk could be taken to achieve the highest yields without compromising the safety of their funds.

With a view to assessing as to what extent both the factoring companies are efficient in managing their risks, the following ratios are used and presented in Table 5.2 and the following inference can be drawn.

3.2.1. Capital Adequacy Ratio

The capital adequacy ratio of SBI Factors, calculated on the basis of Reserve Bank of India’s (RBI) guidelines, works out to 37 per cent as on the 31st March 1999. The ratio in the rest of the reference period is in the range of 210 per cent in 1993-1994 to 37 percent in 1998-1999. The capital adequacy ratio of SBI Factors is much higher than the minimum capital adequacy ratio stipulated by RBI. For Canbank

1. Encyclopedia of Banking and Finance (ed.) by Charles J. Woelfel has prescribed eight ratios for analyzing risk of a bank or a financial institution. Of them, the most relevant five ratios are used for analyzing the associated risk of factoring companies.

2. RBI has, in its guidelines issued to Non-banking Financial Companies in January 1998, directed that they should achieve a capital adequacy ratio of at least 10 per cent by 31-03-1998 and 12 per cent before 31-03-1999 (Annual Report 1997-1998, SBI Factors and Commercial Services Ltd.)
# TABLE 5.2

## Ratios Relating to Risk Management of SBI Factors and Commercial Services Ltd., and Canbank Factors Ltd.

<table>
<thead>
<tr>
<th>Years</th>
<th>Capital Adequacy</th>
<th>Plough Back to Shareholders Equity</th>
<th>Non Performing Assets Ratio</th>
<th>Loan to Equity</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>SBI Factors and Commercial Services Ltd.</td>
<td>Canbank Factors Ltd.</td>
<td>SBI Factors and Commercial Services Ltd.</td>
<td>Canbank Factors Ltd.</td>
</tr>
<tr>
<td></td>
<td>Required</td>
<td>Kept</td>
<td>Required</td>
<td>Kept</td>
</tr>
<tr>
<td>1992-1993</td>
<td>8</td>
<td>133</td>
<td>-</td>
<td>N. A.</td>
</tr>
<tr>
<td>1993-1994</td>
<td>8</td>
<td>210</td>
<td>-</td>
<td>N. A.</td>
</tr>
<tr>
<td>1994-1995</td>
<td>8</td>
<td>81</td>
<td>8</td>
<td>22.0</td>
</tr>
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<td>1995-1996</td>
<td>8</td>
<td>68</td>
<td>8</td>
<td>27.0</td>
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<tr>
<td>1996-1997</td>
<td>8</td>
<td>51</td>
<td>8</td>
<td>38.0</td>
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<tr>
<td>1997-1998</td>
<td>10</td>
<td>45</td>
<td>10</td>
<td>38.0</td>
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<tr>
<td>1998-1999</td>
<td>12</td>
<td>37</td>
<td>15</td>
<td>29.0</td>
</tr>
</tbody>
</table>

**Notes:**
1. As per the annual report 1998-99 of SBI Factors and Commercial Services Ltd. minimum capital adequacy ratio is 12 per cent whereas this percentage is 15 per cent as per Canbank Factors Ltd’s annual report 1998-99.
2. N.A. stands for not available.

**Sources:**
1. Annual reports of various years of SBI Factors and Commercial Services Ltd., and Canbank Factors Ltd.
2. Various booklets issued by SBI Factors and Commercial Services Ltd., and Canbank Factors Ltd.
Factors Ltd., this ratio varies from a minimum of 22 per cent in 1994-1995 to a maximum of 38 per cent in 1997-1998, which is also much higher than the stipulated minimum capital adequacy ratio as prescribed by RBI. It is revealed that both the companies are extremely careful in observing the RBI directives in regard to prudential norms of capital adequacy but SBI Factors is more capable of providing funds in case of temporary and unexpected loss.\(^1\)

### 3.2.2. Plough Back to Shareholders’ Equity

The plough back to shareholders’ equity of SBI Factors during the period 1992-1993 to 1998-1999 is in the range of 11.53 per cent to 24.69 per cent. In the case of Canbank Factors Ltd., this range is from a maximum of 43.61 per cent in 1998-1999 to a minimum of 8.96 per cent in 1992-1993. Canbank Factors Ltd. is enhancing its equity capital account to a level higher than that of SBI Factors by means of generating more funds from its internal sources. It is, therefore, revealed that Canbank Factors is more careful to tackle risks by augmenting its capital through internal sources.

### 3.2.3. Non Performing Assets

SBI Factors has been maintaining zero non-performing assets (NPA) from its inception till 1996-1997. In 1997-1998, the non-performing assets have started appearing in accounts. Thereafter, the figure of NPA has increased sharply from 0.64 per cent in 1997-1998 to 5.90 per cent in 1998-1999. Canbank Factors has received non-performing assets first in 1995-1996. Thereafter, NPA level has gone up from 0.15

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1. Temporary is emphasized since no reasonable amount of capital will sustain a financial institution incurring losses for an extended period of time. Unexpected losses are singled out because there are often specific reserves set aside when losses are anticipated (Orgler et. al. 1976, p. 14).
FACTORING SERVICES IN INDIA: LESSONS FOR BANGLADESH.

per cent in 1995-1996 to 1.64 per cent in 1997-1998. This percentage has been reduced to 1.00 per cent in 1998-1999. These percentages are considered to be very low considering the cumulative business volume registered by the companies. It is, therefore, revealed that both the companies have kept their NPAs level under a minimum percentage during the reference period except in 1998-1999 when SBI Factors got a handsome percentage (5.90 per cent) of NPAs. This is because they have paid a serious attention in the matter of selection of clients and customers and continued to monitor these accounts by means of a meticulously designed Management Information System (MIS).

3.2.4. Earning Volatility Ratio

Earning volatility ratio of SBI Factors is 1.72 whereas this ratio is 0.85 in the case of Canbank Factors. So, variation in SBI Factors earning flows during the reference period is wider as compared to Canbank Factors. It infers that earnings of SBI Factors' shareholders are subject to a more degree of risk than those of Canbank Factors' shareholders.

3.2.5. Loan to Equity Ratio

The SBI Factors' loan to equity ratio begins only from 1994-1995. For it, the loan to equity ratio varies from a minimum of 25.80 per cent in 1994-1995 to a maximum of 169.85 per cent in 1998-1999. For Canbank Factors, this ratio is in the range of 173.76 per cent in 1996-1997 to 358.98 per cent in 1993-1994. The loans to equity ratio of SBI Factors is found to be much lower than that of Canbank Factors.

A narrow capital base is in fact not unusual among factoring companies. (Green 1993, p. 44) However, gearing of Canbank Factors is seen to be high. Sinkey (1998, p. 579) says that when loans to equity ratio is more than 50 per cent, the book value of a financial institution is termed insolvent. Moreover, London and Provincial Factors had gone in for insolvency at June, 30, 1991 when its gearing stood at over 600 per
3.3. To sum up the above analysis on risk management of SBI Factors and Canbank Factors, it indicates that SBI Factor’s performance is better than that of Canbank Factors in terms of capital adequacy ratio and loans to equity ratio. On the other hand, the performance of Canbank Factors is better on the basis of earning volatility ratio and plough-back to shareholders’ equity ratio. In case of asset quality, although SBI Factors has shown a better picture till 1997-1998 as against Canbank Factors, it has turned into a grief situation when this figure climbed up to 5.9 per cent in 1998-1999. It is revealed here that capital structure, and assets quality of SBI Factors are better than those of Canbank Factors, whereas Canbank Factors has a less earning volatility and higher supporting of internal sources in augmenting capital as compared to SBI Factors.

4. Profitability

4.1. Profitability\(^1\) is an essential objective of a financial institution’s funds management. High profits are necessary to pay dividends to stockholders, to build stockholder equity, to offset loan losses, to meet on-going operating expenses, and to expand products and services.

Profitability of financial institution can be measured in several ways. The most useful measures of profitability that are available to management, stockholders and regulatory agencies include return on

\(^1\)Profit (accounting profit) is defined as an excess of income over expenditure. This is an absolute measure of a firm’s performance which is not of much significance unless it is seen in comparison to output or resources used to produce output and generate profits. However, the relative performance is considered here as an appropriate measure.
assets (ROA), return on equity (ROE), and dividend pay out ratio. Moreover, because of the special nature of factoring business, here two more ratios are used, namely factoring income to total assets, non-factoring income to total assets. These ratios are presented in Table 5.3 and the following inferences have been drawn.

4.2.1. Return on Assets (ROA) Ratio

SBI Factors' return on assets (ROA) ratio fluctuates over the period in the range of 2.90 per cent to 5.84 per cent with annual average of 4.16 per cent. For Canbank Factors Ltd., the average of the ROA ratio during the period of analysis is 3.37 per cent; it varies from a minimum of 2.33 per cent in 1992-1993 to a maximum 4.13 per cent in 1996-1997. Although ROA of SBI Factors shows a positive percentage in all reference years yet average per annum growth rate of ROA and compound growth rate of ROA show negative percentage namely _5.24 per cent and - 9.35 per cent, respectively. In Canbank Factors Ltd., both the compound growth rate (8.97 per cent) and average per annum growth rate (10.06 per cent) give a positive rate with a positive percentage in each year. It is, therefore, revealed that SBI Factors starts its journey with a better ROA but in the later stages, it achieves a less percentage of ROA. Canbank Factors increases its ROA steadily although it begins with less ROA (2.33 per cent) comparatively.

The Mann – Whitney’s U-test shows that the difference in ROA ratios in each year of SBI Factors and Canbank Factors is not significant

4.2.2. Return on Equity (ROE) Ratio

Return on equity of SBI Factors increases from 5.54 per cent in 1992-1993 to 12.07 per cent in 1997-1998, whereas it varies from a minimum of 10.74 per cent in 1992-1993 to a maximum of 18.85 per cent
### TABLE 5.3

Ratios Relating to Profitability of SBI Factors and Commercial Services Ltd., and Canbank Factors Ltd.

<table>
<thead>
<tr>
<th></th>
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<th></th>
<th></th>
<th></th>
<th></th>
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</thead>
<tbody>
<tr>
<td>1992-93</td>
<td>4.46</td>
<td>2.33</td>
<td>5.54</td>
<td>10.74</td>
<td>7.87</td>
<td>8.77</td>
<td>5.54</td>
<td>0.22</td>
<td>ND</td>
</tr>
<tr>
<td>1993-94</td>
<td>5.02</td>
<td>2.92</td>
<td>7.40</td>
<td>18.00</td>
<td>7.93</td>
<td>13.33</td>
<td>3.08</td>
<td>0.46</td>
<td>59.25</td>
</tr>
<tr>
<td>1994-95</td>
<td>5.84</td>
<td>3.25</td>
<td>11.19</td>
<td>16.78</td>
<td>5.54</td>
<td>13.43</td>
<td>5.45</td>
<td>0.25</td>
<td>57.29</td>
</tr>
<tr>
<td>1995-96</td>
<td>3.89</td>
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<td>10.62</td>
<td>13.73</td>
<td>9.06</td>
<td>13.83</td>
<td>0.79</td>
<td>0.45</td>
<td>58.99</td>
</tr>
<tr>
<td>1996-97</td>
<td>5.49</td>
<td>4.13</td>
<td>10.96</td>
<td>18.85</td>
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<td>12.91</td>
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<td>3.97</td>
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<td>10.59</td>
<td>0.15</td>
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<td>1998-99</td>
<td>2.90</td>
<td>3.91</td>
<td>11.01</td>
<td>18.85</td>
<td>9.72</td>
<td>9.84</td>
<td>0.08</td>
<td>1.12</td>
<td>50.85</td>
</tr>
<tr>
<td>Annual average</td>
<td>4.16</td>
<td>3.37</td>
<td>9.82</td>
<td>16.48</td>
<td>8.82</td>
<td>11.81</td>
<td>2.18</td>
<td>0.77</td>
<td>55.4</td>
</tr>
<tr>
<td>Average per annum growth rate</td>
<td>-5.24</td>
<td>10.06</td>
<td>12.03</td>
<td>13.23</td>
<td>7.43</td>
<td>3.91</td>
<td>-32.77</td>
<td>51.92</td>
<td>-2.85</td>
</tr>
<tr>
<td>Compound growth rate</td>
<td>-9.35</td>
<td>8.97</td>
<td>11.38</td>
<td>6.85</td>
<td>7.39</td>
<td>-0.55</td>
<td>-120.28</td>
<td>38.14</td>
<td>-3.07</td>
</tr>
</tbody>
</table>

**Notes:** N.D. stands for not declared.

**Sources:**
1. Annual reports of various years of SBI Factors and Commercial Services Ltd., and Canbank Factors Ltd.
2. Various books issued by SBI Factors and Commercial Services Ltd., and Canbank Factors Ltd.
FACTORING SERVICES IN INDIA: LESSONS FOR BANGLADESH.

in 1998-1999 in case of Canbank Factors Ltd. The average of ROE of SBI Factors during the said period is 9.82 per cent as compared to 16.48 per cent in the case of Canbank Factors Ltd.

The compound growth rate and annual average growth rate of ROE come out to 11.38 per cent and 12.03 per cent, respectively, for SBI Factors whereas Canbank Factors Ltd. earns those rates at 6.85 per cent and 13.23 per cent, respectively. It is, therefore, seen that Canbank Factors accounts for better year-wise ROE as compared to SBI Factors although the latter registers higher compound growth rate.

The Mann–Whitney’s U-test indicates that the difference in ROE of each year of SBI Factors and Canbank Factors over the period of analysis is significant.

4.2.3. Factoring Income to Assets

The factoring income 1 to assets ratio varies in the range of 5.54 per cent in 1994-1995 to 11.69 per cent in 1997-1998 in the case of SBI Factors while for Canbank Factors, it is between 8.77 per cent in 1992-1993 and 13.83 per cent in 1995-1996. For SBI Factors, the average factoring income ratio during the period 1992-1993 to 1998-1999 is 8.82 per cent while it is 11.81 per cent in the case of Canbank Factors Ltd. The annual average per annum growth rate, and compound growth rate of factoring income to assets of SBI Factors show 7.43 per cent and 7.39 per cent, respectively, whereas these figures come out to 3.91 per cent and 0.55 per cent, respectively, in the case of Canbank Factors Ltd. Here we find a replicated picture of ROE, as average per annum income gives a better picture for Canbank Factors Ltd. whereas compound growth rate, and average per annum growth rate show a higher rate for SBI factors.

1. Factoring Income: It consists of incomes from finance charges / discount charges, service charges, and processing charges.
According to U-test there is a difference for each year of the factoring income between SBI Factors and Canbank Factors Ltd.

### 4.2.4. Non-factoring Income as a Percentage of Assets

The SBI Factors' non-factoring income as a percentage of assets decreases sharply from 5.54 per cent in 1992-1993 to 0.08 per cent in 1998-1999 and its annual average is 2.18 per cent. For Canbank Factors, it increases from 0.22 per cent in 1992-1993 to 1.12 per cent in 1998-1999 with 0.77 per cent annual average.

Considering average per annum growth rate, and compound growth rate, it is found that SBI Factors shows a sharp downward (minus) growth rate whereas Canbank Factors shows a sharp upward growth rate in the case of both average per annum growth rate and compound growth rate. It is due to leasing business introduced by Canbank Factors during the year 1995-1996.

The Mann – Whitney's U test indicates that there is no statistical significant difference between year-wise non-factoring income to assets of SBI Factors and than that of Canbank Factors.

### 4.2.5. The Dividend Pay out Ratio

The dividend payout ratio for SBI Factors has remained more than 50 per cent with annual average of 55.4 per cent during the period of analysis. It is in the range of 35.88 per cent in 1997-1998 to 50.69 in

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1. **Non-Factoring Income**: It includes profit from short-term investments, profit on sale of fixed assets, interest on inter-corporate deposits, and dividend on units. For Canbank Factors, this includes income from leasing as it has launched leasing service during the year 1995-1996.
FACTORING SERVICES IN INDIA: LESSONS FOR BANGLADESH

1992-1993 with annual average of 43.34 per cent for Canbank Factors Ltd. It is seen that both the factoring companies maintain handsome dividend pay out ratio during the reference period, which confirms sound financial conditions\(^1\) of both of them. But both the companies are following gradually declined dividend ratio as it is seen from the negative compound growth rate, and annual per annum growth rate of both the companies.

However, the difference in dividend pay out ratio of SBI Factors and Canbank Factors Ltd. over the period of analysis is significant according to M-W’s U-test.

4.3 In summing up the above analysis relating to profitability of SBI Factors and Canbank Factors, it is revealed that performance of Canbank Factors is better than that of SBI Factors in the criteria of return on equity, factoring income to total assets, and non-factoring income to total assets whereas return on assets shows almost the same performance. Dividend pay out ratio is higher for SBI Factors as compared to Canbank Factors. However, in considering compound growth rate as well as average per annum growth rate, it is seen that SBI Factors is gaining a more growth rate in the case of return on equity and factoring income to total assets. Statistical significance of the difference, except in the case of return on assets and non-factoring income to total assets, also confirms the relative performance of profitability of these two factoring companies.

Some causes attribute to the better profitability performance of the operation of Canbank Factors Ltd. These are namely (1) Industry-wise exposure is more for Canbank Factors Ltd. as it is funding in around fifteen (15) types of industry whereas SBI Factors’ operations are limited to only seven types of industry; (2) Canbank Factors has commenced leasing business during the financial year 1995-1996 which has

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\(^1\)Since dividend pay out policy is determined by a variety of factors such as the earnings, availability of funds, growth cycle, business policy, etc., it reflects a sound financial condition of a financial institution.
opened a new door of the non-factoring income for it; (3) Canbank Factors Ltd. accepts the public deposits, and inter-corporate deposits, which might be reducing the interest cost of the company.

5. Summing Up

In the backdrop of the hypothesis formed in the beginning of the study to test the operational and financial performance of the factors in India, it is found from the analysis that the operational and financial performance of factors in India has been improving through time. The market size of the factoring is around Rs.1000 crores in India, which is dominantly shared by SBI Factors and Canbank Factors Ltd. The business portfolios are well diversified. Both the companies have been maintaining ROE at 10 per cent and above during the reference period. The companies have adhered to the prudential norms as per the RBI guidelines for NBFCs. Besides providing prepayment, the factors render other value added services like sales ledger maintenance, collection of debts, advisory services, etc. Investment Information and Credit Rating Agency of India Ltd. (ICRA) has affirmed highest rating of AI + (Indicating highest safety) for short-term debt instruments issued by both the companies. A few more new factoring companies like Wipro Finance Ltd., Integrated Finance Company Ltd., and Foremost Factors Ltd. have also entered the field of factoring business.

In spite of the above, the factoring business in India could have performed better. This has not been achieved. Kuruvilla (1999, p. 212) notes that in terms of their client and customer base, the factoring companies have not fared particularly well and there has not been any major increase in new business. It is fair to say that both the companies have done well till 1995-1996 since their inception, thereafter they have lost their upward trend. The located causes behind this situation are extremely fluid global financial situation, and effect of it on 'India's economy', sluggish capital market, and less domestic demand. However, Indian economy is showing signs of healthy growth and, in general, there is a feeling of positive growth all around in the days to come.
1. Factoring is a complex and specialised service. There are many issues that are likely to be encountered while launching this service in Bangladesh. These issues primarily relate to the organisation, strategies, operations, and policy aspects. The experience of India will help to encounter various issues relating to factoring. It is expected that meanwhile Indian factoring companies have achieved a standard model on organizational, strategic, operational, and policy aspects.

2. Organizational Status

2.1.1. Both the SBI Factors and Canbank Factors enjoy the status of public limited company under sec.43 (A) of the Indian Company’s Act. The authorized capital of SBI Factors is Rs. 25 crores. The entire capital has been fully subscribed and paid-up, and is subscribed according to Table 5.4 by the banks and financial institutions.

2.1.2. The authorized capital of Canbank Factors Ltd. is also the same amount of Rs. 25 crores but its paid-up capital is Rs. 20 crores of which 1,40,00,000 equity shares of Rs.10 each are held by Canara Bank and the rest of the capital is held by Andhra Bank and Corporation Bank (Prabhu 1992,p.32).

2.1.3. The RBI has registered the factoring companies as Non-Bank Financial Companies (NBFCs). The RBI has brought into force a new regulatory framework under Government direction. The thrust of the regulations is on prudential norms, capital adequacy, and provisioning requirements. But in regulation, an exclusive identity for ‘factoring’ is not spelled out. This has resulted in the factoring companies having been placed alongside a number of other NBFCs in the field.
TABLE 5.4

Participation of Banks and Financial Institutions in the Share Capital of SBI Factors and Commercial Services Ltd.

<table>
<thead>
<tr>
<th>Particulars</th>
<th>No. Of Shares</th>
<th>Amount (Rs in Crores)</th>
<th>Percentage</th>
</tr>
</thead>
<tbody>
<tr>
<td>1. State Bank of India</td>
<td>13,50,000</td>
<td>13.5</td>
<td>54</td>
</tr>
<tr>
<td>2. SIDBI</td>
<td>5,00,000</td>
<td>5.0</td>
<td>20</td>
</tr>
<tr>
<td>3. Union Bank of India</td>
<td>2,50,000</td>
<td>2.5</td>
<td>10</td>
</tr>
<tr>
<td>4. State Bank of Saurashtra</td>
<td>2,50,000</td>
<td>2.5</td>
<td>10</td>
</tr>
<tr>
<td>5. State Bank of Indore</td>
<td>1,50,000</td>
<td>1.5</td>
<td>6</td>
</tr>
</tbody>
</table>

2.2. Organisation Pattern

2.2.1. The factoring companies have ‘Line’ and ‘Staff’ type of organisation. Manager oriented organizational system is existent at the branch level of both SBI Factor and Commercial Service Ltd., and Canbank Factors Ltd. The characteristics of expert oriented organisation system are also there because nature of work demands services of specialists. The organisation charts collected from the units assume the shape that is given in Chart 5.1.

2.2.2. Corporate / head office consists of ‘board of directors and management.’ The board of directors is headed by a chairman with directors and a managing director. Management is undertaken under the leadership of managing director. In SBI Factors and Commercial Services Ltd., managing director is supported by general manager, deputy general manager, assistant general manager and company secretary, etc. Line of management is drawn similarly in Canbank Factors except designations, which are senior vice president, vice president, etc.

2.2.3. At the branch level of SBI Factors and Commercial Service Ltd., a senior officer equivalent of the rank of assistant general manager mans the highest post of a branch. This post is functionally designated as branch manager. Each branch of Canbank Factors Ltd. excepting two, which are headed by vice president, is decorated with senior vice president, as chief executive of that branch. These chief executives of each branch are assisted by assistant managers, junior executives, and other service staff. For this organizational set up, the companies have gone in for campus recruitment and deputation from parent banks. The companies have already suitably developed, knowledgeable, trained, and dedicated

1) In manager oriented organizational pattern, a manager heads the organisation and looks after the performance of the entire activity with the help of the insider staff and outsider consultants.
Organisation Pattern of Factoring Companies

CHART 5.1.

Board of Directors
Chairman
Directors
Managing Director

Management
Managing Director
General Manager
/Senior Executive Vice President
Deputy General Manager
/Senior Vice President
Chief Manager / Vice President
Company Secretary

Corporate Office / Head Office / Control Office

Flow of Downward Communication

Branch Manager
(Assistant General Manager / Senior Vice President)

Flow of Upward Communication

Manager

Assistant Manager

Outside - Consultants: Advisory Services

Inside - Consultants: Departmental Services

1

Junior Executives

Supporting Services Staff

1 2

1 2

1 2

1 2
staff to carry out the factoring business with the specific functions as follows: computer specialists, financial analysts, managerial personnel, personnel for follow-up and collection of dues, legal experts, currency experts, etc.

2.2.4. Parent banks have the richness of expertise in the credit information, assessing the risks and determining the prices, sanctioning of the loans and prepayment against receivables. They serve as insider consultants in difficult situations.

2.2.5. The factoring companies utilize need-based services of external consultants. SBI Factors and Commercial Service Ltd. has a full-fledged membership of FCI. They also collect credit information on buyers (customers) through various information services including ‘Dun and Bradstreet of USA’. Moreover, both the companies have also some connected programs with other factoring companies situated abroad like DBS Factors, Singapore.

2.2.6. In regard to delegation of powers, both the upward and downward way, it is found that there is adequate and proper delegation of financial and administrative powers to the various executives / managers of the companies and exercise thereof is duly reported and are adequately controlled at the next higher level.

2.3. Corporate Governance

The board of directors ensures compliance by the company with various legal requirements and the directives of the regulatory authorities. The systems and procedures of the companies are being continuously reviewed to ensure efficient and effective operations facilitating customer satisfaction, internal control and monitoring, and business growth. The business performance, based on annual budgeting, is periodically reviewed and corrective measures are initiated promptly. The companies are
having regular internal audit done periodically by an independent firm of auditors, in addition to the statutory audit. The companies have an audit committee comprising of directors of the company to oversee audit compliance and to lay down standards and guidelines wherever needed or warranted.

2.4. Resources

2.4.1. The factoring companies are always mindful of raising finances at low cost so that factoring can be a cheap source of funds and reasonable spread is also ensured. But capability of generating funds is restricted by some of the strict guidelines of Reserve Bank of India.

On the basis of the information gathered, Table 5.5 shows the sources of funds of the factoring companies.

2.4.2. The factoring companies in India are likely to face resource crunch when their business expansion takes place due to the momentum gained through more awareness of factoring concept. Borrowings from banks at market rates are quite expensive. Raising of public deposits and inter-corporate deposits are the other sources, which can be accessed to a limit due to the limitations, imposed by RBI regulations. In this context, both the factoring companies are trying to convince RBI for further subscription to the equity capital of factors by banks, other financial institutions and individuals through appropriate fiscal incentives. They are also trying to get registered as the financial institution for acquiring enabling status to participate in inter-bank call money market. It is relevant to describe here the suggestions of the RBI Study Group that was constituted to look into factoring business aspects in their entirety. This group recommended that factoring organisation should be allowed to raise funds from the Discount and Finance House of India (DFHI) and other approved financial institutions, against their usance promissory notes backed by receivables factored by them. It also added that factors in India should be allowed to avail refinance facilities from financial institutions like, IFCI, IDBI, SIDBI, etc. and they may also be permitted
## TABLE 5.5

### Sources of Capital of SBI Factors and Commercial Services Limited, and Canbank Factors Limited

<table>
<thead>
<tr>
<th>Sr. No.</th>
<th>Sources</th>
<th>SBI Factors and Commercial Services Ltd.</th>
<th>Canbank Factors Ltd.</th>
<th>Restriction</th>
</tr>
</thead>
<tbody>
<tr>
<td>1.</td>
<td>Capital and Reserves</td>
<td>√</td>
<td>√</td>
<td>No restriction</td>
</tr>
<tr>
<td>2.</td>
<td>Inter- Corporate Deposits</td>
<td>-</td>
<td>√</td>
<td>Twice the net worth</td>
</tr>
<tr>
<td>3.</td>
<td>Commercial Papers / Debentures</td>
<td>√</td>
<td>√</td>
<td>No restriction</td>
</tr>
<tr>
<td>4.</td>
<td>Public Deposits</td>
<td>-</td>
<td>√</td>
<td>25% of the net worth and to accept only fixed deposits with maturity of not less than 90 days.</td>
</tr>
<tr>
<td>5.</td>
<td>Line of Credit from SIDBI</td>
<td>√</td>
<td>√</td>
<td>No restriction</td>
</tr>
<tr>
<td>6.</td>
<td>Consortium Arrangement with Parent Banks</td>
<td>-</td>
<td>√</td>
<td>No restriction</td>
</tr>
<tr>
<td>7.</td>
<td>Bank Borrowings</td>
<td>√</td>
<td>√</td>
<td>No restriction</td>
</tr>
</tbody>
</table>

Sources: Compiled from the various years of 'annual reports' of SBI Factors and Commercial Services Ltd. and Canbank Factors Ltd.
to have a high gearing ratio by borrowing 10 (ten) times their net worth as in the case of the leasing, hire purchase, and housing finance companies (Pandey 1994, p.49). The factoring companies look optimistic that some of these problems would automatically get solved if the above recommendations are accepted by RBI and necessary directive for the same issued for implementation.

2.5. Sanctioning of Factoring Facilities

Clients approach the branch office directly for preliminary discussions. After examining the proposal and forming the positive view, on merit, the branches write to the client’s bank for the confidential report. The client’s factory is visited and books of accounts – especially those related to invoices – subjected to scrutiny. Based on the data contained in the application, financial statements and survey report, the proposal is put up for sanction to the appropriate authority as per delegation of powers in force. A letter is then addressed to the client’s bank for modifications / cancellation of post-sale operative limits till then enjoyed by the client, and to issue a ‘letter of disclaimer’ (Annexure-1) to the factors. On obtaining the ‘letter of disclaimer’, and getting legal documents executed, the factoring company sanctions the factoring facilities to the client on stated terms and conditions subject to review /renew.

2.6. Client Selection Criteria

The factors have prescribed criteria for selecting the prospective and suitable clients for their business. Though factoring arrangements are most suitable for small but growing industrial and commercial organisations, such services are not offered to all client organisations. Those industrial units which have minimum tangible net worth of Rs. 20 lakhs and range of factorable turnover of Rs 60 lakhs to Rs 15

1. A letter of disclaimer is required from the client’s banker releasing charge on debts to be assigned to factor.
crores per annum are normally selected as clients for factoring business that too on proper appraisal. Their argument is that in case of very small-scale units such services may not be beneficial at all. Similarly, they consider industrial units having high concentration of their sales over very few debtors (say, spread over a single debtor exceeding 25 per cent of whole turnover) as not viable proposition to the factor as it may be a risky venture. Various ancillary units of public sector enterprises or of large units in private sector also fall in cautionary list. Other criteria considered for entering into a factoring contract relate to organization’s business standing (no. of years establishment), existing borrowing arrangements, repayment program, profitability, liquidity and stability, and quality of management, etc. For example, the clients can be proprietorship, partnership or companies located in particular area, they should be in the present line of business for at least 5 years having a satisfactory track record of profitability etc. for minimum 3 years and they should be having borrowing arrangements with any bank and their dealings with those banks reckoned satisfactory. Moreover, the companies look for clientele with bright future for establishing the relationship on long term basis. The most important aspect regarding evaluation of a factoring proposal is to assess the strength of debtors to ensure the collectability of debts. As such, SBI Factors has developed a credit rating system (Annexure -2) as guideline applicable for selectivity of clients.

2.7. Commencement of Factoring

The agreement concluded between a factoring company and a client company is the commencement of the factoring business. Both the factoring companies follow a series of functions from the commencement of this relationship to the ultimate payment to square up the transactions.

2.7.1. Notification Letter

Notification letter (Annexure-3) is an introductory letter to the customers. It informs the customers about
the factoring arrangement. The factoring company asks the client to prepare a number of these letters on
the client’s letterhead. These letters are signed by an officer of the client company, leaving sufficient
space at the head of the letter. This blank space is filled up with date, customer’s name, and address. Then
factoring company sends this notification letter to the customers.

Moreover, factoring companies prepare and forward another letter about factoring arrangement on their
own letterheads to the customers to serve as cross check, leaving no scope to doubt the authenticity of
relationship.

2.7.2. Invoice Stationery

Soon after the notification letter is sent to the debtors, the next important step is to introduce standard
invoice format (Annexure - 3) incorporating the required ‘assignment clause’ (specimen given below).
The factoring companies are permitting the use of existing invoice forms superscribed with rubberstamp
or printed slips attached thereto containing the assignment clause. However, this is only an interim
arrangement till new stationery is arranged.

Assignment Clause

Payment in respect of this invoice should be made only to “SBI Factors and Commercial Services Ltd.”,
in accordance with an irrevocable agreement of assignment. Their receipt alone will constitute valid
discharge of this debt and they must be notified immediately of any dispute regarding this invoice.

2.7.3 Transfer of Sales Ledger

The formalities regarding entrusting the work related to maintenance of 'sales ledger' are done at the client's premises. The client must prepare a list of all unpaid invoices and relevant supporting documents (e.g. delivery orders and unapplied credit notes) before transferring 'sales ledger'. These invoices are termed as initial debts.

2.7.4 Invoicing the Customers

After the completion of "sales ledger transfer", the client continues to invoice his customer in the usual manner for goods delivered and services rendered. The invoices must bear the 'assignment clause' stated above that the moneys due on the invoices have been assigned and shall be paid to the factoring company for final settlement of accounts.

2.7.5 Submission of Invoices to Factoring Company

A set of copies of the invoices and other papers dispatched to the customers is also submitted to the factoring company. The copy is accompanied by supporting documents such as copies of delivery challans, lorry receipts, acceptance notes, etc.

2.7.6 Debit Notes and Credit Notes

In case of debit notes and credit notes, the original, plus a copy of each document, are forwarded to the factoring company who assumes responsibility for dispatching them to the customers. These notes do not contain the above mentioned assignment clause. These notes refer specifically to the relative invoices.
2.7.7 Payments

Client can request for immediate cash as soon as the factoring company receives the invoices and supporting documents. Funds are also made available out of payments received from the client’s customers. It is up to the client to make arrangement suiting all concerned. Prepayments are made either by transferring funds to client’s current account with his bank or making out a cheque payable to his bank. To facilitate easy movements of funds, the factoring companies request the client to open a current account in any of the branches of their parent banks. The clients receive 80 per cent of the invoice value towards pre-payment. The rest of the amount is released after collection.

2.8. Business Profile

2.8.1. The factoring companies in India are providing ‘with recourse’ factoring services for domestic receivables only. To carry on ‘without recourse factoring’, it has to be provided with insurance cover for any possible contingency. This cover is yet to be provided by the insurance companies in India.

Chart 5.2 depicts the composite picture of business profile of factoring companies comprising of the companies’ factoring services, sectors of economic activity to which services offered, and units of manufacturing sector duly classified into a number of categories.

2.8.2. The mentioned services are being offered mainly to the various units of the manufacturing sector. The client companies selected for servicing are those with a large number of customers and thereby minimizing risks by spreading out. They have also extended their factoring services to trade and service sector since 1995-1996, although the companies under this class are only occasional clients, not regular. SBI Factors and Commercial Services Limited does not consider the Government departments, public sector undertakings / corporations, electricity boards, etc. and a few multinationals as they are known to
Business Profile of Factoring Companies

Factoring Services
1. Prepayment against approved invoices (upto the extent of 80 per cent)
2. Sales ledger maintenance.
3. Collection of accounts receivable.
4. Other advisory services

Sectors of Economic Activity to which Services Offered
1. Manufacturing sector
2. Trading sector
3. Services sector

Manufacturing Sector
A. Chemicals and Fertilizers
B. Plastic and Polypropylene.
C. Paper and Packaging.
D. Printing Inks and Paints.
E. Cables and Conductors.
F. Automobile Components.
G. Light Engineering Items.
H. Bulk Drugs.
delay the payments and / or refuse to accept the letter of assignment under factoring. The Canbank Factors Limited has adopted the principle of whole turnover approach, whereby all invoices arising out of normal credit sales are required to be factored. In exceptional cases, the post-sale finance required to meet the needs of client-companies is shared with a bank, with clearly distinct customers for itself and bank, to avoid clash or overlapping.

2.8.3. SBI factors and Commercial Services Ltd. and Canbank Factors Ltd. continue to avoid international factoring despite possessing the necessary licenses authorizing them to handle such business. It seems that it will take some time before international factoring is recognized for its potential and accepted in India. Moreover, extension of the insurance cover for this business will help the introduction of international factoring, the potential for which is large but remains untapped. Canbank Factors Ltd. has taken policy initiatives for exploring the possibility of entering into the international factoring soon. Necessary formalities have already been initiated. Now it waits for a dependable source of funds for this venture on long term basis. They are likely to begin this activity during the year 2000-2001. SBI factors have also done a good amount of preparatory work for undertaking international factoring. But various issues like fund management, exchange risk management, inter-factor relationships, evolving a code of system and procedures, competition from banking sector, import factoring, credit risk protection, etc. are in queue to be settled / sorted out before the company takes up that business.

2.9 Pricing of Factoring Services

2.9.1. In India, financing through factoring is more expensive as compared to bank financing by about 1.2 per cent. There is also a great pressure from potential clients and their organisations, etc. to bring factoring service charge on par with bank financing charge. The factoring companies, however, follow different methods for charging the price of their services.
FACTORING SERVICES IN INDIA: LESSONS FOR BANGLADESH

2.9.2. SBI Factors and Commercial Services Ltd. has adopted a composite factoring service cost structure comprised of finance charge and service fee in the form of interest rate which is charged for all factoring services together as a package (Kuvalekar 1997, p.3). The finance charge is computed on the basis of cost of funds, interest tax, and operating cost on the prepayment modes. The service fee is calculated for the work involved in maintaining sales ledger and collecting the debts due on the invoices. It is calculated as a percentage of the gross value of the invoices factored, on considerations such as (a) the gross sales volume (b) the number of customers (c) the number of invoices (d) the work involved in collections. Subject to the credit rating of the clients as per the prescribed norms (developed by SBI factors) its factoring service charges are 0.50 per cent or slightly higher, above the bank’s prime lending rate (PLR).

2.9.3. Canbank Factors Ltd. follows a dual pricing policy for its factoring services (Kuvalekar 1997, p.5). It collects two types of charges separately from the clients as under: (a) service charge @ 0.5 percent of the invoice value at the time of purchase of invoices, and (b) discount charge at monthly intervals on day to day funds drawn position. Of course, the discount rate is varied from client to client depending on nature of their activity and their credit rating. The discount rates are more or less at par with the banks’ interest rate on cash credit.

1. Under this structure, a single pricing policy is adopted for rendering financial as well as other services to the clients. That means, instead of charging separately, a composite charge (all in rates) in the form of interest rate will be made for all factoring services.

2. All over the world, factoring organizations have adopted a dual-pricing structure comprising of discount charge and service charge. Discount charge is made for the funds made available to the client by way of prepayment against the purchase of approved invoices. The service charge represents the charge for rendering non-funding services.
2.10. Collection

Collection tasks are carried out discreetly and efficiently. Prompt payment is encouraged through contact with customers by letter, fax, e-mail, and telephone. Fifteen days before an invoice becomes due for payment, customers get not only 'statement of account' highlighting those invoices which are falling due for payment, but also a 'statement of account' containing invoices which have become overdue and a final request is contained therein for settlement. They have a team of 'collection staff' who are well trained in collection function. They open 'collection accounts' with banks at different centres to facilitate early collection and realization of cheques tendered by customers in payment of factored debts. They also appoint collection representatives at different centres depending upon the concentration of debtors. The professional and non-confrontational approach of these collection representatives is useful in improving the debt collectability of the factoring companies.

2.11. The Accounting System

The accounting system is fully computerized. They have installed dedicated LAN Pentium –III computer systems at the corporate offices and the branch offices. Accounting, follow-up, and other operations relating to receivables are facilitated by utilization of computers. Both clients and customers get statement of accounts periodically. Age-wise debt analysis and certain other MIS reports are submitted to the client every month. They have maintained detailed records of customers and they are in a position to give a detailed report of customers within no time. They have made clear division between credit and accounting operations. Once managers approve the credit, the papers are sent to accountant for operations. Moreover, as mentioned earlier, SBI Factors has evolved a credit scoring system for fixing and quoting the rate of factoring services. The parameters used by SBI Factors for credit scoring take into account multiple aspects of financial position and the business dealings of the clients. The computer, on the basis of inputs, throws out score and also price of factoring services.
2.12. Personnel and Human Resources

The top managerial positions in both the companies are manned by the experienced top executives on deputation from the parent banks. A few qualified managerial and secretarial staff members and junior executives have been recruited from the market. The companies have also made a beginning in recruiting qualified management professionals as management trainees. The companies have accorded priority to developing quality oriented work culture among the staff members. Apart from the in-house training imparted to the staff, they are encouraged to appear for a professional examination conducted by FCI, Amsterdam. In 1997, seven (7) employees of SBI Factors and Commercial Services. Ltd. have successfully completed FCI Diploma Examination. In addition, a few executives of the companies are deputed abroad for training and orientation, especially for EDIFACToring network of FCI. The staff members are deputed to NIBM and other reputed institutes to attend specific training programs to improve their professional knowledge and skills.

2.13. Marketing

2.13.1. SBI factors and Commercial Services Ltd. and Canbank Factors Ltd. fully realise the responsibility of procuring the new business of the desired quality on the most profitable terms in India. They look at factoring services as a market oriented innovative product along with a mechanism to combat the growing menace of sickness of small and medium sized enterprises. Their marketing set up plays a vital role in educating the business and financial community as a whole as regards the advantages and benefits of factoring. Stages relating to promotion of factoring and sources of organizing advertisement campaigns are used by them as depicted in Table 5.6.

2.13.2. Moreover, their image building efforts are going on through seminars, presentations, and articles on factoring published in professional journals. In 1998, Canbank Factors Ltd. conducted a seminar on
### TABLE 5.6

**Process Involved in the Promotion of Factoring Services and Sources of Organizing Advertisement Campaign**

<table>
<thead>
<tr>
<th>Stages Involved in the Promotion of Factoring</th>
<th>Sources of Organising Advertisement Campaign</th>
</tr>
</thead>
<tbody>
<tr>
<td>2. Visit to their business premises.</td>
<td>2. Publicity campaign / articles in business magazines /books.</td>
</tr>
<tr>
<td>4. Discussion with the clients.</td>
<td>4. Existing clients / customers.</td>
</tr>
<tr>
<td>5. Organizing survey.</td>
<td>5. Practicing professionals like chartered accountants, solicitors, etc.</td>
</tr>
<tr>
<td>6. Finalization of deal.</td>
<td></td>
</tr>
</tbody>
</table>

'factoring and funding' at their Coimbatore office. They have also excellent brochures and have compiled PC-based LCD presentation for conferences and seminars to promote factoring. They conduct market research from time to time to find out the effect of the products launched which may provide clues to them to modify the same in order to meet the changing expectations of the clients. They are also trying to host 'international factoring' conference in India. But advertising through TVs/ Radios, etc. has been discouraged till now to keep the cost of overheads to the minimum. However, it will take lot of time to market factoring to new clients, majority of whom want to compare cost of factoring with cost of bank finance.

3. Summing Up

The Indian experience regarding factoring services can provide useful information for launching factoring in Bangladesh. It is found from the above discussion that Indian factoring companies have achieved a standard model on organizational, strategic, operational, and policy aspects. The know-how of Indian factoring companies will help Bangladesh to encounter many issues when this service will be launched.

4. References

5. ------------------- (1997), 'Pricing of Factoring Services' (presented paper in a workshop on 'Factoring Services' held at National Institute of Bank Management, February 7-8.)


