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FINDINGS AND SUGGESTIONS.
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"CANBANK FACTORS LTD" is a pioneer in the field of factoring services, not only in Karnataka, but also in India. Presently the company operates from Bangalore, Hyderabad, Chennai, Coimbatore, Hosur, Mumbai, Ahmedabad, Calcutta and Chandigarh. Clients located in the nearby commercial centers can also avail factoring services from these branches. Most of the clients belong to Bulk drags, chemicals, paper and packing materials, Automobile components, cable and conductors, Electronics, Electrical and Engineering sector. More than 50% of the funds are deployed in the small-scale sector.

State Bank Of India Factors, (SBIF) foremost factoring Ltd (FFI), Global trade finance (GTF) (Pr Ltd), HSBC, City Bank are few other financial institutions that are providing factoring services in India along with CBF Ltd. But it is found that, only two factoring companies viz SBI factors and CBF Ltd are active. But not much was heard about effective operating system of other companies. Specially in Karnataka it is one and only the CAN BANK FACTOR is contributing outstandingly to the development small scale as well as large-scale business sector in the state through factoring. This brings us back to the question whether the factoring is necessary service in our country? If essential, what is the factor behind, retreat of factoring services in India. To substantiate the above statement,
since the inception of factoring services in India, Karnataka state finance corporation and M/s Wipro factors Ltd were in the field. But by the enquiry both institutions were stopped the said service. It was felt that initial enthusiasm shown in starting factoring companies has not been sustained over a period of time.

Factoring as a product is well established and highly accepted throughout the world. There is a lot of potential even in our country, if the required legal framework and support base is established. The very nature of the activity gives greater leverage to the factoring companies in taking quicker decision and enough flexibility. The credit dispensation is hassle free. Therefore industry and trade would be highly benefited by looking to the factoring organization for the cash flow needs. It is particularly relevant to the SSI financing.

FINDING ON EVOLUTION AND GROWTH

1. It is find that at present (year 2003) 1003 factoring institutions are providing factoring services worldwide. As per FCI report India has only 6 factoring Institutions. India occupies only 0.59% of the world factoring institution and rest of the world has 99.41%.

2. It is noticed that of the entire world factoring volume, European countries occupies more than 71% and America occupies 13.74%. Rest of the world occupies only 15.26%. India's share is very less i.e. only 0.21%. It indicates that very slow developing activities are taking place in (factoring activities) India.
3. In Asia it is the Japan, which secured an 1st place, it occupies a loin share in the entire Asian market. It has more than 67% of total Asian factoring volume. India’s share is also much poor i.e. only 1.8% of Asian factoring volume.

4. FCI member list is so small, as per FCI report India has only 6 members. Which are officially working but other companies are not yet to the mark to become the member of FCI.

5. In Karnataka some of the companies were much enthusiastic in starting factoring service but they have not been sustained over a period of time. It is the CBF only, which is functioning perpetual.

RETURN ON INVESTMENT

1. The ROI of CBF, which was increased in the 1st year of the study period and Started declining in the later years. This decline can be attributed to the companies Inability to improve its EBIT in proportion to the increase in the Gross capital Employed.

   In fact, FBIT of the company has not been declined in the study period. But company goes on increasing its gross capital employed, but at the same time failed to increase its FBIT. Rapid increase in GCE caused to the decline in ROI.
1. The return on equity shareholder of a CBF was better in the initial stage of the study period. The firm seems to have derived some advantage by the application of inter-corporate loans. However in the later period the size of return on equity shareholder declined and become negative in last but one year of the study period (i.e. on the year 99-2000).

2. Earning per share of the company is no doubt is always in rising trend and it varies between 1.68 and 3.62 averaging 2.65. But it is not enough to cover all incidental expenses by increasing the rate of dividend in competitive market.

3. Dividend per share of equity in CBF Ltd has a rising trend. Every year company is increasing the dividend. All credit should goes to the companies’ performance. But the, Percentage increase in dividend is low.

4. Dividend payout ratio indicates that majority of the portion earnings on equity is attributed in the form of interest and to meet other expenses. Here Percentage of DPS is ranging between 59% to 36% averaging 47.5%. This indicates around 50% of the EPS is utilized for other purposes and only rest of the 50% is availed to the equity holders.

DPR should always be in rising trend but DPR of CBF is in almost declining trend that shows the companies inability to retain same level of dividend.
5. Debt equity ratios ideal standard is 2:1. By analyzing the Debt-Equity ratio of CBF, it is realized that debt mix is always increasing whereas equity is stagnant. Therefore the capital structure of CBF is bearing more financial risk.

6) CBF has been able to cover its EPS by the market price sufficiently. It around 8 times more in the beginning of the study period. But later there was a slight reduction in coverage and yr 2000 on words it is increasing. Average 6 times more every year EPS is covered through market price.

7) CBF Ltd has been successively covering its dividend per share by increasing its market price. Nearly 15 times more has been covered the DPS through out the study period.

OPERATING COST AND PROFITABILITY

1. The operating cost of CBF holds a lion share in gross financial margin and plays a prominent role in its success and failure during the study period. The size of operating cost as a Percentage of gross financial margin fluctuated frequently implying the absence of control over it.

2. As analysis of the composition of the total operating cost, has revealed that the establishment expenses is a major component of the operating cost it has occupied 30.24% (Average) of the total operating cost.
In addition Percentage increase in the establishment expenses has always more than that of Percentage increase in the total operating cost. This indicates that the firm has not been able to implement the effective measure to secure the control over establishment expenses.

3. Administrative expenses of can bank factor has also occupied a lion share in the total operating cost. It occupies more than 50% averaging 69.20% during the study period. It always in a rising trend.

During beginning of study period the variation size of administrative expenses were very small. It is noticed that year 99-00 on words there was a sudden increase in the administrative expenses.

This indicates the company’s is unable to control over its administrative expenses inability to implement the effective measure to secure the control over administrative expenses.

4. Promotional expenses are yet another important element of the total operating cost. In respect of the CBF Ltd, this cost occupies the third place, (averaging 3.33% of the total cost). Though the position of CBF is better the promotional expenses have recorded an increasing trend in the beginning year of the study period. But in the later year it seems to be not much considerable rise in the above expenses it is almost in declining trend.

This indicates CBF is been following a stringent policy with regards to promotional expenses.
OPERATING COST AND EFFICIENCY

1. Profit before Tax as compared to the turnover, it has always been declining in study period. Continuous reduction in the Percentage of PBT to turnover indicates companies in ability to earn reasonable return on its investment. By analyzing the Percentage in profit before tax vis-à-vis % in turnover it indicates that not in a single year quotient is more than 1 it is always been less than one it reflects that CBF Ltd has been able to earn reasonable return.

2. By comparing NP to PBT, it is realized that Percentage of NP to PBT ranges between 47% to 70% averaging 58.5%. It is essential to retain the Percentage as possible as higher. Higher Percentage indicates higher profitability ratio but it never crossed 70% during the study period. More over the Percentage is always been in declining trend. That is not a good sign for the development of the company. Percentage Change in PBT vis-à-vis Percentage change in net profit is revealed that the company has been able to maintain the same level of return in the beginning year of the study period but from 99-00 the ratio is not healthy it states that company has not been able to maintain a fair return.

3. By comparing the total expenses to total income it is realized that, lower percentage yields more fund to the owners, but the ratio is always varying between 49.67 to 55.68 averaging 52.67, By analyzing this ratio we come to know that the entire expenditure is
consuming more than half of profit this indicates the firm has not
able to minimize its cost to increase the return.
The prime reason for increased expenditure is, expenses are
increasing more factor rate than income, at least if the expenses
increase along with income there is a possibility to maintain same
amount of return. As long as the same trend continues, the return
will goes on decreasing.

4. By elaborating the income from factoring to the total income it
comes to know that company has been earning the profit from the
prime business, there is a substantial ratio that indicates a better sign
for company.
But going through the yet another ratio i.e. Percentage change in
total income and Percentage in factoring income. Total income is
increasing much faster than factoring income. This indicates other
incomes than factoring income are also playing an important role to
increase the total income.

5. Company has not been able to diversify its servicing activities. It is
entirely depends on its primary activities for its altimetry return.
Income from other sources is much lower than, income from prime
source.
It is also finds that other income is not increasing at a faster rate than
that of factoring income.

6. By analysing the different sources of income of CBF Ltd. Income
from discount charges, service charges and income from lease
secures I, II, III place respectively. Where as others, such as income from investment, processing charges and miscellaneous exp occupies rest of 4th, 5th and 6th place respectively.

SUGGESTIONS
Base on the analysis and interpretations made on the working of CBF, the recommendations of the present study regarding various aspects of factoring services are given below. There recommendation relates to strategic, operational, legal framework involved in the process of consolidating this innovative product in the country.

I. Organizational frame work
1) Bank is best suited for starting this activity at least to begin with. The big bank alone should not be allowed to start this activity, even the smaller one should be permitted by RBI to undertake the service so that the small business organization may avail the benefit of service.

2) Non fund based factoring activity can also be contemplated under which the factor will provide the services alone, where as finances will continue to be given by the banks.

3) For both total factoring services as well as non fund factoring activities, the banks should only be allowed to undertake the same through separate subsidiaries. There factoring subsidiaries should work at an arms length from the parent banks.
Preferably these should have two outside directors chosen from person having an in-depth knowledge about factoring. Besides the nominee(s) of the following institutions should also be on the board.

1. RBI (One)
2. SIDBI (one)
3. Association of SSI (one)

II Types of services:

In a view of the risk involved and also that information of customer(s) not available due to lack of existence of credit rating agencies, only recourse factoring should be offered, as the product at least for the initial period. Depending upon the market response and result achieved, after a few years, all other variations including without recourse service or even invoice discounting facility can be introduced.

III: Pricing

Pricing for factoring should be kept as minimum as possible so that becomes an attractive proposition for the industrial enterprises. At the same time, the viability of the factoring organizations should also be kept in mind. In the above context, the following charges are suggested.

1) Administrative charges should be in the range of 2-3 % of the projected turnover.
2) Discount charges should be at par with the bank interest applicable for the post sale credit facilities.
IV: Resource Mobilization:

The principle source of funds for a factoring company would be the equity and preference shares capital subscribed by the promoter(s) banks this should however, by supplemented by the market borrowing @ 12.5 – 13 % with an intelligent mix of the two. Since factoring operations may involve a huge out lay of funds, possibilities may also be explored of the parent banks offering line of credit to the subsidiaries at a subsidized rate RBI is requested to formulate suitable policy in this regard.

V: Eligibility Criteria

All companies are not suited for entering in to the factoring contracts. For instance, very small units or a units of manufacturing highly specialized items or clients, for whom the spread of debtors is very less say concentration more than 50%) are definitely not factorable proposition. Therefore each factoring companies has to prescribe certain financial and non-financial criteria for the prospective client to be eligible for entering in to a factoring contract, a framework of this criterion is suggested here under.

1) The constitution of the client should be preferably be a corporate body.
2) It should be an existing unit for last 5 years having a satisfactory profitability track record of minimum 3 years
3) Minimum tangible net worth should be 25 lakhs
4) Minimum turnover for the last year should have been Rs 50 lakhs.
5) Spread on a single debtor should not exceed 25%.
6) There should not be fast history regarding dispute with customers during last 3 years.
However the above list is only suggestive and indicative in nature the strength of the management nature of the product and strength of the customer should also be given due weight age. Maximum explore limit to a client, quantum wise and also as a specific Percentage (say 10%) of the net owned fund of the factoring co, should also be prescribed. This will ensure prudent exposure risk management.

VI) Credit Information
The most important aspect of evaluation of a factoring proposal is to access the strength of debtors to ensure the collectibility of debts. As such the factoring companies sponsored by bank should develop credit rating division within themselves to enable them as say the strength of the debtors for the purpose of setting up wise limit.

VII) Legal framework
Comprehensive legal framework should be developed encompassing various aspects of factoring to define the rights, duties and obligations of various parties involved in such transaction

VIII) Abolish ban on Assignment.

The sale of goods act may be amended by prohibiting inclusion of the clause “Ban-on assignment where by the seller of the goods and services is precluded from assignment his right to a third party.
IX) Marketing consciousness.

It is observed that many of the clients are not aware of the concept of factoring and associated utilities. The big buyers though aware of the concept are apprehensive of the same. Thus with a view to conceptualizing and appreciating this innovative concept series of seminars may have to be organized this will help the various constituents to appreciate the utility of this service and make this experiment successful.

X) Introduction of international factoring

At present factoring companies have introduced only domestic Recourse factoring. The legislative change is required to introduce non-recourse factoring / international factoring have been effected, many client would like to avail these new service.

XI) Cost – Effective Fund

Factoring being a fund based activity needs dependable source of cost effective funds with bank interest rates coming down it is all the major important that this aspect is given a serious thought.

Export factoring that is the need of all can’t be viable unless the funds are subsidies. It would be help full if RBI would come out with the policy guidelines on these aspects as the recent changes brought about regarding there source mobilization of non banking financial companies.
XII) **Establishment of factoring association**

It is realized that there are many more association and groups at the national level and international level.

For E.g.: Factors chain International

International factors group

Association of British factors and discounters

International Asia factors Ltd.

Which are enabling the factoring activities by coordinating multifarious and multifaceted activities, but in India it is sorry to say, even though it has been passed one decade of introduction of factoring services. Institutions are not been able to form a factoring Association in India.

XIII) **Treating Factoring Institution as Non Banking Finance Company**

Factoring institutions treated as Non-banking finance companies (NBFC; S) and clubbing them with other loan companies was in correct. This is because factoring institution’s function are complementary bodies to the Banks focusing on ensuring cash flow to the client through the bills route. Even if they have to be treated as NBFC’S it would be appropriate to have a separate classification for them.

XIV): **Letter of Disclaimer**

In spite of RBI instructions in 1995. Banks are not giving letter of disclaimer, Regulatory authority as well as government has only been lukewarm. There fore initial enthusiasm shown in starting factoring companies has not been sustained. Necessary steps should be taken to make available the LOD.
XIV) **Letter of Waiver**

This is the vital legal requirement. The client who is desirous of entering in to factoring contract with a factor may already be enjoying certain facilities from a bank and hence all his movable assets- both existing and future including the trade debts / receivable are changed to it. Therefore letter of waiver from the financing banks is to be obtained.