

**Headline:** For MSME suppliers, it pays to get on the TReDS platform

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# For MSME suppliers, it pays to get on the TReDS platform

They can get their invoices discounted at a low rate on the platform

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Micro, small and medium enterprises (MSMEs) supplying to top-notch corporates can get their invoices discounted at or close to banks' benchmark lending rates if they get on to the Trade Receivables Discounting System (TReDS).

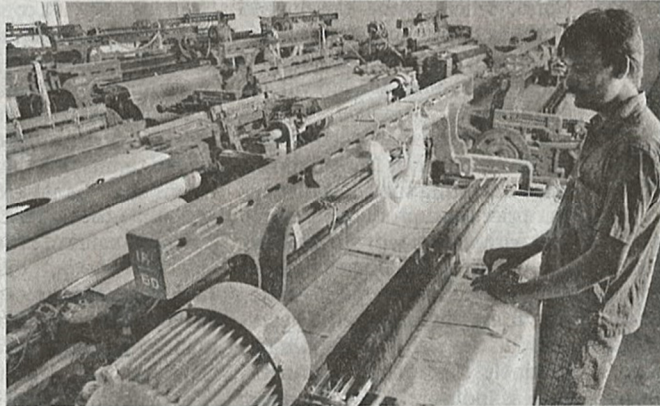
This is so because financiers — banks and non-banking finance companies (who are into factoring business) — discount suppliers' invoices on the TReDS platform based on the strength of the corporate buyers' credit rating.

In other words, MSME suppliers can get their invoices discounted at lower interest rates on TReDS if their corporate buyers' credit rating is strong.

Currently, there are two TReDSs — RXIL (India's first TReDS platform established by SIDBI in partnership with NSE and three banks (SBI, ICICI Bank and YES Bank) and A.TREDS (a joint venture of Axis Bank and mjunction service) — in the country. They are Reserve Bank of India approved online marketplaces that bring together buyers, sellers and financiers.

Buyers, sellers and financiers have to execute bilateral agreements with the TReDS platform to transact.

Kashinath Katakdhond, MD & CEO, RXIL, underscored that some



Financiers discount suppliers' invoices on the TReDS platform based on the strength of the corporate buyers' credit rating SIVA SARAVANAN

MSME suppliers were able get their invoices discounted at as low as 7.90 per cent on his platform. In sharp contrast, traditional bank financing is available to MSMEs at 11-13 per cent on pledge of collateral (house, shares or gold).

On the TReDS platform, since banks discount suppliers' invoices based on their corporate buyers' credit rating, they need to define credit limit only for the buyers. In the traditional bill discounting mechanism, banks define credit limit for the seller.

Katakdhond elaborated that an invoice is discounted by a finan-

**Trade Receivables Discounting System (TReDS) is an RBI-approved online marketplace that brings together buyers, sellers and financiers**

ciar on TReDS without recourse to the seller. What this means is that once the seller gets his funds, he is out of the picture. So, the financier takes an unsecured exposure on the buyer. Based on the buyer's credit rating, the vendor is now able to get money on a timely basis.

## Lowest bid on top

The RXIL chief said: "Suppose four banks have defined a limit on a particular buyer. They will put in their bids (to discount a supplier's invoice). When they do so, the lowest bid — discount rate — will come on the top (on the TReDS).

"For example, if 8 per cent is the lowest discount rate. What this means is that seller will get (₹100 minus ₹8) ₹92 on T+1 (transaction date plus one) settlement basis if the auction happens before 3 pm and T+2 if it happens after 3 pm. This way the seller is able to unlock liquidity."

As the bank has already discounted the seller's invoice, the corporate buyer doesn't need to make payment within 45 days as required under the MSME Development Act and could enjoy an extended due date.

## Dynamic rate

Manish Sinha, COO, RXIL, said in traditional bank financing, a borrower's working capital (WC) limit is frozen for an entire year, say, at 11 or 12 per cent interest. Any call on revision of interest rate, upward or downward, is only taken when the borrower comes back for renewal (of WC limit) next year.

"On the TReDS platform, the (discount) rate is dynamic — each invoice can be (discounted) at a new rate and each invoice can be financed by a new bank. The MSME need not have any sort of documentation or personal relationship with a bank. No personal guarantee of the promoter, no corporate guarantee, all these things are not required," he added.

While getting MSMEs on to the TReDS platform is not a challenge, Katakdhond admitted that convincing corporates is a real challenge.

He said corporate CFOs, who always look to cut costs, should realise that since their vendors will be able to get invoices discounted at lower rates on the TReDS platform (*vis-a-vis* traditional bank finance), they, as buyers, could negotiate better terms with the vendors for procuring inputs.