Frequently Asked Questions (FAQs)

Cash flow based Financing

- **What is cash-flow based finance?**

  As the name suggests, a financial loan raised by creating security of future cash inflows is generically called cash-flow based finance. Various products can be customized based on this structure and such structures are ideal for small and medium sized businesses which have little or no collaterals to offer a lender. Since such products rely on the quality of cash inflows, a business may also use such products to reduce cost of borrowing where the rating of their buyers is better their own.

- **How is it different from the usual products offered?**

  Cash-flow based products are, in general, more scalable i.e. they can potentially grow with your business – unlike typical loan products.

  Standard loan products also typically call for collaterals in the form of property and/or other physical assets. The intrinsic costs of creating such security is often ignored by borrowers but are very much an added cost. Cash-flow based finance, in most cases, requires no collaterals.

- **How can I know if our firm qualifies for such finance?**

  Assessment of eligibility for cash-flow based finance is done by specialists with experience of such products. We, at VIPL, have significant experience in such products and conduct a comprehensive assessment at the commencement of engagement.

- **What is Supply Chain Finance?**

  The term supply chain is generically applied to all stages of purchases and sales of a company. Each such stage creates demands on the business for precious working capital and as such an opportunity for a lender to step in with financial support. Loans raised for a stage/stages of the supply chain from a lender is usually called supply chain finance.

  It may be noted the actual financial product(s) used at each stage may vary i.e. some stages may call for cash-flow based lending whilst others could require standard collateralized lending. The overall structure will therefore depend on each lender's proposition.

Factoring

- **What is Factoring?**

  Factoring is cash-flow based financial product which involves a business "selling" its accounts receivables to a specialized institution called a "Factor" – usually in return for cash. This is typically different from a standard Bill/Invoice Discounting product which is merely a loan created against receivables. A Factoring arrangement is therefore a sale of trade receivables and the business can potentially treat it as any other sale in its books of accounts.

  Such sale is effected by legally/formally assigning a company's rights over trade receivables to the Factor and requiring the Debtor to pay the Factor on maturity directly. In summary, all legal rights over a Factored receivable move from the company to the Factor.

  Such a product depends primarily on the financial standing of the debtor and their past performance in payments to the borrower.

- **Can exports receivables also be Factored?**

  Absolutely. Both domestic and export factoring receivables are, in principle, eligible for Factoring. However, additional restrictions like country risk apply for Export Factoring proposals. Talk to us and we will be happy to guide you on which countries can be covered etc.

- **What kind of receivables qualify to be Factored?**

  In theory, all routine trade receivables can be Factored. However, each Factor can prescribe their own list of industries, geographies, sectors etc. that they may wish to avoid. We will be happy to work with you and help identify Factors which can support your requirements.

- **How much funding will a Factor extend against invoices?**

  Typically, a Factor will extend upto 85% of an eligible invoice value upfront and pay the balance once your buyer settles the full value of the invoice on maturity.

- **How will the Factor collect their charges?**

  Factors of domestic receivables will usually collect their interest/charges every month. Export Factors generally collect their total interest/charges from the balance which is paid to you on maturity. These arrangements however can vary from Factor to Factor.

- **Does the Factor take over the risk of default of a buyer?**

  "Recourse" is the term used for the legal right of the Factor to demand for and claim reimbursement from a company for sums advanced (earlier) against receivables. The right of Recourse can be "With" and in most cases "Without". A "With" recourse arrangement would mean that the company will be obliged to "buy-back" the receivable by paying back the advance received from the Factor against an invoice when so demanded. A "Without" recourse arrangement is where a Factor will assume certain conditions of default by the buyer and demand reimbursement for debtor defaults outside those conditions.

  In cases of "Without" recourse, the Factor will usually assume risks of financial insolvency etc. of the debtor but exclude disputes, force majeure events etc. It is therefore important for a business to fully and clearly understand exclusions when opting for such arrangements.

- **Is Factoring more expensive vis-à-vis average rates charged locally by banks/NBFCs for standard products?**

  It can be. Factoring arrangements are assessed based on the financial standing of debtors and pricing can therefore vary. However, the premium demanded by Factoring over conventional product lending, if any, is likely to be marginal.

- **What changes should we expect in our current operations?**

  As usual, each Factoring company may prescribe some unique operational items. However, Factoring arrangements will generally require the following operational changes to be undertaken.
  - Your debtors will have to agree to legally agree to pay the Factor on maturity and not to you.
  - Your debtors will have to accept that they will be contacted periodically by the Factor to verify balances, provide confirmations for invoices, confirm acceptance of goods etc.
  - You will be required to submit **ALL** invoices raised on an approved debtor to the Factor – even if there is no funding room available on that debtor at the time. This is critical to ensure that Debtors do not get different payment instructions for different invoices.
  - You may be required to send the original documents (specifically for exports) to the Factor who will then submit it to the buyer for acceptance.
  - For Export Factoring arrangements, you will receive less than 100% of an invoice value (assuming the importer settles the invoice fully) as the Factor will deduct their charges before remitting the balance to you. You are advised to check with your bankers (where you intend receiving the export proceeds) of compliance with FEMA and other foreign exchange regulations in such cases of short receipt of export proceeds.
  - For Export Factoring arrangements, in the event of a recourse claim by the overseas Factor, you will be required to approach your bank to remit the claimed amount in foreign

currency. You are therefore advised to check with your bankers on the relevant permissions available under extant law to remit such funds to the overseas Factor.

- **Are minimums prescribed for facility sizes for Factoring?**

  Domestic Factoring arrangements (facility sizes) start from Rs. 50 Lacs going upto Rs. 10 Crores. Export Factoring arrangements will be a minimum of USD 750K (~ Rs. 6 Crores).

Forfaiting

- **What is Forfaiting?**

  Forfaiting is the selling of receivables by a business on a completely without recourse basis. The differences between Factoring and Forfaiting are;
  - Regular trade receivables are Factored. Non-Trade receivables are Forfaited.
  - Factoring is suited for short term (less than 180 days) receivables and on-account repayments. Forfaiting is used for medium to long (> 360 days) term exposures and bullet repayments.
  - Factoring, even if offered without recourse, comes with exceptions. Forfaiting is truly without recourse.
  - Factoring risks are predicated on the debtors. Forfaiting risks are predicted on another Financial institution which stands guarantee for payment on behalf of the obligor.

- **What kind of assets can be Forfaited?**

  One-time, large ticket receivables with bullet repayments and acceptance of payment obligation by an FI are usually considered good for Forfaiting.

- **How is Forfaiting priced?**

  Usually based on the risk assessment of the FI undertaking the payment risk.

- **Are minimums prescribed for facility sizes for Forfaiting?**

  Varies from each Forfaiting institution.

Advisory Services

- **What is the Indo-LATAM and Indo-Africa initiative?**

  These are unique initiatives offered by VIPL to support M/SMEs in your efforts to develop new markets, identify potential buyers and in fact, where possible, get assessment on financial standing of potential buyers in new markets. This initiative can even help promoters wanting to establish point of presence, undertake turn-key projects in setting up, licensing and managing operations in select countries.

- **How does Credit Insurance work?**

  Credit insurance is an indispensable tool to protect your business from the risk of debtor defaults. Like personal and medical insurance products, this product serves to insure your business against defaults of a debtor and compensate you should such an event occur. Please be aware that like all insurance products, credit insurance too carries caveats. Visolent's partners are experienced IRDA approved insurance experts who can work with you, advise and facilitate such arrangements for you.

- **What role does Visolent play with respect to Credit Insurance?**

  Visolent does NOT offer credit insurance. We however provide access to IRDA approved credit insurance brokers/advisers who can work with you, understand your needs, suggest optimal solutions and finally arrange insurance policies.