

# PSU Bill Discounted Invoices a concern – The Finance Ministry

*According to the Annual Review 2021 of Factoring Chain International, India's annual domestic factoring turnover is Euro 3150 million, which is less than that of other developing countries such as Brazil (18,779 million Euro), Mexico (13,900 million Euro), Thailand (5877 million Euro), and Malaysia (4387 million Euro).*

By **TheSMEIndia Desk** - January 24, 2022



**MVIRDC®**



M Maharashtra Industrial Research and Development Centre

Dr Bhagwat Kishanrao Karad, the Central Minister of State for Finance, on Thursday post releasing a paper titled “Enhancing MSME Competitiveness through Digital Modes of Financing, stated “It is a cause of concern that the share of invoices issued by public sector undertakings is hardly 4-5% in the total invoices discounted at all the three TReDS platforms in the country and has requested that all stakeholders meet to address it.

Dr. Karad speaking at the webinar, urged Maharashtra Visvesvaraya Industrial Research and Development Centre (MVIRDC) WTC Mumbai and the industry to submit a detailed representation on these issues so that it can be discussed with the relevant government departments to find solutions.

The report emphasised Factoring was identified as a less common tool or instrument of working capital finance in India, and emphasised the importance of a digital push in lending to meet the unmet credit demands of India's micro, small, and medium enterprises (MSMEs), which account for 30% of the country's GDP, 45 percent of manufacturing, and 48% of product exports.

According to the Annual Review 2021 of Factoring Chain International, India's annual domestic factoring turnover is Euro 3150 million, which is less than that of other developing countries such as Brazil (18,779 million Euro), Mexico (13,900 million Euro), Thailand (5877 million Euro), and Malaysia (4387 million Euro).

Encourage reverse factoring, revise capital adequacy norms for banks' TReDS exposure to new customers, increase the permissible credit limit that can be disbursed based on Aadhar eKYC, and enhancing the eMandate limit under UPI to enable seamless collections for small-ticket loans were among some other suggestions.

Dr. Karad also mentioned that the government will have meetings with banks in order to enhance the credit deposit (CD) ratio in the banking system, which has dropped from 77 percent in 2013 to 71 percent by 2022.

The survey also stated that the proportion of digital lending in total loans disbursed by NBFCs has increased from 0.55 percent to 10% since 2017, and that of banks has increased from 0.3 percent to 2.07 percent.

The scheduled commercial banks (SCBs) disburse 90% of formal credit to MSMEs, incurring significant costs and time in new customer acquisition and loan disbursement because to low ticket sizes and the complexity of analysing small business books of accounts whereas the usage of digital lending technologies reduces the cost of identifying new MSME borrowers and make credit risk assessment easier utilising artificial intelligence and machine learning.

Dr. Vijay Kalantri, Chairman, MVIRDC World Trade Center Mumbai, in his welcome remarks, suggested policy measures to overcome the credit gap in the MSME sector and stated, "Government may consider converting SIDBI into a full-fledged commercial bank for direct lending to MSMEs, who are the cornerstone of Indian economy and it is a matter of great concern that only 16% of the credit is offered through formal sources. When home loan is available at as low as 6-7% interest rate in 3-4 days, we need to ensure that our MSMEs also have timely access to credit at affordable interest cost,".