

Working of TReDS

Sudipto Banerjee & Vishal Trehan, National Institute of Public Finance and Policy

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Setting the scope

- MSME financing is the bigger problem
 - ▶ Invoice financing is one of the solutions to address this problem
 - TReDS deals with ONLY invoice financing on an electronic platform

What is TReDS?

Trade Receivables Discounting System (TReDS) is digital platform for facilitating MSMEs to auction their trade receivables at competitive rates through online bidding by multiple financiers (Banks and NBFC factors).

Challenges of MSME financing

- Funding gap (World Bank - globally USD 3 trillion)
- Market power of buyers: MSMEs operate on tight margins (average payment cycle is 90-120 days)¹
- MSME's access to Finance - Indonesia, Phillipines, Malaysia, Srilanka - 21% India - ONLY 4%
- Strong negative relation between length of firm's cash conversion cycle and its profitability.²
- Profitability of Indian MSMEs can increase by 25%.³

¹CRISIL study on 5000 firms

²Survey of Japanese firms from 1990 to 2004

³Dun & Bradstreet Survey, 2018

Challenges of invoice financing

- Information asymmetry for financiers; lack of awareness
- Entry barrier: Discounting landscape still dominated by banks

Why TReDS?

- Objective of RBI:⁴
 - ▶ Need for institutional set-up to boost invoice discounting
 - ▶ Address the problem of information asymmetry and high rates
 - ▶ Reduce duration of payment cycle

Not envisaged as solution to all problems: For e.g., Market power?

⁴TReDS is based on Mexican NAFIN model

Eligibility criteria for setting up TReDS

- **Financial criteria**
 - ▶ Minimum paid up equity capital - Rs 25 crore
 - ▶ Shareholding by other entities - Maximum 10 percent equity
 - ▶ Overall financial strength - promoters/entity
- **Due diligence of promoters**
 - ▶ Fit and proper - SEBI(Issue of Capital and Disclosure Requirements) Regulations, 2009
 - ▶ Track record of 5 years
- **Technological capability** - *Minimum requirements*
 - ▶ Electronic platforms
 - ▶ Information dissemination on real time basis
 - ▶ Robust MIS
 - ▶ Online surveillance capacity

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No risk for TReDS platform

On-boarding of participants - One time Master agreements

- Financier and TReDS
- Buyers and TReDS
 - ▶ Obligation to pay on due date i.e., max 45 days
 - ▶ No recourse to dispute
 - ▶ No set offs
- MSME sellers and TReDS - *Declaration of no charge*

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Adherence to regulatory norms

Legal proceedings outside the purview of TReDS

Working of TReDS

TReDS process - Seller & Buyer enters into transaction

Purchase order on seller
(Outside TRedS)



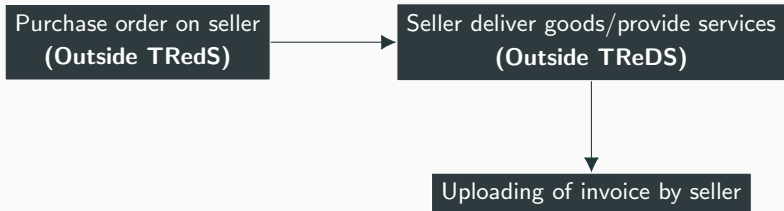
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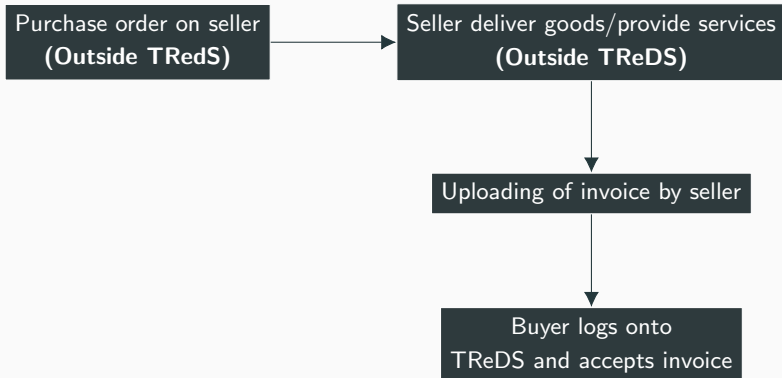


Seller deliver goods/provide services
(Outside TReDS)

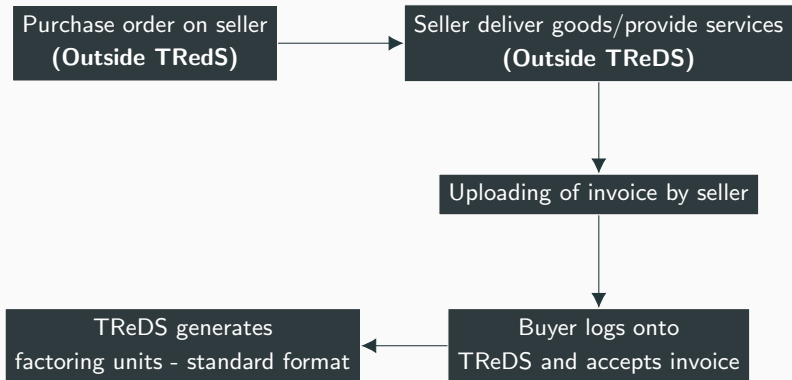
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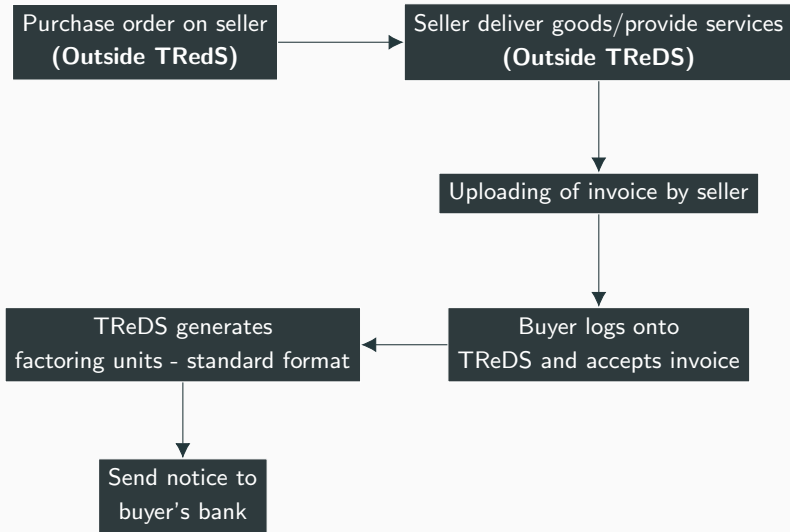
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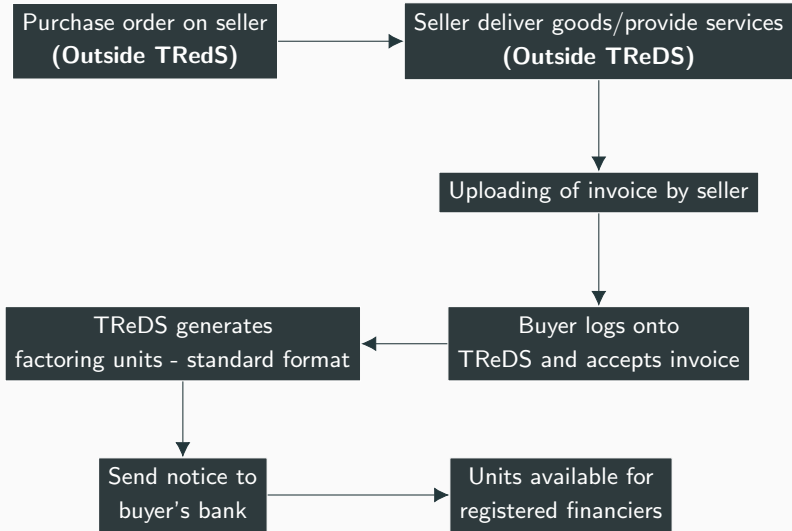
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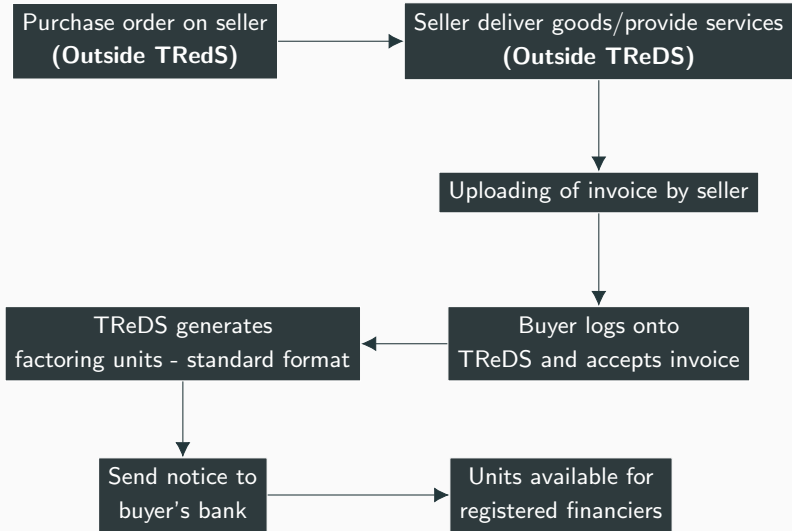
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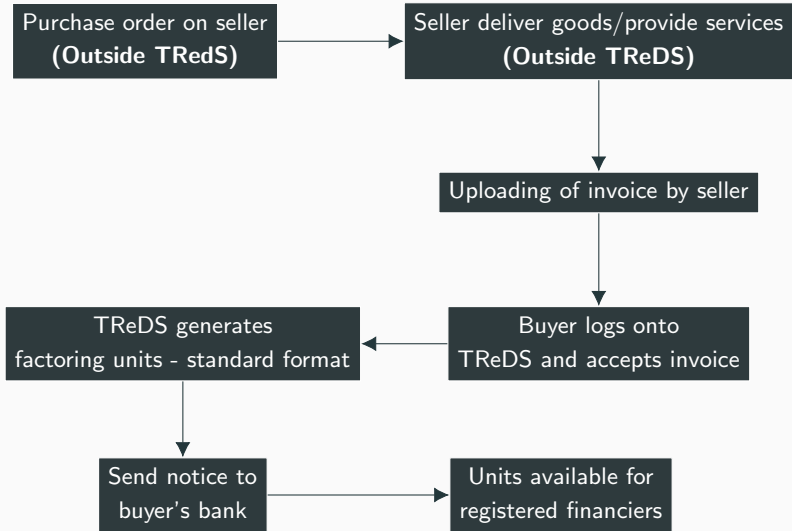
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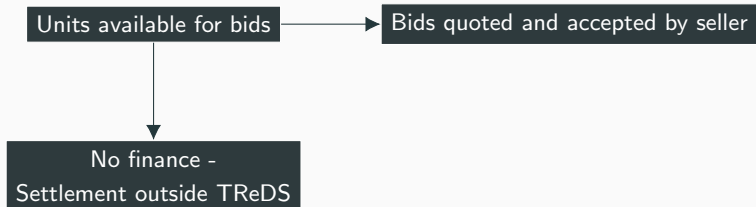
TReDS process - Bidding by financier and discounting

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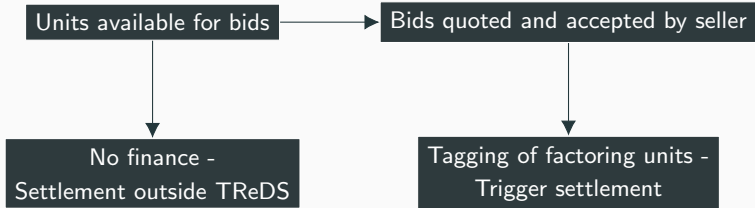


No finance -
Settlement outside TReDS

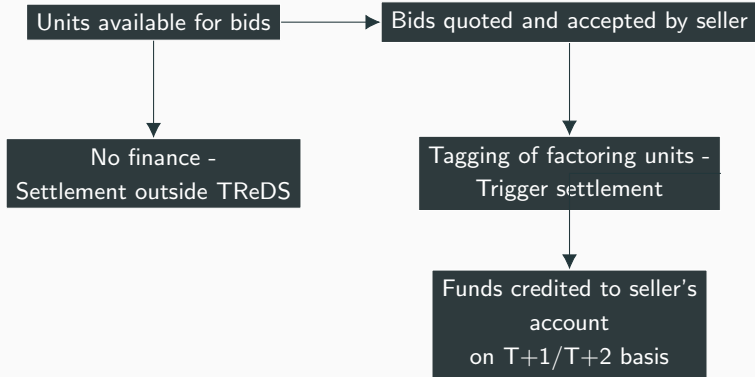
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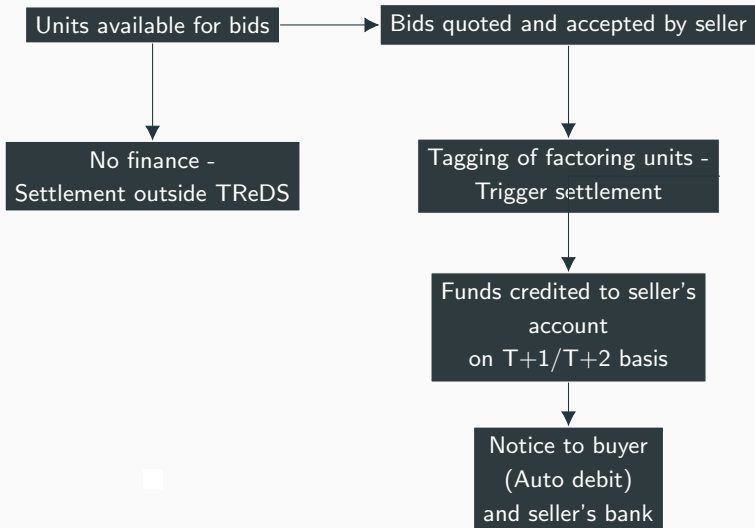
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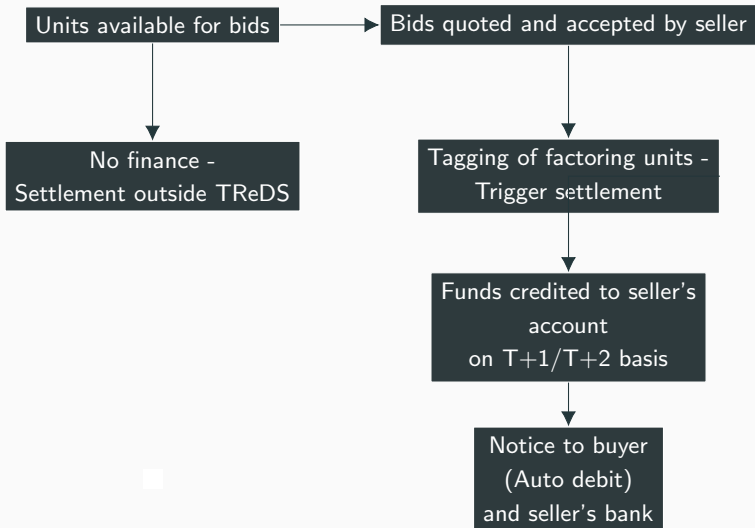
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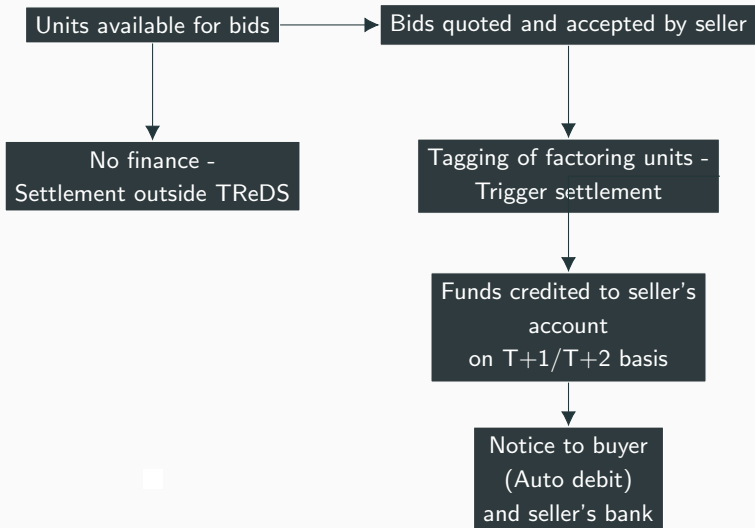
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TReDS process - Settlement between buyer and financier

Due date - TReDS triggers
final settlement obligation

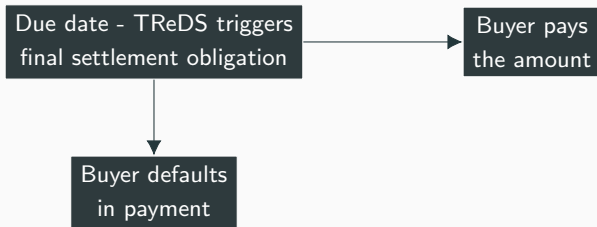
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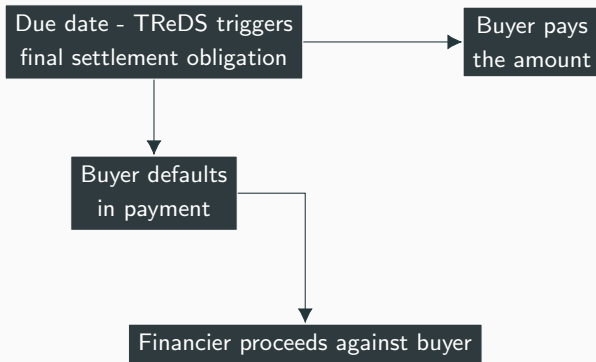


Buyer pays
the amount

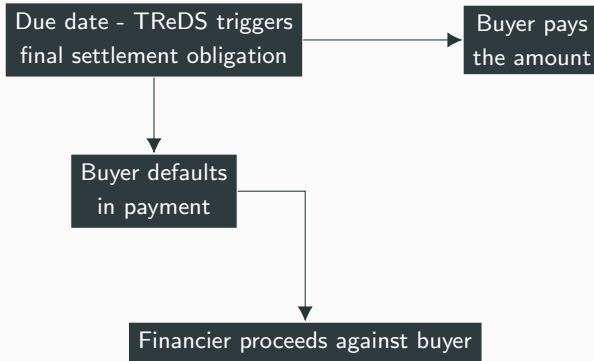
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Non recourse to MSME seller and outside the purview of TReDS

Benefits for participants

- Financier
 - ▶ Financing done on credit rating of established buyers
 - ▶ Reduces due diligence cost for financiers, cross-selling
 - ▶ Minimize invoice discounting fraud (blockchain solution)
- Seller
 - ▶ No collaterals for invoice financing
 - ▶ Competitive rates for suppliers: (8-10)% on TReDS against average 12.5%
 - ▶ Without recourse to seller
- Buyer
 - ▶ Optimisation of working capital

What do buyers think about TReDS?

- Obligation to settle payment within 45 days (*MSMED Act, 2006*)
- No option of raising disputes, no set-off
- Factoring done on *no-recourse to seller* basis
- Cost of integration, existing relationship

What do buyers think about TReDS?

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Vendors instructed not to sign up for TReDS

Possible options

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- Remove obligation of 45 days⁵
- Adopt *light touch* approach
 - ▶ Disclosures of payment practices on TReDS
 - ▶ System of black listing regular defaulters (Collective action of MSME associations)
- Option to settle disputes⁶

⁵NAFIN model gives flexibility to buyers and financiers to negotiate timeline.

⁶NAFIN model provides this option.

- Integrating TReDS with GSTN⁷
- Allow more participants to lend⁸

⁷Awaiting approval of GoM.

⁸UK based MarketInvoice allows individuals to participate.

Regulatory Intervention

Compulsory registration + Disclosure

Year	Developments
November 2, 2018	<ul style="list-style-type: none"><li data-bbox="585 339 1185 464">● Compulsory registration on TReDS for CPSE and Cos with turnover more than INR 500 Cr<li data-bbox="585 501 1185 809">● Cos whose payments to MSMEs exceeds 45 days from date of acceptance (deemed) must file an half yearly return to MCA:<ul style="list-style-type: none"><li data-bbox="664 723 1185 757">▶ Amount of payment dues; and<li data-bbox="664 774 1185 809">▶ Reasons of delay.

Possible implications?

Thank You