



TECHNOLOGY-DRIVEN ALTERNATIVE FUNDING PLATFORM FOR MSMEs: TReDS



INTRODUCTION

Micro, Small and Medium Enterprises (MSMEs) represent a significant part of the Indian economy and are one of the strongest drivers of economic development, innovation and employment.

Despite this sector's vast potential, certain challenges are hampering its rapid growth. One of the challenges faced by MSMEs is the delayed payment from corporate buyers leading to a shortage of working capital for their regular business operations.

To address the financing related issues faced by MSMEs in India, RBI in 2014 introduced the concept of TReDS, a mechanism of trade receivables financing for MSMEs on a secure digital platform.

Three platforms were granted licenses by RBI to operate on the TReDS mechanism in 2017, including Mynd Solutions' M1Xchange, Invoice mart (a joint venture between mjunction services and Axis Bank), and RXIL (a joint venture between NSE and SIDBI).

WHAT WE SHOULD KNOW ?

Trade Receivable Discounting System (TReDS) is an electronic platform for facilitating the financing / discounting of trade receivables of MSMEs through multiple financiers. These receivables can be due from corporates and other buyers, including Government Departments and Public Sector Undertakings (PSUs).

The TReDS will provide the platform to bring different participants together for facilitating uploading, accepting, discounting, trading and settlement of the invoices/-bills of MSMEs.

PARTICIPANTS

The eligible entities who can participate in the TReDS platform are MSME Seller, Buyer (Corporates, Government Departments, PSUs and any other entity) and Financier (Banks, NBFC – Factors and other financial institutions permitted by RBI).

SALIENT FEATURES OF TReDS:

- Unified Platform for Sellers, Buyers and Financiers
- Easy Access to Fund
- Eliminates Paper
- Transact Online
- Competitive Discount Rates
- Seamless Data Flow
- Standardized Practices

HOW DOES TReDS WORK?

Generally, the following steps are followed while financing/discounting through TReDS:

- Uploading of invoices/bills and creation of factoring units on TReDS platform by the MSME sellers (in case of factoring) or the buyer (in case of reverse factoring). A Factoring Unit (FU) contains the necessary details of the invoice in digital format.
- Acceptance of the FU by the counterparty – buyer or the seller, as the case may be
- Bidding by financiers against the FU
- Selection of best bid by the seller or the buyer, as the case may be
- Payment by the financier (of the selected bid) to the MSME seller at the agreed rate of financing / discounting.
- Payment by the buyer to the financier on the due date

BENEFITS OF TReDS

For the Seller:

Quicker Payments - MSME sellers receive funds against approved invoices within 48 hours

Multiple Financiers – MSMEs are not restricted to a single bank. Have the option to choose the lowest bids among the multiple financiers.

Without Recourse Borrowing – No obligation on the seller to repay the financier in case the buyer defaults in repayment.

Lower Cost of Funds - Transparent bidding process to discover the most suitable price. The seller can access financing at competitive terms as it is based on the credit rating of the buyer.

Off-Balance-Sheet Finance – Offers a collateral-free bill discounting service that doesn't impact the balance sheet of the business as it involves the sale of receivables.

Collateral- Free Working Capital – Seller can gain access to working capital using unpaid invoices through bill discounting

Business Growth – Business growth and expansion with timely access to money

For the Buyer:

Efficient Cash-Flow Management – By registering on TReDS, the buyer can properly track its cash flow.

Compliant with MSMED Act,2006 – Buyer can better manage their Working capital cycle and make timely payments to MSME in compliance with MSMED Act,2006.

Saving on Finance Costs by extending credit period.

More Transparency – Lower administrative cost.

Saving on Procurement Costs – Buyer can negotiate better terms with MSME Vendors.

For the Financer:

Cost Reduction – It reduces the operational cost

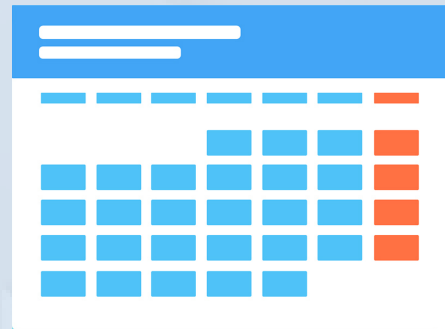
Automated Transparent Platform – The Financer may have access to a broader market.

TReDS ensures instrument qualification.

CONCLUSION

Over the last 3 years, TReDS has emerged as a next-generation ecosystem for MSME enterprises to finance their receivables at competitive rates and thereby overcoming the challenge of delayed payments. TReDS has tremendous potential to solve the MSME woes relating to working capital management.

COMPLIANCE CALENDER DECEMBER 2021



GST	
GSTR 3B NOV 2021(Turnover in the previous financial year more than Five Crores)	20-12-2021
GSTR 3B NOV 2021 (Others)	22-12-2021
GSTR 1 NOV (Turnover more than Rs. 1.5 Crores)	11-12-2021
Income Tax	
Deposit of TDS	07-12-2021
ESI	
Payment for the month of NOV 2021	15-12-2021
PF	
Payment for the month of NOV 2021	15-12-2021
Return Filing for the month of NOV 2021	25-12-2021