

TREDS

A real game changer for MSMEs in India or just a gimmick?



On 2nd of November, 2018 the Ministry of MSME issued a notification to the organizations having annual turnover of over Rs 500 crore. In the notification the ministry has made it mandatory for such companies to register themselves on an RBI approved TReDS platform. Registrar of Companies (ROC) in each state for companies and CPSEs has been granted the authority to implement and monitor the above instruction.

Recently, the Institute of Company Secretaries of India (ICSI) has received a communication from Ministry of Corporate Affairs (MCA) to advise Company Secretaries of such companies to ensure registration of such companies on the TReDS platform at the earliest and confirm compliance. However one needs to first understand what is TReDS? Why is the Government pushing so hard to get it implemented? Do only MSMEs and big corporate need to register on TReDS?

What is TReDS

TReDS (Trade Receivable Discounting System) is an institutional mechanism that allows businesses to auction trade receivables (invoices) on a digital platform, and the platform serves as a transparent and quick medium for the small scale players to avail funds at cheaper rates, through banking and factoring companies.

If one has to keep it simple, saying that TReDS helps a supplier to realize payment against an invoice raised to a buyer through a financier at discounted rates in significantly less number of days would be most apt explanation.

WHAT'S INSIDE THIS ARTICLE

MSMEs contribute towards 37% of the total GDP of our nation, yet it is one of the most cash starved sector. The MSMEs often find it difficult to acquire adequate working capital to grow their business. Slow paying invoices are one of the big factors that contribute to such problem.

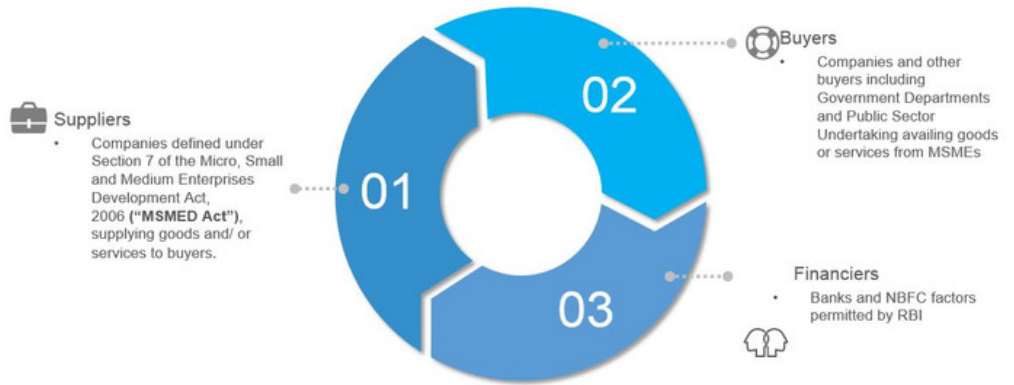
To combat this issue The RBI and Govt of India introduced the concept of TReDS (Trade Receivable Discounting System). What purpose does this concept solve and how well can the system be adopted in Indian financial ecosystem?



It involves three parties (suppliers, buyers, financiers) and the whole process of invoice discounting takes place on a digital platform.

Was TReDS really required in Indian financial ecosystem?

So, was introducing TReDS in India really necessary? Or it is just a political gimmick. The truth is, TReDS is a boon for the Indian MSME sector. MSMEs contribute towards 37% of the total GDP of our nation, yet it is one of the most cash starved sector and often find it difficult to acquire adequate working capital to grow. TReDS is a game-changer. The benefits include quick turnaround, and lower finance cost owing to digitized information.



How TReDS Work?

The process of bill discounting initiates with uploading of a valid invoice by the Supplier on the TReDS platform, the buyer then checks the validity of the invoice approves the same. Upon approval the financiers starts to bid on the invoice at discounted rates which depends on buyer's rating. The supplier then accepts the bid as per their discretion, upon acceptance payment is processed the next day and supplier's account is credited with the discounted amount. The process gives flexibility to the suppliers to choose the best financier on financing cost.

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Coming to the overall benefit of this system. Suppliers enjoy collateral free without recourse financing at a rate much lower than a bank loan. The corporate buyers on the other hand gets an extension on days payable helping them better manage their working capital. Since the corporates are enabling their MSME supplier get paid in a matter of few days, they are in a comfortable position to negotiate on the overall cost of procurement. Financiers are able to build quality PSL Asset portfolio in MSME space with reduced risk of default.

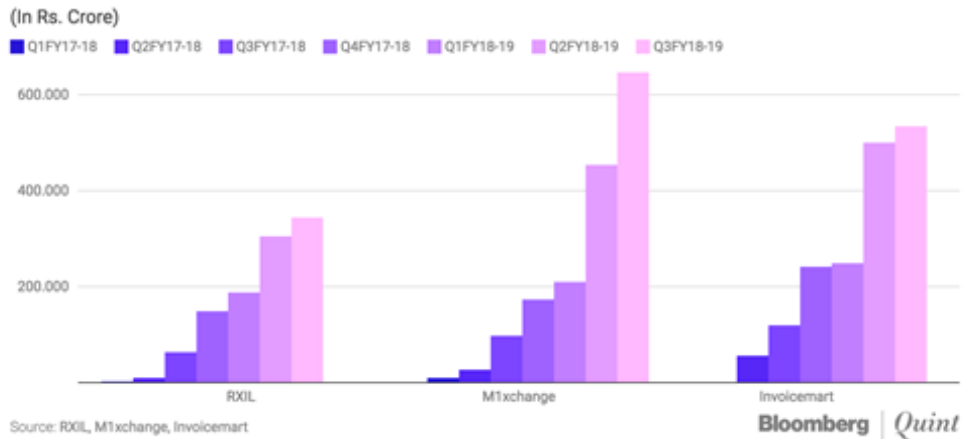


According to an independent survey by Bloomberg Quint, M1xchange is leading the TReDS sphere and has emerged out to be the biggest and fastest growing TReDS platform in terms of Volumes of Bills Discounted.

Currently there are three TReDS platform in India which are operating under RBI guidelines.

1. M1xchange
2. A.Treds
3. Receivable Exchange of India

Among the three platforms M1xchange is leading the TReDS sphere and has emerged out to be the biggest and fastest growing TReDS platform in terms of Volumes of Bills Discounted. The exchange has a robust digital platform and excel in customer service. The platform has over 200 corporates, 1300 MSMEs and 26 Banks/ NBFCs actively transacting on M1xchange. The platform has also won two prestigious awards for their overall contribution to MSME sector, Best Digital Solution of the Year by Indian Express in December, 2017 and Best Payment Technology Solution Provider by ET now in February, 2019.



To conclude, no matter which TReDS platform you register, as a Corporate buyer or MSME supplier or Financier you are going to reap benefit from it. It will change the face of MSMEs and will revolutionize the way MSMEs do business in India.

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