



SOLVING CASHFLOW WOES OF AN MSME SUPPLIER OF ELECTRICAL ANCILLARIES

How an MSME supplier of a large corporate overcame its working capital issue using TReDS



OVERVIEW

An MSME manufacturer and supplier of electrical ancillaries from Kolkata supplies to a pool of large corporate buyers. As per standard contract, the due date of payment is 45 days from the date of invoicing. This leads to a temporary blockage of funds for the MSME and creates a shortage of working capital.

With help of M1xchange, a leading TReDS platform in India, the MSME is able to receive funds against its invoice in 2 days by discounting their bill thus ending their working capital woes.



The Problem

AAA Industries (name changed to maintain confidentiality) is a 9-year-old MSME and manufacturer and supplier of electrical ancillaries to a pool of mid-size and large companies. As part of the contract, its buyers have agreed to make the payments against the invoices within 45 days of order delivery. These clients have good corporate credit, so the MSME owner is assured of timely payments. However, there are a few slow paying invoices creating undesirable cash flow blockage.

AAA industries has a big order to fulfill in the next month. This requires purchase of materials and pay up their small vendors. Most of the working capital of AAA industries is consumed in dealing with general expenses and payroll liabilities. The MSME owner soon realize that inadequacy of working capital has started to result in business failures at micro levels and can soon impact the overall business. The company will not be able to grow and acquire new clients until they build a meaningful financial reserve to support the current ones.

AAA Industries could solve their current cash flow problems using a working capital credit or a business loan from a bank. However, banks require collateral and guarantor to sanction a loan and offer limited amount to small businesses based on their past year performance.

This lending process involves a lots of documentation, long turnaround time and yield limited results of amount of financing. Due to this AAA industries approach non-banking financiers and bear high interest rate of approximately 18% to fill the gap in working capital requirement for growth.

The Solution

One of the corporate buyer of AAA Industries that has recently on-boarded M1xchange asked the MSME to on-board M1xchange and upload its invoice for bill discounting. This solution involves a digital mechanism which has 3 stakeholders, the buyer, the supplier and the financier. With one time documentation and some KYC formalities the MSME on-boards M1xchange in simple steps. The supplier, AAA Industries in this case, uploads an invoice on M1xchange which is approved by its corporate buyer. After the invoice is approved the invoice is open for bidding by various financiers on the platform. Once AAA accepts the best suited bid, the amount of the discounted invoice is credited to its bank account within 2 days. AAA can discount all its invoices on M1xchange and transform from a cash deficit company to a cash surplus organization. There is no requirement of collateral or guarantor and past performance for the business.

In order to avoid any kind of duplicity of invoice, all transactions on M1xchange are secured using blockchain technology and the process is completely transparent.



Conclusion

The MSME is able to solve its problem of steady cashflow and working capital with M1xchange. The funds are now received directly in the bank account within 1 day of acceptance of the best bid by MSME. Invoice discounting on M1xchange has drastically lowered the rate of interest for acquiring working capital by 6-7%.

The biggest benefit to AAA industries is that they have been able to acquire new clients. Now the MSME can buy new machinery, increase the headcount and pitch in for bigger orders.

M1xchange has provided a collateral free and without-recourse financing with hassle free and paperless documentation through a secure and digital platform. This MSME Supplier now enjoy better working capital management all the while increasing the options of expanding the business faster.

Benefits of TReDS to AAA Industries

- Minimize cost for AAA industries.
- It does not add borrowings or any additional liability on the balance sheet.
- It does not use the cash flows of the buyer for the pre-payment.
- Much faster turnaround than unconventional supply chain facilities by the banks. Payment is realized in 1 day from approval of invoice by Buyer.
- Minimal paperwork one time and thereafter invoices are discounted digitally.
- Security of digital platform for confidentiality of information.
- Minimize the duplicate payments and other operational risks.
- Can be integrated with ERP systems and avoid manual processes.
- Risk of collection from Buyer is reduced as there is no recourse on AAA industries.

TALK TO US

Write to us at sales@m1xchange.com to know more about TReDS and its benefits for your organization.

Or talk to our helpdesk team on **1800-103-7261** (10 AM - 6 PM)

www.m1xchange.com



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