

The Vendor Network of India's top Spice Exporter Gains Instant Working Capital With TReDS



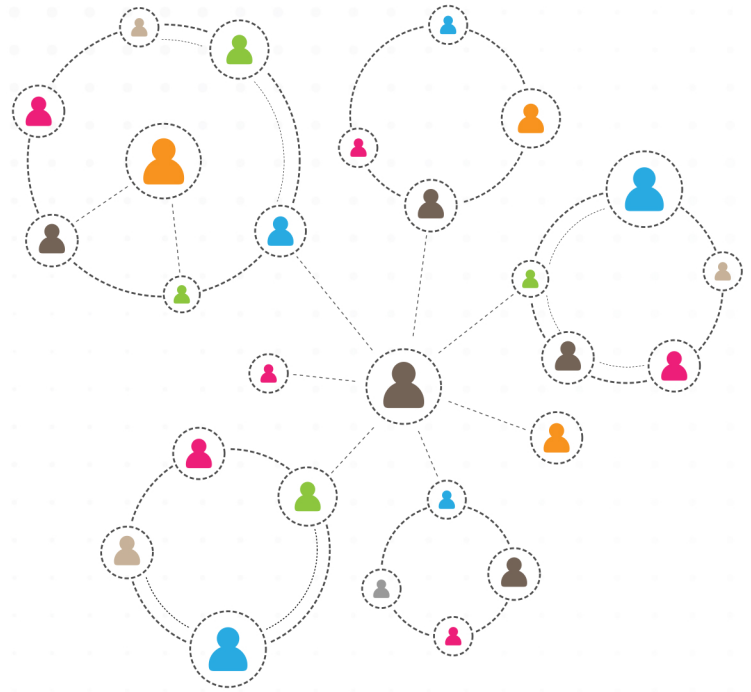
OVERVIEW

The client is a successfully run spice manufacturing and exporting company with its roots embedded in India. The company has six manufacturing facilities in Kerala, Tamil Nadu, Andhra Pradesh, and Uttar Pradesh. It has now established a strong presence in 13 states across India with a huge network of local vendors. It also derives revenues from overseas markets of Middle East, the US, Australia, and the UK through exports. It has established itself as a household name when it comes to spices.



THE VOLATILE SITUATION

In line with its nature of business our client has built a large network of dealers and vendors since their incorporation. The vendors are predominantly MSMEs (farmers and aggregators) in nature which have been built and nurtured over time. The client recognized that this network constituted not just a valuable asset, but also a key competitive advantage. One of the key challenges in this industry is volatility in raw material prices. This apart, most of the vendors are dependent on their working capital borrowing to purchase raw material. Given the profile of these vendors their borrowing rates are significantly higher.



THE CHALLENGE

The client did not want to execute a conventional vendor finance program that would reach only a few top vendors as it would not cater to bulk of their vendors. They wanted a program which would handle most of their vendors many of them who happen to be MSME. As a part of our client's contract with its SME vendor network, the company makes the payments against invoices within 45 days of order delivery. To take competitive edge on raw material prices and to ensure prompt supply, vendors have to purchase raw material in advance to cater to the needs of the Buyer, which means requirement of more liquidity. Vendors would also often take help of traditional factoring for invoice discounting of its invoices, but this would involve a lot of paperwork and the payment takes approximately 7-10 days to reach the MSME supplier. The other alternative was bilateral WC borrowing but this would come at a higher rate of interest.

The need became urgent in early period of 2020, especially for the vendors, when the covid-19 crisis further rattled supply chains amid country lockdown and movement restrictions in the region, prompting vendors to ask early payment against their invoices from the buyer. As most of our client's MSMEs belong to Tier 3 and Tier 4 cities where they don't have access to formal source of finance, generally MSMEs source loan from Banks/NBFCs at very high interest rate.

Our client understands the value of competitive working capital for its suppliers to keep the production up and running, but also did not want to overburden their internal team with additional administrative work which would be needed for every conventional factoring / vendor finance transaction as well. The client was ready to implement an innovative forward-looking solution to provide working capital at scale, without manual intervention.



THE M1 SOLUTION

After careful analysis of various supply chain solutions, our client adopted TReDS to solve the working capital issues of suppliers without burdening their collateral. The innovative solution brought by M1xchange was to provide a digital marketplace to sell the receivables of the client's vendors to banks & NBFCs by leveraging the better rating of the client. The process is completely digital, from submission of invoices to receiving the payments. Rate of interest is through a competitive bidding / price discovery from a pool of liquidity. This democratized access to funding in the entire vendor base, and any vendor, no matter how small, could access funds in a 100% automated on-demand fashion.

THE IMPACT

The ready benefit of TReDS was right in the simplicity of process – Approved Invoice > Financier Bids > Early Payments in T+2 Days.

These benefits get multiplied when the discounting happens at a very competitive ROI ~ 6% which allows vendors the flexibility to obtain liquidity on their terms, and for the client to deliver funding at an entire supply chain level, and cater to each vendor's needs without any manual efforts.

Here's how an esteemed vendor of our client, who has discounted bills worth more than INR 45 Cr on M1xchange, benefitted through TReDS.

“As the raw material required is seasonal-based, we have to procure raw materials in bulk during the peak season to cater to the needs of our buyer. This requires good cash flow / working capital. Before registering with the platform, we were having working capital facilities with a nationalized bank where the ROI was around 12% and the same was backed by collateral. Coming on to the platform, at present we are getting an ROI of ~ 6%, and that too without the need of any collateral.”

THE GAME CHANGER

Access to ready working capital has “Changed the Game” for many SMEs, allowing them to diversify and expand their business and manufacturing capacity while maintaining adequate financial health even through the COVID-19 lockdown.

- As a result of adoption of M1xchange program, our client's MSMEs have freed up working capital of more than INR 205 Cr to support its operational expenses.
- The straight reduction of ROI by half of the conventional financing models have saved around INR 1.32 Cr for the vendors collectively.
- With the benefit of supply chain financing, MSME volumes are growing specially among vendors who belong to Tier 3 & Tier 4 cities like Byadige, Unhja, Guntur, Srirangapattana, and Khammam. 90% of these vendors are from small & micro enterprises.
- Covid was an uncertain period for vendors, and M1xchange has made sure that availability of liquidity for the MSMEs in lockdown phases 1 & 2 was there. Especially for the period of February-July as it is the peak season for purchasing raw material.
- From April to July 2020, we have discounted invoices worth INR 96 Cr, and for the period of April to June 2021 we have discounted invoices worth INR 81 crore at average rate of interest of 5.93 % PA.
- Banks were also very supportive during Covid-19. More than 17 Banks placed bids for discounting the invoices of our clients. 10 were public sector banks, 3 Private sector banks, 2 each for foreign banks & NBFCs.

IN SUMMARY

Adoption of TReDS has benefitted both our client and its vendors immensely by bringing down the cost of transaction, and enhancing the vibrancy of the supply chain. This gets reflected in good financial health of vendors despite the impact of Covid and the resultant lockdowns.

VENDORS

1. Huge cost savings as interest rates have halved from conventional channels to TReDS (12 to 6).
2. Substantial savings on administrative charges (hundi/ BOE / courier).
3. Ease of transacting – completely digital through their laptops/ mobiles.

CLIENT

1. No need to commit additional working capital for vendor finance.
2. No additional administrative hassles of paper-based transaction.
3. Happy committed vendors who give the client priority.
4. Low financing cost for vendor leads to reduction in cost of goods.



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