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Comparison of Short- Term Financing Options; Factoring As the Best Alternative

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ABSTRACT

Studying the relationship between factoring and other short-term financing with reference to India's micro, small, and small businesses The basis for comparison is average interest rate, general repayment period, execution time, commission charge, application of agreement between or among the parties, requirement of securities, whether it creates assets or liabilities, the intended use of the available funds or credit, whether GST Report and CIBIL Score are required for obtaining funds/credit or not, and any restrictions on drawing the funds or credit. With the use of a tabular comparison, the benefits of factoring funds over other forms of short-term borrowing.

Introduction: Steep rivalry in the corporate sector is a result of changes in the business environment. At the same time that well-established large business hubs are experiencing intense rivalry, MSME commercial firms are also coming under pressure. Along with other big/large business operations around the world, MSME is one of the most crucial components for economic development in any developed, developing, or under-developed country in the world. However, as a result of fierce competition between giant corporations and a disregard for the significance of MSME businesses, MSMEs are struggling and are unable to expand in this constricting business environment. There are a few ways that MSME may serve in order to broaden or enhance the MSME world.

A MSME can succeed in this cutthroat business environment by using the financial tools offered by various financial institutions, such as short-term financing. To better execute short-term financing, MSME businesses may find some of the short-term finance and its comparisons valuable. The conclusion drawn from the short-term finance data may be useful to MSME decision-making.

Objectives: The purpose of the title is to evaluate the many forms of credit that are now available and show how, after comparison, short-term financing might benefit MSME. All forms of short-term financing for MSME will be compared to factoring as a new source of alternative credit on the market. A comparison table will be created, and the results of the comparison will be explained, in order to show the significance of factoring as the best alternative source of financing for MSME.

Methods: The data which has been collected from different resources like of websites RBI, ICICI, SBI, IFCI, etc. Its foundation is research in terms its quality. This article will analyze the nature, characteristics, definitions, numbers, and facts of each type of short-term credit, including factoring, trade credit, cash credit, working capital loans, and cash credit. There will be comparison of each type of factoring with listed short-term financing options available to MSME's. Since this is an empirical study analysis will be of qualitative in nature and there will not be any need of the measures of central tendency like ratio, percentage etc.

Results: In comparison to alternative forms of short-term financing for MSME, employing factoring funds has a significant advantage, according to reviews of numerous websites and articles. The major benefit over other short-term funds is that factoring offers actual cash in hand under the guise of factoring funds. After selling their own accounts receivable to a factor and generating revenue, an MSME may be able to abolish the term "bad debts" in the future because

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factoring involves collecting money from debtors on their behalf. In comparison to other forms of short-term financing, the factoring process is more convenient, requires less paperwork, and provides funds faster. Factoring works in the concept of account receivables for MSME where as other short-term finance is works on the concept of account payable for MSME.

Conclusions: In conclusion, factoring stands out as a superior short-term financing option for MSMEs due to its ability to provide immediate cash flow through the sale of accounts receivable. Unlike traditional financing methods that rely on accounts payable, factoring minimizes the risk of bad debts by ensuring that funds are collected directly from debtors. Its streamlined process, reduced paperwork, and faster access to funds make it a more convenient and efficient solution compared to other alternatives.

Keywords: Factoring, Trade Credit, Short-Term Finance, Cash Credit, Working Capital

INTRODUCTION

The term "short-term finance" was first used to describe bridging loans half a century ago, although it was initially applied to repair the damaged link in the housing supply chain. Although short-term loans were employed in the 1960s to buy and sell houses, their true value wasn't seen until the 1980s. The next best option available in this time period to speed up the market was a short-term loan because secured loans from banks were currently offered slowly.

The globe was in shock in 2007 when there was a credit crunch brought on by a scarcity of credit on the market. Thus, practically all of the banks in the globe start implementing short-term loans to finance a variety of market services in order to overcome the aforementioned problems. Since then, banks have formally adopted short-term loans and credit in an effort to end the credit crunch in the markets.

Current market conditions allow for a variety of short-term credit products, including Trade Credit, Cash Credit, Bank Overdraft, Working Capital Loan, Factoring, etc. The most crucial aspect of all is that each of these credits has unique qualities, importance, application, etc.

Definition

Factoring is a tried-and-true alternative source of financing that clients can employ by using their own accounts receivable after giving the Factors their customer information. After reviewing the client's customers, if the factor is confident in their authenticity and creditworthiness, it will authorize the advance payment to the client. The clients' capacity to manage their day-to-day business operations is made possible by the factor's provision of advance cash. With the development of alternative finance, small businesses worldwide can thrive and expand, providing crucial or tested services that could significantly increase a nation's GDP. It will help to fill the time gap of account receivables in one hand and on the other hand the available advance money can re-invested into business which may defiantly increase the sales volume of business in every rotation.

Trade Credit: Because trade credit transactions are typically B2B, they can be viewed as an agreement or understanding between two parties who are actively conducting business. Supplier firms let such credit transactions to be completed with the promise of future payments when a company that falls under the MSME category or any other company wants to buy specific goods and services on credit. Depending on the terms of the agreement, the payment period may range from 7, 30, 60, or 120 days. One of the fascinating aspects is that there is no interest charged on trade credit. After certain agreements between its respected parties and taking into account the benefit of trade credit, MSME enterprises may purchase their raw materials for inventory on credit.

Bank Overdraft: An overdraft is a situation in which a business or individual overdraws money from their bank account to cover a shortfall in funds. It's a type of service that banks offer to their valued customers that allows them to withdraw more money than is now in their bank accounts. Every bank has set a maximum on how much money can be overdrawn from accounts and given to clients, taking into account those clients' ability to pay back the money. The maximum amount that can be withheld is determined or specified by the bank or other financial institution, and the volume or frequency of withdrawals may vary from one bank to another and from one consumer to another. Interest is applied to the amount that the consumer used, not the maximum allowed by the banks.

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Cash Credit: Cash credit is a facility provided by a financial institution, such as a bank, to its firms or clients, allowing them to withdraw additional funds from their cash credit accounts up to the limit that the bank has previously set for such companies. The purpose of a cash credit account is similar to a current account with the addition of check-writing capabilities. To monitor changes in raw materials, work in progress, finished goods, etc., cash credit can be used.

After providing guaranteed book debts, collateral securities, etc. and taking into account bank requirements, cash credit may be used. Cash credit is mostly used to meet a company's need for working capital. The maximum amount of cash credit must be equal to the company's required working capital, less any margin paid to the company.

Working Capital Loan: Working capital loans are available to MSMEs to help with day-to-day operating costs. Accounts payable, salaries, the cost of purchasing raw materials, etc. are examples of daily operational costs. It is among the best ways for MSME to accelerate their rate of growth. India is a very well-liked nation, which aids in addressing their particular financial demand. However, these loans are not appropriate for buying long-term company assets. Working capital is typically thought of as an unsecured loan, however risky loans could need for some form of security. Working capital loans have terms of six to twelve months, with annual interest rates ranging from 11% to 16%, depending on the lending institution's/regulations.

MSMEs: The production of goods and commodities is the main activity of MSMEs. In accordance with the MSMED Act of 2006, the Indian government developed the MSMEs concept in 2006. MSMEs are categorised according to their investment and revenue.

Due to its roughly 8% GDP contribution, MSME is significant to the Indian economy. Additionally, it offers job chances to young Indians who are talented, semi-skilled, and/or underskilled. Both the public and private sectors are unable to accommodate India's growing population of young people. In actuality, MSMEs are responsible for solving the majority of India's job issues. MSMEs have the ability to hire a large number of qualified, semi-skilled, and unskilled youngsters in India, but the actual reality is that there are some methods in which they lack funding or a source of credit. MSMEs have been impacted by financial problems for many years. MSMEs must be given access to the simplest forms of financing, or the government must set up a reliable and ongoing source of funding for them, to enable them to effectively use the readily available funds to carry out their daily operations.

Sr. No.	**Enterprise Size**	**Investment Amount**	**Turnover Of Enterprise**
1	Micro Enterprise	Less than Rs. 1 Cr	Less than Rs. 5 Cr
2	Small Enterprise	Less than Rs. 10 Cr	Less than Rs. 50 Cr
3	Medium Enterprise	Less than Rs. 20 Cr	Less than Rs. 100 Cr

*Classification of enterprise on the basis of capital.

The delay in accounts receivable, which are meant to be received from consumers on time, is the most significant and real issue encountered by Indian MSME, according to a review of numerous research papers, articles, and journals. Most management tasks are postponed as a result of these late receivables, which ultimately poisons management operations. The problem of fluctuating staff, inverse or negative inflow/outflow of raw materials/finished goods, gaps in sales turnovers, overloading of overheads, complete failure of planning and marketing strategies, etc. are caused by a lack of cash flow and simultaneous blocking of funds for longer periods of time. These are the key issues that Indian MSME companies encounter, which forced their managers to resign and shut down their management functions. In other words, some of these companies have disappeared from the Indian market or have been acquired by large corporations.

We applaud the success of MSME businesses in other nations and aspire to it, but we fall short of implementing or adopting an adequate alternative financing service in our MSME. We refer to the Factoring Service when we discuss other sources of funding. The main and most effective tool used by the majority of foreign nations to seriously improve their MSME is the factoring service.

OBJECTIVES

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The objectives of this chapter are centered around exploring and analyzing the various short-term financing options available to Micro, Small, and Medium Enterprises (MSMEs), with a particular emphasis on factoring. The chapter aims to provide a theoretical comparison between factoring and other commonly used short-term financing methods, highlighting the fundamental differences in their operational models—specifically, how factoring revolves around accounts receivable, while others typically involve accounts payable. Through this comparison, readers will gain a clearer understanding of the financial structures and mechanisms that support MSMEs in managing their cash flow.

Furthermore, the chapter seeks to outline the distinct advantages of factoring as a financing tool. It emphasizes how factoring can offer quicker access to working capital, reduce the burden of managing receivables, and potentially eliminate the risk of bad debts. By presenting these benefits, the chapter intends to illustrate why factoring can be a more effective and efficient solution for MSMEs in need of short-term funding, encouraging greater awareness and consideration of this option among business owners and financial decision-makers.

METHODS

1. A Comparative Between Trade Credit and Factoring

For Indian MSMEs, factoring is a brand-new notion when it comes to short-term financing, but trade credit is one of the MSMEs' most traditional short-term financing options. Factoring is a tried-and-true alternative source of financing that clients can employ by using their own accounts receivable after giving the Factors their customer information. After reviewing the client's customers, if the factor is confident in their authenticity and creditworthiness, it will authorize the advance payment to the client. The clients' capacity to manage their day-to-day business operations is made possible by the factor's provision of advance cash. With the development of alternative finance, small businesses worldwide can thrive and expand, providing crucial or tested services that could significantly increase a nation's GDP. On the one hand, it will aid in closing the time gap for account receivables, and on the other hand, the advance funds are accessible for reinvestment in the company, which may undoubtedly improve the sales volume of the company in every rotation.

Trade credit is a type of credit that is given from one trader or firm to another. the location where products and services are purchased and sold on credit. Suppliers offered the option of a delayed payment under trade credit, but there was no interest charged. It is referred to as an interest-free loan that providers extend. If payment is not paid by the deadline, it could be pricey. Borrowers are obligated to pay greater costs, such as late fees or interest rates, in such situations. Trade credits are a frequent short-term financing option utilized by commercial organizations in addition to conditional interest rates and late fines.

According to an internal agreement between suppliers and buyers, suppliers typically provide trade credit terms of 30, 60, or 90 days. Banks like Bank of Borada, DCB Bank, HDFC Bank, and United Bank of India also provide trade credit.

Basis	**Factoring**	**Trade credit**
Average Interest rate	1% to 4%	Nil or conditional rate
General repayment period	30,60,90.120 days	7,30,60,90 days
Time of execution for funds/credit	2 to 7 days	Same day when buying and selling proceed on credit
Commission	1% to 2%	Nil
Agreement	Required	Internal agreement / Understanding
Securities	Not required	Not required
Creates Asset/Liabilities	Encumber assets	Liabilities of buyers
Use of funds/credit	Fund Used in any operational activities and other payments also	Credit on commodities helps to maintain the inventory and working capital.

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Table – 1: Comparison between Factoring and Trade Credit for MSME

Observations from the Table – 1

When comparing factoring and trade credit, factoring has an interest rate that can range from 1% to 4% whereas trade credit has no interest charge or interest that is conditional if the buyer doesn't pay on time. The length of the factoring repayment period typically depends on the agreement between the clients and customers because the terms of the repayment are solely up to the clients and customers; the factor has no say in determining the length of the repayment period for the customers. Typically, the terms of the repayment period are 30, 60, 90, and 120 days, depending on the terms of the clients and customers' agreement.

The process of allocating funds to clients for factoring often takes 2 to 7 days, however in the case of trade credit, credit is issued to buyers on the same day as internal agreements or understandings between suppliers and buyers. Trade credit does not need the use of funds, so there is no commission fee. In contrast, commission is charged by the factor in the factoring industry, ranging from 1% to 2% depending on the time frame or type of business. Both factoring and trade credit required an agreement, but for trade credit, an internal understanding or agreement sufficed for credit. Both financial services do not require any securities. In factoring, encumbrance assets are generated when a customer sells its own account receivables to raise money from factoring, but in trade credit, encumbrance liabilities are created when buyers are required to pay the full amount after the due date. The money that the clients' factoring generates is used for the organization's daily operations, including paying salaries, buying supplies, and paying debts. One benefit is that clients can grow their businesses without experiencing cash flow problems by frequently converting their accounts receivable to factoring, as opposed to trade credit, where buyers must make timely payments whether they are able to use the credit to acquire stocks or not. It will only be feasible to repay credit on time if all of the credit purchase stocks are sold by the buyers. Otherwise, handling credit will be very difficult, adding additional burdens and responsibilities for the buyers in terms of term credit.

After weighing the benefits of factoring over trade credit, MSMEs may decide to use factoring to increase account receivable utilization or improve cash flow inside the company when they want to expand their current business. The majority of the financial issues related to MSMEs will be automatically resolved once the cash inflow process is continued with the aid of factoring.

2. Comparison between Factoring and Bank Overdraft

Banks offer facilities such as overdraft to MSMEs to support their growth and development. Recently, ICICI Bank has introduced digital overdraft facilities ranging from Rs. 25L to Rs. 1 Cr for its customers. Non-ICICI Bank customers can also avail this service. Before granting instant credit to an MSME, the bank assesses the creditworthiness of the business, which is based on its financial profile and credit score. MSMEs can avail unsecured overdrafts digitally up to Rs. 10 L without any documentation. Other banks such as YES Bank and SBI Bank also offer overdraft facilities to MSMEs, but the amount and documentation requirements may vary. MSMEs registered under the scheme are exempt from the rate of interest on overdrafts and can avail the benefit of 1% on the overdraft, subject to the bank's scheme. ICICI Bank has introduced a new concept called GDT OD, which allows MSMEs to withdraw overdraft amounts up to Rs. 1 Cr after verifying their GST returns, income statement and related documents within two working days.

Basis	Factoring	Bank Overdraft
Average Interest rate	1% to 4%	Nil or exempted
General repayment period	30,60,90.120 days	Agreed Date of agreement
Time of execution for funds/credit	2 to 7 days	Within 2 working days
Commission	1% to 2%	Not Applicable
Agreement	Required	Required

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Securities	Not required	Required
Creates Asset/Liabilities	Encumber assets	Liabilities of organization
Use of funds/credit	Fund Used in any operational activities and other payments also	Fund used for working capital and term loan.
GST REPORT	Not Required	Required
CIBIL REPORT	Not Required	Required

Table – 2: Comparison between Factoring and Cash Credit

Observations from the Table – 2

When comparing factoring with bank overdraft facilities for MSMEs, it is important to note that the rate of interest is exempted if the MSME uses a bank overdraft facility. However, if the MSME uses factoring, it needs to pay 1% to 4% rate of interest. The general repayment period for factoring is 30, 60, 90, or 120 days, as per the agreement about account receivables. On the other hand, the repayment period for an overdraft amount is dependent on the agreement between the MSME and the bank and is confidential in nature. Factoring funds can be executed within a week, whereas the credit from an overdraft account is executed by the bank in two working days after verifying the documents, income statement, and GST returning reports. However, such reports are not required for factoring.

This means that MSMEs that are filling GST or able to maintain financial statements on a daily basis and maintain a CIBIL score are only entertained by banks for overdraft facilities, while other MSMEs may not be able to use overdraft facilities. Both factoring and bank overdraft require an agreement, but when it comes to securities, factoring does not require securities, whereas bank overdrafts require securities for obtaining an overdraft amount. Factoring does not create liabilities but encumbers assets, whereas bank overdrafts are liabilities of the MSME or organization that overdrafts amount from the bank. The funds received after factoring can be utilized in numerous ways without restriction to uplift the financial position of MSME, whereas the amount received in the name of an overdraft will be used to fund the working capital of the MSME.

3. **Comparison between Factoring and Cash Credit for MSME**

MSME uses a crash credit loan to satisfy their need for working capital. It is known as short-term credit, and the bank determines the credit limit. Cash credit is a short-term, interest-bearing form of credit. The bank determines the maximum loan sanction amount for cash credit. Stocks are used as collateral for cash credits, and its MSME is owed money. Once the bank has examined the MSME's securities, the MSME will be able to continually withdraw the set amount of money from the cash credit account. The bank will make a regular running account with a multi-city check facility available, subject to the borrower's ability to draw money from the account.

On stock and receivables, the cash credit margin is available at 25% and 50%, respectively. In order to obtain a cash credit loan for an MSME, the bank will evaluate security, and certain documentation procedures must also be taken into account. Banks charge interest rates on cash credit that range from 1.75% to 9.25%. The bank would evaluate its primary securities, which are based on current assets like inventories and receivables of 180 days, in order to avail loan to MSME. On the entire cost, the borrower is required to make the marginal contribution. This bank will add processing fees and other costs along with a minimum margin money charge of 25% of the entire loan amount.

Basis	**Factoring**	**Cash Credit**
Average Interest rate	1% to 4%	1.75 % to 9.25%
General repayment period	30,60,90.120 days	Conditional
Time of execution for funds/credit	2 to 7 days	3 to 6 weeks
Commission	1% to 2%	Not mention

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Agreement	Required	Not required
Securities	Not required	Required
Creates Asset/Liabilities	Encumber assets	Liabilities
Use of funds/credit	Fund Used in any operational activities and other payments also	Working capital
Restriction of drawings	No restriction	Highly restricted

Table – 3: Comparison between Factoring and Cash Credit

Observations from the Table – 3

The average rate of interest required for Factoring is 1% to 4% whereas the cash credit for MSME is ranges from 1.75 % to 9.25 as an average interest rate. The repayment system of cash credit is conditional because it is decided between bank and MSME. But the credit repayment system of factoring ranges normally from 20 to 120 days and most of the time credit repayment period depend upon the client's customer's agreement for repayment. Factoring fun cane be executed within a week for MSME whereas cash credit absorbed 3 to 6 weeks for execution of credit. Commission charge against factoring fund is ranges from 1% to 2% whereas such kind of commission is not mention on cash credit fund for MSME user. Agreement between the parties is mandatory in terms of factoring but suck kind of agreement is absent in cash credit policies of bank to its MSME but amount if credit funds are depended on creditworthiness of MSME or bank will entertain to only those MSME who hold good financial position.

Factoring funds are extremely advantageous for MSME since they provide clients with advance liquid cash once they sell their own accounts receivable, and there are no securities to take into account. In addition, there are no obligations or loans for MSME that must be repaid on schedule. Cash credit, however, is time-consuming and a liability for MSME because it requires collateral securities in order to acquire funding. After paying the lowest rate of interest and commission, MSME typically prefer factoring funds over cash credit.

4. **Comparison between Factoring and Working Capital Loan for MSME**

Working capital loans are short-term loans used by MSME companies to support their day-to-day operational activities. These loans were introduced to meet the financial needs of companies, business owners, and MSMEs. The interest rate on working capital loans varies from bank to bank and depends on the MSME's profile and loan amount. Typically, the interest rate ranges from 9% to 18%, and it includes a higher risk component as MSMEs may default on their loan repayments, making it difficult for banks to recover their funds. Additionally, processing fees ranging from 1% to 3% on the loan amount are also charged, along with documentation processing fees. The collateral securities considered for working capital loans may include commercial property papers, shares, stocks, book-debts, gold, etc. However, in some banks, securities may not be required, depending on their policies. The loan tenure ranges from 12 months to 84 months, depending on whether it is a short-term or long-term working capital loan. To apply for a working capital loan, MSMEs must have a good CIBIL score and repayment history, along with an annual turnover report and work experience defined by the lender. The financial statement of the MSME plays a critical role in obtaining a working capital loan from a bank.

Basis	**Factoring**	**Working Capital Loan**
Average Interest rate	1% to 4%	9% to 18%
General repayment period	30,60,90.120 days	9 months to 12 months
Time of execution for funds/credit	2 to 7 days	Conditional
Commission	1% to 2%	Dependable
Agreement	Required	Required

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Securities	Not required	Required
Creates Asset/Liabilities	Encumber assets	Liabilities
Use of funds/credit	Fund Used in any operational activities and other payments also	Mostly on operational activities
Restriction of drawings	No restriction	Restricted
Processing fees	2% to 8 %	1% to 3%
CIBIL Score	Not required	Mandatory

Table – 4: Comparison between Factoring and Cash Credit for MSME

Observations from the Table – 4

This paper discusses various types of working capital loans used by MSMEs, including factoring, which is considered a short-term fund received by clients after selling their own account receivables, rather than a loan. The interest rates for factoring typically range from 1% to 4%, while for working capital loans, they can range from 9% to 18%, depending on the type. Factoring generally has a repayment period of 30, 60, 90, or 120 days, while working capital loans have a tenure of 9 to 12 months. Factoring agreements may involve a commission charge of 1% to 2%, while commission charges on working capital loans vary by bank and amount. Both factoring and working capital loans require agreements between parties, but collateral securities are not required for factoring, while they are for working capital loans. Factoring funds can be used for any purpose, while working capital loans must be used for operational activities only, with a restriction on withdrawals and a requirement to provide progress reports to banks every three months. CIBIL scores are not required for factoring, but they are mandatory for working capital loans.

One of the main advantages of factoring for MSMEs is that it does not create any liabilities; instead, it acts as an asset. While the amount received by companies from their debtors is reflected on the asset side of the balance sheet, factoring funds are considered encumbered assets rather than liabilities, as the clients receive them after selling their account receivables. Factoring can enhance working capital and provide liquid cash without the need to consider collateral securities or CIBIL scores. However, processing fees for factoring may be higher than for working capital loans, and the timing of the release of funds may also differ.

5. **Over all Comparison of Factoring with other Short-Term Finance**

Basis	**Factoring**	**Trade Credit**	**Bank Overdraft**	**Cash Credit**	**Working Capital Loan**
Average Interest Rate	1% to 4%	Nil or conditional rate	Nil or exempted	1.75 % to 9.25%	9% to 18%
General Repayment Period	30,60,90.120 days	7,30,60,90 days	Agreed Date of agreement	Conditional	9 months to 12 months
Time of execution of fund/credit	2 to 7 days	Same day when buying and selling proceed on credit	Within 2 working days	3 to 6 weeks	Conditional
Commission	1% to 2%	Nil	Not Applicable	Not mention	Dependable
Agreement	Required	Internal agreement	Required	Not required	Required

		/ Understanding			
Securities	Not required	Not required	Required	Required	Required
Creates Assets/Liabilities	Encumber assets	Liabilities of buyers	Liabilities of organization	Liabilities	Liabilities
Use of fund/credit	Fund Used in any operational activities and other payments	Credit on commodities helps to maintain the inventory and working capital.	Fund used for working capital and term loan.	Working capital	Mostly for operational activities
GST Report	Not Required	Not Required	Indirectly Required	Indirectly Required	Indirectly Required
CIBIL Score	Not Required	Not Required	Indirectly Required	Indirectly Required	Mandatory
Restriction of drawings	No Restriction	Restricted	Restricted	Highly restricted	Restricted
Possession fees	2% to 8%	NIL	Not required	Not required	1% to 3%

Table – 5: Overall Comparison between Factoring with other Short-Term finance

Observations from the Table – 5

When comparing factoring to other short-term finance options for MSMEs, it becomes clear that factoring funds are obtained from account receivables, and not from a loan sanctioned by a financial institution. This sets factoring apart from other short-term finance options that involve borrowing money to manage the day-to-day operations of the organization. When funds are obtained through a loan, there is always an additional burden on the organization since the borrowed amount, along with interest, must be paid back to the respective bank after proper utilization. However, if MSMEs consider factoring funds to meet their day-to-day operational expenses, they are not required to provide GST reports, CIBIL Score reports, etc., unlike other short-term finance options. One of the advantages of factoring is that it provides hard cash to clients after considering their account receivables. With liquid cash flow, companies have the flexibility to utilize it in numerous ways. Hence, there are no restrictions on using factoring funds, unlike other short-term loans.

RESULTS

The comparative analysis between factoring and various short-term financing options for MSMEs revealed several important distinctions:

- **Trade Credit vs. Factoring**: Factoring provides structured financing with defined repayment terms and faster execution (2–7 days), while trade credit is informal, interest-free under timely repayment, and involves minimal paperwork but lacks structure.
- **Bank Overdraft vs. Factoring**: Bank overdrafts require extensive documentation, credit checks, and collateral, and though sometimes interest-exempt under schemes, they are harder to access. In contrast, factoring is more inclusive, with minimal documentation and no collateral requirement.

- **Cash Credit vs. Factoring**: Cash credit has longer processing times (3–6 weeks), requires collateral, and restricts fund usage to working capital. Factoring is quicker to execute, does not need security, and allows unrestricted use of funds.
- **Working Capital Loan vs. Factoring**: Working capital loans have higher interest rates (up to 18%), require collateral, and involve significant paperwork and CIBIL/GST score evaluation. Factoring, with lower costs and faster disbursal, uses receivables as the basis for funding.
- **Overall Comparison**: Factoring consistently showed advantages in flexibility, ease of access, lower dependency on credit scores or financial documentation, and the absence of asset security. It supports quick liquidity generation for MSMEs, positioning itself as a strong alternative to traditional financing options.

DISCUSSION

The findings indicate that factoring offers MSMEs a more agile, accessible, and less burdensome method of securing short-term finance compared to conventional instruments like trade credit, bank overdrafts, cash credit, and working capital loans.

Factoring is particularly beneficial for small and medium enterprises that may lack the credit history, formal documentation, or collateral required by banks and other financial institutions. It enables businesses to convert their receivables into immediate cash, helping them meet operational needs without taking on debt or waiting for long approval processes.

While traditional options each offer certain benefits—such as no upfront cost (trade credit), high loan limits (working capital loans), or flexible usage (bank overdrafts)—they generally come with higher entry barriers. Factoring, on the other hand, aligns well with the operational realities of MSMEs: it's fast, simple, and non-restrictive.

Overall, factoring stands out as a reliable, efficient, and scalable financial solution for MSMEs, especially in a growing and dynamic economy like India's. It not only enhances cash flow but also empowers businesses to operate smoothly without being constrained by the slow-moving machinery of traditional finance.

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