

## FAQ

### 1 - WHAT IS FACTORING?

Factoring is a means of funding of accounts receivable against Assignment (sale of invoice) in favour of a Factor. Factoring helps to generate instant liquidity and allows business continuity without disruption. In simple words, it is a receivables management and financing service designed to accelerate the seller's cash flow. In the process, purchasing power increases, production moves up, sales turnover and profitability improve.

Factoring can be 'with' or 'without' recourse. It covers Export as well as Domestic Receivables.

### 2 - WHAT IS 'WITH RECOURSE' AND 'NON-RECOURSE' FACTORING?

In "with recourse" factoring, in the event of the buyer failing to pay on maturity, the seller has to pay back the advance obtained from the factor. In "non-recourse" factoring, Factor provides finance and bears the risk of default in case of non-payment by the buyers due to insolvency.

### 3 - WHAT IS THE USE OF FACTORING?

Factoring is a transaction whereby the client selling goods or services on open account terms, i.e., without insisting on a bank letter of credit for receiving payment from the buyer. Invoices for the goods/services raised on a buyer are assigned to the Factor and client receives prepayment up to 75-90% of the invoice value immediately. Thus, AP FACTORS turns the seller's invoices into cash, and gives the seller an instant access to his dues, instead of waiting until the payment is received from buyer. The seller will, therefore, have a healthier cash flow, which will accelerate growth.

### 4 - APART FROM FINANCE, WHAT OTHER BENEFITS DOES A SELLER GET FROM FACTORING?

1. Factoring is not necessarily linked to Collateral Security; it is usually unsecured.
2. AP FACTORS uses a high-end customized IT platform to process and deliver its services, so everything happens online.
3. AP FACTORS provides credit protection against default of buyer under export/domestic transactions.
4. AP FACTORS provides MIS Reports and Sales Ledger Administration without additional costs. It can report delayed payment to credit bureau.
5. AP FACTORS follows up with the buyers for payment of receivables.
6. AP FACTORS can discount receivables "without recourse" such finance does not count as a loan on the books of the client.

### 5 - HOW FACTORING HELPS SMES?

Factoring transfers risk from weaker SME seller to relatively stronger corporate buyers, thereby offering a less-risky option for funding credit sales of SMEs.

### 6 - WOULD FACTORING CAUSE ANY UNPLEASANTNESS WITH OUR BUYERS?

AP FACTORS understands and appreciates the seller's concern over this matter. AP FACTORS takes up the task of regular follow of overdue /collection with the debtors as per the terms mutually agreed upon with the Seller and handles the follow-up process in a tactful manner. Infact, factoring helps the seller to avoid the embarrassment of having to directly seek payment from the buyers. Periodic submission of invoice due statements by the AP FACTORS to the buyers, helps them to plan their cash flow and make timely payments.

### 7 - DO I HAVE TO INFORM MY BUYERS ABOUT FACTORING FACILITY TO BE AVAILED?

**Yes,** (In fact, we would prefer if payments were routed through us even before a formal sanction). You will have to provide co-ordinates of responsible persons in your buyer's company with whom we can follow-up for collection. Please share with your buyer contents of Assignment Letter [Notice of Assignment of Receivables (NAR)] which you shall execute in our favour upon sanction of limits. Your buyer shall be required

to accept the same to create a valid assignment. In fact, we shall prefer that you arrange a meeting of our representative with your buyer so that we may explain the nuances of factoring facility you propose to avail from AP FACTORS.

#### **8 - FACTORING SOUNDS ATTRACTIVE, BUT WHAT ARE THE COSTS INVOLVED?**

Factoring involves following costs.

1. **Discount Rate: Charged** on Funds-in-Use outstanding. Computed on Daily Balance Method
2. **Factoring Charge:** Charged on the Turnover.
3. **Facility Set-up Fee / Facility Continuation Fee: Charged** every year on FIU limit.

The Charges are linked to external credit rating of Client/debtor (i.e. Seller/buyer), transaction structure, credit period etc., Our Business Development Manager shall be happy to answer all your queries. To arrange a meeting send a request to us.

#### **9 - HOW IS THE DISCOUNT RATE APPLIED?**

Discount Rate is levied by AP FACTORS only on the amount used by the seller. The Discount Rate is calculated on a day-to-day basis for the actual period between funds advanced and the collections received in the account against outstanding.

#### **10 - HOW CAN YOU APPLY?**

Please request a meeting by contacting us at the address mentioned in the Contact Us section.

Alternatively send us an email.