

Factoring Business in India – A Review

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ABSTRACT

Factoring is a consistent game plan between a budgetary establishment and an organization that offers products and ventures to exchange clients on layaway. According to this course of action, the factor buys the customer's exchange obligations incorporating records of sales either with or without response to the customer and directs the business record, assortment of obligation, credit examination, the undertaking of the credit hazard, the arrangement of money against obligation and delivering consultancy administrations danger of his customer. The paper is intended to give a diagram of factoring business in India and spotlight on the significance, history, capacities, points of interest, constraints, and Factoring Act, 2011.

Keywords: *Factoring, Business, India*

The word 'Factor' has been gotten from the Latin word 'Facere' which signifies 'to make or to do'. All in all, it signifies 'to complete things'. Factoring is a consistent plan between a budgetary establishment (the factor) and an organization (the customer), which offers merchandise and enterprises to exchange clients on layaway. According to this course of action, the factor buys the customer's exchange obligations incorporating debt claims either with or without response to the customer and controls the business record of his customer. The requirement for factoring in India emerges because of the impediments of the financial business in the arrangement of account, credit assurance, or assortment administrations. Also, a proficient arrangement of receivable administration for the manufacturers is the need of great importance. Various dealers in India, all the more so from the SME area, are needing counsel on different parts of credit-augmentation, recuperation of duty, receivables the executives, and so on, which could be given simply by the individuals who have specific information on the equivalent. This is more plausible by the factors dissimilar to banks on the grounds that the factors have superior information on the undertakings of the vendor.

The Origin of Factoring: Modern factoring appeared during the 1920s. Factoring as financing against receivables got a lift during the 1930s yet there was no far-reaching structure of legal law for a factoring plan, in the UK, factoring appeared as receipt limiting. The factoring market developed there in the last part of the 1960s. In 1976, the main factoring organizations of the UK

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framed the Association of British Factors (ABF). The Factoring business has now flourished in Italy and Asia-Pacific nations. They are likewise encountering gigantic development in the factoring industry.

The Reserve Bank of India has just acknowledged the suggestions of the Kalyana Sundaram Committee and started working out the subtleties. The factoring administrations in the underlying stages are to be presented uniquely for homegrown exchange and business. Four office zonal associations are set-up as auxiliaries of the State bank of India and other nationalized banks, The Nationalized Banks for this reason have just been shortlisted and State Bank had just coasted its auxiliary to care for factoring administration in the West Zone. Canara Bank has likewise drifted an auxiliary in the Southern Region.

THE FACTORING REGULATION ACT 2011:

The Factoring Regulation Act 2011, which came into power in February 2012, directs factoring business in India and gave the truly necessary legitimate system for factoring in India. The intention of the assembly behind acquainting this Act was to advance the idea of factoring, making it more noticeable and coordinated and giving clearness on the cycle of the task, rights, and commitments of gatherings to contract for the task of receivables. Some striking highlights of the Factoring Act, 2011 are as the following:

- a) Amendment to the Indian Stamp Act 1899, by embeddings Section 8D, which excludes installment of stamp obligation on all arrangements for the task of receivables for a factor. The Act significantly diminished transaction costs for factoring courses of action, which were prior at risk for high paces of stamp obligation.
- b) Every factor to enlist the specifics of each transaction of the task of receivables in support of its with a focal vault, set up under the Securitization and Reconstruction of Financial Assets and Enforcement of Security Interest Act 2002 (SARFAESI Act). A brought together information base was pointed toward lessening fakes and encouraging factors to confirm whether a specific arrangement of receivables had just been appointed for an outsider.

THE REGULATION OF FACTOR (ASSIGNMENT OF RECEIVABLES) BILL 2011:

This Act might be known as the Regulation of Factor (Assignment of Receivables) Act 2011. it stretches out to the entire of India. It will come into power on such dates as the Central Government may, by warning in the official Gazette, select: gave the various dates might be named for various arrangements of this Act and any reference in any such arrangement to the initiation of this Act will be interpreted as a source of perspective to the coming into power of the arrangement. In this Act except if the setting in any case requires,-

- (a) "Assignment" signifies move by understanding, of unified interest of any assignor in any receivable due from any Debtor for a Factor and incorporates a task where either the assignor or the borrower, are arranged or set up outside India.
- (b) "Assignee" signifies a factor in whose favor the receivable is moved.
- (c) "Assignor" signifies any individual who is the proprietor of any Receivable.
- (d) "Bank" signifies:- (i) a financial organization (ii) a relating new bank (iii) the State Bank of India (iv) a Subsidiary bank (v) such other Bank which the Central Government might

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notice indicate with the end goal of this Act on the proposals of the Reserve Bank or (vi) a Multi-State Co-employable Society enlisted under the Multi-State Co-usable Societies Act, 2002 and authorized to attempt business of banking by the Reserve Bank under the arrangements of the Banking Regulation Act, 1949;

- (e) "Banking Company" will have the importance doled out to it in condition (c) of segment 5 of the Banking Regulation act, 1949;
- (f) "Business undertakings" signifies any venture or Medium endeavor, Micro venture or Small undertaking as characterized in statements (e), (g), and (m) of segment 2 of the Micro, Small and Medium endeavors Development Act 2006, separately occupied with any business activity;
- (g) "Corresponding new bank" will have the significance doled out to it in provision (da) of area 5 of the Banking Regulation Act 1949;
- (h) "Debtor" signifies any individual subject to the assignor whether under a contract or in any case to pay any receivable or release any commitment in regard of the receivable whether existing, accumulating, future, restrictive or unforeseen;
- (i) "Factor" signifies a Non-Banking Financial Company as characterized in condition (f) of segment 45-I of the Reserve Bank of India Act, 1934 which has been conceded an endorsement of enrollment under sub-area (I) of segment 3 or anyone corporate set up under an Act of Parliament or any State Legislature or any Bank or any Company enlisted under the Companies Act, 1956 occupied with the Factoring Business;
- (j) "Factoring Business" signifies obtaining of receivables of assignor by tolerating task of such receivables or financing, regardless of whether by the method of making credits or propels or in any case against the security interest over any receivables;
- (k) "Financial Contract" signifies any Spot, Forward, Future, Option or Swap transaction including Interest rates, Commodities, Currencies, Share, Bonds, Debentures or some other budgetary instrument, any repurchase of protections and loaning transaction or some other comparable transaction or a mix of such transactions went into in the monetary business sectors;
- (l) "Netting understanding" signifies any arrangement among the framework members with the end goal of assurance by the framework supplier of the measure of cash or installment commitment or deliverable because of setting off or changing the installment commitments or conveyance commitments among the framework members, including the cases and commitments emerging out of the end by the framework supplier, on the bankruptcy or disintegration or ending up of any framework member or such conditions as the framework supplier, may indicate in its guidelines or guidelines or bye-laws (by whatever name called) of the transaction conceded for repayment sometime not too far off so just a net case be requested or a net commitment be claimed;
- (m) "Notification" signifies a notice distributed in the official Gazette;
- (n) "Prescribed" signifies recommended by rules made under this Act;
- (o) "Property" signifies (i) the ardent property (ii) the portable Property (iii) any obligation or any option to get an installment of cash, regardless of whether made sure about or unstable (iv) the receivables
- (v) the theoretical resources being a skill, patent, copyright, plan, exchange mark, permit, establishment, or some other business or business right of comparable nature;
- (p) "Receivables" signifies all or part of or unified revenue in any of any individual under a contract including a worldwide contract where either the assignor or the indebted person or

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the trustee is arranged or set up in a state outside India to installment of a financial entirety whether such right is existing, future, accumulating, restrictive or unforeseen emerging from and incorporates, any game plan requiring installment of cost or some other aggregate, by whatever name called, for the utilization of any office or administrations,

- (q) "Reserve Bank" signifies the Reserve Bank of India established under area 3 of the Reserve Bank of India Act, 1934;
- (r) "State Bank of India" signifies the State Bank of India comprised under area 3 of the State Bank of India Act, 1955;
- (s) 'Subsidiary Bank' will have the significance allocated to it in provision (k) of segment 2 of the State Bank of India (Subsidiary Banks) Act, 1959;
- (t) Words and articulation utilized and not characterized in this Act yet characterized in the Reserve Bank of India act, 1934, The Banking Regulation Act, 1949, The Companies Act, 1956, The Securitization and Reconstruction of Financial Assets and Enforcement of Security Interest Act, 2002 The Credit Information Companies (Regulation) Act, 2005, or The Micro, Small and Medium Enterprises Development Act, 2006, will have the implications separately allocated to them in those Acts.

ENLISTMENT OF FACTORS:

- a) No Factor will start or carry on the Factoring Business except if it gets a declaration of enrollment from the Reserve Bank to initiate or carry on the Factoring Business under this Act.
- b) Every Factor will make an application for enlistment to the Reserve Bank in such structure and way as it might indicate; Provided that an organization enrolled as a Non-Banking Financial Company and existing on the initiation of this Act and occupied with Factoring Business before such beginning will make an application for enrollment as a Factor to the Reserve Bank before the expiry of the time of a half year from such initiation and, despite anything contained in sub-segment (I), may keep on carrying on the Factoring Business until a declaration of enrollment is given to it or dismissal of utilization for enlistment is imparted to it.
- c) Every candidate for the award of authentication of enlistment as a Factor will consent, with the end goal of enrollment, with all the necessity to be satisfied by a candidate for the award of the declaration of enlistment as Non-Banking Financial Company under the Reserve Bank of India Act, 1934 and all the arrangements of the Act, so far as they identify with the enrollment of Non-Banking Financial Companies, will (aside from those accommodated under this Act) mutatis mutandis apply.
- d) In the instance of existing Non-Banking Financial Company the Reserve Bank may give a new endorsement of enlistment as a Factor if the main business of the Non-Banking Financial Company is the Factoring Business.
- e) Save as in any case given in this Act, each factor does not expose to the necessity of enlistment under area 5, will be administered by the Reserve Bank of India Act, 1934 the standards and guidelines made under and the headings or rules gave by the Reserve Bank occasionally.

All arrangements of part IIIB of the Reserve Bank of India Act, 1934 identifying with Non-Banking Financial Companies which have been conceded an endorsement of enrollment under sub-segment (5) of segment 45-IA of Reserve Bank of India Act, 1934 will (aside from those

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explicitly accommodated under this Act) mutatis mutandis apply to a Factor which has been allowed a declaration of enlistment under segment 3.

Nothing contained in area 3 will apply to a bank or any enterprise set up under an act of Parliament or State Legislature or Government Company as characterized under segment 617 of the Companies Act, 1956.

The Reserve Bank may, whenever by broad or exceptional request, direct that each Factor will outfit to it in such structure, at such spans and inside such time, such explanations, data or points of interest identifying with Factoring Business attempted by the Factor, as might be determined by the Reserve Bank now and again.

The Reserve Bank may, in the event that it considers important in light of a legitimate concern for business endeavors profiting factoring administrations or in light of a legitimate concern for Factors or premium of other partners provided guidance to the Factors either by and large or to any Factor specifically or gathering of Factors in regard of any issues identifying with or associated with the Factoring Business attempted by such Factors.

In the event that any Factor neglects to consent to any heading given by the Reserve Bank under sub-area (2), the Reserve Bank may deny such Factor from undertaking the Factoring Business. Given that prior to restricting any Factor from undertaking the Factoring Business, the factor will be given a sensible chance of being heard.

The requirement for Factoring: The development of industrialization and expansion in the creation and deals record during late occasions in India has prompted the developing significance of an opportune assortment of receivables and the executives of the equivalent. In a fast-moving business sector, delay in an assortment of obligations brings about issues of working capital in light of which the little providers with a restricted account raising limit at last endure. Deferral or non-acknowledgment of duty has been liable for the wiped out unit in the little – scale area.

An assortment of book obligations isn't attempted by banks however they give assortment administrations in regard to bills bought/limited by them. The customer must repay the disrespectful bills and the last in this way appreciates no security against default by the purchasers. Notwithstanding the working capital issues looked at by the merchant, no interest is acknowledged for the period for which the installments are deferred past the assessed time.

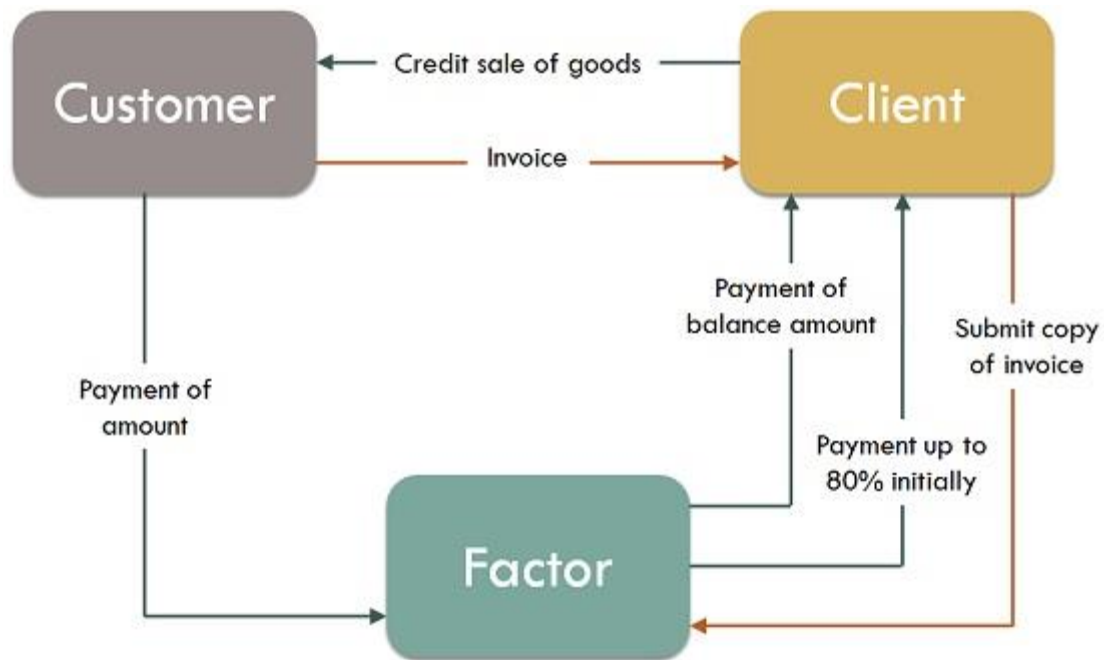
Manufacturers cease from demanding the installment of late premium because of serious rivalry on the lookout, which at last outcomes in the lessening in benefit and shortfalls in working capital, subsequently, there is a requirement for a productive arrangement of receivable administration and assortment hardware which all empower the manufacturers to focus on other significant issues.

Elements of Factoring: As expressed prior the term 'Factoring' basically alludes to the way toward selling exchange obligations of an organization to a money-related establishment. However, in practice, it is more than that. Factoring includes the accompanying capacities.

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- a) Purchase and assortment of obligation.
- b) Sales record the board.
- c) Credit examination and undertaking of credit hazard.
- d) Provision of account against obligation.
- e) Rendering consultancy administrations.

MECHANISM OF FACTORING:



FACTORING CHARGES:

Factors charge account charges and administration expenses.

Finance charges:

Finance charge is figured on the prepayment extraordinary in the customer's record at the month to month spans. Money charges are just for financing that has been profited. These charges are like the premium imposed on the money credit offices in a bank.

Service expense:

Service charges are an ostensible charge exacted at a month to month stretches to take care of the expense of administrations, specifically, assortment, deals record the board, and periodical MIS Reports. The administration charge is resolved based on solicitations and credit notes, and the level of credit hazard spoke to by the clients or the transaction. Both these charges were taken together contrast well and the loan costs charged by banks and budgetary establishments for transient borrowings.

Sorts of Factoring:

by and large, the factoring administrations can be delegated under

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- a) Full administration Factoring: Under full assistance factoring, a factor gives a wide range of administrations referenced previously. In this manner, a factor gives an account, manages the business record, gathers the obligations at his danger, and renders consultancy administrations, if important. This sort of factoring is a standard one.
- b) With Recourse Factoring: Under response factoring, the factor doesn't expect the credit hazard. At the end of the day, if the account holders don't reimburse their levy as expected and if their obligations are exceptional past a fixed period from the due date, such obligations are consequently doled out back to the customer.
- c) Maturity Factoring: Under development factoring, the factor doesn't pay quick money to the customer at the hour of the task of obligations. He attempts to pay money as and when assortments are produced using the indebted individuals. The sum gathered less factoring charges is paid to the customer.
- d) Notified Factoring: Under told factoring, the factor advises the indebted person about the factoring plan. This is finished by a legend on the receipt which expresses that the receivables emerging out from the receipt have been appointed to or offered to the factor. It is otherwise called revealed factoring.
- e) Confidential Factoring: Under this sort, the factor basically gives an account against solicitations without undertaking some other capacities. The indebted person isn't at all informed about the financing plan and in this way, it is called classified or undisclosed factoring.
- f) Agency Factoring: The word organization has no predefined significance here. Under this sort of factoring, the factor and the customer share the work between them:
 - The customer cares for the business record organization and assortment work.
 - The factor gives an account and accepts the credit hazard.
- g) International Factoring: For the situation of worldwide factoring, the administrations of a factor in a homegrown business are just reached out to a global business. Such factoring game plans are absolutely entered in based on solicitations arranged by the exporter.
- h) Suppliers Guarantee Factoring: This sort of factoring is reasonable for firms that sell merchandise through brokers, viz., wholesalers, and retailers. In such cases, the factor ensures the provider of products against solicitations raised by the provider upon another provider.
- i) Limited Factoring: Under restricted factoring, the factor takes up specific solicitations of the customer for factoring the game plan. The factor limits just are chosen solicitations on merit premise and convert credit bills into money in regard to those bills as it were.

FAVORABLE CIRCUMSTANCES OF FACTORING:

Factoring is gainful to the customer, his clients, and banks.

Advantages to the customer: The advantages to the customers are as per the following.

- The customer's credit deals are quickly changed over into prepared money as the factor makes an installment of around 80% of the factored solicitations ahead of time. This extent of money is higher than the bank account against credit deals.
- The customer can offer serious credit terms to his purchasers which, thusly, empower him to build his deals and benefits.

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- The money acknowledged from credit deals can be utilized to quicken the creation cycle.
- The customer is liberated from the strains of observing his business record and can focus on creation, advertising, and different perspectives. This outcome is a decrease in overhead costs and an expansion in deals and benefits.
- Factoring brings about a nearby sound among working capital segments of the business. The productive administration of one segment can have a positive impact on another part. For instance, an expansion in liquidity empowers the firm to benefit from markdown on the acquisition of crude materials.
- The factor gives a far-reaching credit control framework by examining installment history. This aids in surveying the nature of the indebted individuals and observing their monetary wellbeing.
- The customer can extend his business by investigating new business sectors.

Advantages to Customers (Buyers): The advantages that the clients appreciate are as per the following.

- Factoring encourages the credit acquisition of the clients as they get a sufficient credit period.
- Customers save money on bank charges and costs.
- The client has not to outfit any reports. He has only to recognize the notice letter, that is, an endeavor to make installment of the solicitations to the factor. Clients are outfitted with periodical articulations of remarkable solicitations by the factor.
- Factoring doesn't encroach on the client's privileges versus the provider's in regard to the nature of merchandise, contractual commitments, etc.

Advantages to Banks:

Factoring improves the liquidity of the customers and accordingly, improves the nature of advances of banks. Factoring isn't a danger to banking; it is a budgetary help integral to that of the banks.

RESTRICTIONS OF FACTORING:

- I. High Risk: Factoring is a high inclined territory and it might result in overreliance on factoring, botch, exchanging, or even deceptive nature for the benefit of the customers.
- II. Existence of early-stage struggles: In a creating economy like India, the organization of factoring in its baby state may have early-stage struggles, emerging from absence of polished skill ability, created aptitude, renunciation of progress, and so on
- III. Unsuitability: all organizations may not be reasonable for going into factoring contracts. A portion of the restricting factors might be:
 - a) It is uneconomical for little organizations with fewer turnovers.
 - b) It isn't appropriate for organizations offering an enormous number of little items to different sorts of individuals or organizations having a huge number of account holders for limited quantities.
 - c) It isn't reasonable for:
 1. Companies with theoretical business;
 2. Companies which have in-proficient administration;

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3. Companies which have high awful obligation past experience;
4. Companies manufacturing and selling exceptionally specific things, on the grounds that the factor might not have the adequate aptitude to survey the credit hazard.

MAJOR PARTS IN FACTORING BUSINESS IN INDIA:

1. HSBC Ltd, India. <https://www.hsbc.co.in>
2. India Factoring and money arrangements Pvt. Ltd. <https://www.indiafactoring.in>
3. CanBank Factors Limited. <https://www.canbankfactors.com>
4. SBI Global Factors Limited. <https://www.sbiglobal.in>
5. IFCI Factors. <https://www.ifcifactors.com>
6. DBS. <https://www.dbs.com>
7. City Bank NA, India. <https://www.citibank.co.in>
8. small b.in SIDBI <https://www.smallb.in>
9. Export Credit Guarantee Corporation of India. <https://www.ecgc.in>
10. Standard Chartered Bank. <https://www.sc.com>
11. HDFC Bank. <https://www.hdfcbank.com>
12. International Factoring Services - India shop. <https://www.m.indiamart.com>
13. Commercial Factoring Limited. <https://www.commercialfactoringltd.com>
14. Blend Financial Services Ltd. www.blendfinance.com
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16. Genpact India. www.genpact.com

Factoring is a technique for acquiring accounts and improving liquidity to an extraordinary degree. It gives the working capital money to miniature, little medium scale enterprises. A few favorable circumstances of factoring incorporates; The customer's credit deals are promptly changed over into prepared money as the factor makes an installment of around 80% of the factored solicitations ahead of time. This extent of money is higher than the bank account against credit deals. The money acknowledged from credit deals can be utilized to quicken the creation cycle. The customer is liberated from the strains of observing his business record and can focus on creation, showcasing, and different perspectives. This outcome is a decrease in overhead costs and an expansion in deals and benefits. It helps in surveying the nature of the account holders and checking their monetary wellbeing. The customer can extend his business by investigating new business sectors. A significant disadvantage of the Factoring Services is its monetary cost that will diminish the benefits of the firm.

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Conflict of Interest

The author declared no conflict of interest.

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