India

Cross-border working capital solutions for Indian corporates to enhance their competitiveness in international supply chains

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Background

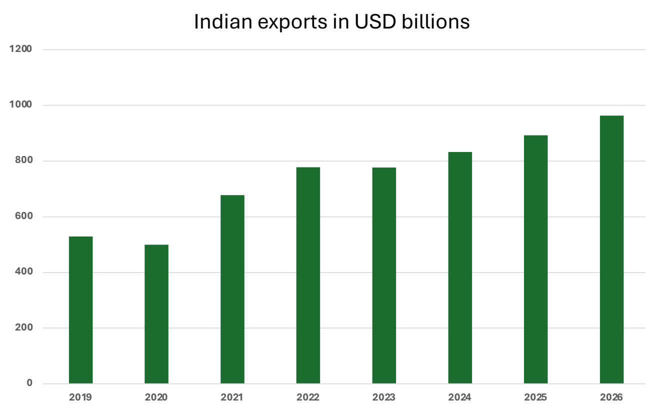
India's growth story has captured international attention in recent years. In 2023, India surpassed the UK to become the world's 5th largest economy and is projected to reach the 3rd position within the next five years. Despite challenging global conditions, India remains the world's fastest-growing major economy, expanding at 8.2% in FY 2023-24. Prime Minister Narendra Modi's "Viksit Bharat 2047" vision further highlights India's ambition to become a developed nation by 2047.

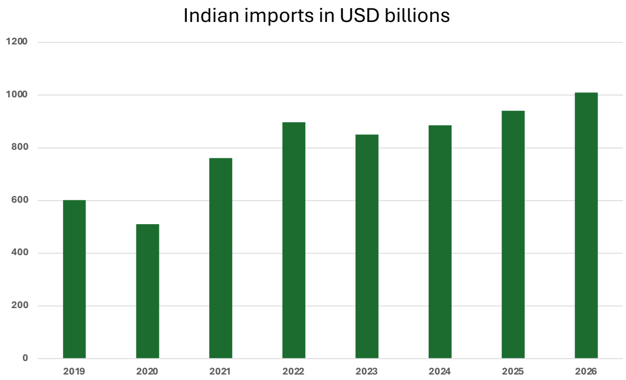
India's economic growth is the second highest among G20 nations and almost twice the average for emerging markets in FY 2022-23. Key sectors driving this growth include information technology (IT), energy, healthcare, fast-moving consumer goods (FMCG), and infrastructure.

International supply chain

India's supply chain stood at c.USD1.63 trillion in 2023, accounting for 6.79% of the USD24+ trillion global supply chain. As India's economy grows, its role in international supply chains is set to expand significantly.

Year	Exports (USD bn)	Imports (USD bn)
2019-20	529.24	602.32
2020-21	499.73	510.24
2021-22	677.77	760.90
2022-23	778.02	897.55
2023-24	777.14	850.64
2024-25*	833.09	885.51
2025-26*	893.07	941.31
2026-27*	963.62	1,010.02





(Source: World Bank website for India's import and export data including projections plus article on Indian economy)[1]

As Indian imports and exports are expected to grow steadily in the coming years, demand for foreign currency working capital finance, i.e. international trade and supply chain finance solutions, is expected to rise exponentially.

Indian corporates' needs

To integrate into the global economy as a leading trading partner, Indian corporates require:

1. Access to incremental foreign currency liquidity in USD, EUR, GBP, JPY, CHF, etc. due to enhanced working capital requirements;
2. Alternate sources of credit facilities from foreign banks (including global and regional players) as well as DFIs and alternative/institutional investors;
3. Open-account financing solutions such as factoring, receivables discounting, and supply chain finance (SCF), in response to a shift away from traditional Letters of Credit (L/Cs);
4. ERP-integrated solutions for operational efficiency, moving toward straight-through processing (STP) and avoid handling physical documentation;
5. Cross-border open-account capabilities including standardised legal frameworks, operational processes and working capital solutions

Year	Annual Turnover	Cross-Border Trade	Access of Foreign Currency Funding
Multinational Corporates (MNCs)	USD5,000 Mn+	Yes	High
Large Conglomerates /Corporate Houses	USD2,500 Mn+	Yes	High
Large Corporates	USD1,000-5,000 Mn	Yes	Medium-High
Mid-Size Corporates	USD250-1,000 Mn	Yes	Medium-Low
SMEs/MMEs	<USD250 Mn	Yes	Low

Challenges faced by Indian corporates:

1. **Limited focus from foreign banks:** Most international banks prioritise large Indian corporates (i.e. MNCs and large conglomerates) while offering their working capital solutions;
2. **Limited foreign currency liquidity and open-account capabilities:** Indian public and private sector banks face challenges while providing complex cross-border supply chain finance solutions to their customers (especially mid-sized to large corporates, SMEs, and MMEs);
3. **Credit risk underwriting:** Difficulty in assessing overseas buyer credit risks, especially for non-investment grade and "unrated" counterparties;
4. **Regulatory compliance:** Increased trade sanctions and tariffs with OECD countries add complexity;
5. **Technology gaps:** Limited number of tech platforms to process large volumes of invoices denominated in foreign currency across multiple currencies and jurisdictions

Exports' challenges:

Specifically for open-account exports, Indian banks face the following challenges to discount export invoices:

- Detailed KYC and due-diligence of overseas buyers;
- Ability to offer invoice discounting solutions in foreign currency where credit risk is predicated on overseas buyers located in multiple countries/jurisdictions;
- Need to underwrite credit risk on rated investment grade (IG) or non-investment grade (non-IG) or "unrated" counterparties;

- Credit risk gets more complex as some of the overseas buying entities are "subsidiaries" without any written guarantee from their parent;
- Ability to cover commercial dispute/dilution risks for invoices (not under L/Cs) prior to discounting

Thus, the legal structure, amount of available credit appetite, pricing levels and operational efficiencies are creating bottlenecks to offer a comprehensive open-account solution for most Indian exporters.

Potential financing solutions for exporters:

- **Traditional trade:** Export packing credit (EPC), L/C confirmation, and discounting;
- **Factoring:** Non-banking financial institutions (NBFIs) and banks using platforms like FCI's Edifactoring platform to finance open-account flows pertaining to mid-corporates, SMEs, and MMEs;
- **Open-account solutions:** Fintech companies and banks offering receivables and invoice discounting working capital solutions

Imports' challenges:

Most Indian corporates procure raw materials and commodities from multiple suppliers/vendors based in India as well as overseas. During the past 5-years or so, a significant number of local supply chain finance (SCF) solutions have emerged from fintech/platforms and local banks for financing in INR. However, there continues to be limited solution for discounting invoices denominated in foreign currency pertaining to suppliers/vendors based overseas. Some of the key challenges faced by Indian banks are:

- **On-boarding overseas suppliers:** KYC, due-diligence and signing legal framework with suppliers based overseas in multiple countries/jurisdictions;
- **Acceptance of invoices:** Usually takes 3-6 weeks from shipment to clear local customs and checking underlying goods in Indian Corporate's warehouse;
- **Local security/collateral:** Most Indian Corporates have given security/ charge over their working capital to their existing bank group

Potential financing solutions for importers:

- **Traditional trade:** Import L/C issuance and buyer's credit through banks;
- **Reverse factoring:** Supply chain finance (SCF) where overseas funders take direct risk on Indian corporates;
- **"Fronting" banks:** Collaboration where domestic Indian banks manage ("front") all local requirements (including local security and collateral) while overseas investors underwrite credit risk and provide foreign currency liquidity

Possible ways forward:

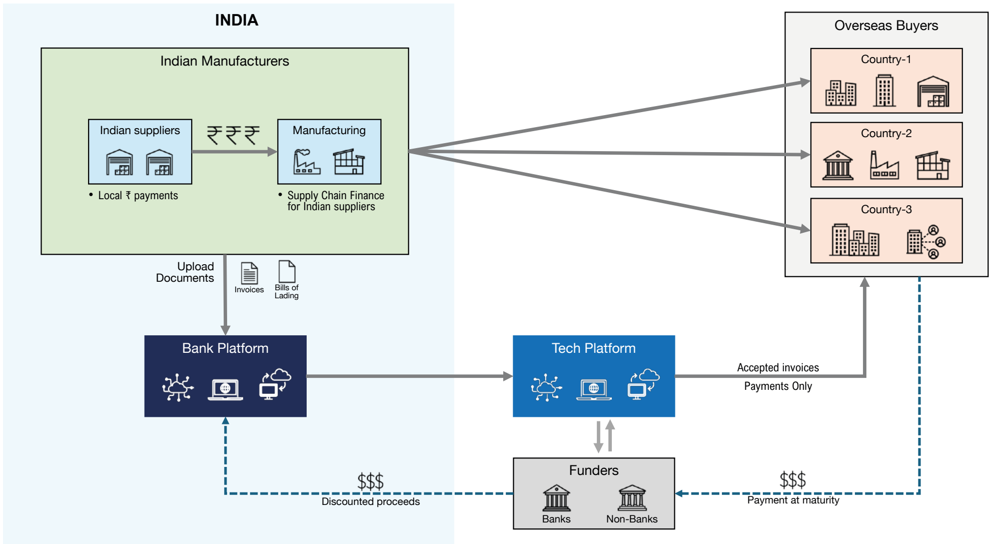
1. **Educational seminars:** Collaboration with ITFA, BAFT, ICC and similar global bodies to train Indian corporates and banks;
2. **DFIs/MLAs:** Development financial institutions like IFC, ADB, EBRD and Afreximbank and multilateral agencies can partner with Indian banks to offer cross-border working capital finance solutions for targeted trade corridors;
3. **Foreign banks:** Expand open-account product-specific solutions to a wider set of target market corporate clients;
4. **New players:** Prominent global players including fintechs and NBFIs can increase their focus on India with customised trade solutions;
5. **Consultants/ advisors:** Practitioners of global supply chain finance based overseas to help bring international expertise into Indian markets and structure cross-border flows;
6. **Private credit funds:** Asset managers can develop short-term foreign currency funds for cross-border trade finance and supply chain flows

Conclusion

With India's economic trajectory positioning it as a global trade leader over the coming years, Indian corporates must prioritise innovative cross-border supply chain finance solutions to help grow their business.

There is a growing need to address key liquidity challenges faced by mid-sized to large corporates, SMEs, and MMEs as open-account financing structures replace traditional instruments like L/Cs. These solutions also present a new investment opportunity for banks, NBFIs, DFIs, and asset managers to achieve high returns while supporting India's trade growth.

Exports | Potential solution to access multiple overseas investors for foreign currency funding



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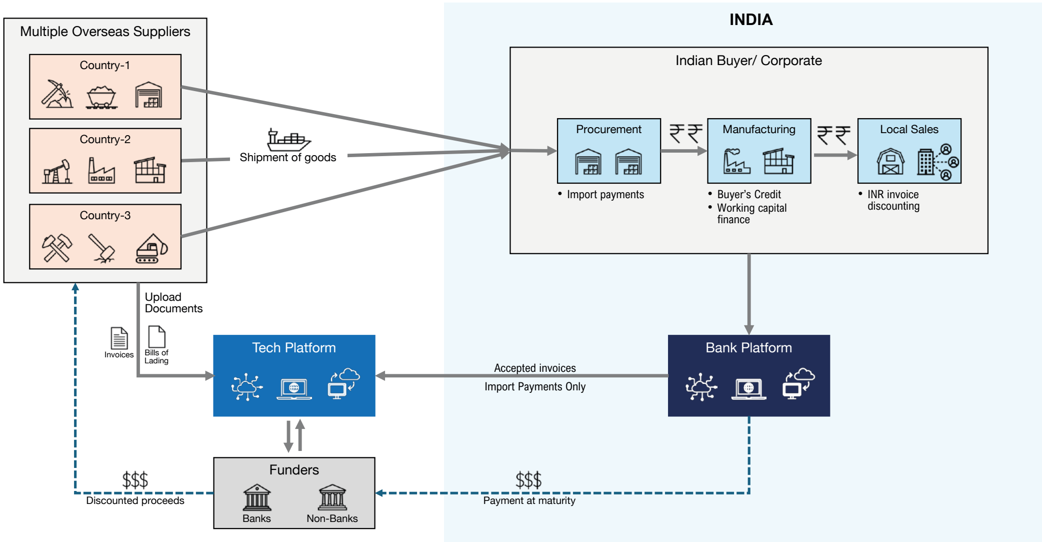

(Source: Pinnacle Finance Limited)

Additionally, we must focus on "data" to gain a holistic perspective of cross-border flows. By leveraging technology platforms, building a robust track record and credit history of cross-border flows will further help attract foreign currency investments.

Acknowledgements:

Girish Narayankar, Director – Business Head (Factoring), **Pinnacle Finance Limited**
Rohan Amdekar, Analyst, **Pinnacle Finance Limited**

Reference:

[1] *https://data.worldbank.org/indicator/NE.EXP.GNFS.CD?locations=IN&view=chart*
https://www.worldbank.org/en/news/press-release/2024/09/03/india-s-economy-to-remain-strong-despite-subdued-global-growth