

## TReDS: The Key to MSME Financial Strength and Sustainability!

### ✦ Understanding the TReDS Platform: A Game Changer for MSME Financing

Micro, Small, and Medium Enterprises (MSMEs) are the backbone of the Indian economy, contributing significantly to employment generation and GDP growth. However, one of the biggest challenges they face is delayed payments from Buyers, which affects their working capital and business operations. To resolve this issue, the Trade Receivables Discounting System (TReDS) was introduced by the Reserve Bank of India (RBI) on December 3, 2014 through the guidelines issued under Section 10(2) and Section 18 of the Payment and Settlement Systems (PSS) Act, 2007 providing MSMEs with a seamless and transparent platform to finance working capital through the digital ecosystem.

### ✦ What is TReDS?

TReDS (Trade Receivable Discounting System) is an innovative electronic platform that facilitates MSMEs to receive quick and easy financing against their trade receivables through multiple Financiers. It enables MSMEs to convert their outstanding invoices into cash, thereby improving liquidity and reducing dependence on traditional credit sources. The platform is designed to ensure fair pricing through competitive bidding among Financiers, leading to cost-effective solutions for small businesses.

### ✦ Who is required to be registered in TReDS Platform?

According to Notification S.O 4845 (E) issued by the Ministry of MSME on 7<sup>th</sup> November 2024, all companies registered under the Companies Act, 2013, and Central Public Sector Enterprises (CPSEs) as a Buyer with a **turnover of Rs. 250 crore** or more are now required to register on the TReDS platform. Previously, this mandate applied only to companies and CPSEs with a turnover of Rs. 500 crore and above.

I bring your attention to the due date for Eligible companies and CPSEs to get their TReDS registration and comply with this regulation before **31st March 2025**.

However, any MSME entity can register on TReDS portal irrespective of its turnover.

All the participants intending to register on the TReDS platform will need to pay one-time non-refundable Registration Fee that varies based on platform chosen. In addition to the Registration Fee, the participants will have to pay an Annual Fee by 30th day of April every year.

### ✦ TReDS Platforms in India

Currently, RBI has licensed five TReDS platforms in India:

- RXIL (Receivables Exchange of India Ltd.) - [RXIL](#)
- M1Xchange (Mynd Online National Exchange) – [M1Xchange](#)
- Invoicemart - [Invoicemart](#)
- C2FO Factoring Solutions Private Limited – [c2fo](#)
- KredX - [KredX](#)

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These platforms operate independently but follow the same principles of invoice discounting and financing for MSMEs.

### ★ Step-by-Step Guide for Registering on the TReDS Platform for buyers and sellers:

- Create a user ID on the any of the TReDS platform
- Fill out the application form
- Verify your email address
- Sign the participation agreement
- Pay any applicable fees as per the platform chosen
- **Required documents**
  - Business registration certificate
  - Permanent Account Number (PAN)
  - Goods and Service Tax (GST) registration Certificate
  - Annual report (2 years), ITR, Account statement
  - Board resolution/authorization letter
  - Udyam Certificate for MSMEs
  - Address proof
  - Certificate of Incorporation, MSME Certificate
  - Memorandum of Association and Article of Association
  - KYC documents of applicant entity, promoters, administrators and authorized signatories.
  - Identity proof, Signature verification from banker

### ★ How Does TReDS Work?

The TReDS platform provides the registered MSMEs to upload their unpaid invoices which are acknowledged by the Buyers. The registered financiers (Banks and NBFCs) bid to discount the invoice, offering competitive interest rates. Due to the process of bidding, the MSMEs get competitive prices against the invoices. The financiers provide the discounted Bill amount immediately, thus leading to improved cash flows.

Now, you will ask what is the advantage to those financiers of providing instant cash flows? They get benefitted by providing the amount at discounted rate and also by charging interest against it. Moreover, the risk of non- recovery from Buyers is mitigated as the portal allows to upload only those invoices that are issued to corporates and other Buyers, including Government Departments and Public Sector Undertakings (PSUs). i.e. large and creditworthy Buyers. The Buyers having Turnover less than Rs. 250 crores turnover and non - CPSEs are not allowed to register.

### ★ Principles driving TReDS

The TReDS platform is built on the concept of **Factoring**, which allows businesses to convert their receivables into immediate cash flow. Here's how it works:

When a Seller sells goods or services on credit, it issues an invoice to the customer with a payment term of 30, 60, or 90 days. Instead of waiting for the payment, the Seller can sell the

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invoice to a factoring company (Financier) at a discount. The Financier then verifies the invoice and assesses the creditworthiness of the Buyer. If approved, the Financier advances 80%–90% of the invoice amount to the business upfront, while holding the remaining 20%–10% as a reserve.

On the due date, the Buyer pays the full invoice amount directly to the Financier. Once the payment is received, the Financier deducts a factoring fee (typically 1%–5%) and releases the remaining reserve amount to the Seller.

TReDS also allows **Reverse Factoring**:

Reverse factoring is also used on TReDS. This Reverse factoring, also known as supply chain financing, is a financial arrangement where the Buyer uploads the invoice on portal and arranges for a Financier (usually a bank or financial institution) to pay its suppliers (Seller) early at a discounted rate. The Buyer then repays the Financier at a later date, typically based on agreed credit terms. The financing cost may be borne by Buyer or Seller based on the agreement between them.

This method benefits suppliers by providing them with immediate cash flow. The financier considers the Buyer's creditworthiness rather than the supplier's, which often results in better interest rates than traditional loans. At the same time, Buyers can maintain good supplier relationships and extend their payment terms without negatively impacting suppliers' working capital.

The TReDS platform operates on a **Non-Recourse Factoring** basis, meaning the financier bears the risk of non-payment by the customer, providing MSMEs with a secure way to access working capital. In Non-Recourse Factoring, the financier assumes the risk if the customer defaults, meaning the Seller is not liable for non-payment. This provides greater security to Sellers as they receive immediate cash without worrying about potential future losses. On the other hand, in Recourse Factoring, the seller retains the risk of non-payment by the customer. TReDS exclusively operates on a non-recourse basis and does not adhere to the principles of recourse factoring.

### ★ **Benefits of TReDS:**

The Trade Receivables Discounting System (TReDS) is a revolutionary platform that benefits MSMEs, Buyers, and Financiers by enhancing cash flow, ensuring smooth supply chain operations, and providing new investment opportunities. Here's a detailed breakdown of its advantages for each participant.

- **For MSMEs:** TReDS helps MSMEs overcome cash flow constraints caused by delayed payments from corporate Buyers or government or PSUs by enabling early invoice payment instead of waiting for long credit periods. This provides quick access to working capital, ensuring smooth operations, timely supplier payments, and uninterrupted production. Since TReDS operates on a non-recourse factoring basis, MSMEs face zero credit risk, as Financiers bear the risk of non-payment. Additionally, competitive bidding among banks and

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NBFCs ensures lower financing costs, making it a more affordable alternative to traditional loans. Collateral-free financing further enhances accessibility, allowing MSMEs to secure funds without pledging assets.

- **For Buyers:** Participating in TReDS benefits corporate Buyers and CPSEs by ensuring regulatory compliance while strengthening relationships with MSME suppliers. By approving invoices for early payment, Buyers support stable cash flow for MSMEs, fostering long-term partnerships and ensuring an uninterrupted supply chain. This leads to greater efficiency in production and service delivery. Additionally, early payments do not impact Buyers' cash reserves, as Financiers provide funds upfront, and Buyers settle payments later. Also, regarding tax compliance, as per the MSMED Act, 2006, Buyers must pay MSMEs within 45 days of acceptance of goods/services. Delays beyond this period attract penal interest at three times the RBI's bank rate u/s16. Using TReDS helps Buyers ensure timely payments and avoid legal or financial penalties. Under Section 43B(h) of the Income Tax Act (effective from FY 2023-24), payments to MSMEs must be made within 45 days to qualify as a deductible expense. Delayed payments are disallowed in the same year and can only be claimed when paid. By using TReDS, it is ensured that timely payments are made, preventing tax disallowances and reducing tax liabilities.
- **For Financiers:** TReDS offers banks and NBFCs a low-risk, short-term lending opportunity backed by the creditworthiness of large corporate Buyers, reducing default risks. With repayments typically within 30 to 90 days, it ensures high liquidity and quick fund turnover. The platform's competitive bidding process allows Financiers to offer the best rates while securing profitable deals. Additionally, TReDS operates in a fully digital, paperless environment thereby reducing operational costs by enabling faster and more efficient invoice financing through automated processes and minimal manual intervention.

### ★ **Conclusion:**

The TReDS platform is a transformative initiative that is helping MSMEs overcome liquidity constraints and access timely financing without the burden of collateral. Eventually, TReDS is taking steps to onboard a maximum number of Buyers by reducing the minimum turnover limit for registration. As more businesses adopt this system, it will lead to a more robust MSME ecosystem, contributing to economic growth and financial inclusion.

If you are an MSME struggling with delayed payments, exploring TReDS could be a strategic move to enhance your financial stability and business sustainability.

*This article is written by CA Abhishek Dhamne. You can connect to the Author on [abhishekdamne@ssdca.in](mailto:abhishekdamne@ssdca.in). Please use professional discretion along with comprehensive research and analysis of MSME Act while using TReDS facility.*