

A Study on Facility of Supply Chain Finance in Madurai City

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Introduction

A Supply chain works like a relay race wherein each player tries to maintain and even improve upon the performance of earlier and passes on the benefits so derived to the next player. To maintain the pace of growth, channel partners (i.e. suppliers, dealers, distributors, transporters, etc, of Original Equipment Manufacturer) need substantial amount of working capital, Non availability of working capital finance could seriously hamper their growth and in turn, that of industry. Thus along with information technology, engineering & marketing, here finance has to play a critical enabling role in this quest for value added relationship.

For the last decade or so, companies have been focusing significant resources on streamlining their supply chains. For the most part, this has meant the physical supply chain - as in the movement of goods around the world. Less attention has been paid, however, to the financial side of supply chain management – the flow of money to support the physical movement.

To fill this gap, the concept of Supply Chain Financing has begun to evolve, and companies are now beginning to identify and implement opportunities to streamline this process.

Supply chain finance, which is also known as ‘Chain Financing’, is a relatively new concept in the field of working capital finance. Here the Original equipment Manufacturers provides working capital support to their chosen channel partners at negotiated rate of interest through bank/financial institution. It is different from traditional practice of standalone risk evaluation which was focused only on channel partners strength & historic financial performance.

Supply Chain Financing includes pre-sale as well post –sale financing. Pre-sale finance is provided against the purchase order and post-sale finance is provided in form of bill discounting or invoice discounting.

In the light of this background an attempt has been made here to put real metrics around the demand for supply chain finance amongst the large scale engineering industries in and around Madurai city. The study also explores the key drivers that are responsible for adoption of supply chain financing solutions.

Objectives

1. To find out the response of engineering industry to the product of supply chain finance.
2. To understand the attitude and perspective of original equipment manufacturers towards supply chain financing.
3. To perform SWOT analysis of supply chain financing.

Hypothesis

Engineering industries are finding supply chain finance an attractive proposition.

Methodology

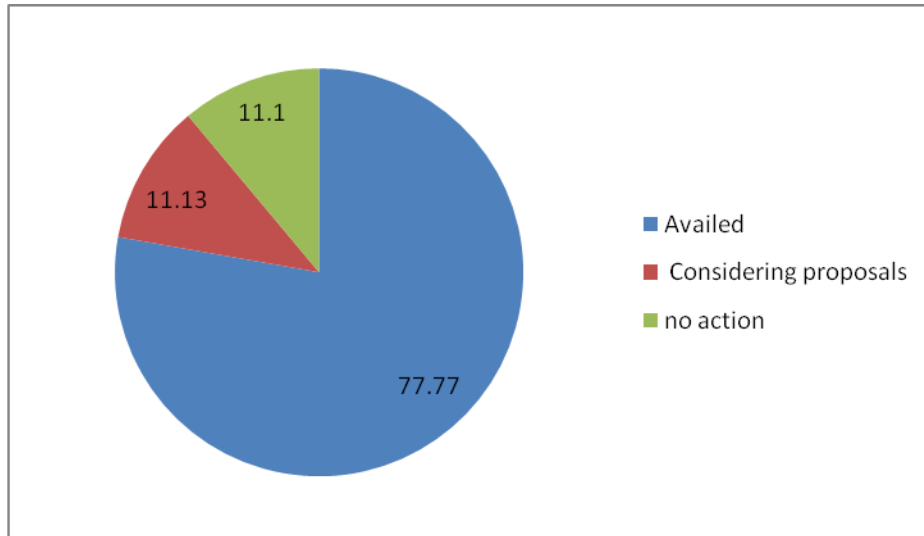
The study is based on all necessary information which is generated through primary and secondary sources. The secondary data is collected through published materials like articles, books, magazines. Primary data has been collected through discussion and interviews of Finance Managers of selected engineering companies.

Sample Selection

The engineering sectors are considered as largest segment of Indian industry that has witnessed a strong sales momentum in the last financial year. There are enormous backward and forward linkages.

In view of the predominant role played by engineering industries, 9 large scale engineering companies, having registered office in Madurai are selected for the study of supply chain financing. Questionnaire and list of companies and their Managers contacted is given in appendix for reference.

No. Of Companies



Analysis

- 100% of respondents were aware about supply chain finance solutions.
- 77.77% have availed the facility for their channel partners.
- 11.12% are investigating supply chain finance options and
- 11.11% have not taken any action in this area.
- Most of the selected companies started availing the facility around 2004-05
- In case of 65 % of companies availing the facility for their channel partners. It was bank's initiative. And the remaining 35% it was OEMs who took initiative in introducing supply chain finance solution for their channel partners.
- In response to the question whether more banks are approaching companies with supply chain finance solutions, 100% have answered in the affirmative saying every year yearly 2 to 3 banks are approaching them with supply chain finance product.

- Only 2 companies out of 7 availing the facility of supply chain finance have opted for dealer financing and supplier financing solution. And 5 compaine3s out of 7, availing the facility of supply chain finance have opted only for supplier financing solutions.
- The study explores the key drivers that are responsible for adoption for supply chain financing solutions. The respondents were asked to provide rating ranging from most important(1) to least important (3)

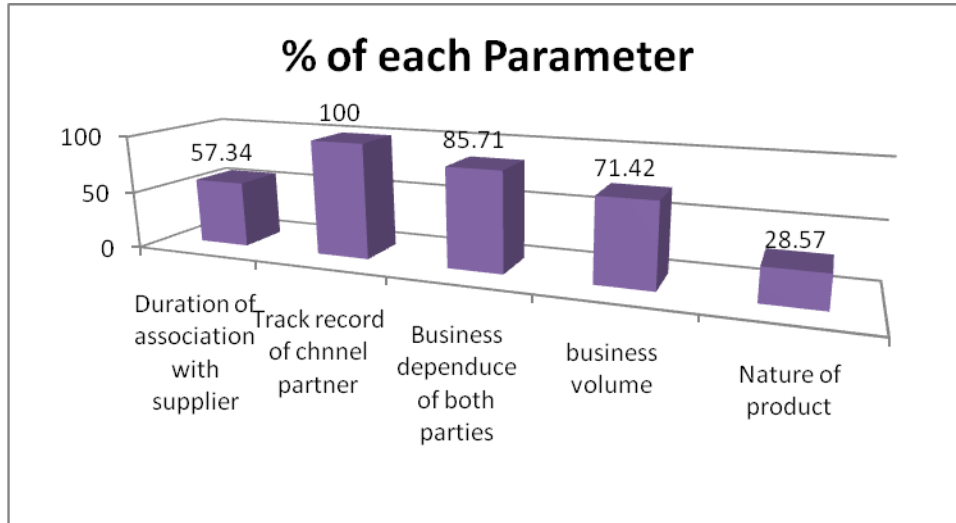
Table 1: Reasons why supply chain finance

Name of the Company	Extended payment terms	Better supply deals	Better cash flow management	Tool of introducing discipline in supply chain	Better relations with channel partners
TVS	1	2	3	4	5
Honey well	2	3	1	4	5
Bharat	5	1	2	4	3
Murugan India	4	2	1	3	5
Apple	4	5	2	1	3
Nanban car	5	4	2	1	3
Prakash Engineering	1	2	3	4	5
Thomas industries	1	3	2	3	4
Total of ranks	23	22	16	26	33

The lowest total of rank observed in the above table is 16 which indicate the most significant factor/reason for adopting supply chain finance.

- This study also looked into the parameters used by companies while recommending the name of channel partner to the bank for the facility of supply chain finance.

Table 2 parameters used while selecting channel partner for the facility



- When asked to rate the supply chain finance on the scale of 1 to 10 (where 1 is least and 10 is highest), average rating was 8.
- In response to the question whether supply chain finance is a value proposition, 100% have answered in the affirmative.

Based on the data collection, an attempt has been made here to perform SWOT analysis of supply chain.

Strengths	Weaknesses	Opportunities	Threats
Extended payable period cost saving better working capital Management Discipline in supply chain One payment to one factor rather than several payments to many suppliers. Better utilization of working capital limit.	Success of the product depend on acceptance of the solution by channel partners Sometimes bank requirements are stringent	Better supplier deals improved profit margins Loyal & committed base of channel partners Smooth flow of material	no std norms

Conclusions

1. There is a good amount of awareness about supply chain finance solution among the engineering industry.
2. There is high level of interest amongst banks also in meeting growing corporate demand for supply chain finance.
3. Large corporate are looking to have management of cash flow and better supplier deals while introducing supply chain finance.
4. Track record is the major factor considered while choosing partner for the facility.
5. Channel partners are considered while choosing channel partners for the facility.
6. Supply chain finance is a value added proposition for Original equipment manufacturers.