

Understanding Supply Chain Financing Solutions

- Dealer Financing



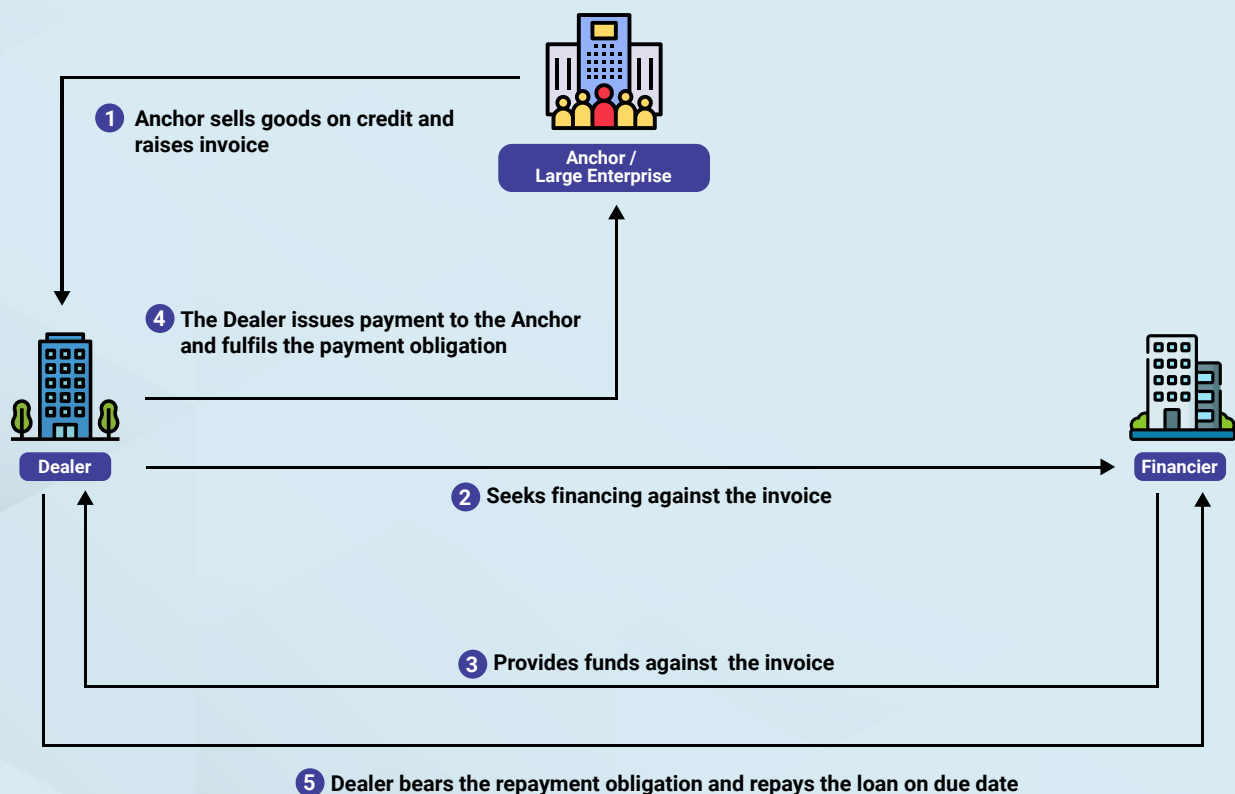
Introduction

Dealer Financing is an off-balance sheet arrangement that helps the anchor bridge the short-term working capital gaps from its credit sales to the dealer. The anchor supplies goods to its dealers and issues invoices against the credit sales expecting a payment on the agreed terms. However, this results in working-capital shortage for the anchor. To mitigate this gap, a supply chain loan is extended to the dealer against the unsettled invoices, ensuring timely sales realisation for anchor.

Typically, the primary responsibility of loan repayment lies with the dealer. However, depending on who bears the credit risk, dealer financing can be either,

Non-recourse to anchor: The dealer solely bears the credit risk, OR

Recourse to anchor: The anchor partly bears the risk and can be held liable if the dealer defaults.



Benefits of Dealer Financing Solution

Mitigates Working Capital Gap



With dealer financing, dealers can get immediate funding to manage financial obligations while anchors can settle the invoice before the due date. This allows both the dealers and anchors to enhance their working capital efficiency.

Covers Seasonal Peaks



The funds can be used by dealers to stock up inventory for the peak season and boost sales without depleting cash reserves.

Strengthen Anchor-Dealer Relation



Timely payments can strengthen the dealer's relationship with anchor and promote ease in doing business.

Conclusion

Dealer financing solution is ideal for mid-size businesses looking to effectively manage their payment obligations without disrupting the core business operations. Mid-market enterprises (MMEs) in India, despite contributing a significant portion to GDP, often face challenges in accessing the right kind of financial support. While banks do offer working capital solutions for day-to-day operations, they may not provide flexibility in loan terms. The mid-market focused NBFCs offer supply chain financing solutions that are specifically tailored to suit the unique needs and convenience of MMEs.