

Case Study: Invoice Discounting

Kobster

Working Capital & Credit Flow Challenges

Introduction

With end-consumer demands and expectations at an all time high today, it has become imperative for businesses to accelerate and optimize their internal operations. Unfortunately, various factors hinder an enterprise's efforts to achieve this objective; liquidity deficit being a major one.

When it comes to the B2B landscape, there are several instances wherein businesses suffer from cash deficits. Credit period discrepancies, for instance, are one of the significant factors affecting working capital availability for SMEs. To bridge this gap, businesses often tend to use up their reserved capital or raise fresh equity capital, both of which are time-consuming procedures involving higher costs, and in the case of the latter, dilution of ownership.

This is where solutions like invoice discounting come in the picture, offering these B2B businesses with the value proposition that they precisely need. Simply put, invoice discounting is a process through which a business can avail a loan from a lender leveraging the invoices raised. However, businesses till now did not have dedicated facilitator platforms which could guide them through the entire process of invoice discounting in a fast, tech-driven and transparent manner. Indifi, with its automated invoice discounting process, has helped to solve this problem.

Indifi is one of India's leading platforms for SME funding platform offering digital lending services like invoice discounting, Merchant Cash Advance, Line of credit and Term Loans across different verticals. Indifi introduced collateral-free invoice discounting loans in 2017 to finance small businesses' working capital needs. The platform provides operating capital of up to 90% upfront on an immediate basis, disbursing a loan amount of up to INR 1 crore. Securing these funds instantly on flexible terms enables businesses to function seamlessly, meet demands, and prosper.

Let us understand this better through a successful case in which Kobster, an e-procurement platform for corporate supplies associated with Indifi, leveraging the platform's invoice discounting facility to address its cash deficit challenges.

Kobster: A brief background

Kobster is an e-procurement platform enabling large and medium enterprises to source products for their workplace requirements. The firm is amongst the pioneers of the Indian B2B e-procurement industry. It caters to the consumable requirements of corporates, from housekeeping and stationery to electronics, electricals, and even gifting, among others. The entire procurement process of these products is largely fragmented and unorganized, involving multiple vendors for various product categories, leading to further chaos in payment cycles.

Kobster presents a great alternative for enterprises to make the procurement of these supplies automated and streamlined. The firm does not just provide software solutions to its customers, but also ensures that the products get delivered on time at the client's doorstep.

Key challenges faced

While Kobster has been making procurement of supplies increasingly convenient for its customers, maintaining a similar seamlessness in the payment cycle has become a problem. This is because of

the 10-15 day difference in credit timelines between Kobster's suppliers and its customers, resulting in working capital deficit at a crucial 'between-the-orders' phase.

The problem compounded when the firm began focusing on larger customers who could buy over INR 5-30 lakhs of supplies. They wanted a longer credit period which made it difficult for Kobster to maintain positive cash flow. Additionally, the gap period not only affected the firm's credit timelines with present customers and vendors, but also held it back from bringing new customers on-board.

The Approach: Exploring Options

To address this, Kobster started exploring options among traditional financial institutions like banks and NBFCs. However, the procedural delays, highly stringent regulations and unwillingness to offer unsecured loans made these alternatives unfeasible. This is when the firm became aware of Indifi, and the alternative of invoice discounting.

Partnership with Indifi and the impact

Kobster partnered with Indifi Technologies in November 2018. The e-commerce firm leveraged Indifi's invoice discounting offering to address its working capital challenge. By providing money upfront against unpaid invoices on convenient and flexible repayment terms, Indifi has enabled Kobster to pay its vendors by the due date on their end. This has further helped the firm to manage their credit cycle better. Through such a value proposition, Indifi's invoice discounting has emerged as an effective solution for Kobster to manage its working capital, thereby ridding the firm of the stress of arranging funds or utilizing its equity capital for managing credit cycle gap.

After availing the same, Kobster did not have to worry about the working capital anymore. This has further enabled the firm to invest its credit, time, and efforts and reaching out to new customers with attractive credit period options. Even in terms of scalability, the partnership with Indifi has worked significantly in Kobster's favour. The firm is witnessing increased opportunities in gaining an edge over its contemporaries and acquiring better share in the market through an enhanced customer experience. Indifi took a proactive approach in understanding the business model of Kobster and providing support accordingly.

The road ahead

Through invoice discounting, Indifi has provided a great alternative to traditional business loans for B2Bs, emerging as one of the most effective debt-financing based working capital solutions. The success story of Kobster stands as a prime example of the same. Indifi's partnership with Kobster is a significant step taken towards facilitating fund procurement for the B2B industry. Invoice discounting is not only a good financial tool for businesses to improve their cash flow, but is also a valid way for funding growth.

This case also signifies how digital lending platforms like Indifi have become an effective alternative for small businesses to secure capital. Through its innovations-driven approach, Indifi tapped into the potential of invoices as an asset and emerged with this convenient and time-efficient solution of invoice discounting. With solutions like this, Indifi aims at dedicatedly solving the credit issues faced by small businesses across different segments and verticals in India.