

# **Trade Receivables Discounting System (TReDS): Transitioning MSME Financing from Unorganized to Organized Credit in India**

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## **Abstract**

Micro, Small, and Medium Enterprises (MSMEs) are pivotal to India's economic landscape, contributing significantly to employment and GDP. Traditionally, MSMEs have relied on informal credit channels, leading to challenges such as high borrowing costs and inconsistent access to funds. A significant move toward formalizing MSME financing is the start of operation of the Trade Receivables Discounting System (TReDS). This paper explores the evolution of TReDS, its impact on MSME financing, and analyzes the growth trajectory of MSME registrations on the Udyam portal over the past five years.

## **Introduction**

Due to cash flow issues brought on by buyers' late payments, MSMEs in India are frequently forced to look for credit from unofficial sources. These unofficial credit channels are usually costly and untrustworthy. The Reserve Bank of India (RBI) responded to this by launching TReDS, an electronic platform that makes it easier to discount trade receivables and give MSMEs access to timely and reasonably priced loans, in 2014. Four companies—Receivables Exchange of India Limited (RXIL), Mynd Online National Exchange (M1), Invoicemart (A. TReDS), and C2FO—have been granted licenses by the RBI to run the TReDS platform in India.

## **Evolution and Functioning of TReDS**

MSME suppliers can auction their trade receivables to a variety of financiers, including banks and non-banking financial companies (NBFCs), through TReDS, a digital marketplace.

MSMEs are guaranteed timely payments at competitive rates thanks to this method. About 65,000 MSMEs in 1,600 cities benefited from discounted invoices totaling ₹2.18 lakh crore as of November 2023 thanks to TReDS platforms. This significant adoption demonstrates how well the approach works to alleviate MSME liquidity issues.

### **Impact on MSME Financing**

Using TReDS to move from informal to formal credit has produced a number of advantages:

- 1. Lower Financing Costs:** MSMEs' profitability and competitiveness have increased as a result of a 5-8% decrease in borrowing costs.
- 2. Better Cash Flow:** MSMEs can now cover operating costs and make investments in expansion prospects thanks to improved working capital management made possible by timely access to funds.
- 3. Improved Creditworthiness:** By taking part in TReDS, MSMEs have been able to establish a formal credit history, which makes it simpler for them to obtain future funding.

### **Growth of MSME Registrations: Udyam Portal Analysis**

Launched on July 1, 2020, the Udyam site streamlines procedures and brings businesses into the official sector by providing a single platform for MSME registration. The portal has grown significantly:

- From **July 2020 to December 2023**, 1.17 crore of the 3.16 crore MSMEs that were registered were women-owned businesses.
- **January 2024:** Over 3.5 crore registrations showed continued momentum.
- **March 2024:** A strong boost in formalization within the MSME sector was reflected in the achievement of the 4-crore milestone.
- **As on 13-03-2025 as per Udyam portal**

#### **MSME Udyam Registration including UAP**

S.No	Portals	Total MSMEs
1	Udyam Portal (For registered with GST)	3,48,72,520
2	UAP Portal (For not registered with GST) Set up by SIDBI	2,61,55,198
	Grand Total	6,10,27,718

\*UAP - Udyam Assist Platform \*SIDBI - Small Industries Development Bank of India

### MSME Registration By Enterprise category

S.No	Enterprise category	Total MSMEs
1	Micro	6,02,15,738
2	Small	7,42,301
3	Medium	69,679
	Grand Total	6,10,27,718

### MSME Registration By Gender

S.No	Gender	Total MSMEs
1	Male	3,63,35,647
2	Female	2,44,52,194
3	Others	2,25,715
	Grand Total	6,10,13,556

### MSME Registration By Special Groups

S.No	Special Groups	Total MSMEs
1	SC	64,24,259
2	ST	20,46,997
3	OBC	1,90,87,997
4	Divyangjan	5,24,991
	Grand Total	2,80,84,244

### MSME Registration By Activity

S.No	Activity	Total MSMEs
1	Manufacturing	1,26,09,555
2	Service	2,12,99,685
3	Trading	2,71,18,478
	Grand Total	6,10,27,718

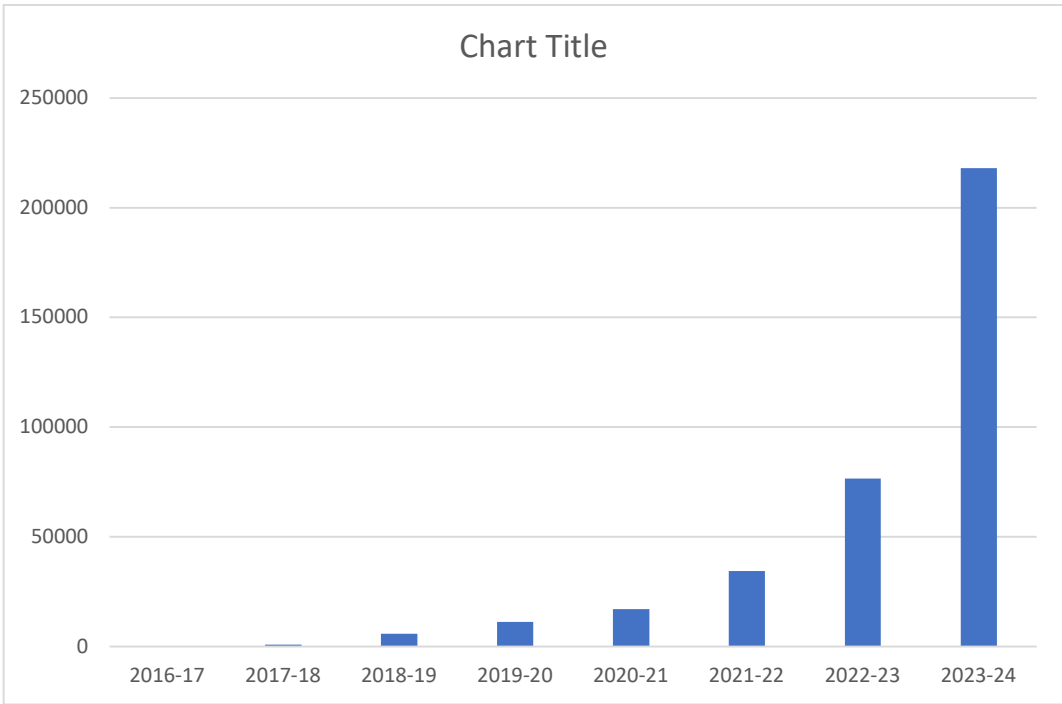
**Total Employment Generation: 26,00,93,355**

**Growth of MSME Invoices Financed on TReDS platform**

**Transactions Undertaken on TReDS Platforms**

S.No	Financed during the Financial Year	Amount (Rs. in Crore)
1	2016-17	0.01
2	2017-18	814.54
3	2018-19	5854.48
4	2019-20	11165.86
5	2020-21	17080.14
6	2021-22	34362.91
7	2022-23	76500
8	2023-24	218000

**Growth of MSME Invoices Discounted on TReDS platform**



This upward trend signifies growing awareness and acceptance of formal financial systems among MSMEs.

## Conclusion

With the introduction of TReDS, MSME financing in India has undergone a dramatic shift from unorganized to organized lending channels. TReDS has lessened reliance on unofficial credit and eased liquidity constraints by offering an organized platform for invoice discounting. At the same time, a larger trend towards formalization within the MSME sector is highlighted by the spike in Udyam portal registrations and the volume of transactions on the Treds platform. When taken as a whole, these advancements are helping MSMEs grow sustainably and integrate into the formal sector by creating a more robust and effective ecosystem.

## References

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