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Beyond Traditional Banking – Tailored debt products to suit changing business needs

India's rapidly evolving economic landscape has created unprecedented opportunities for businesses across sectors. However, access to timely and flexible financing remains a core challenge for many businesses. Traditional bank lending (term loans and cash credit facilities), once the go-to solution, is increasingly proving insufficient due

to rigid norms, collateral requirements, and slow processes.

This article explores alternative financing avenues including trade finance, asset-backed finance (sale and leaseback, equipment funding, lease rental discounting), and structured finance (promoter funding, acquisition funding, and venture debt). It provides a comprehensive overview of each financing model, its use cases, and limitations, helping the Chartered Accountants community to guide business leaders in making informed capital-raising decisions in a dynamic environment.

Introduction

In India's entrepreneurial ecosystem, the ability to secure the right kind of financing at the right time can define business success. While traditional bank loans have been the mainstay of corporate finance, they are not always well-suited to the needs of agile, high-growth, or distressed businesses, especially those with:

- Irregular, lumpy cash flows (e.g., defence contractors) or exponential short-term growth spikes (e.g., Direct-to-Consumer brands on q-commerce).
- Asset-light models (e.g., Quick Service Restaurant chains and aggregator platforms) or balance sheets dominated by intangible assets like proprietary software and patents.
- Accelerated business cycles (e.g., fast fashion brands) and shorter product lifespans driven by rapid technological obsolescence (e.g., consumer electronics).

These limitations have opened the door to a new wave of alternative financing options, tailored to modern business models and cycles. These new-age financing tools are not only designed to meet diverse capital needs but are also structured with greater flexibility and responsiveness to business realities. This shift is largely powered by technology, making these modern solutions possible through:

- Seamless API integration provides lenders with instant access to a borrower's banking, GST, and other compliance data.
- Alternative credit assessments evaluate the borrowing entity's transaction flows and its promoter's behavioural metrics in conjunction with historical financials.
- Continuous, real-time risk monitoring helps identify early warning signals instead of relying on delayed, periodic financial statements.

This article offers a structured examination of a few of such financial solutions. By diving deep into their operating mechanisms, eligibility norms, pricing, and ideal use cases, the aim is to equip Chartered Accountants with the insights necessary to optimise their funding strategy in an increasingly competitive market.

Emerging Alternatives: A Taxonomy of Modern Financing Instruments

A. Trade Finance

i. Cross-border factoring/discounting

- **Modus Operandi:** Cross-border factoring/discounting is a short-term working capital financing tool designed to support businesses engaged in the import and export of goods. When a seller dispatches goods to a buyer overseas, the lender provides an advance to the seller of up to 90% of the invoice value

at the time of shipment. The buyer (borrower) pays the full invoice value to the lender on the due date, typically 90 to 120 days later. Upon receipt of these funds from the buyer (borrower), the lender remits the remaining 10% balance to the seller, minus applicable charges.

- **Interest Rate:** 8% to 12% p.a. for importers, with slightly lower rates for exporters. Interest rates are generally linked to SOFR (for USD-denominated transactions).
- **Primary Security:** No charge is filed on any assets.
- **Collateral Security:** No charge is filed on any assets. The lender mitigates their risk by obtaining insurance cover on the transaction.
- **Active Lenders:** Examples of few active lenders in this segment are Modifi, Drip Capital, TradeWind and DP World.
- **Ideal For:** This financing model can support the working capital requirements of the borrower by complementing the existing cash credit facility.
- **Key Points:** Import/export factoring offers quick liquidity without any collateral security and is generally considered off-balance sheet financing, thus not impacting financial ratios of the borrower.

ii. Domestic factoring/ discounting & TReDS

- **Modus Operandi:** Domestic factoring involves the discounting of invoices either through direct arrangements with Banks/NBFCs or via electronic platforms like Trade Receivables Discounting System (TReDS). TReDS is an RBI regulated digital platform which enables MSMEs to receive early payments against invoices without collateral.

- **Interest Rate:** Interest rates range from 8% to 15% p.a. depending on a case-to-case basis and the credit rating of the buyer and/or supplier.
- **Primary Security:** No charge is filed on any assets.
- **Collateral Required:** No charge is filed on any assets.
- **Active Lenders:** Most private and public sector banks, along with NBFCs, offer this discounting facility. TReDS platforms are offered by Receivables Exchange of India Limited (RXIL), a JV between NSE and SIDBI, and InvoiceMart, among others. These platforms provide a transparent platform for the financing.
- **Ideal For:** MSMEs seeking timely working capital funding without approaching Banks for Cash Credit facility.
- **Key Point:** Registration on TReDS is mandatory for corporates with turnover above Rs. 250 crores, signalling government support for digital supply chain financing.

**The process is explained in fig 1.*

B. Asset-Backed Finance

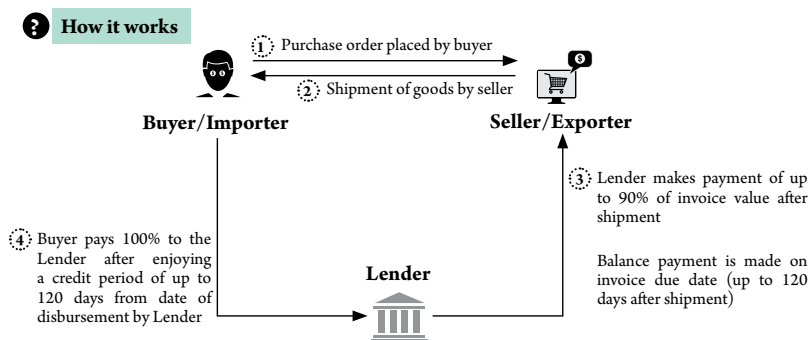
i. Equipment Funding

- **Modus Operandi:** Equipment funding involves the purchase of machinery using financing provided by banks or NBFCs.

The lender typically covers 50% to 100% of the equipment's purchase price, including taxes and installation costs. The borrower repays the loan through periodic instalments over a specified tenure which can range from 3 to 7 years.

- **Interest Rate:** Banks typically charge 8% to 10% p.a., while NBFCs may quote higher rates, ranging from 10 to 14% p.a.
- **Primary Security:** The machine financed by the lender will be exclusively charged to the lender.
- **Collateral Required:** While banks may demand collateral in the form of a fixed deposit (5% to 25% of asset value), many NBFCs approve such loans without any additional collateral requirement.
- **Active Lenders:** Apart from Banks, certain NBFCs like Tata Capital, Bajaj Finance, and Oxyzo Financial Services are active lenders in this segment.
- **Ideal For:** This financing solution is suitable for businesses requiring frequent acquisition of machinery or movable equipment, especially in manufacturing or processing sectors.
- **Not Suitable For:** Businesses which operate on an asset-light model do not require Equipment Finance.

Fig 1. Trade Finance





- **Key Point:** Equipment finance enables businesses to boost productivity and revenue without a large upfront capital outlay, and the loan is typically serviced through cash flows generated by the asset itself.

ii. Sale and Leaseback

- **Modus Operandi:** Under a sale and leaseback arrangement, a business sells its owned, unencumbered fixed assets to a financial institution, typically an NBFC. The asset is then leased back to the original owner for continued operational use through monthly rental payments. At the end of the lease term, the business may repurchase the asset at nominal cost depending on the terms of the sale-leaseback transaction.
- **Interest Rate:** Effective financing cost, reflected through lease rentals, can be as low as 9% p.a. in certain cases. Generally, the effective financing cost is around 12% p.a.
- **Primary Security:** Not applicable, since the asset is sold to the lender and thus not reflecting in the books of business.
- **Collateral Required:** Generally, a fixed deposit ranging between 10% to 25%

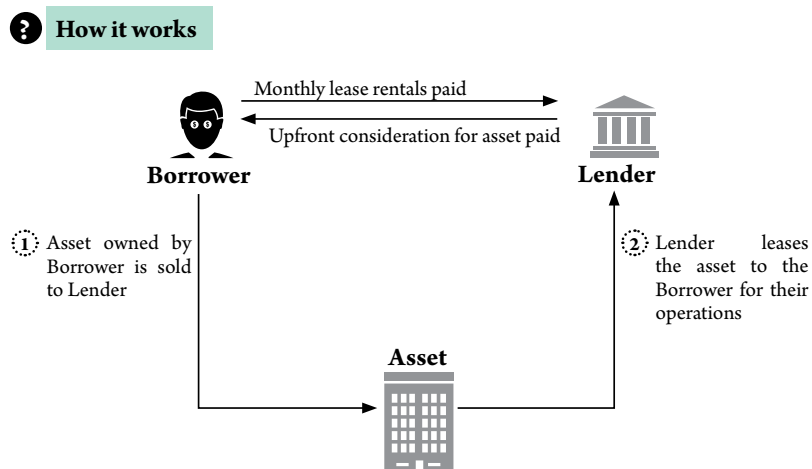
of the asset value may be required as collateral security. This amount can be lower or higher depending on case-to-case basis.

- **Active Lenders:** Siemens Financial Services and Tata Capital are among the notable players offering sale and leaseback products at competitive terms.
- **Ideal For:** This model is ideal for asset-heavy industries such as textiles, beverages, and sectors with significant capital expenditure. It is particularly effective for companies facing a temporary liquidity crunch, and those with accumulated GST input tax credit (ITC) that can be utilized. The sale of fixed assets results in collection of output GST which can be set-off against existing ITC balance, thus resulting in freeing up of cash flow.
- **Not Suitable For:** Borrower may not be entitled to subsidy linked to Fixed Assets appearing in the balance sheet.
- **Key Point:** Sale and leaseback help unlock liquidity without impacting operational continuity and lowers reported leverage on the company's books since the transaction is structured as a lease rather than a loan.

iii. Lease Rental Discounting (LRD)

- **Modus Operandi:** Lease Rental Discounting is a financing option where businesses can borrow funds against their rental income from pre-leased properties. In this structure, the lender provides a loan based on the future cash flows (rental income) generated from a commercial property that is already under lease agreement. The loan tenure is linked to the lease tenure. The loan amount typically ranges from 70% to 85% of the present value of future rental income.
- **Interest Rate:** Banks generally charge interest rates in the range of 8% to 10% p.a., depending on factors like the tenure, tenant stability, and property value. NBFCs may offer slightly higher interest rates but they may also disburse higher loan amounts on a case-to-case basis.
- **Primary Security:** The underlying property is taken as primary security by the lender apart from the lease rental income stream.
- **Collateral Required:** Collateral is generally not required.

Fig 2. Asset- Backed Finance



“Through ULI, lenders get instant, seamless access to a massive variety of data required for underwriting, including state-level land records, satellite imagery (useful for agricultural credit), tax filings and KYC details, and Account Aggregator financial data.”

- **Active Lenders:** Most Banks and NBFCs offer this lending facility.
- **Ideal For:** LRD is one of the most preferred options of borrowing by real estate developers.
- **Not Suitable For:** In case lease tenure is short (up to 1 year) and/ or the lessee is not a reputed name, then Lenders may not consider LRD facility. However, a Loan Against Property (LAP) may be availed in such cases.
- **Key Point:** LRD offers businesses the ability to leverage their existing rental agreements for immediate liquidity. This facility enables them to raise funds for various purposes, such as expansion, reinvestment in business, or to meet short-term financial needs, without the need to sell the property or disturb the ongoing lease arrangements.

**The process is explained in fig 2.*

C. Structured Finance

i. Private Credit Funding

- **Modus Operandi:** For structured use cases where

Banks are not allowed to lend due to regulatory framework, private credit funds come to the rescue. These funds can structure the transaction for all kinds of needs of borrowers. Typical end uses include – buyback of shares from exiting shareholder, delisting of the company, acquisition of another business, funding stuck real estate projects, one-time settlement funding, etc.

- **Interest Rate:** Interest rates vary significantly depending on the structure of the transaction. Typically, interest rates range in the mid-teens to high-teens p.a. Since the interest rates are high, the lenders structure the repayments to match the expected future cash flows of the borrower.
- **Security Required:** The security required for transactions differ on a case-to-case basis. Possible securities include - land, building, plant and machinery, listed co. shares, and even unlisted shares.
- **Active Lenders:** Many lenders like InCred Capital, Edelweiss, Modulus, Kotak Credit Funds, Baring Private Credit, UTI Alternates, are in this space.
- **Ideal For:** Ideal for special situations transactions where banks are unable to lend because of high risk or regulatory framework.
- **Not Suitable For:** May not be suitable for companies with unstable or declining business performance, as the interest rates are high and servicing of the same can become a challenge.
- **Key Point:** In case of structured credit requirements, private credit offers tailor-made solutions to borrowers.

ii. Venture Debt

- **Modus Operandi:** Venture Debt is a type of financing that allows early-stage, high-growth startups to borrow funds. Unlike traditional loans, which rely on collateral and credit history, venture debt is secured by the company's future cash flows and often the backing of existing equity investors. Typically, this form of debt is provided to startups that are in the growth or scaling phase and have recently raised equity funding. The loan is typically structured with interest payments and may include a warrant or equity kicker, allowing the lender to convert a portion of the debt into equity in the future.
- **Interest Rate:** Interest rates for venture debt are generally higher than traditional loans and is around 15% p.a. or higher, depending on the company's stage of growth, market conditions, and the financial health of the business. This is due to the higher risk taken on by the lender, given that the borrowers are often not yet profitable.
- **Security Required:** Venture debt is typically secured by the company's assets, such



as intellectual property, equipment, or future receivables. In some cases, the lender may require the company to pledge some equity or issue warrants, which gives the lender the right to convert a portion of the debt into shares at a later stage, usually when the company raises more equity capital or is acquired.

- **Active Lenders:** Few names of the leading venture debt providers in India are, Trifecta Capital, BlackSoil, Stride Ventures, Innoven Capital.

- **Ideal For:** High-growth startups that have raised venture capital and have recurring revenues in form of subscriptions.

- **Not Suitable For:** Not suitable for very early-stage startups that do not have a proven track record of revenue or customers, as the lenders usually require some level of market validation and revenue generation. Startups that are not backed by venture capital or institutional investors may also find it more difficult to access this form of financing.

- **Key Point:** Venture debt provides growing startups with access to capital without giving up significant equity. It is a valuable tool for businesses that need to extend their cash runway or accelerate their growth without diluting ownership in the company.

iii. Revenue-Based Financing (RBF)

- **Modus Operandi:** The Lender advances upfront capital after considering the borrower's monthly sales and unit economics. Repayments are defined as a percentage of sales, so the EMI burden automatically reduces during slow months and accelerates during peak seasons.

“Tailored debt products represent a transition from “loan as a product” to “credit as a service”—adaptive and responsive to business realities. Institutions that successfully integrate data, technology, and risk governance will define the next phase of banking beyond traditional boundaries.”

- **Interest rate:** Lenders typically charge a flat fee (typically 6% to 12% on the principal). This rate may seem deceptively low, but the effective interest rate usually translates to 18% and higher.

- **Security required:** Lenders secure their capital by setting up an escrow mechanism or an auto-debit mandate directly integrated with the borrower's payment gateways or nodal bank accounts.

- **Active lenders:** Specialized fintech platforms like Velocity, GetVantage, and Recur Club, help in arranging these facilities.

- **Ideal For:** Digital-first businesses with high gross margins and predictable recurring revenues. This includes D2C brands, B2B SaaS platforms, e-commerce sellers.

- **Not Suitable For:** Pre-revenue startups, traditional brick-and-mortar stores with sales collections in cash, low-margin B2B trading firms, or project-based businesses that experience massive, lumpy cash inflows.

- **Key Point:** RBF results in zero equity dilution and no board seats.

Real Life Case Studies

■ Case Study 1

Borrower is engaged in the manufacturing of steel bars. The borrower had availed of cash credit facility from multiple banks. As the business grew, managing the documentation with multiple banks became a hassle. For every enhancement in sanctioned limits, the banks would have a long-drawn process which would impact the business growth. To complement this cash credit facility, the Borrower started with Rs. 5 cr of unsecured bill discounting facility from TReDS platform. In a few years, this facility was enhanced to Rs. 300+ cr by lenders on the TReDS platform.

■ Case Study 2

Borrower is engaged in the manufacturing of consumer electronics. Borrower had a large balance of GST ITC on their books due to earlier capex which impacted short-term liquidity. Borrower entered into sale and leaseback transactions with lenders for the machines owned by Borrower. By selling the machines to the lender, the Borrower collected GST on output which was set-off against GST ITC balance and resulted in





immediate liquidity relief for the Borrower's cashflows.

■ Case Study 3

Borrower is engaged in the business of manufacturing of nutraceuticals. The promoters wanted to buy out the stake of their JV partner. So, promoters approached private credit fund for funding the transaction and used proceeds to give exit to JV partner. The transaction was backed by unlisted shares of the Borrowing company. The repayment event was tied to the listing of the Borrower company.

Regulatory and Policy Considerations

While the alternative debt products are filling a critical gap in the market

for the borrowers, this shift puts the regulator in a tricky spot. RBI has to balance rapid innovation with systemic protection, weigh seamless data access to lenders against borrower's privacy concerns, and figure out how new credit models fit into traditional capital adequacy and prudential norms.

RBI and the Government of India have been proactively laying the foundation through digital public infrastructure initiatives such as the Account Aggregator framework, UPI, GSTN integration, etc. and the e₹ (Central Bank's Digital Currency).

RBI recently launched ULI (Unified Lending Interface), a platform designed to do for credit exactly what UPI did for payments. Through ULI, lenders get instant, seamless access to a massive variety of data required for underwriting, including state-level land records, satellite imagery (useful for agricultural credit), tax filings and KYC details, and Account Aggregator financial data. As programmable money and smart covenants gain wider acceptance through the e₹ (Central Bank's Digital Currency) and tokenization, lenders will gain even more precise, automated tools to manage risks.

These initiatives have created a strong foundation for the banking

ecosystem and will enable highly scalable and tailored debt solutions in the times to come.

Conclusion

In conclusion, as India's business landscape continues to evolve, so must the financing strategies that support its growth. While traditional bank loans have their place, alternative financing models like trade finance, equipment leasing, structured finance, and revenue-based financing offer businesses the flexibility and agility needed to thrive in a dynamic market. Tailored debt products represent a transition from "loan as a product" to "credit as a service"—adaptive and responsive to business realities. Institutions that successfully integrate data, technology, and risk governance will define the next phase of banking beyond traditional boundaries. By understanding the nuances of these options, business leaders and financial managers can make more informed decisions, ensuring they access the right capital at the right time to fuel growth, manage risk, and capitalize on new opportunities.

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