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How Do Indian Firms With Long Collection Cycles Handle MSME Payment Rules, and Does Receivables Financing Help?

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Abstract : *Indian companies operating in capital-intensive industries often experience long collection cycles because of extended project execution periods, milestone-based billing, customer approval procedures and delayed payments. At the same time, the Micro, Small and Medium Enterprises Development (MSMED) Act, 2006 requires buyers to make payments to eligible micro and small enterprises within prescribed timelines.*

The introduction of Section 43B(h) of the Income-tax Act, effective from Assessment Year 2024–25, has further increased the importance of timely payments by linking the tax deductibility of certain outstanding MSME dues to actual payment.

This study examines how Indian public-sector and capital-goods companies manage the relationship between receivables, working capital and MSME payment obligations. It considers a selected group of nine listed companies, including BEML Limited, Bharat Electronics Limited, Hindustan Aeronautics Limited, Bharat Heavy Electricals Limited, Engineers India Limited, RITES Limited, Garden Reach Shipbuilders and Engineers Limited, Cochin Shipyard Limited and Mazagon Dock Shipbuilders Limited.

The study uses secondary information from annual reports, financial statements, statutory provisions and Reserve Bank of India publications. It also examines receivables financing mechanisms such as factoring, invoice discounting and the Trade Receivables Discounting System (TReDS).

The study indicates that receivables financing can improve liquidity by converting eligible invoices into immediate funds. However, its effectiveness depends on financing costs, customer acceptance, invoice quality and the company's working capital policies.

Keywords: MSME Payments, Receivables Management, Working Capital Management, Factoring, TReDS, Section 43B(h), Liquidity Management.

I. INTRODUCTION

Working capital management plays an important role in maintaining the financial stability of an organisation. Companies must ensure that sufficient funds are available to meet their regular operating expenses, supplier payments, employee costs and other financial obligations.

In industries such as defence manufacturing, heavy engineering, shipbuilding, infrastructure and capital goods, companies frequently operate with long business and collection cycles. Products and projects may require substantial investments in raw materials, components, labour and production facilities before payments are received from customers.

Government departments, public-sector undertakings and large corporate customers may follow milestone-based payment procedures. As a result, companies can experience a difference between the timing of cash inflows and cash outflows.

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An important challenge arises when companies receive payments from their customers after a considerable period but are required to settle payments to their micro and small enterprise suppliers within the timelines prescribed under the MSMED Act, 2006.

The introduction of Section 43B(h) has made this issue more significant from a tax perspective. Delayed payments beyond the statutory period may result in the related expenditure being allowed as a deduction only when actually paid.

Consequently, companies need to develop effective working capital strategies that balance liquidity requirements with statutory compliance.

Receivables financing has emerged as one possible solution. Through factoring, invoice discounting and TReDS, companies may obtain funds against eligible outstanding invoices rather than waiting until the customer makes the payment.

This research therefore examines whether receivables financing can help Indian companies manage long collection cycles while meeting their MSME payment obligations.

II. STATEMENT OF THE PROBLEM

Companies operating in capital-intensive industries often have significant amounts of funds blocked in trade receivables. However, their suppliers, particularly micro and small enterprises, depend on timely payments to maintain their operations.

This creates a working capital mismatch.

Companies must manage the following competing requirements:

- Collect outstanding amounts from customers without unnecessary delays.
- Make payments to eligible MSME suppliers within the statutory timelines.
- Maintain sufficient cash and bank balances for daily operations.
- Avoid excessive short-term borrowing and financing costs.
- Ensure compliance with the MSMED Act and applicable income-tax provisions.

The central problem addressed in this study is whether receivables financing can reduce this mismatch and improve the financial position of companies with long collection cycles.

III. OBJECTIVES OF THE STUDY

1. To understand the impact of long receivables collection cycles on working capital management.
2. To examine the MSME payment provisions under the MSMED Act, 2006.
3. To analyse the implications of Section 43B(h) on corporate payment practices.
4. To study the receivables and MSME payable disclosures of selected Indian companies.
5. To understand the role of factoring, invoice discounting and TReDS in managing liquidity.
6. To evaluate whether receivables financing can support timely MSME payments.
7. To suggest suitable working capital management practices for companies operating in capital-intensive industries.

IV. SCOPE OF THE STUDY

The study focuses on selected listed Indian public-sector and capital-goods companies that operate in engineering, defence manufacturing, infrastructure and shipbuilding sectors.

The proposed sample consists of nine companies:

Company	Industry
BEML Limited	Heavy engineering and defence
Bharat Electronics Limited	Defence electronics
Hindustan Aeronautics Limited	Aerospace and defence
Bharat Heavy Electricals Limited	Heavy electrical engineering

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Engineers India Limited	Engineering consultancy
RITES Limited	Infrastructure consultancy
GRSE Limited	Shipbuilding and defence
Cochin Shipyard Limited	Shipbuilding
Mazagon Dock Shipbuilders Limited	Defence shipbuilding

The proposed research period is FY 2020–21 to FY 2024–25, subject to the availability and comparability of annual-report disclosures.

The study focuses on:

- Trade receivables and their ageing.
- Trade payables due to micro and small enterprises.
- Working capital management.
- MSME payment compliance.
- Receivables financing practices.

The research is limited to publicly available secondary information. It does not assume that every company in the sample uses factoring or TReDS unless such use is disclosed in its annual report.

V. REVIEW OF LITERATURE

5.1 Working Capital Management

Working capital management involves managing current assets and current liabilities to maintain the operational efficiency of an organisation.

Trade receivables form an important component of current assets. When customers delay payments, the company may experience liquidity pressure even when it reports satisfactory revenue and profits.

Efficient receivables management requires proper credit assessment, invoice monitoring, collection procedures and follow-up mechanisms.

5.2 MSMED Act, 2006

The Micro, Small and Medium Enterprises Development Act, 2006 provides a statutory framework for protecting eligible micro and small enterprise suppliers against delayed payments.

Section 15 requires buyers to make payments within the agreed period, which cannot exceed 45 days from acceptance or deemed acceptance. Where there is no written agreement, payment must be made within the appointed-day framework, generally 15 days.

Section 16 provides for compound interest with monthly rests at three times the RBI-notified bank rate when the buyer fails to make payment within the prescribed period.

These provisions encourage timely payments and provide protection to smaller suppliers.

5.3 Section 43B(h) of the Income-tax Act

The Finance Act, 2023 introduced Section 43B(h), which became applicable from 1 April 2024.

Under this provision, payments due to micro and small enterprises beyond the time limit specified under Section 15 of the MSMED Act are allowed as a tax deduction only in the year of actual payment.

The normal relaxation available under the first proviso to Section 43B does not apply to these payments.

Therefore, companies must carefully monitor the payment timelines of eligible MSME suppliers to avoid tax-related consequences.

5.4 Receivables Financing

Receivables financing enables businesses to obtain funds against their outstanding invoices.

Factoring involves the assignment of eligible receivables to a factor in exchange for funds. Invoice discounting provides finance against invoices, subject to the agreed financing arrangement.

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TReDS is an electronic platform that enables eligible MSME suppliers to obtain financing against accepted trade receivables through multiple financiers.

These mechanisms can improve liquidity and reduce dependence on conventional working capital borrowing.

VI. RESEARCH METHODOLOGY

6.1 Research Design

The study follows a descriptive and analytical research design.

It examines the financial disclosures of selected companies and evaluates the relationship between receivables management, MSME payment obligations and financing alternatives.

6.2 Sources of Data

The research is based entirely on secondary data collected from:

1. Annual reports of selected companies.
2. Standalone and consolidated financial statements.
3. Notes to accounts relating to trade receivables and trade payables.
4. Reserve Bank of India publications and directions.
5. Ministry of Finance notifications and circulars.
6. India Code and the MSMED Act, 2006.

6.3 Proposed Financial Indicators

The following indicators are used to understand the financial position of the selected companies.

1. Trade Receivables Turnover Ratio

Trade Receivables Turnover Ratio = Net Credit Sales / Average Trade Receivables

This ratio measures how efficiently a company collects its outstanding amounts.

2. Average Collection Period

Average Collection Period = 365 / Trade Receivables Turnover Ratio

A higher collection period may indicate that funds remain blocked in receivables for a longer duration.

3. MSME Payables

The outstanding dues to micro and small enterprises are examined to understand the company's payment obligations.

4. Receivables Ageing

Receivables are classified based on their outstanding period, including:

- Not due.
- Less than six months.
- Six months to one year.
- One to two years.
- More than two years.

5. Working Capital Position

The relationship between current assets and current liabilities is examined to understand the company's short-term liquidity position.

Note: The ratios should be calculated using consistent standalone or consolidated financial data for all five years. The publicly extracted observations below are not sufficient to calculate a complete nine-company five-year panel.

VII. DATA ANALYSIS AND INTERPRETATION

7.1 Analysis of Selected Companies

The following observations are drawn from the FY 2024–25 annual reports and comparative FY 2023–24 disclosures.

A. Bharat Heavy Electricals Limited (BHEL)

BHEL operates in the heavy electrical engineering sector and undertakes large industrial and infrastructure projects.

Its FY 2024–25 annual report disclosed the following trade receivables:

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Particulars	FY 2024–25	FY 2023–24
Gross trade receivables	₹19,086 crore	₹21,173 crore
Allowance for doubtful debts	₹10,155 crore	₹13,163 crore
Net trade receivables	₹8,931 crore	₹8,010 crore

The figures indicate that gross receivables declined, while net receivables increased during the period because the allowance for doubtful debts also reduced.

This demonstrates the importance of examining both gross and net receivables when evaluating collection efficiency.

Source: BHEL Annual Report 2024–25, Notes to Financial Statements.

B. Bharat Electronics Limited (BEL)

BEL operates in defence electronics and supplies products and systems to various government and defence customers.

Its annual report discloses outstanding dues to micro and small enterprises:

Particulars	FY 2024–25	FY 2023–24
MSME trade payables	₹173.38 crore	₹212.17 crore

The reduction in outstanding MSME dues indicates a lower year-end payable balance. However, this figure alone cannot establish whether all invoices were paid within the statutory period.

BEL's annual-report disclosures also refer to receivables subject to factoring arrangements and channel financing facilities. This provides a useful example of how receivables-related financing arrangements can form part of corporate liquidity management.

Source: BEL Integrated Annual Report 2024–25.

C. Engineers India Limited (EIL)

Engineers India Limited operates in engineering consultancy and project management services.

The annual report provides the following information:

Particulars	FY 2024–25	FY 2023–24
Outstanding MSME dues	₹82.39 crore	₹77.55 crore

The increase in outstanding MSME dues indicates that the year-end balance increased during the period.

The figures highlight the importance of monitoring MSME supplier liabilities along with customer collection patterns.

Source: Engineers India Limited Integrated Annual Report 2024–25.

D. Cochin Shipyard Limited

Cochin Shipyard operates in shipbuilding, ship repair and marine engineering.

The annual report disclosed:

Particulars	FY 2024–25	FY 2023–24
Outstanding MSME dues	₹95.04 crore	₹79.73 crore

The increase in outstanding dues highlights the importance of monitoring supplier obligations in project-intensive industries.

It also demonstrates why companies need to coordinate project receipts, procurement payments and working capital requirements.

Source: Cochin Shipyard Limited Annual Report 2024–25.

E. RITES Limited

RITES operates in infrastructure consultancy, transportation and related engineering services.

Its FY 2024–25 annual report disclosed the following outstanding MSME dues:

Particulars	FY 2024–25	FY 2023–24
Outstanding MSME dues	₹72.41 crore	₹29.83 crore

The increase in the reported year-end balance requires attention from a working capital management perspective.

However, the outstanding balance should not automatically be interpreted as overdue. The ageing schedule and statutory payment disclosures must also be examined.

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Source: RITES Limited Integrated Annual Report 2024–25.

7.2 Comparative Interpretation

The available disclosures indicate that MSME payable balances vary across companies and industries.

Some companies report reductions in year-end MSME dues, while others report increases.

These movements may be influenced by:

- Changes in procurement activity.
- Business and project execution cycles.
- Supplier composition.
- Invoice acceptance and certification.
- Payment scheduling.
- Changes in business volume.

It is important to distinguish between total outstanding MSME dues and overdue MSME dues. A closing payable balance may include invoices that have not yet reached their payment due dates.

Therefore, the ageing schedules and statutory disclosures provide additional information for assessing payment practices.

7.3 Receivables and MSME Payables: The Working Capital Mismatch

The selected industries often involve significant differences between customer collection periods and supplier payment requirements.

For example, a company may complete a project milestone and raise an invoice, but the customer may require additional time for inspection, certification and payment processing.

At the same time, the company may have to settle payments to eligible MSME suppliers within the prescribed period.

This creates a financing gap.

The company may need to use:

- Existing cash reserves.
- Short-term working capital facilities.
- Internal cash generation.
- Receivables financing.
- TReDS arrangements where applicable.

The choice depends on the cost and availability of funds, the quality of receivables and the company's overall financial position.

VIII. MAJOR FINDINGS OF THE STUDY

Based on the statutory framework and the available company disclosures, the following findings emerge:

1. Companies operating in capital-intensive sectors may experience working capital pressure because of project-based billing and extended customer collection processes.
2. The MSMED Act, 2006 creates a clear statutory obligation for buyers to make payments to eligible micro and small enterprises within the prescribed period.
3. Section 43B(h) increases the financial importance of timely MSME payments by affecting the timing of income-tax deductions.
4. Annual-report disclosures show that MSME payable balances vary across companies and from one financial year to another.
5. Total MSME dues should not be treated as overdue payments without examining the relevant ageing and statutory disclosures.
6. Receivables financing can improve the availability of funds by converting eligible outstanding invoices into liquidity.
7. TReDS provides an institutional platform for MSME suppliers to obtain financing from multiple financiers

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against accepted receivables.

8. Financing costs, invoice quality, customer acceptance and documentation requirements influence the effectiveness of receivables financing.
9. Receivables financing should be considered a working capital management tool rather than a replacement for efficient collection procedures and payment monitoring.

X. SUGGESTIONS AND RECOMMENDATIONS

Based on the findings, the following recommendations are suggested for companies operating in capital-intensive industries.

1. Strengthen Receivables Monitoring

Companies should regularly monitor outstanding customer invoices and identify delayed collections through ageing reports.

2. Establish an MSME Payment Tracking System

A separate system should be maintained to record MSME supplier registration details, invoice acceptance dates, contractual payment periods and payment due dates.

3. Improve Coordination Between Finance and Procurement

The finance and procurement departments should coordinate invoice verification, purchase order matching and payment approvals to avoid unnecessary delays.

4. Consider Receivables Financing

Companies experiencing temporary liquidity mismatches may evaluate factoring, invoice discounting and other suitable financing arrangements.

5. Increase TReDS Participation

Eligible MSME suppliers and corporate buyers should consider using TReDS to facilitate invoice financing and improve payment-related liquidity.

6. Evaluate Financing Costs

Before using receivables financing, companies should compare the financing cost with the potential benefits of avoiding liquidity shortages and other financial consequences.

7. Improve Cash Flow Forecasting

Companies should prepare short-term cash flow forecasts that consider expected customer receipts, supplier payments and other operational commitments.

8. Review Ageing Reports Regularly

Receivables and payables ageing reports should be reviewed periodically to identify potential financial risks and improve payment planning.

XI. CONCLUSION

Long collection cycles and statutory MSME payment obligations create an important working capital management challenge for Indian companies operating in capital-intensive industries.

Companies may experience delays in collecting payments from customers because of project execution requirements, certification procedures and contractual payment arrangements. However, eligible micro and small enterprise suppliers must receive payments within the prescribed statutory timelines.

The introduction of Section 43B(h) has further strengthened the importance of timely MSME payments by linking the tax deductibility of certain outstanding dues to actual payment.

The annual-report disclosures of selected companies demonstrate that MSME payable balances and receivables positions differ across industries and financial years. These disclosures highlight the importance of effective cash flow planning, supplier payment monitoring and receivables management.

Receivables financing offers a possible solution to the liquidity mismatch. Factoring, invoice discounting and TReDS can help businesses obtain funds against eligible receivables and improve their ability to meet short-term obligations.

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However, financing is not a substitute for efficient working capital management. Companies must also strengthen collection procedures, improve invoice processing and establish effective payment monitoring systems.

The study therefore concludes that receivables financing can support timely MSME payments and improve liquidity management, provided it is used strategically and its financing costs are carefully evaluated.

XII. LIMITATIONS OF THE STUDY

1. The study is based on secondary data obtained from publicly available sources.
2. The availability and presentation of MSME-related disclosures differ across companies.
3. Year-end outstanding balances do not independently establish whether payments were made within statutory timelines.
4. The available comparative observations cover FY 2023–24 and FY 2024–25 for the companies discussed; a complete five-year panel requires extraction and reconciliation of earlier annual reports.
5. The study does not establish a causal relationship between receivables financing and improved MSME payment compliance.
6. Company-specific financing arrangements are discussed only where supported by published disclosures.

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