Presentation on Banking & Finance - Exports

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Export Finance & Factoring Services

EXPORT FINANCE

- PCFC
- Post shipment finance
- Factoring Services

IMPORT FINANCING

- Buyer's & Supplier's Credit for Import of Cap goods/Raw Materials

LETTER OF CREDIT

- Types of LC
- Procedure

EXPORT FINANCE..

Pre-shipment Credit in Foreign Currency (PCFC)

- With a view to making credit available to exporters at internationally competitive rates, authorised dealers have been permitted to extend Pre-shipment Credit in Foreign Currency (PCFC) to exporters for domestic and imported inputs of exported goods at LIBOR/EURO LIBOR/EURIBOR related rates of interest as detailed below.

Scheme

- The scheme is an additional window for providing pre-shipment credit to Indian exporters at internationally competitive rates of interest. It will be applicable to only cash exports. The instructions with regard to Rupee Export Credit apply to export credit in Foreign Currency also mutatis mutandis, unless otherwise specified.
- The exporter will have the following options to avail of export finance:-
- to avail of pre-shipment credit in rupees and then the post-shipment credit either in rupees or discounting/rediscounting of export bills under EBR Scheme
- to avail of pre-shipment credit in foreign currency and discount/rediscounting of the export bills in foreign currency under EBR Scheme
- to avail of pre-shipment credit in rupees and then convert drawals into PCFC at the discretion of the bank.

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PCFC (PACKING CREDIT IN FOREIGN CURRENCY

Who is eligible for pre-shipment credit?

- A **pre requisite** to avail of pre-shipment financing is that the Exporter should have a credit facility in place with a bank
- An exporter who holds an export order or *Letter of Credit* (LC) in his own name to perform an export contract can avail of pre-shipment credit.
- Pre-shipment finance can be availed of only for the specific purpose of procuring raw materials / purchasing / manufacturing / processing / transporting / warehousing / packing and shipping the goods meant for export

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PCFC (PACKING CREDIT IN FOREIGN CURRENCY)

How much financing can I as an exporter get?

- This is 'need based financing', - which means that banks will lend an amount to you after factoring in a particular margin (this margin is calculated as a percentage of the value of the order)
- The banking practice is that the exporter can obtain 90% of the FOB value of the order **or** 75% of the CIF value of the order.
- The RBI has allowed banks to grant this funding ***at a concession*** for a maximum period of 180 days. This period can be extended by the bank without referring to RBI for a further period of 90 days. Banks grant this extension in cases where the exporter faces genuine hardships in completing his order

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PCFC (PACKING CREDIT IN FOREIGN CURRENCY)

What are the ways in which I can liquidate the PCFC?

- The pre-shipment facility can be liquidated by proceeds of export bills negotiated, purchased or discounted
- Another interesting thing is that, once the goods are shipped out and documents tendered to the bank, the pre-shipment advance is converted to post-shipment advance

Other Factors

- The rate of interest on PCFC is linked to London Interbank Offered Rate (LIBOR). Average total cost of the interest will range between LIBOR + 500 bps to 700 bps i.e., LIBOR + 5% to 7%
- The exporter has freedom to avail PCFC in convertible currencies like USD, Pound, Sterling, Euro, Yen etc. However, the risk associated with the cross currency truncation is that of the exporter

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Choice of currency

- The facility may be extended in one of the convertible currencies viz. US Dollars, Pound Sterling, Japanese Yen, Euro, etc.
- To enable the exporters to have operational flexibility, it will be in order for banks to extend PCFC in one convertible currency in respect of an export order invoiced in another convertible currency, for example, an exporter can avail of PCFC in US Dollar against an export order invoiced in Euro. The risk and cost of cross currency transaction will be that of the exporter.
- Banks are permitted to extend PCFC for exports to ACU countries.
- The applicable benefit to the exporters will accrue only after the realisation of the Export bills or when the resultant export bills are rediscounted on 'without recourse' basis.

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Source of Funds for banks

- The foreign currency balances available with the bank in Exchange earners Foreign Currency (EEFC) Accounts, Resident Foreign Currency Accounts RFC(D) and Foreign Currency (Non-Resident) Accounts (Banks) Scheme could be utilised for financing the pre shipment credit in foreign currency.
- Banks are also permitted to utilise the foreign currency balances *available under* Escrow Accounts and Exporters Foreign Currency Accounts for the purpose, subject to ensuring that the requirements of funds by the account holders for permissible transactions are met and the limit prescribed for maintaining maximum balance in the account under broad based facility is not exceeded.

Foreign currency borrowings

- In addition, banks may arrange for borrowings from abroad. Banks may negotiate lines of credit with overseas banks for the purpose of grant of PCFC to exporters without the prior approval of the RBI, provided the rate of interest on the borrowing does not exceed 175 bps points over six months LIBOR•/EURO LIBOR/EURIBOR.

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- Banks should draw on the line of credit arranged only to the extent of loans granted by them to the exporters under the PCFC. However, where the overseas bank making available line of credit stipulates a minimum amount for drawals which should not be very large, the small unutilised portion may be managed by the bank within its foreign exchange position and Aggregate Gap Limit (AGL). Similarly, any pre-payment by the exporter may also be taken within the foreign exchange position and AGL.
- Banks may avail of lines of credit from other banks in India if they are not in a position to raise loans from abroad on their own, subject to the condition that ultimate cost to exporter should not exceed 350 basis points above LIBOR/EURO LIBOR/EURIBOR, provided the bank does not have a branch abroad. The spread between the borrowing & lending bank is left to the discretion of the banks concerned.

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- In case the exporters have arranged for the suppliers' credit for procuring imported inputs, the PCFC facility may be extended by the banks only for the purpose of financing domestic inputs for exports.

- Banks are also permitted to use foreign currency funds borrowed in terms of para. 4.21 Notification No. FEMA.3/2000-RB, dated May 3, 2000 as also foreign. currency funds generated through buy-sell swaps in the domestic FOREX market for granting pre-ships credit in Foreign Currency *(PCFC)* subject to adherence to Aggregate Gap Limit (AJL) prescribed by RBI (FED).

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Spread

- The spread for pre-shipment credit in foreign currency will be related to the international reference rate such as LIBOR/EURO LIBOR/EURIBOR (6 months).
- The lending rate to the exporter should not exceed 350 basis points over LIBOR/lam LIBOR/EURIBOR, excluding withholding tax.
- LIBOR/EURO LIBOR/EURIBOR rates are normally available for standard period of 1, 2, 3, 6 and 12 months. Banks may quote rates on the basis of standard period if PCFC is required for periods less than 6 months. However, while quoting rates for non-standard period, banks should ensure that the rate quoted is below the next upper standard period rate.
- Banks may collect interest on PCFC at monthly intervals against sale of foreign currency or out of balances in EEFC accounts or out of discounted value of the export bills if PCFC is liquidated.

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Period of Credit

- The PCFC will be available for a maximum period of 360 days. Any extension of the credit will be subject to the same terms and conditions as applicable for extension of rupee packing credit and it will also have additional interest cost of 200 basis points above the rate for the initial period of 180 days prevailing at the time of extension.
- Further extension will be subject to the terms and conditions fixed by the bank concerned and if no export takes place within 360 days, the PCFC will be adjusted at T.T. selling rate for the currency concerned. In such cases, banks can arrange to remit foreign exchange to repay the loan or line of credit raised abroad and interest without prior permission of RBI.
- For extension of PCFC within 180 days, banks are permitted to extend on a fixed roll over basis of the principal amount at the applicable LIBOR/EURO LIBOR/EURIBOR rate for extended period plus permitted margin 350 basis points over LIBOR/EURO LIBOR/EURIBOR.

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Disbursement of PCFC

- In case full amount of PCFC or part thereof is utilised to finance domestic input, banks may apply appropriate spot rate for the transaction.
- As regards the minimum lots of transactions, it is left to the operational convenience of banks to stipulate the minimum lots taking into account the availability of their own resources. However, while fixing the minimum lot, banks may take into account the needs of their small customers also.
- Banks should take steps to streamline their procedures so that no separate sanction is needed for PCFC once the packing credit limit has been authorised and the disbursement is not delayed at the branches.

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<u>Liquidation of PCFC Account</u>

- PCFC can be liquidated out of proceeds of export documents on their submission for discounting/rediscounting under the EBR Scheme detailed, or by grant of foreign currency loans (DP Bills). Subject to mutual agreement between the exporter and the banker, it can also be repaid/prepaid out of balances in EEFC A/c as also from rupee resources of the exporter to the extent have actually taken place.

Packing credit in excess of FOB value

- In certain cases (viz., agro based products like HPS groundnut, defatted & deoiled cakes, tobacco, pepper, cardamom, cashew nuts etc) where packing credit required is in excess of FOB value, PCFC would be available only for exportable portion of the produce

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Cancellation/Non execution of Export Order

- In case of cancellation of the export order for which the PCFC was availed of by the exporter from the bank or if the exporter is unable to execute the export order for any reason, it will be in order for the exporter to repay the loan together with accrued interest thereon, by purchasing foreign exchange (principal + interest) from domestic market through the bank. In such cases, interest will be payable in the rupee equivalent of principal amount at the rate applicable to EPC at pre-shipment stage plus a penal rate of interest from the date of advance after adjustment of interest of PCFC already recovered.
- It will also be in order for the banks to remit the amount to the overseas bank, provided the PCFC was made available to exporter from the line of credit obtained from that bank.
- Banks may extend PCFC to such exporters subsequently, after ensuring that the earlier cancellation of PCFC was due to genuine reasons.

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<u>Running Account Facility for All Commodities</u>

- Banks are permitted to extend the 'Running Account' facility under the PCFC Scheme to exporters for all commodities, on the lines of the facility available under rupee credit, to the following conditions:-
- (a) The facility may be extended provided the need for Running Account' facility has been established by the exporters to the satisfaction of the bank.
- (b) Banks may extend the facility only to those exporters whose track record has been good.
- (c) in all cases, where pre-shipment credit 'Running Account' facility has extended, the L/Cs or firm orders should be produced within a reasonable per time.
- (d) The PCFC will be marked-off on the 'First-in-First-Out' basis.
- (e) PCFC can also be marked-off with proceeds of export documents against which no PCFC has been drawn by the exporter.

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Forward Contracts

- In terms of paragraph 5.1.2 (iii) of FEMA rules, PCFC can be extended in any of the convertible currencies in respect of an export order invoiced in another convertible currency. Banks are also permitted to allow an exporter to book forward contract on the basis of confirmed export order prior to availing of PCFC and cancel the contract (for portion of drawal used for imported inputs) at prevailing market rates on availing of PCFC.
- (ii) Banks are permitted to allow customers to seek cover in any permitted currency of their choice- which is actively traded in the market, subject to ensuring that the customer is exposed to exchange risk in a permitted currency in the underlying transaction.
- (iii) While allowing forward contracts under the scheme, banks may ensure compliance of the basic Exchange Control requirement that the customer is exposed to an exchange risk in the underlying transaction at different stages of the export finance.

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<u>Sharing of EPC under PCFC</u>

- The rupee export packing credit is allowed to be shared between an export order holder and the manufacturer of the goods to be exported.
- Similarly, banks may extend PCFC also to the manufacturer on the basis of the disclaimer from the export order holder through his bank. PCFC granted to the manufacturer can be repaid by transfer of foreign currency from the export order holder by availing of PCFC or by discounting of bills. Banks should ensure that no double financing is involved in the transaction and the total period of packing credit is limited to the actual cycle of production of the exported goods.
- The facility may be extended where the banker or the leader of consortium of banks is the same for both the export order holder and the manufacturer or, the banks concerned agree to such an arrangement where the bankers are different for export order holder and manufacturer. The sharing of export benefits will be left to the mutual agreement b/w the export order holder & the manufacturer.

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Supplies from One EOU/EPZ/SEZ Unit to another EOU/EPZ/SEZ Unit

- PCFC may be made available to both the supplier EOU/EPZ/SEZ unit and the receiver EOU/EPZ/SEZ.
- The PCFC for supplier EOU/EPZ/SEZ unit will be for supply of raw materials/components of goods which will be further processed and finally exported by receiver EOU/EPZJSEZ unit.
- The PCFC extended to the supplier EOU/EPZ/SEZ unit will have to be liquidated by receipt of foreign exchange from the receiver EOU/EPZ/SEZ unit, for which purpose, the receiver EOU/EPZ/SEZ unit may avail of PCFC. The stipulation regarding liquidation of PCFC by payment in foreign exchange will be met in such cases not by negotiation of export documents but by transfer of foreign exchange from the banker of the receiver EOU/EPZ/SEZ unit to the banker of supplier EOU/EPZ/SEZ unit. Thus, there will not normally be any post-shipment credit in the transaction from the supplier EOU/EPZ/SEZ unit's point of view.
- In all such cases, it has to be ensured by banks that there is no double financing for the same transaction. PCFC to receiver EOU/ EPZ/ SEZ unit will be liquidated by discounting of export bills

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POST –SHIPMENT EXPORT CREDIT IN FOREIGN CURRENCY

- Banks may utilise the foreign exchange resources available with them in Exchange Earners Foreign Currency Accounts (EEFC), Resident Foreign Currency Accounts (RFC), Foreign Currency (Non-Resident) Accounts (Banks) Scheme, to discount usance bills and retain them in their portfolio without resorting to rediscounting. Banks are also allowed to rediscount export bills abroad at rates linked to international interest rates at post-shipment stage.
- It will be comparatively easier to have a facility against bills portfolio (covering all eligible] bills) than to have rediscounting facility abroad on bill by bill basis; There will, however, be no bar if rediscounting facility on bill to bill basis is arranged by a bank in case of any particular exporter, especially for large value transactions.
- Banks may arrange a ;Bankers Acceptance Facility; (BAF) for rediscounting the export bills without any margin and duly covered by collateralised documents.

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- Each bank can have its own BAF limit(s) fixed with an overseas bank or a rediscounting agency or an arrangement with any other agency such as factoring agency (in case of factoring arrangement, it should be on without recourse' basis only).
- The exporters, on their own, can arrange for themselves a line of credit with an overseas bank or any other agency (including a factoring agency) for discounting their export bills direct subject to the following conditions:-
- (a) Direct discounting of export bills by exporters with overseas bank and/or any other agency will be done only through the branch of an authorized dealer designated by him, for this purpose.
- (b) Discounting of export bills will be routed through designated bank/authorized dealer from whom the packing credit facility has been availed of. In case, these are routed through any other bank, the latte! will first arrange to adjust the amount outstanding under packing credit with the concerned bank out of the proceeds of the rediscounted bills.
- The limits granted to banks by overseas banks/discounting agencies under BAF will not be reckoned for the purpose of borrowing limits fixed by RUT (FED) for them.

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Eligibility Criteria

- The Scheme will cover mainly export bills with usance period up to 180 days from the date of shipment (inclusive of normal transit period and race period, if any). There is, however, no bar to include demand bills if overseas institution has no objection to it.
- In case borrower is eligible to draw usance bills for periods exceeding 180 days as per the extant instructions of FED, Post-shipment Credit under the EBR may be provided beyond 180 days.
- The facility under the Scheme of Rediscounting may be offered in any convertible currency.
- Banks are permitted to extend the EBR facility for exports to ACU countries.

EXPORT FINANCE..

Export Credit Performance

- Only the bills rediscounts abroad 'with recourse' basis an~ outstanding will be taken into a/c for the purpose of export credit performance. The bills rediscounted abroad 'without recourse' will not count for the export credit performance
- Bills rediscounted 'with recourse' in the domestic market could get reflected only in the case of the first bank discounting the bills as that bank alone will have recourse to the exporter and the bank rediscounting will not reckon the amount as export credit.

EXPORT FINANCE..

Gold Card Scheme for exporters

The Government (Ministry of Commerce and industry), in consultation with RBI had indicated in the Foreign Trade Policy 2003-04 an 09-14 that a Gold Card Scheme would be worked out by RBI for creditworthy exporters with good track record for easy availability of export credit on best terms. Accordingly, in consultation with select banks and exporters, a Gold Card Scheme was drawn up. The Scheme envisages certain additional benefits based on the record of performance of the exporters. The Gold Card holder would enjoy simpler and more efficient credit delivery mechanism in recognition of his good track record.

- **Objectives of the scheme :**
- Gold Card holder exporters, depending on their track record and credit worthiness, will be granted better terms of credit including rates of interest than those extended to other exporters by the bank.
- Applications for credit will be processed at norms simpler and under a process faster than for other exporters.

EXPORT FINANCE..

Gold Card Scheme for exporters

The limits will be sanctioned for a period of 3 years with a provision for automatic renewal subject to fulfillment of the terms and conditions of sanction

- Gold Card holders will be given preference for grant of packing credit in foreign currency (PCFC)
- The charges schedule and fee-structure in respect of services provided by banks to exporters under the Scheme will be relatively lower than those provided to other exporters.
- Since the bonafides of the Gold Card holder is already established based on credit worthiness and track record, the norms in respect of security and collaterals may be relaxed while granting export credit under the Gold Card Scheme
- The bank may consider any other facility / benefit to the exporters subject to the fulfillment of extant rules and regulations applicable to export finance.
- **2. Eligibility :**
- All credit worthy exporters with good track record will be eligible for the Gold Card.

EXPORT FINANCE..

Gold Card Scheme for exporters

2. Eligibility :

- All credit worthy exporters with good track record will be eligible for the Gold Card.
- Exporters whose accounts have been classified as 'Standard' continuously for a period of three years and there are no irregularities / adverse features in the conduct of the accounts will be considered as having good track record.
- The scheme will not be applicable to those exporters who are blacklisted by ECGC or included in RBI's defaulter's list / caution list or making losses for the past 3 years or having overdue bills in excess of 10 % of the current years turnover.
- Gold Card under the Scheme will be issued to all eligible exporters including those in the small and medium sectors who satisfy the laid down conditions.

EXPORT FINANCE..

Gold Card Scheme for exporters

The time frame for disposal of applications received for sanction of credit under the scheme will be as follows:

- For disposal of fresh applications : 25 days
- Renewal of limit: 15 days
- A stand-by limit of not less than 20 % of the assessed limit, subject to a maximum of Rs.5 crores, may be additionally made available to borrowers having a rating of 3 and above to facilitate meeting urgent credit needs for executing sudden orders.
- The exporter's record of performance will be reviewed periodically on half yearly intervals from sanctioning of the limits with a view to pass on the benefit of better terms and conditions including rate of interest for better performance.

EXPORT FACTORING..

Factoring is a financial transaction whereby a business sells its accounts receivable (i.e., invoices) to a third party (called a factor) at a discount. In "advance" factoring, the factor provides financing to the seller of the accounts in the form of a cash "advance," often 85% of the purchase price of the accounts, with the balance of the purchase price being paid, net of the factor's discount fee (commission) and other charges, upon collection. In "maturity" factoring, the factor makes no advance on the purchased accounts; rather, the purchase price is paid on or about the average maturity date of the accounts being purchased in the batch.

EXPORT FACTORING..

- Factoring differs from a bank loan in several ways. The emphasis is on the value of the receivables (essentially a financial asset), whereas a bank focuses more on the value of the borrower's total assets, and often considers, in underwriting the loan, the value attributable to non-accounts collateral owned by the borrower also, such as inventory, equipment, and real property, i.e., matters beyond the credit worthiness of the firm's accounts receivables and of the account debtors (obligors) thereon.
- Secondly, factoring is not a loan – it is the purchase of a financial asset (the receivable).
- Third, a nonrecourse factor assumes the "credit risk", that a purchased account will not collect due solely to the financial inability of account debtor to pay.
- It is different from forfaiting in the sense that forfaiting is a transaction-based operation involving exporters in which the firm sells one of its transactions, while factoring is a Financial Transaction that involves the Sale of any portion of the firm's Receivables

Import Financing – Short Term ECB

Short Term ECB is the credit availed by an Importer from offshore branches of the banks for payment of his Imports on due date. Importers access to cheaper foreign funds linked to LIBOR rates as against local funding which are costly compared to LIBOR rates.

Salient Features:

- Policy guidelines by RBI – Applicable to all banks
- Capital Goods Import – Credit Period for Max of 2 years. Interest linked to Libor which is presently (all in cost) works out to 6 to 7%
- Raw Material Import - Credit Period for Max of 180 days. Interest linked to Libor which is presently (all in cost) works out to 6 to 7%
- Term Loan appraisal & sanction by the local bank, fund release by the offshore branch

Import Financing – Short Term ECB Contd....

- Interest Saving of around 6% ~ 8% pa
- Principal outflow at the end of 2^{nd} year in case of Capital Goods Import. Interest paid every 180 days.
- Substantial Savings in Cashflows as principal amount is paid in bullet at the end of 2^{nd} year.
- Option to make part payments of principal amount
- Change in working capital cycle

Import Financing – Buyers Credit Contd....

Interest Cost Reduction thru Buyers Credit Option for Import Payments !

Example - Import Payment of Rs 50.00 lacs for Import of Machinery

Normal Import Payment Route		Buyers Credit' Payment Route
5000000	Payment Due	5000000
0	Credit Days	365 Days
On due date Rs 5000000 is paid by TT to the foreign supplier	Payment Process	8 days before the due date Buyers Credit arrangement is made thru your local bank. The Offshore branch will make the payment to your foreign supplier on the due date
Rs 1500000/- is debited to your CC A/c	Payment Debit	Under the Buyers Credit Arrangement the SLC / LC / BG limits are earmarked or blocked for Rs 5000000/- for having issued LOU / LOC to the foreign bank
Interest @ 13% is charged for TL limits	Interest Rate	Interest is charged by the foreign bank @ 6.0% (Max) which is nothing but LIBOR + 200 bps (max) + bank charges + forward contract charges
Interest Cost is..		Interest Cost is..
650000	**Interest for 365 days**	**300000**
Your LC Limit is debited to your Term Loan A/c and interest is charged	**Interest Savings !** **350000**	**Your LC limit is utilised for issuing the Letter of Undertaking for the Foreign Branch**

Letters of Credit

- **What is Letter of Credit [LC]?**
  - Under letter of credit mechanism the Bank lends its name to the buyer’s reputation by undertaking on buyer's behalf that it will pay the seller provided seller presents its claim/documents strictly in terms of the undertaking given by the Bank on behalf of buyer.
  - As per the UCPDC 600 definition of LC is given as under

    “Credit” means any arrangement, however name and described, that is irrevocable and thereby constitutes a definite undertaking of the issuing bank to honour a complying presentation.

Letters of Credit

- **What is Letter of Credit [LC]?**

  - **Honour means:**
    a. To pay at sight if the credit is available by sight payment.
    b. To incur a deferred payment undertaking and pay at maturity if the credit is available by deferred payment.
    c. To accept a bill of exchange ('draft') drawn by the beneficiary and pay at maturity if the credit is available by acceptance.

  - **Presentation** means either the delivery of documents under a credit to the issuing bank or nominated Bank or the documents so delivered.

Letters of Credit

- **Why an exporter should insist on LC as a payment term?**

  - LC open doors to international trade by providing a **secure mechanism** for payment upon fulfillment of contractual obligations.

  - A bank is substituted for the buyer as the **source of payment** for goods or services exported.

  - The issuing bank **undertakes to make payment**, provided all the terms and conditions stipulated in the LC are complied with.

Letters of Credit

- **Why an exporter should insist on LC as a payment term?**

  - **Financing opportunities**, such as pre-shipment finance secured by a LC and/or discounting of accepted drafts drawn under LC, are available in many countries.

  - Bank expertise is made available to help complete trade transactions successfully.

  - Payment for the goods shipped can be remitted to your own bank or a bank of your choice.

Letters of Credit

- **How it is beneficial to the importer?**
  - Payment will only be made to the seller when the terms and conditions of the letter of credit are complied with.
  - The importer can **control the shipping dates** for the goods being purchased.
  - Cash resources are not tied up.

Letters of Credit

- **Who are the parties to the LC?**
  - Applicant/Buyer - on whose behalf LC is opened [importer]
  - Beneficiary/Seller - in whose favour the LC is opened [exporter]
  - Opening Bank - which opens/establishes the LC
  - Advising Bank - which advises the LC
  - Confirming Bank - which confirms the LC
  - Negotiating Bank - normally beneficiary's bank
  - Reimbursing Bank - which normally maintains nostro account of the opening bank and reimburses the negotiating bank.

Letters of Credit

- **Types of LC:**
  - **Irrevocable LC:**
    - Cannot be amended or cancelled without the consent of the issuing bank, the confirming bank, if any, and the beneficiary.
  - **Confirmed Credit:**
    - When a confirming bank has added its confirmation by way of an additional undertaking to make payment at the specific request of the Issuing Bank, it becomes a confirmed credit. **All credits need not be confirmed credits.**

Letters of Credit

- **Types of LC:**
  - **Unconfirmed credit:**

    An unconfirmed LC is one to which the bank does not add its confirmation, and thereby, does not accept liability to make payment under the LC.

  - **Transferable credit:**
    - A LC is transferable only if the Issuing Bank expressly designates it.
    - The Beneficiary in such credit has the right to request the nominated bank to transfer the credit in full or parts in favour of one or more second beneficiaries if partial shipment is permitted.

Letters of Credit

- **Types of LC:**
  - **Back-to-Back Credit:**
    - In case if the exporter is not the actual manufacturer and he gets his work done by the sub-suppliers and if the sub-suppliers demands LC in their favour, the exporter who has received a letter of credit for export, approaches his banker to establish second set of letters of credit on the basis of the export letter of credit received by him.
    - The second set of Credit opened by a bank at the request of the exporter is known as back-to-back credit.
    - The beneficiary of the original letter of credit will become the applicant for the second set of credit.

Letters of Credit

- **Types of LC:**
  - **Revolving Credit:**
    - In a Revolving Credit the amount of drawing is re-instated and made available to the beneficiary again unto the agreed period of time on notification of payment by the applicant or merely on submission of documents.
    - The maximum value and period unto that the Credit can be revolved will be specified in the Revolving Credit.
    - The re-instatement clause and the maximum amount of drawings under the credit should always be incorporated in Revolving credit.

Letters of Credit

- **Types of LC:**
  - **Deferred Payment Credits and Acceptance Credits:**

    Under Deferred Payment Credit the amount is payable in installments for a stipulated longer period. Usually a part is paid in advance and the balance is payable in agreed installments in terms of conditions of the LC.

Letters of Credit

- **STANDBY LETTER OF CREDIT:**
  - Standby credit is payable only on default of the buyer.
  - Undertaking of the bank will specifically commit payment only in case of the default of the buyer. It can be treated as a guarantee for payment only in case the buyer fails to pay.
  - Standby credits are useful not only in trade related transactions but in any of transactions where there is a possibility of default like loan repayment.

Procedure

- Buyer and seller agree to conduct business. The seller wants a letter of credit to guarantee payment.
- Buyer applies to his bank for a letter of credit in favor of the seller.
- Buyer's bank approves the credit risk of the buyer, issues and forwards the credit to its correspondent bank (advising or confirming). The correspondent bank is usually located in the same geographical location as the seller (beneficiary).

Procedure

- Advising bank will authenticate the credit and forward the original credit to the seller (beneficiary).
- Seller (beneficiary) ships the goods, then verifies and develops the documentary requirements to support the letter of credit. Documentary requirements may vary greatly depending on the perceived risk involved in dealing with a particular company.
- Seller presents the required documents to the advising or confirming bank to be processed for payment.
- Advising or confirming bank examines the documents for compliance with the terms and conditions of the letter of credit.

Procedure

- If the documents are correct, the advising or confirming bank will claim the funds by:
  - Debiting the account of the issuing bank.
  - Waiting until the issuing bank remits, after receiving the documents.
  - Reimburse on another bank as required in the credit.

- Advising or confirming bank will forward the documents to the issuing bank.

- Issuing bank will examine the documents for compliance. If they are in order, the issuing bank will debit the buyer's account.

Important Tips to the Exporter

- Upon receipt of the letter of credit, the credit professional should review all items carefully to insure that what is expected of the seller is fully understood and that he can comply with all the terms and conditions. When compliance is in question, the buyer should be requested to amend the credit.
- Communicate with your customers in detail before they apply for letters of credit.
- Consider whether a confirmed letter of credit is needed.
- Ask for a copy of the application to be fax to you, so you can check for terms or conditions that may cause you problems in compliance.

Important Tips to the Exporter

- Upon first advice of the letter of credit, check that all its terms and conditions can be complied with within the prescribed time limits.
- Many presentations of documents run into problems with time-limits. You must be aware of at least three time constraints - the expiration date of the credit, the latest shipping date and the maximum time allowed between dispatch and presentation.
- If the letter of credit calls for documents supplied by third parties, make reasonable allowance for the time this may take to complete.
- After dispatch of the goods, check all the documents both against the terms of the credit and against each other for internal consistency.

Thank You