

POST SHIPMENT FINANCE

Post shipment finance is provided to meet working capital requirements after the actual shipment of goods. It bridges the financial gap between the date of shipment and actual receipt of payment from overseas buyer thereof. Whereas the finance provided after shipment of goods is called post-shipment finance.

DEFINITION:

Credit facility extended to an exporter from the date of shipment of goods till the realization of the export proceeds is called Post-shipment Credit.

IMPORTANCE OF FINANCE AT POST-SHIPMENT STAGE:

- To pay to agents/distributors and others for their services.
- To pay for publicity and advertising in the over seas markets.
- To pay for port authorities, customs and shipping agents charges.
- To pay towards export duty or tax, if any.
- To pay towards ECGC premium.
- To pay for freight and other shipping expenses.
- To pay towards marine insurance premium, under CIF contracts.
- To meet expenses in respect of after sale service.
- To pay towards such expenses regarding participation in exhibitions and trade fairs in India and abroad.
- To pay for representatives abroad in connection with their stay board.

FORMS/METHODS OF POST SHIPMENT FINANCE

- **Export bills negotiated under L/C:** The exporter can claim post-shipment finance by drawing bills or drafts under L/C. The bank insists on necessary documents as stated in the L/C. if all documents are in order, the bank negotiates the bill and advance is granted to the exporter.
- **Purchase of export bills drawn under confirmed contracts:** The banks may sanction advance against purchase or discount of export bills drawn under confirmed contracts. If the L/C is not available as security, the bank is totally dependent upon the credit worthiness of the exporter.
- **Advance against bills under collection:** In this case, the advance is granted against bills drawn under confirmed export order L/C and which are sent for collection. They are not purchased or discounted by the bank. However, this form is not as popular as compared to advance purchase or discounting of bills.
- **Advance against claims of Duty Drawback (DBK):** DBK means refund of customs duties paid on the import of raw materials, components, parts and packing materials used in the export production. It also includes a refund of central excise duties paid on indigenous materials. Banks offer pre-shipment as well as post-shipment advance against claims for DBK.

- **Advance against goods sent on Consignment basis:** The bank may grant post-shipment finance against goods sent on consignment basis.
- **Advance against Undrawn Balance of Bills:** There are cases where bills are not drawn to the full invoice value of goods. Certain amount is undrawn balance which is due for payment after adjustments due to difference in rates, weight, quality etc. Banks offer advance against such undrawn balances subject to a maximum of 5% of the value of export and an undertaking is obtained to surrender balance proceeds to the bank.
- **Advance against Deemed Exports:** Specified sales or supplies in India are considered as exports and termed as “**deemed exports**”. It includes sales to foreign tourists during their stay in India and supplies made in India to IBRD/ IDA/ ADB aided projects. Credit is offered for a maximum of 30 days.
- **Advance against Retention Money:** In respect of certain export capital goods and project exports, the importer retains a part of cost goods/ services towards guarantee of performance or completion of project. Banks advance against retention money, which is payable within one year from date of shipment.
- **Advance against Deferred payments:** In case of capital goods exports, the exporter receives the amount from the importer in installments spread over a period of time. The commercial bank together with EXIM bank do offer advances at concessional rate of interest for 180 days.

SOME SCHEMES UNDER OPERATION IN PRE-SHIPMENT FINANCE

1. DEFERRED CREDIT

Meaning:

Consumer goods are normally sold on short term credit, normally for a period upto 180 days. However, there are cases, especially, in the case of export of capital goods and technological services; the credit period may extend beyond 180 days. Such exports where longer credit terms (beyond 180 days) is allowed by the exporter is called as “**deferred credit**” or “**deferred payment terms**”.

How the payment is received?

The payment of goods sold on “**deferred payment terms**” is received partly by way of advance or down payment, and the balance being payable in installments spread over a period of time.

Period of financial credit support:

Financial institutions extend credit for goods sold on “deferred payment terms” (subject to approval from RBI, if required). The credit extended for financing such deferred payment exports is known as Medium Term and Long Term Credit. The medium credit facilities are provided by the commercial banks together with EXIM Bank for a period upto 5 years. The long term credit is offered normally between 5 yrs to 12 yrs, and it is provided by EXIM Bank.

Amount of credit support:

Any loan upto Rs.10crore for financing export of capital goods on deferred payment terms is sanctioned by the commercial bank which can refinance itself from Exim bank. In case of contracts above Rs.10 Lakhs but not more than Rs50crore, the EXIM Bank has the authority to decide whether export finance could be provided. Contracts above Rs.50crore need the clearance from the working group on Export Finance.

2. REDISCOUNTING OF EXPORT BILLS ABROAD (EBRD) SCHEME:

The exporter has the option of availing of export credit at the post-shipment stage either in rupee or in foreign currency under the rediscounting of export bills abroad (EBRD) scheme at LIBOR linked interest rates.

This facility will be an additional window available to exporter along with the exiting rupee financing schemes to an exporter at post shipment stage. This facility will be available in all convertible currencies. This scheme will cover export bills upto 180 days from the date of shipment (inclusive of normal transit period and grace period).

The scheme envisages ADs rediscounting the export bills in overseas markets by making arrangements with an overseas agency/ bank by way of a line of credit or banker's acceptance facility or any other similar facility at rates linked to **London Inter Bank Offered Rate (LIBOR)** for six months.

Prior permission of RBI will not be required for arranging the rediscounting facility abroad so long as the spread for rediscounting facility abroad does not exceed one percent over the six months LIBOR in the case of rediscounting 'with recourse' basis & 1.5% in the case of 'without recourse' facility. Spread, should be exclusive of any withholding tax. In all other cases, the RBI's permission will be needed.

3. FINANCE FOR RUPEE EXPENDITURE FOR PROJECT EXPORT CONTRACTS (FREPEC)

1. What is FREPEC Program?

This program seeks to Finance Rupee Expenditure for Project Export Contracts, incurred by Indian companies.

2. What is the purpose of this Credit?

To enable Indian project exporters to meet Rupee expenditure incurred/required to be incurred for execution of overseas project export contracts such as for acquisition/purchase/acquisition of materials and equipment, acquisition of personnel, payments to be made in India to staff, sub-contractors, consultants and to meet project related overheads in Indian Rupees.

3. Who are eligible for Assistance under FREPEC Program?

Indian project exporters who are to execute project export contracts overseas secure on cash payment terms or those funded by multilateral agencies will be eligible. The purpose of the new lending program is to give boost to project export efforts of companies with good track record and sound financials.

4. What is the quantum of credit extended under this program?

Up to 100% of the peak deficit as reflected in the Rupee cash flow statement prepared for the project. Exim Bank will not normally take up cases involving credit requirement below Rs. 50 lakhs. Although, no maximum amount of credit is being proposed, while approving overall credit limit, credit-worthiness of the exporter-borrower would be taken into account. Where feasible, credit may be extended in participation with sponsoring commercial banks.

5. How are Disbursements made under this Program?

Disbursements will be made in Rupees through a bank account of the borrower-company against documentary evidence of expenditure incurred accompanied by a certificate of Chartered Accountants.

6. How is a FREPEC Loan to be extinguished?

Repayment of credit would normally be out of project receipts. Period of repayment would depend upon the project cash flow statements, but will not exceed 4 (four) years from the effective date of project export contract. The liability of the borrower to repay the credit and pay interest and other monies will be absolute and will not be dependent upon actual realization of project bills.

7. What is the security stipulated for FREPEC loan?

Hypothecation of project receivables and project movables.

Optional: where available

- Personal Guarantees of Directors of the Company.
- Available collateral security.