

PRE SHIPMENT FINANCE

Pre-shipment is also referred as “**packing credit**”. It is working capital finance provided by commercial banks to the exporter prior to shipment of goods. The finance required to meet various expenses before shipment of goods is called pre-shipment finance or packing credit.

DEFINITION:

Financial assistance extended to the exporter from the date of receipt of the export order till the date of shipment is known as pre-shipment credit. Such finance is extended to an exporter for the purpose of procuring raw materials, processing, packing, transporting, warehousing of goods meant for exports.

IMPORTANCE OF FINANCE AT PRE-SHIPMENT STAGE:

- To purchase raw material, and other inputs to manufacture goods.
- To assemble the goods in the case of merchant exporters.
- To store the goods in suitable warehouses till the goods are shipped.
- To pay for packing, marking and labelling of goods.
- To pay for pre-shipment inspection charges.
- To import or purchase from the domestic market heavy machinery and other capital goods to produce export goods.
- To pay for consultancy services.
- To pay for export documentation expenses.

FORMS OR METHODS OF PRE-SHIPMENT FINANCE:

1. Cash Packing Credit Loan:

In this type of credit, the bank normally grants packing credit advantage initially on unsecured basis. Subsequently, the bank may ask for security.

2. Advance Against Hypothecation:

Packing credit is given to process the goods for export. The advance is given against security and the security remains in the possession of the exporter. The exporter is required to execute the hypothecation deed in favour of the bank.

3. Advance Against Pledge:

The bank provides packing credit against security. The security remains in the possession of the bank. On collection of export proceeds, the bank makes necessary entries in the packing credit account of the exporter.

4. Advance Against Red L/C:

The Red L/C received from the importer authorizes the local bank to grant advances to exporter to meet working capital requirements relating to processing of goods for exports. The issuing bank stands as a guarantor for packing credit.

5. Advance Against Back-To-Back L/C:

The merchant exporter who is in possession of the original L/C may request his bankers to issue Back-To-Back L/C against the security of original L/C in favour of the sub-supplier. The sub-supplier thus gets the Back-To-Back L/C on the basis of which he can obtain packing credit.

6. Advance Against Exports Through Export Houses:

Manufacturer, who exports through export houses or other agencies can obtain packing credit, provided such manufacturer submits an undertaking from the export houses that they have not or will not avail of packing credit against the same transaction.

7. Advance Against Duty Draw Back (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.

8. Special Pre-Shipment Finance Schemes:

- Exim-Bank's scheme for grant for **Foreign Currency Pre-Shipment Credit (FCPC)** to exporters.
- Packing credit for **Deemed exports**.

SOME SCHEMES IN PRE-SHIPMENT STAGE OF FINANCE

1. PACKING CREDIT

SANCTION OF PACKING CREDIT ADVANCES:

There are certain factors, which should be considered while sanctioning the packing credit advances viz.

1. Banks may relax norms for debt-equity ratio, margins etc but no compromise in respect of viability of the proposal and integrity of the borrower.
2. Satisfaction about the capacity of the execution of the orders within the stipulated time and the management of the export business.
3. Quantum of finance.
4. Standing of credit opening bank if the exports are covered under letters of credit.
5. Regulations, political and financial conditions of the buyer's country.

DISBURSEMENT OF PACKING CREDIT:

After proper sanctioning of credit limits, the disbursing branch should ensure:

To inform ECGC the details of limit sanctioned in the prescribed format within 30 days from the date of sanction.

- a) To complete proper documentation and compliance of the terms of sanction i.e. creation of mortgage etc.
- b) There should be an export order or a letter of credit produced by the exporter on the basis of which disbursements are normally allowed.

In both the cases following particulars are to be verified:

1. Name of the Buyer.
2. Commodity to be exported.
3. Quantity.
4. Value.
5. Date of Shipment / Negotiation.
6. Any other terms to be complied with.

2. FOREIGN CURRENCY PRE-SHIPMENT CREDIT (FCPC)

- The FCPC is available to exporting companies as well as commercial banks for lending to the former.
- It is an additional window to rupee packing credit scheme & available to cover both the domestic i.e. indigenous & imported inputs. The exporter has two options to avail him of export finance.
- To avail him of pre-shipment credit in rupees & then the post shipment credit either in rupees or in foreign currency denominated credit or discounting /rediscounting of export bills.
- To avail of pre-shipment credit in foreign currency & discounting/rediscounting of the export bills in foreign currency.
- FCPC will also be available both to the supplier EOU/EPZ unit and the receiver EOU/EPZ unit.

Pre-shipment credit in foreign currency shall also be available on exports to **ACU (Asian Clearing Union)** countries with effect **from 1.1.1996**.

Eligibility: PCFC is extended only on the basis of confirmed /firms export orders or confirmed L/C's. The "Running account facility will not be available under the scheme. However, the facility of the liquidation of packing credit under the first in first out method will be allowed.

Order or L/C : Banks should not insist on submission of export order or L/C for every disbursement of pre-shipment credit , from exporters with

consistently good track record. Instead, a system of periodical submission of a statement of L/C's or export orders in hand, should be introduced.

Sharing of FCPC: Banks may extend FCPC to the manufacturer also on the basis of the disclaimer from the export order.