

Post Shipment Finance is a kind of loan provided by a financial institution to an exporter or seller against a shipment that has already been made. This type of export finance is granted from the date of extending the credit after shipment of the goods to the realization date of the exporter proceeds. Exporters don't wait for the importer to deposit the funds.

Basic Features

The features of postshipment finance are:

- **Purpose of Finance**
Postshipment finance is meant to finance export sales receivable after the date of shipment of goods to the date of realization of exports proceeds. In cases of deemed exports, it is extended to finance receivable against supplies made to designated agencies.
- **Basis of Finance**
Postshipment finances is provided against evidence of shipment of goods or supplies made to the importer or seller or any other designated agency.
- **Types of Finance**

Postshipment finance can be secured or unsecured. Since the finance is extended against evidence of export shipment and bank obtains the documents of title of goods, the finance is normally self liquidating. In that case it involves advance against undrawn balance, and is usually unsecured in nature.

Further, the finance is mostly a funded advance. In few cases, such as financing of project exports, the issue of guarantee (retention money guarantees) is involved and the financing is not funded in nature.

- **Quantum of Finance**
As a quantum of finance, postshipment finance can be extended up to 100% of the invoice value of goods. In special cases, where the domestic value of the goods increases the value of the exporter order, finance for a price difference can also be extended and the price difference is covered by the government. This type of finance is not extended in case of preshipment stage.
Banks can also finance undrawn balance. In such cases banks are free to stipulate margin requirements as per their usual lending norm.
- **Period of Finance**
Postshipment finance can be off short terms or long term, depending on the payment terms offered by the exporter to the overseas importer. In case of cash exports, the maximum period allowed for realization of exports proceeds is six months from the date of shipment. Concessive rate of interest is available for a highest period of 180 days, opening from the date of surrender of documents. Usually, the documents need to be submitted within 21days from the date of shipment.

Financing For Various Types of Export Buyer's Credit

Postshipment finance can be provided for three types of export :

- **Physical exports:** Finance is provided to the actual exporter or to the exporter in whose name the trade documents are transferred.
- **Deemed export:** Finance is provided to the supplier of the goods which are supplied to the designated agencies.
- **Capital goods and project exports:** Finance is sometimes extended in the name of overseas buyer. The disbursement of money is directly made to the domestic exporter.

Supplier's Credit

Buyer's Credit is a special type of loan that a bank offers to the buyers for large scale purchasing under a contract. Once the bank approved loans to the buyer, the seller shoulders all or part of the interests incurred.

Types of Post Shipment Finance

The post shipment finance can be classified as :

1. Export Bills purchased/discounted.
2. Export Bills negotiated
3. Advance against export bills sent on collection basis.
4. Advance against export on consignment basis
5. Advance against undrawn balance on exports
6. Advance against claims of Duty Drawback.

1. Export Bills Purchased/ Discounted.(DP & DA Bills)

Export bills (Non L/C Bills) is used in terms of sale contract/ order may be discounted or purchased by the banks. It is used in indisputable international trade transactions and the proper limit has to be sanctioned to the exporter for purchase of export bill facility.

2. Export Bills Negotiated (Bill under L/C)

The risk of payment is less under the LC, as the issuing bank makes sure the payment. The risk is further reduced, if a bank guarantees the payments by confirming the LC. Because of the inborn security available in this method, banks often become ready to extend the finance against bills under LC.

However, this arises two major risk factors for the banks:

1. The risk of nonperformance by the exporter, when he is unable to meet his terms and conditions. In this case, the issuing banks do not honor the letter of credit.
2. The bank also faces the documentary risk where the issuing bank refuses to honour its commitment. So, it is important for the for the negotiating bank, and the lending bank to properly check all the necessary documents before submission.

3. Advance Against Export Bills Sent on Collection Basis

Bills can only be sent on collection basis, if the bills drawn under LC have some discrepancies. Sometimes exporter requests the bill to be sent on the collection basis, anticipating the strengthening of foreign currency.

Banks may allow advance against these collection bills to an exporter with a concessional rates of interest depending upon the transit period in case of DP Bills and transit period plus usance period in case of usance bill.

The transit period is from the date of acceptance of the export documents at the banks branch for collection and not from the date of advance.

4. Advance Against Export on Consignments Basis

Bank may choose to finance when the goods are exported on consignment basis at the risk of the exporter for sale and eventual payment of sale proceeds to him by the consignee. However, in this case bank instructs the overseas bank to deliver the document only against trust receipt /undertaking to deliver the sale proceeds by specified date, which should be within the prescribed date even if according to the practice in certain trades a bill for part of the estimated value is drawn in advance against the exports. In case of export through approved Indian owned warehouses abroad the times limit for realization is 15 months.

5. Advance against Undrawn Balance

It is a very common practice in export to leave small part undrawn for payment after adjustment due to difference in rates, weight, quality etc. Banks do finance against the undrawn balance, if undrawn balance is in conformity with the normal level of balance left undrawn in the particular line of export, subject to a maximum of 10 percent of the export value. An undertaking is also obtained from the exporter that he will, within 6 months from due date of payment or the date of shipment of the goods, whichever is earlier surrender balance proceeds of the shipment.

6. Advance Against Claims of Duty Drawback

Duty Drawback is a type of discount given to the exporter in his own country. This discount is given only, if the inhouse cost of production is higher in relation to international price. This type of financial support helps the exporter to fight successfully in the international markets.

In such a situation, banks grants advances to exporters at lower rate of interest for a maximum period of 90 days. These are granted only if other types of export finance are also extended to the exporter by the same bank.

After the shipment, the exporters lodge their claims, supported by the relevant documents to the relevant government authorities. These claims are processed and eligible amount is disbursed after making sure that the bank is authorized to receive the claim amount directly from the concerned government authorities.

Crystallization of Overdue Export Bills

Exporter foreign exchange is converted into Rupee liability, if the export bill purchase / negotiated /discounted is not realize on due date. This conversion occurs on the 30th day after expiry of the NTP in case of unpaid DP bills and on 30th day after national due date in case of DA bills, at prevailing TT selling rate ruling on the day of crystallization, or the original bill buying rate, whichever is higher