EXPORT BILLS DISCOUNTING

Introduction

After shipment of goods, the exporter may submit the export bill to its bank for discounting/ purchase. This bill discounting facility may be a sub-limit to packing credit or may be a separate limit depends on the banks sanctioning authority.

In bill discounting, bank buys the export bills (i.e. bill of exchange/promissory note) before it becomes due for payment. The transaction is practically an advance against the security of the bill and the discount represents the interest on the advance from the date of purchase of the bill till it is due for payment.

Normally the export order which is already getting credit under packing credit limit will not be covered under bills discounting. Also if the client requests for bill discounting, the amount will be adjusted first against the packing credit limit outstanding against said bill and the balance amount is released to the client.

The export bills may be either backed with Letter of Credit or not. Here a separate disclosure need to done in the sanction letter. Generally bank gives a sub-limit from the overall bill discounting limit. Limits sanctioned for LC backed bills will not normally be allowed to be availed for non-L/C bills. ***Here we are discussing the export bills not backed by letter of credit.***

In one sense it looks to be an unsecured limit as few banks gives bill discounting facility over and above the regular limits sanctioned as per CMA data submitted with the bank. The bank normally does not ask for any collateral. But in such case, the discounting facility is given bill wise i.e. a limit is not sanctioned and it is the pure discretion of the bank whether to allow discounting of a particular bill or not. Here it is important that the client must have good credit history as well as the relation with the bank should be good. In this case the bank has charge on the current assets of the company. It depends basically on requirement of the exporter, relation with the bank, track record, good repayment history and good market reputation.

But sometime banks do not allow the bill discounting facility over and above the regular limits. In those cases while assessing the limits, the bill discounting facility is proposed depending of the Working Capital Gap and the turnover of the company. Here the limits are backed with collaterals and other securities.

Type of export bills and its discounting

D/A Export Bills (Usance Export Bill): A Usance bill is one where credit period is given by the exporter to the importer as per credit terms and export agreement. Importer accepts the bills and pays for the bills on the maturity date.

The exporter draws bills on the importer and submits the same with its bank. The bank will discount the bills and send the same for collection. *On due date the exporter need to adjust the limit.*

In this case the bank may sanction two separate limits

- *Without acceptance by the importer. In this case as and when the exporter sends the materials/goods to importer, it submits the bills to its bank for discounting without waiting acceptance of bills by importer.*

- *With acceptance by the importer. In this case acceptance by the importer is must before discounting the bills.*

D/P Export Bills (At sight/at demand): The exporter draws bills on the importer and submits the same with its bank. The bank will not discount the bills and just send the same for collection to importer bank. As and when the collection is done amount is credited in exporter account. It means bill discounting is not done in the case of export bills drawn at sight. But as per RBI guidelines bank may allow the discounting of bill for the transit period. In this case we call it as “Advance against export bills send on collection basis”

Interest on Post-shipment Credit

1. In the case of advances against demand bills, if the bills are realized before the expiry of the normal transit period (NTP), interest at the prescribed rate shall be charged from the date of advance till the date of realization of such bills. The date of realization of demand bills for this purpose would be the date on which the proceeds get credited to the banks' Nostro accounts.

2. In the case of advance/credit against usance export bills, interest at prescribed rate may be charged only up to the notional/actual due date or the date on which export proceeds get credited to the bank’s Nostro account abroad, whichever is earlier, irrespective of the date of credit to the borrower's/exporter's account in India. In cases where the correct due date can be established before/immediately after availment of credit due to acceptance by overseas buyer or otherwise, prescribed interest can be applied only up to the actual due date, irrespective of whatever may be the

notional due date arrived at, provided the actual due date falls before the notional due date.

3. Where interest for the entire NTP in the case of demand bills or up to notional/actual due date in the case of usance bills as stated at (2) above, has been collected at the time of purchase/discount of bills, the excess interest collected for the period from the date of realization to the last date of NTP/notional due date/actual due date should be refunded to the borrowers.

Other Important Points

- The bill is to be presented to the bank within a maximum period of 21 days from the date of shipment.

- The bills are realized by the bank through its foreign currency account maintained at a foreign centre.

- Post shipment 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. But in case of exporters covered under Gold Card Scheme the maximum period allowed is upto 365 days.

- In respect of export credit to exporters at internationally competitive rates under the schemes of 'Pre-shipment Credit in Foreign Currency' (PCFC) and 'Rediscounting of Export Bills Abroad' (EBR), banks are permitted to fix the rates of interest with reference to ruling LIBOR, EURO LIBOR or EURIBOR. Bank should not levy any other charges over and above the interest rate under any name viz. service charge; Management charge etc. except recovery towards out of pocket expenses incurred by banks as per IBA guidelines.

- For the period beyond the due date viz. for the overdue period, the prescribed interest rate as applicable to post-shipment rupee export credit (not exceeding BPLR minus 2.5 percentage points) may be applied.