

Line of Credit by EXIM Bank

Introduction

The Line of Credit (LOC) is the facility given by EXIM bank to the Importer overseas in the form of deferred credit facility to boost the Export (Goods, Services and Project) from India. The EXIM bank sign the agreement with the bank, financial institution, government and other entities overseas (borrowing country) so that the importer in these countries could import from India and may avail easy credit facility extended by EXIM bank at discounted rate of interest.

In this case the Importer gets the credit facility subject to the approval of the institution/entities overseas with which EXIM bank has signed the agreement. The importer bank/other entity is the party to the transaction with which the EXIM bank has signed the agreement.

In that transaction, the payment is made by EXIM bank directly to the Indian Exporter. The Indian exporter obtains the payment of eligible value of export from the EXIM bank without recourse against negotiation of shipping documents. But the credit exposure is counted in the books of the importer.

It is a safe mode of non-recourse financing option to the Indian Exporter. The Importer gets the financing at competitive rate and guarantee from EXIM bank which smooths the transaction and minimizes the risk almost to zero.

The overseas Importer and the Indian Exporter need not to negotiate the credit terms separately.

Procedure:

1. Importer approach the exporter in India to supply the requisite goods or services or Project
2. They finalize the terms & conditions and submit the draft of same to EXIM bank and the overseas bank (in importer country or borrower country) for their respective approvals.
3. After getting approvals, the credit term of the contract is finalized.
4. Both the parties need to get assess the amount of the facility to extend subject to amount of the transaction, tenure, reputation etc. The overseas bank may ask for collaterals and/or other securities from the importer.
5. The Importer will open the Letter of Credit in favour of the Exporter subject to the term of contract. The condition to open the LC may be abolished subject to approval/sanction by the EXIM bank and overseas bank.
6. The EXIM bank will release the payments in favour of the Exporter.

7. On due date the overseas bank made the payment to EXIM bank subject to the terms and conditions decided between them.

Key Highlights

1. These loans are for importing goods and services and for Project Export from India.
2. Goods and services for minimum 75% value of the contract covered under these loans must be sourced from India. A suitable relaxation not exceeding 10% of the cost may be allowed but the same is case to case basis.
3. LOC may be financed upto 100% of the value of contract on FOB/CFR/CIF/CIP basis.
4. Soft loans under the scheme shall be free from all kinds of taxes and duties of whatsoever nature levied in the recipient country including all corporate/personal/VAT, Import/Export duty, Special levies and social security contributions for temporary employees deputed by Indian exporters in relation to the project execution in the recipient country.
5. The borrowing country is fully responsible for repayment and servicing of the loan.
6. The Borrower shall pay interest and principle installments to EXIM Bank on due date as per agreed repayment schedule.