ARTICLE ON PRE-SHIPMENT CREDIT

(Visit us on: www.camanojgupta.com)

Introduction

To promote exports, Indian government along with central bank has framed/issued many relaxation/ support/guidelines to favour exporters in relation to avail the credit facilities from banks. Pre-shipment credit is one of those facilities given to exporters in the form of bank finance.

Credit facilities sanctioned by banks to exporters/export house/trading house/merchant exporter for procuring/manufacturing/processing/packing/warehousing/shipping the goods meant for export are termed as pre-shipment credit/packing credit.

Packing credit advance is generally for specific purpose to enable the exporter to meet specific export obligations i.e. every pre-shipment credit is considered as separate loan account. But in case the company needs to export its maximum output, a packing credit limit is sanctioned but the assessment is subject to export orders in hand besides its capacity to meet that commitment so that the benefit of the concessional rate of interest should not be utilized for domestic sales.

Process to avail the facility from bank

1. **When the company apply to new bank for facilities:**

   The company approaches the bank by presenting the foreign letter of credit (FLC) or confirmed export order. If the bank satisfies that the proposal is doable subject to the past track record, elations with existing banks, government policies regarding that particular item, promoters back ground etc than the bank may accept the request.

   The bank asks to submit the CMA data submitted with the existing bankers, the copy of export order/ confirmed LC along with all other relevant documents to process the request. As PC limit is fund based limit hence the same should be reflected in the working capital gap in CMA data submitted with the bank over and above the normal working capital limits.

   If the CMA data submitted with the existing bank has taken the impact of new order i.e. sales, stocks, receivables etc, revision of CMA is not requires. But if the company has not taken the impact, revision is done and both the CMA data are submitted with the bank for comparison.

The facility is given for procuring main raw materials and/or other supporting raw materials, packing material, advance to suppliers etc. The bank will have the specific charge on the materials procured, in process and the finished goods, book debts along with other current assets arise due to that export order. The bank may ask for the charge on the other current assets hypothecated with existing banks.

The bank may ask for collateral securities having specific charge or pari-passu charge with the existing bank if the client offers the same securities.

2. **When the company apply to existing bank for facilities:**

   The bank needs only the foreign letter of credit or confirmed export orders as the other document are lying with the bank along with the request letter indicating the requirements. The company needs to submit the revised CMA data if the impact is not taken in the existing CMA data submitted with the bank. The bank has existing relation with the client and they do not take more time to call market report/survey about the authenticity of the promoters/company.

   The bank may give the additional exposure on the existing collaterals or may give a sub-limit to the regular limit without putting burden on the client of inducting/introducing additional collaterals.

Repayment

The repayment of the pre-shipment credit is out of the proceeds of the export wills drawn in favour of the importer. Subject to understanding with the bank the packing credit advance can also with repaid/prepaid out of the balances in Exchange Earner Foreign Currency Account or against regular limit.

The period of packing credit is decided by the bank subject to various factors such as time required to procure the raw materials, processing/manufacturing time etc. The period of the credit should be sufficient to enable the exporter to ship the goods/render the service.

The pre-shipment advance is to be adjusted by submission of export documents with 360 days from the date of advance or period sanctioned by the bank whichever is earlier.

Reserve Bank of India has given some relaxation or refinances facility upto 180 days in some special cases.

Pre-shipment Credit and withdrawal of Concessional Rate of Interest

Situation 1: If the advance is not adjusted within 360 days or the sanctioned period which ever is earlier, the bank at its discretion decides the rate of interest to charge whether from the original date of advance or for the period decided by the sanctioning authority. The rate of interest and the period is subject to approval by the sanctioning authority

Situation 2: Export takes place after the expiry of sanctioned period but within 360 days, concessional rate of interest is allowed only upto the sanctioned period. For the balance period interest rate at normal rate will be charged or a rate decided by the sanctioning authority

Situation 3: If the export takes place after expiry of 360 days**,** normal interest rate is apply or such rate as decided by the sanctioning authority. The period for which the normal rate of interest will be charged is at the discretion of the bank.

Situation 4: Export does not take place, normal interest plus penalty will be levied. But the waiver is subject to approval of the sanctioning authority. The period for which the normal rate of interest will be charged is at the discretion of the bank.

Other Important Points

- Bank may allow repayment of a PC with export documents relating to any other order covering the same or any other commodity exported by the exporter. The PC limit may also be adjusted against export proceeds of documents against which no packing credit has been drawn by the exporter.

- If the export order/Letter of credit has been received from the export house/ merchant exporter even than the manufacturer is eligible for the credit subject to that the export house has not applied and availing the facilities for that particular order. In this case the credit is adjusted against the proceeds from the bill raised to the export house subject to a proof of that goods are actually exported submitted with the bank.

- If the bank sanctioned the limit against the FLC, disbursement against that order will not be allowed.

- There may be possibility that the exporter is claiming the benefit of duty drawback. In this case the limits against such claims of such incentives shall also be considered while fixing the limits.

- If the company is 100% EOU, FTZ etc or substantial goods are exported and they have very good track record and have good relation with the bank, the bank may waive the requirement of FLC/confirmed export order (*RBI has waived the requirement/pre-condition and now it is at the discretion of bank*). But the exporters need to submit the FLC/order within reasonable time period. The bank will adjust the advances against the collection/proceeds on due date. The facility will not allow just building up the inventory hence the limit is sanctioned as per requirement.

- Sometime it may happen that the proceeds fall short because of wastage/by products (which is commercially acceptable or could not be avoided). In that case export bill drawn in respect of by product is also acceptable. But if the proceeds are from domestic sales, bank may ask for normal rate of interest to the extent of limit utilized to earn that proceeds.

For any query, observations, suggestion, please contact undersigned.

CA. Manoj Gupta

Cell: 9350760606
www.camanojgupta.com