

SYNOPSIS

- Fund Based Finance:
 - overdraft
 - cash credit Account
 - Bills Finance
 - Lease Finance
 - Hire Purchase.
- Finance For exporter and importer
- credit default swaps
- Discounting
- Forfaiting
- Factoring
- Non Fund Based Finance
 - Letter of credit
 - Bank guarantee

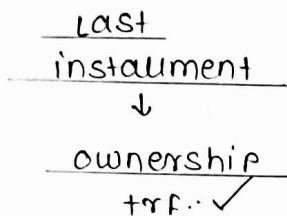
PART - F

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Fund Based Facilities.

<p>1] <u>overdrafts.</u></p>	<p>→ Allowing the customer to draw cheque over and above credit balance in your acc.</p> <p>→ Normally to current account customer exceptionally to saving bank acc. holder</p> <p>→ High rate of interest.</p> <p>→ 2 types - i) <u>clean overdraft</u> (unsecured) ii) <u>Secured overdraft</u></p>
<p>2] <u>cash credit.</u></p>	<p>→ Tempo. purpose.</p> <p>→ short term finance (max up to 1 yr.)</p> <p>→ Based on the value of Goods / assets, a sanction limit is given to the borrower.</p> <p>→ TYPES - i) <u>open cash credit.</u> ii) <u>key cash credit</u> [secured loan]</p>
<p>3] <u>Bills finance.</u></p>	<p>→ when Bill is discounted with a Bank, the holder get immediate money. Bank get interest over it. [int = discounting charges]</p> <p>→ <u>Bills</u> - { Delivery against payment. { Delivery against Acceptance.</p> <p><u>Bills</u> - { Demand Bill { Usance Bill.</p> <p><u>Bills</u> - { Documentary Bill { clean Bill.</p>
<p>4] <u>leasing finance.</u></p> <p><u>ownership</u> trf. (X)</p>	<pre> graph TD L[Lessor] -- "st-1 Lease Fin. (loan)" --> B[Bank] B -- "st-1" --> L L -- "st-4 Rental Lease" --> Lessee[Lessee] Lessee -- "st-5 Repayment" --> L L -- "st-2 Lease Fin. (loan)" --> S[Supplier (Tractor)] S -- "st-3" --> Lessee </pre>

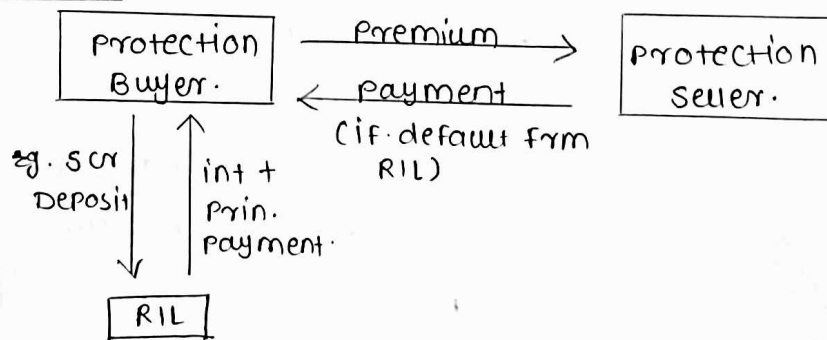
- commercial banks in India have been financing the activities of leasing co.
- They provide overdraft / cash credit acc. / demand loan against fully paid new mach. or equipment by hypothecation of security
- The Repayment should be from rentals of mach. or equipment leased out & similar ways
- Max period of Repayment - 5 yrs or economic life of the equip.
 w.e. is Lower.

5] Hire Purchase Fin.



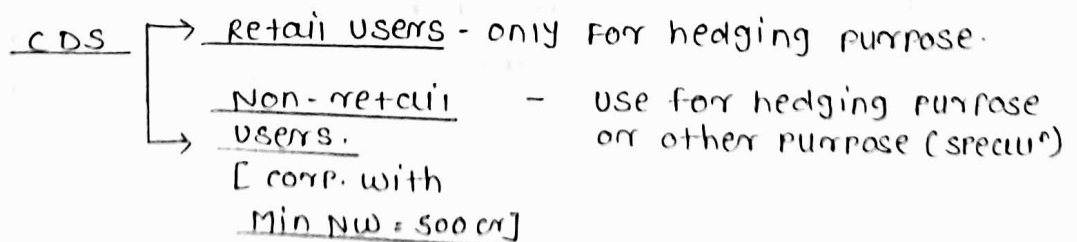
- Finance takes place predominantly in automobile sector.
- The ownership of vehicle continues to remain with the leasing co. till the agg. period ends.
- At the end of the stipulated period, hirer (lessee) has option either to return the asset to leasing co. or purchase the asset as per terms set out in hire pur. agreement

→ Credit Default Swap (CDS)



→ Benefits - 1] sharing of credit Risk, 2] Growth of Bond market.

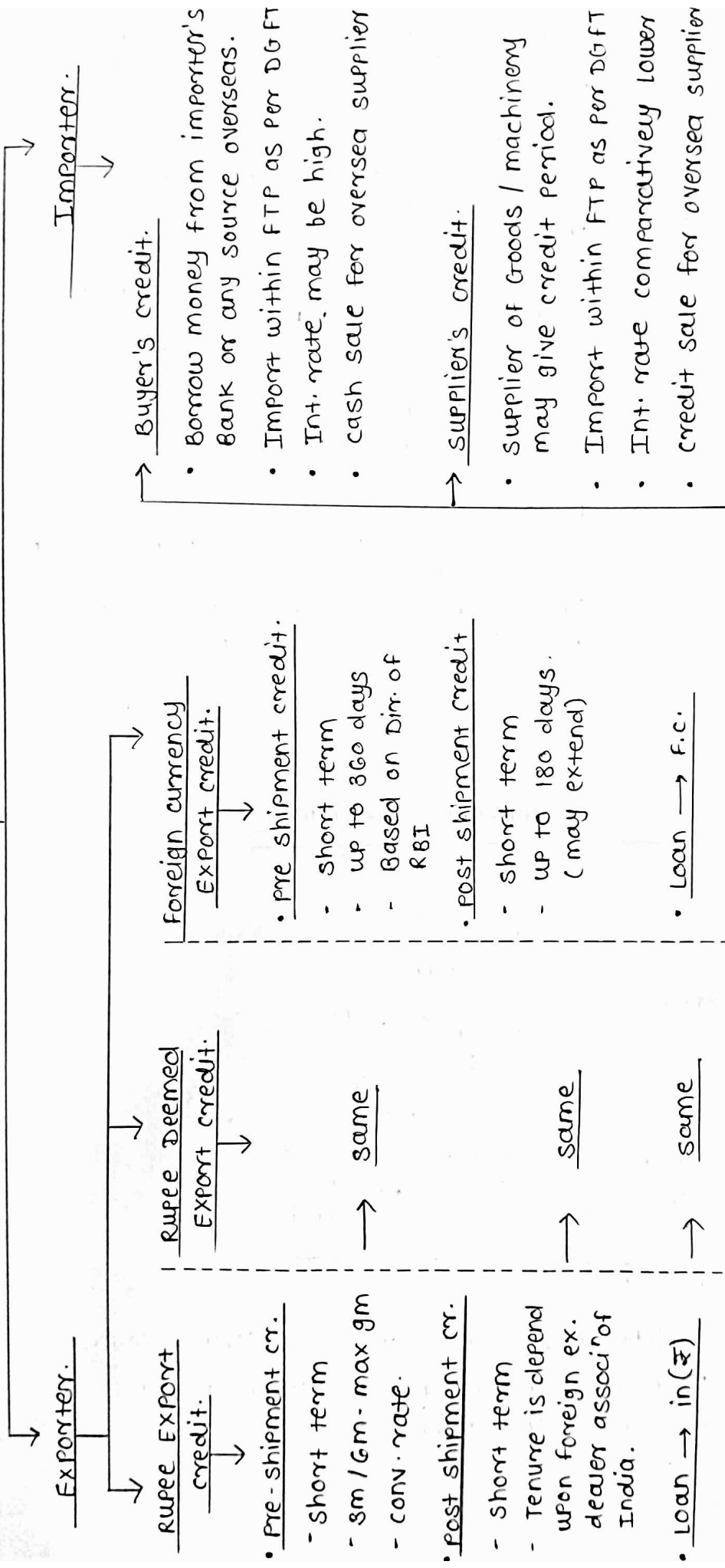
→ RBI 2022 guideline :-



→ HFC'S, NABARD, SIDBI, EXIM can act as market makers

→ Exchange traded CDS to be settled in cash.

Loan for Exporter and Importer



Exporter.

Rupee Export Credit.

- Pre-shipment cr.
- Short term
- SM / GM - max gm
- conv. rate.

Post shipment cr.

- Short term
- Tenure is depend upon foreign ex. deaver associator of India.

• Loan → in (₹)

Rupee Deemed Export Credit.

→ same

→ same

→ same

Goods are supplied

- SEZ area
- to foreign ship calling to indian port
- to foreign tourist.

Foreign currency Export credit.

- Pre shipment credit.
- Short term
- up to 360 days
- Based on Dir. of RBI

Post shipment credit

- Short term
- up to 180 days. (may extend)

• Loan → f.c.

Importer.

Buyer's credit.

- Borrow money from importer's bank or any source overseas.
- Import within FTP as per DGFT
- Int. rate may be high.
- cash sale for oversea supplier

Supplier's credit.

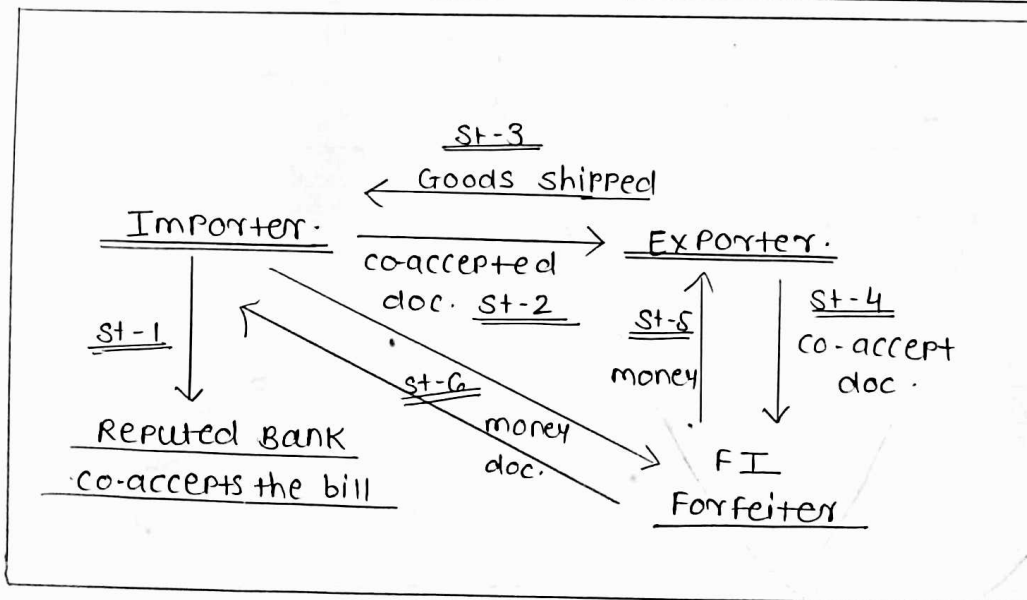
- Supplier of Goods / machinery may give credit period.
- Import within FTP as per DGFT
- Int. rate comparatively lower
- credit sale for oversea supplier

⇒ Discounting.

- commercial bills are basically negotiable instruments accepted by buyers for goods or services obtained by them on credit.
- The most common practice is that the seller who gets the accepted bills of exchange dis. it with the bank or fin insti or bill dis. house and collect the money.
- commercial bills are basically negotiable instru accepted by buyers for goods or services obtained by them on credit.
- Scheme - Bill Market scheme 1942
Bill rediscount scheme 1970
- The Bills should be first class bills means bills should be accepted by reputed companies or co-accepted by banks as a guarantee. Since such bills are few, the bill market in india has not developed much.

⇒ Forfaiting.

concept - Just like bill discounting



- Forfaiting is generally without recourse (Non recourse)
- EXIM Bank authorise the Forfaiting transaction.
- For medium term / Long term.

- ⇒ factoring -
- It is a financial transaction where an entity sells its receivables to a third party called a factor.
 - In simple definition it is the conversion of credit sale into cash.

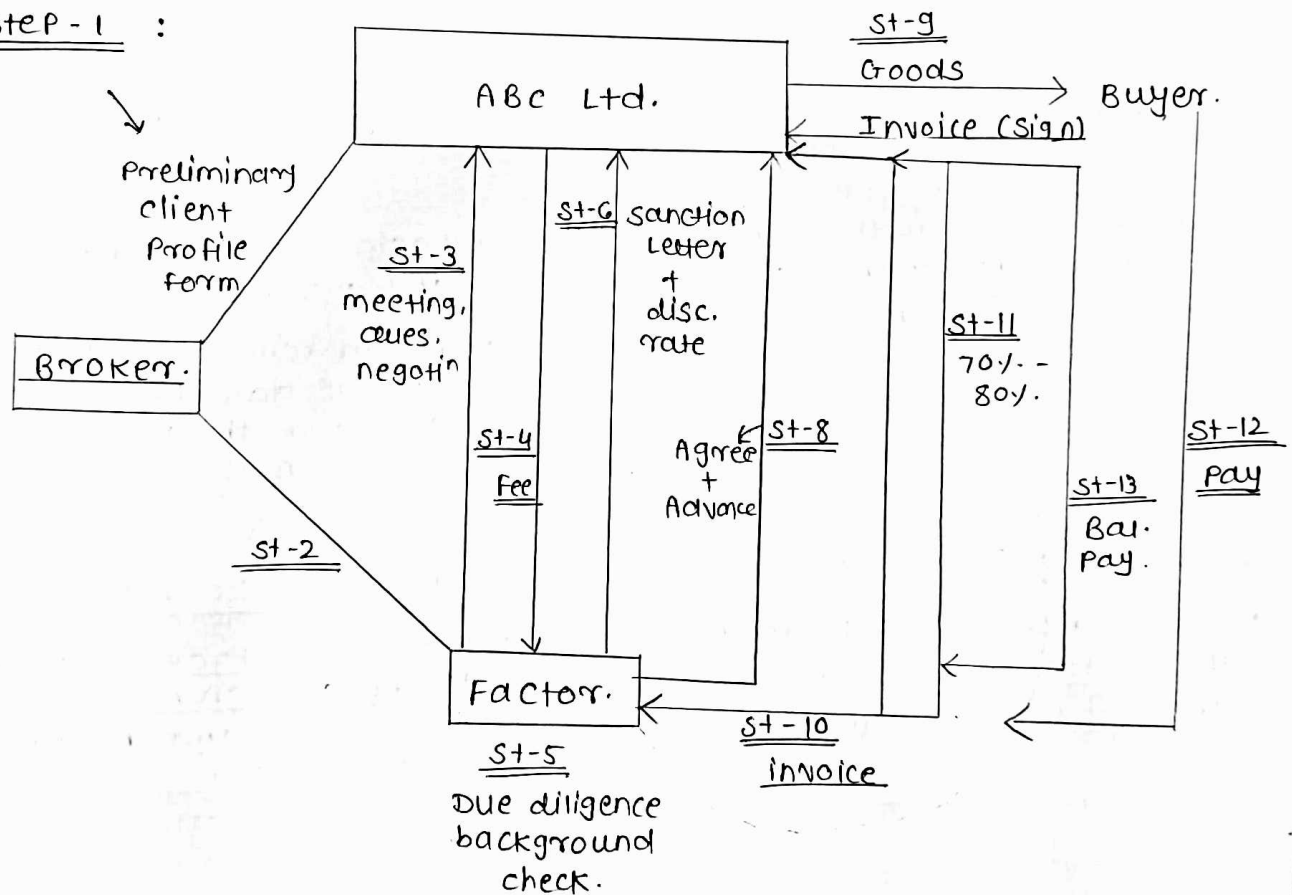
⇒ parties in factoring.

- The seller - who has produced the goods/services and raised the invoice.
- The Buyer - The consumer of goods/services
- The Factor - The fin inst. that advances the portion of funds to the seller.

⇒

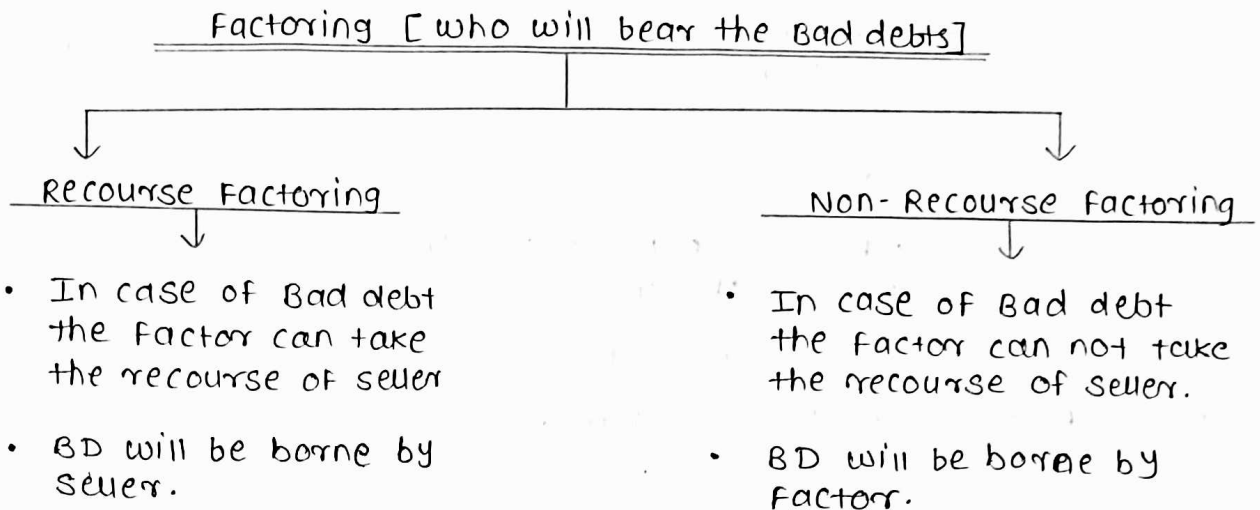
Factoring process.

step-1 :

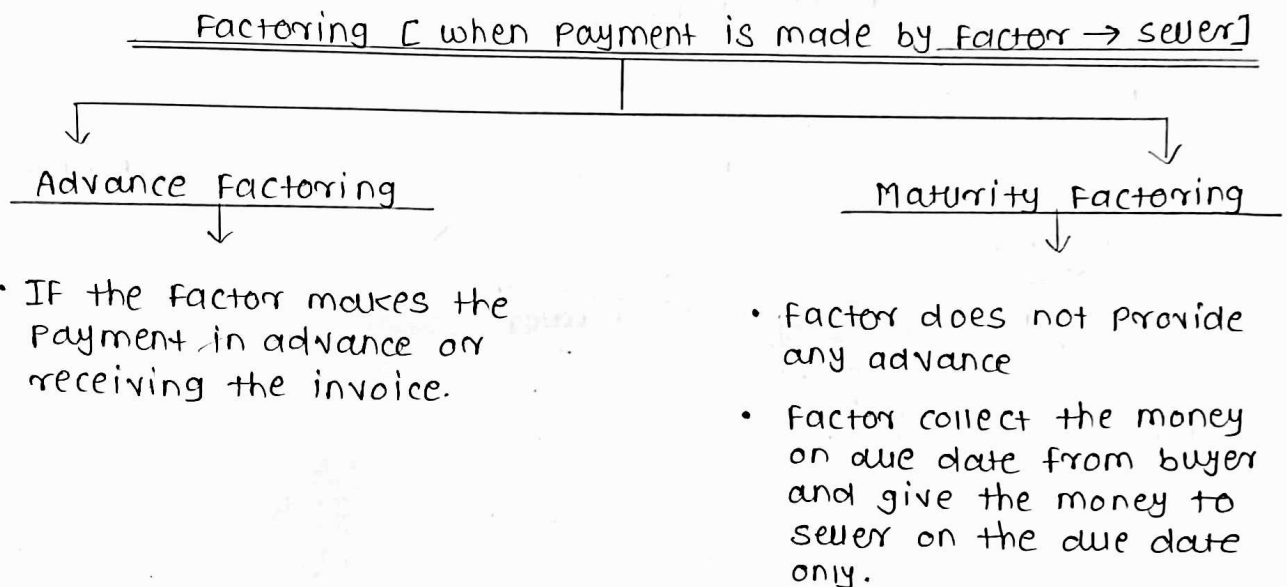


Types of Factoring.

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⇒ Undisclosed Factoring.

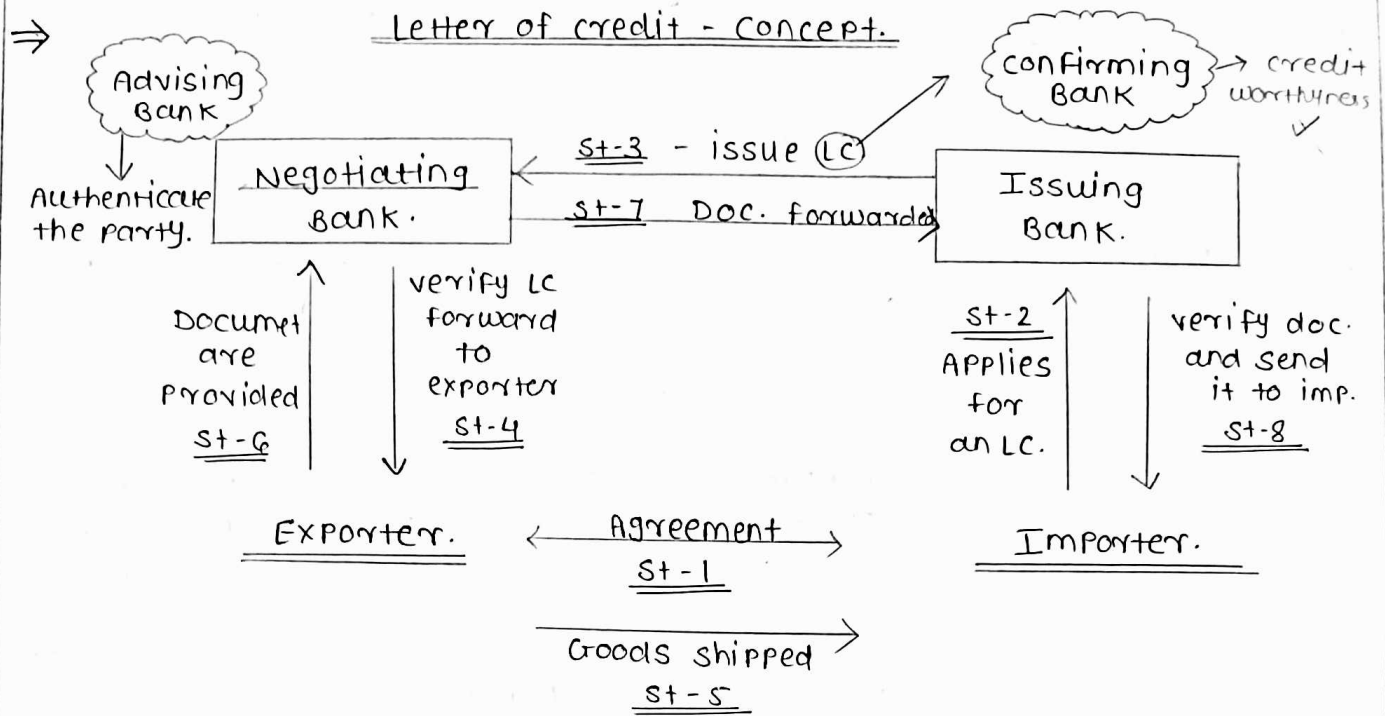
- Under this type of Factoring the customer is not informed of the factoring arrangement.

⇒ Invoice Discounting

- Here bank provide advance to the co. against the acc. receivables and in turn charges int. rate.

→ Advantages to the seller.

- Seller gets fund immediately.
- Major part of paper work & correspondence is taken care by F.
- The follow-up, for recovery of funds is done mainly by Factor
- The int. rates are not as high as normal discounting
- There is an increased cash flow
- Approval is not based on seller's credit rating



→ A letter of credit is a document from a bank that guarantees payment.

→ Issued by bank at the request of its customer in favour of the beneficiary.

→ TYPES of Letter of credit

1] <u>Sight credit.</u>	- under this L.C. payment is made to the seller <u>immediately</u> (max 7 days) after the required documents have been submitted.
2] <u>Acceptance credit / Time credit.</u>	- Usance bills are bills of exchange payable after a period. Under acceptance credit these are accepted on presentation and paid on due date
3] <u>Revocable & irrevocable credit.</u>	- A revocable L.C is a credit in which terms & conditions of credit can be amended / cancelled by the issuing bank, any time and without prior approval of beneficiaries. - irrevocable LC is a credit that cannot be amended or cancelled without the benef. consent - If nothing is stated LC is treated as irrevoc.

3] <u>Confirmed credit.</u>	- A confirmed LC is one when a banker other than issuing bank add its own confirmation to the credit. only irrevocable LC can be confirmed. The liability of confirming bank is same as the issuing bank.
4] <u>Back to Back LC.</u>	- It is a Negotiable instrument in which the seller gets a letter of credit from the buyer and the seller <u>further transfers</u> the LC to its supplier from whom he buys goods / materials
5] <u>Transferable credit.</u>	- Transferable LC is one in which ^{Supplier} a beneficiary can <u>transfer his right</u> to third party in whole or in part. It is transferable only once
6] <u>Red clause LC.</u>	- LC where <u>advance is paid</u> to exporter / beneficiary - Advance is paid for purchase of RM, processing and packaging.
7] <u>Green clause L.C.</u>	- LC where advance is paid to exporter / beneficiary. - It is an extension of Red clause LC - Advance is paid for Pur. of RM, processing, packaging, other pre shipping expenses like warehousing exp. storage cost.
8] <u>Stand by LC.</u>	- In case the guaranteed service is not provided the beneficiary can claim under the terms of the stand by credit. It is a substitute of Bank guarantee.
9] <u>Revolving credit.</u>	- The amount of drawing made would be reinstated and made available to the beneficiary again and again for further drawings during the tenure of credit provided.



parties involved in L.C.

1] <u>Applicant.</u> (Buyer / importer of goods).	This person has to make payment of LC to the issuing bank if docs are in accordance with the terms and conditions of LC
2] Issuing Bank.	It is a buyer's Bank that issues the Letter of credit and undertakes to pay if the docs received from the nominated bank comply with the LC terms. The bank has up to 5 days to examine the documents

3] <u>Advising Bank.</u>	<ul style="list-style-type: none"> Issuing Bank Branch in exporter country to whom LC is sent for onward transmission to the seller or beneficiary after <u>authentication of genuiness of credit.</u>
4] <u>Beneficiary.</u>	<ul style="list-style-type: none"> party to whom the credit is addressed. i.e. seller or exporter or the supplier of the goods payment is received from the Nominated bank within <u>21 days</u> of shipment, as per LC terms.
5] <u>Negotiating Bank.</u>	<ul style="list-style-type: none"> The Bank nominated by the issuing bank to negotiate the documents submitted by exporter. It claims payment <u>from opening Bank and get 3 days</u> to check the document.
6] <u>Reimbursing Bank</u>	<ul style="list-style-type: none"> Third bank <u>which repays, settle or funds</u> the negotiating bank at the request of <u>its principal</u>, the issuing bank.
7] <u>confirming Bank.</u>	<ul style="list-style-type: none"> The Bank adding confirmation to the credit which undertake the responsibility of payment by the issuing bank and on his failure, to pay.

Documents Under L.C.

- 1] Bills of Exchange -
- If exporter is not getting paid immediately he receives a BOE on shipping.
 - The Bill of exchange issued either in the name of the importer or the issuing bank.
 - It should clearly indicate the amount and other details.
 - It should clearly indicate the LC number
- 2] Commercial Invoice -
- Prepared by beneficiary which contain
 - Details of goods - value, qty, weight, address importer's name etc.
 - comm. invoice should exactly reflect the description of the goods as mentioned in LC
 - It should indicate the terms of sale correct like FOB, C&F, CIF etc.
 - other details.

3] Transport Document -

- when goods are shipped from one port to another port the transport document issued is called the bill of lading
- Goods can be transported by means of airways, waterways, roadways depending upon the situation.
- The doc. is called (B/L, AWB, LR, RR) in (in case of a single transaction).
- when different modes are used to transport the goods a single document Multi modal transport doc can be used.

4] Bill of Lading (B/L) -

- It is a shipment document, evidencing the movement of goods from the port of acceptance to the port of destination
- signed and issued by the shipping co or authorised agent
- B/L should clearly indicate
 - Description of goods shipped
 - condition of goods - "clean" or otherwise
 - the gross and net weight
 - Freight payable or prepaid.

5] Insurance policy / certificate

- classified as a document to cover risk
 - must be issued by the insurance co or their authorised agent.
 - Issued in the same currency in which the LC has been issued.
 - It should be issued to cover All risks
 - unless otherwise specified, it should be issued for an amt of 110% of CIF value of goods.

6] other Documents

- All required documents have to be submitted by the beneficiary.
- Docs like certificate of origin indicates the origin of goods.
- origin of goods should not be from any prohibited nations.

Bank Guarantee

Financial Guarantee.

- Banker issues guarantee in favour of a govt. dept. against caution deposit or earnest money to be deposited by bank's client.
- This type of guarantee helps the bank's customer to bid for the contract without depositing actual money.
- In case contractor does not take up the awarded contract, the govt. dept. would invoke the guarantee.

Performance Guarantee.

- Issued by bank on behalf of their clients to assure the third party to complete some work on time or as per the terms of contract.
- If work is not completed as per the terms of contract then third party can request the bank to invoke guarantee
- Performance bank guarantee are issued guaranteeing due performance of contract or obligation of the borrower.

Deferred Payment Guarantee.

- Under this guarantee payment of instalments spread over a period of time
- Here, bank undertake to make payment of instalments payable by the buyer of capital goods.
- Normally adv. payment of 10-15% of the price of the capital goods is made by the borrower.
- on expiry of validity period of bank guarantee, a registered acknowledgement due notice is to be sent to the beneficiaries, indicating the liability of bank stands discharged.

Amendment :-

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→ Before Amendment - F.V. of 1,00,000 and 1,00,00,000 were mandatory for debt securities listed on SE or OTC basis.

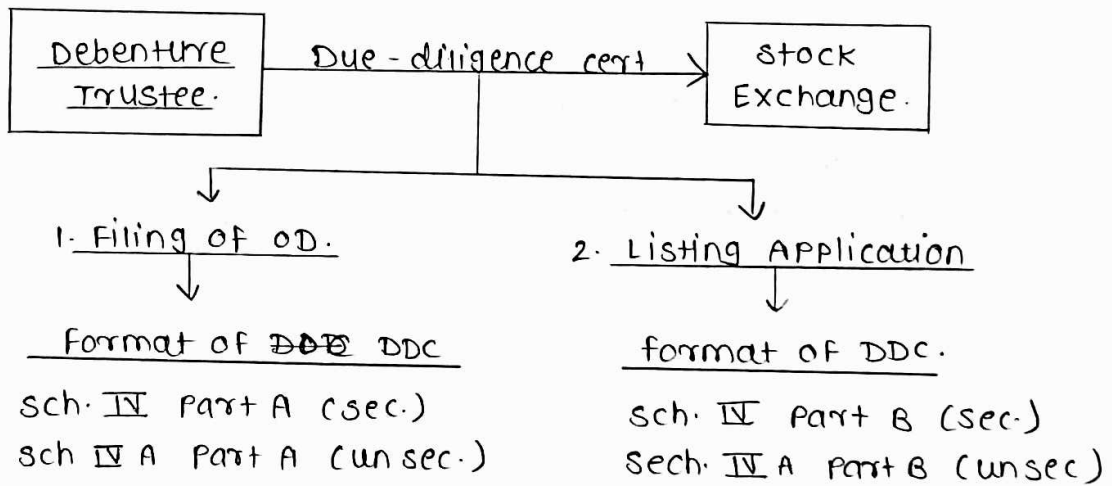


Post Amendment - Debt securities with F.V. of 10,000 can be issued for private placement basis sub. to certain conditions -

- MB mandatory
- credit enhancement (optional)
- tranche placement also allowed.

② Issuer shall fix a record date for the purpose of int. of payment of interest, dividend and payment of redemption or repayment amount. Such record date shall be fixed at least 15 days prior to the due date of payment.

③



④

FOR NCS.

- | | | | |
|--|---------------------|---|---------------------------|
| <u>period for seeking pub. comments.</u> | 7 days | → | 5 WD. |
| <u>Advt. of public issue</u> | NR | → | N.P. or electronic medium |
| <u>period of subscription</u> | min 3 WD | → | Min 2 WD |
| <u>Extended the bidding period.</u> | 8 WD | → | 1 WD |

⑤ Introduction of Liquidity window facility thr. SE

- SEBI has introduced liquidity window facility for investors in debt securities through stock exchange mechanism which allows investors holding listed debt securities to sell them back to the issuer using put option on specific dates ensuring liquidity.
- The liquidity window can only be provided at the discretion of the issuer.
- Prior approval of BOD is required.
- Monitor by stakeholder rel. com. → if SRC (X) → BOD, Board level com.
- Issuer have the option to specify the classes of investors after the expiry of 1 year.
- Put option shall be kept open for a min of 3 WD. The liquidity window facility can be provided a monthly or quarterly basis but the schedule of such facility shall be provided upfront in OD.
- After closure of a liquidity window, the issuer is required to submit a report to SE on which such debt are listed.



This is applicable only to those companies
- which are listing their securities and
- have offered a put option to the investors.