



# **EXPORT-IMPORT BANK OF INDIA**

## **EXPORT LINES OF CREDIT**

**(A SAFE AND CONVENIENT EXPORT FINANCING OPTION  
WITH FOCUS ON SME SECTOR)**

### **EXPORT-IMPORT BANK OF INDIA LOC GROUP**

**Phone :** (+91 22) 22162073  
(+91 22) 22182948  
(+91 22) 22172307/08/09/10/20/22  
**Fax :** (+91 22) 22182460  
**E-mail :** [eximloc@eximbankindia.com](mailto:eximloc@eximbankindia.com)  
**Website:** [www.eximbankindia.com](http://www.eximbankindia.com)

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# **GENERAL GUIDELINES ON EXIM LINES OF CREDIT (LOCs)**

## **Introduction**

Exim Bank extends Lines of Credit (LOCs) to overseas financial institutions, regional development banks, sovereign governments and other entities overseas, to enable buyers in those countries, to import goods and services from India on deferred credit terms. The Indian exporters can obtain payment of eligible value from Exim Bank, without recourse to them, against negotiation of shipping documents. LOC is a financing mechanism that provides a safe mode of non-recourse financing option to Indian exporters, especially to SMEs, and serves as an effective market entry tool. Exim Bank extends LOCs, on its own, as well as, at the behest of Government of India.

## **How does it work?**

1. Exim Bank signs LOC Agreement with overseas Borrower Institution (Borrower) and announces the availability of LOC for utilization, when the Agreement becomes effective.
2. Exporter checks with Exim Bank, available amount under the LOC and quantum of service fee payable to Exim Bank, if any, and negotiates contract with Importer.
3. Importer approaches the Borrower for approval of the contract.
4. Borrower appraises the proposal. If satisfied, approves the contract and refers to Exim Bank for concurrence for inclusion of contract for being financed under the LOC.
5. Exim Bank accords approval to the contract, if in conformity with the terms of LOC. Exim Bank conveys contract approval to the exporter and the Borrower.
6. The Importer arranges remittance of advance payment to the Exporter and also opening of a Letter of Credit, which states that the contract is covered under Exim Bank's LOC to the Borrower and reimbursement will be by Exim Bank for the Eligible Value of Credit, upon compliance with stipulated conditions therein.

7. Exporter executes the contract/ships the goods/provides services.
8. Exim Bank/commercial bank in India, designated as the Negotiating Bank negotiates shipping documents and pays the exporter.
9. Exim Bank reimburses the Negotiating Bank, on receipt of valid claim and service fee, as applicable, by debit to the LOC account of the Borrower.
10. Borrower repays Exim Bank on due dates.

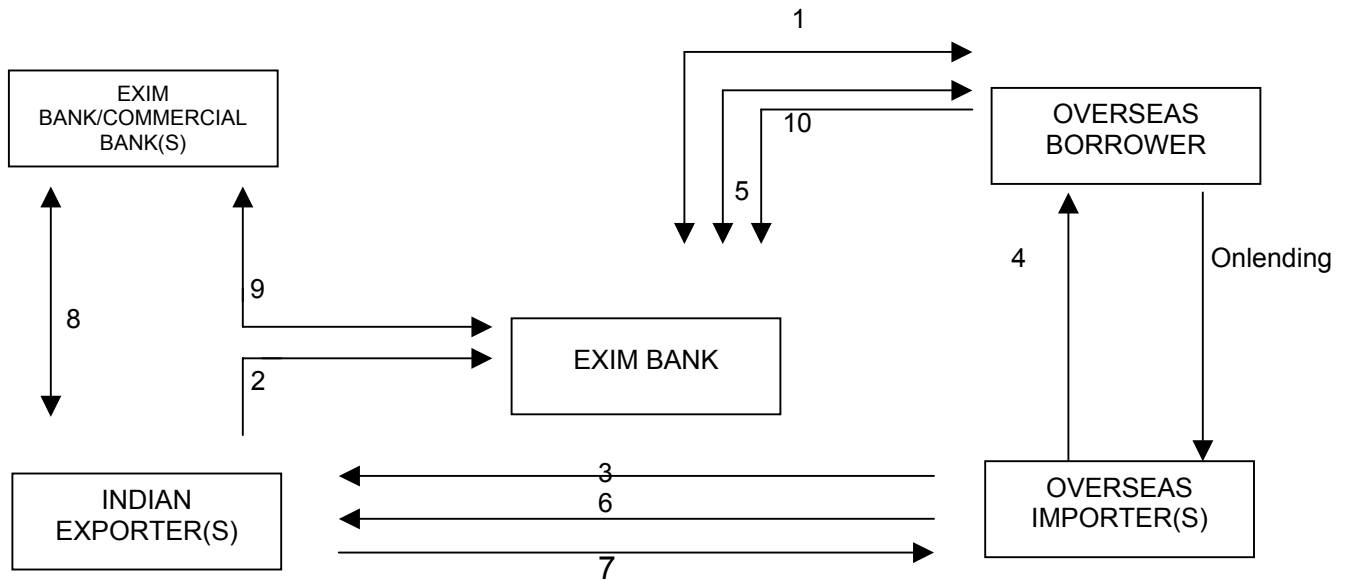
### **Eligible Goods**

Capital goods, plant and machinery, industrial manufactures, consumer durables and any other items eligible for being exported under the 'Exim Policy' of the Government of India.

### **General**

- Exporters are advised to check with Exim Bank before finalizing the contracts with the buyers, details of service fee and other charges, if any, payable by the exporters on the contracts to be covered under the relative LOC.
- For terms and particulars of specific LOCs, please refer to relevant brochures available with Exim Bank's offices in India.
- Indian exporters requiring additional information or clarifications are welcome (a) to visit Exim Bank's website [www.eximbankindia.com/loc.html](http://www.eximbankindia.com/loc.html), which contains detailed information on Bank's LOCs, with a multilingual option, viz. Spanish, French, Russian, Portugese, besides English, and/or (b) to contact any of Exim Bank's offices in India/overseas.

## LINES OF CREDIT PROCEDURAL FLOWCHART



1. Exim Bank signs agreement with Borrower and announces when effective.
2. Exporter checks procedures and service fee payable, if any, with Exim Bank and negotiates contract with Importer.
3. Importer consults Borrower and signs contract with exporter.
4. Borrower approves contract.
5. Exim Bank approves contract and advises Borrower and also exporter and his negotiating bank, in India.
6. Importer establishes L/C in favor of Exporter.
7. Exporter ships goods.
8. Exim Bank/commercial bank negotiates shipping documents and pays exporter.
9. EXIM Bank reimburses commercial bank on receipt of claim and debits LOC account of the Borrower.
10. Borrower repays EXIM Bank on due dates.

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## **FREQUENTLY ASKED QUESTIONS (FAQs) ON EXIM BANK'S LOCs**

**1. What are the benefits of LOC to the Indian exporter?**

Under Exim Bank's LOCs, the Indian exporters can obtain payment of eligible value from Exim Bank, without recourse to them, against negotiation of shipping documents. The Indian exporter does not carry any credit risk either on the importer or the importer's country, whilst the overseas importer enjoys deferred credit facility. Thus, LOC is a safe mode of non-recourse financing option to the Indian exporter and serves as a market entry tool for India's exports. The Indian exporter can also increase his export volumes by offering deferred credit, where required.

**2. What are the benefits of the LOC to the overseas importer of Indian goods and services?**

Exim Bank has been using the LOC mechanism for promoting India's exports to the traditional as well as new markets in developing countries, which need deferred credit for buying Indian machinery, goods and services. As the LOC is extended by Exim Bank on internationally competitive terms, the overseas importer of Indian goods is allowed access to the credit facility at competitive interest rates. The overseas importer and the Indian exporter do not have to negotiate credit terms separately as the credit arrangement between Exim Bank and the overseas borrower financial institution is already in place.

**3. What are the goods eligible for being financed under the LOCs?**

Under the LOCs, export of capital goods, plant and machinery, industrial manufactures, consumer durables and any other items eligible for being exported under the 'Exim Policy' of the Government of India can be financed.

**4. What is the interest rate the overseas importer of Indian goods has to pay?**

The overseas importer of Indian goods has to approach the overseas borrower financial institution/recipient of Exim Bank's LOC, for approval of his proposal for import of Indian goods on deferred credit terms. The interest rate that the importer will need to pay to the recipient of Exim

Bank's LOC, will depend on various factors such as the cost of fund, the currency of credit, tenor of credit, security offered by the importer, the risk perception of the importer and the interest rate structure prevalent in the country. It may however be mentioned that Exim Bank's interest rates on LOCs being competitive, the importer would normally have to pay interest rate lower than what he would otherwise pay to his Bank on similar credits.

**5. Does the Indian exporter need to take ECGC cover?**

As the LOC is a non-recourse financing option to the Indian exporter, he does not have to obtain any ECGC cover.

**6. What are the charges payable by the Indian exporter to Exim Bank?**

In respect of certain LOCs, the Indian exporter has to pay a service fee to Exim Bank. The exporter should check in advance with Exim Bank the quantum/percentage of service fee payable. In respect of LOCs extended by Exim Bank, at the behest of Government of India, no service fee is normally payable by the exporter to Exim Bank.

**7. Is there any minimum value of contract for being eligible for coverage under the LOC?**

Most of the LOCs stipulate a minimum contract value as US\$ 50000. However, under certain LOCs, the minimum value of contract could be different. Exporters would be well advised to check the particulars of the individual LOC with Exim Bank.

**8. What is the credit period allowed under the LOC?**

Generally, export of capital goods and plant and machinery is allowed on credit terms of upto 5 years, whereas the export of industrial manufactures, consumer durables, raw materials and commodities is allowed on credit terms of upto 2 years. However, the credit period allowed under each LOC could be different. There are certain short-term LOCs which provide for credit period of 1 year, and there are certain LOCs which permit credit period beyond 5 years. Exporters are advised to check the details with Exim Bank, in advance. In respect of LOCs extended by Exim Bank, at the behest of Government of India, credit period ranges from 8 years to 20 years depending on the categories of countries, based on their levels of incomes and external debts.

**9. At what stage the Indian exporter should contact Exim Bank?**

The Indian exporter should contact Exim Bank before finalizing the price negotiation with his prospective importer, if the transaction is intended to be covered under Exim Bank's LOC. The exporter should ascertain details such as the service fee payable to Exim Bank, the credit period permissible under the LOC, the payment procedure involved and the contact person/department in the overseas borrower institution/recipient of LOC. In respect of certain LOCs especially those extended by Exim Bank, at the behest of Government of India, sectors/projects could be pre-identified.

**10. Does the overseas importer have to open Letters of Credit (L/Cs)? Does the importer pay normal charges payable on opening L/Cs?**

Under most of the LOCs of Exim Bank, the overseas importer of Indian goods needs to open, through his Bank, a Letter of Credit in favour of the Indian exporter, which states that the eligible value of contract would be reimbursed by Exim Bank, directly, or where specifically designated, through the negotiating bank in India, as per the terms of the contract approval and in accordance with the LOC Agreement between Exim Bank and the recipient of the LOC. Since the L/C opening bank, in such cases, does not undertake payment obligation, the L/C opening bank would only levy nominal handling charges to the importer at whose instance the L/C is opened. Exim Bank itself can undertake negotiation of documents under the L/Cs opened under the LOCs.

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