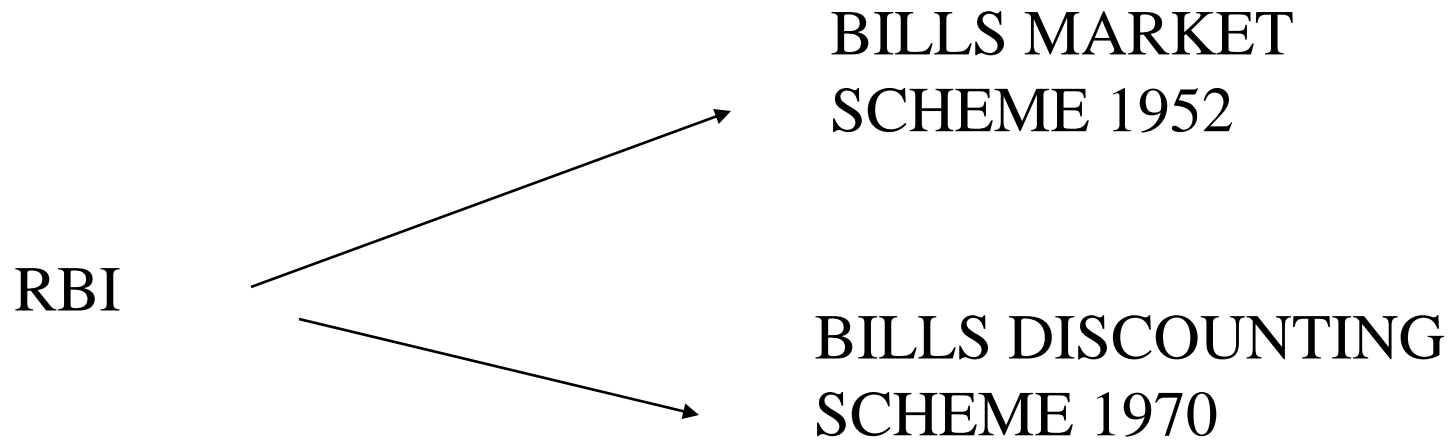




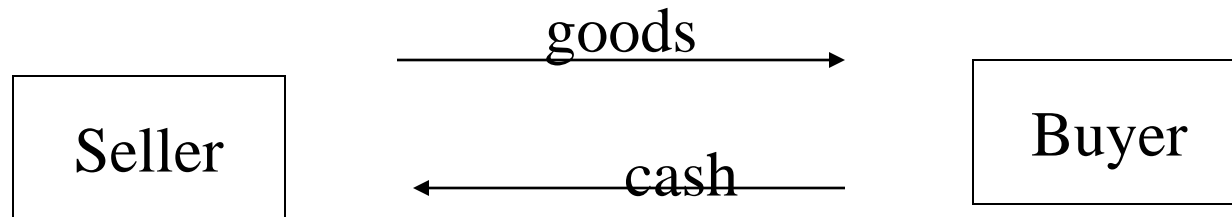
BILLS DISCOUNTING

1. BILLS & TYPES
2. BILLS DISCOUNTING & ADVANTAGES
3. IMPEDIMENTS & GUIDELINES
4. BILLS DISCOUNTING vs. FACTORING

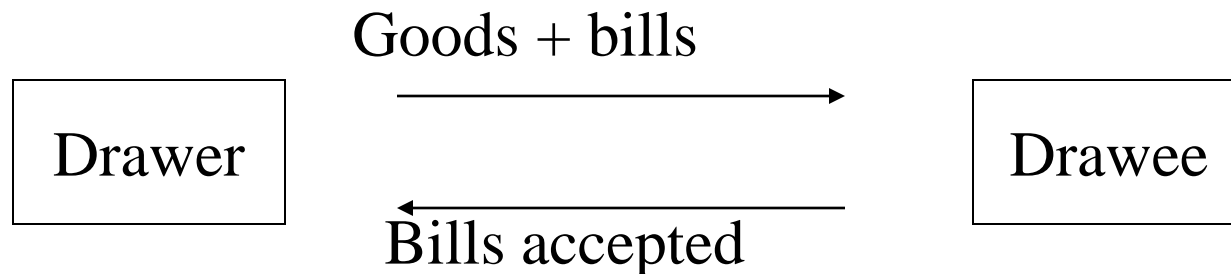
COMMERCIAL BILLS



i



ii

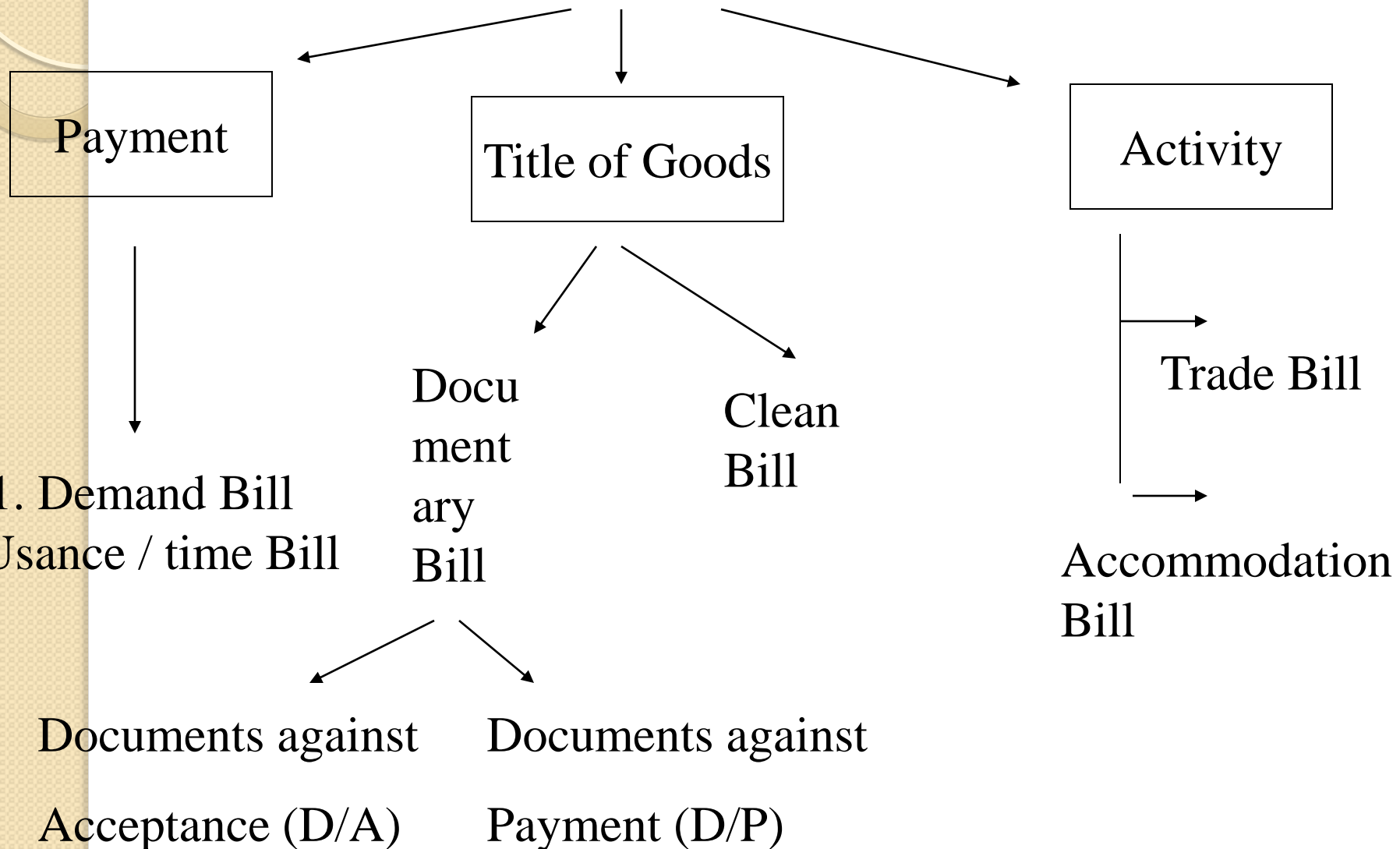


Bill of Exchange

(Negotiable Instruments Act, 1881)

“ The Bill of Exchange is an instrument in writing containing an unconditional order, signed by maker, directing a certain person to pay a certain sum of money only to, or to the order of, a certain person, or to the bearer of that instrument”.

Types of Bills



OPTIONS TO THE DRAWER OF BILLS

1. HOLD IT TILL MATURITY
2. DISCOUNT IT WITH A
DISCOUNTING AGENCY

(Bank, NBFC, Company or a high net worth individual)

SOME OF THE TERMS USED IN BILLS DISCOUNTING

- a. READY MONEY
- b. FACE VALUE
- c. MARGIN / DISCOUNT
- d. MATURITY PERIOD
- e. KITE FLYING

Advantages to the drawer (Investor)

1. Short-term source of finance
2. Does not come under purview of section 370 of Indian Companies Act, 1956
3. Not considered as lending, so no TDS
4. Rates on discounting < rates on ICDs
5. Flexibility



Advantages to the Financier (Bank / NBFC)

1. Safety of funds
2. Certainty of payment
3. Profitability
4. Reduction in inter-bank liquidity problems



IMPEDIMENTS IN THE DEVELOPMENT OF BILLS MARKET

1. Stamp duty
2. Supplies of stamp paper
3. Reluctance in acceptance
4. Cash credit system
5. Administrative work
6. First class bills (negotiable & marketable)
7. Banks role

Exercise

If the discount rate of a bill with a face value of Rs. 1,00,000 is 20%. What is the effective interest rate, if the usance period is 90 days.

RBI GUIDELINES (1992)

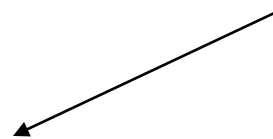
- No facility outside consortium arrangement
- Part of working capital
- Bills for purchase of raw material / inventory
- Accommodation bills not to be discounted
- Rediscounting of usance bills
- Not to deploy funds for portfolio management
- Overall credit limit for NBFCs > 3 times net worth
- LC backed bills NOC from Beneficiary bank

LC (letter of Credit)

Letter of credit is a financial instrument issued by a bank on behalf of purchaser of goods, undertaking responsibility to pay a certain amount during a specified period, for goods delivered.

CREDIT EVALUATION

- APPRAISAL OF CUSTOMER
 - OPERATIONS
 - FINANCIAL VIABILITY
 - CREDIT EVALUATION OF DRAWEE
 - IBA BULLETIN
 - CREDIT INTELLIGENCE DATABASE
- REVIEW LIMITS
 - QUANTUM OF BUSINESS
 - CREDIT WORTHINESS (DRAWER)
 - CREDIT WORTHINESS (DRAWEE)
 - NATURE OF INDUSTRY
 - PAST PERFORMANCE



Utilization, drawee payments,
drawer payments

FACTORING

An arrangement between a factor and his client which includes at least two of the following services provided by the factor

- * Finance
- * Maintenance of accounts
- * Collection of debts
- * Protection against credit risk

Differences between Factoring & bill discounting

- Recourse
 - Drawer collects
 - Provision of finance
 - Rediscounting possible
 - Individual transaction
- Recourse / without recourse
 - Factor collects
 - Also additional services
 - Rediscounting not possible
 - Bulk financing

FORFAITING

It is a form of financing of receivables pertaining to international trade. It denotes the purchase of trade bills/promissory notes by a bank / financial institution without recourse to seller. Purchase in the form of discounting covering entire risk of non payment in collection.

Features

1. Exporter sells goods and delivers them
2. Importer purchases on deferred payment
3. Importer draws promissory notes or accepts bills of exporter
4. Promissory notes or bills are guaranteed by a bank
5. Guarantee by bank is known as Aval.

FEATURES

6. Exporter enters in to a forfaiting arrangement with exporters bank
7. Exporter sells ovalled notes / bills at discount without recourse.
8. Payment by forfaiter to the exporter.
9. Forfaiter holds till maturity or securitizes and sells.

FORFAITING AGREEMENT

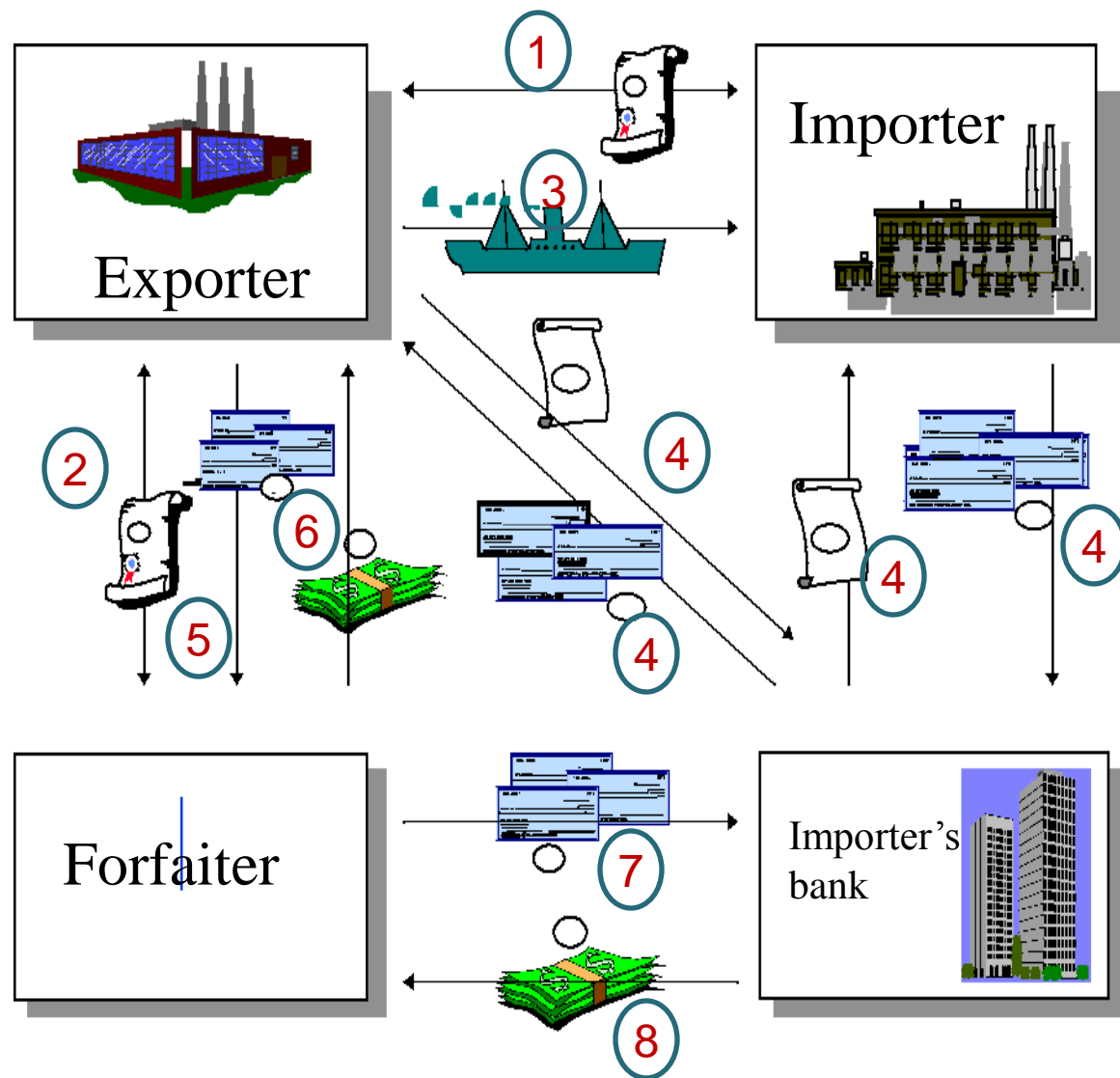
- a. Cost of forfaiting
- b. Margin to cover risk
- c. Commitment charges
- d. Days of grace
- e. Fee to compensate the forfaiter for loss of interest due to transfer & payment delays
- f. Period of forfaiting contract
- g. Installment of repayment

Rate of interest / discount

1. Terms of note / bill
2. Currency
3. Credit rating of availing bank
4. Country risk

Factoring vs. Forfaiting

1. Discounting
2. Decision
3. Nature of transaction
4. Term
5. Foreign exchange



1. Commercial Contract 2. Forfaiting arrangement 3. Delivery of goods
 4. Delivery of drafts against shipping documents 5. Endorsement of drafts with shipping & trade documents 6. Payment of amount less discount
 7. Presentation of drafts on maturity 8. Payments of drafts

Thank you

