

Case Study 1

Example of Maturity Factoring

Players

1. DHAN - Indian Manufacturer & Exporter
2. JOHN – USA Based Buyer
3. SURAKSHA – India Based Credit Insurance Provider
4. WIDGET – Singapore Based First Class Bank
5. ACME – DHAN's Local Indian Bank and Arranger
6. TRUST – JOHN's local USA Based Bank

Roles

1. DHAN – The Exporter and Final Beneficiary
2. JOHN – Will Purchase Goods and Remit Funds to DHAN
3. SURAKSHA - They will provide a Credit Insurance Cover through Maturity Factoring
4. WIDGET – Bank They will discount the bills on behalf of ACME and remit the funds to ACME
5. TRUST – They will send the bills to JOHN for acceptance and remit funds on due date to WIDGET
6. ACME Bank – Will play the role of an advisory bank, check all documents for discrepancies and credit the account of DHAN on receipt of funds from WIDGET

Transactions

1. DHAN has a firm order to supply to JOHN and enters into a contract with it
2. DHAN approaches SURAKSHA to get limits on Maturity Factoring
3. SURAKSHA runs a check on the buyer and sanction limits to DHAN

4. DHAN approaches ACME Bank for Export Bill Discounting Limits
5. ACME Bank runs a check on DHAN and sets up the limits
6. DHAN exports the goods to JOHN and presents Documents in triplicate to ACME for payment
7. ACME Bank inspects all documents for any discrepancies and if any asks the client to rectify it
8. The documents without discrepancies are sent to WIDGET (1 Set) and 1 additional set to SURAKSHA
9. JOHN accepts the documents and sends a copy back to WIDGET retaining the originals.
10. WIDGET remits funds to ACME Bank after deducting all Incidentals at actuals, which will be minimum 80% of the invoice value and sends the documents to TRUST for acceptance by JOHN
11. ACME Bank will credit the client's account after deducting SURAKSHA's charge, Advisory Fees and all Incidentals at actuals
12. TRUST forwards the documents to JOHN for acceptance and for clearing the goods
13. JOHN accepts the documents and sends a photocopy to JOHN
14. The Goods arrive in USA and are custom cleared by for onward journey to JOHN
15. The goods reach JOHN's warehouse.
16. The original documents are sent back to TRUST
17. On due date JOHN Buyer asks TRUST to remit the total invoice value to DHAN through WIDGET

18. TRUST remits the 100% Invoice Value to WIDGET

19. WIDGET then repatriates the funds to ACME Bank after deducting its Bill Discounting Charge and all Incidentals at actuals.

20. Transaction Ends

Time Frame

30 Days to manufacture the goods

19 Days for goods to reach USA once ship sets sail from India

5 Days for goods to reach end buyer once on road

Commodity

Brass in form of Strips, Coils and Foils

Quantity

500 MT

Amount

US\$ 1,000,000=00

Tenor

90 Days from Bill of Lading

Costing

Assumptions:

1. The Invoice Value is US\$ 1,000,000=00
2. WIDGET pays 80% on presentation of Documents
3. The Balance 20% will be paid on actual realisation
4. The Export Bill Discounting Charges will be shared equally between ACME Bank and WIDGET
5. The US\$ to Rupee Conversion Rate is 1US\$ = ₹ 65

Receipts: DHAN – 1st Leg

S. No.	Particulars	Amount (₹)
1.	80% of US\$ 1,000,000=00	52,000,000=00

Payments: DHAN – 1st Leg

S. No.	Particulars	Amount (₹)
1.	Application Fee	10,000=00
2.	Set Up Fees (0.1% of Limits Set Up or 1% of US\$ 1,000,000=00)	65,000=00
3.	Document Handling Costs	1,200=00
4.	Credit Protection Costs (1.80% of US\$ 1,000,000=00)	1,170,000=00
5.	Advisory Fees	1,000=00
TOTAL		1,248,200=00

Balance: DHAN – 1st Leg

₹ 50,751,800=00

Receipts: DHAN – 2nd Leg

S.No.	Particulars	Amount (₹)
1.	Balance 20% Amount of US\$ 1,000,000=00 Received from JOHN after due date	13,000,000=00

Payments: DHAN – 2nd Leg

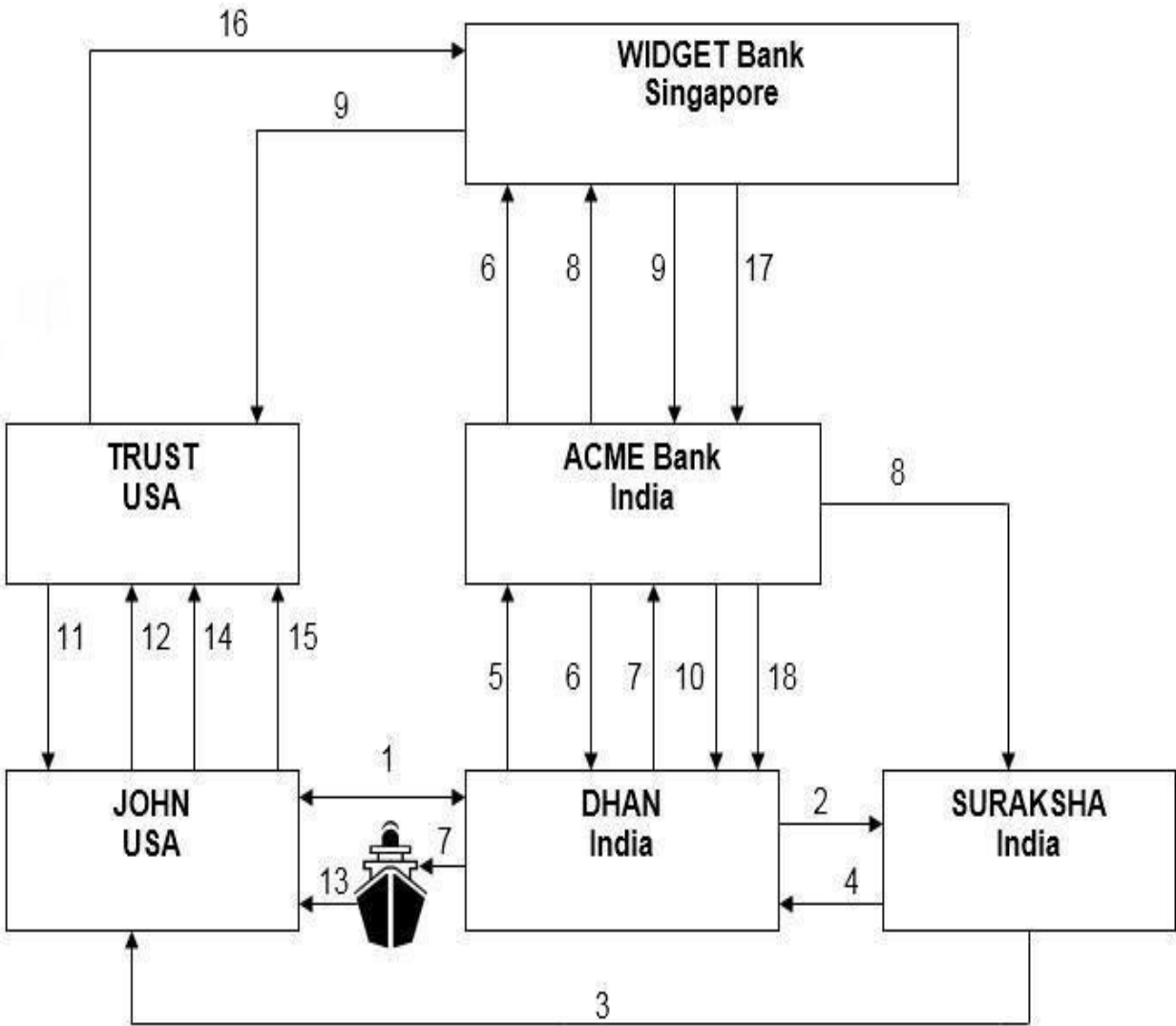
S.No.	Particulars	Amount (₹)
1.	Discounted Export Bill @ US\$ LIBOR (1.50) + 200 Basis Points For 90 Days for 80% of US\$ 1,000,000	448,767=15
2.	All Other Incidentals (US\$ 2,000)	130,000=00
TOTAL		578,767=15

Balance: DHAN – 2nd Leg ₹ **12,421,232=85**

Conditions:

1. The Credit Protection Charges will be paid to SURAKSHA
2. All Documents to be routed ACME Bank
3. The Fees for Discounting the Export Bills will be shared equally – 100 Basis Points to ACME Bank and 100 Basis Points to WIDGET. In other words 1% of US\$ 1,000,000=00 will give **US\$ 10,000=00** or ₹ **650,000=00** to ACME Bank

Flowchart



Event Table

<u>STEP NO.</u>	<u>DAY NO.</u>	<u>EVENT</u>
1.	1	Contract Between DHAN and JOHN
2.	2	DHAN Approaches SURAKSHA for Maturity Factoring
3.	3	SURAKSHA runs a check on JOHN
4.	19	SURAKSHA approves JOHN and sets up limits
5.	20	DHAN approaches ACME Bank for Export Bill Discounting
6.	27	ACME Bank runs a check on DHAN and sanctions limits ACME Bank notifies WIDGET
7.	58	Goods shipped to JOHN Documents sent to ACME in triplicate
8.	60	1 set of Documents sent to SURAKSHA and 1 set sent to WIDGET
9.	64	WIDGET remits to ACME, 80% of Invoice Value after deducting its expenses WIDGET sends the documents to TRUST for acceptance by JOHN
10.	65	ACME Bank credits DHAN's Account after deducting its expenses
11.	69	TRUST sends the documents to JOHN for Acceptance and Customs Clearance of Goods
12.	71	JOHN accepts the Bills and faxes/couriers the acceptance copy to TRUST
13.	82	Goods reach USA and are custom cleared by JOHN and delivered to its Warehouse
14.	83	JOHN sends back all Original Documents to TRUST
15.	149	JOHN's Instructs TRUST to remit The Invoice Value to WIDGET
16.	149	TRUST on JOHN's Instructions remits The Invoice Value to WIDGET
17.	150	WIDGET repatriates the funds to ACME Bank in India after deducting its expenses
18.	151	ACME Bank credits DHAN's Account after deducting its expenses
19.	151	TRANSACTION ENDS

Note: Assumptions

1. Agreement is in place between
 - a. ACME Bank and WIDGET

b. ACME Bank and SURAKSHA

2. JOHN accepts the documents with the condition that any dispute would be raised within maximum 25 days of receipt of goods

3. DHAN will have to take a forward cover to hedge the forex risk

4. The whole transaction is with recourse to DHAN

5. DHAN may have to give sureties for the Interest Component

6. If the Bills get crystallized for any reason, SURAKSHA will pay the value lent in Rupees Equivalent according to the exchange rates prevailing on the date of payment