

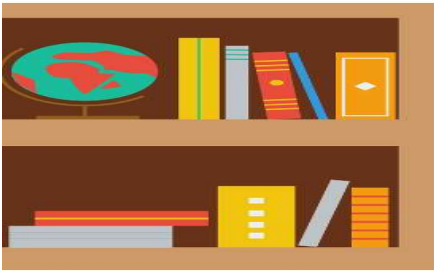
FEMA Ke Fundae

#FamiliarwithFEMA

**BASICS OF TRADE CREDIT
(Part 1 of 3)**

Issue No :61

Date : 9th August, 2023

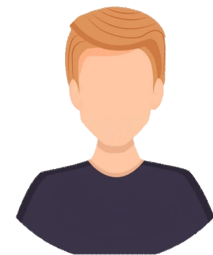




Aman- Importer

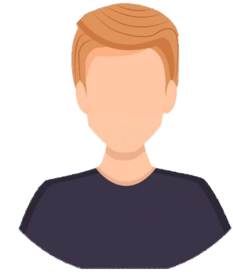
Hi Mr FEMA Gyani. Hope you are doing good.
I have a company in India which is engaged into the business of manufacturing of Electronic appliances. We want to import some components from USA but due to working capital crunch these days, we are not in position to make payment to the supplier. However, the supplier offered us to raise 3 months trade credit for the same so that I can import the goods. Can you explain me what is trade credit?

Sure Aman. I will provide you a brief about trade credit.



The FEMA Gyani

Trade Credits are the credits which are extended directly by the overseas supplier, bank and financial institution, **for imports of capital/non-capital goods** which are allowed under Foreign Trade Policy.



The FEMA Gyani

Depending on the source of finance, there are two forms of Trade Credit:

**Suppliers
Credit**



**Buyers
Credit**



Aman

Ok. What is the difference between the two?



The FEMA Gyani



Suppliers Credit

Supplier's Credit relates to the credit that is extended for imports into India directly **by the overseas supplier** rather than a bank or financial institution (FI).

Trade Credit

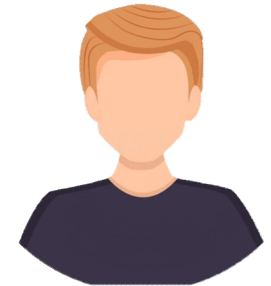
Buyers Credit

Buyer's Credit refers to the loans required to make payments for imports into India that are arranged **by the importer from a bank or a FI outside India** for maturity of < 3 yrs.



Aman

Ok. In my case, I am offered to avail credit from supplier, then it is suppliers' credit?



The FEMA Gyani

Yes, it is supplier's credit.



Aman

Got it. How can I avail the facility of Trade Credit?



There are **two routes** through which you can raise Trade Credit, one is the **Automatic Route** and the other one is the **Approval Route**. Let me explain the criteria for each of them.



The FEMA Gyani

Automatic Route

For Oil/ Gas Refining & Marketing, Airline and Shipping Companies

Upto **USD 150 million** or equivalent per import transaction

For Others:

Upto **USD 50** million or equivalent per import transaction

Approval Route

The proposals involving trade credit for import of non-capital and capital goods beyond the automatic route limit specified are **considered by the RBI**.



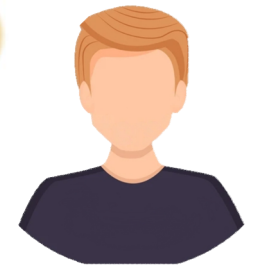
Approval from RBI



Aman

Ok. One more question, If I want to avail loan for my working capital requirements other than importing goods from an overseas lender, can I avail trade credit?

No Aman, Trade credit can be availed only for the import of goods into India. If you want to raise an overseas loan without any import of goods, you can raise it through **External Commercial Borrowing (ECB)**.



The FEMA Gyani



Aman

Okay. Got it.

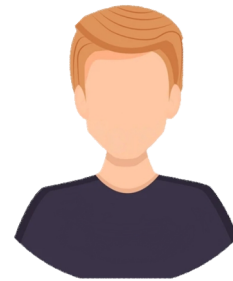


In the next part, we will cover: **Period of Trade Credit, All-in-cost Ceiling Limit, Exchange Rate, Security to avail TC.**

**To be continued
next WEDNESDAY...**



Thank You



The FEMA Gyani

Comments

Feedbacks

Suggestions



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International Tax Gyan   
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