

FEMA Ke Fundae

#FamiliarwithFEMA

EXPORT FACTORING

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Ms. Tarini
(Owner of Taru
Spices Pvt Ltd.)

Hello Mr FEMA Gyani. Hope you're doing well. I have a business of **exporting spices**. Recently I have exported to Sera Snacks, USA, of which payment of \$ 250,000 will be received after the **credit period of 60 days**. But now I am facing working capital crunch. As I am searching for a short term loan facility to meet my working capital requirements, one of my friend suggested me to avail the facility of export factoring. But I am unaware about the concept of export factoring, can you please brief it to me?

Hello Ms. Tarini. **Export factoring** is a credit facility provided by **Authorised Dealer (AD)** banks wherein the AD bank **purchases the trade invoices from the exporter** with a view to facilitate a **loan amount** to the exporter to enable the cash flow and meeting working capital requirements of the exporters. However, AD banks will recover the amount from the foreign importer against whom the trade invoices are due.



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Ms. Tariq
(Owner of Taru Spices Pvt Ltd.)

Oh okay. This sounds interesting and beneficial as well. I had one question that on what **basis** the **credit amount** will be determined?

Your credit amount will be determined by **AD Bank** after considering the following points:



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1
Working Capital Requirement of the exporter.

2
Value of the invoices purchased by the AD Bank from the exporter.

3
Credit Evaluation details collected by the **Import Factor**.



Ms. Tarini

(Owner of Taru Spices Pvt Ltd.)

Who is the import factor? Please brief me about his role as well.



AD Bank sets up an arrangement with the a **bank in the importing country** for streamlining the credit evaluation and collection of funds from the importer. It act as an **intermediate party** which analyses the:

- 1. Creditworthiness of the importer,**
- 2. Provides credit protection,**
- 3. Collects the funds** from the importer and
- 4. Remits** back the funds to the AD Bank .



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Ms. Tarini

(Owner of Taru Spices Pvt Ltd.)

Oh okay. So as you have developed my interest in availing the facility of export factoring, can you please tell how can I **avail this facility?**

Sure. Here are the requirements which AD bank will ensure before advancing the credit to you:



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Their client should not be **not over financed**.

KYC and **due diligence** is properly been ensured.

Notation should be made on the **invoice** that importer has to make **payment to the Import Factor**.



Ms. Tarini
(Owner of Taru Spices Pvt Ltd.)

Okay Mr. FEMA Gyani.
Thanks for the help.



Thank You



The FEMA Gyani

Comments

Feedbacks

Suggestions



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