International Trade Finance for SME’s

Maharashtra SME Summit

Jointly Organised by SME Chamber of India and Maharashtra Industrial and Economic Development Association

Shailendra Jindal
C.E.O., Continental Capital Advisors
Mumbai, June 15, 2012
Agenda

Overview of International Finance

External Commercial Borrowings for SME’s

International Trade Finance for SME’s

Equity for Indian Companies

Q & A
Overview of International Finance
## Overview of International Finance

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*Continental Capital Advisors
Your Gateway to Global Capital*
ECB’s for Indian SME’s
External Commercial borrowings are one of the modes for sourcing of funds for corporate.

ECB can be accessed under two routes, viz.,
(i) Automatic Route and (ii) Approval Route.

ECB for investment in real sector-industrial sector, infrastructure sector-in India, and specific service sectors as indicated are under Automatic Route.

Automatic Approval

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**ECB – Eligible Borrowers**

<table>
<thead>
<tr>
<th>Automatic Route</th>
<th>Approval Route</th>
<th>Not Eligible</th>
</tr>
</thead>
<tbody>
<tr>
<td>• Indian Corporate including those in hotel, hospital and software sectors</td>
<td>• Exim bank for specific purposes</td>
<td>• Banks</td>
</tr>
<tr>
<td>• Infrastructure Finance Cos</td>
<td>• Banks/ FIs for textile or steel sector restructuring package</td>
<td>• Financial institutions</td>
</tr>
<tr>
<td>• Units in SEZ</td>
<td>• Infrastructure Finance NBFC’s</td>
<td>• Housing Finance Companies</td>
</tr>
<tr>
<td>• NGOs engaged in micro finance</td>
<td>• FCCBs by HFCs satisfying specified criteria</td>
<td>• NBFC’s</td>
</tr>
<tr>
<td></td>
<td>• SPV’s notified by RBI for financing infrastructure</td>
<td>• Individuals</td>
</tr>
<tr>
<td></td>
<td>• Multi-state Co-op Soc in mfg</td>
<td>• Trusts</td>
</tr>
<tr>
<td></td>
<td>• SEZ developers</td>
<td>• Non-Profit making Organizations</td>
</tr>
<tr>
<td></td>
<td>• Corporate in service Sector for more than US$ 200 m</td>
<td></td>
</tr>
<tr>
<td></td>
<td>• Erring corporate</td>
<td></td>
</tr>
<tr>
<td></td>
<td>• Cases falling outside AR</td>
<td></td>
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</table>
## ECB’s – Amount and Maturity

<table>
<thead>
<tr>
<th>Borrower under Automatic Route</th>
<th>Max amount in US $ million</th>
</tr>
</thead>
<tbody>
<tr>
<td>Hotel, Hospital and Software cos.</td>
<td>200</td>
</tr>
<tr>
<td>Other Corporate</td>
<td>750</td>
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<td>NGO’s in Micro finance</td>
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<tr>
<td>Additional ECB by other corporate with average maturity of more than 10 years</td>
<td>250</td>
</tr>
<tr>
<td>NGO’s in Micro finance</td>
<td>5</td>
</tr>
<tr>
<td>ECB in RMB by Infrastructure sector</td>
<td>1000</td>
</tr>
</tbody>
</table>

1. ECB up to USD 20 m should have a minimum average maturity of 3 years.
2. ECB above USD 20 m should have minimum average maturity of 5 Years
### ECB’s and Trade Credits - All-in-cost ceilings

<table>
<thead>
<tr>
<th>ECB Maturity</th>
<th>All-in-cost Ceilings over 6 months LIBOR*</th>
</tr>
</thead>
<tbody>
<tr>
<td>Between 3 and 5 Years</td>
<td>6 Month Libor + 300 bps</td>
</tr>
<tr>
<td>More than 5 years</td>
<td>6 Month Libor + 500 bps</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Trade Credits Maturity</th>
<th>All-in-cost Ceilings over 6 months LIBOR*</th>
</tr>
</thead>
<tbody>
<tr>
<td>Less than 3 years</td>
<td>6 Month Libor + 200 bps</td>
</tr>
</tbody>
</table>

* For the respective currency of borrowing or applicable benchmark.

**Overseas Borrowings**

- For 3 years or more are ECB’s and
- Less than 3 years are Trade Credits extended for imports.

**All-in-cost includes**

- Rate of interest, other fees and expenses in foreign currency
- Commitment fee, pre-payment fee and fees payable in Indian rupees
- Withholding taxes payable in Indian rupees
ECB – End Use

**Automatic Route**
- Import of Capital Goods
- New Projects
- Modernization/Expansion
- Infrastructure sector
- Service Sector viz. Hotels, Hospitals, Software
- Overseas Direct investment
- First Stage acquisition of disinvestment process in PSU’s
- Micro Credit
- Payment for Spectrum
- Infrastructure Finance Cos

**Approval Route**
- Import of Capital Goods
- New Projects
- Modernization/Expansion
- Infrastructure sector
- Service Sector viz. Hotels, Hospitals, Software
- Overseas Direct investment
- Refinancing of payment for Spectrum
- Take out financing for Infrastructure
- First Stage acquisition of disinvestment process in PSU’s and also the mandatory second stage offer

**Not allowed**
- On-lending
- Investment in Capital Market
- Acquiring a Company in India
- Money market Mutual Funds
- Real Estate Sector
- Working Capital
- General Corporate Purpose
- Repayment of existing Rupee loans
International Trade Finance for SME’s
The Transaction over Time

Exporter

Importer

The International Trade Cycle

Production

Port of Departure

Sea Transport

Customs!

Land Transport and Delivery

Final Payment
The Trade Relationships

- **Exporter**
  - **Unaffiliated Unknown Party**
    - A new customer with which that exporter has no historical business relationship
    - Requires:
      1. A contract
      2. Protection against nonpayment
  - **Unaffiliated Known Party**
    - A long-term customer with which there is an established relationship of trust and performance
    - Requires:
      1. A contract
      2. Possibly some protection against nonpayment
  - **Affiliated Party**
    - A foreign subsidiary or affiliate of the exporter
    - Requires:
      1. No contract
      2. No protection against nonpayment
Exporter Risk

High

Trade Terms

Open Account

Documentary Collection (Time)

Documentary Collection (Sight)

Letters of Credit (Time)

Letters of Credit (Sight)

Payment in Advance

Importer Risk

Low
International Trade Finance – Lifeline for SME’s

- Letters of credit (L/Cs)
- Import bills for collection
- Import financing
- Shipping guarantees
- L/C confirmation
- Checking and negotiation of documents
- Pre-shipment export financing
- Post-shipment credit
- Invoice financing and receivables purchase
- Export credit guarantees or insurance
Trade Credits’ (TC) refer to credits extended for imports directly by the overseas supplier, bank and financial institution for maturity of less than three years.

Depending on the source of finance, such trade credits include suppliers’ credit or buyers’ credit.

Suppliers’ credit relates to credit for imports into India extended by the overseas supplier. Buyers’ credit refers to loans for payment of imports into India arranged by the importer from a bank or financial institution outside India.

Buyers’ credit and Suppliers’ credit for three years and above come under the category of External Commercial Borrowings (ECB) which are governed by ECB guidelines.
Barriers in SME’s Finance

- Higher Transaction Costs
- Diverse and more opaque than large firms
- Limited collateral and carry higher risk of default
- Imperfect information about markets
- Less Transparency in operations
Equity for Indian Companies
## FDI limits – Illustrative list

### Automatic Route
- NBFC *
- IT / ITes
- Financial services*
- Telecom Sector (74% cap)*
- Insurance (26 % cap)*
- Real Estate*
- Special Economic Zones
- Infrastructure
- Shipping
- Manufacturing sector
- Hotels and tourism
- Agriculture

### Approval Route
- Existing Airports 100%
- ARC’s 49%
- Titanium Minerals 100%
- Tea plantations 100%
- Broadcasting*
- Courier 100%
- Print Media* 26%
- Single brand retailing 51%

### Negative List
- Cigars & Cigarettes
- Atomic energy
- Retail trading*
- Lottery, betting and gambling
- Chit fund, Nidhi company
- Trading in TDR’s

* Subject to conditions
Equity for Indian Companies (FDI)

Private Equity

American Depository Receipts (ADR’s)

• A negotiable certificate issued by a U.S. bank representing a specified number of shares (or one share) in a foreign stock that is traded on a U.S. exchange.

• ADR’s are denominated in U.S. dollars, with the underlying security held by a U.S. financial institution overseas.

• ADR’s help to reduce administration and duty costs that would otherwise be levied on each transaction.

Global Depository Receipts (GDR’s)

• The shares are held by a branch of an international bank.

• The shares trade as domestic shares, but are offered for sale globally through the various bank branches.

• A financial instrument used by private markets to raise capital denominated in either U.S. dollars or euros.

• A bank certificate issued in more than one country for shares in a foreign company.

Overseas Listing

FDI from Other Sources
Stages for raising International Finance and Pricing

1. Discuss and finalize the terms and conditions of the ECB.
2. Sign the mandate with CCA to arrange the ECB.
3. CCA will arrange end to end solutions as required for syndication.
4. Obtain required approvals from RBI/ Govt. of India.
5. Obtain exemption from withholding tax under Section 10(15)(iv) , if applicable.
6. Execute Loan Agreement and create charge on the securities.

Pricing of ECB’s

- Rate of interest / margin (linked with the risk profile of the borrower)
- Hedging Costs
- arrangement / upfront fee and other fees.
About Continental Capital Advisors (CCA)

Investment Banking firm based at Mumbai with network partners across the globe

Team of Expert PE advisors and Corporate Finance Specialists

Raising Private Equity, Corporate and Business Advisory Services

Project Finance and Working Capital Loans

Overseas Listing/ QIP/ Placements

Promoter and Acquisition funding, Mergers & Acquisitions

ECB’s/ Buyers’ Credit/ Suppliers’ Credit
Communications

Any clarifications can be addressed to the following:

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<thead>
<tr>
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Thanks for your patient hearing and Participation

Shailendra Jindal