

Internship Report



Nestlé

Good Food, Good Life



Inspiring Excellence

Internship Report
On
“Letter of Credit Transmission Process of Nestlé Bangladesh Limited and
Various Factors affecting it”

Course Name: Internship

Course Code: BUS 400

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Letter of Transmittal

December 03' 2017

Hasan Maksud Chowdhury

**Assistant Professor and Internship Coordinator
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Subject: Submission of Internship Report on “Letter of Credit Transmission Process of Nestlé Bangladesh Limited and Various Factors Affecting it”

Dear Sir,

It is my pleasure and a privilege to present my internship report on “**Letter of Credit Transmission Process of Nestlé Bangladesh Limited and Various Factors Affecting it**”. I am delighted to have had the opportunity of completing my internship in the **Finance department** of **Nestlé Bangladesh Limited**. It is a great honor for me to present my internship report under your supervision and guidance.

I was to arrange, prepare and submit this report as the complete fulfillment of the course entitled “Internship”. The objective of this report is to enlighten you about the letter of credit transmission process of Nestlé Bangladesh Limited and the various factors affecting it.

I have analyzed as much information as possible and tried to find out about strategy and business practices of the firm, why letter of credit transmission is such a critical function of Treasury, what factors impact its efficiency and how the process may be streamlined. I sincerely hope that my report will be informative and enlightening to the best of your expectations.

Sincerely,

Tannaz Tasnuva Ali,

Student ID: 13104213

Acknowledgement

Firstly, I would like to thank **Almighty Allah** for allowing me to submit this internship report on time, and in proper health. Next, I wish to offer my sincere gratitude to **Hasan Maksud Chowdhury, Assistant Professor and Internship Coordinator**, BRAC Business School, BRAC University, for providing me an opportunity to do my internship report on “**Letter of Credit Transmission Process of Nestlé Bangladesh Limited and Various Factors affecting it**”

Moreover, I sincerely thank **Mahammad Abdul Hai, Manager- Treasury**, who was also my Supervisor at Nestlé Bangladesh Limited. Without his guidance, it would not have been possible for me to understand all the business processes that are carried out in the Treasury Department.

I would also like to thank **Nakibul Hoq, Trainee Officer – Treasury**, for sharing his expertise and providing me with guidance and encouragement in carrying out this report. I also wish to express my heartiest gratitude to the officials and other staff members of Finance Department, who rendered their support and help throughout my journey with Nestlé Bangladesh Limited.

Last but not the least, I would like to thank **BRAC University** for providing me with the knowledge, expertise and confidence to succeed in life and providing such an opportunity through internship, so that we can observe and learn from a real work environment before stepping our foot into the corporate world.

Executive Summary

The study “**Letter of Credit Transmission Process of Nestlé Bangladesh Limited and Various Factors affecting it**” has been conducted on Nestlé Bangladesh Limited, an FMCG company started as a joint venture between Transcom Limited and Nestlé S.A, Switzerland in 1992. Nestlé Bangladesh Limited has action plans for business, people processes and Governance.

Nestlé Bangladesh Limited has a business action plan that urges to keep the focus on value drivers and free cash flow to be amongst the top performers. However, Letter of Credit transmission process from opening till settlement is affected by many factors that hamper efficiency in terms of cost and time elapsed. Letter of These factors include foreign currency exchange rate, risk of inferior quality and quantity of goods, price of good in the domestic market and non-compliance to terms and conditions leading to amendments.

After the study was conducted through non-probability sampling (convenience sampling) on a sample size of 50 respondents, the results were collected and collated and the following findings and conclusions have been. Exchange rate fluctuations have been perceived by respondents to be the most influential factor in affecting letter of credit transmission efficiency in terms of cost and time elapsed. The mean for exchange rate fluctuation is 1.58 on a likert scale representing highly risky as 1 and not risky at all as 5. This means that the respondents on average indicated that exchange rate fluctuation is a very important factor affecting letter of credit efficiency. Based on this finding, a hypothetical chart had been prepared to mark the different value of letter of credit payments at different dates due to exchange rate fluctuation.

The results showed that on a typical month, payment differences may be as much as 5.18% of LC payments. That sum would definitely have a negative impact in the long term, since over the period of a year the total extra payments made due to inefficient letter of credit transmissions will be showing on overall company performance. The objective of driving value and focusing on free cash flow is thus not met.

In order to ensure that business action plan is followed, it is crucial for NBL to take note of collaboration between departments and also predict exchange rates through mechanisms shown in the report. Further study is required to have a more detailed look on how much effect this has on company performance.

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Part 1 – Organization Overview – Nestlé Bangladesh Limited

Nestlé has long been the world’s largest food and Beverage Company. It has more than 2000 brands which range from global to local favorites. Its presence is in 191 countries all over the world for over 150 years.

Nestlé's Purpose

The purpose of Nestlé is to enhance and make better the quality of life and contribute to a healthier future, with the vision to aid the shaping of a better and healthier world and inspiring people to live healthy lives. This is how it contributes to society while ensuring the long-term success of the company as well.

Nestlé's Ambitions

Nestlé has defined three ambitions for 2030 which direct its work and help in the achievement of the UN Sustainable Development Goals.



Figure-1: Nestlé Bangladesh Limited’s ambitions

History of Nestlé

In 2016 Nestlé celebrated its landmark year, its 150th anniversary, portraying its rich history paired with its passion for nutrition in a hundred and fifty years of “Good Food, Good Life”.

Nestlé in Bangladesh

In Bangladesh also, Nestlé’s purpose is the same, ensuring a more healthy future for a country it has partnered with for over 25 years. Nestlé started as a joint venture between Transcom Limited and Nestlé S.A, Switzerland in 1992. Nestlé Bangladesh Limited commenced its commercial operations with its very first factory in Sreepur in the year 1994. Nestlé Bangladesh emerged as a 100% owned subsidiary of Nestlé S.A. in 1998.

For the past two decades, Nestlé Bangladesh has presented various products and services for each and every stage of life and that has helped people take care of themselves and their families

in a better way. It has engaged expansively with the communities where it is present, making sure farmers receive training, their livelihoods are improved, their children are educated and their families have adequate nutrition and are promoting operations that are by all means environmentally sustainable.

Below is a timeline of activities of Nestlé Bangladesh Limited:

Year	Event
1992	Nestlé Bangladesh commenced its commercial operations.
1994	Started manufacturing sweetened condensed milk. Started repacking Milk Powders, Infant Nutrition and Infant Cereal.
1997	Commenced first Noodle line.
1998	Nestlé Bangladesh became 100% owned subsidiary of Nestlé SA. Started manufacturing Breakfast Cereal. Inaugurated the Distribution Centre.
2002	Started manufacturing Local Infant Cereal.
2004	Discontinued manufacturing of Breakfast Cereal. Switched from local repacking of Infant Nutrition to imported FG.
2007	Expanded Distribution Centre, and attained ISO 14001 & OHSAS 18001 Certification.
2008	Attained NQMS, ISO 22000 Certification.
2009	Commissioned second Noodle line.
2010	Initiated Nestlé Healthy Kids (NHK) Programme.
2012	Commissioned third Noodle line. Transitioned to Mechanized Distribution Centre. Awarded Standard Chartered-Financial Express CSR award 2010-11.
2013	Commenced confectionery production. Digitalized Warehouse Monitoring System (WMS). Initiated pilot knowledge-sharing programme.

2014	Partnered with 2030 Water Resource Group (WRG).
2016	Commenced Dairy manufacturing and Tea Enhancer bulk repacking.
2017	Introduced Fruit Drinks and Nectars in the market.

Put citation

Figure-2 : Nestlé Bangladesh Timeline

Nestlé Bangladesh Limited’s current product portfolio includes brands like Nestlé Fruita Vitals, Nescafé, Nestea, Maggi (noodles, soup and seasoning), Nestlé Koko Krunch, Nestlé Milo, Nestlé Cornflakes, Nestlé Coffeemate, Nestlé Everyday, Nestlé Nido (Fortigrow, Fortichoco, 1+, 3+), Cerelac, Lactogen (1, 2, 3, 4 and Recover) and Nan (1, 2, all 10 and Prenan).

With a promise of Good Food, Good Life, Nestlé Bangladesh continues to innovate across its product lines to enhance people’s quality of life and contribute to a healthier future of Bangladesh.

Nestlé in Bangladesh

In Bangladesh too, NBL’s purpose is the same, ensuring a healthier future for a country it has partnered with for 25 years. Started as a joint venture between Transcom Limited and Nestlé S.A, Switzerland in 1992 the company started commercial operations in 1994 with its first factory in Sreepur. Nestlé Bangladesh became a 100% owned subsidiary of Nestlé S.A. in 1998.

With a promise of Good Food, Good Life, Nestlé Bangladesh is persistent in innovating across its product lines to heighten people’s quality of life and contribute to a much healthier future of Bangladesh.

Treasury function of Nestle Bangladesh Limited

Treasury is a business process under Finance and Control. The job of this function is to manage all the financial instruments of the company and maintenance of all bank balances and Fixed deposits. Also, treasury function is responsible for planning, authorizing and making all payments of the company. There are some sub-processes under treasury. One of them is LC opening. The LC opening process at the Finance and Control end contains a LC process flow. This is discussed later below.

Before throwing light on the various factors affecting the LC transmission process, it will be helpful to take a brief look at the financial objectives, mission and vision of NBL. Also included here is the Operational Master Plan for Finance department for the year 2017 to 2019.

Vision

The vision of Nestlé Bangladesh Limited's Finance team is to – “Be the most respected and trusted team with constantly evolving skills to service the needs of business in changing realities.

Mission

The vision of Nestlé Bangladesh Limited's Finance team is to – “ Drive sound business decisions through insightful analytics which maximize long term profitable growth, capital efficiency and cash flow with consistent return to shareholders and ensure highest standards for governance and stewardship throughout the company by a highly engaged team.

Action Plan

Nestlé Bangladesh Limited has action plans for business, people processes and Governance.

Business Action plan: Keep the focus on value drivers and free cash flow to be amongst the top performers.

- ✓ Enhance courage and improve effectiveness of marketing spends
- ✓ Optimize costs through Finance and Control savings initiatives (refer to this in findings and recommendation) and reducing structured costs
- ✓ Introduce alternative business model (high sea mode)
- ✓ Improve data analytics and market insights through benchmarking exercise

People Action plan: Continuously engage people and evolve capabilities to maintain a high performance culture including excellence in execution.

- ✓ Enhance Finance and Control knowledge organization wide by ensuring effectiveness of trainings conducted.

Process Action plan: Ensure simple processes with adequate internal control to support speedy and sound business decisions.

Governance action Plan: Drive higher standards of governance, risk management and compliance to protect reputation

Part 2.1 – Introduction to the Study

2.1.1 Rationale of the Study

➤ **Reason for proposing the study**

While working with Nestlé Bangladesh Limited as an intern of the Finance team (Treasury function), I have noticed that the Letter of Credit transmission process from opening till settlement is affected by many factors that hamper efficiency in terms of cost and time elapsed. However, if these factors are taken into account beforehand, it can be possible to get optimum Letter of Credit settlements overall that can benefit the company.

➤ **Relevance of the study to me as a student and for future career**

The study will allow me to gain practical knowledge and findings on the Letter of Credit transmission process. It is going to elaborate on how methods related to Letter of Credit transmission can be streamlined. Furthermore, having learned those new methods, I will be able to use my enriched knowledge to show better performance in future in the corporate world.

➤ **Contributions it can give to BRAC Business School and the University**

The study is directed at finding the most streamlined process of Letter of Credit transmission. It will therefore prove to be a means of gaining knowledge regarding the particular factor that is most responsible for affecting Letter of Credit transmission efficiency.

Knowledge on letter of credit is essential in most major Finance and Operations courses. Information enrichment and exploration of new ideas will be available. Students, equipped with this new knowledge will be capable of performing better in the job field.

Further study based on findings may also be initiated by students or faculty members to develop a model demonstrating optimum Letter of Credit transmission efficiency.

➤ **Contributions it can give to the business sector**

Identification of factors will help all importing businesses, local and multinational, to benefit from the findings of the study. Better knowledge on how to make the Letter of Credit settlement most efficiently, for example, at the lowest foreign exchange rates, may even keep BDT depreciations at bay.

If findings are applied to the business sector, it may help the whole sector to benefit from these by performing better and streamlined Letter of Credit transmissions. As a result this will have a positive effect on the economy as a whole.

2.1.2 Statement of Problems

The Letter of Credit transmission process is affected negatively by factors such as foreign currency exchange rate, risk of inferior quality and quantity of goods and non-compliance to terms and conditions leading to amendments. These mean additional costs have to be incurred in order to transmit the Letter of Credit. Moreover, extra time elapsed will affect operations.

The problem can be solved by figuring out which factors have most weight in affecting the LC cost and time. The objective of the study is to pinpoint those factors and based on the findings, establish appropriate corrective measures to prevent unnecessary expenditure and initiate timely operations.

2.1.3 Scope and Delimitation of the Study

The study is limited to data in the form of questionnaire response and opinions of respondents from the organization of the study- Nestlé Bangladesh Limited. Respondents are chosen randomly from among the above mentioned organization along with those from beneficiary banks which are HSBC, Standard Chartered, Citi NA and Commercial Bank of Ceylon.

Limitations of the study include confidentiality of information and lack of study material since the accounts of Nestlé Bangladesh Limited are not published. Also, a time period of 3 months is very small to structure a solid model from the study. However, findings may prove helpful for further study.

Limitations :

This study has been made on Nestlé Bangladesh limited, a multinational company falling under the category of FMCG. Therefore the results of the study may not be applicable for other firms such as local firms or those of other industries. The reason for this may be that NBL has very stringent business practices monitored by SAP which other firms might not have.

For studying the exchange rate impact on LC transmission, the average USD to BDT rate for each day of November 2017 has been taken; we were unable to take exact rate of this historical data. If lowest rates were taken into account, the results may have been more authentic.

We also found that a huge amount of extra payment had to be made due to depreciation of BDT against the currency of the beneficiary. Further study is needed and there is scope of further study how much the extra payment differences are affecting company profitability over the years and how that is affecting working capital as well as overall growth in the long run.

2.1.4 Objectives of the Study

Broad Objective: Finding out how factors are affecting LC transmission process of NBL from opening till settlement

Specific Objectives: Finding out how - foreign currency exchange rate, country risk affecting imports at sea and airport, risk of inferior quality and quantity of goods and terms and conditions compliance issues leading to amendments affect the LC transmission process

Part 2.2 Review of Related Literature

Yan Hao stated in his International journal of business and social science “Risk Analysis of Letter of Credit Based on Principles of ‘Independence’ and ‘Strict Compliance’” - **Exchange rate risk**, for all types of letter of credit a time distance exists from issuing the letter of credit till the actual payment made by importers. Within this time period, the exchange rate may fluctuate. In case of international trade, the longer the time taken for a shipment to be made, the more is the prevalent exchange rate risk. Once the exchange rate has depreciated, the importer has to pay more than the amount it has anticipated to pay.

In this study it has been found that half the respondents (50%) strongly agreed that efficiency of Letter of credit transmission is affected by exchange rate fluctuations. Another 44% agreed to the statement. This clearly matches the findings of the study by Hamed Alavi. According to Alavi (2016), the applicant always faces risk of fluctuation of exchange rate in this extremely volatile foreign currency market.

Yan Hao (2013), stated that importers may often ask for some documents that are difficult to present. A few applicants may regulate requests that cannot be complied to. Examples of requests of the like are under the terms of FOB& CFR, the exporter can ask the payment only within the return receipt of insurance; or the documents with some specific signature

According to Hamed Alavi (2016), receiving goods with inferior quality and quantity instead of complying with the ordered quality in the international sales contract is a risk of letter of credit. However, this factor seemed to be negligibly affecting the letter of credit process of Nestlé Bangladesh Limited.

First of all, banks check that all terms and conditions in the documents including product specification and tolerance level have been met by the beneficiary. Only after that will banks make payment. The banks dealing with these are all **multinational banks with rigid procedure maintenance** that comply with the code of conduct. Nestlé Bangladesh Limited is also vigilant that all goods imported are insured against and **international vendors are chosen with strict procedure**.

2.2.2 Methodology of the Study

Both Primary and secondary Data collection methods have been used to pose the information for this study.

Primary data collection instrument: In case of Primary Data collection Survey questionnaire has been used as the instrument for data collection. Questions have been prepared using likert scale.

Sampling: Sample has been chosen from **known population** from the organization of study, Nestlé Bangladesh Limited and intermediary banks related to Nestlé Bangladesh Limited which are Citi N.A., Commercial Bank of Ceylon (CBC), Standard Chartered Bank (SCB) and The Hong Kong Shanghai Banking Corporation (HSBC).

	1	2	3	4	5	Total respondents
Question 4	2	9	15	19	5	50
Question 5	25	22	2	1	0	50
Question 6	11	20	16	3	0	50
Question 7	20	15	14	1	0	50

Primary Data Collection technique: For selecting the sample for this study **non-probability sampling technique** has been used. Data has been collected through **convenience sampling**.

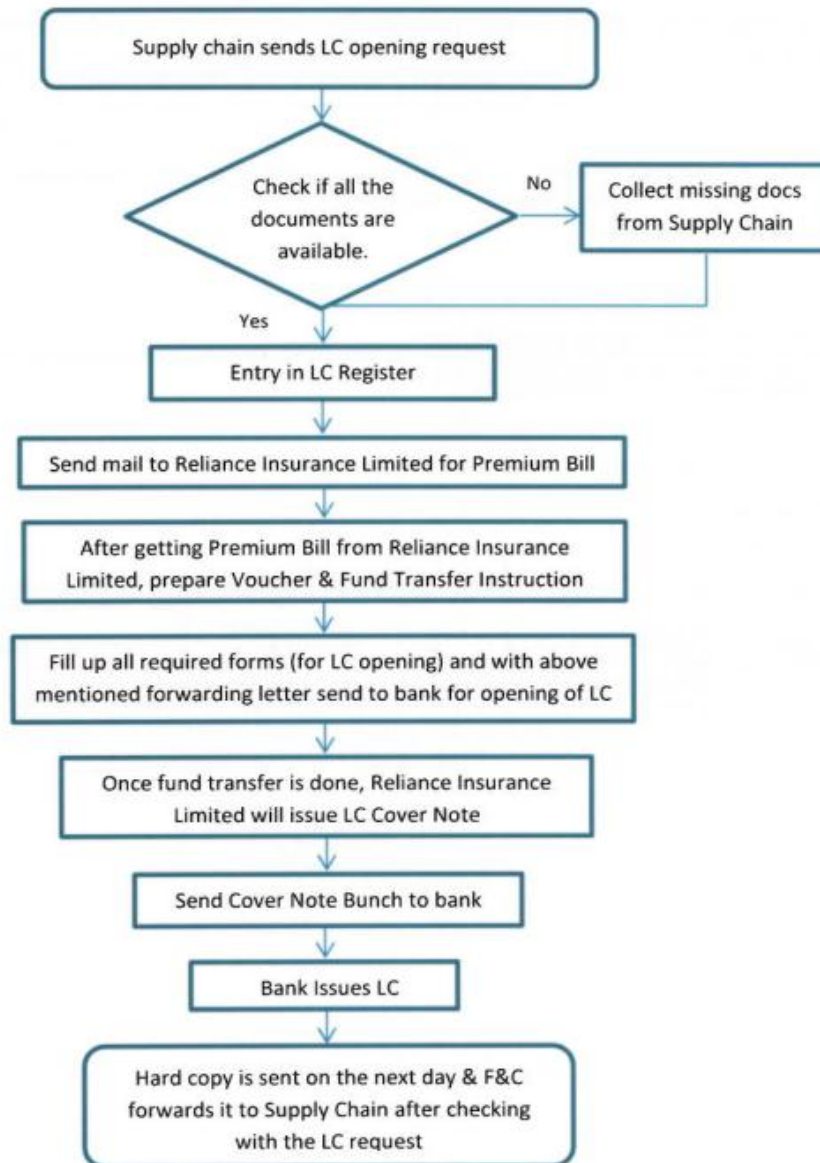
Statistical application: Frequency count, statistical mean derivation, and use of graphs have been applied for representing and interpreting the information derived.

Secondary Data:

Online research papers from Google scholar regarding the factors affecting Letter of credit transmission have been used. These may also include previous studies on Letter of Credit transmission. They include “**Risk Analysis in Documentary Letter of Credit Operation.**” under Financial Law Review by **Hamed Alavi**, based on which the main idea of the study has been formed, along with, “**Risks Analysis Letter of Credit based on Principles of Independence and strict Compliance**” by **Yan Hao** and **Ling Xiao**.

2.2.3 Analysis and Interpretation of the Data

Before the analysis and interpretation of data is demonstrated here, it would be crucial to have an overall look at the Letter of Credit transmission process of Nestlé Bangladesh Limited briefly.



The above process is the demonstration of the LC transmission procedure of Nestlé Bangladesh Limited. It shows the method to carry out a perfect LC transmission and the process is always strictly followed. The process starts with an LC opening request from supply chain and ends with

sending of LC issue documents to supply chain to mark the completion of the procedure and address the shipment of goods.

1. Request for LC opening from supply chain via email

The LC transmission process is started off by the procurement department of supply chain sending a request to treasury via email. The request mail will contain

- Pro-forma invoice (contains Inco terms, port details, material, tolerance level, latest dates of shipment and LC expiry date)
- Purchase order
- Terms and Conditions
- Freight certificate (in case of FOB – freight on board)

Priority (usually 1-3 days) and tolerance level are also mentioned in the email. It is based on this that the LC transmission should be planned.

2. Entry in the Letter of Credit ledger

All information regarding the LC including application date, expiry date, latest date of shipment, tolerance, Inco terms, supplier details and freight value etc. are entered in the LC register

3. Supply chain's request mail with Proforma invoice and VAT registration number is forwarded to Reliance for premium bill. For raw materials, factory VAT no. has to be mentioned. For finished goods, distribution centre VAT no. has to be mentioned.

4. A voucher is created after getting premium bill, the conversion to BDT is checked as well as the insurance premium rate.

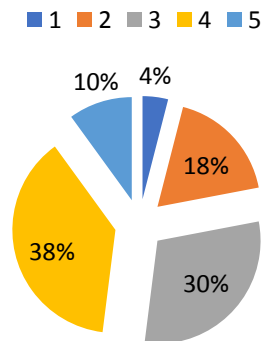
5. Fund transfer instruction to bank for Reliance

A mail is sent from NBL to the concerned bank to open an irrevocable LC with instructions to debit its account and credit account of Reliance with the amount of total insurance premium.

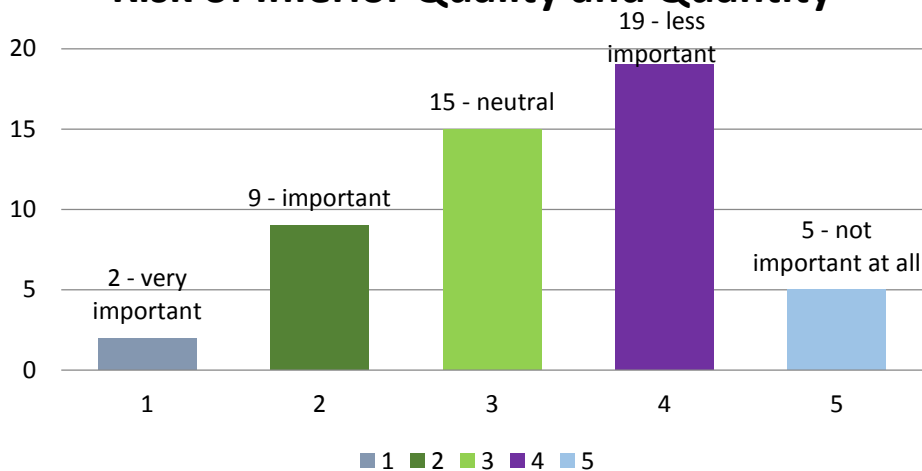
6. LC Application form

Application for issuance of letter of credit is made to the bank with all supporting documents and authorized signatures of appropriate signatories

Risk of Inferior Quality and Quantity



Risk of Inferior Quality and Quantity

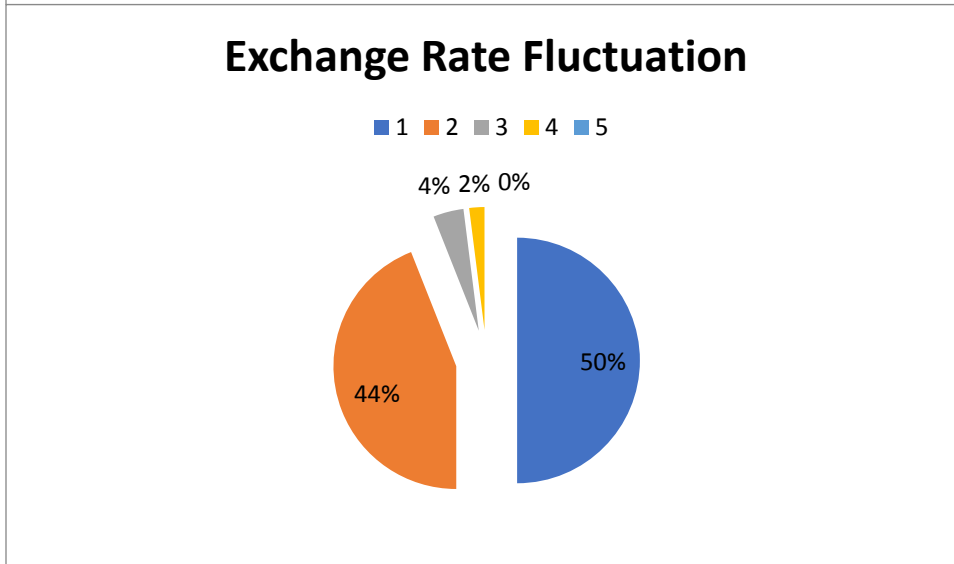
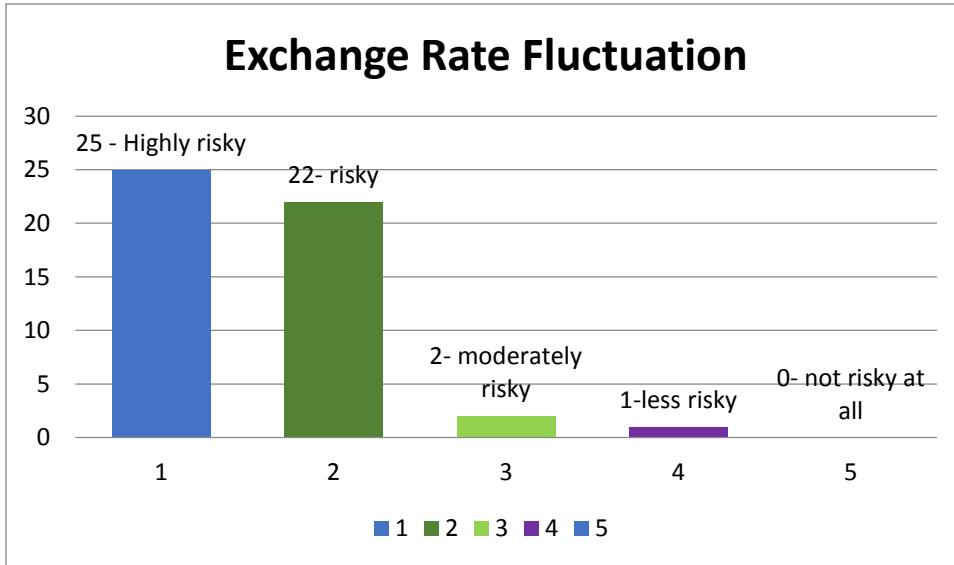


Risk of inferior quality and quantity of goods imported through LC was found to be 3.32, on a likert scale representing very important for 1 and not at all important for 5. Since the mean is towards a spectrum of not at all important, we can say that this risk is not a very important factor affecting letter of credit transmission efficiency.

A majority of the respondents (38%) said that risk of inferior quality and quantity was a less important issue impacting letter of credit transmission. 10% of the respondents said that risk of inferior quality is not at all important in impacting letter of credit transmission.

According to Hamed Alavi (2016), receiving goods with inferior quality and quantity instead of complying with the ordered quality in the international sales contract is considered as a risk of letter of credit. However, this factor seemed to be negligibly affecting the letter of credit process of Nestlé Bangladesh Limited.

First of all, banks check that all terms and conditions in the documents including product specification and tolerance level have been met by the beneficiary. Only after that will banks make payment. The banks dealing with these are all **multinational banks with rigid procedure maintenance** that comply with the code of conduct. Nestlé Bangladesh Limited is also vigilant that all goods imported are insured against and **international vendors are chosen with strict procedure**.



The mean for exchange rate fluctuation is 1.58 on a likert scale representing highly risky as 1 and not risky at all as 5. This means that the respondents on average indicated that exchange rate fluctuation is a very important factor affecting letter of credit efficiency.

Half the respondents (50%) strongly agreed that efficiency of Letter of credit transmission is affected by exchange rate fluctuations. Another 44% agreed to the statement. This clearly matches the findings of the study by Hamed Alavi. According to Alavi (2016), the applicant always faces risk of fluctuation of exchange rate in this extremely volatile foreign currency market.

In international trade the exchange rate fluctuation risk is directly proportional to the span of the payment period. This time is equivalent to the shipping time of payment at sight LCs, defined by the number of days after issuing the LC and the number of days taken in receiving goods in the desired port of destination.

The exchange rate risk will work detrimentally for the applicant when its local currency is depreciating against the currency of the beneficiary. In case of Nestlé Bangladesh Limited, as per November to early December 2017, BDT kept depreciating against the US dollar as well as other currencies. Since Nestlé Bangladesh Limited has to settle payments as much as 200 million per month in US dollars, or sometimes more, a slight change in exchange rate will cause huge differences and be detrimental for the financial health of the company as well as the economy as a whole.

For Nestlé this is detrimental because more Bangladeshi taka will be flowing out of the company than if the rate were lower. This may hurt the working capital of the company and make it difficult to operate and function smoothly in the long run. For the Bangladeshi economy, the problem will be the same and cause shrinking foreign exchange reserves and further depreciations of the BDT.

Date	Average Exchange rate (BDT)	LC payment in USD	LC Payment in BDT
01-11-17	81.6388	\$500,000	BDT 40,819,400
02-11-17	81.5682	\$500,000	BDT 40,784,100
03-11-17	81.5451	\$500,000	BDT 40,772,550
04-11-17	81.5451	\$500,000	BDT 40,772,550
05-11-17	81.5451	\$500,000	BDT 40,772,550
06-11-17	81.7076	\$500,000	BDT 40,853,800
07-11-17	80.4815	\$500,000	BDT 40,240,750
08-11-17	79.3804	\$500,000	BDT 39,690,200
09-11-17	80.4953	\$500,000	BDT 40,247,650
10-11-17	81.5241	\$500,000	BDT 40,762,050
11-11-17	81.6121	\$500,000	BDT 40,806,050
12-11-17	81.6121	\$500,000	BDT 40,806,050
13-11-17	81.761	\$500,000	BDT 40,880,500
14-11-17	81.6142	\$500,000	BDT 40,807,100

15-11-17	81.8419	\$500,000	BDT 40,920,950
16-11-17	82.2956	\$500,000	BDT 41,147,800
17-11-17	81.9137	\$500,000	BDT 40,956,850
18-11-17	81.8636	\$500,000	BDT 40,931,800
19-11-17	83.4923	\$500,000	BDT 41,746,150
20-11-17	82.0303	\$500,000	BDT 41,015,150
21-11-17	82.1012	\$500,000	BDT 41,050,600
22-11-17	82.1017	\$500,000	BDT 41,050,850
23-11-17	80.0181	\$500,000	BDT 40,009,050
24-11-17	79.705	\$500,000	BDT 39,852,500
25-11-17	83.2795	\$500,000	BDT 41,639,750
26-11-17	79.705	\$500,000	BDT 39,852,500
27-11-17	80.076	\$500,000	BDT 40,038,000
28-11-17	81.5592	\$500,000	BDT 40,779,600
29-11-17	82.3971	\$500,000	BDT 41,198,550
30-11-17	81.1556	\$500,000	BDT 40,577,800

The chart above has been prepared based on exchange rates over the month of November 2017. The average exchange rates have been taken for each day to derive the probable LC payment in BDT if it were made on that day. A hypothetical LC payment of \$500,000 has been used. LC payments in BDT have been derived accordingly.

The chart above shows how the same payment of \$500,000 will differ due to fluctuations in exchange rate. The lowest payment would have been possible at BDT 39,690,200 at exchange rate 1 USD = 79.3804 BDT. The highest payment would be BDT 41,746,150 at 1 USD = 83.4923.

Difference between highest and lowest payments per month	
Absolute value of extra BDT payment per month	BDT 2,055,950
Percentage of extra BDT payment per month	0.051799941
	5.18%

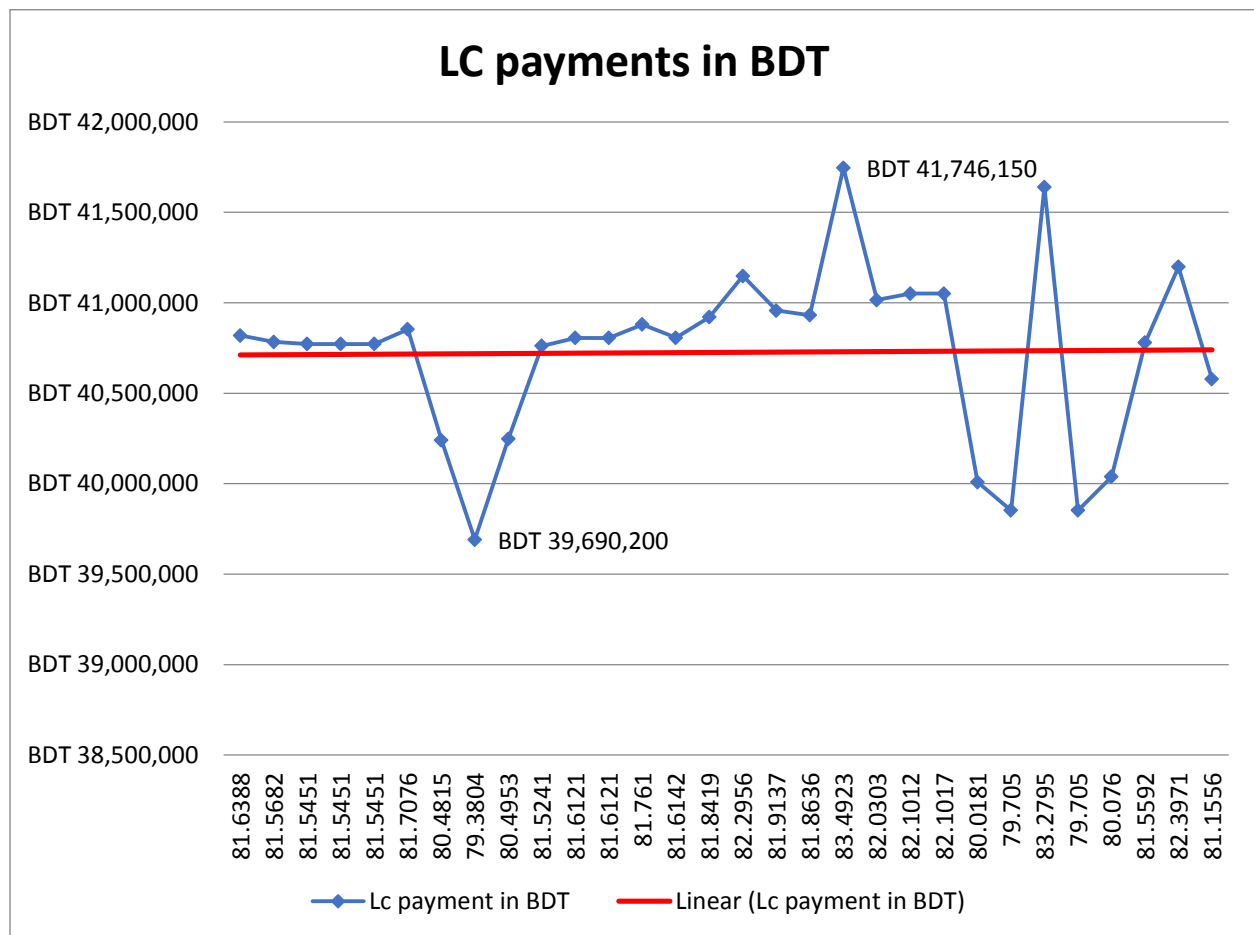
This table above explains that per month, extra payments as much as BDT 2,055,950 may have to be paid by NBL which amount to around 5.18% of a typical LC payment. Over the year, the extra payments may amount to BDT 24,671,400, which is a huge amount that may have to be taken into serious consideration.

Some months may have more Letter of Credits; over the year absolute value of extra payments may be even higher. Therefore, if LCs are settled on dates where the exchange rate is high, this will evidently hurt the financial position of the company through inefficient payments and prevent further growth and improvement or the achievement of financial objectives.

Nestlé Bangladesh Limited’s business action plan has been stated earlier. It is to keep the focus on value drivers and free cash flow to be amongst the top performers. It also strives to enhance courage and improve effectiveness of marketing spends and optimize costs through Finance and Control savings initiatives (refer to this in findings and recommendation) and reducing structured costs.

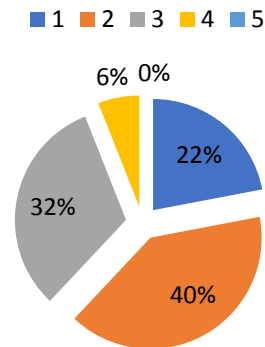
However, exchange rate fluctuations may cause the LC transmission process to become inefficient and hurt the achievement of these goals.

It also has a people action plan that urges to continuously engage people and evolve capabilities to maintain a high performance culture including excellence in execution through enhancement of Finance and Control knowledge organization wide. This actually reinforces the fact that interdepartmental collaboration between Finance and Supply Chain should be stressed on.

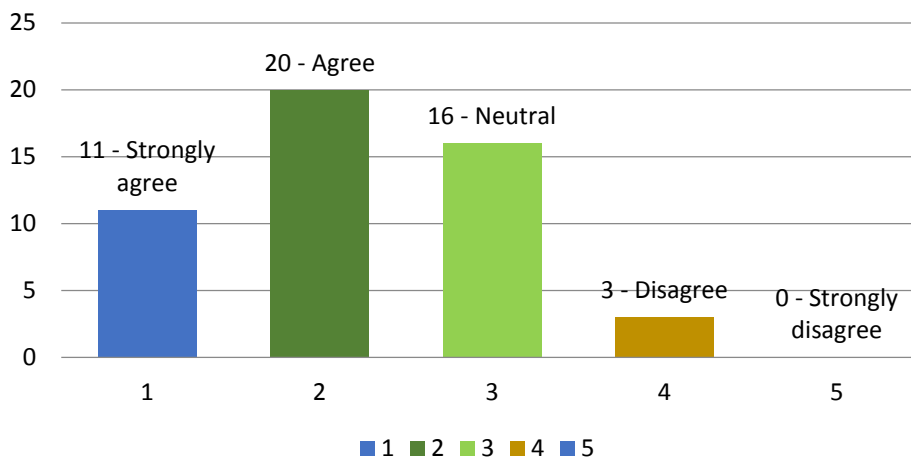


An illustration of how much exchange rate changes may affect the company is shown in a hypothetical setting above. The exchange rates used are real but the Letter of Credit settlement amounts are hypothetically chosen but kept similar to that of Nestlé Bangladesh Limited. This chart shows how exchange rate fluctuations are affecting LC payments. There is considerable difference in the BDT amounts of LC payment. A line of best fit in linear has been drawn to predict the future exchange rate. However, many other external factors have to be taken into account for predicting forex situations.

Price of the product in domestic market



Price of the product in domestic market

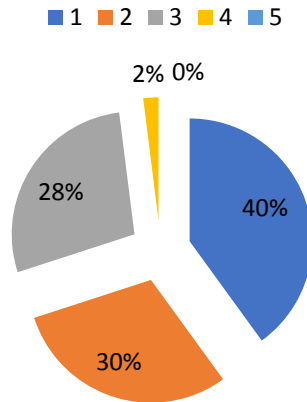


The mean for price of product in the domestic market having an effect on LC transmission efficiency is 2.22. This mean shows that respondents on average viewed price of product as a moderate factor affecting letter of credit transmission efficiency.

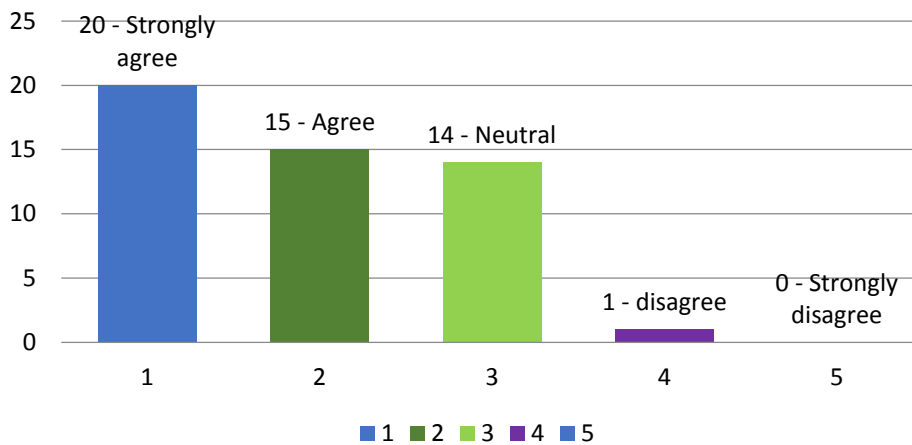
40% of the respondents agreed that price of product in the domestic market is an important factor affecting letter of credit efficiency. That is because LC transmission may take a period of time before shipment is made. This may be 1 day in case of shipments from nearby ports e.g. Nestlé India Limited, or may even be 21 days or more for far away ports e.g. Nestlé Australia, Nestlé USA etc.

32% of respondents were neutral about this factor, and 22% strongly agreed to it. This shows that this factor is perceived to be moderately affecting LC transmission efficiency.

Compliance to Terms and Conditions



Compliance to Terms and Conditions



The mean for this factor is 1.92, which is quite close to 1 on the likert scale representing strongly agreed. This portrays that on average, respondents felt that compliance to terms and conditions was an important factor determining LC transmission efficiency. In fact this is the most important factor after exchange rate fluctuation.

40% of the respondents strongly agreed that compliance to terms and conditions is an important factor in letter of credit transmission efficiency. This is because non-compliance to terms and conditions both on part of the applicant and the beneficiary may cause amendments and procrastination of the transmission process which in turn will lengthen shipment period and hamper operations.

2.2.4 Findings of the Study

After the collation and interpretation of the survey results, a bird's eye view of what factors affect the Letter of credit transmission process and at what degrees, can be obtained. The most impactful factor, based on mean of survey data, tally chart and pie chart happens to be the exchange rate fluctuations, with a mean of only 1.58 and where 50% respondents strongly agreed and 44% agreed.

For better understanding of how impactful this factor is on LC transmission, a hypothetical analysis based on USD to BDT exchange rates was made. It was found that extra payments as much as BDT 2,055,950 may have to be paid by NBL and this amounts to around 5.18% of a typical LC payment. Over the year, the extra payments may amount to BDT 24,671,400, which is a huge amount that may have to be taken into serious consideration.

The next most important factor impacting LC transmission efficiency is compliance to terms and conditions, with a mean of 1.92 and 40% respondents strongly agreeing to it. Risk of inferior quality and quantity and price of product in domestic market were posed as less important factors impacting LC transmission efficiency.

One particularly notable finding in the study is that even though NBL strives to reduce inefficiency and minimize costs through finance, they have still not taken adequate measures to take into account how much inefficiency still lies in exchange rate fluctuation impacting LC payments.

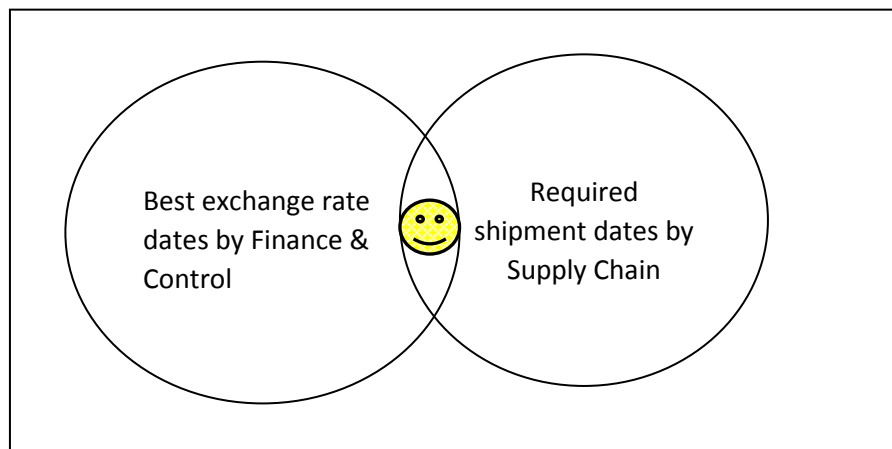
2.2.5 Recommendations

In order to be informed in advance regarding future currency fluctuations, a line of best fit might be used since this will provide a possible approximation of future exchange rates. It will be even better if a trend line composed on the basis of moving average is used; because that will incorporate more data changes and is a better and more accurate indicator for predicting exchange rates. This will help to apprehend depreciations and take advantage of currency appreciations.

Not only line of best fit helps, moving average or exponential will have to be. Other factors like country risk and political happenings and economic situation all together may affect forex and exchange rates. All this will have to be kept in mind, newspapers will have to be scanned to predict the future rates and speculate accordingly.

However, the other economic and political factors affecting LC transmission, at sea ports and air ports for example, should also be taken into account to understand and sense future currency depreciations that may affect LC payments. LC transmissions should be made keeping in mind the LC expiry date, and currency exchange rates at that date. Exchange rate is the most impactful factor affecting LC transmission efficiency, causing most impact on LC costs.

Better decisions on when is the best time to settle an LC can be made if the Finance team and the Supply chain team regularly meet and discuss all factors and take appropriate action plans. Better communications with Supply chain to form a roaster and intersection of the best dates to make the payments will help supply chain plan their procurement accordingly while keeping in mind exchange rates and other conditions that may affect the transmission cost of an LC.



The above Venn diagram is an illustration of why there should be a good communication between Finance and Supply chain. It is since the processes are interlinked and the best outcome for both departments can only be achieved through proper collaboration between the two teams.

Conclusion

The LC transmission process is a crucial one, involving many parties functioning between the applicant and the beneficiary. While the process has its pros, there are many external factors tested in this study which happen to affect Letter of credit transmission efficiency. Based on this study, it has been found that the most impactful factor impacting the transmission is exchange rate fluctuation.

While it is possible that slight fluctuations condemn NBL to pay an excessive amount of extra as LC payment, taking a few measures included in the recommendation above, such as collaboration between departmental functions to predict and make use of the best dates for LC settlement will help NBL to achieve the optimum LC transmission. Incorporating this process in NBL's LC transmission policy will help it to better utilize its free cash flows, heighten profit levels and accelerate value drivers in making NBL achieve its financial objective of being the best performing company in the economy.

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Appendix – A (Questionnaire)

1. Have you ever opened, settled or handled Letter of Credits?

- 1) Yes
- 2) No

If Yes, please answer the following questions

2. How many Letter of Credits on average did you open, settle or handle in a month?

- 1) 10 to 20
- 2) 21 to 40
- 3) 41 to 60
- 4) 61 to 80
- 5) 81 to 100
- 6) More than 100

3. What is the average Letter of Credit amount that you have worked with in a month?

- 1) Less than \$10,000
- 2) \$10,000 to less than \$ 40,000
- 3) \$40,000 to less than \$ 80,000
- 4) \$80,000 to less than 100,000
- 5) More than 100,000

4. How important is the risk of inferior quality and quantity of goods supplied by beneficiary in determining Letter of Credit transmission efficiency?

- 1) Very important
- 2) Important
- 3) Neutral
- 4) Less important
- 5) Not important at all

5. How risky is the exchange rate fluctuation to Letter of Credit efficiency?

- 1) Highly risky
- 2) Risky
- 3) Moderately risky
- 4) Less Risky
- 5) Not risky at all

6. Price of the product in domestic market has an impact on Letter of Credit transmission efficiency

- 1) Strongly agree
- 2) Agree
- 3) Neutral
- 4) Disagree
- 5) Strongly disagree

7. Compliance to terms and conditions have an impact on Letter of Credit transmission efficiency

- 1) Strongly agree
- 2) Agree
- 3) Neutral
- 4) Disagree
- 5) Strongly disagree

Appendix – B- Survey outcomes

Serial no.	Q1	Q2	Q3	Q4- Inferior quality	Q5 - Exchange rate fluctuation	Q6- Price of product in domestic market	Q7 - compliance to terms and conditions
1	1	5	3	4	1	2	3
2	1	2	4	3	1	3	2
3	1	4	3	2	1	3	1
4	1	5	3	4	1	3	1
6	1	3	4	4	1	3	2
7	1	2	5	2	1	2	2
8	1	2	5	4	2	2	3
9	1	3	4	5	1	3	2
10	1	4	4	3	1	4	1
11	1	3	3	2	1	4	3
12	1	3	2	4	1	3	2
13	1	5	2	1	2	3	3
14	1	4	2	3	2	2	2
15	1	6	3	3	2	3	2
16	1	4	4	4	2	1	1
17	1	3	3	2	1	2	1
19	1	4	1	5	2	3	3
20	1	4	3	4	1	1	3
21	1	3	4	2	3	2	3
22	1	3	5	4	2	2	2
23	1	2	3	2	4	2	1
24	1	2	2	3	2	2	3
25	1	2	4	5	1	2	4
26	1	1	5	4	2	2	1
27	1	3	3	4	1	1	1
28	1	4	1	3	2	1	3
29	1	3	4	4	1	3	1
30	1	5	3	3	1	2	1
31	1	4	3	4	1	2	3
32	1	5	4	4	2	2	2
33	1	3	5	4	2	2	1
34	1	4	3	3	1	2	1
35	1	5	3	3	2	1	2
36	1	3	4	3	2	1	1
37	1	4	4	2	1	3	1
38	1	5	3	4	2	1	2

39	1	4	2	3	2	3	3
40	1	4	4	5	2	4	3
41	1	4	2	4	1	3	3
42	1	4	5	3	1	2	3
43	1	5	4	4	1	3	2
44	1	4	4	2	2	1	1
45	1	5	5	3	2	2	1
46	1	3	4	5	2	1	2
47	1	4	2	4	2	2	2
48	1	4	1	3	1	3	1
49	1	3	3	3	1	1	1
50	1	4	4	1	3	1	2
51	1	4	2	4	1	2	1
52	1	5	2	2	2	3	1
Mean				3.32	1.58	2.22	1.92

Appendix – C

Date	Average Exchange rate (BDT)
01-11-17	81.6388
02-11-17	81.5682
03-11-17	81.5451
04-11-17	81.5451
05-11-17	81.5451
06-11-17	81.7076
07-11-17	80.4815
08-11-17	79.3804
09-11-17	80.4953
10-11-17	81.5241
11-11-17	81.6121
12-11-17	81.6121
13-11-17	81.761
14-11-17	81.6142
15-11-17	81.8419
16-11-17	82.2956
17-11-17	81.9137
18-11-17	81.8636
19-11-17	83.4923
20-11-17	82.0303
21-11-17	82.1012
22-11-17	82.1017
23-11-17	80.0181
24-11-17	79.705
25-11-17	83.2795
26-11-17	79.705
27-11-17	80.076
28-11-17	81.5592
29-11-17	82.3971
30-11-17	81.1556

Appendix- D

¹NBL – Nestlé Bangladesh Limited

²LC – Letter(s) of Credit

	1	2	3	4	5	Total respondents
Question 4	2	9	15	19	5	50
Question 5	25	22	2	1	0	50
Question 6	11	20	16	3	0	50
Question 7	20	15	14	1	0	50