



Inspiring Excellence

INTERNSHIP REPORT

ON

“Overall LC Process of Paramount Textile Limited”

Report Prepared For

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Letter of Transmittal

April 30, 2019

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Subject: Submission of the internship report on “Overall LC Process of Paramount Textile”.

Sir,

With due respect and honor I am a student of yours, would like to formally submit my internship report. The title of the report is ‘Overall LC Process’. This report has been prepared to fulfill the requirement of my internship program. I have tried my best to present me ideas and findings as clearly as I could within the time and resource available. I hope this report will provide a clear picture of “Overall LC Process of Paramount Textile”. However this has been obviously a great source of learning for me to conduct similar types of studies in the future.

I would like to express my sincere gratitude to you for your guidance and suggestions for preparing the report. I would like to mention that this might be some unintentional errors in the report. I hope that you will consider my shortcomings while you evaluate my paper.

Sincerely yours

.....

Md. Mahmudur Rahman

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Approval of the Supervisor

This is to certify the internship Report on ‘Overall LC Process of Paramount Textile’ is done by Md. Mahmudur Rahman, ID: 16264030 as a partial fulfillment of requirement of “Master of Business Administration (MBA)” program from “BRAC Business School, BRAC University”.

This report has been prepared under my supervisions carried out successfully.

.....

Md. Shamim Ahmed

Lecturer of Finance

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Acknowledgement

At first, I express my deep gratefulness to the almighty Allah for giving me assistance in the way of life. I feel satisfied and glad that I have completed this study within specific duration. A large number of people contributed significantly to making this report possible.

Next, I would like to express my kindness to my beloved parents whose continuous inspiration encourages me to make a right move towards the ultimate success of my life.

Then I would like to express my special gratitude to my Supervisor Md. Shamim Ahmed, Lecturer, Department of Finance for his motivating inspiration, kind direction, valuable suggestions and advices me to prepare this report. Without his contribution, it would not be possible for me to complete this paper. This is indeed a good way of learning and I really appreciate his efforts towards giving me a proper line of directions.

There are a lot of people who helped me by providing valuable information and their time through responds questionnaire. I also thanked them all.

I am also extending my heartfelt thanks to this faculties of MBA Program for their continuous support, assistance, and inspiration through the accomplishment of this task.

Finally, once again, thanks to my supervisor for his guidance and support throughout the whole paper presentation and for sharing his valuable time to read my paper and providing valuable feedback to update it.

I am also hoping that this paper and the understandings of the task will greatly help me in my future professional life in order to illuminate my career.

Executive Summary:

In this modern world, LC is so much important for a company. In Bangladesh, it is not different in this case. An export company can not run without selling its product and they have to do import. But for import and export it is very risky to buy or sell because it has no guarantee that a seller will send his product and buyer will pay for it. But by LC, banks take this risk. It is not an easy process but safe for an organization. I did my work with account and commercial department. I did my work related LC. This internship program and preparation of this report helped me a lot to learn about the practical environment and situation of a financial institution and also make up a bridge between the theoretical and practical aspects. The main part of the report includes theoretical overview of LC, LC related operations practiced in this company, analysis of gathered information and finally recommendations depending on analysis.

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Company Overview

Paramount Group of companies which established in 1986 has been always praised for their professionalism, code of conduct and quality products. The idea of the textile was embraced in 2004 and its inception was possible in 2006.

The journey started from the year 2006 and within 2 years, commercial production was in full swing. Now, Paramount Textile has produced and exported more than billion yards of fabrics all over the world. Moreover, capacity has grown rapidly ever since and Paramount Textile has now emerged as one of the leading fabrics manufacturer in Bangladesh with the help of latest machineries and equipment, efficient workforce and more than 30 years of extensive experience. Just last year Paramount Textile exported almost USD 52 million worth of merchandise worldwide.

It has been graded as an Oeko-Tex standard 100 export oriented Bangladeshi manufacturer. Paramount manufacturers a diversified range of yarn, solid dyed and printed woven fabrics. And only in these short of 8 years has become one of the top companies of Bangladesh on which the international clientele can rely. As recognition of performance, Paramount Textile has been awarded the 'National Export Trophy' for several years since its inception and for ensuring governance within the company; the company has been awarded '3rd and 5th ICSB National Corporate Governance Award' from the Institute of Chartered Secretaries of Bangladesh. Apart from these, the company has been awarded the International Trophy for Quality from Global Trade Leaders' Club, Paris in recognition of its commitment Quality and Excellence of its Services. In this industry the vision has emerged from the years of experience and expertise in this industry.

Origin of the Report

As a mandatory part of MBA Program, all the students of BRAC Business School have to undergo a three month long internship program with an objective of gaining practical knowledge about current business world. After this internship program each and every students have to submit an internship report mentioning their activities during the internship program.

I've started my internship at Paramount textile Ltd. on 2nd February 2019 and at the end of the program I am submitting my internship report focusing on overall LC process of Paramount Textile Ltd.

Objectives

The main objective of this report is to reflect the practical knowledge that I gained during my internship and relate the two years long theoretical learning of MBA Program. Besides this broad objective, the followings were given emphasis-

- Define Letter of Credit and different stages of LC processing.
- Analyze the entire process of LC.
- Identify the importance of LC in import and export.

Scope

A comprehensive knowledge on the organization and a thorough knowledge on overall LC process of the organization have come under the scope of the report.

The report is limited only to overall LC process of Paramount Textile Ltd.

Limitations

The organization maintains confidentiality in providing some relevant information, so I could not incorporate those.

Information regarding LC is so tough to gather.

Methodology

Data collection: Both primary and secondary data is used for this report writing.

- **Primary Data:** Most of the information was collected from primary sources. This includes the interviews with the managers and officials of the company.
- **Secondary Data:** This includes a number of books, journals, handbooks, annual report and websites.

Letter of Credit

A letter of credit (LC), additionally called a documentary credit or banker's credit, or letter of endeavor, may be a payment mechanism utilized in international trade to supply an economic guarantee from a trusty bank to an exporter of products. Letters of credit are used mainly within the funding of international trade, wherever the responsiveness of getting parties can't be without delay and simply determined. Its economic result is to introduce a bank as an underwriter, wherever it assumes the credit risk of the customer paying the vendor for merchandise.

Function

Letter of credit is a crucial payment method in global trade. It is notably helpful where the buyer and seller may not know each other personally and are separated by distance, differing laws in each country, and different trading customs. It is an initial method in international trade to mitigate the risk a seller of goods takes when providing those goods to a buyer. It does this by ensuring that the seller is paid for presenting the documents which are specified in the contract for sale between the buyer and the seller. No mention what a letter of credit is a payment method used to discharge the legal obligations for payment from the buyer to the seller, by having a bank pay the seller currently. Thus, the seller depends on the financial risk of the bank, rather than the buyer, to receive payment. The bank must pay the seller the value of the goods when the seller gives negotiable instruments, documents which themselves represent the goods. After showing the documents, the goods will historically be in the control of the issuing bank, which gives them

Letter of Credit

security against the risk that the buyer (who had instructed the bank to pay the seller) will repay the bank for making such a payment.

In this circumstances that the buyer is not able to make payment on the purchase, the seller may make a demand for payment on the bank. The bank must check the beneficiary's demand and if it equals with the terms of the letter of credit, will honor the credit. Most letters of credit are organized by rules promulgated by the International Chamber of Commerce known as Uniform Customs and Practice for Documentary Credits. The current version, UCP 600, became more effective July 1, 2007. Banks will mainly require collateral from the purchaser for issuing a letter of credit and will charge a fee which is often a percentage of the amount covered by the letter of credit.

Types of LC

There are different types of LC. They are described below:

Import/export:

This is the same credit can be termed as an import or export letter of credit depending on whose perspective is concerned. If it is for the importer it is said an Import LC and for the exporter of goods, an Export LC.

Letter of Credit

Revocable/ Irrevocable:

LC is revocable or irrevocable determines whether the buyer and the issuing bank are able to manipulate the LC or make corrections without informing or getting permissions from the seller. According to UCP 600, all LCs are irrevocable, where in practice this type of LC increase frequently. Any changes (amendment) or cancellation of the LC (except it is expired) is done by the applicant through the issuing bank. It must be authenticated and approved by the seller.

Confirmed/Unconfirmed:

An LC is said to be confirmed when a bank confirms that every documents are clear from the buyer and seller.

Restricted/ Unrestricted:

Either the one advising bank can buy a bill of exchange from the vendor within the case of a restricted LC or; the confirmation bank isn't given, which implies that the bourgeois will show the bill of exchange to any bank and receive a payment on an unrestricted LC.

Deferred Letter of Credit:

Deferred Letter of Credit means a conditional undertaking is taken by the bank to pay the seller on the behalf of the buyer on a specified time period after completion of the transaction. The bank makes the payment on presentation of important documents. The specified time period is generally after the shipment of goods.

Letter of Credit

At Sight LC:

At sight letter of credit means a document that verifies the payment of goods or services, payable when it is showed along with the important documents.

On the other hand an LC at sight is a letter of credit (LC) that is payable currently – within few days – after the seller meets the requirements of the letter of credit. This type of LC is the fastest form of payment for sellers, who are often selling to overseas buyers.

Red Clause:

Before sending the products, seller can take the pre-paid part of the money from the bank. The first part of the credit is to attract the attention of the accepting bank. The first time the credit is established by the assigner bank, is to gain the attention of the offered bank. The terms and conditions were typically written in red ink, thus the name.

Back to Back:

Sometimes a producer does not have enough money to produce products but buyer demands it. In this circumstances, they can open back to back LC. In this situation, bank gives advance money to producer. They give 80 percent money. They take 20 percent charge. After sell the product when producer will give money, he/she have to pay the credit money of the bank.

Letter of Credit

Standby Letter of Credit:

Operates like a Commercial Letter of Credit, except that typically it is retained as a "standby" instead of being the intended payment mechanism. In other words, this is a LC which is intended to provide a source of payment in the event of non-performance of contract. This is a security against an obligation which is not performed.

UPAS LC:

UPAS LC means the deferred payment letter of credit issued by issuing bank upon request of customers, in which the beneficiary can present documents to receive money currently from the sponsoring bank on the basis of acceptance between issuing bank and the customer. On payment date, customers have to pay for the goods and the related fees to issuing bank.

Types of LC used in Paramount Textile Ltd.

This company mainly use at sight, deferred and UPAS LC. Maximum time they use UPAS LC.

Operational Flow of LC Process

The complete Import and Export process includes the following stages. Both the importer and exporter are involved in this flow. Some tasks are done by importer's side and some are done by exporter's side and some are done by others. The process is very much like the following:

Letter of Credit

1. Establishing a buying and selling contract between the buyer and the seller.
2. Submission of application with necessary documents to the bank to issue an LC.
3. LC issue and advise it to the advising bank.
4. Issue reimbursing instruction to the reimbursing bank
5. Advise the LC to the exporter by the advising bank after verification of the LC.
6. Asking for the confirmation of the LC to the importer.
7. Issuing request letter by the issuing bank to the confirming bank (as per exporter's requirement) to confirm the LC.
8. Issuing confirmation by confirming bank.
9. Shipment of the goods.
10. Submit required document to the negotiating bank for negotiation.
11. Negotiate the bill by the negotiating bank and make payment to the exporter.
12. Claim to the issuing bank or reimbursing bank for payment.
13. Payment reimbursed by the issuing bank or reimbursing bank.
14. Ask the importer to collect the documents from the bank.
15. Collect documents from the issuing bank by paying the bank's dues.

Necessary Documents Needed to Open an LC

Pro Forma Invoice:

A pro forma invoice may be a preliminary bill of sale sent to consumers ahead of a cargo or delivery of products. The invoice can generally describe the purchased things and different vital data like the shipping weight and transport charges.

LCA Form:

LCAF stands for Letter of Credit Authorization kind. it's in the main application for permission for gap LC yet as commerce of products into Bangladesh and remission there against.

once the bourgeois submit LCAF (Letter of Credit Authorization Form) with alternative papers to the bank to open LC, Bank can demonstrate the LCAF, confirming the following:

- IRC is valid, renewal fee paid (if required).
- Item to be foreign is eligible as per import policy/Pass Book.
- LCAF is punctually stuffed in & signed by the bourgeois.
- H.S. Code to be inserted into LCAF.

Marine Cover Note:

A cover note could be a temporary document issued by associate insurer that gives proof of amount till a final insurance will be issued. a canopy note is completely different from a certificate of insurance or associate insurance document. a canopy note options the name of the insured, the underwriter, the coverage and what's being lined by the insurance.

Letter of Credit

the data that might typically seem on a canopy note is:

- Name, address, and occupation of the insured.
- Sum-insured and tentative premium.
- Date and time of the commencement of canopy.
- Duration of canopy,
- The scope of canopy, i.e., perils lined,
- Description of the property or subject-matter lined.
- Cancellation provision that provides that either of the parties might cancel the quilt by giving a written notice inside a prescribed time.
- A statement typically seems at the lowest of the quilt note indicating that the insured is command lined as per usual terms and conditions of the company's normal policy kind used for this category of business,
- Signature and date of the underwriter.

Parties Involved in LC Transaction

Applicant:

Applicant is one who arranges for the letter of credit that is to be issued.

Beneficiary:

Beneficiary means seller who takes money by selling his/her products.

Issuing Bank:

Issuing Bank is the Buyer's or importer's bank which establishes (opens) a letter of credit (LC) in favor of a beneficiary (seller or exporter), forwards it to an advising bank for delivery to the beneficiary, and commits itself to honor demand drafts drawn by the beneficiary against the amount specified in the LC. Also called opening bank.

Advising Bank:

Advising Bank is a bank that informs the exporter that the Letter of credit has been issued by the importer.

Paying Bank:

Paying Bank is the exporter's bank on which a check or draft is drawn; the bank which cashes it. Also called accepting bank, or payer bank.

Confirming Bank:

The Confirming Bank is the bank, which, under instruction from the issuing bank, substitutes its creditworthiness for that of the issuing bank's commitment to pay.

Findings

- The whole process of Letter of Credit is highly dependable on the personal skills of the officers engaged in the process.
- Relationship and introduction with the banks play a vital role in processing Letter of Credit, especially the time factor.
- China and India are the major countries from where exports come against the Import LC.
- Most of the LCs are opened for accessories.

Recommendation

From the analysis and observation of the author, following recommendations have been formulated in order to smooth operation of Import-Export Business and to make the LC processing more efficient:

- Since the imports-exports have the highest contribution to the profitability of the company, they should take special attention on LC.
- The time requirements in the processing of LC have to be minimized.
- Steps should be taken to improve the coordination between the officers involved in the LC issuing process.
- Performance measurement programs can be introduced to measure the performance of the officers involved in the process.

Letter of Credit

- LC information should be kept in proper and organized manner. Most of the functions are still done manually. Integrated software can be introduced for this purpose.

Conclusion

LC is very much important for an organization- not only for import but also for export. It is heart and soul of a company. It helps exporters by eliminating credit risk, reduces ambiguity regarding transaction because terms are specified in the LC, facilitates pre-shipments financing through packing cash credit or Back to Back LC. It helps importers by ensuring that the goods sent by the exporter comply with the specifications and facilitating financing. Paramount Textile Ltd. is an export oriented company. So, their business is fully impossible without LC.

References

Books

- A Complete Guide to Letter of Credit and the UCP - Rupnarayan Bose.
- Export Import Theory, Practices and Procedures - Belay Seyoum.
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Website links

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