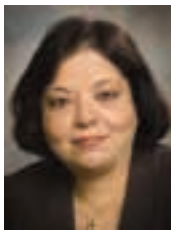


# Clearing the way for trade

Trade Finance *asked members from Citigroup's Corporate and Investment Banking team in Asia how India's trade services needs are changing, and what they are doing to meet with the new market demands.*

**The participants are:**



**Amita Jhangiani,**  
managing director  
and regional trade  
head for Asia Pacific

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**Ashish Bajaj, managing director, global transaction services India**

**V Dinesh, managing director, cash and trade product head for India**

**Sudeep Yadav, managing director, cash and trade sales head for India**

**Amita Jhangiani (AJ), managing director and regional trade head for Asia Pacific.**

**Trade Finance (TF): From a trade servicing perspective how does the Indian market compare to the rest of the Asian region?**

**(AJ):** India's trade services needs differ from the rest of Asia Pacific. There is less emphasis on outsourcing to banks (due to the lower costs and India's own competitive position in this area) and more on servicing efficiency, turnaround times and costs. The market is very competitive and a few domestic private banks share the top trade positions with the global competitors in India.

Citigroup's trade processing centre based in Mumbai and Chennai is one of four global centres of excellence which handles the entire document processing for the Indian subcontinent and part of Europe, Middle East and Africa (EMEA) region.

**TF: What challenges have you faced when developing business in India?**

**(AJ):** Recent challenges or opportunities in the market have included deregulation and decentralisation of some industries and hence the entry of new private companies. There has been an increase in infrastructural projects which are big-ticket, longer tenor and hence require different solutions. There has also been a rapid shift to open account terms and demands for supply chain solutions rather than silo products.

**TF: How does the growth of documentary credit business compare to the growth in open account business?**

**(AJ):** India has rapidly shifted to open account terms for both domestic and cross-border trade with an emphasis on portfolio solutions and supply chain management rather than individual transactions. While the need for processing of LCs and collections continues, the growth in documentary business is much slower than the overall trade volume increase.

**TF: How has Citigroup ensured that the financial supply chain is operating as efficiently as possible?**

**(AJ):** Citibank has been in India for over a hundred years and we have a deep and embedded presence in India. Our client base spans a very large client population across global multinational firms, large India corporates and the middle market companies. Due to our large footprint, the various counterparties within a supply chain are very often within our client list and hence we have been very successful in offering new and innovative solutions in this market.

**TF: How popular has factoring become in the Indian market, and where do you see it going?**

**(AJ):** Traditional factoring (without recourse financing for non-clients including collection agents) is popular for the SME sector who have less access to the more competitive solutions enjoyed by the large corporates. Factoring has high financing costs and high repayment risks due to defaults and commercial disputes, but it provides a financing solution for the SMEs who may not have other options.

The term factoring is also applied to other forms of open account without recourse discounting which all trade banks offer their client base.

We expect the demand for both types of factoring to continue, though most global trade banks would restrict their exposure to traditional factoring due to its inherent risks, and the delayed legal process in the country.

**Ashish Bajaj (AB), managing director, global transaction services India**

**TF: How is Citigroup assisting Indian SME exporters?**

**(AB):** Citigroup is one of the largest providers of ►

## Citigroup – trade services in Asia



**V Dinesh, managing director, cash and trade product head for India**



**Sudeep Yadav, managing director, cash and trade sales head for India**

► foreign currency export finance and much of that is extended to SME exporters who benefit from the lower cost and natural hedging that it provides. The relative lower cost of foreign currency funding helps SMEs become more competitive against exports from other countries. We assist our SME exporters in multiple ways including leveraging our relationship with large global retailers to extend finance to their Indian vendors who are typically SMEs. This helps the SME vendor meet their increasing working capital requirements since the reality is that more and more of the large buyers are extending their payment terms.

We also set up customized solutions, for example, we set up a special process where suppliers to one of the large buyers in the apparel segment, can now get payments against export documents in four days compared to 10-15 days. This process helps the SME client reduce their working capital borrowings, and consequently costs.

We also offer trade financing solutions for exporters who may not be Citibank clients where letters of credit are advised by Citibank India. This helps the exporters enjoy better turnaround times for receiving payments than if the documents are routed through their own banks.

### **TF: What are your expectations for the SME market?**

**(AB):** The Indian SME banking wallet is estimated to be over 35% of the total banking wallet. Growth continues to be robust in this sector with increased access to private equity and capital market funding. We expect increased opportunities for traditional trade solutions, as well as for risk mitigation oriented solutions. We are already seeing a greater emphasis on solutions linked to the global financial supply chain by the leading buying houses and that will only give rise to further opportunities and challenges in financing SME exporters.

### **TF: What kinds of trade finance solutions are popular with SMEs?**

**(AB):** Citigroup offers the entire spectrum of our trade finance solutions to SMEs, ranging from basic documentary trade services and simple pre- and post-shipment financing, to more structured solutions such as avalization, forfaiting and factoring. Of late, we are seeing a greater demand for risk mitigation solutions and to that extent, solutions like factoring and forfaiting are becoming more popular.

### **V Dinesh (VD), cash and trade product head, India**

### **TF: To what extent is collateral management used in the Indian commodity finance market?**

**(VD):** Collateral management services are of relatively recent origin in India but growing rapidly. Developments in the commodity markets such as the establishment of commodity exchanges, entry of the large industrial houses in the agri-business and agri-

supply chain arena, and other reform measures have contributed to its growth. Given these changes, banks in India are increasingly offering structured commodity finance products, which, in turn has led to an increased requirement of reliable collateral management agencies (CMAs) in India.

Initially, existing shipping agents and certification agencies in India diversified to offering CMA services owing to similarity in skills required and expertise available. However, most of these companies are privately owned and relatively undercapitalized. We are now seeing more institutional participation including the large global players like SGS and ACE have a local presence through alliances and joint ventures. The various commodity exchanges have promoted institutionally owned CMAs to provide well capitalized, professionally run collateral management services.

### **Sudeep Yadav (SY), cash and trade sales head for India.**

### **TF: What effect have rising commodity prices had on collateral management in India?**

**(SY):** Rising commodity prices coupled with launch of commodity exchanges have only led to an increased interest level to use commodities as an asset class or investment avenue among the existing and potential players in the market. All this interest and resultant activity have fuelled the growth of collateral management business in India.

### **TF: Is supply chain financing being successfully implemented in the commodities sector?**

**(SY):** Developments in the various commodity sectors are pointing in this direction and banks are coming forward to offer more supply chain financing products. However solutions tend to be tailored for the larger corporate houses. Several infrastructure and risk-related issues remain a challenge, such as:

- Ability to assess credit quality of suppliers particularly in agri-commodities, where the market is fragmented and geographically dispersed leading to often uneconomical transaction sizes
- Underdeveloped logistics and physical supply chain – quality of warehouses, cold storages, etc.
- Absence of transparent and institutionally managed spot exchanges

Many of these issues have been recognized and are being addressed/or debated and over the next 2-3 years, we should see a substantially transformed environment to facilitate commodity supply chain financing on a much bigger scale. ■