

CREDIT POLICY FRAMEWORK

Establishing a Credit Policy

Credit can be extended to customers in the form of delayed payments, financing and charge cards.

The first three forms of credit can be defined as: trade credit, financing, and charge card credit, respectively.

In all cases, a business that offers any of the above credit services is engaged more by providing a convenient array of payment options. The extension of credit and financing services is a deliberate marketing strategy designed to stimulate business and give a company a competitive advantage.

Trade credit can be extended to other companies or large organizations that usually do business on a regular basis.

The main advantage of extending trade credit is to attract additional customers and increase sales volume. In fact most manufacturers and wholesalers find it imperative to offer credit terms to their customers, simply in order to survive. However, although selling on credit can boost sales, it can also increase direct and indirect costs, which must be weighed against its potential benefits. For example, offering trade credit, and hence not operating on a cash only basis, will require more extensive bookkeeping, invoicing and collection procedures that often demand hiring additional staff just to manage the extra accounts and the worse aspect is that a definite percentage of the businesses to which the credit is granted, will not be able to pay resulting in bad debts.

Objective of Credit Policy

The objective of the credit policy is to promote sales of the company and simultaneously to ensure that:

- i) Credit is extended only to credit worthy parties.
- ii) No credit is to be extended outside the approved credit policy.
- iii) The credit amount is recovered within specified time limit as per the Credit policy.

Responsibilities

➤ Role of Credit Controlling (CC) Department

CC department is responsible for maintaining a high quality of accounts receivable while ensuring that sales are made to customers that represent prudent credit risks. CC will provide flexible mechanism to protect company's substantial receivable investment. It is the CC's responsibility to ensure that no unwarranted risk is taken by the Business Unit (BU) and that the outstanding payments are received within agreed credit terms. Specifically CC's role would include:

- i) To act as a facilitator in the implementation of credit policy and to provide guidelines to the focal person at the locations nominated by the respective BU.
- ii) To be the custodian of credit policy.

CREDIT POLICY FRAMEWORK

- iii) To issue and document any subsequent procedural amendments in proper indexed form.
- iv) To circulate monthly consolidated receivable position in respect of each Unit to respective BU heads.
- v) To monitor chronic receivables and circulate their overdue status on daily/ weekly basis to respective BU heads.
- vi) To supplement the marketing departments in determining and evaluating the credit worthiness of the customer on the basis of duly filled Customer Credit Approval Form (CCAF).
- vii) To monitor the credit limits of the customers based on price escalations and actual credit utilization and give feedback on the proposed changes to the management on a semi-annual basis.
- viii) To monitor concentration of credit in a particular division and report to management on a semi-annual basis.

➤ **Role of Marketing Departments**

Specifically, the role of marketing department would include the following:

- i) To initiate credit request through duly filled Customer Credit Approval Form (CCAF).
- ii) To ensure approvals as per the Limits of Authority Manual (LAM).
- iii) To ensure completeness of documentation and compliance with specified criteria while forwarding credit extension/ enhancement form.
- iv) To ensure recovery of the receivables by the due date.
- v) To review customer account statements on a regular basis for timely reconciliation of accounts.

CREDIT POLICY FRAMEWORK

Credit Categorization

1. Secured Receivables

Credit limits covered by the following will be treated as secured receivables:

- Letter of Credit (L/C)
- Bank Guarantee (BG)

2. Unsecured Receivables

Credit limits under the following arrangements will be treated as unsecured receivables:

- Clean Credit (no security)
- Cheques (Current/Post dated)
- Letters of Comfort
- Personal/Corporate Guarantees

Credit Procedure

1. Policy

Customers are allowed credit as per the approved credit limits by the management.

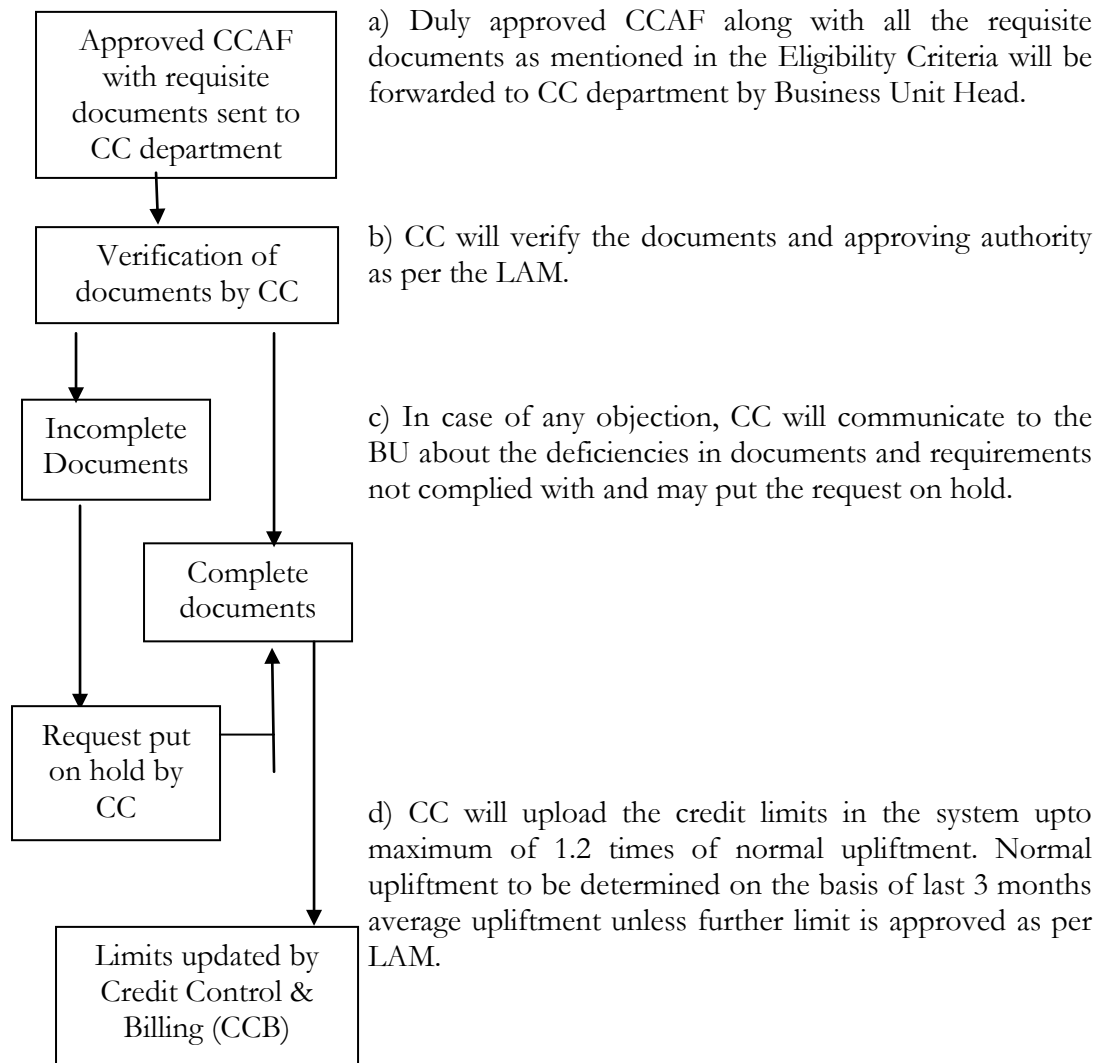
2. Eligibility Criteria

Customers complying with the following documentary requirements will be qualified for extension of credit:

- Application for credit (credit request) having the same specimen signature as appearing on the NIC;
- Copy of agreement between the customer and company;
- Undertaking from the customer;
- Copy of CNIC of dealer;
- Copy of NTN Certificate, if available;
- Copy of Sales tax registration certificate;
- Bank statement for the last six months with positive bank balance (overall group credit exposure and availability of sufficient funds will also be considered);
- One recent passport size photograph; and
- Promissory note equivalent to 1.5 times of the value of credit approved.
- Financial analysis of the customer

CREDIT POLICY FRAMEWORK

3. Procedure for controlling credit facility of customers

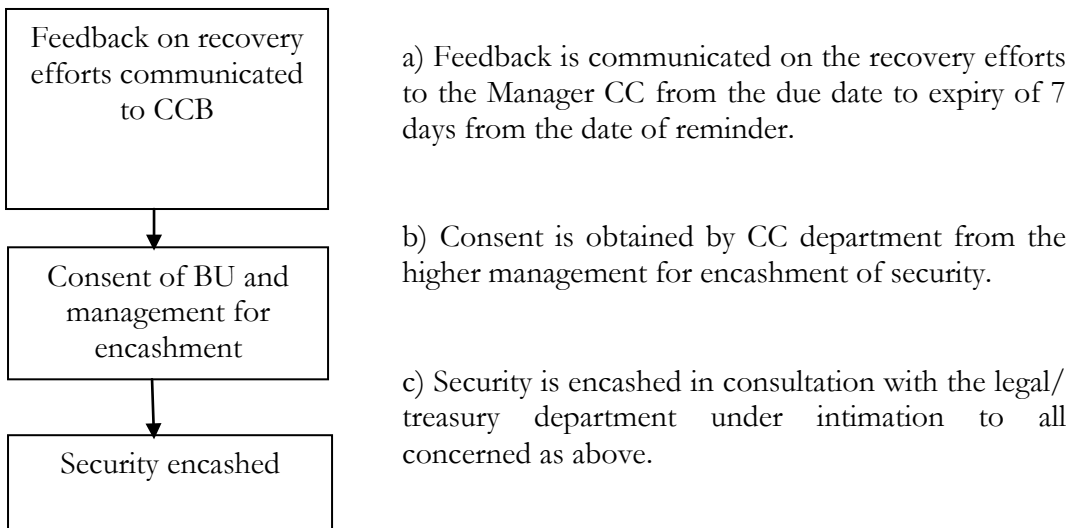


CREDIT POLICY FRAMEWORK

4. Procedure in case of defaults

Secured customers

- i) If the customer defaults in making payment, system will automatically block invoicing till recovery by respective Manager of the defaulted amount. Late payment charges / financial charges will be applied as per debit notes raised by the CCB, calculated at the bank rate + 2%, from the due date to the date of recovery.
- ii) The first reminder would go to the customer within 7 days of the payment due date from the BU head.
- iii) If payment is not made within 7 days from the date of this reminder, then following procedure is followed:



Unsecured customers

- i) If the customer defaults in making payments, then after the expiry of notice period and feedback from Manager on recovery efforts, legal action will be initiated on the basis of approval from higher management.
- ii) Supplies to defaulted customers will be blocked by CC dept. If an unsecured customer defaults, the credit supplies will be restored only against a BG or L/C.

5. Procedure for restoration of credit facility to defaulting customers

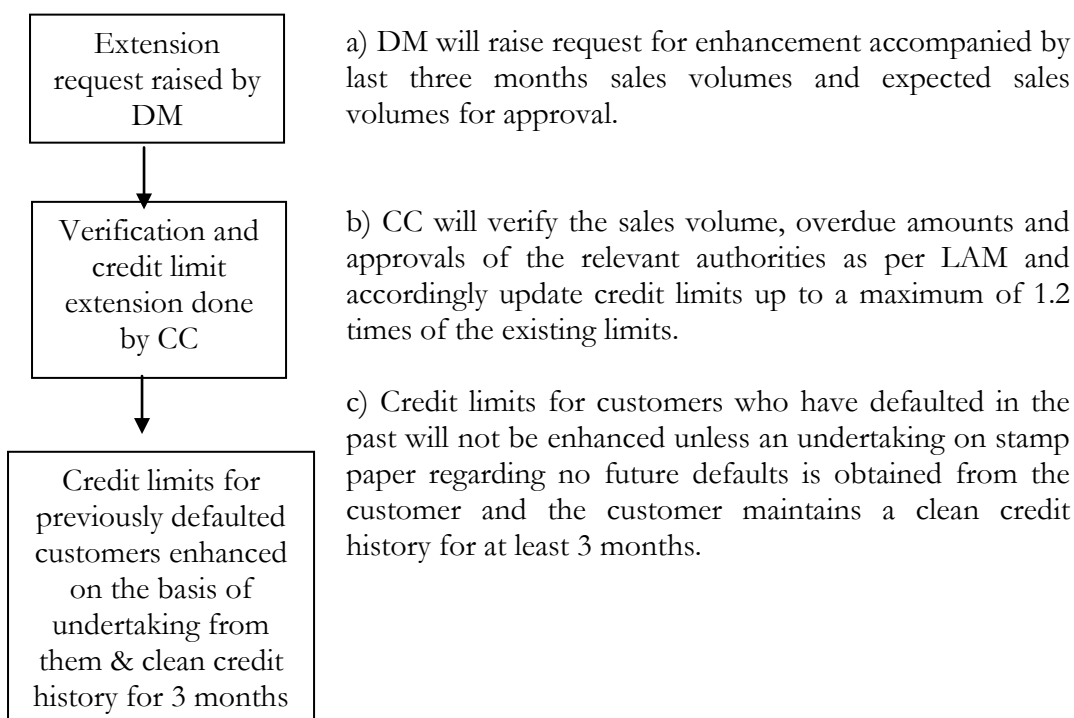
a) Divisional Manager will raise request for restoration of credit facility of the customer to the BU Head along with the following:

- Genuine reasons for not making payments by the due date.
- Justification for restoration in terms of analysis for potential sales volume, past payment history and current financial position.
- Undertaking from defaulted customers on the standardized format.
- Approval of management.

b) The count of defaults will be maintained on a financial year basis.

6. Procedure for enhancement in credit limits

i) Enhancement in limits can be requested by the concerned Division Manager (DM) after 3 months of last enhancement/approval date and will be processed by the CC dept on a weekly basis as follows:



CREDIT POLICY FRAMEWORK

7. Credit limit revision

- i) BUs will review the credit limits vs. credit utilization proportion on a quarterly basis and intimate CC after approval by the BU Head.
- ii) CC will verify the proposed credit limits as per the specified criteria and update the proposed limits in the system.
- iii) CC will review credit limits on a semi-annual basis by comparing customers' credit limits to their average credit upliftment and communicate the same to the respective BU Head.

8. Credit tolerance

- i) Supplies over and above credit limit in terms of amount and/or days can be executed with due approval of management.
- ii) Credit tolerance levels will be utilized twice and will automatically shift to the next higher level of authorization for every subsequent request, regardless of the quantum of credit tolerance being approved.

9. Credit limits utilization between group concerns

Each entity in a group of companies falling in different sectors will be treated as a separate customer and unutilized credit limits of any entity will not be transferable to the other entity within the same group.

10. Provision for doubtful trade receivables

Provision for doubtful debts will be calculated by the CC department on a monthly basis on the outstanding balances as per the policy duly approved by the Board of Directors.

11. Effective date and renewal

- i) This credit policy shall be effective and applicable from ____
- iii) At the sole and absolute discretion of the company, the policy may be reviewed/amended/alterd/determined and cancelled and/or renewed from time to time and at any time, by CC department in coordination with the respective BU subject to management approval, based on the prevailing practices at that particular point of time and any amendments, changes and/ or additions shall be updated by the CC department accordingly.

CREDIT POLICY FRAMEWORK

Customer Credit Appraisal Form (CCAF)

Date: _____

A: Customer Information

Name of Customer _____

Customer Code _____

Address _____

City _____ Telephone _____

Fax _____

Commencement of Business ____ / ____ / ____ Nature of Business Proprietorship

Partnership Pvt. Ltd. Public Ltd.

Line of Business Engineering Textile Automobile Sugar Power

Cement Fertilizer Construction Retail Distributor Other

_____ (Please specify)

Person

Contacted _____ Designation _____ Telephone _____

Mobile _____

Fax _____ E-mail _____

B: Financial Standing / Information

Bank:

1. _____ Branch _____ Average monthly balance _____

2. _____ Branch _____ Average monthly balance _____

Sales Tax # _____

NTN _____

Sales _____ (Monthly/Annually) Net Income _____

(Monthly/Annually)

Details of Assets (Please attach latest Balance Sheet / Income Statement for Public/Private Ltd. Companies)

Cash / Securities _____ Working Capital _____ Fixed Assets _____

Financial ratio analysis as per Annexure R

CREDIT POLICY FRAMEWORK

C: Credit Evaluation

For Existing Customer

1. Credit being availed Yes No (If no, please go to item 7)
2. Credit Limit (Rs.)_____ Credit Period (Days)_____
Credit record Good Poor
3. Any outstanding Yes No (If no, please go to item 6)
4. Specify date / period of o/s_____ Amount Outstanding (Rs.)_____
5. Is outstanding overdue or current _____ Nature, frequency and amount of default in last year_____
6. Extension Requested Yes No New Limit (Rs.)_____
New Period (days)_____
7. Credit Limit Applied (Rs.)_____ Credit Period Applied (days)_____

For New Customer

Current Supplier ABC XYZ Other If other, please specify_____

Credit Limit (Rs.)_____ Credit Period (Days)_____ Reason for switching to ___ Company_____

Credit Limit Applied (Rs.)_____ Credit Period Applied (Days)_____

Sale performance & expected growth

To be filled for both new & existing customers

| Product | Supplied by | Existing Sales (Cash / Credit) (Per Month) | | Expected Credit Sales (Per Month) | |
|---------|-------------|---|-------------|-----------------------------------|------------|
| | | Volume (Unit) | Value (Rs.) | Volume (Unit) | Growth (%) |
| | | | | | |
| | | | | | |

CREDIT POLICY FRAMEWORK

Profitability Analysis

Margin/ liter_____, financial cost/ liter_____, Net margin/
liter_____.

D: Credit applied for Rs _____ (days) _____

Mode of Payment: Cheque (current/ post dated) Pay order, Demand
Draft Other _____

Secured Against : Letter of Credit Bank Guarantee

E: Justification

Attachments

1. A copy of NIC in case of sole proprietor Yes No
2. A copy of NTN Certificate Yes No
3. A copy of Sales Tax Reg. Certificate Yes No
4. Balance Sheet / Income Statement for the last three years Yes No
5. Credit worthiness report from independent evaluator,
where applicable Yes No
6. Bank statement for last six months showing positive balance Yes No
7. Credit worthiness certificate from group, if applicable Yes No
8. Financial ratio analysis as per Annexure Q Yes No

F: Final recommended Credit Limit Value (Rs.)_____ Period (Days)_____
Validity_____