



SOLAR POWER DEVELOPERS ASSOCIATION

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Sub: Request you to issue the necessary advice to dissuade banks to seek additional 10% margin on the import LC which are fully hedged by Borrowers.

Dear Shri Panda

Greetings from Solar Power Developer Association.

The Central Government has been very proactive in its approach of bringing progressive policies to promote the Solar sector. Currently, the investor sentiments remain all-time high. There is a need to accelerate the pace further in attracting more investment to achieve the target of 175 GW of target by 2022.

Hence, on behalf of the members, we would like to draw your attention to a general policy practice followed by PSU banks regarding additional margin requirements for Foreign Currency Letter of Credits (LC) which is cumbersome for the borrowers and without giving any additional safeguard to the lenders.

Banks allow borrowers to establish import Letter of Credit (LC) to fulfill their requirement either for CAPEX or for working capital. Foreign currency LCs carry a risk of adverse exchange rate variations, which may occur between the date of LC establishment and the date of actual payment under the LC. To protect themselves from adverse implications due to exchange rate variations, the banks have a policy of seeking an additional 10% margin, as a cushion over and above the total LC value.

PSU Banks is usually driven by their policy that does not allow the release of such an additional 10% margin even in cases where the foreign currency exposure is fully hedged, resulting in blockage of growth capital and unnecessary hardship to borrowers. In cases, wherein a borrower has availed hedging to reduce its exposure to foreign currency fluctuation risk before the date of actual payment under LC, banks must not seek/block the additional 10% cash margin from the Borrowers. This leads to the blockage of growth funds that could have been otherwise invested in future projects.

Former

- Deputy National Security Advisor, Govt. of India
- Defence Secretary, Govt. of India
- Secretary Defence Production, Govt. of India
- Secretary Ministry of Health, Govt. of India
- Director General, Sports Authority of India

Request:

Therefore, we request you to kindly issue the necessary advice so that the banks may not seek an additional 10% cash margin where foreign currency exposure due to import LC is being hedged by the borrower at the time of LC establishment.

We look forward to your favorable consideration of the above request.

With warm regards

Yours Sincerely,



Shekhar Dutt

To,
Shri Debasish Panda, IAS
Secretary (Financial Services)
Ministry of Finance
Jeevan Deep Building, Sansad Marg
New Delhi-110001