



NIBM-CDC-2026-25

April 2026

National Institute of Bank Management

Rajesh Ramakrishnan & Gargi Sanati¹

Navigating Force Majeure under a Letter of Credit Transaction in International Trade

Case Narrative

The present

Mr. Deven Verma, Vice President of SGS Engineers Ltd, went over his notes once again. He had asked his office to send him the relevant articles of UCP 600 (refer Exhibit-1) so that he would be prepared for his meeting with Mr. Bajaj, Branch Head of BNB Bank, Chennai. He was worried because the stakes were high, and his lack of technical knowledge on the rules governing Letter of Credit operations made him nervous.

The Background

SGS Engineers Ltd, Chennai, is a company engaged in the business of supplying and installing furnaces. SGS is an established player in the segment with more than two decades of experience in supplying furnaces to almost all the major companies across India. Their previous year's turnover was Rs. 250 crores, and they had an active order book of close to Rs. 450 crores.

The banking arrangement of SGS was largely met out of a fund based facility in the form of cash credit of Rs. 50 crores sanctioned by its working capital banker, BNB Bank Ltd, Chennai. As per standard contract terms, a part of the contract value was received as an advance, and the balance was usually paid on completion of agreed milestones, at sight under a letter of credit (LC) refer Exhibit-1. For these high-value transactions, SGS protects itself by operating under an LC.

¹ CA Rajesh Ramakrishnan, Adjunct Faculty, National Institute of Bank Management, Pune.
Dr Gargi Sanati, Associate Professor, National Institute of Bank Management, Pune.

The authors have prepared this case to provide material for class discussion. The case is not intended show effective or ineffective handling of business decision or business process. The institutions/companies and characters are fictional.

Recently, in 2024, SGS, in a significant achievement, secured its first export order from JKW Steel LLC, Korea, for the supply, installation, and commissioning of a medium-frequency induction furnace, valued at USD 2.5 Million. The scope of this project encompassed comprehensive design and manufacturing activities, as well as the installation of the furnace at JKW Steel LLC's facility in Korea.

This being SGS's first commercial transaction with JKW, they tried hard to negotiate the payment terms. SGS wanted to dispatch only after securing 100% advance payment, whereas JKW offered an LC with a usance of 90 days. Post intense negotiation, the terms of payment were agreed as 100% against a sight LC to be provided by JKW.

The contract was bifurcated into two parts: the first part for the manufacture of the furnace and the second part a service contract for the activity of installation and commissioning at JKW's premises in Korea.

As required by the contract with First Commercial Bank of Korea, bankers of JKW Steel issued an LC for USD 2.5 Million on 1st January 2025. The LC was advised by its bankers, BNB Ltd.

The LC was issued with a validity of 12 months and was payable at sight on presentation of credit-compliant documents at the counters of the Issuing Bank.

Details of the LC were as follows:

- ✓ Applicable Rule: UCP 600 latest version
- ✓ LC Value USD2.5 Million
- ✓ Applicant: M/s JKW Steel LLC, Korea
- ✓ Beneficiary: M/s SGS Engineers Ltd, Chennai
- ✓ Issue date:1st January 2025
- ✓ Expiry date:31st December 2025
- ✓ Issuing Bank: First Commercial Bank of Korea, Korea
- ✓ Payment Terms: At sight
- ✓ LC available by: Negotiation [refer Exhibit-1]
- ✓ Available with: BNB Bank Ltd, Chennai (the beneficiary's bank)
- ✓ Document Presentation: Within 21 days from the date of shipment, but within the validity of the LC.
- ✓ Partial Shipment: Permitted
- ✓ Documents to be presented in two sets, the first comprising the goods and the second part for the service element.

On 29th December 2025, SGS completed the installation of the furnace and raised the final bill of USD 1.25 million and prepared documents to be submitted to the negotiating bank, BNB Bank Ltd.

However, on the night of the 30th, sudden riots broke out in the locality of the negotiating bank, and the area was placed under curfew as per State Government orders. The negotiating bank, BNB, declared force majeure and temporarily suspended its banking operations in Chennai

Once the area was brought under control, the curfew was lifted on 2nd January, and BNB Bank opened its doors and commenced operations.

SGS approached the bank on 2nd Jan and submitted the documents for negotiation. However, BNB bank rejected the presentation as discrepant since they were submitted after expiry of the LC, and as per UCP 600, the presentation was to be made within the validity of the LC.

This created a situation of panic for SGS. The entire contract had been completed well within schedule and as per contractual terms. Any delay in receipt of the sale proceeds would create a cash flow problem and potentially affect the company's liquidity position significantly.

The company was further worried since, in the case of the previous presentations, through market sources, they had come to know that the Importer JKW was facing a severe cash crunch which had resulted in the project being delayed by months. In such a scenario, a discrepant presentation would play right into the hands of the importer, who could then refuse to accept the discrepancy, which SGS felt was not a material discrepancy but a technical one.

With this background, Mr Deven Verma, Vice President SGS, had sought a meeting with Mr. Bajaj, the branch head of BNB Bank Ltd, Chennai branch.

In the course of the meeting Mr Verma laid out the facts of the case and also reminded Mr. Bajaj of their long-standing relationship with the bank. He reminded him of the recent meeting between the MD of SGS and the GM of BNB in which both had expressed satisfaction with the conduct of the account and had discussed financing requirements for the new plant planned by SGS. In the same vein Mr Verma requested Mr. Bajaj to help out in the present instance of the documents submitted under LC issued by JKW. He submitted that it would be a great relief if BNB bank kindly accepted their presentation as a valid presentation.

Mr Bajaj reciprocated the warmth and also agreed that SGS was a premium relationship for the bank.

With respect to the case on hand, he stated that as per the advice of their trade finance operations GM the presentation was after the date of expiry of the LC and as such they were unable to honor the same.

Mr Verma protested, arguing that he was *ready with the documents* before expiry but was prevented from submitting them due to the **bank closure which was obviously beyond his control**. He asserted that the closure constituted a force majeure event, and as such SGS

should not be penalised, and the LC should be considered valid for presentation on the next working day, which in the present instance was 2nd January 2026.

The BNB Bank Ltd, the negotiating bank, cited **Article 36 of UCP 600**, which provides that banks assume no responsibility for consequences arising out of interruptions to their business by acts of God, riots, or other causes beyond their control. The Article also states that an **LC expiring during such a period of interruption cannot be acted upon after the bank reopens**.

The bank thus refused to negotiate or forward the documents, emphasizing that its obligation under the LC ceased with its expiry on 31st December 2025.

They further stated that the documents could be presented under collection to the Applicant. SGS knew that sending the documents for collection was extremely risky, but in view of the stand taken by its bankers, it was left with no suitable option.

The Dilemma:

Mr Verma of SGS had an important decision to make:

Should he approach the nominated bank, BNB Bank Ltd, to ask the issuing bank for a waiver concerning the discrepancies found in the documents according to the guidelines set forth in UCP 600? Alternatively, should he consider requesting payment by submitting the documents for documentary collection under URC 522, contingent upon approval?

EXHIBIT-1

Letter of Credit	A letter of credit (LC) is a payment instrument issued by importer's bank on behalf of the importer promising to pay the exporter upon presentation of documents in compliance with the terms stipulated therein. It is important to note that the issuing bank is obligated to honour drawings under the LC regardless of the buyer's ability or willingness to pay. After the advance payment method, this is the safest payment method in the international trade transaction. Moreover, legal enforcement on non-payment is feasible as LC involves a bill of exchange or drafts. LC transactions are governed by Uniforms Rules for Documentary Credit Practices or UCP 600.
Types of LC	Back to Back LC, Transferable LC, Instalment LC, Standby LC, Revolving LC etc.
Negotiation	Negotiation means the purchase by the nominated bank of drafts (drawn on a bank other than the nominated bank) and/or documents under a complying presentation, by advancing or agreeing to advance funds to the beneficiary on or before the banking day on which reimbursement is due to the nominated bank.
UCP 600	<p>This revision of the Uniform Customs and Practice for Documentary Credits (commonly called "UCP") is the sixth revision of the rules since they were first promulgated in 1933. International Chamber of Commerce (ICC), which was established in 1919, had as its primary objective facilitating the flow of international trade at a time when nationalism and protectionism posed serious threats to the world trading system.</p> <p>It was in that spirit that the UCP were first introduced - to alleviate the confusion caused by individual countries' promoting their own national rules on letter of credit practice. The objective, since attained, was to create a set of contractual rules that would establish uniformity in that practice, so that practitioners would not have to cope with a plethora of often conflicting national regulations. The universal acceptance of the UCP by practitioners in countries with widely divergent economic and judicial systems is a testament to the rules' success.</p>
Presentation	Presentation means either the act of delivering documents under a credit to the issuing bank or nominated bank or the documents so delivered.
URC 522	<p>ICC Uniform Rules for Collections was first published in 1956 with revisions in 1967 and 1978 and the current version in 1995.</p> <p>These are a set of rules that enable banks to handle documents in order to either obtain payment/ or acceptance.</p>

	<p>In case of collection instruments the exporters bank/remitting bank sends the documents to the importers bank/collecting bank accompanied by collection instructions. The collecting banks is required to act strictly in accordance with the collection instruction and either release documents to the importer on payment or against its unconditional acceptance to pay on maturity.</p> <p>However unlike in the case of an LC there is no bank undertaking to pay in case of default by the buyer/importer.</p>
--	--