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Garment Exporters Opinion On Commercial Bank's Export Support In Tirupur

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Abstract: *The export credit in India, may be studied with reference to its stages, namely, pre-shipment credit and post-shipment credit. While pre-shipment credit is required for production, processing and packaging post-shipment credit is required to finance overseas buyers. These credits have been covered by a special refinance scheme of the RBI and are provided at concessional rates of interest. In this concession, the scheme for pre-shipment credit the exporters can get credit both in rupees (at an interest rate of 13 per cent) and foreign exchange (at an average of 7.5 per cent). Post-shipment credit is available in rupees at a rate not exceeding 13 per cent for 90 days or less; beyond 90 days and upto six months 15 per cent interest is charged. (since Feb 7, 1996, this credit is not available in dollars).*

Key Words: *Export Credit, Pre-shipment credit, Post shipment Credit, Garment Exporters*

I. Introduction

An exporter requires an importer to prepay for goods shipped. The importer naturally wants to reduce risk by asking the exporter to document that the goods have been shipped. The importer's bank assists by providing a letter of credit to the exporter (or the exporter's bank) providing for payment upon presentation of certain documents, such as a bill of lading. The exporter's bank may make a loan to the exporter on the basis of the export contract. The type of document used in the process depends on the nature of the transaction and how evidence of performance can be shown. It is useful to note that banks only deal with documents and not the actual goods, services or performance to which the documents may be relating to.

Export finance is used when financing is required by buyers and sellers to assist them with the trade cycle funding gap. Buyers and sellers can also choose to use export finance as a form of risk mitigation. An exporter needs to mitigate the payment risk from the importer and it would be in their benefit to accelerate the receivables. The function of trade finance is to act as a third-party to remove the payment risk and the supply risk, whilst providing the exporter with accelerated receivables and the importer with extended credit.

Pre-shipment credit is advanced only on receipt of an export order. To obtain the loan, the exporter should deliver to the bank either a letter of credit established in his favour or a confirmed export order. However, the letter of credit or the confirmed export order is yet to be received, relevant evidence in the form of a cable, letter etc. is acceptable, provided such cable, letter, etc, should contain information regarding the value of the order, the quantity and particulars of goods, date of shipment and the buyer.

All the packing credit advances must be repaid from the proceeds of the relative export bills negotiated or from the remittances received from abroad for the relative goods. One of the key reasons for pre-export financing is that the borrower has sufficient liquidity to maximise production. Garment Export firms are one of the largest users of pre-export financing.

When providing financing, the commercial banks has to consider factors including production and delivery risk. The repayment of the loan is contingent on the production and sale of goods. Payment risk is also an issue in the event that the seller distributes the goods in time but the buyer fails to pay in full.

Other risk structures are also put in place. In many countries a borrower will be required to purchase political risk insurance. This would cover the event of expropriation, sanctions, law changes and war and would provide coverage for both the borrower and lender.

II. Objectives Of The Study

- To study the garment exporters opinion on the factors considered by the commercial bankers at the time of delivering the export finance.
- To know the awareness and agreeability of fund and non-fund based services offered by the commercial banks to the garment exporters.

III. Literature Review

Venkatesh.J (2008)[1] in his thesis titles **"Needs and problems of shipment finance at various stages of knitted garment Exports with special reference to Tirupur"** stated that to satisfy the needs of the knitted garment exporters in utilize the financial facilities and concessions offered by government and related organisations. Value added shipment financial schemes may be introduced to the knitted garment exporters by the banks and financial institutions at pre and post shipment stages and the real benefits have to reach the knitted exporters fully. Higher cost of shipment finance, risky and complicated banking procedures and risks in releasing sanctioned funds at the right time and other barriers should be rectified and should be promoted with respect to shipment finance concerned.

Paravisini et al. (2011)[2] match a panel of Peruvian firms with credit data from banks between July 2007 and June 2009. They report that a 10% decline in the credit supply leads to a reduction of 2.3% in the annual export volume. In addition, a 10% increase in the credit supply increases the probability that the firm' will continue exporting in a given market by 3.6%.

RBI extends 2 percentage interest subsidy scheme for exporters[3] The Reserve Bank extended the 2 percentage interest subsidy scheme by another year on rupee export credit to the labour-oriented and small scale sectors to cushion them from slowdown in markets like the US and Europe. Exporters of handicrafts, handlooms, readymade garments, processed agriculture products and carpets will be eligible for interest subvention to be available up to March 31, 2013.[1]

IV. Statement Of The Problem

The paper examines services provided by the commercial banks and the opinion of garment exporters in Tirupur. The study was restricted to 150 respondents and convenient sampling technique was adopted.

V. Analysis & Interpretations

The process by which the data gathered in qualitative research, and by which the emergent knowledge is applied to clients' problems. This data often takes the form of records of group discussions and interviews.

Table-1: Nature of ownership

Ownership	No. of Exporters	% of Exporters
Proprietorship	15	10
Partnership	79	52.7
Private Limited Company	56	37.3
Total	150	100

Analysis: 52.7% of exporters nature of organization is partnership, 37.3% of the exporters are private limited and 10% of the owners are Proprietors.

Interpretation: Majority of the exporter's nature of organization is partnership firm.

Table-2: Period of availing the Export support facility

Availing export services	No. of Exporters	% of Exporters
Less than 5 year	24	16
5 year to 10 years	42	28
10 years to 15 years	48	32
More than 15 years	36	24
Total	150	100

Analysis: 32% of exporters avail export support for a period of 10-15 years. 28% of exporters avail 5-10 years and 24% of the exporters avail export support for a period more than 15 years while only 16% of them are availing export support less than 5 years.

Interpretation: Majority of the exporters are availing export support for a period of 10-15 years.

[1]. **Venkatesh.J "Needs and problems of shipment finance at various stages of knitted garment Exports with special reference to Tirupur"** Ph. D Thesis Bharathiar University Jan 2008

[2]. **Paravisini, D., Rappoport, V., Schnabel, P. and Wolfenson, D. (2011) Dissecting the effect of credit supply on trade: evidence from matched credit-export data. NBER Working Paper 16975.**

[3]. **RBI extends 2 pc interest subsidy scheme for exporters The Economic Times June 19, 2012 | PTI**

Table-3: Preference of shipment finance

Preference	No. of Exporters	% of Exporters
Pre-shipment	45	30
Pre & Post shipment	105	70
Total	150	100.0

Analysis: 70% of the respondent's prefer both pre & post shipment finance and 30% of the respondents prefer pre-shipment finance for their export

Interpretation: The exporters are mainly depending on pre-shipment finance for the smooth running of their export business.

Table-4: Relationship between Nature of ownership and preference of export credit

Hypotheses

- There is no significant association between nature of ownership and preference of export finance. (Ho)

Ownership / preference	Pre-shipment	Pre & post shipment	Total
Sole Trader	1	14	15
Partnership	25	54	79
Limited company	19	37	56
Total	45	105	**150**

The chi-square statistic is 4.4023. The P-Value is 0.110675. The result is not significant at $p < 0.05$.

The calculated value (4.4023) is higher than the table value at 5% level of significance, the hypothesis is rejected. Hence, there is significant association between nature of ownership and preference of export finance availed by the exporters.

Table-5: Factors considered by the bankers while sanctioning the export credit

Factors	I	II	III	IV	V	VI	Total score	Rank
Proposal & integrity of the exporter	174	270	60	63	46	8	621	I
Capacity of the exporter in execution of order within the stipulated time	138	40	132	111	38	30	489	V
Quantum of finance	186	80	108	99	58	14	545	II
Standing of export credit fixed	120	80	152	87	60	17	516	IV
Regulation, Political and financial condition of the buying country	114	75	64	69	82	36	440	VI
Type of transaction (ie l/c / non-l/c)	168	210	80	18	18	45	539	III

Proposal & integrity of the exporter has been considered as I rank (total score 621) followed by **Quantum of finance** (total score 545). **Type of transaction (ie l/c / non-l/c)** (total score 539) has been the third factor followed by **Standing of export credit fixed** (total score 516). The least considering factor is **Regulation, Political and financial condition of the buying country** (total score 440) after considering the **Capacity of the exporter in execution of order within the stipulated time** (total score 489)

Table-6: Agreeability of Pre & post shipment finance

	Post shipment		Pre Shipment	
Agreeability	No.	Percent	No.	Percent
Large Extent	24	22.9	62	41.3
Full Extent	47	44.8	71	47.4
Moderate Extent	18	17.1	11	7.3
Some extent	9	8.6	6	4
Least extent	7	6.6	0	-
Total	105	100.0	150	100.0

Analysis: 44.8% of the respondent in case of post-shipment finance and 47.4% of the respondents in case of pre-shipment finance agreed that the shipment finance is useful to the full extent. 22.9% of the respondents in case of post-shipment finance and 41.3% in case of pre- shipment finance use the shipment finance to the large extent and 17.1% in case of post-shipment finance and 7.3% in case of pre-shipment finance has been used to moderate extent and 8.6% in case of post-shipment and 4% in case of pre-shipment finance is used to some extent and remaining 6.6% of the respondents agreed that they use post-shipment for the least extent.

Interpretation: The exporters agreed that they are mainly depending on shipment finance to the full extend for the smooth running of their export business.

Table-7: Awareness and availing of non-fund based services

Services	Awareness		Availed	
	Yes	No	Yes	No
Project consultancy	150		72	78
Securitisation	150		83	67
Performance Guarantee	150		84	66
Exchange Remittances	150		150	0
Factoring	150		150	0
Hedging	150		150	0

Analysis: All of the respondents (100%) are aware of the non-fund based export services offered by the commercial banks. But only some of the services like exchange remittance, factoring and hedging are availed by the exporters. Other services like project consultancy, securitization and performance guarantee are not fully availed by them.
Interpretation: The exporters are mainly depending on fund based services than non-fund based services for their export.

Table-8: Agreeability of non-fund based services

Services	Agreeability					Score	Rank
	*LAE	*Fu	*ME	*SE	*LE		
Project consultancy	130	128	42	0	0	300	VI
Securitisation	215	104	42	0	0	361	IV
Performance Guarantee	170	148	30	6	0	354	V
Exchange Remittances	320	172	129	0	0	621	III
Factoring	245	344	45	0	0	634	II
Hedging	590	128	0	0	0	718	I

*LAE – Large Extend Fu – Full Extent ME - Moderate Extent SE-Some extent LE-Least extent

Analysis: Hedging plays an important role in export business followed by factoring services. Exchange remittances have been accepted as next main service followed by securitisation. The least considering service is project consultancy after considering the performance guarantee.
Interpretation: Hedging constitutes the most priority service than all other non-fun based services.

VI. Findings

- 60% of the respondents nature of ownership is partnership.
- Majority of the exporters are availing export support for a period of 10-15 years.
- 70% of the respondent's prefer both pre & post shipment finance for their export.
- There is significant association between nature of ownership and preference of export finance availed by the exporters.
- According to the opinion of exporters, the commercial banks consider the proposal and integrity of the exporter as the main factor for sanctioning the export finance.
- The exporters agreed that they are mainly depend on shipment finance to the full extend for the smooth running of the business.
- All the respondents are aware of the non-fund based services provided by the commercial banks.
- Limited number of non-fund based services are availed by the exporters.
- Among the non-fund based services, the exporters mainly used the hedging facilities for their garment export.

VII. Recommendations

- Commercial banks pay more attention to the buying countries regulations, policies and financial conditions.
- Banks may bring out a Hand Book containing the features of the simplified procedures for sanction of export credit at internationally competitive rates.
- Banks may periodically organise Exporters' Meet to avail non-fund based services.

VIII. Conclusion

RBI plays an important role in case of export support provided by the commercial banks. The initiatives taken by Reserve Bank of India and Government of India have contributed to the impressive increase in Tirupur Garment exports. The commercial banks play the key factor which helps the garment exporters in executing their export orders efficiently. About 90 percent of international trade is dependent upon export finance. Export support arrangements made by the commercial banks ensure protection from commercial risks, offer insurance mechanism from illiquidity and insolvency, and also provide cost-effective information.