

Utilization of Financial Schemes by Knitted Garment Exporters in Tiruppur District

N.Chitra, Dr.B.Mythili

Author: N.Chitra, P.hD Research scholar in Commerce
Sree Saraswathi Thyagaraja College, Pollachi—6421107
E-mail: nchitra_udt@rediffmail.com

Co-author: Dr.Mythili, Associate Professor, Department of B.COM(CA)
Sree Saraswathi Thyagaraja College, Pollachi-6421107
E-mail: mythili1969@rediffmail.com

Abstract - Export credit is required for short periods of time both before and after the dispatch or shipment or the execution of an order. These requirements of the exporters can be met through commercial banks that are authorized to deal in foreign currency and Export Import Bank of India by providing pre-shipment and post- shipment finance at subsidized rate of interest. The main objectives of the study are to analysis the various schemes utilized by the exporters. The commercial banks should create awareness among the exporters about the various schemes through proper training.

Keywords- Export finance, Pre-shipment, Post-shipment.

I. Introduction

Export finance plays a crucial role in enabling the exporters in accepting and also executing their export orders promptly. The term “Export financing “is the provision of credit and any form of financial assistance to meet the needs of an exporter in carrying out an export order. Export credit is required for short periods of time both before and after the dispatch or shipment or the execution of an order. These requirements of the exporters can be met through commercial banks that are authorized to deal in foreign currency and Export Import Bank of India by providing pre-shipment and post- shipment finance at subsidized rate of interest.

II. Statement of the problem

Finance is the breath of every production. To get over the financial hindrances and to concentrate on production process, most of the producers handover their burden to the middlemen like the stockists and distributors. Exporters seek financial assistance from the importers, but the financial assistance will be received only on or after the execution of the orders. So the Government of India has established a well developed financial system network to offer financial assistance to every exporter by providing pre-shipment and post –shipment credits. The refinancing mechanism of RBI enables the exporters to argument their resources while contributing to their profitability. The two

major establishments that play a key role in this regard are the Export Credit Guarantee Corporation of India (ECGC) and the Export Bank of India. Despite the existence of such massive network for financial assistance the problems continue. Complaints are often heard from exporters, regarding rigidity of banks credit mechanism along with delays in decision making process. Suggestions come for relaxation of norms for financing along with the need for the introduction of innovative services. Similarly, bankers opine in favour of closer coordination with term lending institutions and better response from ECGC towards settlement of claims. Thus the researchers have got great interest to study the utilization of various financial assistance schemes provided to them by RBI and the Government of India.

III. Need of the present study

Knitted garment industry in Tirupur has been a prospective one for the past three decades and therefore Tirupur is called the dollar city of India. The Knitted garment industry is contributing much to the growth of the economy, since globalization, exports and imports have become free and liberalized with a very few restrictions and regulations. There are many problems faced by the exporters and one such problem is the financial assistance for exports. Financial institutions have come forward to provide financial assistance for encouraging exports and imports. Financial assistance like pre-shipment credit, post-shipment credit is provided by the exporter’s bank. This study is needed to understand how far the exporters are benefiting by this credit.

IV. Review of literature

Ramachandran [6] made an important attempt to study the nature and dimensions of problems in small scale industries. The study found that the small scale units suffer from the scarcity of finance and credit available. Small scale industries do not have sufficient funds of their own and they find it difficult to make necessary resources from outside agencies. Finally he pointed out another problem for SMS

financing to buy raw materials on cash basis and then supplying of finished goods on credit often extending from 90 to 120 days. This caused sizable out flows of cash resources and further forced to industrial sickness. Pravakar Sahoo [7] states that India has all the right ingredients to attract large shipment finance flows but if such finance is still flow to come in, it is because of the short comings in the exports and imports. Flexible rules and procedures are crucial to draw more shipment finance and the quality of Government is a major positive for higher export growth. Therefore a smart government, big or small, is the key factor for economic development. Sen Gupta and Keshari [13] This paper spells out the role and share of commercial banks in export financing and issues in export financing such as aspirations and requirements of borrowers and discontentment of banks with the present regulation of export credit. The paper suggests for increasing the flow of bank credit to export sector, restructuring the interest rates. It also calls for a change in the attitudes of banks conservative and risk averse. The need for co-ordination between banks and financial institutions, role of ECGC in timely settlement of claims are impetus for a favorable export business. The stress is on introducing the new innovative services of counter trade, overseas borrowings, international factoring and banker's acceptance for accelerating promotion of exports. To conclude, it can only be reiterated that without exports, country cannot survive and without availability of adequate export credit at reasonable cost, exports cannot grow. Fulbag Singh and Manpreet Kaur [14] analyze the awareness level of small and medium enterprises (SMEs) exporters regarding various forms of export finance issued by commercial banks. Findings revealed a low level of awareness regarding various export financing products among SME exporters. Moreover commercial banks are not implementing RBI guidelines regarding export credit. This study suggested that RBI should take efforts to increase the exporting SMEs' awareness regarding export credit schemes as well as guidelines for their betterment. This can be done by Entrepreneurial Development Programme (EDPs) and entrepreneurs should be encouraged to attend EDPs to increase their awareness.

V. Objective of the study

1. To study the socio-economic profile of knitted garment exporters .
2. To find out the various schemes utilized by the exporters.
3. To know the stages of utilizing the pre-shipment credit and post shipment credit.

VI. Research methodology

Primary data on export financial assistances provided by commercial banks have been collected through a structured questionnaire. A separate questionnaire has been used for primary data collection from knitted garment exporters from TEA at Tirupur. Secondary data is collected from the records maintained by the AEPC Tirupur, the TEA, the South Indian Hosiery Exporters Association (SIMA), Coimbatore and Ministry of Textiles, New Delhi. The data pertaining to a period of 5 years from 2009-2010 to 2013-2014 have been collected and analyzed.

VII. Sampling design

The population of registered direct knitted garment exporters in TEA is 700. 208 are Sole Proprietorship, 456 are Partnership Firms, 120 are Private Limited Companies and 16 are Public Limited Companies. Out of that 300 knitted garment exporters have been selected by convenient random sampling method from the cluster of organizations like Sole Proprietorship, Partnership Firms, Private Limited Companies and Public Limited Companies.

VIII. Analysis and Interpretation

Table 1

S.No	Background characteristics	Number of exporters	Percentage
1.	Age		
	20-30	16	5.3
	30-40	96	32.0
	40-50	138	46
	50-60	44	14.7
	Above 60	6	2.0
	Total	300	100
2.	Gender		
	Male	266	88.7
	Female	34	11.3
	Total	300	100
3.	Education		
	PG	163	54.3
	UG	106	35.3
	School	31	10.4
	Total	300	100
4.	Experience		
	Below 15 years	84	28.0
	15-20 years	141	47.0
	Above 20 years	75	25.0
	Total	300	100
5.	Sources motivated to start the unit		
	Relatives/Friends	120	40.0
	Case study	53	17.6
	Motivational companies	113	37.7

	Trade fare and exhibition	14	4.7
	Total	300	100
6.	Bankers to the unit		
	Nationalized banks	200	66.7
	Private banks	92	30.7
	Foreign banks	8	2.6
	Total	300	100
7.	Type of business		
	Sole traders	97	32.3
	Partnership Firms	143	47.7
	Private Limited Company	58	19.3
	Public Limited Company	2	0.7
	Total	300	100
8.	Operation of business		
	Own	240	80.0
	Rented	56	18.7
	Lease	4	1.3
	Total	300	100

The above table 1 shows that out of 300 knitted garment exporters, majority of the knitted garment exporters belong to 40-50 years of age group who respond positively to challenges and are flexible. 266 (88.7%) are male exporters. It shows that male exporters are capable and bold enough in taking decisions quickly according to the buyers' attitude and economic conditions prevailing in the world. 106 exporters (35.3%) are under graduates who have taken steps to modernize the units, expanded the business and capture new market in the world with the support of other person. Most of the exporters (141) have experience between 15 to 20 years in garment industry.

Basis for providing credit to exporters by banks

Table 2

S.No	Basis	Score		Rank
		Total	Mean	
1.	Collateral Security	26240	87.47	1
2.	Past Track report of the exporter	13400	44.67	3
3.	Personal Guarantees by Directors / Partners	6500	21.67	5
4.	Confirmed	19240	64.13	2

	orders/ Bills of Exchange			
5.	Stock of raw materials and semi finished goods	9620	32.07	4

It is seen from the above Table 2 that among the various basis of providing finance to exporters, Collateral Security has secured higher Garret mean score of 87.47 and stands at top, followed by Confirmed orders/ Letter of Credit securing next higher Garret mean score of 64.13 and stands at second, Past Track report of the exporter stands at third with a Garret mean score of 44.67 , Stock of raw materials and semi finished goods stands at fourth with a Garret mean score of 32.07 and finally Personal Guarantees by Directors / Partners has secured least Garret mean score of 21.67 and stands at last.

Pre-shipment schemes

Table 3

S.No	Types of schemes	Number of exporters	Percentage
1.	Packing Credit Loan	280	93.0
2.	Advance Against Hypothecation	134	44.7
3.	Advance Against Pledge	154	51.3
4.	Advance Against Back-to Back Letter Of Credit	33	11.0
5.	Advance Against Duty Drawback	280	93.0

It is seen from the above Table 3 that among the exporters, 93% of exporters utilized Packing Credit Loan because it covers all expenses and take Advance Against Duty Draw back to get back customs and excise duty. 51.3% of exporters have utilized the Advance against Pledge schemes and 44.7% have utilized the Advance Against Hypothecation because there is a good relationship between buyer and exporters and the buyer takes time to send Letter of credit.

Stages of utilizing the pre-shipment credit
Table 4

S. No	Stages	Score		Rank
		Total	Mean	
1.	Purchase of raw materials and other inputs to manufacture goods	22340	74.47	1
2.	Assembling the goods from merchant exporters	15740	52.47	3
3.	Warehousing till the goods are shipped	3360	11.20	5
4.	Packing, marking and labelling of goods	19840	66.13	2
5.	Export documentation expense	13720	45.73	4

It is seen from the above Table 4 that among the various stages of providing credit to exporters, the stage Purchase of raw materials and other inputs to manufacture goods has secured higher Garret mean score of 74.47 and stands top, followed by the stage Packing, marking and labelling of goods which has secured next higher Garret mean score of 66.13 and stands second, the stage Assembling the goods from merchant exporters, stands third with Garret mean score of 52.47, the stage Export documentation expense stands fourth with Garret mean score of 45.73 and finally the stage Warehousing till the goods secured least Garret mean score of 11.20 and stands at the last.

Post shipment schemes
Table 5

S.No	Types of schemes	Number of exporters	Percentage
1.	Export Bills Negotiated Under Letter of Credit	225	75
2.	Purchase of Export Bills Drawn Under Contracts	30	10.0
3.	Advance Against Bills Under Collection	35	11.7
4.	Advance Against	174	58

	Claims of Duty Drawback		
5.	Advance Against Goods Sent on Consignment of Bills	33	11.0
6.	Advance Against Undrawn Balance of Bills	22	7.3

It is seen from the above Table 5 that among the exporters 75% of them have utilized the Export Bills Negotiated under Letter of Credit. The exporters have to submit all documents properly to receive the balance amount from the banks. 58% of them have utilized the Advance against Claims of Duty Drawback because the exporters receive customs duties paid on the import of raw materials, components, parts and packing materials used in the export production. 11.7% have utilized the Advance against Bills under Collection, 11% have utilized the Advance against Goods Sent on Consignment of Bills and 7.3% have utilized the Advance against Undrawn Balance of Bills.

Stages of utilizing the post shipment credit
Table 6

S.No	Stages	Score		Rank
		Total	Mean	
1.	Payment to agents / distributors	25170.00	84.00	1
2.	Payment for publicity and advertising in the overseas market	23280.00	77.69	3
3.	Payment for port authorities , customs and shipping agents charges	15300.00	51.06	5
4.	Payment towards export duty or tax	25120.00	83.83	2
5.	Payment towards ECGC Premium	17080.00	57.00	4
6.	Payment for freight and other shipping expenses	13310.00	44.42	6

7.	Payment for marine insurance premium under CIF contracts	4200.00	14.02	10
8.	To meet expenses after sales services	13270.00	44.29	7
9.	Payment for participation in exhibition and trade fairs in India and abroad	6960.00	23.23	8
10.	Payment for representatives abroad to collect orders	6130.00	20.46	9

It is seen from the above Table 6 that among the various basis of providing finance to exporters, the stage Payment to agents / distributors, has secured higher Garret mean score of 84.00 and stands top, followed by the stage Payment towards export duty or tax has secured next higher Garret mean score of 83.83 and stands second, the stage Payment for publicity and advertising in the overseas market stands third with Garret mean score of 77.69, Payment towards ECGC Premium stands fourth with Garret mean score of 57.00, Payment for port authorities , customs and shipping agents charges stands fifth with Garret mean score of 51.06, Payment for freight and other shipping expenses stands sixth with Garret mean score of 44.42, To meet expenses after sales services stands seventh with Garret mean score of 44.29, Payment for participation in exhibition and trade fairs in India and abroad stands eighth with Garret mean score of 23.23, Payment for representatives abroad to collect orders stands ninth with Garret mean score of 20.4 and finally the stage Payment for marine insurance premium under CIF contracts secured least Garret mean score of 14.02 and stands at the last stage.

IX. Findings

1. The majority (46%) of the exporters are belonging to 40-50 years of age.
2. The majority (88.7%) of the respondents of knitted garment exporter are males.
3. The majority of exporters (54.3%) are post graduates.
4. Most of the exporters (141) have experience between 15 to 20 years.

5. Most (40%) of the exporters in knitted garment units are motivated entrepreneurs to start the units by getting ideas from relatives or friends.
6. Majority (66.7%) of the knitted garment exporters have Nationalized bank as their bankers.
7. Most (47.7%) of the knitted garment exporters are running the units on partnership basis.
8. Majority (80%) of the respondents of knitted garment exporters have their own building.
9. Collateral Security has secured higher Garret mean score of 87.47 and stands at top.
10. Majority (93%) of the exporters utilized Packing Credit Loan and Advance against Duty Draw back.
11. Most (75%) of exporters of them have utilized the Export Bills Negotiated under Letter of Credit.

X. Suggestion

1. Most of the exporters are running the business through partnership because they share the work and invest equally. They should convert partnership firm into company.
2. The exporters should select the banks which have better branches network, cost of operations is less and are experienced financial institutes.
3. Exporters should be aware of the many financing options open to them so that they choose the most acceptable one.
4. Most of the exporters accept the credit in domestic currency and not in foreign currency because of fluctuation in the value of rupee.
5. Credit analysis should focus on exporters' ability to pay, which is assessed primarily through cash flow analysis.

XI. Conclusion

As finance is the breath of export business, to the extent of its availability or non- availability for fixed and working capital, the business is affected. If there is easy access to finance, export may thrive and help the economy to march ahead. To enhance the knitted garment exporters, the banks provide working capital to exporters, through short-term loans, credit lines or an overdraft facility, or advance payment of exporters' bonds, or discounting of receivables based on collateral security, previous track record, confirmed letter of credit etc., The pre-shipment or post-shipment financing enables exporters to produce and ship products during the entire cash cycle. The exporters are utilizing frequently the Packing Credit Loan schemes and Export Bills Negotiated Under Letter of Credit schemes. So the commercial banks should create awareness among the exporters about the various schemes through proper training.

References

- [1] Herrmann,A., Fisher,M.(2001), “Customer Satisfaction with Respect of shipment finance”, German Research in Marketing, March , vol.71(10), pp.1161- 1190.
- [2] Buatsi, Seth,N.(2002), “Financing non-traditional exports in Ghana”, The Journal of Business & Industrial Marketing, Vol 17, No 6, pp 501-522.
- [3] George,K.I.(2002),“Problems an Prospects of Readymade Garment Industry in Kerala”, Unpublished Ph.D Thesis , University of Kerala, August.
- [4] Homby,G.,Goulding,P. and Poon,S.(2002), “Export Barriers and Financing Export Transactions Methods of payments”, Journal of Textile Research, Nov, Vol.3, No.4, pp.65-78.
- [5] Shashanka Bhide.(2002), “Satisfaction with Export Credit Delivery System: A Survey of Indian Banks and Exporters”, National Council of Applied Economic Research, New Delhi, India, April.
- [6] Ramachandran,S.(2003) “Development and Prospects of Small Scale Industries in India”, Journal of Co-operative Management, July- Sep, vol.38, no.2, pp.24-26.
- [7] Pravakar Sahoo.(2006), “Why shipment finance Eludes India?”, Business Line, August 26, vol. 135, no.302, pp.4.
- [8] Holger Gorge, Michael Henry, and Eric Strobl.(2008), “Grant Support And Exporting Activity”, The Review of Economics and Statistics, February, Vol.90(1), pp.168–174.
- [9] Benjamin Zammit, Donald,G., Ross and Dorothy Wood.(2009), “Perceptions of export credit insurance value”, Asia-Pacific Journal of Business Administration, Vol.1, No.2, pp. 109-118.
- [10] Vetrivel,T., Manivannan,L.(2011), “Problems and prospects of garments industry in Tirupur”, Indian Journal of Applied Research, Nov,Vol.1, Iss.2, pp.99-102.
- [11] Onny, Benjamin Lloyd.(2012), “Accessibility to finance for non traditional exports in Ghana” Unpublished Ph.D, Kwame Nkrumah University of Science and Technology, September.
- [12] Saravanan,S., Mohanraj,S.(2013), “A study on the challenges faced by Tirupur Garment exporters”, International Journal of Research in Commerce, IT and Management, Oct, Vol.3, Issue:10, pp.5-7.
- [13] Sen Gupta,A.K. and Keshari, P.K. (2013), “Study of Export Trade Financing in India with Particular Reference to Commercial Banks: Problems and Prospects”, <http://mpa.ub.uni-muenchen.de/47159/> MPRA Paper No. 47159, posted 24, May, 13:18, UTC.
- [14] Fulbag Singh and Manpreet Kaur.(2014), “Small and Medium Enterprises Awareness Regarding Export Credit Delivery System”, Management and Labour Studies, 39(1), pp.63-79.
- [15] Kavitha,N., Sangeetha,J.(2014), “A Study on problems of garment exporters in Tirupur”, Indian Journal of Research, Sep, Vol.3,Issue.9,pp.9-10.