

PERCEPTION OF GARMENT EXPORTERS ON LETTER OF CREDIT IN TIRUPUR CITY

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ABSTRACT

Since its inception in the early 1900s, the letter of credit has served as a cornerstone of international commerce. They continue to play an important part in the world's commerce today. For any firm looking to expand into the foreign market, a Letter of Credit is a critical payment instrument that may assist to mitigate certain risks and costs. Exporting and importing goods would include a number of activities in terms of paperwork exchange, physical cargo transportation, and payment settlement, all of which would need to be explicitly specified and set up in order to assure a seamless commercial transaction between the parties. In this study the authors tried analyse the perception of garment exporters over Letter of credit in Tiruppur city. The data has been collected from 100 respondents by using convenient sampling technique with the help of structured questionnaire. Letter of credit makes the exporters a smooth flow of transactions

for every dealings. It gives the stable mechanism; especially from the Importer and the Exporter's angle. The Letter of Credit gives more security and confidence among the traders in Tiruppur city.

Keywords: *Letter of credit, Exporters, garments etc*

INTRODUCTION

Among the payment options available to businesses doing business internationally, letters of credit have a prominent position. The term "letter of credit" comes from the French word "accreditation," which means "authorization to accomplish anything." Accreditation comes from the Latin word "acridities," which means "trust." in order to serve as a rules that define I / c that would be acknowledged widely by all nations, the ICC developed the Uniform Customs and UCP), which was embraced by far more than 175 countries and was most recently revised in 1993 for implementation with effect from January 1, 1994.

As international commerce has progressed over the years, a number of different payment systems and processes have been developed that are now accepted worldwide by all financial institutions and other associated parties. For new customers who have never done business with the exporter before, business transactions are often conducted using either the advance payment or Letter of Credit options.

L/C is one of the simplest payment systems accessible to an exporter to guarantee that he receives his money accurately, and it also ensures that the exporter complies with the importer's requirements in terms of quality, quantity, shipping directions, and paperwork, among other things. A letter of credit is a written promise by a bank to pay debts to beneficiaries (exporter) upon sight of a certain amount of money, subject to the terms and circumstances stipulated by the importers (applicant). The letter of credit should indicate a deadline for execution as well as the papers that will be required to certify the issuer's completion and fulfilment.

EXPORT – IMPORT LETTER OF CREDIT

A commercial letter of credit from a foreign nation is referred to as an export credit first from seller's (recipients) standpoint. The same letter of credit is referred to as an import credit by the buyer (applicant). In the case of an export credit, the granting bank makes an irrevocable commitment to pay the seller if all of the terms and conditions of the L/C are met by the papers that are supplied.

This bridge of confidence is built by at least two bankers, i.e., banker of seller and banker of buyer and this trust are managed by way of an instrument known as "Letter of credit".

And no doubt for providing such facility, both bankers earn by way of charges those are either borne by buyer, seller or both of them as agreed mutually between buyer and seller.

A L/C is a promise made by the purchaser's bank manager to a bank of the Vendor that its financial institution will honour the receipt introduced by Vendor on the due date and make payment, provided that the Vendor has bound to comply with all the rules and specifications set forward by importing country in the L/C or the Purchaser's order form and has generated document evidence to prove adherence, as well as all required reshipping documents. Rawal et. al (2021). A letter of credit is sometimes referred to as "L/C" in certain circles. In this case, the vendor is assured that they will get money, and the buyer is assured that no payment will be made until the products are received. Using an L/C has many advantages, the most important of which is that it provides protection to both the seller and the buyer.

STEPS IN AN IMPORT/ EXPORT LETTER OF CREDIT TRANSACTION

The Sales Contract

Sales contracts are written agreements between the buyer and seller that outline the parameters of the transaction. When a buyer and seller enter into a contract, they must include: an item's definition, its quantity, its dollar value, its service conditions (time for shipping and submission of papers), and its language and form of payment.

Application and Agreement

When the company's letter of credit application and agreement documents are signed by the client and the financial institution, they establish a repayment and refund contract. The issuing bank receives instructions from the consumer using this method. Therefore, thorough and precise application information is critical to prevent having to have an l/c changed. When a letter of credit is issued, the client agrees to refund the issuing bank for any drawing payments made in line with the L/C provisions.

Issuance of the Letter of Credit

Forwarded to advisory bank through narrative or air cargo, the financial institution puts together an L/C in accordance with the application's specifications (a branch or correspondent of the issuing bank). In accordance with their consumers' requests, the financial institution informs the counselling bank whether or not to add its confirmation.

Advising

No promise is given by consulting bank when it sends the letter of credit to the recipient (the seller). Nonetheless, if the advised bank has indeed been requested to confirm the letter of

credit and approves, it will include a provision promising to respect draughts from the recipient so long as the paperwork show that L/C terms and conditions have indeed been followed.

REVIEW OF LITERATURE

With the use of a "indemnification" arrangement, Prahathi & Mahalakshmi (2019), L/C establishes a legal contract between the issuing bank as promisor and seller as promise, in order to reimburse the issuers for draughts received or paid under the credit facility. Karim & Ray (2017), focused on the nature and problem of export financing and the role of the financial institutions which are providing financial support to exporters' credit needs arising on pre-shipment and post shipment stages (Yadav Uma Shankar, Nasir Mammadov, & Ravindra Tripathi., 2022). There are two key principles to remember while working with a L/C: the concept of autonomy and stringent compliance, according to Hao & Xiao's (2013) research. Both exporters and importers benefit from the amulet of these two factors, but the L/C transaction is at danger because of this amulet.

STATEMENT OF THE PROBLEM

Tirupur is a Dollar city which makes several international transactions. Letters of credit are essential in international commerce since the identity of the importer and the exporter is seldom disclosed. This information is crucial in understanding how exporters handle letters of credit. Thus, this research tries to get an understanding of the views of exporters on L/C.

OBJECTIVE OF THE STUDY

- To find out what letter of credit means to garment exporters.
- The significance of an L/C in international commerce, including exporters and importers.
- Analysis of why letter of credit is preferred.
- To research and improve L/C concerns.

SCOPE OF THE STUDY

The export and import of products and services in exchange for other currencies is known as international commerce. Due to macroeconomic shifts, the exporter is exposed to the danger of not accepting funds for exports. Documentation credit may help mitigate this danger. Letter of credit is the most often used mode of payment for exporters, since it is the most safest and least hazardous. Avoiding payment issues and being familiar with the many sorts of L/C and the items within the bank's control are revealed in this research.

RESEARCH DESIGN

Planning and organising an inquiry in such a way that it can address the research questions is called research methodology. As a guide, it provides a framework for the collecting and analysis of data. Descriptive statistics were used in this project to determine how happy the exporters were with the L/C received.

DESCRIPTIVE RESEARCH

In an exploratory study, interviews and reality inquiries are used to gather information on market features. Descriptive research's primary goal is to describe the current condition of circumstances.

SAMPLE SIZE: The sample size taken in this study was 100 respondents in Tirupur city.

AREA OF THE STUDY: Participants in Tirupur have provided the data for the research.

SAMPLING TECHNIQUE: The sampling method utilised in this research is an easy-to-use method.

DATA COLLECTION: The sampling method utilised in this research is an easy-to-use method.

PRIMARY DATA: When a researcher collects his or her own raw data, he or she will be referring to data that has never been seen before.

SECONDARY DATA: Secondary data refers to data that has previously been gathered by someone else and is used by the investigator in his or her investigation. It's not the most recent information, but rather information that has been gathered and packaged by someone else. Books, papers, newspapers, and websites are the primary sources of this data.

TOOLS USED FOR ANALYSIS:

- *Simple percentage method*
- *Ranking method*
- *Chi square test*

ANALYSIS & INTERPRETATION

The method through which qualitative data and the resulting information are made available to those who need it. Typically, this data is gathered using standardised questionnaires from Tiruppur District exporters.

Table – 1 : Chi- square

Year of Experience Persons Responsible	1-5 years	6-10 years	11-15 years	16 years and above	Total
	Exporter	9	18	0	14
Customs House Agent	1	1	11	5	18
Importer	2	11	13	6	32
Co-Exporter	4	4	1	0	9

Degrees of freedom = 9

Level of significance = 0.05

Table Chi- square Value = 17.9

Calculated Chi- square value= 51.135

Result = Rejected

The hypothesis is rejected because the computed value (51.135) exceeds the table value (17.9), and there is a strong correlation among years of experience and the man in charge of drafting the L/C.

Table 2 : Reason for Preferring Letter of Credit

S. No	Reason for preferring L/C	I	II	III	IV	Weighted Score	Rank
1	Minimize risk	150	73	43	15	28	IV
2	International trade	322	28	15	1	366	II
3	Availing bank finance	352	15	10	3	382	I
4	Secure form of payment	225	78	32	1	336	III

Computed table value

Availing bank finance has been ranked I (weighted score of 382) followed by International trade ranked II (weighted score of 366), secure form of payment ranked III (score of 336)

and the least preference is to minimize risk (Score 28). Exporters prefer Letter of credit for the reason of availing bank finance.

LIMITATIONS OF THE STUDY

- The quantity of respondents is restricted.
- The exporters' hectic schedules also make it very difficult to gather information.
- The amount of time allotted to the investigation is insufficient, and the amount of data gathered is brief.

- Tirupur is the only city studied in this research.

FINDINGS OF THE STUDY

- There are a large number of responders that are above the age of 46.
- Professionals make up 48 percent of those who took the survey.
- More over four-fifths of those who responded (44 percent) are involved in a partnership-type organisation.

- 37% of those polled had a yearly income of more than 5 cores rupees.
- Majority of the respondents (73%) use only export for their trade expansion.
- Due to inadequate facilities for production, most of the exporters are exporting 3 months once.

- Majority of the respondents prefer export to USA.
- The major of the respondents (89%) produced above 75000 pieces for a month.
- 68% of the respondents have export business by merchants from buying office.
- The majority of the respondents (53%) said they are manufacturer exporters.
- Majority of the respondents make sales agreement by using written format.
- Most of the respondents are preferred irrevocable with confirmed LC for their transaction.

- Most of the respondents are preparing the L/C through exporter which is necessary for export.

- Most of the respondents prefer letter of credit for availing the bank finance.
- Among 62% of the respondents are using purchase order as a substitute document.
- Majority of the respondents are facing the problem of date expiry in invalid letter of credit.

- Discrepancy in L/C documents is the major problem faced by the exporters.

- Most of the respondents are received the L/C amount from 7 to 15 days.
- Majority of the respondents made their L/C transaction in State Bank of India.
- The respondents are strongly agreed with the satisfaction of L/C transaction with the mean value of 4.2 respectively.
- The respondents are highly agreeing with the acceptability regarding L/C transaction such as bank may scrutinize the documents properly to avoid the discrepancies with the mean value of 4.34 respectively
- People who are responsible for writing the L/C have a strong correlation with their years of experience.
- Problems with invalid L/C are closely linked to one's level of education.
- In terms of L/C transactions, there is no correlation between yearly turnover and the issue.
- In terms of age and kind of L/C, there is no significant correlation.
- There is no correlation between the kind of concern and the number of days it takes to get an L/C payment.

SUGGESTIONS OF THE STUDY

- Banks can ensure that the letter of credit is accurate by examining the documentation thoroughly.
- L/C costs may be reduced by banks, since they are excessive.
- There may be ways in which banks might help reduce risk for their customers (whether importers or exporters).
- The letter of credit payment option is a long and moment one. As a result, the Reserve Bank of India (RBI) may take action to address this issue.
- The Reserve Bank of India does not have a letter of credit structure that must be followed. As a result, the Reserve Bank of India (RBI) may establish a standard L/C format and focus mostly on e - banking services for its customers.

CONCLUSION

When it comes to domestic and international commerce, letters of credit are a critical tool. Both the producer and the importer have peace of mind knowing they can rely on them to deliver the items as promised. The smoothness of the transaction is further enhanced by the use of a L/C. For the Importer and Exporter, this provides a sense of security. As an example, if

the parties have never done business before, this letter of credit gives them the confidence and security to do so. Exporters are likewise putting increased emphasis on this. International commerce relies heavily on the L/C.

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INSURANCE PENETRATION AND DENSITY IN INDIA

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