

A Study and Analysis of Trade Finance Pattern between Bankers and Traders at Thanjavur

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ABSTRACT

The project entitled "A Study and analysis of trade finance pattern between bankers and Traders at Thanjavur" was undertaken to increase the market share for trade finance products of ICICI in Thanjavur. ICICI bank is a leader in retail assets products. They entered into trade finance just a decade ago. They need to get more business. They wish to explore the market potential for trade finance products in Thanjavur. In this project Descriptive research design is used. The sample size is 100 out of a population of 500 Traders. The study also covered the entire population of 40 banks who service the trade finance requirement of Traders in Thanjavur. The method of sampling adopted is the simple random probability sampling. The data collected in this research work is primary data. The data were collected through questionnaires. A structured questionnaire was framed for collecting the personal details and research details from the Traders and bankers. The following statistical tools are used for this research work to extract the information, final interpretation and suggestion for the report.

The researcher has estimated the usage of trade finance products by Traders and this will help ICICI bank in formulating the strategy for the introduction of trade finance in Thanjavur. The research includes finding the competitive advantage of bankers at Thanjavur. The population study of bankers is used to analyze the total trade finance potential in Thanjavur. The research has identified the major problems faced by Traders and satisfaction level towards banking service and has suggested the ways to improve the share of trade finance for ICICI in SME (Small and Medium Enterprise) segment.

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KEYWORDS: TRADE FINNCE, BANKERS, SMALL AND MEDIUM ENTERPRISE

INTRODUCTION

Trade finance signifies financing for trade, and it concerns both domestic and international trade transactions. A trade transaction requires a seller of goods and services as well as a buyer. Various intermediaries such as banks and financial institutions can facilitate these transactions by financing the trade. Trade finance manifest itself in the form of letters of credit (LOC), guarantees or insurance and is usually provided by intermediaries

PRODUCTS & SERVICES

Banks and financial institutions offer the following products and services in their trade finance branches.

- Letter of credit: It is an undertaking/promise given by a Bank/Financial Institute on behalf of the Buyer/Importer to the Seller/Exporter, that, if the Seller/Exporter presents the complying documents to the Buyer's designated Bank/Financial Institute as specified by the Buyer/Importer in the Purchase Agreement then the Buyer's Bank/Financial Institute will make payment to the Seller/Exporter.
- Bank guarantee: It is an undertaking/promise given by a Bank on behalf of the Applicant and in favour of the Beneficiary. Whereas, the Bank has agreed and undertakes that, if the Applicant failed to fulfill his obligations either Financial or Performance as per the

Agreement made between the Applicant and the Beneficiary, then the Guarantor Bank on behalf of the Applicant will make payment of the guarantee amount to the Beneficiary upon receipt of a demand or claim from the Beneficiary.

Bank guarantee has various types like 1. Tender Bond 2. Advance Payment 3. Performance Bond 4. Financial 5. Retention 6. Labour 7. ready for basic analysis

- Export
- Import
- Collection and discounting of bills: It is a major trade service offered by the Banks. The Seller's Bank collects the payment proceeds on behalf of the Seller, from the Buyer or Buyer's Bank, for the goods sold by the Seller to the Buyer as per the agreement made between the Seller and the Buyer.

Supply Chain intermediaries have expanded in recent years to offer importers a funded transaction of individual trades from foreign supplier to importers warehouse or customers designated point of receipt. The Supply Chain products offer importers a funded transaction based on customer order book.

OBJECTIVE OF THE STUDY:

Primary Objective:

- To identify the major problems faced by Traders, satisfaction level towards banking service and suggest the ways to improve the share of trade finance for ICICI in SME segment.

Secondary objective:

- To analyze the total demand for trade finance products for the Traders in Thanjavur.
- To analyze the usage of trade finance products among Traders in Thanjavur.
- To analyze the competitive advantage of different bankers in Thanjavur.
- To explore the market potential for trade finance products.
- To improve the market share of ICICI Bank.
- To know the growth of business and need of trade finance products.

RESEARCH METHODOLOGY

Introduction

Research methodology is way to systematically solve the research problem. It includes the overall research design, the sampling procedure, and data collection method and analysis procedure.

Research design

A research design is the arrangement of condition for collection and analysis of data in a manner, which may result in an economy in procedure. It stands for planning for collection of relevant data and the techniques to be used in analysis, keeping in view the objectives of the research and availability of time.

Descriptive Research design

Descriptive research includes survey and fact-finding enquires of different kinds. The major purpose of this research is description of affairs as it exists at present.

Sampling technique

The method of sampling adopted is the simple random probability sampling. A list of Traders in Thanjavur city was made and they were visited. Individual Traders were selected at random and were listed to gather the required information.

Sample size

Thanjavur Chamber of Commerce & Industry has about 500 top Traders and, the sample size was found by using the formula

$$n = ((Z*S)/e)^2$$

n = Sample size

Z = Normal variant (1.96)

(Confidence level of 95%)

S = Standard deviation (0.05)

e = Tolerance error (0.01)

and the sample size is 100 for Traders and also population (40 banks) study for bankers.

Data collection method

The data collected in this research work is primary data. The data were collected through questionnaires. A structured

questionnaire was framed for collecting the personal details and research details from the Traders and bankers.

There are two types of questionnaires are used in this research work.

1. Questionnaire to Traders (please refer Appendix-1)
2. Questionnaire to Banks (please refer Appendix-2)

Scaling technique

The scaling technique used for this research is five-point scale and Graphic rating scale.

Statistical tools

The following statistical tools are used for this research work to extract the information, final interpretation and suggestion for the report.

1. Percentage Analysis
2. Chi-square Test
3. Weighted average method

DATA ANALYSIS & INTERPRETATION

- The data collected from the Traders are summarized in tables numbering from 4.1 to 4.19.
- The data collected from banks are summarized in tables numbering from 4.20 to 4.24.
- The data have been represented graphically using “pie-charts”, “bar charts” and “column charts” to facilitate clarity and ease of understanding.
- The interpretations from the data are also listed below each table.

FINDINGS, SUGGESTION & CONCLUSION

Findings with regard to Traders

- In Thanjavur export market 63% of the companies are partnership companies, 24% of companies are proprietorship companies, 12% of the companies are private Ltd companies and 1% of companies are Public Ltd companies.
- In Thanjavur export market the turnover of the companies is growing steadily from 2003 to 2006.
- The study found out 50% of Traders, export their product to two countries, 26% of Traders, export to one country, 20% of Traders, export to three countries and 4% of Traders export to more than countries
- The study found out 47% of Traders, sales their product to Mumbai, 26% of Traders, sales their product to Other Cities, 20% of Traders, sales their product to Chennai and 7% of Traders sales their product to Kolkatta.
- The study found out 43% of Traders 0 - 25 days credit period provided to customers, 37% of Traders 26 - 50 days credit period provided to customers, 11% of Traders 51 - 75 days credit period provided to customers, 9% of Traders more than 75 days credit period provided to customers.
- The study found out 67% of Traders 0 - 25 days credit period provided to domestic customers, 33% of Traders 26 - 50 days credit period provided to domestic customers, 51 - 75 days and more than 75 days doesn't credit period provided to domestic customers.
- Total fund based limit provided by banks Rs 587.25 crores.
- Total Non fund based limit provided by banks Rs 319.88 Crores

- The study found out LC Discounting interest rate 6.5% using 18 respondents, 6.8% interest rate usage of 1 respondent, 7% interest rate usage of 18 respondents, 7.2% interest rate usage of 3 respondents, 7.5% interest rate usage of 15 respondents, 8% interest usage of 32 respondents, Not using LC Discounting interest rate 11 respondents.
- 48% of Traders LC advising banks are own bank itself and 84% of Traders LC Negotiating banks are own bank itself.
- The study found out 47% of respondents obtained BG from bank within one day, 27% of respondents obtained BG from bank within two days, 8% of respondents obtained BG from bank within three days and 18% of respondents obtained BG from bank more than three days.
- Average volume of bills routed through bank per year is 140 bills per Traders.
- The following are the major problems faced by Traders: Some are service delay, miss communication, emergency time doesn't help, interest rate and service rate are very high, loan sanction delay, staffs are not familiar with core banking activities, amendment charges are high, shortage of staffs, crediting period delay etc.,
- The following are the common basic services provided by bankers to Traders. Some are Import LC, BG, OD, CC, C/A, S/A, realization of bills, outward remittance, TT, PCFC loan, ECGC, travelers Cheque, adhoc limit in pc and bills, ATM, Forex, DD, BD, BC, machinery loans, temporary overdraft etc.,

Findings with regard to Banks

- The study found out 65% of banks are having one branch, 15% of banks are having two branches, 8% of banks are having three branches and 12% of banks are having more than three branches.
- The study found out 23% of banks are having 1 – 500 current A/c customers, 31% of banks are having 501 – 1000 current A/c customers and 46% of banks are having more than 1000 current A/c customers.
- The study found out 58% of banks are having 1 – 100 trade A/c customers, 19% of banks are having 101 – 200 trade A/c customers and 23% of banks are having more than 200 trade A/c customers.
- The study found out 46% of banks are not having ATM's, 35% of banks are having one ATM's and 12% of banks are having more than two ATM's.
- From the study it was found that 57% of banks doing business In Thanjavur is 1 – 20 years, 31% of banks doing business in Thanjavur is 21 – 40 years, 12% of banks doing business in Thanjavur is more than 40 years.
- Total volume of trade finance for bankers is Rs 3910 crores.
- Total volume of trade transaction for bankers is 53025 bills.
- Total Asset Book size is Rs 3128 crores.
- Total Liability Book size is Rs 1269 crores

From the study researcher found out top five banks of trade finance provided to Traders. The top banks list given below:

- State bank of India.
- Karur vysya Bank

- Central bank of India.
- Uco bank and Bharat overseas bank.
- City union bank.

SUGGESTION

For Traders

- Average volume of business through LC is 78% of Traders and 60% of Traders are using BG. Hence the following suggestions are made
- The Traders thinks that the LC transactions are risky and reduce the usage of BG because quota removal by central government.
- Some banks are not provided need-based finance to Traders. Their interest rates also high. The general level of awareness about online services and their utility is low.
- The LC Collection may risk because Forex rates are highly fluctuating. Hence it is suggested that the Traders must use the expertise of their banks and use the LC discounting to minimize the loss.

For Banks

- Whereas 49% of Traders satisfaction level towards banking service (trade finance) ranked neutral. Only 15% of Traders ranked the service (trade finance) as high satisfied. Therefore it is suggested that
- Bankers should meet & discuss with the Traders to identify areas for further improvement in services.
- This suggestion is necessary because of acute competition prevailing in the banking sector.

CONCLUSION

This project entitled "A study and Analysis of trade finance pattern study between bankers and Traders at Thanjavur" helps us to know the Traders level of satisfaction towards banking service. This study also helps us to know the Usage of trade finance products by Traders. The findings would help the banks to take Relevant steps to increase the trade finance services and create an awareness of online LC transactions in this changing scenario .the Traders must also use the expertise of their banks and use the modern techniques and trade finance products . This paves way to increase the market share for trade finance products of ICICI in Thanjavur.

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