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IMPACT OF PRADHAN MANTRI MUDRA YOJANA ON INDIAN BANKING SECTOR

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Abstract
A number of financial inclusions has been initiated by the Government of India to encourage and lift-up the micro, medium, and small-scale entrepreneurship in India. Pradhan Mantri MUDRA Yojana scheme (PMMY) scheme is amongst one of such financial inclusions. The PMMY scheme was launched by the Hon'ble Prime Minister on 8th Apr, 15 for providing loans of upto ten lakh to the non-farm micro/small and non-corporate enterprises. The scheme has been introduced to support the small and weaker enterprises but has its benefits and drawbacks for the entrepreneurs on one hand and the banking segment on the other. In the present era, the Indian Banking system is facing a huge amount of NPAs and is ranked 5th across the globe. It is required to know the impact of various schemes (like PMMY etc.) launched by GOI and how does it affect the Banks profitability. The increase in NPAs reduces the bank profitability on one hand and also impacts its credibility among the depositors. Some of the financing schemes initiated by GOI have turned bad and have increased NPAs. Huge NPAs would affect Banking system stability as well as will have an adverse impact on GDP growth. The purpose of this research is to analyse one of such schemes initiated by GOI named as Mudra Yojna and its impact on the Banking Sector.

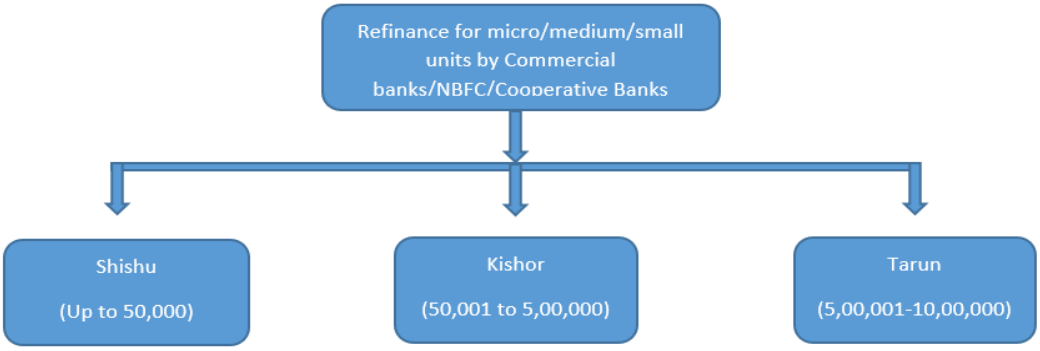
Keywords: Government of India (GOI), MUDRA Loan, Small/ Microfinance, Non-Banking Financial Institution.

Introduction

Finance is a key significant factor in setting up a new start-up. It acts as a blood which is necessary for the survival of the business. Government helps small and new startups by introducing different schemes in financial inclusion. It facilitates financial services to all categories of society starting from micro-enterprise to medium enterprise as well as small enterprises at affordable rates. MUDRA Yojanais a flagship scheme launched by the Hon'ble Prime Minister on 8th Apr, 2015 for providing financial assistance of up to ten lakhs to non-farm micro/small and non-corporate enterprises at affordable rate and terms. Mudra loans have been formed to provide enterprises a rational financial system, or to "fund the unfunded". Mudra loan serves a variety of purposes that helps in generating employment and income in various segments like Manufacturing, Services, Retail, and Agri. Allied Activities.

Mudra Loans has classified its products into 3 categories i.e., "Shishu", "Kishor" and "Tarun". These products have been classified into 3 categories based on the amount of financial assistance which ranges from 50,000 to 10,00,000. The classification has been done to signify the development stages of the product and the financial needs of micro, medium, and small enterprises. The above-said products are being offered by Commercial & Cooperative Banks, RRB's, SFBs, Microfinance Companies, and NBFCs.

Figure 1: Types of schemes offered by MUDRA



Purpose of MUDRA loan

There are various purpose covered under the umbrella of Mudra Loan which in turn generate income and employment in the economy. These loans serve the following purposes:

- Business Loans for enterprises engaged in Trading, manufacturing, and other Service Sector activities.

- MUDRA Cards for facilitating Working Capital Loans.
- Financing to Micro Units for Plant & Machinery.
- Loans for Vehicles used for commercial purposes.
- Loans for non-farm income-generating activities like poultry and book keeping.
-

Benefits of Mudra Loan

- The scheme offers financial assistance to micro, medium, and small enterprises engaged in generating income.
- One of the major benefits of a Mudra loan is no mortgage/pledge is required to be offered by the borrowers in the form of collateral security.
- No processing fee is charged on lending loans under the Mudra scheme.
- Both fund and non-fund-based requirements are covered under the Mudra scheme. Hence, loans offered under the Mudra scheme can be utilized for all sorts of financial requirements like term loans, overdraft facilities, letters of credit, and bank guarantee.
- Under Mudra loans, there is no minimum cap limit.
- The interest rate on loans under Mudra schemes is determined by the Marginal Cost of Lending Rate, the MCLR is calculated as per guidelines formulated by RBI and is very low as compared to other loan facilities provided by banks.
- Under the Mudra Loan account scheme, a variant namely MUDRA Card i.e., a debit card is also offered, which is issued in case of a grant of working capital facilities. Mudra Card can be used for multiple credits and withdrawals, and this helps the borrower to manage his/her working capital limits most cost-effectively and reduce the interest burden. MUDRA Card also helps in supporting the concept of Digital India by promoting digitized transactions. This card can be used across the country for ATM cash withdrawal sand also supports payment through any 'POS' machines

Eligibility

All the below-mentioned enterprises are eligible for availing PMMY Mudra Loan.

- Agri-allied Non-farm enterprises.
- MSME Enterprises.
- Enterprises that are engaged in activities generating income.
- Manufacturing, trading and service enterprises
- Enterprises engaged in allied agriculture activities.
- Enterprises wherein credit requirement is up to ten lacs.

Mission and Vision of MUDRA Scheme

Mission MUDRA – Mission of Mudra Loan scheme is to support the weaker section of the society and lead to a value-based sustainable entrepreneurial culture.

Vision MUDRA –Vision of Mudra Loan scheme is to provide integrated financial support services which are as per the best global practices and standards, for the lower segment of the society which contributes to comprehensive economic growth and development.

Review of Literature

Rudrawar and Uttarwar (2016) has stated that Mudra Loan can act as a game-changer in the Indian economy. It will help in achieving the desired changes in the economy like easy loan proceedings with less documentation which in turn will play a major role in entrepreneurship development and resulting in an increase in employment as well as GDP.

George and Nalini (2018) in their study has revealed that the medium and small business in India contributes towards economic development and hence they should be supported and strengthened. Over a few years, various schemes have been initiated to encourage small businesses. They examined that the MUDRA scheme is the recent one that has been launched to push up micro, medium, and small business units in India. Such schemes help in encouraging and supporting skilled workers and young educated youths to develop their businesses and contribute to economic growth.

Roy (2016) in his study has stated the role of Mudra Bank in supporting the micro, medium, and small businesses in the economy. Mudra is acting as a crucial tool across the country and will make a tremendous change in the growth of small business units and turn help is making India a developed country.

Agarwal and Dwivedi (2017) has mentioned in his study that financial schemes like Mudra Loan promotes credit requirement refinance opportunities. Initiatives are needed and attempts are required to invite extensive sanction of credits and loans.

Shahid and Irshad (2016) has stated that the products like PMMY Mudra Yojna are promoting the MSME industries which in turn is playing a vital role in contributing to the "Make in India" concept. The scheme is also beneficial for micro, medium, and small

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business units and is promoting self-employed entrepreneurs in both urban as well as rural and this is resulting in the growth of the entire economy.

Objective of the Study

The objective of the study is:

1. To study the purposes, benefits, and eligibility of the MUDRA Yojana scheme.
2. To analyse the performance of MUDRA Yojana scheme
3. To study the impact of MUDRA Yojana scheme on the banking sector
4. To study the impact of the NPA in the banking sector under the MUDRA Yojana scheme.

Research Methodology

The data used for the research has been extracted from annual reports generated from official website of MUDRA Yojana. For fulfilment of objectives, the 3 variants of MUDRA Loan have been referred i.e., 'Shishu' (credit amount up 50,000), and 'Kishore' credit amount between (50000 to 5 Lakh) and Tarun (maximum credit 10 Lakh). Also, all 29 States and 7 Union Territories have been re-classified into further categories based on the region i.e., East, West, North, and South. All the lenders i.e., financial Institutions under the Scheme has been classified based on the category under which they fall as the RBI guidelines i.e., Public Sector Banks, Regional Rural Banks, Private Sector Banks including Foreign Banks, NBFC & Non-NBFC-MFIs and Small Finance Banks. To achieve the objectives of the study i.e., Impact of PMMY MUDRA Loan on Banking Sector, the relevant comparisons have done among schemes, regions, financial institutions, the amount sanctioned and amount disbursed. The statistical tools used in the said research are percentage share, percentage growth, and Graphs.

Result and Analysis

The scheme has completed its 5 years of journey so far and as per the latest available data till FY19 the cumulative total number of accounts created under the scheme is 18,25,82,882 cr. against which the cumulative amount sanctioned stands to Rs. 8,93,377.7 Cr. & cumulative actual amount disbursed stands to Rs. 8,66,515.7 Cr. respectively as shown in table 1 & figure 1.

Table 1: Category-wise analysis of PMMY scheme **(In crore)**

Category	Amount Sanctioned (FY 18-19)	AmountSanctioned (FY 17-18)	Amount Sanctioned (FY 16-17)
Sishu	1,42,345.25 (44%)	1,06,001.6 (42%)	85,100.74(48%)
Kishor	1,04,386.68 (32%)	86,732.15 (34%)	53,545.14(30%)
Tarun	74,990.86 (23%)	60,943.36 (24%)	41,882.66(23%)
Total	**3,21,722.79**	**2,53,677.10**	**1,80,528.54**
Note: The figures in the parenthesis indicate the percentage of achievement in each of the years			

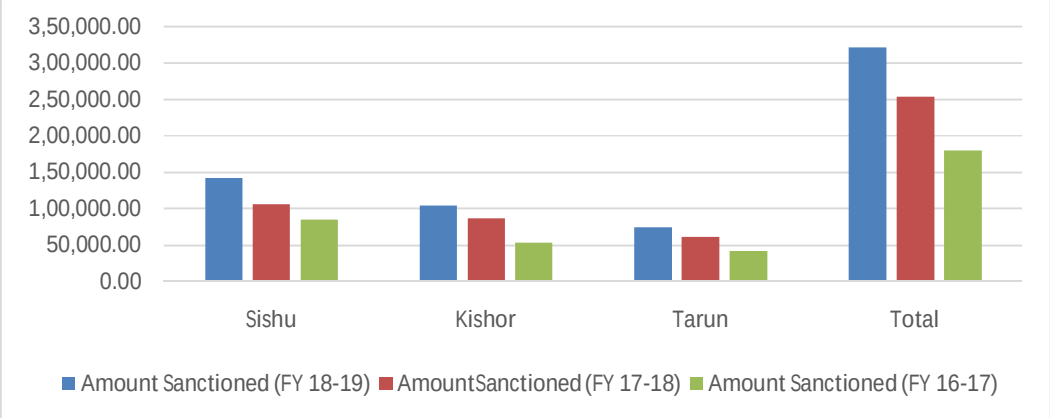

Figure 1: Product Variant wise analysis of PMMY Scheme

Among the three categories, Shishu loan has been consistently performing and has covered the largest share of 48%, 42%, and 44% in FY17, FY18, and FY 19 respectively, followed by Kishor and Tarun. In FY 19 the percentage shares among all the 3 variants stand as Shishu (44%), Kishor (32%) and Tarun (23%). Performance of top ten state represented in table 2 and figure 2.

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Table 2: Performance of Top 10 States **(In crore)**

Name of State	Amount Sanctioned (FY 18-19)	Amount Sanctioned (FY 17-18)	Amount Sanctioned (FY 16-17)
Tamil Nadu	34,260.05 (35%)	25,331.68 (40%)	18,052.68
Karnataka	29,995.35 (30%)	23,009.73 (28%)	18,002.55
West Bengal	26,462.13 (29%)	20,552.19 (31%)	15,695.01
Maharashtra	26,438.94 (16%)	22,751.40 (32%)	17,286.66
Uttar Pradesh	26,190.58 (19%)	22,077.89 (44%)	15,282.61
Bihar	24,405.99 (53%)	15,919.40 (31%)	12,190.60
Rajasthan	17,506.39 (26%)	13,862.55 (54%)	9,024.71
Madhya Pradesh	17,407.92 (17%)	14,886.15 (42%)	10,506.45
Odisha	15,770.28 (36%)	11,558.91 (46%)	7,891.34
Gujarat	13,216.78 (16%)	11,386.52 (46%)	7,781.94
Note: The figures in the parenthesis indicate the year-on-year percentage achievement			

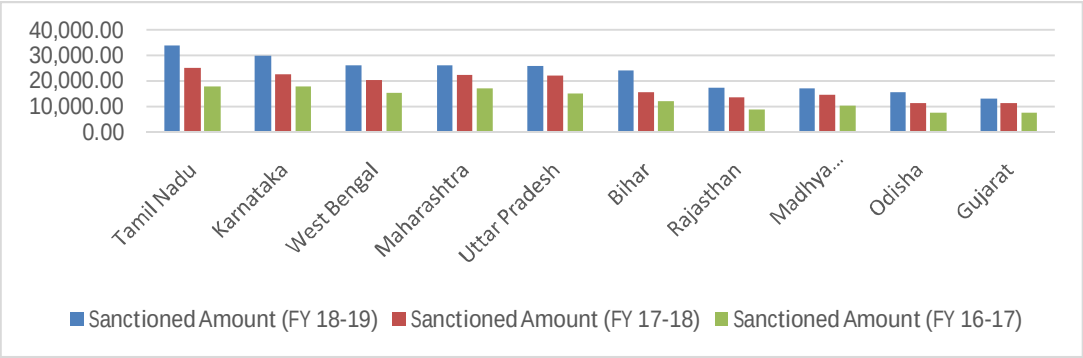

Figure 2: Top ten States performance

Among all the Top 10 states' performance as identified in the above chart, the highest year-on-year growth has been reported by Bihar (From 31% to 53%) and Karnataka (From 28% to 30%). Rest all states have shown a downfall in the performance. In FY19 the highest performers are Bihar, Odisha, Tamil Nadu, and Karnataka which stands as 53%, 36%, 35%, and 30% respectively.

Impact Assessment on Banking Sector

Table 3: Agency-wise Performance **(In crore)**

Financial Institutions	Sanctioned Amount (FY 18-19)	Sanctioned Amount (FY 17-18)	Sanctioned Amount (FY 16-17)
Public Sector Bank (Including SBI)	99,234.96 (7%)	92,492.68 (29%)	71,953.67
Regional Rural Banks	18,046.89 (17%)	15,454.51 (27%)	12,009.52
Private Sector Bank (Including Foreign Banks)	64,037.25 (29%)	49,545.11 (29%)	39,042.60

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Small Finance Banks	29,794.37 (57%)	19,022.89 (183%)	6,729.01
NBFC & Non-NBFC-MFIs	63,470.97 (27%)	50,143.75 (11%)	45,338.22
Non-Banking Financial Companies	47,136.75 (74%)	27,018.16 (396%)	5,455.53
Total	**3,21,722.79**	**2,53,677.10**	**1,80,528.55**
Note: The figures in the parenthesis indicate the year-on-year percentage achievement.			

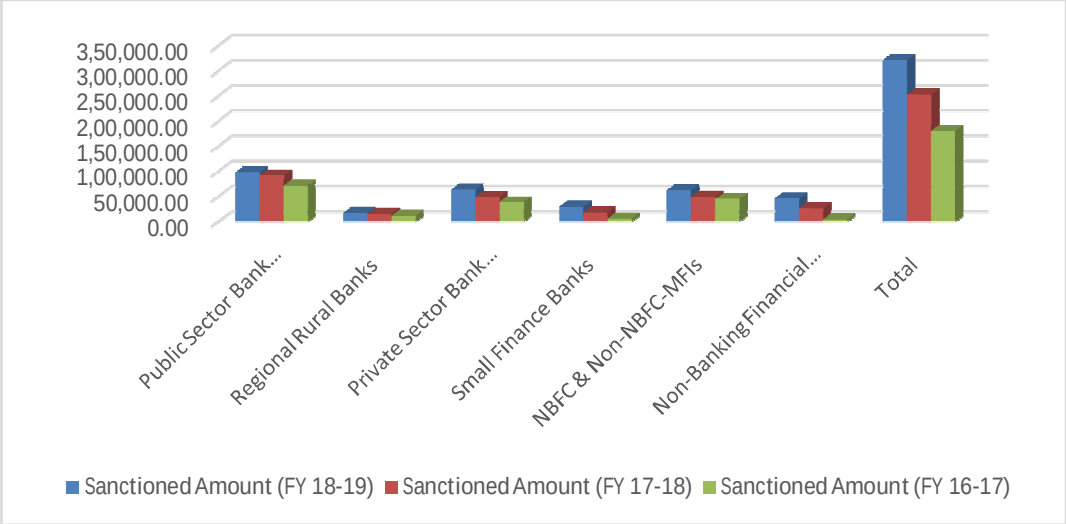

Figure 3: Agency Wise Performance Over last 3 years

Table 3 and figure 3 reveals the year-on-year increase in the PMMY Mudra Loan scheme, among all the categories of Financial Institution in absolute terms. However, the percentage increase has fallen as compared from FY17 to FY18 and FY18 to FY19 respectively. But it's pertinent to mention here that the fall in percentages doesn't depict the performance of Financial Institutions. Since the scheme has been launched only 5 years back so in the initial phase the sanctions have gone up like anything as it was in a growing phase and the same is now growing at a nominal growth rate.

Table 4: Loan accounts created and Loan sanctioned and disbursed in the last 3 years

Financial Year	No. of Loans Account	Amount Sanctioned (In crore)	Amount Disbursed (In crore)
18-19	5,98,70,318 (21.39%)	3,21,722.79 (26.82%)	3,11,811.38 (26.52%)
17-18	4,81,30,593 (21.23%)	2,53,677.10 (40.52%)	2,46,347.20 (40.57%)
16-17	3,97,01,047 (13.82%)	1,80,528.54 (31.14%)	1,75,312.13 (31.86%)
Note: The figures in the parenthesis indicate the year-on-year trend			

The above data on table 4 reveals that PMMY Mudra Loan has outstanding performance in the FY 2017-18 in terms of Loan sanctioned and Loan disbursed. Also, the No. of loan accounts is increasing year-on-year but at a slow pace.

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Comparison of NPA under PMMY to Gross NPA of Banks

Table 5: Summary of NPAs under PMMY and Gross NPAs of Bank as of 31.03.2019.

S.No.	Scheduled Commercial Banks (SCBs)	NPA Amount - PMMY	Gross NPA	PMMY NPA % to GNPA of Bank
1	State Bank of India (SBI)	2,694	1,70,813	2%
2	Punjab National Bank (PNB)	1,605	76,724	2%
3	Bank of India (BOI)	966	51,167	2%
4	Canara Bank	921	36,165	3%
5	Syndicate Bank	845	22,348	4%
6	Union Bank of India (UBI)	547	47,554	1%
7	Bank of Baroda (BOB)	523	40,388	1%
8	Bank of Maharashtra (BOM)	450	15,324	3%
9	Allahabad Bank	382	28,698	1%
10	Indian Bank	356	13,156	3%
11	Corporation Bank	310	20,724	1%
12	Andhra Bank	295	28,974	1%
13	Central Bank of India	226	32,356	1%
14	Indian Overseas Bank (IOB)	210	32,416	1%
15	Oriental Bank of Commerce (OBC)	164	21,717	1%
16	United Bank of India (UBI)	109	12,053	1%

From the above table 5, it can be seen that the NPA percentage under the PMMY Mudra scheme is ranging from 1% to 4% only as compared to total NPAs of Banks which is nearly 10%. This shows that though there are NPAs under PMMY Mudra Yojna, the impact is not that significant and if proper measures has been taken the NPAs can be reduced.

Bad Loans under Mudra Scheme

As per available data, the NPAs under the Mudra loans for FY-19 was at 2.68%, up 16 basis points as compared to FY-18 & FY-17 where the same was at 2.52% and 2.89% respectively. The PMMY MUDRA scheme is one of the popular schemes launched by the BJP government under the guidance of Hon'ble Prime Minister Mr. Narendra Modi. Although the total NPAs of Indian banks as on March 19 stood at Rs 9.49 trillion, however only 2.68% of the loans offered under the MUDRA scheme has turned to be bad. Overall, on a whole, it can be seen that NPAs under PMMY Mudra Loan have relatively remained stable over the last few years.

The overall banking NPAs stood at 9.3% as of 31 March 2019 which means Rs.9.30 had turned into an NPA for every Rs.100 of loans provided by the banks, which means that the same had not been paid off for more than 90 days. On the other hand, NPAs under the MUDRA loan scheme stood at a relatively low rate of around 2.68%. NPAs under the MUDRA scheme is very much closer to the NPAs on retail loans offered by banks, which stood at 1.8% in 2018-19. The majority of the MUDRA loans sanctioned falls under the “Shishu” category wherein the limit granted is of up to Rs. 50,000 and the NPAs under this category have shown a declining trend from 4.14% to 1.93% and 1.29% there in FY-17, FY-18, and FY-19 respectively.

As on 31st Mar, 19 the public sector banks NPAs under Mudra Loan have jumped to Rs 17,250.73 cr. nearly 2% gross NPAs of Mudra loans are still far less than gross bad loans in the banking system which is close to 10%. That said, NPAs on Mudra loans are not yet at alarming levels. But that doesn’t mean there is no cause for concern in the matter.

The above year-on-year comparative figures reflect that the impact of loans offered under the Mudra scheme has its impact on the Indian banking sector but has not been a major factor of concern as the small borrowers are not that much problematic as the large ones are.

Reason for defaults under MUDRA loan

Several reasons are there which are contributing towards default under the Mudra loan scheme. One of such reasons is that the first-time borrowers who fall under the category of “ShishuLoans”are not enough skilled and educated and are not in a position to prioritize theurgent needs over the business repayments, and it leads to business failures, which results in default by the borrowers. Despite this fact, the default rate is less than 3% under MUDRA loans and thus it is not that much significant reason for Indian banks to worry about.

Measures to curb the NPAs

- Measures should be taken care of at the stage of the identification of the borrower and sanction of the loan.
- Collateral Securities concept must be introduced above certain limits.
- Banks should not be pressurized to offer loans under the PMMY Mudra loan scheme and Banks must take their initiatives to promote.
- Provisioning norms can be rationalized by RBI for PMMY Mudra loans.
- The government should assist and take initiatives for recovery of loans sanctioned under the PMMY Mudra Loan scheme.

Banks View on PMMY Mudra Loan

As per Bankers' opinion, they are bound to promote the scheme. The weakest part of the scheme is the lack of collateral security. As per them, many borrowers are applying for a loan without any start-up plan or feasibility reports, and banks are proving financial assistance. Also, in many cases the loans are being applied by female family members, and since the scheme has been formulated to give preference to women entrepreneurs so banks are also bound to entertain such cases as in case the loans are not sanctioned borrowers' files complain which may spoil bank reputation.

Conclusion

PMMY Mudra Loan scheme has been introduced by GOI to support the low and weaker segment of the society. To fund the unfunded and uplift the micro, medium, and small-scale enterprises in the economy. Financing is the backbone of any enterprise and schemes like PMMY help the emerging start-ups to setup and contribute to the economy GDP. From the above study, it can be seen that banks are taking initiatives to promote the scheme as a result of which there is a year-on-year increase in the no. of loan accounts created as well as loan amount sanctioned and loan amount disbursed. On the other hand, a slight percentage of the Mudra loans are turning to NPAs also as the borrowers are turning to be a defaulter. To cope with the NPAs and also to boost Banking Sector to intensively promote the scheme, GOI should take initiatives like the introduction of Collateral Security concept, relaxation in NPA provisioning norms, and process of recovery of loans from defaulters. Also, Banks must take measures to cross-check the credibility and all requirements before providing financial assistance. The measures should be taken keeping in view the interest of both sections i.e., enterprises availing the loans and the lenders i.e., Banks providing financial assistance. Such schemes should be kept out of Banking Politics to avoid any sort of corruption. GOI, Banks, Financial Institutions, and the public all should contribute and play their respective roles effectively and efficiently to make such schemes success and contribute to the economy of India.

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