IJCRT.ORG ISSN : 2320-2882

INTERNATIONAL JOURNAL OF CREATIVE RESEARCH THOUGHTS (IJCRT)

An International Open Access, Peer-reviewed, Refereed Journal

RELEVANCE OF MUDRA SCHEME ON NPA IN INDIAN ECONOMY

Submitted by:

Simran Nagra

(Assistant Professor of Economics)

Abstract

Research Paper would provide a glance how Mudra Scheme is relevant to Non Performing Assets. This scheme might hold a minor role in NPA altogether though it has prominent role to play for MSMEs as it contributes major proportion in exports and employment. And its effects on the stability & liquidity of banking system as well. This study will enable us to know the contribution made by Mudra Scheme in total bad debt. Secondary Sources have been analyzed in order to accumulate the information. Ultimatum which is required to mitigate this bad debt issue is to apply proper checks on credit worthiness of corporate whether they are given loans beyond their resources. The appropriate research analysis on the past economic behavior of these people's (credentials) repayment in banking system whether it has been undertaken for proposed projects or not.

Introduction

Mudra loans are proposed as a part of union budget for funding the unfunded in the financial year 2015-2016. This has been brought into picture to mitigate the roadblocks come in the way of micro and small business units for finance. It would not only assist in providing direct lending but apparently provides loans at low rates to banks, micro finance institutions and non banking financial institutions which further provide credit to MSMEs or informal enterprises sector. This scheme might hold a minor role in NPA altogether though it has prominent role to play for MSMEs as it contributes major proportion in exports and employment. Symbolically, Export and Employment determines the aggregate demand can be taken as key players for the Economy.

One of the emerging agenda, India has come across the expansion in Non Performing Assets. Non Performing Assets is nothing but, one of the major unhealthy constituent of the banking system on the basis of which authorities impose checks on the curriculum. This major concern has been raised after the advent of Mudra Scheme Here by, in the year 2018 year, Mudra Scheme ostensibly which is raising the disease named NPA[1] (non performing assets) not only impacts health of banking system but also the cause of upcoming economic crisis. In short, impact of NPA led the economy into shortfall of credit. Mudra Scheme has played as fuel in fire which alone widened the NPA by 10% to 15%.

Now this provision has outburst the instability due to bad debts because of following reasons firstly, mudra scheme have issue of being given loans till 10 lakh to MSMEs and informal enterprise sectors as mentioned above which is without any collaterals. Secondly, bankers do not even verify the credentials who kept on borrowing beyond their resources due to having fix targets given by government. So in order to accomplish the following target they had to undergo with the process in rush due to which proper financial assessment is not possible in short duration. Both aspects would worked as a fuel in this fire.

Under the aegis of pradhan mantra Mudra Yojana, Mudra scheme has been classified into shishu, kishor and tarun loans. The loans has to provide with the limit of 10 lakh to promote the Micro and small enterprise. The major drawback of this scheme, corporate kept on borrowing beyond their assets in order to take advantage which enables the NPA to go up. The bank has not contributed enough checks on the creditworthiness of these firm .

Many of the problem in Industrial sectors, infrastructure sector has contributed major role in NPA due to roadblocks due to delay in government proceedings.

In terms of RBI guidelines issued on lending to MSMEs dated July 01, 2014, in respect of loans upto Rs. 10 lakhs, banks are mandated not to accept collateral security in the case of loans upto Rs. 10 lakhs extended to units in Micro Small Enterprises (MSE) Sector. Banks are required to encourage their branch level functionaries to avail of the credit Guarantee Scheme cover, wherever felt desirable.

Nonetheless, this scheme has been carried out to expand the entrepreneurship which will help to increase the level of employment. This could be through availing the meager amount of resources to the aspired people without any barrier which obstructs them to use the resources. but until both sides including banks will go productively, it can not result in optimality, credential has to go with the norms of scheme along with that bankers have to verify the corporates thoroughly.

---

[1] Non Performing Assets refers to a classification for loan or advance that are in default or are in arrears on scheduled payments of principal or interest. While 90 days of non payment is the standard, the amount of elapsed time may be shorter or longer depending on the terms and conditions of each loan.

Subsequently, when repayment stopped the account was shown as genuine business failure thus, protecting the bank executive from scrutiny or penal action while loanee also hiding behind the "business failure" after 3 year data is being available now on mudra loans it has been seen more than half of the loan accounts, almost 60% turned into NPA since these loans were given without collateral there is very slim possibility of recovery.[2]

Objectives

Objectives of Mudra Scheme[3] with NPA enable us to understand the portion which it shares in total loans. This scheme might hold a minor role in NPA altogether though it has prominent role to play for MSMEs as it contributes major proportion in exports and employment. And its effects on the stability & liquidity of banking system as well. Which may entail negative outcomes. So, in order to assess more, following objectives can help in better understanding.

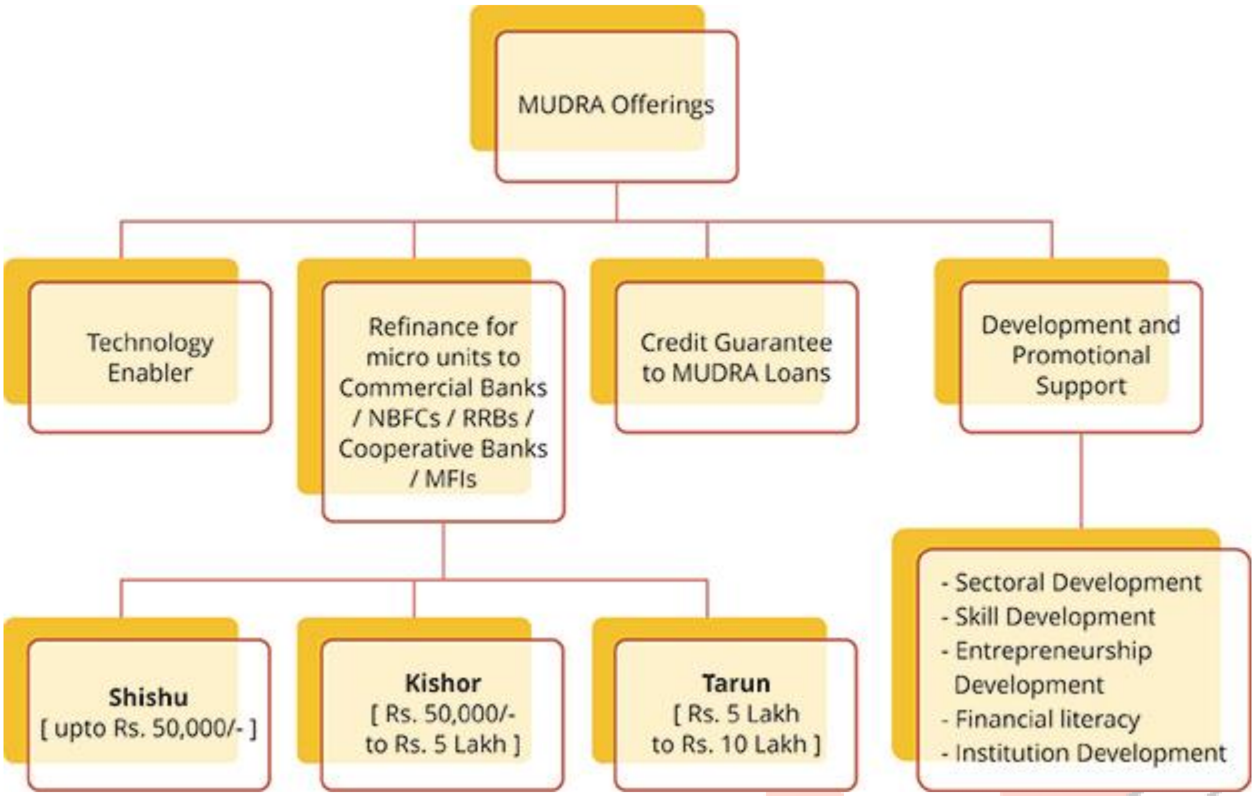
- To study the NPA records before Mudra Scheme
- To know after effects of Mudra loans on NPA
- To understand the cause and effect relationship of Mudra loans and NPA.

Hereby, Mudra loans could attain its targets of mitigating inequalities in socio-economic grounds if proper verification would be held of every credentials. Besides that, whether they are utilizing these resources provided by credential on proposed criteria given to banks or not. In short, proper checks and balances should be there on behalf of banks and NBFCs.

[2] Kumar Nirbhay and Sahoo Madhusudhan, Centre's Mudra Scheme faces big NPA troubles, the Asian Age

[3] Loans are provided upto 10 lakh without any collateral under different categories.

Conceptual Framework



Sensing a bigger credit risk on the government's Mudra loan disbursement to the tune of total Rs 6 lakh crore till date, mostly to the first-time entrepreneurs, lender communities have expressed their concern to the finance ministry. They have sought stricter procedures to prevent this segment from becoming the latest 'poster boy' for bad loans in the country.[4]

Any individuals can apply to private or public banks for loans of up to Rs 10 lakh without having to provide collateral. PMMY scheme is mainly divided into three categories — Shishu Loans, Kishor Loans and Tarun Loans.The government has already disbursed around over Rs 6 lakh crore till date to almost 12 crore consumers.

[4] Ibid

Scope and Methodology

This study will enable us to know the contribution made by Mudra Scheme in total bad debt. Scopes are as followed of this study:

- All loan which are disbursed without knowing creditworthiness of borrowers..
- Verification of credential may bring mitigation in defaults.
- There is still due process to resolve the issue to whom should banks give preference for loans to improvise the NPA scenario.

Methodology: this study is intended to identify the status before the Mudra Scheme and how it raised the bad debts in the banks. Researcher would used an explanatory techniques based on past literature from respective journals, annual reports, newspaper and magazine covering NPA defaults due to this scheme. According to proposed objectives of the study, research is designed which would be descriptive in nature. Various factor involved in Mudra scheme which led to rise in NPA would be analyzed and compared the before and after study of this scheme.

Analytical Approaches

Raguram Rajan, 'red flags Mudra scheme loans a possible source of next banking crisis (2018)' discussed about these MSME credit targets which only creates a conducive environment for future NPA. Loan waivers, as RBI has repeatedly argued , vitiate the credit culture and stress the budget of the central government. Eventually it will reduce the flow of credit. In reply of estimates committee, his warming come at a time, Indian banking is reeling under an unprecedented bad loan problem.

Roy Sobha, 'Rising bad loans from MSME also a concern (2018)' as per the estimates of Industries which has shown steady rise in NPA from lending to micro small and medium enterprises reclassified as mudra loans. As per PPMY, MSMEs are provided collateral free loan upto 10 lakh which has widened the NPA between 10-15%

Kapoor Amit, Yadav Chirag "great Indian NPA mess" elaborated about the corporate who all kept on borrowing beyond their resources plus bank has worked as fuel in this fire by not being efficient player of checks and balances on the credit worthiness of these firms. The credit growth has risen beyond crisis at 28% and 22% from which industrial sector was growing at 26.7% and 25%.

Jain Mayank, 'Will increased lending under Mudra come at cost of prudence' explained the characteristics of scheme which is not only accessibility of funding upto 10 lakh without any collateral but also easy availability of refinance. Now this has become area of concern since bad loan in this segment has started to pick up.

Kumar Vikram,“NDA government’s flagship mudra scheme has 14 lakh defaulters” (2018) financial initiative to provide loans to micro units to help them for developing their business and generate employment there are 11,000 crore loans given to 13.85lakh account holders have turned into bad loan. Maximum no. of defaulters are those who have taken loan under the Sishu category(50,000)

Loans are being given without collateral or security which is making defaulter for bank to go after defaulter plus credentials of loan seekers for not being properly verified.

Mail Today Bureau “PM Narendra modi’s small loan at NPAs of nationalized banks”(2018) closed to 10 lakh bankers has made eligation on govt. to make pressure of being sanction the mudra loan even if there will no choice of recovery. Loans are given by public sector banks, NBFCs and MFIs without any collateral this loan constitutes upto 7% of their total bad loan.

ET Bureau, “RBI deputy governor red flags rising stress in Mudra Loan” deputy governor urged the banks to monitor the repayment capacity of borrower before disbursement. The scheme was flagged in 2015 to ease the credit flow to India’s MSME sector This is meant to be second such warning to banks over rising delinquencies in these loan accounts , the loan portfolio of India’s microfinance has made increment in industry by 48%. The growing need for banks to harness technology not just to exacerbate their underwriting potential but also to avail the financial amenities for all.

“Four Ex-RBI governors including Raghuram Rajan YV Reddy warn of NPAs delaying recovery” portrayed the tantrums for 3 years from September 2013 and hibernation against NPA, depicts excessive Investment by corporation and exuberance by banks, coupled with the slowdown as prime cause of NPAs. Inability to keep a pace accordingly which contributes to the pain which necessitates timely recognition of defaulters, recapitalization and focus on governance.

Sharma Nandini, “ Is MUDRA the next big sources of NPAs” Mudra loans scheme makes the fund available till 10 lakh which was supposed to undertake 51 million MSME units, though It has allotted formally to 5 million units. Hereby, financial accessibility is less than 10%. MSME contributes 43% to exports and 40% absorption of workforce. Impact of high level of India NPA in different banks. Officials are required to conduct pre-loan inspection and physical verification of business once the loan sanctioned but cases have surfaced where procedure is not followed and even fraudulentloans have been given out under scheme. This is need to be assessed for PSB is essential to identify. Such loan which is on the verge of becoming NPAs

Conclusion

From the above studies, Bank Executives are on driving seats, therefore they have steering to correct the disturbances created through defaults and has to prevent cumbersome in the form of NPA. The Mudra Loans can turned into a next banking crises, if proper analysis and provisions would not be undertaken. Indeed, it can be said that Mudra Loans are proposed for finance as the specific remedy of an MSMEs sector, but here is the need of efficient allocation whether the borrowers are at marked purpose or not otherwise it would lead the distortion of real objectives of this scheme.

Mudra scheme might hold a minor role in NPA altogether though it has prominent role to play for MSMEs as it contributes major proportion in exports and employment. Symbolically, Export and Employment determines the aggregate demand can be taken as key players for the Economy. Banks provides credit flow to lure the small units to promote production which could however disturb the banks overview regarding these units for further investment if defaults kept taking place this way.

"The government can spend beyond their resources without offending canon of sound finance to restore the health of economy". Ultimatum which is required to mitigate this bad debt issue is to apply proper checks on credit worthiness of corporate whether they are given loans beyond their resources. The appropriate research analysis on the past economic behavior of these people's (credentials) repayment in banking system. Whether it has been undertaken for proposed projects or not. Strict action could be undertaken by not being refinanced again if they don't poses good relationship with the banks (from the loan to repayment time lag) and other institution who provide these provisions for them. Time has come to use moral suasion by RBI if necessary to limit the impact of this scheme on liquidity. It can help to prevent the banking system from losing the hopes of people on the financial system.

Bibliography

Jain Mayank, will increased lending under Mudra Scheme come at the cost of Prudence, Bloomberb Quint Feb 03,2017.

Kumar Nirbhay and Sahoo Madhusudhan, Centre's Mudra Scheme faces big NPA troubles, the Asian Age, Aug 27,2018.

Kumar Vikram, NDA government's flagship Mudra scheme has 14 lakh defaulters, Indian Express, 21st October,2018

Kumar Pappu, Impact of Mudra loan on MSMEs, International research journal of management sociology and humanity, Vol 8 Issue 9 (year 2017)

PM Narendra Modi's small loans add to NPAs of Nationalised Banks, Mail Today Bureu, March 23,2018

Rajan Raghuram, Red flags Mudra Scheme loans as Possible source of next banking crisis, business today, Sept 11,2018

Roy Subha, Rising bad loan from MSMEs also a concern, Business Line, Jan 08,2018

RBI: RBI red flags rising Mudra Bad Loans, The Economics Times, ET Bureau, Nov 27,2019

Can Mudra Loans stir another NPA crisis? ETBFSI, The Economic Times

Sharma Nandini, Is MUDRA the next big source of NPAs, ORF, 30 January 2020.