

A COMPARATIVE STUDY OF CREDIT RISK MANAGEMENT IN PUBLIC AND PRIVATE SECTOR BANK (WITH SPECIAL REFERENCE TO MUDRA YOJANA)

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Abstract

Government of India (GoI) launches various financing schemes for promoting Medium and Small Enterprises (MSMEs). One such scheme is MUDRA Yojana and loan under this Yojana is called MUDRA loan. This Yojana is performing well as amount of loan sanctioned in it rising year by year. But the matter of concern is along with it the NPA of bank relating to this scheme is continuously rising. The NPA of public sector bank is more in comparison of private sector bank in context to this Yojana. So, in this paper a comparative study of public and private sector banks on different parameters such as credit appraisal, monitoring and credit risk management in respect of MUDRA Yojana has been done. It is an analytical research based on primary data. In order to find out significance level factor analysis has been applied. The result of study shows that there is no considerable difference between above stated parameters among the sampled sectors bank.

Keywords: MUDRA Yojana, credit appraisal, monitoring and credit risk management. **Introduction** Banks are financial institution which deals with mainly two functions first accepting deposit and secondly lending money i.e. granting loan. The function of granting loan is most crucial function of banks as it involves risk. Risk of nonpayment of loan called as credit risk and managing this risk is called credit risk management. Banks grant loans for various purposes either on individual demand or under government schemes. On individual demand bank faces less credit risk as they can deny granting of loan if they found that loan is uncovered by guarantee or if bank's grant loans then on its own favorable term and condition but in case of government sanctioned schemes banks are bound to issue loan on the features or conditions government has launched. The features or conditions of government schemes are public favorable rather than banks favorable. One such government scheme is MUDRA Yojana launched in April 8, 2015 with the purpose of financing micro small and medium enterprises so that income as well as employment can be generated. In this Yojana MUDRA loan is given under 3 categories:

Categories under MUDRA loan	Loan amount	Purposes
Shishu Loan	Up to Rs. 50,000	For start-ups and new businesses
Kishore Loan	Rs. 50,001 to Rs. 5,00,000	For buying equipment/machinery, raw materials, business expansion for existing enterprises
Tarun Loan	Rs. 5,00,001 to Rs. 10,00,000	For established businesses and enterprises

The main feature of this scheme is that it's a collateral free loan scheme. The borrower does not require mortgaging anything against loan. Because of this feature this scheme has been proved very helpful for borrowers who does not have any financial backup and so far this scheme has performed very well and showed positive result in income as well as employment generation. But on the other hand nonperforming asset against this scheme is also rising which is a matter of concern.

Year	Loan Outstanding	NPA	NPA%
2017-18	212205.91	7277.31	3.42
2018-19	305489.07	11483.42	3.75
2019-20	382437.65	18835.77	4.92

Source: Finance Ministry

In order to minimize credit risk the bank should follow credit appraisal and monitoring of loan properly. In credit appraisal bank thoroughly check about the applicant their purpose of loan their repayment ability so the chances of default can be minimized. Credit appraisal includes character, capital, capacity, collateral and conditions. After being satisfied on each points of credit appraisal loan is approved. After loan approving second major task is monitoring of loan whether the loan amount is invested in right purpose or not, how the business is running, timely payment of interest amount etc. being monitored. To access, manage and minimize credit risk every bank have their credit risk management unit. The working of credit risk management unit must be in proper coordination with loan sanctioned condition specially in cases of government sanctioned loan schemes as their condition are public favorable.

Review of Literature

Agarwal N. & Vyas A. (2019) in their research article deliberated on the performance of commercial bank, RRB's, MFI & NBFC's in MUDRA Yojana since its launch. Study was based on survry method where primary and secondary data was collected .The data analysis revealed that commercial bank; MFIs & NBFCs have performed very well but RRBs need improvement.

Biswas B. (2019) in his study on MUDRA Yojana based on secondary data from r 2015 to 2018 discussed the performance . Performance analysis of all three categories of lending under this yojana on MSMEs has been made of top five lending states with special emphasis on west Bengal. It was found that overall performance of this yojana was good but performance of tarun and kishore category was better than shishu.

Gautm V. , Kumar P. & Gopal K. (2017) in his descriptive study based on secondary data analysed the contribution of MUDRA Yojana in providing financial help to micro, small and medium enterprises in case of vehicle loan in state of Haryana. It was found that MUDRA Yojana proved very helpful in providing financial help to Haryana's micro, small and medium enterprises.

Gimara M. (2020) It is a descriptive study based on secondary data on MUDRA Yojana its characteristic, loan categories, lender institution, loan disbursement etc. and it's positive effect on entrepreneurship development.

John J.S. , Kabra N. , Jose S.M. & S Girish (2018) In this paper researcher has highlighted the contribution of micro, small and medium enterprises in creating job opportunities for uneducated and unskilled people in state of Karnataka. This contribution has been enhanced due to MUDRA Yojana. A detail study of secondary data of all the leading private and public banks has been made in regard of MUDRA loan disbursement in state of Karnataka.

Kumar, S. (2017) makes a detail study on the performance of small scale sector. This sector has a great contribution in the growth of country's economy. But this sector faces lack of financial support and for this purpose MUDRA Yojana launched. In this paper detail study about MUDRA Yojana has been done.

Mahajan Y. D. (2019) In this paper researcher has focused on importance of financial assistance to micro, small and medium enterprises and role played by MUDRA Yojana in it. A detail study of MUDRA Yojana and its contribution in state of Maharashtra was made. The study was based on secondary data. It was found that MUDRA Yojana contributed a lot in providing financial help to micro, small and medium enterprises. It proves successful over there.

Roy, A. K. (2016) In this paper small enterprises business importance, its contribution towards nation GDP and the contribution of MUDRA Bank towards development and encouragement of small enterprises has been studied.

Rudrawar, A. A., & Uttarwar, V. R. (2016) has done study on hurdles in the development of micro and small enterprises they found that major obstacle is lack of financial assistance. In this paper financial support of Govt. through MUDRA its role and responsibilities and impact over the Indian economy has been studied in detail.

Shahid M. & Irshad M (2016) in this paper researcher have studied MUDRA Yojana in detail. It is a descriptive study which focuses on MUDRA Yojana objective, its categories, funding support and progress in nation. It is concluded that this yojana is very helpful, supporting and encouraging for MSMEs.

P.A.Ibrahim (2018) conducted a study to assess the performance of MUDRA scheme region-wise, categorywise as well agency wise. The scheme has widely reached among women entrepreneurs and new entrepreneurs. Northern states have participated less in availing benefits under the scheme compared to other regions. Also, Shishu category performed better than other categories of the scheme and private sector banks have outperformed the loan sanction and disbursement process.

Verma T. L. & Neema D. K. (2019) In this paper researcher has made descriptive study of secondary data related to MUDRA Yojana on top five lender states under this Yojana. Detail impact analysis of this Yojana on MSMEs of Madhya Pradesh has been also made. It is found that this Yojana has been proved boom for MSMEs of Madhya Pradesh. Research Methodology Statement of problem Mudra loan has been proved boom for entrepreneurs and MSMEs many researches on its achievements and contribution to nation, income, development and economy has been done but very little work has been done on bank's perspective. Along with success of mudra loan NPA related to this loan has also been risen. Hence an attempt has been made to analyze credit appraisal, monitoring and credit risk management system of both sectors bank's

Objective

The major objectives of the study are

1. To study the credit risk management process of SBI & ICICI bank in context of MUDRA Yojana
2. To make a comparative study of credit risk management process of SBI & ICICI bank related to MUDRA Yojana.
3. To recommend measures by which CRM practices can be made more efficient in sample bank.

Variables

In the present study three variables have been analyzed (a) credit appraisal which includes customer, capital & capacity, (b) monitoring and (c) bank's credit risk management policies.

Nature of Study

Present research study is analytical in nature. The study is based on survey method where Primary data is collected from questionnaire from employees of sample banks in order to analyze and critically examine the credit risk management in sample banks.

Area of Study

The area selected for the present paper is Prayagraj District of Uttar Pradesh.

Sample size

The sample size of respondents was 50 respondents in the sample banks comprising of managerial and supervisory staff concerned with Mudra Yojna. For the research purpose total of 60 people of managerial staff has been taken from selective region of Uttar Pradesh out of which 50 responded.

Sampling Technique

The random sample technique was adopted for the collection of primary data from the sample banks from different branches in the area under study.

Null Hypothesis

Selected variables are not the reason for difference in the performance of sampled banks.

Hypothesis

Selected variables are the reason for difference in the performance of sampled banks.

Data Analysis & Interpretation

Credit Appraisal

H_0 : There is no significant difference between the credit appraisal process of selected banks under Mudra yojana.

H_1 : There is significant difference between the credit appraisal process of selected banks under Mudra Yojana..

Variab les		SBI Mean	ICICI Mean	F cal value	F Tab val	Signif
Custo mer	new customer are preferred	4.048	2.714	0.907	4.08	NS
	Prefer lending to old customer	1.571	3.238	0.000	4.08	NS
	credit history of borrower is collected	3.239	4.333	0.495	4.08	NS
	all required documents like Aadhar, address proof, photo, plan layout etc. are collected	4.571	4.762	0.057	4.08	NS

Variab les		SBI Mean	ICICI Mean	F cal value	F Tab val	Signif
Capital	Capital employed in business need to be reasonable	3.667	4.286	0.048	4.08	NS
	Borrower must contribute some proportion in total capital employed	2.619	3.428	0.049	4.0	NS
	Proportion between borrower contribution and loan amount must be justifiable or reasonable	1.714	3.857	0.443	4.08	NS
	Borrower needed to have other funds also	2.476	3.619	0.011	4.08	NS
Variab les		SBI Mean	ICICI Mean	F cal value	F Tab val	Signif
Capaci ty	Borrower needed to have cash balance in bank account	3.286	4.190	0.213	4.08	NS
	Borrower's debt to income ratio must be satisfactory	4.0	4.429	0.802	4.08	NS
	Proposal or business must have ability to generate enough cash inflow	4.476	4.381	0.901	4.08	NS
	There might be chances of cash inflow falling below expected level	2.571	1.667	0.252	4.08	NS
	Borrower needed to have cash balance in bank account	3.286	4.190	0.213	4.08	NS

H_0 : There is no significant difference between the credit appraisal process of selected banks under Mudra yojana. From the applied f-test it is clear that significant value (p value = 4.08) is more than calculated value in all the variables of credit appraisal process. Hence, null hypothesis is accepted.

Monitoring

H_0 : There is no significant difference between the monitoring process of sample banks under Mudra Yojana.

Variab les		SBI Mean	ICICI Mean	F cal value	F Tab val	Signif
Monit oring	Monitoring is done frequently on regular basis	3.524	4.4228	0.968	4.08	NS
	Monitoring of books of account or document or receipt is done	2.286	3.476	0.007	4.08	NS
	Monitoring is done through personal visit	2.714	3.428	0.854	4.08	NS

	Loan granted must be utilized for the purpose it is asked for	4.238	4.524	0.483	4.08	NS
	If there is any loophole it is reported immediately	2.524	3.952	0.239	4.08	NS

From the applied f-test it is clear that significant value (p value = 4.08) is more than calculated values. Hence, null hypothesis is accepted.

Credit Risk Management

H₀ : There is no significant difference between the credit risk management process of sample banks under Mudra Yojana.

H₁ : There is significant difference between the credit risk management of sample banks under Mudra Yojana.

Variab les		SBI Mean	ICICI Mean	F cal value	F Tab val	Signif
Credit Risk Manag ement	Bank have credit risk management unit	4.333	4.381	0.896	4.08	NS
	Bank's credit risk management policy is relevant with MUDRA Yojana	2.952	3.857	0.761	4.08	NS
	Poor credit appraisal	2.762	2.714	0.578	4.08	NS
	Delayed loan approval	2.667	2.714	0.954	4.08	NS
	Ineffective credit review process	2.905	2.952	0.349	4.08	NS
	Non-compliance with credit policy	1.574	1.905	0.379	4.08	NS
	Ineffective monitoring	3.048	3.286	0.744	4.08	NS
	Subjective monitoring	3.333	3.619	0.207	4.08	NS
	Lack of business management skills by clients	4.143	3.762	0.106	4.08	NS
	Moral Hazard	3.143	3.0	0.043	4.08	NS
	Number of super visionary staff	3.714	3.048	0.915	4.08	NS
	Bank have adequate finance	4.476	3.714	0.004	4.08	NS
	Loan is sanctioned by Government credit guarantee scheme	4.476	4.476	1.0	4.08	NS

Since the null hypothesis was H_0 : There is no significant difference between the credit risk management process of selected banks under Mudra yojana. From the applied f-test it is clear that significant value (p value = 4.08) is more than calculated values. Hence, null hypothesis is accepted.

Findings

- On the basis of the above data analysis the following findings emerge :
- SBI gives opportunity to new customers while ICICI goes with its old reliable customers.
- SBI rely on proposals and its success it ignores credit history and capital contribution of borrower while ICICI focuses on both parameters.
- Monitoring of ICICI is more frequent and rigid then SBI.
- Credit risk management process of both the sectors is almost same.
- It can be concluded that there are few differences between SBI & ICICI working and processes but this difference is not significant.

Suggestions

- On the basis of findings discussed above the following suggestions can be provided :
- On capital as well as capacity aspect of credit appraisal SBI needed to pay more attention while. ICICI bank should give loan to new customers as well.
- Monitoring of SBI needs to be more strong and in case of ICICI monitoring can be more better.
- Credit risk management in case of this Yojana in sampled bank is good still there is scope of betterment.
- ICICI should focus on expanding its branches and enhancing its work force and needed to be more convenient and open in its lending of Mudra loan.
- SBI needs to work on its technical development and training of its employees.
- The pressure of sanctioning Mudra loan is more on public sector bank in comparison to private sector bank which needed to be minimize to banks favourable condition.

Conclusion

Mudra Yojana is proved boom for public as well as economy as it generates income, give employment, help in technical advancement, encourages entrepreneurship as well as MSME'S etc. but on other side it increases problem of banks by increasing NPA related to this Yojana. NPA of public sector banks is relatively very high in comparison of private sector bank. Generally reason of this difference is considered to be poor credit appraisal and monitoring and lethargic credit risk management of public sector bank. The analysis of data reveals that there is no significant difference between credit appraisal, monitoring and credit risk management of both the sampled sector banks. Public sector bank should focus on its technological development and employees training and the pressure of sanctioning Mudra loan is much on public sector bank which is needed to be relaxed.

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