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A Study of Emerging Involvement of Artificial Intelligence in Banking

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CHAPTER I

INTRODUCTION

The term MUDRA stands for “Micro Units Development and Refinance Agency” Limited, which was introduced by Prime Minister Shri. Narendra Modi on 8th April, 2015 as “Pradhan Mantri Mudra Yojana”. This initiative aims to provide loans up to Rs. 10 lakhs to non-farm micro enterprises, as small businesses often struggle to secure financing. MUDRA Yojana offers a simple and efficient process for funding these "unfunded" businesses. It has the potential to drive significant progress towards a developed India, and its allocation was doubled in the 2017-18 Union Budget, with a focus on supporting marginalized groups. Currently, small, micro and medium scale enterprises employ over 20% of India's working population, underscoring the need for government support through loans, exposure, and marketing assistance. This research article examines the role of financial inclusion in promoting social and economic growth and explores the effectiveness of the Pradhan Mantri Mudra Yojana in achieving its objectives.

The eligibility criteria of MUDRA loan as given below:

- **Age-** minimum 18 years and maximum 65 years
- **Loan amount-** maximum up to Rs. 10 lakhs
- **Eligible entities-** individuals, startups, artisans, small vendors, shopkeepers, retailers, manufacturers & MSMEs
- **Indian citizens with no criminal records**
- **Eligible enterprises-** Pvt. & Public Ltd. companies, sole proprietorship, partnerships, LLPs, NGOs, Trusts & Co-operative societies
- **Availed by-** all non-farm enterprises engaged in only trading, services and manufacturing sectors
- **Applicants-** with no previous defaults with any bank

Vision:

"To be an integrated financial and support services provider par excellence benchmarked with global test practices and standards for the bottom of the pyramid universe for their comprehensive economic and social development".

Mission:

"To create an inclusive, sustainable and value based entrepreneurial culture, in collaboration with our partner institutions in achieving economic success and financial security".

Objectives:

- To refinance collateral – free loans provided by the lenders to small borrowers.
- To bring small enterprises such as NCSBS (Non-corporate Small Business Sector) and 'own account enterprises' under the folds of the formal financial system.
- To extend the affordable credit to MSMEs.
- To provide integrated financial support to the micro-enterprises sector.
- To integrate the informal economy into the formal sector.
- To monitor the micro-finance institutions.
- To generate employment avenues in these micro-units.

Types of loans provided:

Under the scheme of Pradhan Mantri MUDRA Yojana, MUDRA has created the following products/schemes-

- Shishu: covering loans upto 50,000/-
- Kishor: covering loans above 50,000/-and upto 5 lakh
- Tarun: covering loans above 5 lakh and upto 10 lakh

The interventions have been named 'Shishu', 'Kishor' and 'Tarun' to signify the stage of growth/ development and funding needs of the beneficiary micro unit/ entrepreneur and also provide a reference point for the next phase of graduation/ growth to look forward to. It would be ensured that at least 60% of the credit flows to Shishu category units and the balance to Kishor and Tarun categories.

There is no subsidy for the loan given under PMMY. However, if the loan proposal is linked some government scheme, wherein the government is providing capital subsidy, it will be eligible under PMMY also.

Sectors covered:

To maximize coverage of beneficiaries and tailor products to meet requirements of specific business activities, sector / activity focused schemes would be rolled out. To begin with, based on higher concentration of businesses in certain activities / sectors, schemes are proposed for:

- **Land transport sector / activity-** which will inter alia support units for purchase of transport vehicles for goods and personal transport such as auto rickshaw, small goods transport vehicle, 3 wheelers, e-rickshaws, passenger cars, taxis, etc.
- **Community, social & personal service activities-** such as saloons, beauty parlours, gymnasium, boutiques, tailoring shops, dry cleaning, cycle and motorcycle repair shop, DTP and Photocopying facilities, medicine shops, courier agents, etc.
- **Food products sector-** support would be available for undertaking activities such as papad making, achaar making, jam / jelly making, agriculture produce preservation at rural level, sweet shops, small service food stalls and day to day catering / canteen services, cold chain vehicles, cold storages, ice making units, biscuit, bread and bun making, etc.
- **Textile products sector / activity-** to provide support for undertaking activities such as handloom, power loom, chikan work, Zari and zardozi work, traditional embroidery and hand work, traditional dyeing and printing, apparel design, knitting, cotton ginning, computerized embroidery, stitching and other textile non garment products such as bags, vehicle accessories, furnishing accessories, etc.

Purpose of loan assistance under PMMY:

The loan amount cannot be used for personal needs. The sum of the money can only be used for specific activities in the manufacturing, services or trading sectors. Businesses can also utilize the capital obtained from a MUDRA loan for marketing purposes. The maximum repayment period for a MUDRA loan can extend to 5 years. But the repayment period can be shorter if the lender decides so when sanctioning the loan.

For availing loans under the PMMY scheme, there will be no processing fee or requirement of collateral.

Offers under Pradhan Mantri MUDRA Yojana:

- **Micro Credit scheme-** under this scheme, financial support is extended through Micro Financial Institutions (MFIs) so that they can provide business loans of up to Rs. 1 lakh.
- **Women Enterprise Programme (Mahima Uddyani Yojana)-** it is specifically at women entrepreneurs. The scheme is envisaged to encourage individual women entrepreneurs, women's Joint Liability Groups and Self-help Groups.

- **Refinance Scheme for Banks-** MUDRA scheme also allows banks to easily refinance loan amounts. Such banks include Scheduled Co-operative banks, Regional Rural banks, and Commercial Banks. The refinance facility is available only if these business loans have been extended for microenterprise activities.
- **Mudra Card-** it is an innovative tool under which makes credit is made easily accessible to small businesses. It can be used as a credit card with an overdraft (loan) limit. The card can also be used as a debit card with the facility of ATM withdrawals.
- **Credit Guarantee Fund-** it is also known as the portfolio credit guarantee that allows eligible entities to receive micro-loans with ease. It involves the creation and use of a special fund termed as the credit guarantee fund for micro units. This fund is managed by the National Credit Guarantee Trustee Company Ltd. and
- **Equipment Finance Scheme-** it enables small entrepreneurs and micro-units to avail of a loan to finance the purchase/upgrade of qualifying equipment/machinery. Tis encourages enterprises to improve their production techniques to increase the overall productivity and efficiency of their business.

How to apply:

Borrowers, who wish to avail assistance under Pradhan Mantri MUDRA Yojana (PMMY), can approach the local branch of any of the financial institutions in this region- PSU banks, Regional Rural banks and cooperative banks, Private sector banks, foreign banks, Micro Finance institutions (MFI) and Non-banking finance companies (NBFC). Sanction of assistance shall be as per the eligibility norms of respective lending institution.

Documents to be submitted along with the application should be-

- **Proof of identity-** self attested copy of Voter's ID card/ Driving License/ PAN card/ Aadhaar card/ Passport/ Photo Ids issued by Govt. authority etc.
- **Proof of residence-** recent telephone bill/ electricity bill/ property tax receipt (not older than 2 months) / voter's ID card / Aadhaar card / passport of individual / proprietor / partners bank passbook or latest account statement duly attested by bank officials / Domicile certificate / certificate issued by Govt. authority / local panchayat / municipality etc.
- Applicant's recent photograph (2 copies) not older than 6 months.
- Quotation of machinery / other items to be purchased.
- Name of supplier / details of machinery / price of machinery and / or items to be purchased.
- Proof of identity / address of the business enterprise - copies of relevant licences / registration certificates / other documents pertaining to the ownership, identity of address of business unit, if any

- Proof of category like SC / ST / OBC / Minority etc.

For all PMMY loans, the following are to be noted.

- No processing fees
- No collateral
- Repayment period of loan is extended upto 5 years
- Applicant should not be defaulter of any Bank / Financial institution

SWOT Analysis of MUDRA loan:

MUDRA Scheme is a significant initiative adopted by the Indian government to promote economic growth and development by providing low-interest loans to small businesses. These tiny businesses contribute to our country's GDP while also helping to create jobs. MUDRA program seeks to motivate tiny company owners to expand their operations and expand their market. by offering a simple credit system, they can reduce their debt.

In this section, the strengths, weakness, opportunities, and challenges of MUDRA program are listed.

Strength-

- The MUDRA acts as a lender of last resort for small enterprises that are unstructured, informal, and non-corporate.
- This strategy would aid in the creation of greater and more job opportunities for people of all castes, religions, and genders.
- Applying for a loan is a simple process.
- This initiative not only gives financial assistance but also boost an individual's morale by encouraging women entrepreneurs through low-interest loans.

Weaknesses-

- Because there are several regulating agencies working on this yojana, there is a lack of coordination.
- The majority of Indian citizens are still unaware of these initiatives.
- Interest rated vary from one bank to the next.
- The government has also set a time limit for returning, which is 36 months.

Opportunities-

- More coordination between the financial institution and the governing organizations is possible.
- This strategy can also assist individuals in the efficient operation of their enterprises by teaching or guiding them on suitable business methods.

Threats-

- Various initiatives and organizations worked to promote the growth and development of rural and underdeveloped areas of society.
- This loan is not secured by any security / pledge, there is a risk of non-performing assets.
- The flexible interest rates offered by various financial institutions.

Performance of public sector banks under MUDRA Yojana:

PSBs saw year-on-year rise of nearly 50% in net profit in July-Sept quarter thanks to broad-based rise in loans. But MSME stress, pace of credit & deposit growth will determine future.

Public Sector Banks (PSBs) have reported a stellar performance in the July-September quarter. The asset quality of PSBs has improved, their profits have been robust and they have recorded an impressive pace of credit growth in the July-September quarter.

The turnaround in the performance of public sector banks is also getting reflected in the stock market performance of banks. Clean-up of stressed assets, better regulation, pick-up in loans and an improvement in corporate credit demand is driving the profitability of public sector banks.

Going forward, the cost of deposits, and the possible stress emerging from the micro, small and medium industries need to be watched out for.

Improving profits-

Public sector banks recorded a combined net profit of Rs. 25,685 crores in the July-September period, a rise of nearly 50npercent from the same period a year ago. The country’s larger lender, State Bank of India (SBI) reported the highest ever quarterly net profit in the three months to September - an increase of 74% over the corresponding quarter of the previous year. Similarly, Canara Bank reported a net profit of 89.4 per cent.

Rise in profits came on the back of a broad-based rise in loans including housing and corporate loans. Interest income, which includes interest on advances and interest on investment has seen a sharp growth. While banks have been able to pass on higher rates to borrowers, their deposit costs have risen only marginally. This has boosted the net interest margins of banks.

The robust financial results posted by the public sector banks has propelled the Nifty PSU bank index to record highs. The Nifty PSU Bank index has performed better than the benchmark indices so far this year. It has also done better than the overall Nifty Bank index.

Better asset quality-

When banks took advantage of the rising interest rates to bolster their interest income, regulatory efforts to reduce stressed assets have resulted in improvement in asset quality and lower provisions for losses. Asset quality measured as Gross Non-performing assets as a percentage of total advances (GNPA ratio) has seen a sustained improvement.

Reduction in GNPAs can be explained by better recoveries. Borrowers who availed the Emergency Credit Line Guarantee Scheme (ECLGS)- a scheme to help borrowers tide over the challenges posed by the pandemic by providing 100 percent guarantee to lenders-have exhibited good repayment behaviour.

The Non - performing assets ratio was 4.8 percent according to a report published by the TransUnion CIBIL. The study showed that repayment commenced in 38% of the accounts within three months from availing the facility, and went up to 82% in a year. The repayment rate has improved in the case of borrowers who availed ECLGS compared to overall repayment trends in the MSME market.

As the stock of non-performing assets shrink, and fresh slippages from standards to non-performing assets are curtailed, banks do not need to set aside in the previous quarters. With a continued improvement in asset quality, provisions have seen a decline. This will further boost profitability of banks.

To be sure, according to the RBI data, bad loans worth Rs. 7 trillion have been written off by public sector banks in the past five years. Write-offs are also one of the reasons to report lower bad loans.

Doing better on regulatory forbearance-

Traditionally, public sector banks have been plagued by poor asset quality. PSBs reported a high loan growth of almost 17% from FY 2010-14. During the global financial crises, to address the woes of the borrowers, the norms for recognition of non-performing assets were relaxed. The relaxation meant that they were classified as standard rather than non-performing assets and did not require the kind of provisioning that bad loans attract.

The extended regulatory forbearance posts the global financial crises led to evergreening of loans and hid the banking sector's vulnerability.

After continuing forbearance for seven years, the RBI decided to conduct an Asset Quality Review (AQR) to know the true status of bank's NPAs. The review resulted in recognition of bad loans resulting in a big spurt in NPAs in 2017-18.

Since then, there has been improvement in the asset quality of banks. Regulatory forbearance was again rolled out during the pandemic. The resolution plans implemented under the framework included rescheduling of payments, conversion of any granting of moratorium based on an assessment of income streams of the borrower for up to two years.

The resurgence of the pandemic led to another round of regulatory forbearance in the form of Resolution Framework: 2.O. A number of checks and balances were introduced to prevent a repeat of the previous episodes of loan restructuring, which did not succeed in addressing the NPA crises.

The enactment of the Insolvency and Bankruptcy Code in 2016 is a landmark step towards prompt resolution of stressed assets in the financial system.

Going forward-

To sustain higher credit growth, banks have started offering higher interest rates on deposits. With interest rates on fixed deposits rising, the share of low-cost deposits – current account and savings account (CASA) – has seen a dip. This will likely have a bearing on the margins of banks.

Banks will also have to compete with other high-yielding instruments such as mutual funds. The pace of credit and deposit growth will determine the trajectory of income and profits of banks in the coming quarters.

This study relies on secondary data obtained from previously published research papers. The objective of this paper is to examine the issue of financial insolvency in public sector banks.

1. RESEARCH OBJECTIVES

- Analyze the Mudra loan Schemes.
- Assess the benefits of Mudra Yojana.
- Evaluate the impact of the initiative on micro enterprises, including employment generation, business expansion and standard of living.
- Identify the existing gaps in the provision of mudra loans to small and micro enterprises.
- To study the financial insolvency among public sector banks.

CHAPTER II

LITERATURE REVIEW

Governments across the world recognize the critical role played by small, medium, and micro enterprises in creating employment opportunities and contributing to the growth of the economy. The development of MSMEs has the potential to increase economic diversification and promote job creation. To promote this segment, governments have launched various measures, including soft loans and extended financial guarantees. The significance of small and micro enterprises has been highlighted in several research papers. **Kumari Seema (2015)** examines the impact of the Micro Units Development and Refinance Agency (MUDRA) on the Indian economy. The study focuses on the various offerings like Micro Credit Schemes (MCS), refinancing to Regional Rural Banks (RRBs), and the impact of MUDRA under PMMY. The study highlights that MUDRA has enhanced liquidity, increased production capacity, created employment opportunities, increased share in GDP, and helped in women empowerment.

Anup Kumar Roy (2016) explains the effectiveness of MUDRA as a financial tool in boosting small and micro businesses in India. The study suggests that MUDRA has the potential to bring about a significant change that can help in the development of India.

In the last decade, researchers have analyzed the growth of bank loans for the MSME sector. The examination revealed that the credit provided by banks for the MSME sector has increased considerably since the government implemented priority sector lending standards. However, there is still a major gap that needs to be met in terms of the loan requirement of this sector (Kumar & Biswas, 2016).

Avani Ojha (2017) studied the impact of Non-Performing Assets (NPA) on the State Bank of India (SBI) and other Public Sector Banks (PSBs).

Raghu Kumari studied the determinants of credit for SMEs in India. The study used focus group interviews to identify factors that impact the credit given to SMEs. The age and net worth of owners were identified as two crucial factors while providing credit to SMEs. The authors suggest that banks should focus on start-ups that have innovative products and creative ideas.

Past research papers have examined the impact and accessibility of various schemes offered by governments worldwide to MSMEs. The following literature review provides an understanding of the methodology, statistical tools, and actual impact of these schemes on MSMEs in India and other parts of the world.

Agarwal and Dwivedi (2017), have shown in their research that financial schemes such as MUDRA Loan encourage credit requirements refinancing options. Initiatives and endeavours are necessary to encourage widespread credit and loan approval. The study shows that mudra loans help new enterprises by providing the collateral-free loan.

According to the findings of **George and Nalini (2018),** medium and small businesses in India contribute to economic growth and should thus be encouraged and promoted. GOI launched various programs to support small enterprises during the last few years. They examined that the MUDRA scheme is recent one launched to push up micro, medium and small business units in India. Such schemes help encourage and support skilled workers and young educated youths to developed their businesses and contribute to economic growth.

Shahid and Irshad (2016), have noted that program like the PMMY MUDRA Yojana promote MSME sectors, which in turn play an important role in assisting to the “Make in India” philosophy. The scheme is also beneficial for micro, medium and small business units and promotes self-employed entrepreneurs in both urban and rural, resulting in the entire economy’s growth.

Mahajan (2018), aims to determine the impact of the strategy on small businesses and entrepreneurs. This is widely accepted in the financial sector of the economy. It will also help to lift he underprivileged people of society. It has also contributed to women’s empowerment. This strategy is intended to achieve full expansion in the following years, benefitting as many individuals in the economy as possible.

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 play a major role in entrepreneurship development and resulting in an increase in employment as well as GDP.

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.

Soni (2016), the research paper is an effort to understand the MUDRA: Development of Micro units and refinancing agency. The main objective of this paper is to understand the Mudra scheme, its need and the legal structure required to benefit from it. To examine the Government's recommended solutions for the successful completion of this project. This research is of descriptive in nature as well as secondary data has been used from which the website has been taken from newspapers government website, publication and reports by institutes. The author eventually concluded that the currency would create new confidence in small-scale enterprises and encourage young, educated, or skilled people to scale up their operations. Also, MUDRA Yojana has an important contribution in women empowerment.

Godha & Nama (2017), studied the impact of MUDRA on financial inclusion in India. They opined that MUDRA has made a big impact in the field of microfinance and has helped weaker sections and low-income groups in their funding needs. They suggested that efforts must be made to increase the number of loan sanctions and proper implementation of the scheme.

Ruhela, Kumar & Prakash (2017), discussed about the existing MFI mechanism and their loopholes in microfinancing. They explored the possibilities that how MUDRA would make a difference in microfinancing and how MUDRA would be helpful in regulating the MFIs, so that small business could meet their financial requirement in a hassle-free manner.

1. RESEARCH GAP

Literature of review provides mix results in terms of impact of loans on income, employment, and business expansion. There is significant financial insolvency generated among public sector banks. It is necessary to study the impact and gap analysis of MUDRA loans in India. There is also a need to study the problems faced by small scale industries in availing mudra loans and gaps in providing mudra loans to small scale industries. With the help of a comprehensive and theoretically grounded investigation proposed here, this research intended to bridge an existing gap in literature empirically.

Chapter III

HYPOTHESIS OF THE PROJECT

Here are some possible ways to rephrase the given hypotheses:

1. Mudra loans do not have a significant impact on the business expansion of small/micro enterprises.
2. There is no significant increase in income generation for small/micro enterprises as a result of mudra loans.
3. The provision of mudra loans does not lead to a significant increase in employment generation for small/micro enterprises.

1. RESEARCH METHODOLOGY

- Our study uses both quantitative and qualitative factors.
- The present study is based on the secondary data.
- This data has been accumulated through published previous research articles.
- The analysis of Public Sector Banks (PSBs) financial insolvency is addressed in the study.

Chapter IV

DATA ANALYSIS & INTERPRETATION

Hypothesis testing-

It was carried out to using paired sample T-test as the data was collected from the people before and after the mudra loan was taken.

Hypothesis 1. Mudra loans do not have a significant impact on the business expansion of small/micro enterprises.

Particular	Mean	Standard Deviation	Standard error mean	T	df	Sig.(2-tailed)
Sales (after loan) Sales (before loan)	25828.13	53779.07	2498.32	7.301	350	0

as $p<0.05$, hence it can be said that there is significant impact of Mudra loans on business expansion, Null Hypothesis 1 rejected. The SMEs were able to take advantage of collateral free loan for business expansion as sales of all this firms have significantly increased as per t-test.

Hypothesis 2. There are no significant increase in income generation of for small/micro enterprises as a result of mudra loans.

Particular	Mean	Std. Deviation	Std. error mean	t	df	Sig. (2-tailed)
Profit (after loan) Profit (before loan)	7596.2	25683.90	1500.1	5.48	350	0

As $p<0.05$, hence it can be said that there is significant impact of Mudra loans on income generation, Null Hypothesis 2 rejected. The SMEs were able to take advantage of collateral free loans for income generation as profit of all this firms have significantly increased as per t-test.

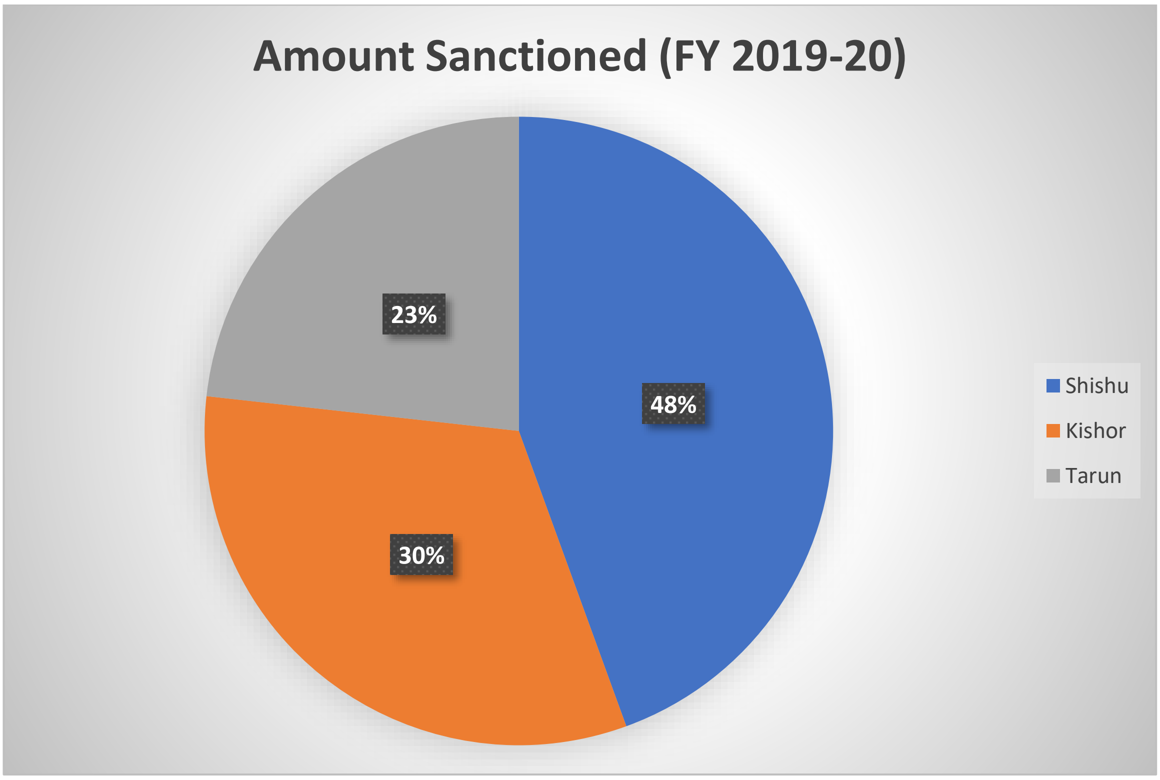
Hypothesis 3. The provision of mudra loans does not lend to a significant increase in employment generation for small/micro enterprises.

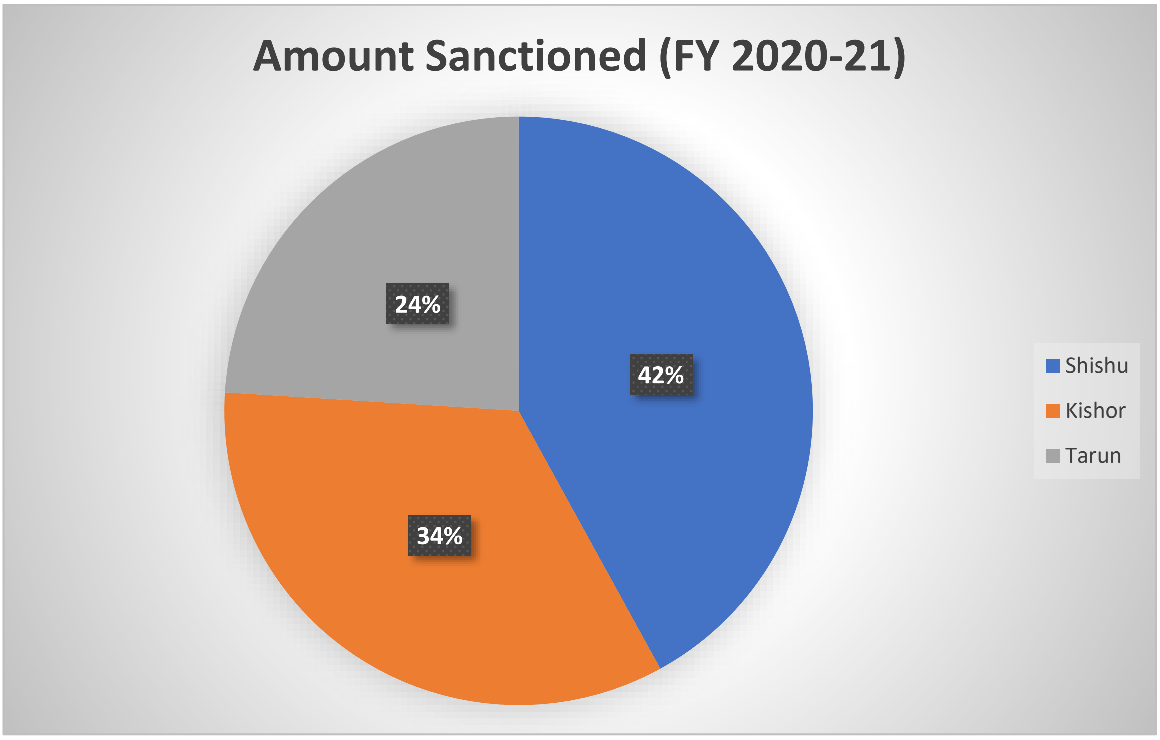
Particular	Mean	Std. Deviation	Std. error mean	t	df	Sig.(2-tailed)
No. of employee (after loan) No. of employee (before loan)	0.058	0.325	0.058	2	350	0.415

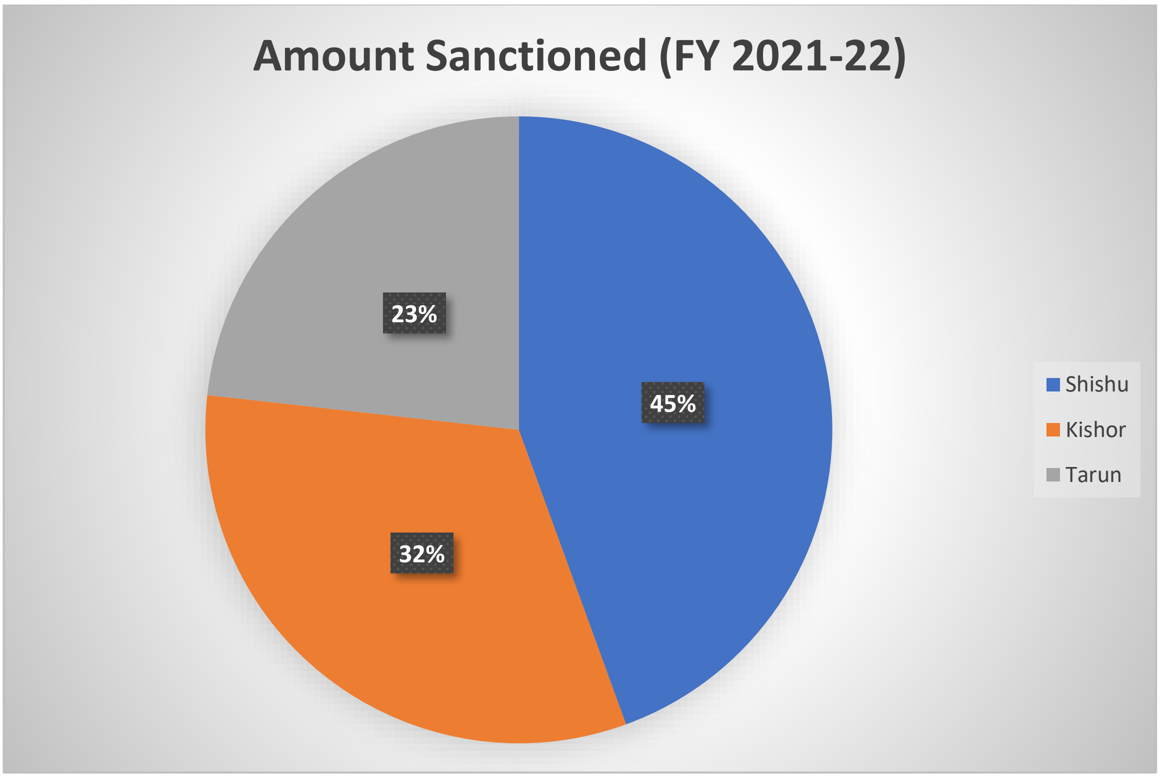
As $p<0.05$, hence it can be said that there is no significant impact of Mudra loans on employment generation, Null Hypothesis cannot be rejected. The employment opportunities have not significantly increased due to Mudra loans.

MUDRA Loan performance in different financial year:

Category	Amount Sanctioned (FY 2021-2022)	Amount Sanctioned (FY 2020-2021)	Amount Sanctioned (FY 2019-2020)
Shishu	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%)	41,882.36 (23%)
Total	3,21,722.79	2,53,677.10	1,80,528.54





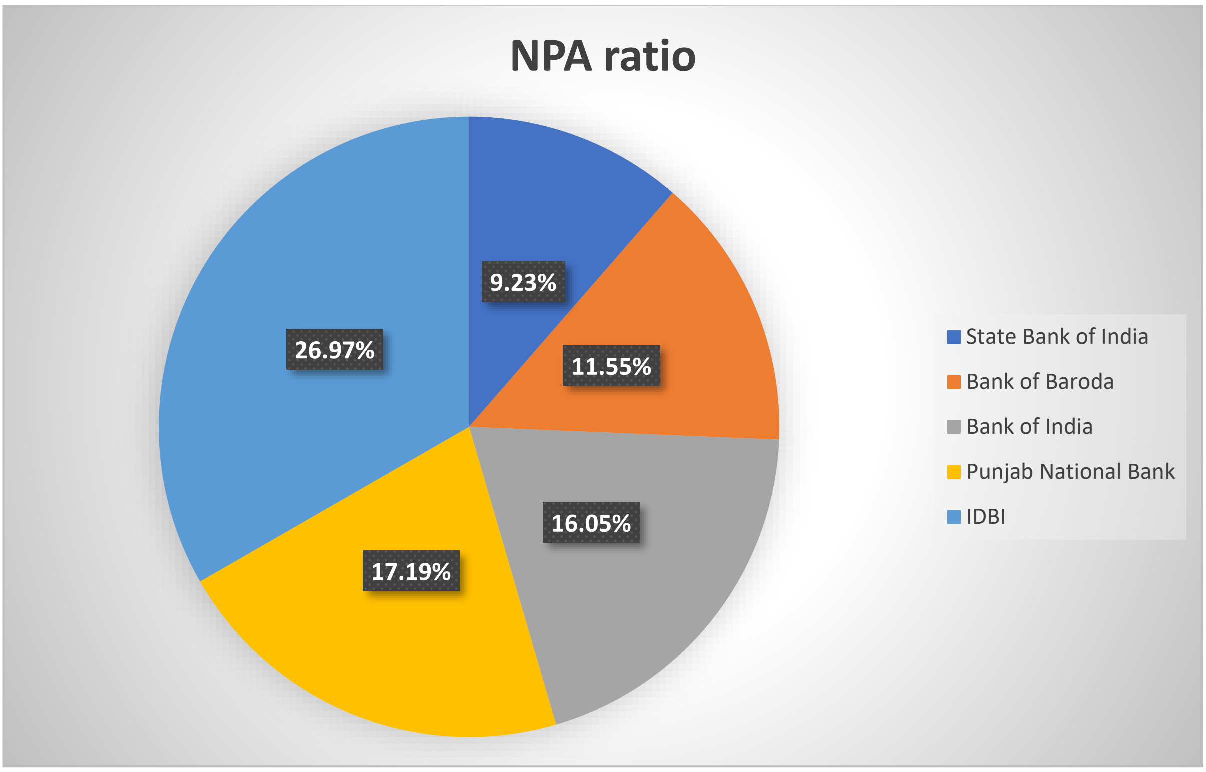


<u>Quantitative aspects of the study-</u>

As per CARE ratings and from the reports of the banks there in decline in NPAs in the second and third quarter of the fiscal. The ratios of NPAs could come down in the fourth quarter. NPAs ratio peaked in the fourth quarter of 2017-18 at 10.6% which was the highest quantum of bad loans was recognized and now in third quarter it has moderate and was down to 9.41%. Similarly, provisions had peaked in the year 2017-18 at Rs. 1.23 lakh crore. The situations changed in the year 2018-19 it came down to Rs. 50714 crores.

NPA ratio of public sector banks as per 2018-19

SI.NO	Name of banks	NPA Ratio
1.	State Bank of India	9.23%
2.	Bank of Baroda	11.55%
3.	Bank of India	16.05%
4.	Punjab National Bank	17.19%
5.	IDBI	26.97%



In above selected sample of banks, NPA ratio is very near to 10% or more in PSBs as per credit ratings. It shows that PSBs recover the loans in slower way and also the management of debt in very ineffective way.

Impact of NPAs:

NPAs not only reflect badly in a bank's account books, they adversely impact the national economy. Following are some of the repercussions of NPAs:

- Banks will become reluctant to lend thus affecting their borrowers.
- Bank's profit will come down which they earn in the form of interest.
- Adversely affect the bank balance sheet.
- Affect the liquidity position of banks.
- Stress in banking sector causes less money available to fund other projects, therefore, negative impact on the larger national economy.
- Lenders suffers due to lowering of profits margins.
- As investment got stuck, it may result in unemployment. In the case of PSBs, the bad health of banks means that the government of India gets less money as a dividend. Therefore, it may impact easy deployment of money for social and infrastructure development and results in social and political cost.
- Depositors may not receive the appropriate returns on their investments and even lose their uninsured deposits. To make up for such losses and maintain profit margins, banks may increase interest rates on some products.
- The presence of bad loans means that funds meant for good projects are diverted to bad ones, leading to a loss of good investment opportunities and failures in bad investments, which negatively impacts the economy.
- The existence of NPAs creates additional burdens on the already overburdened judiciary systems, as these cases need to be resolved along with other pending cases.

Solution to tackle NPAs-

Narsimham committee recommended many reforms in early 90's to tackle the problem of Depositors may not receive the appropriate returns on their investments and may even lose their uninsured deposits. To make up for such losses and maintain profit margins, banks may increase interest rates on some products.

The presence of bad loans means that funds meant for good projects are diverted to bad ones, leading to a loss of good investment opportunities and failures in bad investments, which negatively impacts the economy.

The existence of NPAs creates additional burdens on the already overburdened judiciary system, as these cases need to be resolved along with other pending cases.

NPAs. Government of India implemented following reforms:

The Debt Recovery Tribunal (DRTs)-1993, Credit information bureau-2000, Lok Adalats-2001, Compromise Settlement-2011, SARFAESI Act-2002, Joint Lenders Forum-2014, Mission Indradhanush-2015, Insolvency and Bankruptcy Code Act-2016, Bad loans-2017 etc. these above acts are helpful to banks in recovery of loans based on the amount of loans. Tribunals helps in recovery of amount without the involvement of the court. The banks have to first issue a notice. Then, on the borrower's failure to repay, they can take ownership of security, control over the management of the borrowing concern and appoints a person to manage the concern. Among these Mission Indradhanush is special reform to taken for the benefits of PSBs and improves their overall performance by ABCDEFG (Appointment, Bank Board Bureau, Capitalization, Disclosure, employment, Framework of Accountability and Governance Reforms). The recent development is Insolvency and Bankruptcy Code (IBC). It fastened the process of collection from defaulters and made changes in earlier acts by giving more powers to banks. Credit Information Bureau also helps banks by maintaining and sharing data of individual defaulters and willful defaulters.

NNPA ratios of PSBs

YEAR	SBI	PNB	IDBI	BOB	BOI
2012	1.82	1.52	1.61	0.54	1.47
2013	2.1	2.35	1.58	1.28	2.06
2014	2.57	2.85	2.48	1.52	2
2015	2.12	4.06	2.88	1.89	3.36
2016	3.81	8.61	6.78	5.06	7.79
2017	3.71	7.81	13.21	4.72	6.9
2018	5.733	11.24	16.69	5.49	8.26
2019	5.1	11.2	18.76	5.01	7.52
TOTAL	26.963	49.64	63.99	25.51	39.36
MEAN	3.370375	6.205	7.99875	3.18875	4.92

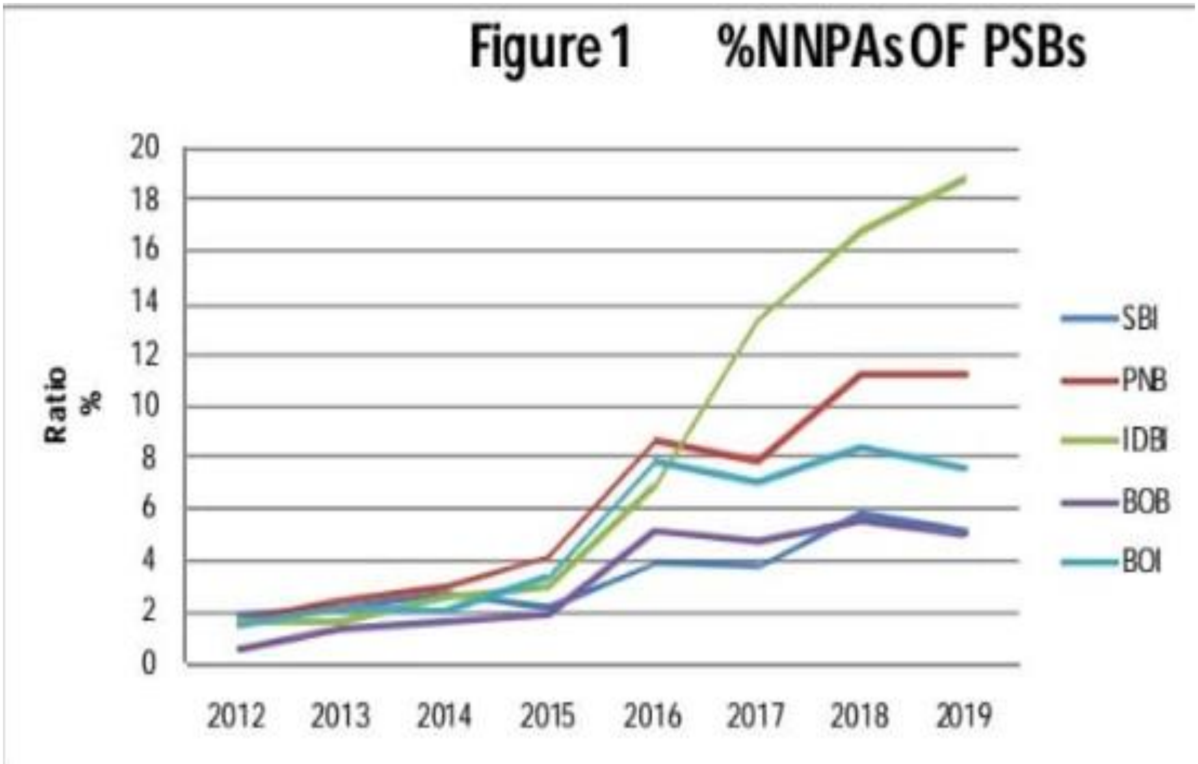
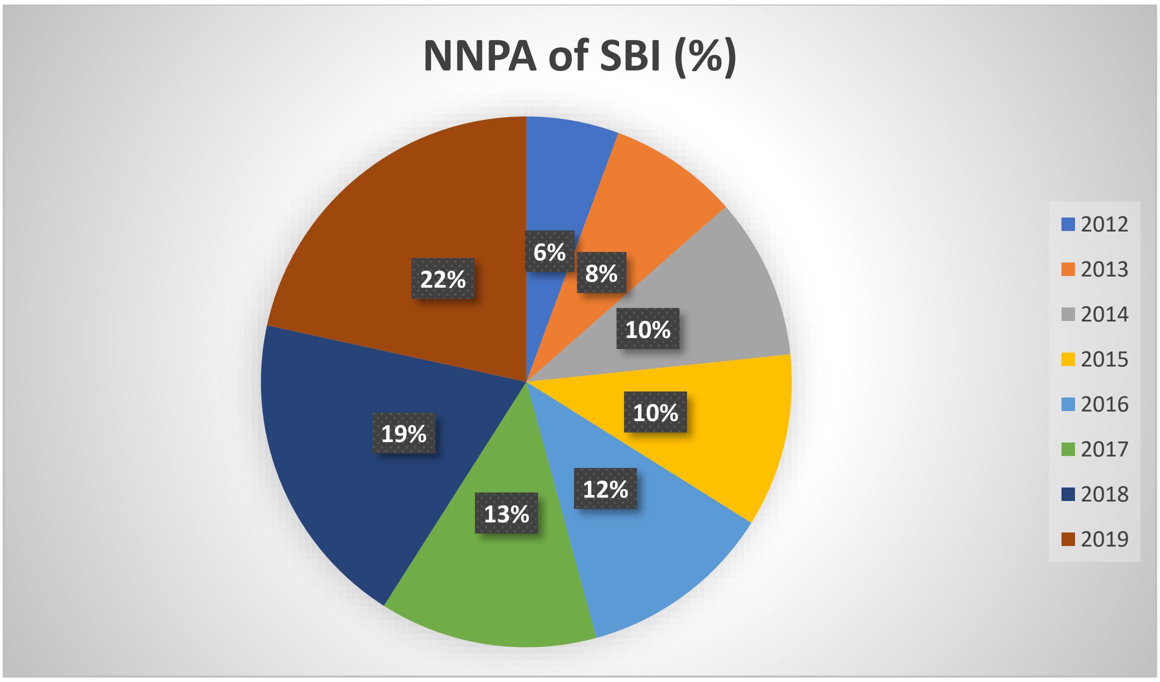
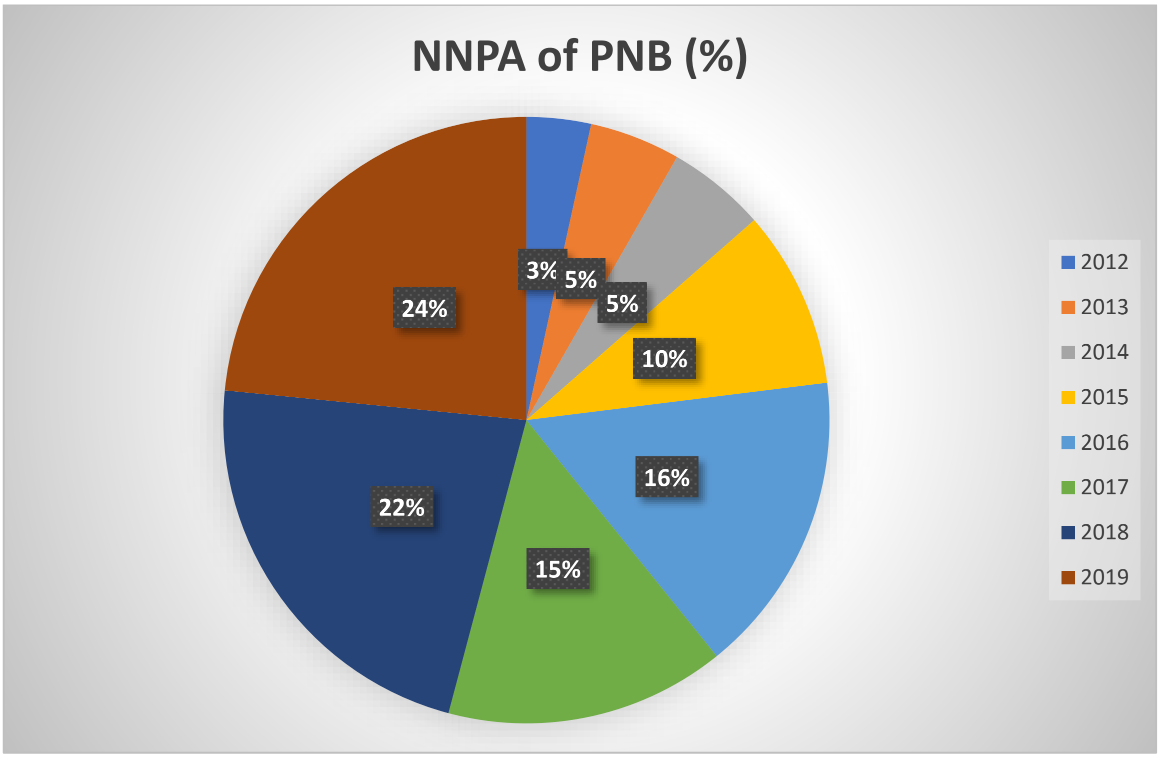
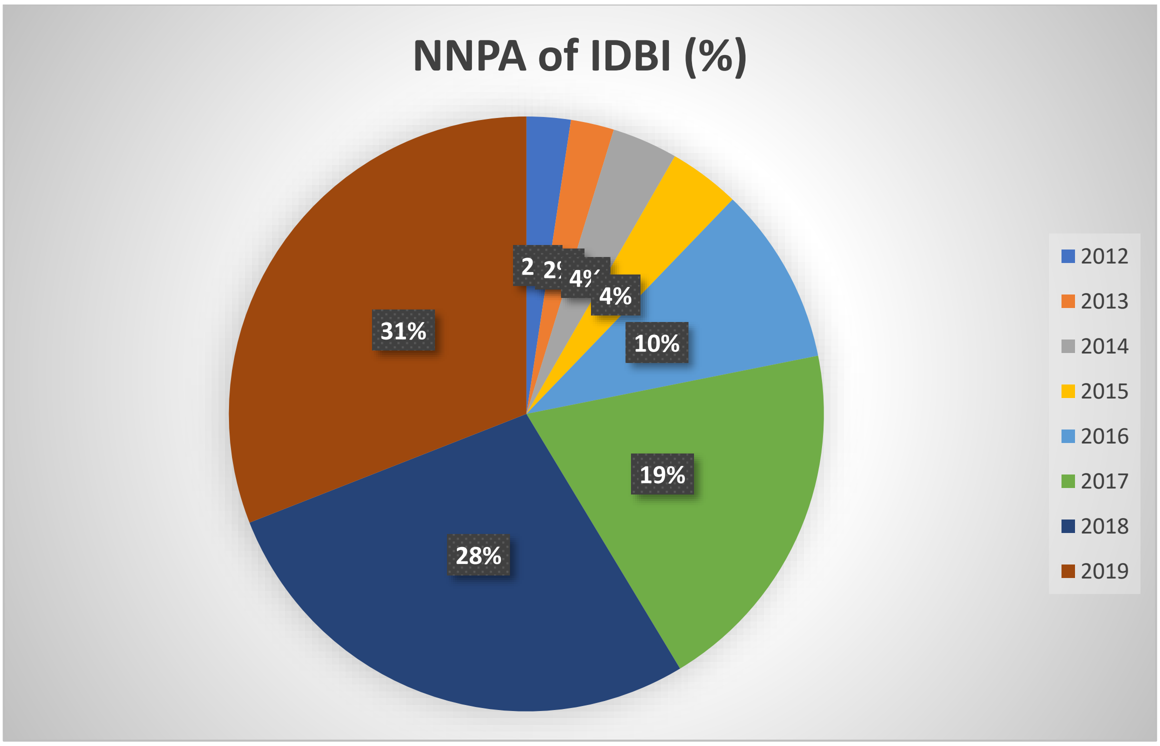
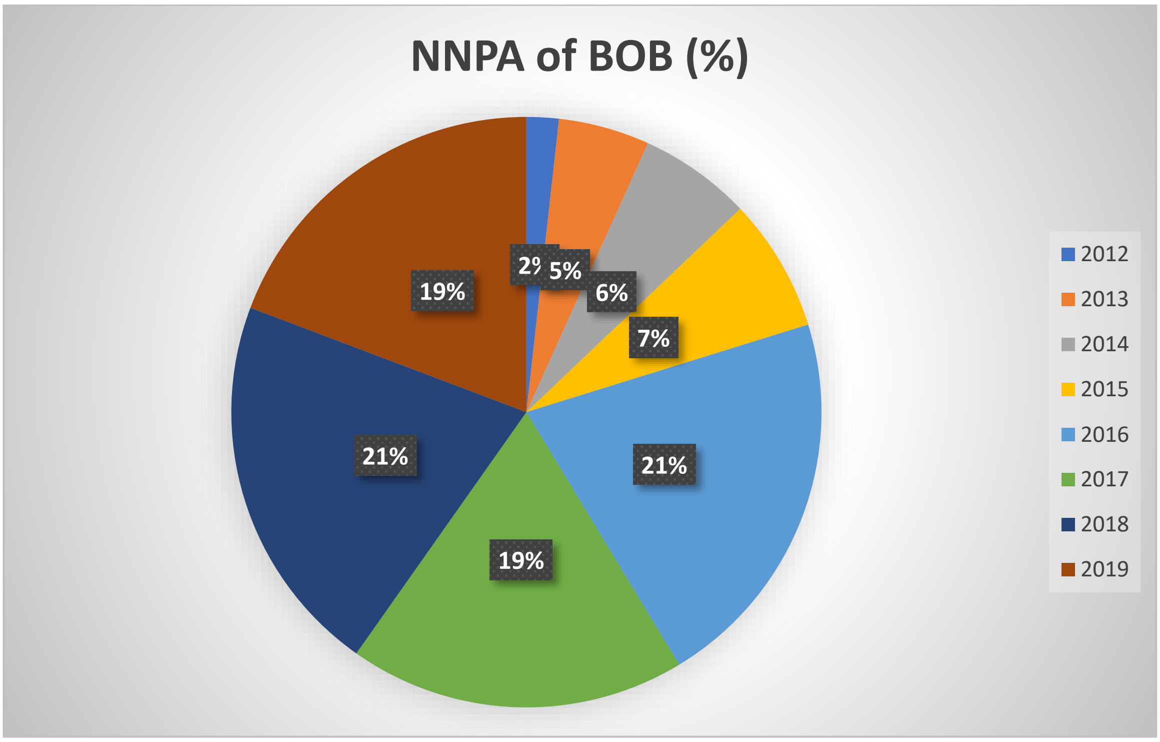


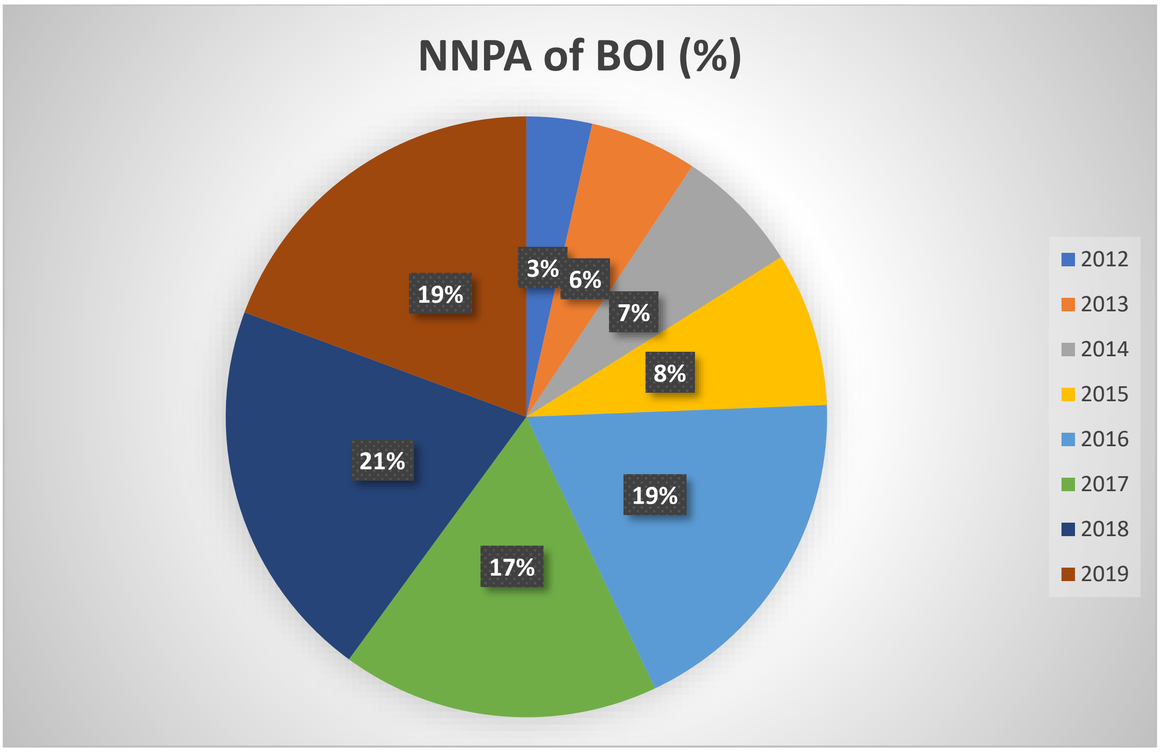
Figure 1 %NNPAs OF PSBs
Ratio %
20
18
16
14
12
10
8
6
4
2
0
2012
2013
2014
2015
2016
2017
2018
2019
SBI
PNB
IDBI
BOB
BOI


NNPA of SBI (%)
6%
8%
10%
10%
12%
13%
19%
22%
2012
2013
2014
2015
2016
2017
2018
2019


NNPA of PNB (%)
3%
5%
5%
10%
16%
15%
22%
24%
2012
2013
2014
2015
2016
2017
2018
2019


NNPA of IDBI (%)
4%
10%
19%
28%
31%
2012
2013
2014
2015
2016
2017
2018
2019





It indicates the net NPA ratio. It is calculated by using the formula Net NPA divided by loans (NPA Ratio = NNPA/Loans). It is used as a measure overall quality of the bank's loan book. Higher ratio reflects rising bad quality of loans.

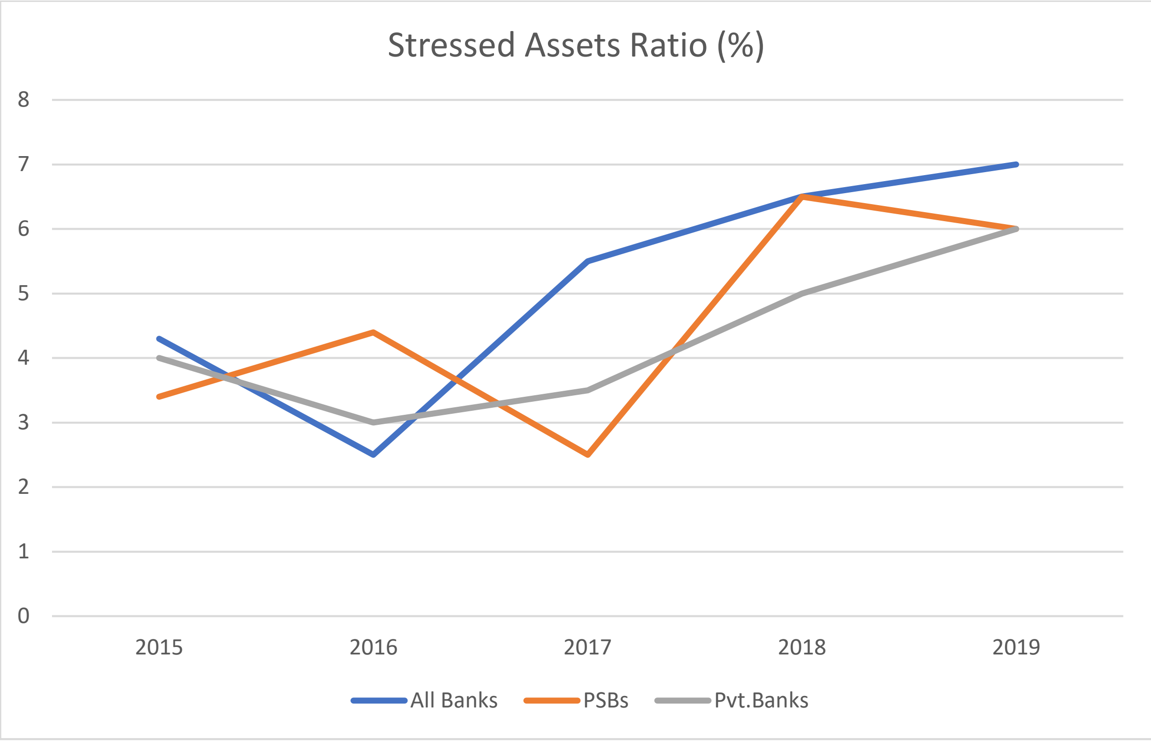
It is cleared that NNPA od PSBs are increased after 2015, the highest ratio shown in case of IDBI and PNB. Bank of India and Bank of Baroda ratio was moderate. In financial year 2016 to 2018 there was increasing trend but in third quarter of 2018-19 except IDBI other PSBs are trying to manage NNPAs and ratio is decreasing, this happens mainly due to the strict regulations of RBI.

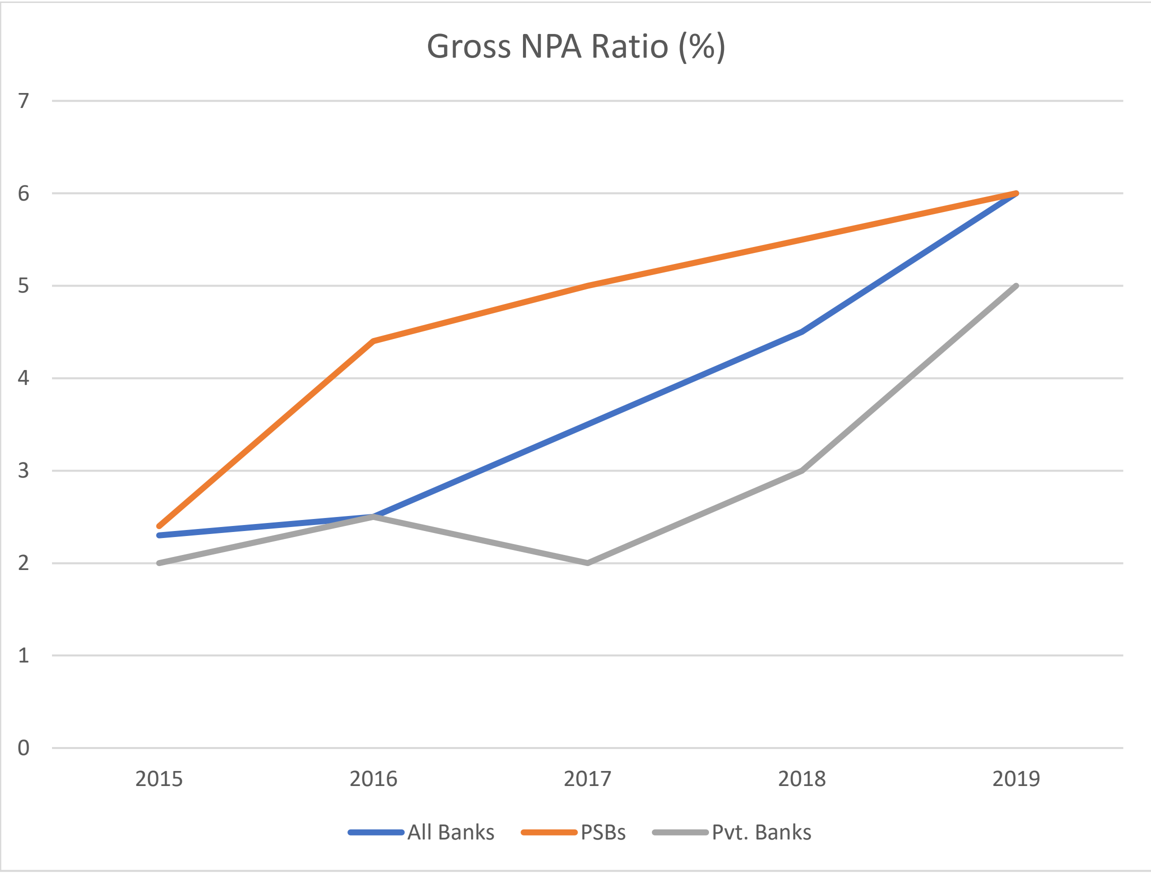
Performance Ranking-

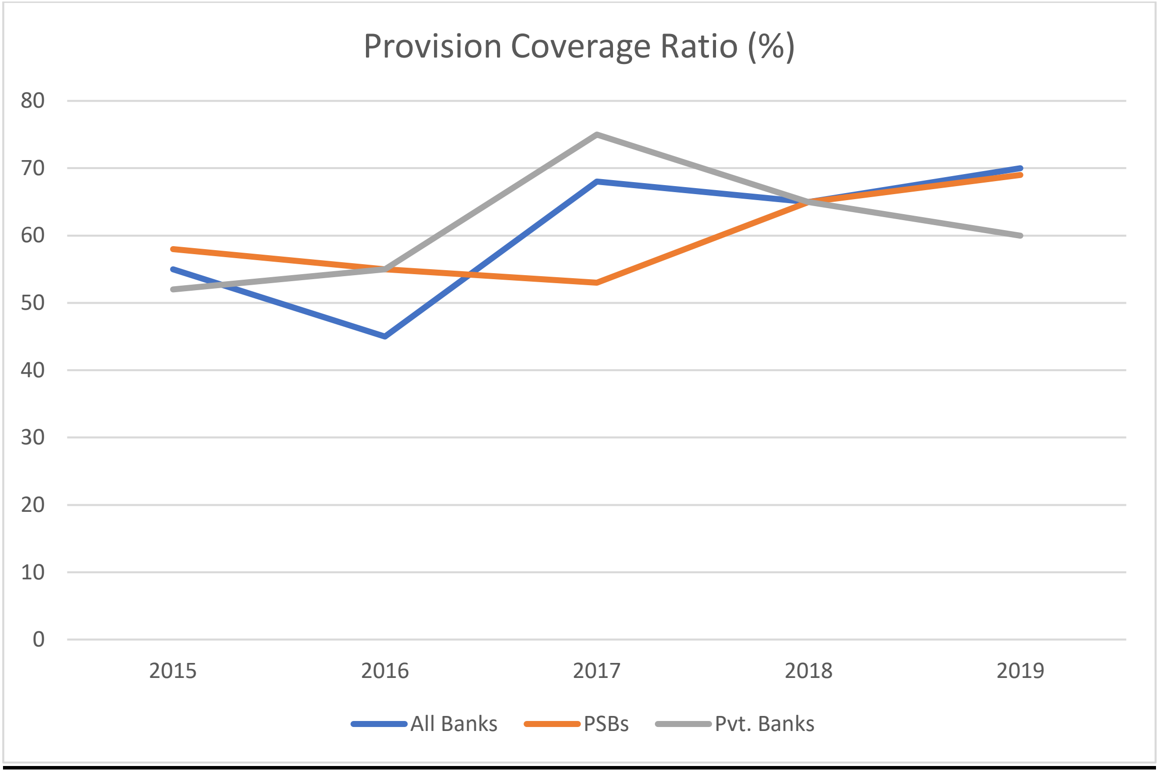
BANK NAME	TOTAL ASSETS	RANK (ASSETS)	NNPA%	RANK (%NNPA)	NET PROFIT	RANK (N/P)
State Bank of India	345789	1	3.37.35	2	7964.58	1
Punjab National Bank	789560	2	6.205	4	-503.79	3
Industrial Bank of India	35062.21	5	7.9985	5	-2065.32	5
Bank of Baroda	718888.55	3	3.1885	1	956.1115	2
Bank of India	605863.22	4	4.92	3	-1.563	4

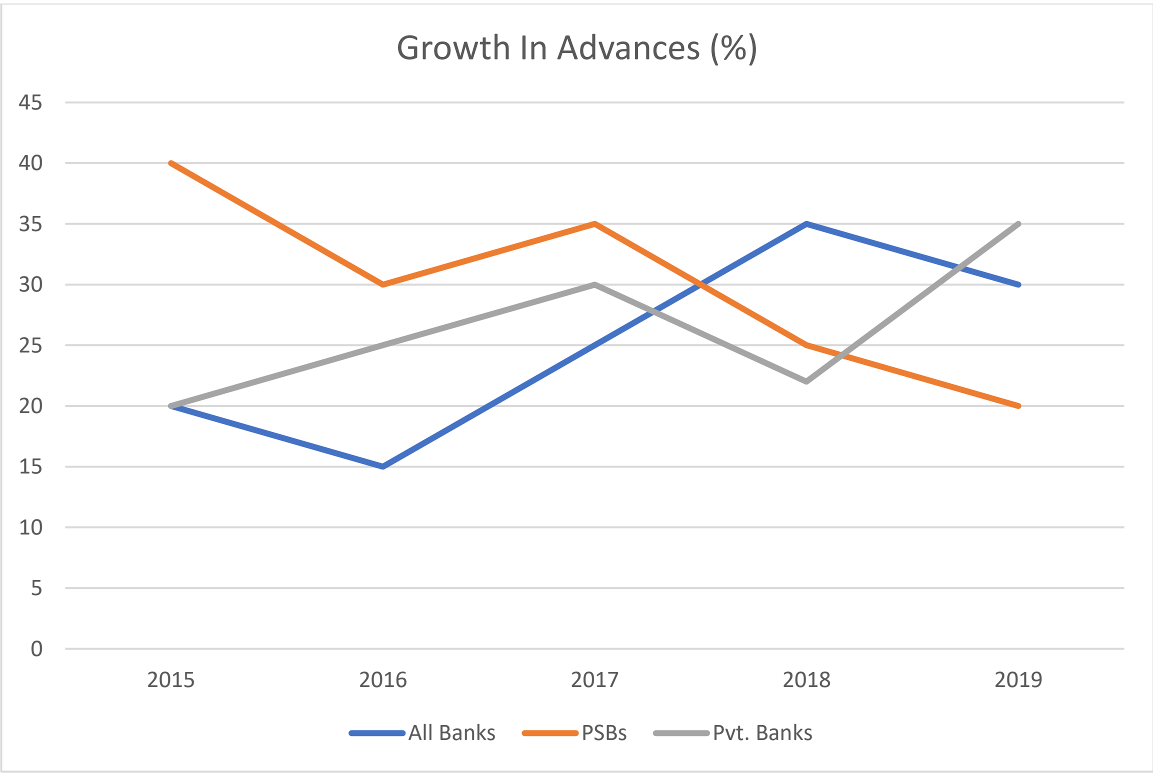
The above table shows rankings of PSBs banks on the basis of total assets, NNPAs ratio and Net Profit. On the basis of total assets SBI occupied first rank also in case of earning profit it stands first. It is more efficient in maintaining assets and it is in top position with respect to the better management of NNPAs for the past eight years. In case of its size and asset capacity SBI, PNB, BOB are among top rankings where as their performance regarding management of loan was very poor.

When bank balance-sheets are so weak, they cannot support healthy credit growth, put simply, under capitalized banks have capital only to survive, not to grow; those banks barely meeting the capital requirements will want to generate capital quickly, focusing on high interest margins at the cost of high loan volumes. The resulting weak loan supply for public sector banks and the low efficiency of financial intermediation, have created significant headwinds for economic activity.


Stressed Assets Ratio (%)
8
7
6
5
4
3
2
1
0
2015
2016
2017
2018
2019
All Banks
PSBs
Pvt.Banks


Gross NPA Ratio (%)
7
6
5
4
3
2
1
0
2015
2016
2017
2018
2019
All Banks
PSBs
Pvt. Banks


Provision Coverage Ratio (%)
80
70
60
50
40
30
20
10
0
2015
2016
2017
2018
2019
All Banks
PSBs
Pvt. Banks


Growth In Advances (%)
45
40
35
30
25
20
15
10
5
0
2015
2016
2017
2018
2019
All Banks
PSBs
Pvt. Banks

Qualitative aspects of the study-

The problem of recapitalizing public sector banks is growing, and it puts a strain on government finances while distorting the behavior of banks. Unlike private sector banks, public sector banks do not have to answer questions on profitability and performance when they raise capital. The objective of recapitalization has not been fulfilled in many instances, despite infusing a significant amount of capital into the banking system over the years. The stress tests by the RBI indicate that the bad loans of banks receiving government support will increase, and their capital levels will deteriorate further. Many expert committees have suggested reducing government stakes and privatizing public sector banks in a phased manner. However, conditional recapitalization may be necessary to support privatization. Recapitalization efforts should aim to improve a bank's ability to attract fresh private capital, and taxpayer-funded money should be infused only after meaningful restructuring of public sector banks and the exit of weak banks. The strategy of merging weak public sector banks with strong public sector banks should be reevaluated as it may undermine the acquirer's viability. Instead, relatively better-performing public sector banks should be recapitalized to make them attractive to private sector players, thereby easing the burden on taxpayers and addressing the moral hazard problem associated with sustained infusion of capital into distressed public sector banks. India needs to encourage a competitive banking system that can address inefficiencies that arise due to entry barriers. This can be achieved by allowing new banks to enter the market while driving out inefficient ones. Currently, the public sector dominates the Indian banking sector, and entry has been limited due to a restrictive framework. Privatization of public sector banks is an important part of the reform agenda, but it requires the development of a strong regulatory and supervisory system. In 2014, all financial sector regulators agreed to implement sound regulation processes. These processes involve publishing draft subordinate legislation with clear objectives and a cost-benefit analysis, ensuring that regulations become effective only after board approval, inviting public comments on the regulations, and taking those comments into account before approving the regulations.

The concept of "creative destruction" requires the failure of inefficient firms, which allows resources to shift to more efficient firms. The Insolvency and Bankruptcy Code (IBC) enabled the resolution of non-financial firms, but it cannot be applied to financial firms, as bank creditors do not work in their case. The current system for resolving financial firms in India is inadequate because micro prudential regulators, who are tasked with minimizing the probability of failure, have resolution powers, leading to regulatory forbearance-induced inefficiency. The present legislative framework also limits the powers of resolution, and state-owned public-sector banks are exempt from these limited powers. A resolution framework and resolution corporation were proposed by the Financial Resolution and Deposit Insurance (FRDI) Bill but were withdrawn due to political opposition. A key area of concern was the "bail-in" clause, which would allow financial institutions in a state of difficulty to use depositors' money to bail themselves out of trouble. The lack of clarity regarding deposit insurance for smaller deposits also led to criticism. It is important to address these concerns and bring the bill back soon to have a resolution framework in place in case of bank failures. This would also promote entry of banks and greater competition in the banking sector, leading to the effective allocation of savings into productive investments.

Chapter V

CONCLUSION

Despite the implementation of Mudra loans, there has been little improvement in the employment opportunities and living standards of its beneficiaries, particularly women who have not gained financial independence through this scheme. However, the scheme has shown effectiveness in its early stages and has the potential to contribute to the growth of the economy by supporting small-scale industries. To further increase the impact of the scheme and assist the poor and vulnerable sections of society, it is recommended that there should be proper coordination among bank officials, state and central government officials for the successful implementation of the Mudra Yojana. This can bring about positive changes and help India in its journey towards development.

It clearly indicates that size of bank, asset or market ranking does not make any influence on the efficiency of making loans. All PSBs are in top rankings in the market then also their efficiency level of managing debts was very poor.

The main reason for increase of NPA was the pattern of lending loans and advances was entirely different, they are as follows:

- There are concerns over the small loans given to farmers through Kissan Credit Cards and the Credit Guarantee Scheme for MSMEs, as these loans may not receive sufficient attention and may eventually cause significant credit issues.
- Farmers have traditionally relied on state support to repay their loans, which could contribute to a lack of credit discipline.
- Some people believe that lending to agriculture has increased the non-performing assets (NPAs) of public sector banks (PSBs). However, a report by the Standing Committee on Finance shows that NPAs in the

corporate sector are actually higher. PSBs lend to various industries such as textiles, aviation, mining, infrastructure, iron and steel, which have been affected by global economic slowdown, mining bans, environmental permits, raw material prices, and shortages, leading to lower profits and difficulty in loan repayment.

DISCUSSION

After the implementation of Mudra, public sector banks faced financial insolvency due to unpaid of loans which are provided to MSME for the expansion of businesses, new startups and economy.

The government faces many deficiencies and difficulties like-

a) Borrower Selection:

- A significant number of applicants involved in similar activities have been chosen.
- Most of the applicants are concentrated in one particular area.
- Many applications appear to have been filled out by the same person, based on handwriting and language style.
- Borrowers have been introduced to the bank by intermediaries in some cases.
- Bank staff have approached local shops and small businesses and offered them loans without being asked, which could make the bank vulnerable.
- Some applicants lack the necessary professional skills or licenses for the activities they propose to undertake.
- Some borrowers have received Mudra loans for the same activity and purpose twice.
- Multiple family members have been assisted under PMMY/MUDRA.
- Two different units engaged in the same activity at the same address have been considered for assistance, resulting in double financing.
- Existing borrowers with term loans, SODs, or OCCs have been granted Mudra loans, even though they have mortgaged their property for their first loan.
- Small units located far away have been selected for assistance without considering the difficulties of monitoring and follow-up.

b) Application:

- The applicant has not stated their line of activity or the purpose of the loan.

- The application does not specify the type of facility requested.
- The loan amount applied for is not clearly mentioned.
- Quotations/proforma invoices are missing from the application.
- Many quotations are from the same vendor or a few vendors, regardless of the applicants' activities.
- Affidavits stating that the applicants have no loans from other banks/financial institutions and have never defaulted on any loans have not been obtained.

c) <u>Pre-sanction:</u>

- No unit inspections have been conducted for existing units.
- Credit investigations/due diligence have not been performed for loans above Rs. 50,000.
- CIBIL Reports (Individual and Commercial) have not been generated for limits of Rs. 2 lakhs and above.

d) <u>Documentation:</u>

- Not all the required documents have been obtained.
- Some documents are incomplete or blank.
- Stamping has not been done, or stamps have not been defaced with the signature and date of the manager or another competent person/authority.

e) <u>Disbursement:</u>

- The borrower's margin has not been insured.
- There is no documentary proof of the advance allegedly paid by the applicant to the vendor.
- The full or a significant portion of the loan amount has been credited to the borrower's CD/SB account.
- Proper bills have not been obtained.
- Bills that are available may be scribbled on a piece of paper or handwritten on cash memos without any serial number, date, or vendor address.
- Bills are often dated prior to the loan's sanction date, sometimes several months or even a year old.

The project proposes recommendations for the government, banks, and SMEs, which have the following implications:

- Loans were mostly given by banks to meet the government targets at the end of the financial year, which undermines the objectives of the Mudra loan scheme. Therefore, banks should follow proper procedures for providing Mudra loans that align with the scheme's objectives.

- Banks should avoid giving Mudra loans based on factors such as personal relations, political interference, or other non-genuine reasons, which may lead to deserving applicants being overlooked.
- Banks should provide training sessions for SMEs to develop high-quality business proposals for Mudra loans.
- Proper counseling and explanation of the loan's terms, such as interest rates and repayment period, should be given to applicants, who are often unaware of these details.
- Bank managers should connect with beneficiaries to understand their problems and support them during crises, as recovery rates for these loans are often low.
- Banks should increase awareness of the Mudra loan scheme through effective marketing and publicity, including prominently displaying banners with information on the procedure and eligibility criteria.
- Banks should support borrowers who are facing difficulties repaying loans due to the COVID-19 pandemic by either waiving off interest rates for a period or extending the loan repayment time.
- SMEs should prepare proper business proposals before applying for Mudra loans.
- For loans given to females, the application should be submitted by the female entrepreneur.
- Banks should conduct studies to assess the impact of Mudra loans on enterprises.
- Female entrepreneurs should receive separate training to develop their business proposals.
- Banks should promote female entrepreneurs by offering special interest rates on Mudra loans.
- Banks should provide separate staff for Mudra loan processing as implementing the Mudra loan scheme increases the burden on existing bank employees, which may affect their work quality.
- Loan amounts should be increased considering the present inflation rate.

FUTURE RESEARCH AND LIMITATIONS OF PROJECT-

Every effort has been made to develop the research project. However, there are some limitations of the project, which are mentioned here. The project uses mean and relative importance method to analyze both quantitative and qualitative data. Other methods are also available to analyze this data as per literature review. Both secondary data and time are constraints in project. Future research can be carried out in different sates with different parts for more generalization of results. Cross sectional studies can be carried out to understand the impact of mudra loans over a period. Studies with the help of data can be carried out in future to provide more validity to the results of this project.

CHAPTER VI

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