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FINANCIAL INSOLVENCY AMONG PUBLIC SECTOR BANKS AFTER THE IMPLEMENTATION OF MUDRA

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ABSTRACT

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.

This study analysis the financial inclusion in the social and economic growth of the nation cannot be overlook. It access the affordability and useful financial services to the lower section and lower income group of people in economy. The government started Mudra yojana mainly concerned with the non- farming micro enterprises, with credit needs are less than Rs.10 lakhs. The purpose of this research article is to study the conception of Pradhan Mantri Mudra Yojana and analyze its progress and performance.

The present study is based on the secondary data. Secondary data have been accumulated from published previous research paper. This paper is also an attempt to know about the financial insolvency among public sector banks.

INTRODUCTION

MUDRA stands for "Micro Units Development and Refinance Agency Limited. It was announced by Prime Minister Shri. Narendra Modi as "Pradhan Mantri Mudra Yojana" on 8th April, 2015. It is basically concerned for providing loans upto Rs.10 lakhs to the micro enterprises consisting of non-farm enterprises. Because small businesses are not in a position to raising finance for this sector. To remove these financial difficulties, 'Mudra' Yojana was launched. 'Mudra' Yojana provided services to 'fund the unfund business' through the loans without too much formalities. It is basically a tool to found very effective and dramatic change which help in making a developed India. Allocation under PMMY has been doubled in Union budget in 2017-18 from previous 1.22 lakh crore to Rs.2.44 lakh crore from with priorities to tribals, dalits, minorities, women and backward class. Today small, micro and medium scale provide employment to more than 20% of the working population in India. So, it is necessary that this MSME enterprises are provided with government support in the forms of loans, training, exposure and support in marketing of their products.

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

- Shishu: loan coverage up to 50,000/-
- Kishor: coverage of loans over 50,000/- and up to 5,000,000 CZK
- Tarun: loan coverage over 5,000 to 10,000,000

The initiatives were named 'Shishu', 'Kishor' and 'Tarun' to indicate the stage of progress and financial requirements of the micro unit or entrepreneur and serve as benchmarks for their future growth and progress. The objective of the scheme is to ensure that at least 60% of the credit flow goes to Shishu category units while the remaining goes to Kishor and Tarun categories.

No loan subsidies are provided under PMMY. However, if the loan proposal is linked to a government scheme that offers capital subsidies, it will also be considered eligible under the PMMY.

Individuals or businesses seeking assistance under the Pradhan Mantri MUDRA Yojana (PMMY) can approach any financial institution in the region, including PSU banks, cooperative banks, private sector banks, foreign banks, microfinance institutions (MFIs) and non-banking finance companies (NBFCs). The approval of the assistance will be subject to the eligibility criteria of the relevant lending institution. To apply for a loan, the applicant must submit certain documents such as proof of identity, proof of residence, current photograph, price quote for machinery or other items to be purchased, supplier details, proof of identity/business address and proof of category. PMMY loans have no processing fees or collateral requirements and repayment terms can extend up to 5 years. However, the applicant should not be in default of any Bank or Financial Institution.

The July-September quarter saw a marked improvement in the performance of public sector banks (PSBs) with a 50% year-on-year rise in net profit on the back of a large-scale credit expansion. The asset quality of public companies also improved, showing a strong rate of loan growth. The improved performance also had a positive impact on the stock market. However, future developments such as the pace of credit and deposit growth, as well as the impact of SME stress, will be crucial factors to watch. In addition, it will be necessary to monitor the costs of deposits and possible stress in micro, small and medium industries.

- Improving profits
- Better asset quality
- Doing better on regulatory forbearance
- Going forward

RESEARCH OBJECTIVES

- Analyze Mudra loan schemes.
- Evaluate the benefits of Mudra Yojana.
- Evaluate the impact of the initiative on micro-enterprises, including job creation, business expansion and living standards.
- To identify existing gaps in the provision of mudra loans to small and micro enterprises.

- To study financial insolvency among public sector banks

LITERATURE REVIEW

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 me conditions of credit requirement of this sector (Kumar & Biswas, 2016).

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

Raghu Kumari studied the determinants of credit for small and medium enterprises in India. The study used focus group interviews to identify factors that influence credit provided to SMEs. Owners' age and net worth have been identified as two critical factors in lending to SMEs. The authors suggest that banks should focus on start-ups that have innovative products and creative ideas.

Past research has examined the impact and accessibility of various programs offered by governments around the world to SMEs. 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.

In their research, Agarwal and Dwivedi (2017) have shown that financial schemes like MUDRA Loan promote options for refinancing loan requirements. Initiatives and efforts are necessary to support the universal approval of credit and loans. The study shows that mudra loans help new businesses by providing unsecured credit.

According to the findings of George and Nalini (2018), SMEs in India contribute to economic growth and should therefore be encouraged and supported. In recent years, the Indian government has launched various programs to support small businesses. They examined that the MUDRA scheme was recently launched to support micro, medium and small business units in India. These programs help encourage and support skilled workers and young educated young people to develop their businesses and contribute to economic growth.

Shahid and Irshad (2016) noted that a program like the PMMY MUDRA Yojana supports the MSME sectors, which in turn play an important role in facilitating the "Make in India" philosophy. The program also benefits micro, medium and small business units and supports self-employed entrepreneurs in both urban and rural areas, leading to the growth of the entire economy.

Mahajan (2018), aims to find out 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 uplift the disadvantaged people in the society. It also contributed to the empowerment of women. This strategy is intended to achieve full expansion in the coming years and benefit as many individuals as possible in the economy.

Rudrawar and Uttarwar (2016) stated that Mudra loan can be a game changer in the Indian economy. It will help in achieving the desired changes in the economy such as easy credit management with less documentation, which in turn plays a major role in business development and leads to increased employment and GDP.

Roy (2016) in his study stated the role of Mudra banks in supporting micro, medium and small enterprises in the economy. Mudra acts as a key tool across the country and will have a huge impact on the growth of small business units and help India become 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 article is to understand the Mudra scheme, its need and the legal structure required to benefit from it. Check the government recommended solutions to successfully complete this project. This research is descriptive in nature and secondary data was also used, from which websites were taken from government websites of newspapers, publications and reports of institutes. The author finally concluded that the currency will create new confidence in small businesses and encourage young, educated or skilled people to expand their operations. Also, MUDRA Yojana has an important contribution towards women empowerment.

Godha & Nama (2017) studied the impact of MUDRA on financial inclusion in India. They felt that MUDRA has made a big impact in the field of microfinance and has helped the weaker sections and low income groups in their financing needs. They suggested that efforts should be made to increase the number of loan sanctions and properly implement the system.

Ruhela, Kumar & Prakash (2017) discussed the existing mechanism of MFIs and their gaps in microfinance. They explored the possibilities of how MUDRA could transform microfinance and how MUDRA would help regulate MFIs so that small businesses could meet their financial requirements without any hassle.

RESEARCH METHODOLOGY

- Our study uses both quantitative and qualitative factors.
- This study is based on secondary data.
- This data was collected through published previous research articles.
- The study deals with the analysis of financial insolvency of public sector banks (PSBs).

DATA ANALYSIS AND INTERPRETATION

The Narsimham Committee proposed various reforms in the early 1990s to address the problem of depositors not receiving adequate returns on their investments and the possibility of losing uninsured deposits. This could lead banks to raise interest rates on some products to offset these losses and maintain their profit margins. The presence of non-performing assets (NPAs) diverts funds from good projects to bad ones, resulting in lost investment opportunities and negative economic impacts. Moreover, NPAs add to an already overburdened judicial system as these cases have to be dealt with along with other pending cases. The Government of India

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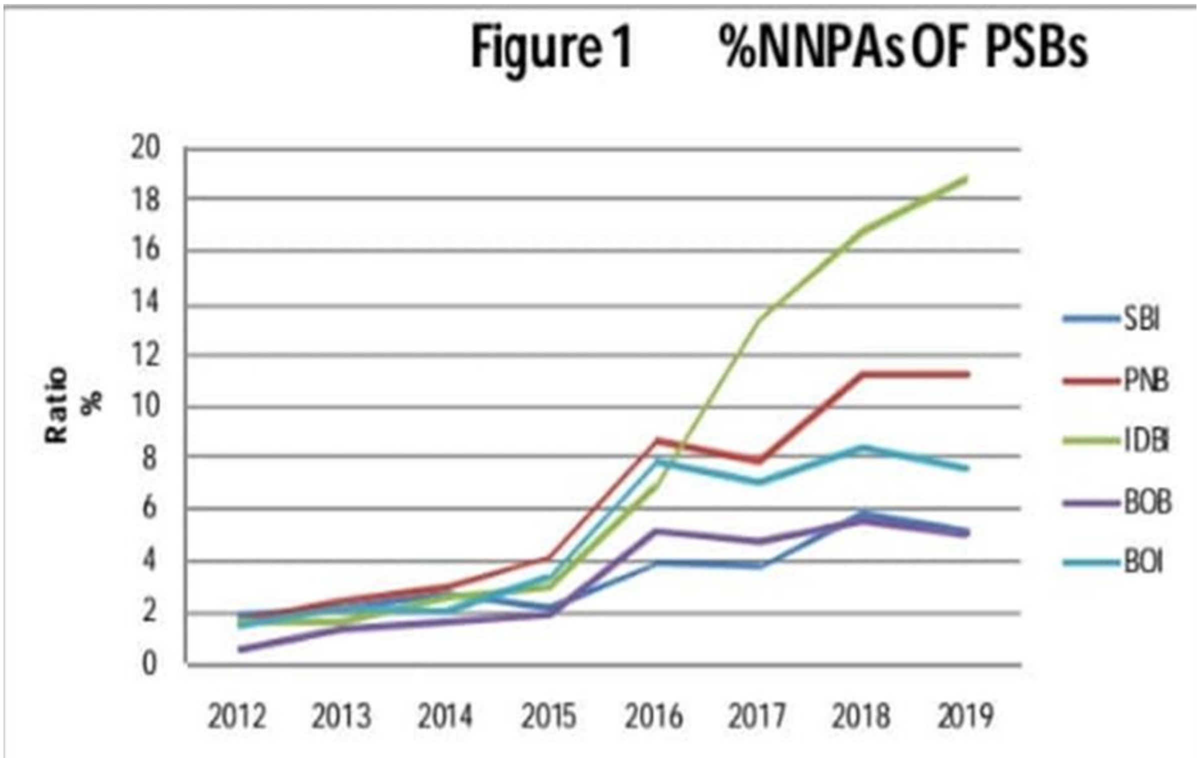
has introduced several reforms to help banks recover loans, including Debt Recovery Tribunals (DRTs), Credit Information Bureau, Lok Adalats, Compromise Settlement, SARFAESI Act, Joint Lenders Forum, Mission Indradhanush, Insolvency and Bankruptcy Code Act, and bad loans . These reforms help banks recover loans and manage defaults through various processes and systems. Mission Indradhanush is a special reform aimed at improving the overall performance of public sector banks through reforms in Appointment, Chairmanship, Capitalization, Disclosure, Employment, Accountability and Governance Framework (ABCDEFG). The recently introduced Insolvency and Bankruptcy Code (IBC) has also made the process of collection from defaulters easier by giving banks more powers. The Credit Information Bureau helps banks maintain and share data on 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



The NPA ratio reflects the overall quality of the bank's loan portfolio, calculated by dividing net NPA by total loans. A higher NPA ratio indicates deterioration in loan quality. In the case of PS, the net NPA ratio has increased since 2015, with IDBI and PNB showing the highest ratios. Bank of India and Bank of Baroda had moderate ratios. From 2016 to 2018, the NPA ratio was on an increasing trend, but in the third quarter of 2018-19, other PBIs except IDBI managed to reduce their NPA ratio, mainly due to strict regulations by the RBI.

There is a growing problem of recapitalization of public sector banks, which burdens state finances and distorts the behavior of banks. Unlike private sector banks, public sector banks do not have to answer questions about profitability and performance when raising capital. The goal of recapitalization was not met in many cases, even though a significant amount of capital entered the banking system over the years. The RBI's stress tests suggest that bad loans of banks receiving government support will rise and their capital levels will deteriorate further. Many expert committees proposed a gradual reduction of the state share and privatization of public sector banks. However, conditional recapitalization may be necessary to support privatization. Recapitalization efforts should focus on improving the bank's ability to attract new private capital, and taxpayer-funded money should only be poured in 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 reconsidered as it may disrupt the viability of the acquirer. Instead, relatively better-performing public sector banks should be recapitalized to make them attractive to private sector entities, thereby easing the burden on taxpayers and addressing the moral hazard problem associated with the continued infusion of capital into distressed public sector banks. India needs to foster a competitive banking system that can address the inefficiencies that arise due to entry barriers. This can be achieved by allowing new banks to enter the market while pushing out inefficient ones. Currently, the Indian banking sector is dominated by the public sector and entry has been limited due to the 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 introduce sound regulatory processes. These processes include publishing draft subordinate legislation with clear objectives and cost-benefit analysis, ensuring that regulations do not take effect until approved by the Board, soliciting public comments on regulations, and considering those comments before the regulations are approved.

CONCLUSION AND DISCUSSION

Despite the implementation of Mudra loans, there has been little improvement in the employment opportunities and living standards of their beneficiaries, especially women who have not gained financial independence through this system. However, the program has proven effective in its early stages and has the potential to contribute to economic growth by supporting small-scale industries. To further increase the impact of the program and help the poor and vulnerable sections of the society, it is recommended that there should be proper coordination between the bank officials, state and central government officials for the successful implementation of the Mudra Yojana. This can bring positive changes and help India on its path to development.

This clearly shows that the size of the bank, asset or market rating has no effect on the efficiency of lending. All PSs are at the top of the market, but their efficiency in managing receivables was also very poor.

After the implementation of Mudra, public sector banks faced financial insolvency due to outstanding loans given to MSMEs for business expansion, new startups and economy.

The government is facing many shortcomings and difficulties such as

• Borrower selection

• Applications

• Preliminary sanction

• Documentation

• Payout

IMPLICATIONS OF THE PROJECT

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

• Loans were mostly provided by banks to meet government targets at the end of the financial year, undermining the objectives of the Mudra loan scheme. Banks should therefore follow proper procedures for granting Mudra loans which are in line with the objectives of the scheme.

• Banks should avoid providing Mudra loans based on factors like personal relationships, political interference or other ulterior motives that may lead to overlooking deserving applicants.

• Banks should provide training for SMEs to create high quality business proposals for Mudra loans.

• Applicants who are often unaware of these details should be given proper advice and an explanation of loan terms such as interest rates and repayment period.

• Bank managers should reach out to beneficiaries to understand their problems and support them during crises, as the rate of return on these loans is often low.

• Banks should create awareness about the Mudra loan scheme through effective marketing and publicity, including prominent display of banners with information about the procedure and eligibility criteria.

• Banks should support borrowers who are struggling to repay their loans due to the COVID-19 pandemic, either by waiving interest rates for a period of time or by extending the loan repayment period.

• SMEs should prepare suitable business proposals before applying for Mudra loans.

• For loans granted to women, the application should be submitted by a female entrepreneur.

• Banks should conduct studies to assess the impact of Mudra loans on businesses.

FUTURE RESEARCH AND LIMITATIONS OF THE PROJECT

Although the research project was carefully developed, it has some limitations that should be noted. The project uses medium and relative importance methods to analyze both quantitative and qualitative data, but other methods are available in the literature. In addition, the project is limited by the availability of secondary data and time constraints. To improve the generalizability of the results, future research could be conducted in different states and regions. Cross-sectional studies over time could also be conducted to better understand the impact of Mudra loans. In the future, data-driven studies could be conducted to increase the validity of the project's findings.

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