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CRITICAL REVIEW ON PRADHAN MANTRI MUDRA YOJANA (PMMY) IN NON BANKING FINANCIAL COMPANIES

KEY WORDS: NBFC, Mudra, Economic slowdown, Economic crises.

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ABSTRACT

This paper highlights the performance of Mudra schemes since 2015 especially lending from NBFCs. Due to slowdown of the economy bad debts of mudra is gradually increased in financial institutions. For capital formation the role of NBFCs are playing major role in Indian economy. Their contributions to Mudra schemes are important to develop the entrepreneurship in our country. Since the day one from the scheme NBFCs are providing thousands of crores to the budding business units in india. This paper discuss the problems in recovery of Mudra loans provided by the NBFCs and defaults in it.

BACKGROUND

Different banks like Commercial Banks, Regional Rural Banks, Small Finance Banks and NBFCs are eligible to avail of refinance support from MUDRA for financing micro enterprise activities. The refinance is available for term loan and working capital loan up to an amount of 10 lakh per unit. The eligible banks/NBFC, who comply to the requirements as notified, can avail of refinance from MUDRA for the loans given by them for eligible MUDRA compliant activities under Shishu, Kishore and Tarun categories. In order to persuade women entrepreneurs, the banks or MFIs may consider extending further facilities, including interest reduction on their loan. At present, MUDRA extends a discount of 25bps in its interest rates to MFIs / NBFCs, who are providing loans to women entrepreneurs.

Performance of Mudra Schemes

PMMY may be a scheme launched in April 2015 for providing loans up to 10 lakh to non-corporate, non-farm small/micro enterprises. These advances are classified as Mudra loans and given by commercial banks, regional rural banks (RRBs), small finance banks, cooperative banks, micro finance institutions (MFIs) and NBFCs.

Non-banking financial companies (NBFCs) still have a long way to go to achieve the scale of commercial banks in Mudra loans, but they're growing promptly in sanctioning these small loans for businesses, official data showed.

According to the 2017-18 annual report of Pradhan Mantri Mudra Yojana (PMMY), though NBFCs sanctioned only over 27,000 crore of Mudra loans in FY18 against 92,492.68 crore by public sector banks, their year on year growth was faster. While NBFC Mudra loan sanctions increased 21,562.63 crore from a year ago, state-run banks could raise their Mudra loans by only 20,539.01 crore within the same period.

Too, NBFCs not only met their Mudra target of 9,050 crore for FY18, but their sanctions for the year were a five times jump from the previous year. The data showed that lenders overall have classified 2.44 trillion loans under PMMY, a growth of 41% year on year. The other category of lenders small finance banks (SFBs) has also seen robust growth at 183% year on year to 19,022.89 crore. AU Small Finance Bank was the highest institution among SFBs with a sanction amount of 4,614.4 crore to 117,000 borrowers. The government, in July 2019, informed Parliament that total NPA in the Mudra scheme of over Rs 3.21 lakh has jumped to 2.68 per cent in FY19 from 2.52 per cent in FY18. Since inception of the scheme, over 19 crore loans are extended under the scheme up to June 2019, the govt had informed. Of the entire, 3.63 crore accounts are in default as of March 2019.

Crises in lending agencies

The entire shadow banking sector has been under severe liquidity stress. Following the IL&FS bankruptcy last September, the entire shadow banking sector has been under severe liquidity stress with many leading players like DHFL reporting defaults.

Though the Reserve Bank has promised them all the help, nothing concrete has come up yet, while the industry has been losing market share on one hand and their stocks plunging on the other.

The liquidity crisis has seen a massive 19 % points drop in disbursement by NBFCs in the fourth quarter of FY19, according to industry data. The sector used to witness a 15 % growth in loan disbursement earlier.

In the fiscal stability report released by the RBI last week, it warned that a large home finance player going down would have the same impact on the systemic stability as a large bank going belly up but assured that as of now there is no risk to financial stability from the NBFC crisis.

All RBI registered NBFCs should be allowed to avail of a refinance under the Mudra scheme. The cap of 6% on the maximum spreads allowed should be done away with, since market forces ensure that the rates are within acceptable limits, the FIDC said in a statement and urged the regulator to make the necessary changes to the scheme to enable them, especially the small players, this facility. Systemically important NBFCs be allowed to act as aggregators by availing refinance from Mudra for lending to small and medium-sized NBFCs. To allay fears about their solvency saying there is no solvency issue with NBFCs but only that their growth has slowed.

Prospect of lending agencies

An Over 68 per cent rise in non-performing assets (NPAs) in MUDRA loans has prompted the Reserve Bank of India to warn bankers about growing stress in such loans. While the govt push for these collateral-free loans led to banks pursuing sharp growth in their exposure to MUDRA loans, the RBI is concerned that systemic risk may arise from unsustainable credit growth.

Finance Industry Development Council, an association of registered NBFCs, non-bank lenders also asked for the setting up of a permanent refinance window at RBI similar to the one that National Housing Bank (NHB) and an alternate investment fund (AIF) as well as a facility for on-tap issuance of non-convertible debentures (NCDs) to retail investors.

The parallel banking sector has also requested the government and the Reserve Bank for not categorizing the current liquidity crisis as a sectoral issue as the only a few players are facing a cash crunch.

It could be noted that the Parliamentary standing committee on finance in its 45th report in June 2003 (relating to the Financial Companies Regulation Bill, 2000) had recommended setting up of a new refinance institution for NBFCs.

A committed liquidity window for NBFCs through the banking channels should be created. Such a refinance window will give comfort to NBFCs that there is some option available to get liquidity and access to refinance under the Micro Units Development and Refinance Agency (Mudra) scheme. It will also give confidence to banks to lend to the sector.

Even some sectors, which we cater to like automobiles, MSMEs, are facing slow down and it is impacting us. There is a need to find an alternative source of funding for us outside the banking channel and a dedicated refinance window can be helpful.

Reserve Bank of India has to reintroduce the earlier provisions, which allowed all bank lending to NBFCs for on-lending to be treated like priority sector. The provision was withdrawn in 2011.

While the step ensured sufficient bank funding to NBFCs at a reasonable cost, it also facilitated banks to meet their PSL targets. However, this was abruptly withdrawn in 2011. The same arrangement may be restored.

The council also demanded that NBFCs have access to NCDs having flexible tenure and rates, both through the private placement and public issue.

NBFCs can be allowed an on-tap facility for issuance of NCDs to the retail market by making the issue through an easy to operate and less costly procedure.

in order to tide over the ongoing liquidity crisis, an industry body has sought a dedicated liquidity window for non-banking finance companies (NBFCs) through the banking channel, classification of bank loans to NBFCs as priority sector lending (PSL) and access to refinance under the Micro Units Development and Refinance Agency (Mudra) scheme.

The association sought to distinguish NBFCs from housing finance companies (HFCs), whose practice of borrowing short-term funds to originate long-term mortgage loans is believed to be one of the reasons behind the drying up of liquidity in the system and increased risk aversion on the part of banks. The immediate trigger behind the crisis was a series of defaults by entities from the Infrastructure Leasing & Financial Services (IL&FS) group in mid-2018.

Systemic risk may occur from indefensible credit growth, increased inter connectedness, pro-cyclical and financial risks manifested by lower profitability. It is interesting to see leading e-commerce companies tying up with banks and NBFCs to offer working capital loans to their suppliers, which are mostly micro and small enterprises, at competitive terms.

Stating that GST has hit the informal economy significantly, as a result of the improved digital footprint, MSMEs have become attractive clients for banks, NBFCs and MFIs, thereby reducing their dependence on informal source of funds. The cost of credit for MSMEs will also come down meaningfully as lending will shift from collateral based lending to cash flow based lending.

Noting that technology has its own share of risks and challenges for the financial sector regulators and supervisors, early recognitions of these risks and initiating action to mitigate the related regulatory and supervisory challenges is key to harnessing the full potential of these developments.

Focus of the MFI sector must be on digital finance, adding data confidentiality and consumer protection is major areas that also need to be addressed by them. Keeping in view the need to increase transparency, address customer centric issues and safeguard the interest of low income customers, micro finance lenders must put the interest of their customers first and employ the code for responsible lending.

MFIs must also broaden their client outreach to scale back the concentration risk in their own interest and to serve a wider clientele base. From a financial inclusion perspective MFIs should critically review their operations so other regions don't remain underserved.

CONCLUSION

Business failures, inefficiencies in lending practices, poor credit appraisal, willful default by borrowers and impaired cash flows are the major reasons in recovery of loans. The move has not only burdened the banks with lakhs of loans to manage and recover but also has did not generate a big number of jobs.

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