



INTERNATIONAL JOURNAL OF ADVANCE RESEARCH, IDEAS AND INNOVATIONS IN TECHNOLOGY

ISSN: 2454-132X

Impact Factor: 6.078

(Volume 7, Issue 4 - V7I4-1843)

Available online at: <https://www.ijariit.com>

A study on micro-units' Development and Refinance Agency Limited in India – (Mudra)

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ABSTRACT

In this paper study the objectives, features, achievements, eligibility etc., of Micro Units Development & Refinance Agency Limited in India. It was registered as a Company in March 2015 under the Companies Act 2013 and as a Non-Banking Finance Institution with the RBI on 07 April 2015. MUDRA was launched by the Hon'ble Prime Minister Shri Narendra Modi on 08 April 2015. Mudra Bank is for 'funding' the 'unfunded'. It is a loan scheme initiated by Government of India to offers loan amount up to Rs. 10 lakh for individuals to start their new business or for existing businesses, without demanding any collateral or security. According to the latest Government data, the Pradhan Mantri Mudra Yojana (PMMY) has disbursed 93 percent of the loan amount sanctioned as of November 13, 2020, for the current financial year 2020-21.

Keywords— Mudra Bank, Collateral Security, Pradhan Mantri Jan Dhan Yojana, Non-Banking Financial Institution, Currency and Non-Corporate Small Business Sectors (NCSBS).

Introduction

After identifying the importance of small businesses and entrepreneurs, government of India launched the Mudra Bank Scheme under Pradhan Mantri Mudra Yojana after the success of Pradhan Mantri Jan Dhan Yojana. MUDRA, which stands for Micro Units Development & Refinance Agency Limited, Union Budget presented by the Hon'ble Finance Minister Shri Arun Jaitley, for Financial Year 2015-16, announced the formation of MUDRA Bank. Accordingly MUDRA was registered as a Company in March 2015 under the Companies Act 2013 and as a Non-Banking Finance Institution with the RBI on 07 April 2015. MUDRA was launched by the Hon'ble Prime Minister Shri Narendra Modi on 08 April 2015 at a function held at Vigyan Bhawan, New Delhi. "MUDRA is a

Mudra Yojna Logo



What is Mudra Bank?

Mudra Bank is for 'funding' the 'unfunded'. It is a loan scheme initiated by Government of India to offers loan amount up to Rs. 10 lakh for individuals to start their new business or for existing businesses, without demanding any collateral or security. MUDRA Bank will also refinance Micro-Finance Institutions through Pradhan Mantri Mudra Yojana. (*Mudra, in Hindi, means currency*)

Review of Literatures

Gupta (2015) studied the concept, role, rational and responsibility of MUDRA Yojana, the study also focused on offerings and functioning of MUDRA Bank. The study concluded that MUDRA will be a catalyst towards mass entrepreneurship development, employment generation and higher GDP growth.

Petare and Mohite (2016), in their studies about the offering and eligibility criteria of Pradhan Mantri Mudra Yojana, the study also covered the benefits of MUDRA Bank. The study concluded that PMMY will help the growth of Indian MSME sectors which will contribute in GDP of the country.

Avani.T (2016) studied that how MUDRA Bank helps SMEs to grow. The study also focused on role, responsibility and performance of MUDRA Bank in the state of Kerala. This study concluded that just as banking the unbanked, MUDRA bank main aim is funding the unfunded.

Shahid and Irshad (2016) studied product offerings and performance of MUDRA Bank in state of Karnataka. This study concluded that PMMY scheme will contribute to the well-beings of the individuals engaged in small scale industries which will positively affect the progress of the economy as a whole.

Kumar (2017), he studied the impact of MUDRA Yojana on financial inclusion. The study also covered the products and objectives of MUDRA Bank. The study concluded that the small businesses are form the foundation of the economic development needs to be strengthened and supported.

Godha and Nama (2017), they studied the impact of PMMY on financial inclusion and its progress and performance in the state of Rajasthan. The study concluded that, due to launch of this scheme financial inclusion has increased towards positive directions.

Alka Chaudhary (2017), he explained his article about the MUDRA- Micro Unit Development and Refinance Agency has been the strongest endeavour of our Hon. Prime Minister to bank the unbanked population. It has been launched on 8th April, 2015, after the success of Pradhan Mantri Jan Dhan Yojana. This scheme started for Non-Corporate Small Business Sectors (NCSBS) to encourage them to expand their capabilities and operations. NCSBS plays a very important role in growth, employment and socio-economic development of the country. The main objective of this scheme is to provide financial assistance to all those small business and entrepreneurs, who are having direct impact on overall growth of the economy. Under Pradhan Mantri Mudra Yojana, our Prime Minister launched Mudra Bank, which will benefits small entrepreneurs and also act as a regulator for 'Micro Finance Institutions'. This research article therefore, is an attempt to analyses the objectives, offerings and impact of MUDRA Yojana on Indian economy.

Statement of the Problem

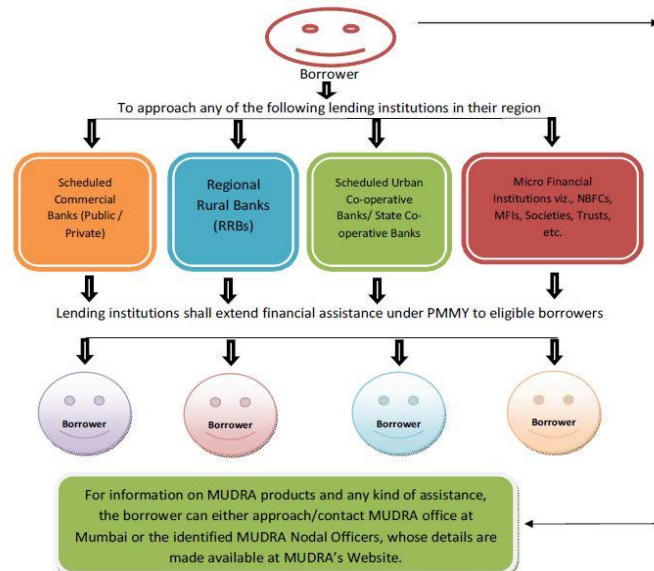
The RBI flagging off the potential risk and nudging banks to streamline the appraisal process is not enough to address the looming issue, particularly in a worsening economic environment where defaults from small businesses could raise rapidly. The regulator will have to dig deeper into bank-wise numbers to assess the system-wide implications. Above all, a re-think on the inherent flaws in the Mudra scheme is critical. It is evident that setting huge targets for PSBs under Mudra has led to bigger set of issues. Shoddy appraisal systems and end-use monitoring practices at PSBs appear to be one of the key reasons for the quick deterioration in the quality of loans. A shift away from such prescriptive and targeted lending is important. Providing the necessary thrust to MFIs and small finance banks that have been able to supply micro credit in a more profitable way will be imperative. RBI Governor Shaktikanta Das also discussed the issue in a meeting with public sector bank (PSB). Bad debts for Mudra loans have spiked for PSBs, and, at the end of 2018-19 (FY19), stand at 9.3 per cent of advances. Loans under the Pradhan Mantri Mudra Yojana (PMMY) were Rs 3.22 trillion in FY19, according to the PMMY website.

Objectives of the Study

This study is undertaken with the following objectives:

1. To study the origin of MUDRA Yojana in India
2. To study the Achievements of Pradhan Mantri Mudra Yojana in India.

Chart of Lending Institutions



Source: www.mudra.org.in

Objectives of Pradhan Mantri Mudra Yojana Scheme:

Mudra Yojana is launched keeping in mind various objectives to be fulfilled throughout the implementation of this scheme. The main objectives of PMMY are as follows:-

- 1) To lay down policy guidelines to finance micro/small enterprises.
 - 2) To get all Micro Finance Institutions and entities registered and regulate the same.
 - 3) To help small businesses grow and develop their enterprise further.
 - 4) To assist lower income groups in setting up and developing their business.
 - 5) To help set up responsible financial practices in order to prevent over borrowing for lower income entrepreneurs.
 - 6) To help create easy access to finance for the unbanked and also help lower the cost of finance.
 - 7) To give SC/ST preference in lending.
 - 8) To regulate all Micro Finance Institutions dealing with manufacturing, service and trading.
- Thus, Mudra will help all small businesses gain easy access to finance and regulate the policy guidelines for the same.

Salient Features of the Mudra Loan:

The following mentioned features of the mudra loan distinguish this scheme over several others offered by the government;

1. The amount availed by this loan can be used to fulfill the working capital requirements of the availing company
2. Mainly, it is aimed at serving industries that are engaged in manufacturing, trading and services
3. Both, existing companies as well as new ones can apply for the pm mudra loan
4. The tenure of the mudra loan ranges from 3 years to 5 years, depending on what is agreed upon at the time of processing
5. The mudra website and mudra app are well equipped enough for anyone to be able to directly apply online
6. Enterprises have complete liberty to utilize the funds obtained via this loan for purchase of equipment, buying machinery, expansion of business, restructuring of business, hiring competent staff, additional working capital and many more
7. No collateral or additional security via a third party is required
8. There are three products under the mudra loan scheme, offering versatility to borrowers

Who are eligible person to avail PMMY Scheme?

Any Indian Citizen who has a business plan for a non-farm sector income generating activity such as manufacturing, processing, trading or service sector and whose credit need is less than Rs 10 lakh can approach either a Bank, MFI, or NBFC for availing of Micro Units Development & Refinance Agency Ltd. (MUDRA) loans under Pradhan Mantri Mudra Yojana (PMMY).

Benefits of Mudra Loan

There are several benefits associated with the Mudra loan scheme, some of which are stated below;

1. No collateral or third party security is needed to avail any of the mudra schemes
2. The Mudra loan interest rate is very affordable and doesn't exceed 1% on a monthly basis
3. Withdrawing the sanctioned amount with the help of a Mudra loan card is very easy without the need of making a physical visit to the bank.

Types of Mudra Loan

The Mudra loan is offered in three different variants, namely, 'Shishu, Kishor and Tarun'. These are categorized based on the level of development and monetary requirements of the micro company. Once the loan is sanctioned, these funds can then be bifurcated towards capital needs, salaries, additional operating costs, etc. These three products are termed as Mudra loans. Let us take a look at these Mudra loan products in detail.

1. Shishu Yojana

In this category, micro or small business owners have the utmost advantage as they can apply for the amount of up to Rs. 50,000. For those companies that require a small capital to be able to commence their business, the shishu yojana works the best. For being able to successfully apply to this category, the business owners will need to give clear details of their business ideas in addition to quoting the type and quantity of machinery needed for purchase. So much so, that even the machinery supplier's details would need to be provided. Short of these details, chances of loan approval will be high. No processing fee will be applicable on this product. Required documents for this product would include;

1. Quotation of all purchases including machinery and equipment
2. Details of all purchases
3. Details of supplier/s that will provide machinery and equipment

2. Kishor Yojana

Kishor under the Mudra scheme is a category which is ideal for business owners who have an established business and are in pursuit of expanding it further. Applicants can seek loan amount that ranges from Rs. 50,000 – Rs. 5 lakhs. To be able to successfully apply for Kishor, applicants must submit a completed application form along with required documents which will establish a clarity and status of their company. The documents that will specifically be required for this product under Pradhan Mantri Mudra loan are;

1. Account statements from an existing banker for the latest six months (if any)
2. Balance sheet dating from the last two years
3. Memorandum of Association (MOA) (if any)
4. Articles of Association (AOA) (if any)

5. An estimated balance sheet for a one year or the entire tenure of the loan
6. Account of successful sales in the current financial year, before the application of loan
7. Income tax/ Sales returns
8. A report that will demonstrate the technical as well as economic sustainability of the business

3. Tarun Yojana

This, just like Kishor is a Mudra loan scheme that offers financial aid in the form of loan to any small business owners that are looking to expand their business. Borrowers can seek an amount up to Rs. 10 lakhs, provided he or she meets the stipulated eligibility criteria. The Mudra loan documents needed to be submitted under this loan include;

1. Balance sheet dating from the last two years
2. A report that will demonstrate the technical as well as economic sustainability of the business
3. Memorandum of Association (MOA) (if any)
4. Articles of Association (AOA) (if any)
5. Account statements from an existing banker for the latest six months (if any)
6. An estimated balance sheet for a one year or the entire tenure of the loan
7. Account of successful sales in the current financial year, before the application of loan
8. Income tax/ Sales returns
9. Proof of identity (PAN card, Aadhar card, driver's license, voter's ID, etc.)
10. Proof of address (Passport, driver's license, Aadhar card, etc.)
11. SC, ST, OBC, etc. certificates (if any)

Eligibility Criteria of Mudra Loan

MSME's in both, rural and urban areas of India can apply for the Mudra loan only if they meet the following mentioned criteria;

Eligibility Status	Criteria
Age Limit	18 years – 65 years
Amount of Loan	Shishu Yojana – Up to Rs. 50,000 Kishor Yojana – Rs. 50,000 – Rs. 1,00,000 Tarun Yojana – Rs. Up to 1 Lakh
Type of Industry	Individual occupied in agriculture, fruit and vegetable vendor, Craftsmen, small scale manufacturer, store owner.
Company Status	Shishu – New company commencement Kishor & Tarun – Expansion of existing company
Tenure of Loan	3 years – 5 years

Source: <https://www.lendingkart.com/mudra-loan/>

Statement of Pradhan Mantri Mudra Yojna(PMMY)

Statement of Pradhan Mantri Mudra Yojna(PMMY) (August 2016 to January 2021)					
Sl. No.	Name of FTR/SHQ	No. of meeting held	No. of participants	No. of women participants	No. of participants received loan
1	FTR Ranikhet	107	2215	499	259
2	FTR Siliguri	204	5120	2332	188
3	FTR Patna	172	7185	2465	141
4	FTR Lucknow	270	12654	5012	78
5	FTR Guwahati	32	4651	1567	362
6	FTR Tezpur	6	66	48	0
7	SHQ(Spl-Ops) Bhilai	2	147	46	0
	Total	792	32038	11969	1028

Source: <https://ssb.nic.in/index1.aspx?lid=4943&lsid=4972&pid=2900&lev=2&langid=1&Cid=0>

Achievements of Pradhan Mantri Mudra Yojana during the year from 2015-16 to 2020-21

Financial Year	No. of PMMY Loans Sanctioned	Amount Sanctioned (Rs in Crore)	Amount Disbursed (Rs in Crore)
2015-2016	3, 48, 80,924	1, 37,449.27	1, 32,954.73
2016-2017	3, 97, 01,047	1, 80,528.54	1, 75,312.13
2017-2018	4, 81, 30,593	2, 53,677.10	2, 46,437.40
2018-2019	5, 98, 70,318	3, 21,722.79	3, 11,811.38
2019-2020	6, 22, 47,606	3, 37,495.53	3, 29,715.03
2020-2021	4, 33, 70,003	2, 79,481.48	2, 64,676.44

Source: <https://www.mudra.org.in/>

Coverage of MUDRA Loan Scheme

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:

- 1) **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-rickshaw, passenger cars, taxis, etc.
- 2) **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.
- 3) **Food Products Sector** - Support would be available for undertaking activities such as papad making, achar making, jam / jelly making, agricultural 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, ice cream making units, biscuit, bread and bun making, etc.
- 4) **Textile Products Sector / Activity** - To provide support for undertaking activities such as handloom, powerloom, 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.

CONCLUSION

As such, the PMMY loan scheme introduced by the government with the aim of 'funding the unfunded', has been a great step towards the economic development of the rural sector, opening better employment opportunities and business expansion. Also, every year an increased budget has been provided by the government under PMMY. According to the latest Government data, the Pradhan Mantri Mudra Yojana (PMMY) has disbursed 93 percent of the loan amount sanctioned as of November 13, 2020, for the current financial year 2020-21. The Mudra scheme portal also mentions that the disbursement rates for the preceding financial years FY20 and FY19 were 97.6 % and 97% respectively.

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