

A STUDY ON THE MUDRA LOAN PROVIDED BY CANARA BANK

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ABSTRACT

Micro Unit Development and Refinance Agency Ltd (MUDRA) Bank is an innovative and effective mechanism launched by the Government for developing new Entrepreneurs and to promote self employment. Growth of new businesses is essential for the development of the economy. MUDRA Scheme encourages entrepreneurs to expand their capabilities without any limitations. This paper analyses the utilization of Mudra Loan provided by the Canara Bank

KEYWORDS: *Mudra Loan, Micro Unit Development, Innovative and Effective Mechanism, MSME.*

Introduction

Banks play a crucial role in the economic development of any country in the world. On a larger scale, national bank offers similar access to credit and financial services to larger businesses, local governments, and in some cases international customers. Most individuals, especially those living in rural and interior parts of India, have been excluded from the benefits of formal banking system. Therefore, they never had access to insurance, credit, loans and other financial instruments to help them establish and grow their micro business. So, most individual depends upon local moneylenders for credit. The loan comes to higher interest and often with unbearable conditions, which make these poor unsuspecting people fall in a debt – trap for generations. When business fail, the borrowers become vulnerable to the lender's strong arm tactics and other forms of humiliation. The role of private sector is crucial in accelerating the pace of economic growth. The banks increase the participation of private sector in economic development by making available loans easily on reasonable rate of interest. The expansion of financial sector encourages entrepreneurs to make investments by promoting entrepreneurship.

Our honorable Prime Minister Narendra Modi has been launched the Micro Units Development and Refinance Agency Ltd (MUDRA) Bank with a corpus of Rs.200,00 crores and a credit guarantee corpus of Rs.3000 crores. Mudra Bank is for "Micro Finance Institutions (MFIs) ". It will also refinance Micro Finance Institutions through Pradhan Mantri Mudra Yojana. The main objectives of Mudra Bank are to encourage entrepreneurs and small business units to expand their capabilities and operations to reduce over indebtedness and to provide formal system of credit (finance). This paper analyses the significance of Mudra Bank in view of Micro as well as Small level entrepreneurs.

Review of Literature

Rajendran (2005) in his article entitled "Global Challenges to Small Scale Industries ", points out adequate credit is still not available to small scale industries . The credit guarantee fund created by SIDBI is not being exploited, as there are still shortcomings in the scheme. The scheme covers only loan higher than Rs.5 lakhs and below Rs.25 lakhs. He also emphasized that the RBI circular to banks on loan up to Rs.5 lakhs, which does not provide for waiver of collateral as a rule will be withdrawn and superseded by Credit Guarantee Fund Scheme benefit.

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Popli and Rao (2009) in their article entitled “Service Quality Provided by PSBs to SME Customers”, points out that the quality of customer service plays an important role, particularly in the context of growing competition and sustained business growth. The study is an attempt to ascertain the service quality provided by Public Sector Banks to Small and Medium Enterprises that plays a key role in India’s economy. The major findings of the study have been the Modernization and Communication affect the services largely and there is a need of training to the staff for improvement of services to the customers.

John Manohar and Ravindra (2011) in their article entitled “Perception and Receptivity of Branding by Banks by Customers of Small Scale Industries in Bangalore”, by taking 96 samples, reveals that how small scale enterprises perceive the value and brand of the bank, which the SSIs are using for the financial services of their business. The most important factors for customer satisfaction are revealed to the awareness, associations, and attitude towards the brand of the bank. According to the findings of this research, a personal relationship with the customers is the most important factor.

Suresh (2012) in his article entitled “Study on Assessing the Performance of Micro, Small and Medium Enterprise of Canara Bank”, suggest that the MSME are facing problems in obtaining finance for marketing, technology research and development, infrastructure etc.. because they cannot afford high investments. To reduce these problems of MSMEs the banks provides various schemes and new products for 35 MSME. The bank provides various facilities for both manufacturing and service sector.

Statement of the Problem

One of the most persistent problems that Indian economy facing is the inequitable distribution of funds. The larger portion of the capital is available to the bigger companies whereas too little of the capital is distributed to micro, small and medium business sector. At present the non-profit Micro Finance Institutes (MFIs) are not able to provide enough support to small business. The commercial banks are also hesitant to provide funds to small and medium entrepreneurs. They avoid exposure to this particular segment because they consider it highly risk in nature with no performance history.

Significance of the Study

Most individuals especially those living in rural and interior parts of India, have been excluded from the benefits of formal banking system. Therefore, they never had access to insurance, credit, loans and other instruments to help them establish and grow their micro business. So, most individuals depend on local money lenders for credit. The loan comes at high interest and often with unbearable conditions, which make these poor unsuspecting people fall in a debt-trap for generations. When businesses fail, the borrowers become vulnerable to the lender’s strong arm tactics and other form of humiliations. So Mudra Loan Scheme is an effective mechanism for developing new entrepreneurs and to promote self employment.

Scope of Study

The study focuses on the effectiveness of Mudra Loan by Canara Bank. The study covers the tools for the effective utilization of funds and the results they achieve. The study takes into account the various measures adopted to fund the unfunded.

Objectives of Study

The study of the mudra loan scheme provided by canara bank is conducted on the basis of the following objectives:

- To analyze the utilization of Mudra Loan.
- To understand the difficulties faced by the customers in availing Mudra Loan.

Methodology

Both primary and secondary data were used for this study. Primary data were collected through structured questionnaire. Secondary data were collected through journals, magazines, and websites and from relevant publications. Mathematical tools like graphs and percentages were also used for the purpose of analyzing the data. For the purpose of collecting the data 50 customers were selected as per convenience sampling method.

Analysis and Interpretation

- **Number of respondents has an account in the Canara bank**

The details of number of respondents has an account in the canara bank is presented in the Table 1.

Table 1: Number of Respondents has an Account in the Canara Bank

Sl. No.	Category	Number of Respondents	Percentage of Respondent
1	Yes	40	80
2	No	10	20
	Total	50	100

Source: Primary data

Table 1 shows that 80 per cent of the respondents (40 respondents) have an account in the canara bank and 20 per cent of the respondents (10 respondents) do not have an account in canara bank.

Fig. 1: Number of respondents has an account in the Canara bank



- Number of Respondents' Self Employed**

The details of number of respondents' self employed is presented in the Table 2.

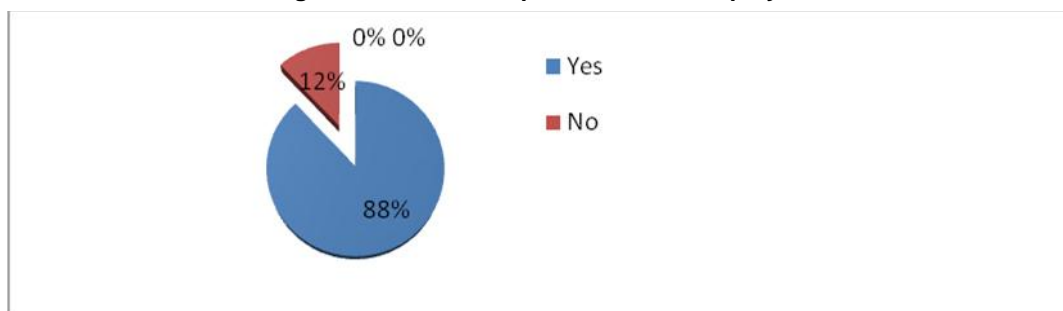
Table 2: Number of Respondents' Self Employed

Sl. No.	Category	Number of respondents	Percentage of respondent
1	Yes	44	88
2	No	6	12
	Total	50	100

Source: Primary data

Table 2 shows that 88 per cent of the respondents (44 respondents) are self employed persons and remaining 12 per cent of the respondents (6 respondents) are working under employers.

Fig. 2: Number of Respondents' Self Employed



- Awareness about Mudra Loan**

The details of number of respondents came to know about the mudra loan is presented in the Table 3.

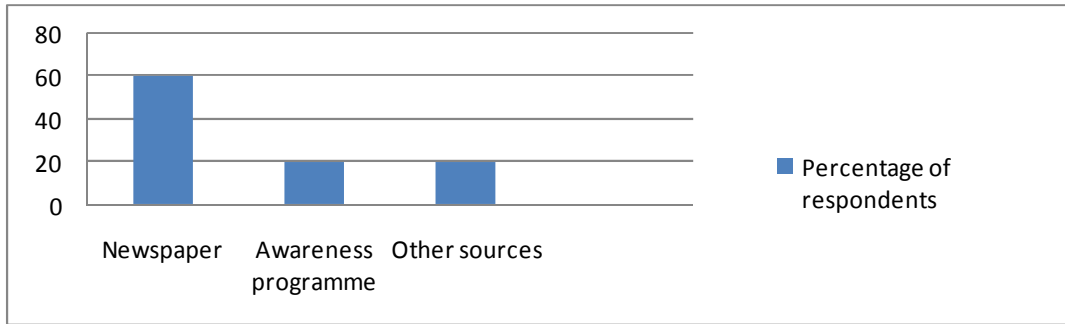
Table 3: Awareness about Mudra Loan

Sl. No.	Category	Number of Respondents	Percentage of Respondent
1	Newspaper	30	60
2	Awareness Programmes	10	20
3	Other sources	10	20
	Total	50	100

Source: Primary data

Table 3 shows that 60 per cent of the respondents (30 respondents) came to know about the mudra loan through newspaper, 20 per cent of the respondents (10 respondents) came to know about the mudra loan through awareness programme, and rest of the 20 per cent of the respondents (10 respondents) came to know about the mudra loan through other sources

Fig.3: Awareness about Mudra Loan



Purpose of Loan

The details of the purpose of loans availed by the number of respondents is presented in the Table 4.

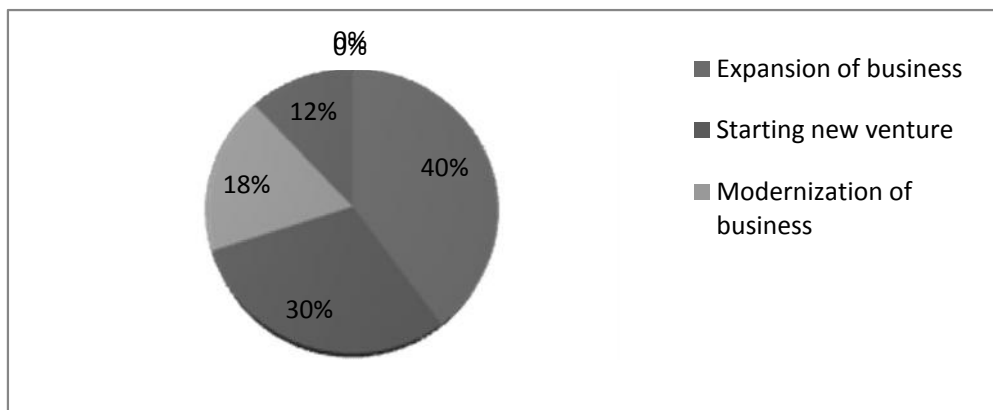
Table 4: Purpose of Loan

Sl. No.	Category	Number of Respondents	Percentage of Respondent
1	Expansion of business	20	40
2	Starting new venture	15	30
3	Modernization of business	9	18
4	Others	6	12
Total		50	100

Source: Primary data

Table 4 shows that, 40 per cent of the respondents (20 respondents) availed the loan for the purpose of expansion of business, 30 per cent of the respondents (15 respondents) availed the loan for starting a new venture, 18 per cent of the respondents (9 respondents) availed the loan for modernization of their business, remaining 12 per cent of the respondents (6 respondents) availed the loan for the other purposes.

Fig.4: Purpose of Loan



Number of Respondents' Availing the Loan

The details of number of respondents' availing the loan is presented in the Table 5.

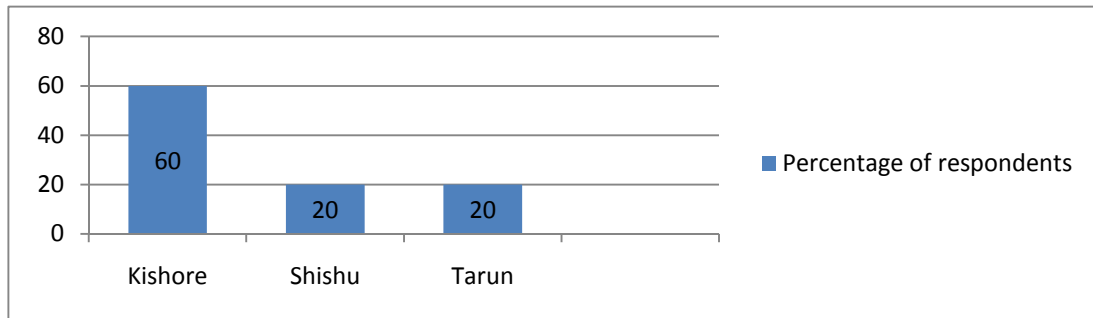
Table 5: Number of Respondents' Availing the Loan

Sl. No.	Category	Number of Respondents	Percentage of Respondent
1	Kishore	30	60
2	Shishu	10	20
3	Tarun	10	20
	Total	50	100

Source: Primary data

Table 5 shows that 60 per cent of the respondents (30 respondents) have availed Kishore loans and the Shishu and Tarun loans were availed by 20 per cent of the respondents each (6 respondents each).

Fig. 5: Number of Respondents' Availing the Loan



• **Procedural Formalities for Availing the Loan**

The details of procedural formalities for availing the loan is presented in the Table 6

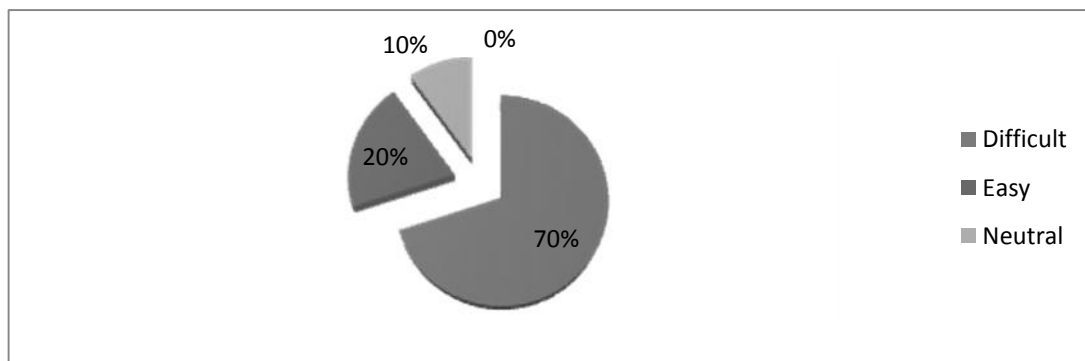
Table 6: Procedural Formalities for Availing the Loan

Sl. No.	Category	Number of Respondents	Percentage of Respondent
1	Difficult	35	70
2	Easy	10	20
3	Neutral	5	10
	Total	50	100

Source: Primary data

By analyzing the above table 6, it is clear that the procedural formality for availing loan is difficult. 70 per cent of the respondents (35 respondents) specify that it is too difficult, 20 per cent of the respondents (10 respondents) specify that it is easy and remaining 10 per cent respondents (5 respondents) have no opinion about it.

Fig. 6: Procedural Formalities for Availing the Loan



• **Time Lag between the Sanctioning and Actual Receipt of Loan**

The details of time lag between the sanctioning and actual receipt of loan is presented in the Table 7.

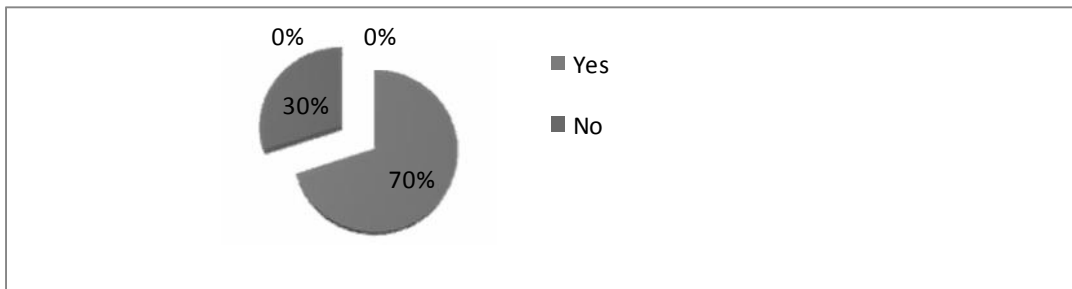
Table 7: Time Lag between the Sanctioning and Actual Receipt of Loan

Sl. No.	Category	Number of respondents	Percentage of respondent
1	Yes	35	70
2	No	15	30
	Total	50	100

Source: Primary data

By analyzing the table 7,70 per cent of the respondents (35 respondents) say that there is time lag between the sanctioning and actual receipt of loan.30 per cent of the respondents (15 respondents) are of the opinion that there is no time lag.

Fig. 7: Time Lag between the Sanctioning and Actual Receipt of Loan



• **Interest Rate of Mudra Loan Compared to other MSME Loans**

The details of Interest rate of mudra loan compared to other MSME loans is presented in the Table 8.

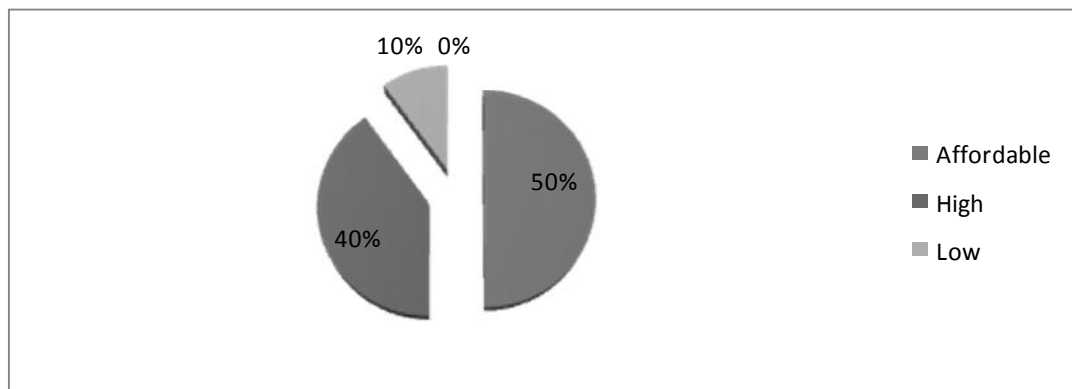
Table 8: Interest Rate of Mudra Loan Compared to other MSME Loans

Sl. No.	Category	Number of Respondents	Percentage of Respondent
1	Affordable	25	50
2	High	20	40
3	Low	5	10
	Total	50	100

Source: Primary data

Table 8 shows that, 50 per cent of the respondents (25 respondents) feel that the interest rate of Mudra loan is affordable when compared to other MSME loans, 40 per cent of the respondents(20 respondents) feel that it is high and remaining 10 per cent respondents(5 respondents) feels that it is low compared to other MSME loans.

Fig. 8: Interest Rate of Mudra Loan Compared to other MSME Loans



• **Details of Processing Fee Under Mudra Loan Scheme**

The details of processing fee under Mudra Loan Scheme is presented in the Table 9.

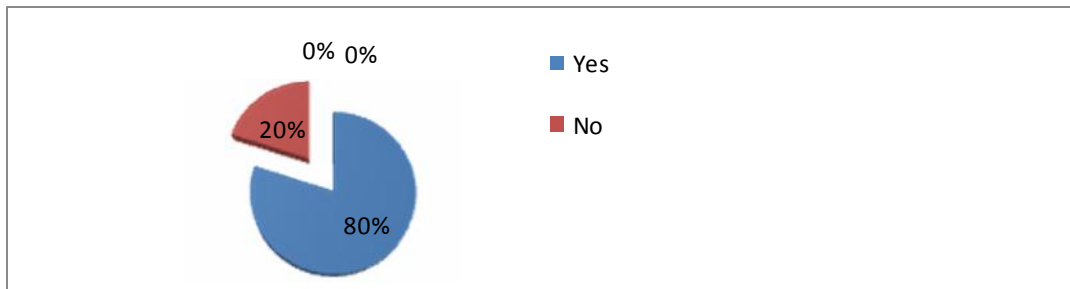
Table 9: Details of Processing Fee Under Mudra Loan Scheme

Sl. No.	Category	Number of respondents	Percentage of respondent
1	Yes	40	80
2	No	10	20
	Total	50	100

Source: Primary data

Table 9 shows that , 80 per cent of the respondents(40 respondents) are in the opinion that there is processing fees under Mudra loan scheme and remaining 20 per cent respondents(10 respondents)are in the opinion that there is no processing fees for Mudra loan under shishu category.

Fig. 9: Details of Processing Fee Under Mudra Loan Scheme



- Need for Collateral Security**

The details of need for collateral security under mudra loan scheme is presented in the Table 10.

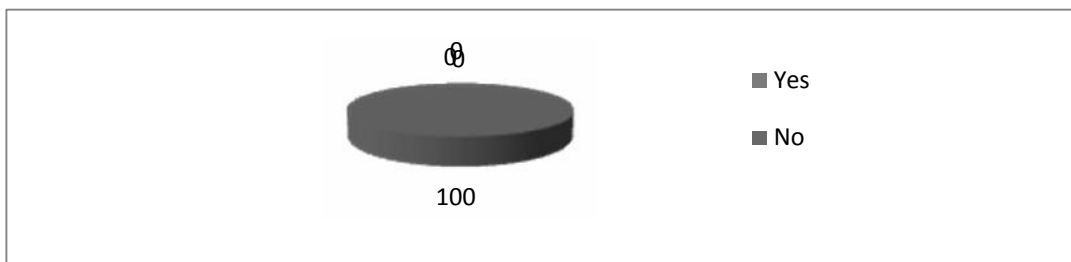
Table 10: Need for Collateral Security

Sl. No.	Category	Number of respondents	Percentage of respondent
1	Yes	-	-
2	No	50	100
	Total	50	100

Source: Primary data

Table 10 shows that, there is no need for any collateral security under mudra loan scheme.

Fig. 10: Need for Collateral Security



- Service Quality of Canara Bank**

The details of the service quality of canara bank is presented in the Table 14

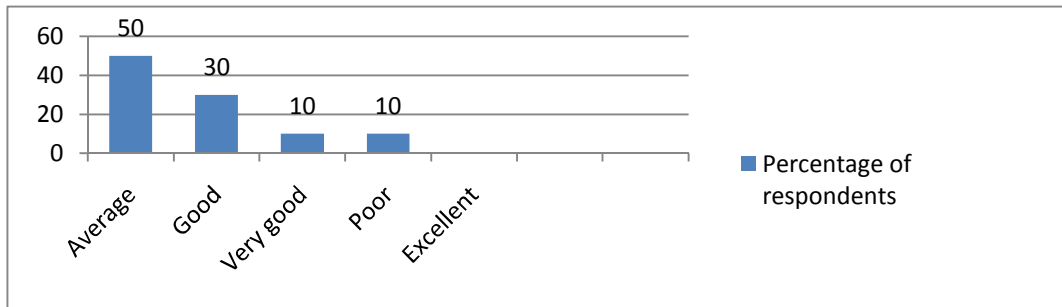
Table 11: Service Quality of Canara Bank

Sl. No.	Category	Number of respondents	Percentage of Respondent
1	Average	25	50
2	Good	15	30
3	Very good	5	10
4	Poor	5	10
5	Excellent	-	-
	Total	50	100

Source: Primary data

Table 11 shows that, 50 per cent of the respondents (25 respondents) are of the opinion that service quality of canara bank is average, 30 per cent of the respondents (15 respondents) are in the opinion that service quality is good, 10 per cent of the respondents (5 respondents) are in the opinion that service quality is very good and same proportion of respondents (5 respondents) are in the opinion that service quality of canara bank is poor

Fig.11: Service Quality of Canara Bank



Efficiency of Mudra Loan

The details of the efficiency of mudra loan as per the respondents is presented in the Table 13.

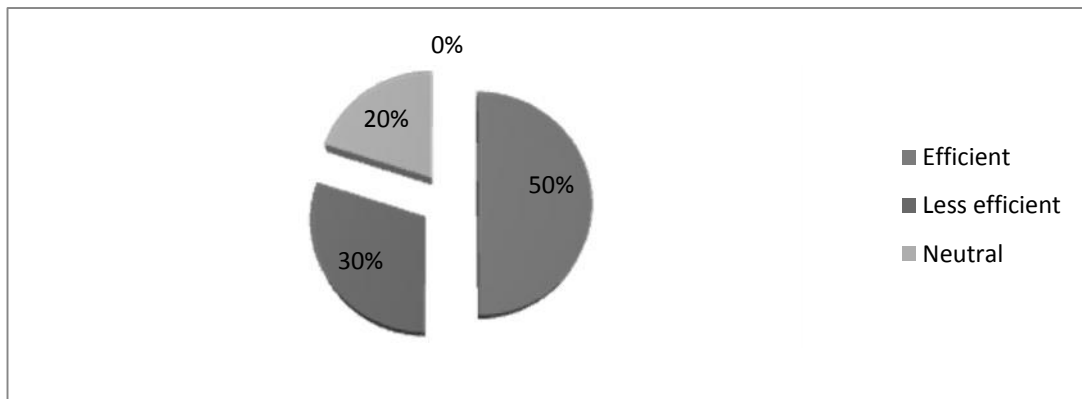
Table 12: Efficiency of Mudra Loan

Sl. No.	Category	Number of respondents	Percentage of respondent
1	Efficient	25	50
2	Less efficient	15	30
3	Neutral	10	20
	Total	50	100

Source: Primary data

Table 12 shows that, 50per cent of the respondents (25 respondents) feel that the efficiency of mudra loan is high, 30per cent of the respondents (15 respondents) feel that the mudra loan is less efficient.20 per cent respondents (10 respondents) have no opinion about the scheme.

Fig. 12: Efficiency of Mudra Loan



Suggestions

- Most of the customers came to know about the Mudra loan through newspaper. The bank should conduct more awareness programmes about the Mudra loan.
- The procedural formality for availing Mudra loan is too difficult. The bank should make it much more liberal.
- There is time lag between the sanctioning and actual receipt of the loan. So it should be reduced.

- The interest rate of Mudra loan is affordable when compared to other loans under MSMEs. But some people feel that it is high for them. So the bank should fix an interest rate which is affordable for all income group customers.
- There is processing fee for Mudra loan except Shishu. It should be minimized.
- Most of the customers say that the service quality of Canara bank is average. The bank should try to improve their service quality.

Conclusion

Growth of MSME will contribute to the development of 'Make in India' initiative. Launching the scheme like MUDRA will hugely benefit to small manufacturing units and self employed individuals in rural and urban areas. PMMY scheme will contribute to the well-being of the individuals engaged in small scale industries which will positively affect the progress of the economy. As a whole, MUDRA creates a vision of formalizing the informal and thereby funding the unfunded. These measures will greatly increase the confidence of our young educated and skilled workers who are able to become the first generation enterprises and existing small business will be able to expand their activities. Just as banking the unbanked, MUDRA aims in funding the unfunded. Canara Bank is successful in giving the MUDRA loan to the customers at comparatively low interest rates.

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