

Demonetization “boon or a bane for unorganised credit lenders and unorganised Credit users

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Abstract

The impact of demonetization on lenders like NBFCs, Small and medium enterprises, impact on street vendors and local small markets and we need to understand and have proper introduction on small credit lenders in the market. Though it will take 5 to 6 years to know the actual impact of demonetisation on Indian economy but yes small business-like unorganised segment is clear evident of job cuts, losses in their business, lot of business vanished/disappears from the market. The move made life bit complicated for Unorganised credit lenders, unorganised business segment and other associated parties to it. This study adopts both primary and secondary data to know what demonetisation did to unorganised credit lenders and its users in whole.

Further there has been job cuts, poor credit lending growth, rise in NPAs, balance sheet of banks and NBFCs became thinner than as expected.

Key word: Demonetization, unorganised credit lenders, organised credit lenders, unorganised credit users in their business prospective, NPA (non performing accounts).

Introduction

Demonetization On 8th of November 2016 a day with daily retune made some historical move with the announcement by our prime minister Mr Narinder Modi to cancel Rs 500 and Rs 1000 Rupees notes from the circulation. A one substitution “Demonetization” to cancel a legal tender, which promises to pay the bearer the sum equal to its face value. In other words, money in circulation as a medium of exchange for goods and services to remain illegal or having no value to buy goods and services is called demonetization. The value of demonetization currency constitutes of about 15.4 trillion or about 86.9% of total value of notes in circulation

Objectives of Demonetization

- 1) Decrease in corruption
- 2) Curbing black money
- 3) Reduction in terrorism
- 4) Reduction in Nexalites Problem.
- 5) Correction in real estate market
- 6) Fake note to be completely removed out of circulation

In this writeup I would be discussing many aspects of demonetization and its impact on lenders like NBFCs catering to micro and small businesses and also the impact on micro and small businesses catering to consumers directly or small Business to Business Dealings.

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1. *The Author has an extensive discussion with unorganised sector within 6 months of demonization or to be precise till 31st march 2017. Also worked closely with few of collection managers of an NBFC and got an opportunity to listen unorganised segment of Delhi and NCR. Also have done survey of unorganised credit users and the impact of demonetization on their socioeconomic. Few discussions with Professional like chartered accounts namely Shabir Ahmad Mir (CA) and Mushtaq Ahmad Mir (CMA) and Dr Showket Ahmad (Asst. Prof. BGSBU)*

Literature review:

Charan Singh IIM Bangalore “India Since Demonetization” Working paper No. 567 Demonetization helped in honest tax regime, step towards eradication of corruption, also he has put an emphasis on increasing value of Rs 1000 and Rs 500 notes in to the economy was around which almost 11.5% of GDP. Further to remove fake currency out of the circulation and also curb terrorism and control over Nexalits.

Surajit Malakar and Dr Ravi Chatterjee: Demonetization in Emerging Markets; Kindler Vol. XVI z No. 1&2 z Jan-Jun 2016, Jul-Dec 2016: They had put emphases on advantages and disadvantage of demonetization as whole but they are not specific to a particular filed. In this study they came across on various issues like short term and long-term impact of demonetization and in few of the responses have found it as response, it is short term paid but long-term gain and people were ready for it.

Dr. Dimpal Vij: Demonetization: Effects on Indian Economy; IRJMB: ISSN 2322-083X: She had worked on objectives of demonetization as eradication of black money from the market, terrorism eradication, GDP growth after demonetization, change in the habits of savings. Also, she put emphases on growth pattern on various sectors like service segment, real estate, manufacturing and other areas but study is saying limited about unorganised sector.

Vij and Arora (Vij, 2017) found that demonetization impacted retail sector very badly especially the small vendors depended on cash

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Since I have been attached to this segment and I had an opportunity to be in close touch with these enterprises and lenders (NBFCs) to understand its (Demonetisation) impact on both the sides. Was enough fortunate to monitor on real time bases and measure day to day movement of the market from both lenders and users prospective in unorganised sector.

1) NBFC (Non-banking financial company)

NBFC is Nonbanking financial company incorporated under corporate law under with rules and regulation by RBI and SEBI. Unlike banks the NBFCs are lending money to market but not accepting deposits like banks and also can not issue cheques of its own clearance.

2) SME (Small and Medium enterprises) Unorganised sector

SME means small and median enterprises and are defined based on capital or investment in fixed assets. SME can be any company incorporated to trade and earn profits.

3) MSME (Micro, small and Medium enterprises) Unorganised sector

MSME again those companies which are defined based on their capital or investment in Fixed assets. The only difference between SME and MSME is their quantum of capital involved to carry the business

The impact of demonetization on NBFCs, SME and MSME (unorganised sector)

1) NBFC (Non-banking financial company)

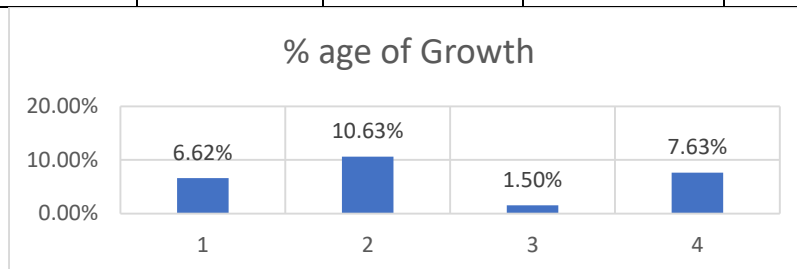
a) Unorganised trading of real-estate: We have seen the real estate market growing many folds in recent times due to involvement of black money into it and it was not getting corrected at any level at consumer’s level or at admirative level. The NBFC as their core business is lending to business against property being offered as a collateral and yes sound cash flow.

We have already seen property boom in recent times and lenders always see the opportunity to restrict quantum of loan against given collateral lesser than its market value, which we called LTV (Loan to value of

the property) Since properties were already touching the sky and the exposure taken by banks and NBFC was restricted at say 75% of market value that means Rs 75 against Rs 100 of property been offered as collateral but due to demonetization, which restricted black money to get infused into the real estate, with the result sharp dip in property prices in almost every corner of the country. At present properties are being sold in the market at 40% lesser than what it was sold in the year 2016 and accordingly reduces mortgage book value with the NBFCs for which they have already taken exposure at 75%.

Due to this reason the existing borrowers started making default in their monthly repayment obligation towards NBFCs with a view that their property mortgaged with these financial institutions is valued lesser as compared to loan they had taken against it., hence putting books value of banks and NBFCs at huge risk.

Year	2015	2016	2017	2018
%age of Growth	6.62%	10.63%	1.5%	7.63%



Source: CEIC Data

- b) The collection cycle of NBFCs:** Since these companies/ financial institutions are mostly lending to unorganised sector which banks don't and their repayment cycle is mostly through cash. Due to demonetization the organized sector was not able to meet their monthly obligation towards NBFCs, hence good percentage of a/c showed NPA tendency and PAR (Portfolio at risk) went up by many fold for said companies and many a/cs crossed 90 Plus bucket hence were declared as NPA, with the result the credit worthiness of borrows went down due to non-repayment of EMI's with the result they were forced to shut their shops and look for other alternative for their survival. The collection efficiency of NBFCs used to be 99% plus prior to demonetization and thereafter the same went down many considerable and ranging from 65% to 90% in various segments as per product they sell. The main reason for them is they or their customers don't have access to bank accounts and most of the payment were collected in the form of cash. Now this can give us an insight what could have happened to informal economy.
- c) Debt clearance and bad debt recovery:** This was one of the good things which happened to the lenders segment, Banks, NBFCs, Unorganised sector lenders, clearance of due amount to them from longer time. Lot many NPA accounts became regularised as wilful defaulters made the payments to banks for overdue a/c pending since long. Even have seen few NBFCs were happy on it as they recovered lot many NPA accounts.
- d) Unemployment/Job cuts in both NBFCs and Unorganised sector:** The Demonetization proved a nightmare for both the sectors in terms of employment generation, since they both got severely affected due to demonetization and leads to unemployment in both the sectors. The book size of all the NFCs went considerably down as there was road map for said change in the economy and every lender was not sure where the nightmare comes to an end so the lenders opted an option not to do the business till Govt the air gets clear which lasted for apx. 6 to 9 months with lots of changes in their internal policy of lending and resulted very thin loan book and accordingly bottom line showed very steep dip, which resulted staff cut or layoff from jobs.

Since unorganised sector is not formally measured actual figures are not possible but yes unorganised sector contributes more than 90% towards employment generation in Indian economy. The recent research of education wing of Wipro technologies has come out with a shocking figure of 50 lacs both male and female lost their jobs from 2016-2018.

e) SME (Small and Medium enterprises)

a. Sellers dealing in cash.

As I already said more than 90% of Indian work force is in unorganised sector, which means less than 10% of labour force are being monitored at administrative level, which means more than 90% of work force in Indian economy are taking their remuneration in cash due to employers reluctance on salary transfer to their bank or due lack of bank a.c or due non awareness of banking system or easy access to cash availability, whatever the case may but the bitter fact is the movement in this segment comprises of more than 90% and we have to accept the fact.

Now due to demonetization there was hue and cry in the market and after ever second or so a new message used to come just make more panic. Everyone whether a small business men, a consumer or any other had nothing to discuss other than “note Bandi” During this period I met few manufactures and had their insight and discussed accordingly. They were trying to find ways and means for their business survival and even I have seen a reputed business man discussing with his gatekeeper what to do, when he never even used to say him “hi, hello” before demonetization. There was panic everywhere and people stopped manufacturing, layoff got started, salary were not being paid, people were holding their saving whatever they had with a perception tomorrow cant be there, hence they have to live on their savings, with the result demand for almost every product or services went down considerably with the result companies in both the segments organised or unorganised started suffering losses with both top-line and bottom line went do than expected.

- b. Sellers not having bank a/c:** A sudden decision on demonetisation did make a lot of impact on people having no bank accounts and were forced to open one and deal with it. It took them lot of time to understand the banking operation and the way it is working.
- c. Fixed Obligation towards lenders and impact there on:** The cash economy got a big hit as compared to other segment and lead to nonrepayment of obligation towards banks, NBFCs, Unorganised lenders, like committee funding, Sahukar funding and other Pvt. lenders in the market.
- d. Movement of Raw material and adjustment with material to accommodate cash:** All small manufacturing industrial area in Delhi and NCR were just thing whether to hold the stocks or sell it off. There were so many questions in their mind as can we Purchase stocks at higher rate just to defuse the old currency already with them as black money but were asking so many questions to themselves and who so ever comes in their way. There were lot of adjustments being done in stocks dumping to meet the demand in future.

f) MSME (Micro, small and Medium enterprises) Unorganised sector

- a) Impact on credit history:** Since the Indian banking system is now organised so do its NBFCs. Both the lenders submit their repayment of loans of every individual and corporate to CIBIL, (Credit Information Beuru India Limited) so that other lenders will know intension/repayment history/ability to repay or leverage in capital structure and accordingly will ascertain repayment behaviour of said borrowers. But due to demonetization the repayment capacity got severely affected and accordingly the repayment of existing loans got disturbed with the result credit history started showing poor CIBIL string, which made it tough for said segment to avail new loans. Hence lots of new business opportunity were lost by this segment due to bad credit history.
- b) Lost their credibility to lenders:** Since the credit history went bad due to demonetization and now lenders are reluctant in taking fresh exposure on said segment, which resulted thin top-line and bottom line, with the result theses business had to take a decision on cost cutting by way of laying off their employees.
- c) Job cuts and idle time of plant and machinery:** This particular segment was not exposed to flow of information at the time of demonetisation and they were bound to believe in every information or

rumour what so ever with the result they were not sure of whether their business will survive or not. They lost every interest in their respective business and no option other than wait and watch for at least 6 to 9 months and in this period entire plant and machinery stayed idle and finally had to take a decision to ask workforce to leave their jobs.

As per report prepared by Azim Premji university nearly 50 lakhs jobs were lost between 2016 to 2018 after the demonetization was announced till 2018. This is clear indication that most of the jobs lost we in unorganised segment of Indian economy.

- d) **Losses due to delay in production line and selling:** Since the production line was idle and manufacturing was not happening and, in this period, almost every MSME suffered huge losses, which still is a challenge for them to come out.

Conclusion

India is a fast-growing economy, and is highly dependent on cash economy or unorganised sector, as we know we have more than 90% of work forces working in this segment. The step taken by our Prime minister on 8th of November 2016 has made our economy more sensitive to risk associated with recession at macro level. From 2008 to 2010, we call It a grand recession, and Indian economy got lesser shocks than other economies and entire credit was given to cash economy. The economy like ours needs lot of preparation prior such step like demonetization and implementation of GST. More than 90% of our employment is getting generated from unorganised sector and is associated with lenders like NBFCs and other unorganised credit lenders, so we need to have proper planning based on intensive filed research or market survey for such steps.

Worthy to say that we lost more than 70 people in ques to withdraw money from ATMs within 45 days of demonetization. A single life is important and we can't afford to take a step where even a single individual loses his/her life. There have many markets got vanished or disappeared from system and when asked where they went and answer used to be their home as there is no work left for them.

Now last but not the least, from 2016-18 we lost 50 Lakh due to demonetization and more than 90% jobs we lost in unorganised sector.

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