Analysis of Business Finance Scenario of Banking in recent years for SME

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Abstract: In the recent past two factors influenced the business financial positions of Banks in India, especially for SME. One being demonetization and the second being bank scams. In the first case Government of India took a historic decision on Nov.16-2016 wherein currency notes of rupees thousand and five hundred SBN notes by the Reserve Bank of India which were estimated at rupees 15.4 trillion which represented 86.9% of total note values which were currently being circulated were discontinued and had no value to them. Many changes were observed in the country's financial and economic sector due to this, affecting financial operations of business immediately and the second factor involving lakhs of crores of banks money became intentional scams and the borrowers fled away and left the country. which this paper aims to analyze. Business organizations faced a cash crunch and lending finance squeeze. If Banks could have made the policy change and alternative arrangements the situation could have been averted.

***Index Terms* - Demonetization, financial operation, lending finance, cash crunch.**

I. INTRODUCTION

Demonetization have not been a popular global phenomenon but it has been seen in advance countries too. Its aim scope and effects vary where ever it has taken place. We can see demonetization has witnessed some success, few failures, and some partial success. In case of India, it was observed that the bank credit growth decreased 5.1% (a multi decade low) as calculated till 23rd December of that year, with also a very low demand in November and December resulting in cutting down of businesses and many unofficial loans. This was due to a clear-cut policy and administrative steps shortcomings. When we see the statistics declared by Reserve Bank of India as of 23rd December, the banks' lending money to agricultural sector, individuals, or to businesses estimated a total of Rs 73.48 lakh crore, leading to a 5.1% rise as compared to that of the preceding year.

On 5.1% growth of credit score reached a point with no returns, **"**A slowdown to 5.1% in December seems to indicate that credit growth is reaching a point of no return in this financial year. While there is marginal growth year-on-year, on a year-to-date basis (from April 2016) credit has declined in many sectors," as stated by Soumya Kanti Ghosh, Chief Economist, SBI. The credit value growth in terms of year-on-year in previous years ending fortnight on 9th December also came out below: 5.76%. A Chief Economist DK Joshi of Crisil which is India's one of the top agencies for rating credit score recognized a decreasing credit growth as a reason of demonetization and categorically announced "Otherwise there was no reason for credit growth to fall. The economy was looking up, there was the pay commission hike, there were good rains, and some interest rate cuts were being passed on to borrowers, which would have created more demand for credit". He also added a fact the Banks usually increase their growth rate, by a slowdown in the second half of the year and by working on advancing the bulk of their surpassed loans, which will also be affected.

The passing of demonetization affected every corner of the economic state of the country. Data from PMI known as the Purchasing Managers Index depicted that there was a contraction in every sector of service and manufacturing. Resulting in a complete contraction in the whole economic growth rate. As per Jefferies, India a famous bank known for investments, they predicted that the total credit growth can decrease to 6% in FY 17. "Deleveraging of corporate balance sheets, halt in fresh capex, and increased access to corporate bond market have led to negative growth in banks' credit to corporate". It is evident from the numbers presented by RBI that there is a noticeable decrease in corporate loans. By the end of September, there is a shrinking of Rs 1.72 Lakh crore worth of bank loans which is 2.3% of the total. The main sectors who experienced the most significant drop in market and credit growth are metal industry and metal products, all fields of engineering, chemicals, and chemical products, food processing, and infrastructure.

On the other hand, Demonetization has its supporters. There is a big chunk of people and organization who saw a positive aspect of the demonetization steps. Whereas big corporate chiefs and famous Industrialists to mention a few as Mukesh Ambani, Ratan Tata, Deepak Parekh, and K.V. Kamath were all in favor of the step and a few economists such as Nobel laureates, Paul Krugman, and Amartya Sen and others disapproved. "The clan of economists has spoiled the party (with) their estimates of how the output will be affected as spending has stopped, manufacturing hit and several workers laid off. The net result can be a fall of between 0.5% and 2% in GDP," says a news channel First post.

As surprising as it seems the banking sector found the step of demonetization to be one of the greatest steps adopted by the government. In the path of India to become a cashless country, this will help in boosting the saving of financial assets legally. With this, an introduction of limits or margins were used because of the high deposits rates in the past and only limited capital to be provided as loans. The ratio of credit-deposit was in a very unfavorable state. With spiking up the capital adequacy, the banks expected some positive margins. An available and best source to organize the heavy deposit flow is through "G-secs". Though, it will also form a temporary dip in the value of bonds.

Based on the above opinions it was pertinent if before Demonetization or as soon as thereof, for attracting the customers for the purposes of credit the banks have to compromise in terms of lending rates, because of which a few banks such as PNB and SBI, has now decreased the lending rates for house loans. Hence, it can be said that a further decrease in lending rate can also be expected in the near future for every loan type. Through the effects of Demonetization, banks are noticed to be making high profits. When we analyze on-line transactions, we find that despite the availability of various sources available for banking such as e-wallets, the banks are still involved in the field of online transaction methods. As an outcome of this, the control on financial transactions can be made and a system of retail payment can be termed as another efficient way of source for the banks.

Never the less adverse impact too was noticed following demonetization as the effect of Demonetization on the Financial Sector (Article 8- RBI Bulletin November (2017)" Impact of Demonetization on the Financial Sector weeks immediately prior to and the lowest level of CIC witnessed after demonetization), total CIC declined by about 9 trillion." There are mixed effects of demonetization affecting different sectors of our economy. Banks themselves may not feel the pinch but what about its customers and businesses who are attached to it? It is here that this paper tried to analyze.

Bank Scams and borrowing

A survey paper presented by Indian Institute of Management, Bangalore, Karnataka, in the year 2016 depicted that since last three years the Indian Banking industry has faced frauds of up to INR22,700 crores whereas a total cost lost due to frauds since last five year is added up to INR61,200 crores. However, if one closely looks at the overall credit in the banking system which was INR 83 lakh crore last year, these frauds will appear as a very small proportion of it.

Bank failures have large social consequences in any economy of a country due to its financial linkages with other parts commonly termed as "network externalities". One of a recent report suggested the delay of 359 infrastructure projects that resulted in a cost overrun of INR 200,000 crore. The additional scrutiny in bank credit disbursement will add up to additional delays that may ultimately stall many more projects.

With large social consequences of failures as a result of banking scams, an unofficial freeze on lending by petrified bankers may be counter-productive for many businesses. The rising perception of Public Sector banks (PSBs) as a nexus of corruption is becoming more like social obligations to be underwritten by taxpayers. It is time for the government to create effective measures in view of the economic prudence of the country rather than working reactively. It is not possible for all PSU sector banks who are drowning in flawed loans to withstand the loss and crisis of demonetization. Near about twenty-one lenders were reported to be struggling for money way before any of the fraud was discovered. Which resulted in more money by the taxpayers to be involved before the complete corruption is removed. "The $32 billion recapitalizations of PSU banks, planned before the frauds came out, maybe inadequate to kickstart lending and the growth cycle. So, despite more government investment, these banks may be happy to just stay afloat. The amount of fresh capital they could use to lend to good businesses may be far less." (Goldman Sachs)

II. LITERATURE REVIEW

According to Fatima Asra (2017), demonetization had an adverse effect on inflation. The spending activity by the consumers almost stopped. "Consumers are refraining from making any purchases except essential items from the consumer staples, healthcare, and energy segments. Activity in the real estate sector, which includes a lot of cash and undocumented transactions, slowed down significantly, Metropolitan and Tier 1 cities reported up to a 30% fall in house prices".

Raj Som (2018) argues in favor of demonetization. According to him "It is imperative to evaluate the short run and medium-term impacts that such a shock is expected to have on the economy". Their study revealed the effects of this kind of impact on credit availability, Government finances, and spending and activity level. There is no detail and exclusive on customers woo except the impact on the general economy after demonetization.

Mukherjee. (2016) [8] focused on the impact of the act of demonetization on government finance, credit availability, and level of spending by the consumers. He also revealed that in a short time period, a more serious impact will be these especially on a common man's earnings in cash and also spending through cash. They say "Unorganized sectors will much adversely be effected in very short run time. In case of short-term effect having a complete replacement, an immense strengthening of informal sector credit market would be seen in the rural market and there would be an adverse effect on construction sector" but an effect of medium-term will give rise to an increase in deposits by the customers to rise the economy. Whereas Mohd. (2016) surveyed regarding the challenge and significance of replacement of high currency bills.

According to researcher Sunita (2014) on earlier demonetization finds its reasons as insufficiency of trade enhancement during the Gulf was or 1965 between India-Pakistan, decreasing the country's economic state, diminishing reserves of foreign exchange, withdrawal of Foreign Institutional Investors, and rise of Dollar value. The author in their paper also concentrated on the concept of demonetization and black money together with its various types and effects where the functioning of demonetization was referred to as used to tackle corruption and hence surrender of Black Money. Deodhar also stated a few theories for tackling the black money. Further to it Nandakuma C. Jr, president of Bank Employees Federation of India said "After the withdrawal of old high denomination notes, there has been an increase in deposits by 15% from the last financial year when it was in single digits but advances have fallen to 5.67% this quarter where it was growing at a rate of 14% earlier. There is no scope of advances now. It might lead to a severe economic crunch which could make the scenario catastrophic,"

There are no clear-cut facts available in the literature review regarding cash crunch and business finance. This gap is the main area where this paper tried to analyze

III. RESEARCH METHODOLOGY

Problem statement: How bank can meet the customers' needs of cash and business finance following Demonetization or it could have been minimized with policy and administrative restructuring.

The empirical approach to analyze the problem was considered to be the most appropriate methodology in this paper. The research depends on the primary data source, therefore views of customers of Banks after proper selection (both retail and business) were taken into consideration. It helped to analyze the problems with whom it mattered (customers) rather than who caused (Banks). Business identified as having need of finance were selected as potential customers for this study 200 companies we contacted, out of which only 49 companies completed the survey. A few of the companies refused to provide any type of data neither for unsuccessful nor for any successful event. The adopted sample had 38 failures and about 48 successful cases, for a total of 86 events. These 49 number of responses were also adopted as initial values for this survey. Further, 53 of the other companies failed to answer the questionnaire were also combined with the list-making a total of 102 companies. Out of the 102 companies participating in the survey, 44 companies completely agree with a response rate of 43.33%. The featuring events were differentiated as failures or success depending on the response of the participants. For the statistical purpose, a total of 75 events were enough, however, results using a large number of samples would have been better.

IV. DATA ANALYSIS

The hypothesis of the study

(a) Lending Reduction (1st Hypothesis): The first hypothesis of this study is “Reductions in the lending”. Soon after the events of demonetization, which resulted in a very large issue was directly and indirectly related to a series of unsuccessful events. The survey studied a sample where reduction lending took in 35 of the applicable events making a total of 46.67% of the 35 events, 28 events were a failure and 16 were a success.

Table 4.1: Timings of the Reduction in the lending scenario

Timings of Reduction	N	Success	Failure
0-6 month	21	4	17
>6 months	23	12	11
Total	44	16	28

Note- The total in the ‘N’ column incorporates some events that used more than one step for the reduction.

Table 4.2: Timings of the Reduction in cash availability

Timings of Reduction	N	Success	Failure
0-6 months	11	0	11
>6 months	27	12	15
Total	37	12	26

Note- The total in the ‘N’ column incorporates some events that used more than one step for the reduction

Companies who were in need of lending in only 6-Months of Demonetization were more prone to failures as compared to the companies which needed the finance after 6months or more of the Demonetization event. As per the facts, 81% of the events turned out to be a failure forming 17 events out of 21. The difference turned out to be significant at the 0.01 level. Chi-square value was 5.206 for hourly employees and about 7.145 for exempt employees. Keeping in mind such reduction extent given in table 3 and table 4, where more than 10% drop in the target, 84% of the events came under the mark of failure calculating to be 11 out of 13. On the other hand, a similar observation was made for an event to be twice a success when 10% or less of the requirements were reduced. (Counting to be 8 out of 22 is a total of 36% were failed events). Such difference in failures was significantly at 0.01 level having a 7.66 value of chi-square value.

Table 4.3: Percentage Reduction in financial needs

Reduction in Workforce	N	Success	Failure
0-10	22	14	08
11-50	13	02	11
Total	35	16	19

Table 4.4: Percentage Reduction in lending

Reduction in Workforce	N	Success	Failure
0-10	27	15	12
11-50	08	01	07
Total	35	16	19

Reduction in the lending which is affected in one or more steps is most probably liked to failure chances than those making only a single cut. And as a point of fact, there is only 11% success cases got various reductions, while 48.57% of the failures followed approach. This finding supports the 1st hypothesis adopted for the survey, where unilateral lending and relatively large reductions occurred very soon after the event of demonetization which was directly linked to the unsuccessful events.

(b) Unplanned situation (2nd Hypothesis): The second hypothesis stated as “Higher levels of unplanned situation would be positively correlated with unsuccessful events”.

42 cases (56 percent) were found out to be experienced unplanned situations out of the 75 lending events in the sample (Table 5). The difference in the incidence of the unplanned situation in successes and failures was statistically significant at the 0.01 level (a chi-square of 6.692). That is unplanned situation was associated with lending failure. Furthermore, in the failures, a higher proportion of lending application lost, with an average of 49.42% versus an average of 11.94% in the successful group. Nearly 79% of all events in the sample experienced unplanned situation among business in the target organizations. While this pattern is quite high for both successful and unsuccessful events, a much higher proportion of failures experienced a turnover (Table 6). (This difference was significant at the 0.01 level:) In addition, in failed lending events the average failure rate was more than twice that of the successes (12.48% versus 5.67%).

Table 4.5: Incidence of an unplanned situation

Reduction in Workforce	N	Success	Failure
unplanned	42	18	24
No unplanned	33	24	09
Total	75	42	33

Table 4.6: Incidence of Unplanned Situation

Reduction in lending	N	Success	Failure
Lending squeeze	59	27	32
No lending squeeze	16	15	1
Total	75	42	33

During the occurrence of lending and unplanned situation were higher as per predicted, both the situations provided significant and statistic evidence of variation between failure and success provides support do the assumptions stating that high level of unplanned situations will be positively linked to failed events.

(c) Restructuring (3rd Hypothesis): ***the*** Third hypothesis of the survey stated as "Restructuring activities not undertaken soon after the demonetization event would be positively associated with unsuccessful events".

To test this hypothesis, three types of restructuring activity were investigated: changes in the policy structure that centralized or decentralized key functions or reduced the layers of existing regulations; changes in the policies and procedures of the lending; and actual finance for the needy firm.

Of the 75 events in the sample, 26 (35%) reported no change in the policy of the target following the Demonetization event. Table 7 illustrate that in failed events the incidence of changes to the policy structure of the target was more than three times as high. (This difference was found to be statistically significant beyond the 0.01 level, with a chi-square of 17.506). As to the timings of the regulations, Demonetization event categories reported a range from changes undertaken immediately to changes undertaken twelve months after the event. On average, lending changes in the successes were initiated approximately six months following the events. In the reported failure, changes were not undertaken sooner, at an average of 3.4 months following the event.

Table 4.7: Incidence and timings of the policy change

	N	Success	Failure
Change in policy	26	6	20
No change	49	36	13
Total	75	42	33
Timing of change (Mode)	---	6Months	2Months
Timing of change (Average)	---	6Months	3.4Months

Unsuccessful events were more than twice as likely to have undertaken a centralization of key functions in policy change. In addition, only in successful events were steps taken to decentralize key functions in policy change. In 46(61.33%) of the demonetization events, there were changes in the policies and procedures. As table 8 illustrates, failed events were represented almost one and a half times as often as successes (these differences were found to be significant at the 0.01 level). In addition, on average in successful lending & finance events acquires tending to wait twice as long before initiating the change in the target.

Table 4.8: Changes in Policies and Procedures of Banks

	N	Success	Failure
Change undertaken	86	19	20
No change	29	23	13
Total	75	42	33
Timing of change (Mode)	---	6Months	Immediately
Timing of change (Average)	---	6Months	2.41Months

Table 4.9: Incidence and Timings of Actual finance Made

	N	Success	Failure
Actual Finance	45	36	54
Non-Reported	30	24	6
Total	75	42	33
Timing of happening (Average)	---	6Months	3Months
Timing of happening (Mode)	---	6Months	2Months
Affecting <5%	40	22	18
Affecting >5%	50	14	36

Successes and failures were also associated with the number of actual finances made in a single event. While approximately 50 percent of the successes reported more than one type of finance in a single event, 77.78% of the failures reported no changes. Banks preoccupation dominated in both successful and failed events. They took place in 57.14% of the former and 41.67% of the latter. Reduction in public hours and office closure were slightly more prevalent in failures (58.33%) than in successes (42.86%)

The changes that were not initiated relatively quickly after the Demonetization event were more likely to be associated with a reported failure. These findings, therefore, support the third hypothesis of this study.

V. Conclusion

All the Hypothesis and its respective results show that there are certain factors related to cash and lending failures after demonetization. There could be certain factors related to their success. Therefore, few precautions were required to be taken which ensure the success of lending and cash flow for the businesses and few factors needed to be taken care in order to avoid failures.

The Study further reveals that out of the events that failed, the ones valid for a lending reduction based on the unilateral decision of the Banks and involving more than 10 percent of the business. It is to be noted that alternate resources for the change are not included in the process, there was a higher chance of failure in the event. As such it is suggested that the Banks when avoiding these elements are most likely to achieve towards the accomplishments of a successful demonetization effects for lending and financial operations of the business. Their customer's twin problems (both retail and business)" cash crunch" as well as "business finance" could have been tackled in an appropriate manner.

VI. LIMITATIONS

However, findings do not suggest that the Banks should have alternative lending support to the business starting from the demonetization There could be many situations where changes may require to ensure synergies of the effects of demonetization. The more important is the mannerism, that is the manner in which changes are made. This would vary between failure and success of demonetization as such an increased understanding of the issues involved demonetization transitions and integrations is an essential step towards tackling the higher occurrence cash and failure of lending.

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