AN IN-DEPTH STUDY ON IMPACT OF COVID 19 ON NON-PERFORMING ASSETS OF BANKING SECTOR

Preeti Rani*

Extension Lecturer in Commerce, GCG, Cheeka, Kaithal, Haryana, India

***Email ID**: preetibisla1989@gmail.com*

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Abstract

The financial sector plays a significant role in the economy, and Indian banks dominate the financial system. However, the Indian economy had a slowdown in 2019-2020, and the outbreak of pandemic coronavirus exacerbated the crisis. Furthermore, where credit growth is the key driver of economic growth, bad loans are the destroyer of the economy because they reduce the capacity for credit lending. The Indian banking sector has been experiencing an increase in non-performing loans over the past few years, and covid 19 exacerbates the problem. The purpose of this article is to comprehend the influence of Covid-19 on Non-Performing Assets (NPAs). Secondary data for the study comes from the Financial Stability Report (FSR) of the Reserve Bank of India (RBI) and several newspapers, including Financial Express and Business Today.

Paper Identification

**Corresponding Author*

1. *Introduction*

India has been witnessing economic slowdown and a decline in GDP in the year 2019-20 and now government of India facing a severe problem of Covid-19, because of Covid 19 economic activities are shut down, many people got unemployed and GDP of the country also goes down. All these results in rising NPAs as on one hand many people got unemployed and they will face difficulty in repaying their loans and on the other hand as economic activities are shut down industries or corporate sector will also face difficulty in repaying their installments as they are not generating income all these will make unpropitious impact on banks and reduce their ability of recycling of funds and also reduce their lending capacity which will eventually increase NPAs. According to a report credit cost ratio would likely to escalate by 130 basis points in 2020. All these will lead to economic slowdown. Economic storm created by the pandemic would severely hit banks and economy would be worsened. Though Reserve Bank of India and Government of India took many measures to control the economic situation hit by the pandemic coronovirus by rolled out many packages and schemes; these measures included injection of liquidity, targeted loans to affected industries and regions and cuts in policy rates. RBI has also allowed moratorium of 6 months to all the borrowers of commercial banks including Non - Banking Financial Companies (NBFCs), Regional Rural Banks (RRBs), Small Finance Banks (SFBs), Local Area Banks, Housing Finance Companies and Micro Finance Institutions. According to a Financial Stability (RBI) Report of RBI impact of moratorium is uncertain and it is difficult to ascertain its exact impact on asset quality of banks. However these efforts of government of India and RBI fail to alleviate the situation.

2. *Meaning of Non Performing Assets*

Non Performing Assets are those assets of banks which fail to generate income for it.

According to RBI with effect from March 2005 Non Performing Assets is a credit facility on which interest and principal remittance overdue for a period of 90 days.

NPA is a loan on which-

- Bill discounted or purchased remain overdue for a period of 90 days.
- Account which remain out of order for a period of 90 days.
- Term loan on which interest and principal remittance overdue for a period of 90 days.
- Agricultural advance overdue for two harvest seasons but not exceeding two and a half years.
- Amount to be received remain overdue for 90 days.

Types of Non Performing Assets

There are two types of Non Performing Assets:

A. *Gross NPAs:* Gross NPAs are the sum of total loans lend by the bank. It shows the quality of loan lend by the bank.

Gross NPAs = Gross NPAs/ Gross Advances

There are following three types of gross NPAs:

a) Sub-Standard Assets: Assets will come in the category of sub standard if they remain due for more than or equal to 12 months.

b) Doubtful Assets: All those assets which fail to generate income for the banks for a period exceeding 12 months.

c) Loss Assets: Asset will become loss asset if it is found by the internal auditor after auditing that it is impossible to recover amount.

B. *Net NPAs:* When banks deduct provision from gross NPAs than it is known as Net NPAs. It shows an actual burden of bank.

Net NPAs = Gross NPAs- Provisions / Gross Advances- Provisions

3. *Literature Review*

(Thathera, 2019) Research shows that in 2018, 90% of NPAs is from Public Sector Banks (PSBs) which is a big reason to worry as 75% of Schedule Commercial Banks (SCBs) are PSBs. It is also found in research big borrowers are majorly responsible for these NPAs. The major cause of these spiralling NPAs is mismanagement and wrong choice of borrowers and the best remedy to reduce NPAs is to adopt proper credit appraisal policies, pre sanction survey and speedy recovery.

(Vasu, 2018) Present study is done on selected private and Public Sector Banks (PSBs). Following banks are chosen for the study ICICI, HDFC, SBI and PNB. After analyzing the data of 4 banks it was found that average gross NPA for the period of 2013 to 2018 of SBI was highest with 110454 crores and average gross NPAs of HDFC, ICICI and PNB for the given period are as follows 5062.24 crores, 20717.78 crores and 33845.9 crores respectively. The major cause of these spiralling NPAs in PSBs is mismanagement and weak credit appraisal policies adopted by bank.

(Kapil Singla, 2016) Research has been done on SBI and it is find out that important reason of mounting NPAs are failures of business, natural calamities, diversion of funds etc. Higher NPAs are eroding the value of assets of this bank and decreasing profit of it.

(Iqbal Thonse Hawaldar, 2020) Agriculture provide livelihood to 58% population of India. Therefore it is important to provide sufficient credit to agriculture but increasing NPAs in agricultural loans are decreasing capacity of banks to lend loans and prime reason of these NPAs in agriculture is debt waiving policies adopted by government. This debt waiving policies makes farmers careless towards repayment of loans as they think that government will definitely waive their loans in future.

(Neha Goyal, 2016) It is mandatory for commercial banks to lend 40% loans out of total lending to priority sector also known as Priority Sector Lending (PSL). This step is taken by Reserve Bank of India to ensure socio- economic equality in the country. This led to increasing lending to PSL which are escalating NPAs of banks. Research shows that bank every offer of 1 rupee in PSL results in 8.2 paise increment in NPAs. Moreover it has also seen that levels of NPAs are more in PSBs than private sector.

(Neelakshi Kaushik, 2016) The objective of the study is to find out contribution of NPAs under different sector and data reveals that in rural areas and in semi- urban areas, agriculture contribution is highest in NPAs 56.8% and 38.7% respectively. Study also shows that in urban areas and in metropolitan areas industrial sector contribution is highest in NPAs i.e 35.3% and 52.4% respectively.

(Lodhi, 2016) The major cause of rising NPAs is weak credit appraisal policy and attitude of banks towards lending loans is lenient on one hand and mismanagement of funds by borrowers on the other hand. There is an urgent need to take strict actions to reduce and recover NPAs as they are adversely affecting the economy and may cripple it.

(R.V. Naveenan, 2018) Banks provide financial support to other sectors of the society. However banking is going through a big problem of escalating NPAs and these NPAs are adversely affecting whole economy. The primary data collected for the study reveals after analysis that lack of monitoring and mis utilization of funds is the biggest cause of rising NPAs and they can only control by checking economic viability of borrowers.

(Bhasin, 2017) Economic growth of the country depends upon the banking system because it is banking system which provides sufficient funds to the economy. Nevertheless mounting NPA is deteriorating the asset quality of banks therefore there is a need to take strict measures to decrease NPAs.

(Boddu, 2019) The data collected for the study shows that in Public Sector Banks (PSBs) there are more gross NPAs than private sector banks as PSBs more loan to corporate sector which is responsible for higher defaults. Moreover there are some internal causes like lack of proper monitoring system etc are responsible for higher NPAs in PSBs.

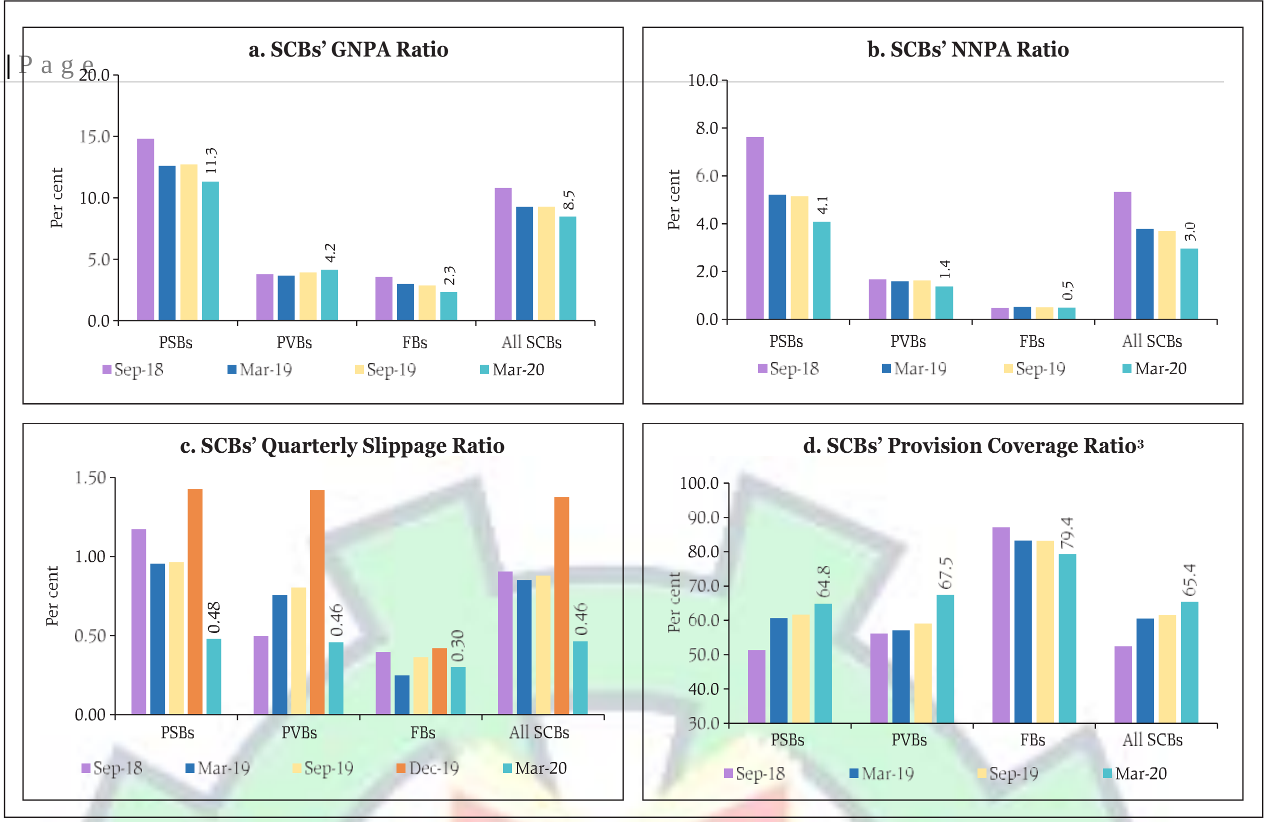
4. *Objectives of the Study*

- To estimate the impact of Covid 19 on NPAs of banks.

5. *Research Methodology*

The objective of study is to understand the impact of covid 19 on NPAs of financial institutions. The study is based on secondary data taken from Financial Stability Report of RBI and from various newspapers like Business Today, Financial Express etc.

6. *Data Analysis and Interpretation*



Source: Financial Stability Report

Relief measures given to the borrowers in the form of moratorium period may severely hit the asset quality of all Schedule Commercial Banks. According to the financial Stability Report of RBI GNPA ratio of all schedule commercial banks (SCBs) decreases from 11% in September 2018 to 8.5% in March 2020 and NNPA ratio of all SCBs also decreases to 3% from 5% which shows that asset quality of all SCBs improves from 2018 to 2019. But as far as Provision Coverage Ratio (PCR) is concerned it continuously increases from around 50% in September 2018 to 65.4% which depicts that banks keeps more percentage of bad debts from its own funds which eventually reduces its profit and profit earning capacity. GNPA ratio in Public Sector Banks in worst case scenario can spike up to 15.2% in March 2021from 11.3% in March 2020.

7. Conclusion

During the financial year 2019-20 Indian economy was going through economic slowdown and Covid-19 is worsen this problem. Economic activities of the country had been shut down for around 3 months which result in up surging unemployment and at the same time industries, companies, individual facing a difficulty in repaying their installment. Thus RBI grant moratorium to borrowers. Initially RBI granted moratorium for 3 months and then further extend this period to 3 more months. Granting moratorium is good for borrowers but it will add to banks' NPA stress. Further weak economic growth can also harm the asset quality of banks. Rising NPAs have adverse affect on all SCBs, NBFCs and Housing Finance Companies because it will block funds of them which can reduce liquidity, profit earning capacity of banks and lending capacity of it.

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