In COVID-19 Period Review Impact and Status of NPAs in Indian Banking Sector: A Case Study of Axis Bank

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Summary

COVID-19 has been a significant blow for the Indian economy, particularly the banking sector and its non-performing assets (NPAs). It has affected all sectors at the macro-level throughout the country. The economy was in a volatile state even before the outbreak of COVID-19, and the shutdown of the economy has made things even worse of economic activities and the nationwide lockdown, the economy may face a sustained slowdown. With a large population across the country, and big reliance on casual labor and unregulated banking, the economy is undergoing a disruptive period as a result of the lockdown. The damage to the economy exceeds current estimates, with the current article drawing the impact of the COVID-19 situation on the Indian economy and its banking sector. The study is an analysis of data which is subordinate in nature and is based on various research articles published on the outbreak of the COVID-19 pandemic.Furthermore, the paper analyses the different planning measures taken by India's government and Reserve Bank to improve the country's economic condition at the central and state levels." This research paper is an attempt to analyze the connection between NPAs, advances and profitability due to COVID-19 and the impact of measures taken by RBI and the government in the Indian banking sector, for this we have analyzed Indian banks. A case study of Axis Bank for a period of 5 years from 2014-15 to 2019-20." The data was analyzed using statistical tools like correlation coefficient to examine the impact of NPAs and advances on profitability. Experts believe that the banking sector, largely in India, may take a long time to recover from the effects of this pandemic.

Keywords: NPAs, COVID-19, RBI, Banks, GDP, Lockdown, Economy, Axis Bank

Introduction

Non performing asset: A curse for the Indian banking sector When the borrower fails to pay interest or principal for 90 days, the loan given to him is considered a non-performing asset. Non-performing asset used by financial institutions is a classification that is directly related to It happens due to non-payment of loan / loan / loan. When the borrower fails to pay interest or principal for 90 days, the loan given to him is considered a non-performing asset. In layman terms, NPAs are those assets/projects which do not generate cash flow to the extent and duration as originally envisaged. By transfer the bank may not be able to recover the full amount of loan given in time, hence makes arrangements for it. However, in the real world, NPAs arise due to genuine reasons, miscalculations/inefficiencies and wrongdoing.

Recently, many banks in the country have expressed concern that the number of Non-Performing Assets (NPAs) of banks may increase in the coming days due to the halt of industrial activities due to COVID-19. It is to be noted that the Government of India had announced a nationwide lockdown for the next 21 days on March 24, 2020, to control the spread of COVID-19. After which almost all types of activities (traffic, industry etc.) were completely banned in the country except for essential services.

Reasons for the Increasing Trend of Non-Performing Assets

In the real world, NPAs arise from genuine causes, miscalculations/inefficiencies and wrongdoings, the reasons for which can be classified into external environment and internal environment. The external environment includes global slowdown, slowdown in domestic demand, policy deadlock and disputed contracts. In the internal environment – banks: government deficit, poor credit valuation, weak risk management, full debt – no equity, infra financing especially highways – 'gold plated' contracts, power-fault FSAs, pass through arrangements, deferred payments, Including chasing quick development, making excuses and expanding etc. Corporate India: Complicated Web Holding Company, Step Down NTTs, Over Leverage, Overseas Acquisitions, "Unhesitating Access, Adoption, Changes and Other Reasons Selling Price vs. Threat Selling, The Minsky Financial Instability Hypothesis – Three Types of Borrowers (Hedges) , speculative and ponzi) outside the corporate world, Kisan Credit Cards and crop insurance against agrarian distress, lack of timely support to small/medium enterprises and delays in payments. Public sector banks give 80% of loans to industries and this part of loan disbursement forms a major part of NPAs. Last year when Kingfisher was going through a financial crisis, SBI gave a huge loan to Kingfisher to overcome it. One of the main reasons for the increase in NPAs is the relaxation in the rules for giving loans to corporate houses without proper assessment of their financial position and credit rating. Also, in competition, banks are giving unsecured loans on a large scale which contributes to increasing the level of NPAs.If Indian industry is in trouble then it will affect the banking sector and their NPAs will increase." Public sector banks alone cannot be blamed for this. The economic policy of the government and the politician-corporate alliance are also responsible for the current state of the banking industry.

Review of Literature

The research papers that were considered when drafting this research paper include:

The T. Singhal Coronavirus "Disease-2019 (Covid-19) In addition to preventing the spread of the virus, this new virus has presented serious challenges to the economic, medical and public health structure of China and particularly neighboring countries. The four phases of a nationwide lockdown that lasted for more than two months with a global slowdown and considerable disruption in the demand-supply chain have deeply hit the economy."

Anya Kumra Impact on Indian Economy Covid-19 said that, "The Covid pandemic has adversely impacted practically every one of the full scale level factors of the Indian economy, however it is absurd to expect to know the specific effect of the infection on the economy till the pandemic is finished. There can be value ascend in areas like agribusiness so measures ought to be taken to keep up with satisfactory collect and keep the inventory network chugging along as expected. The danger of a rating minimizes and an increment in the monetary shortfall will make it hard to get and spend later on, so the Govt. what's more strategy producers in India ought to painstakingly assess strategy choices and pick just those that have the most elevated payouts in the short run just as the since a long time ago run."

An interval evaluation by S. Mahendra Dev and Rajeshwari Sengupta said, " Effect of Covid 19 on the Indian Economy An interval evaluation by S. Mahendra Dev and Rajeshwari Sengupta said that Covid 19 significantly affects the Indian economy and the financial area. The country enormous populace and unsound condition of the economy and over-dependence on casual work, lockdown and different measures have transformed the economy into a more problematic state." According to him, the harm to the economy is relied upon to be more than the current gauge. The Indian government needs to adjust the pay support expected to guarantee that the monetary circumstance doesn't winding wild and strategy creators are ready to move forward the reaction to alleviate the effect of the infection and shield the economy from long haul harm need to."

S. Mahendra Dev and Rajeshwari Sengupta said that, "Coronavirus significantly affects two areas in India, one is the wellbeing area and the other is the Indian economy and banking area. This has transformed the Indian economy into a troublesome state with a huge populace and an over-dependence on casual work and the post-Covid - 19 time of the monetary area. India's financial area particularly the public area banks has been gravely battered. These banks are battling to adapt to the mounting misfortunes from their non-performing resources on their asset reports. This kind of issue has unfavorably impacted the credit development in India and when the pandemic hit India this issue began harming the credit market in India. India has been managing twin monetary records for the beyond one year because of undeniable degrees of non-performing resources

(NPAs) in a deficiently promoted banking framework." However, the Reserve Bank of India (RBI) made some healing moves to address the monetary emergency and set the 10 most weak banks in a brief restorative activity system.

Objectives of Study

- To find out the major impact of COVID-19 on NPAs faced by the Indian banking sector.
- To find out the policy measures taken by the Government of India and RBI to ameliorate the economic crisis in COVID.
- To ascertain the major impact on NPAs faced by Axis Bank during the period of COVID-19.

Research Methodology

As expressed before, the momentum significance research is altogether founded on auxiliary information for evaluation of the effect of COVID-19 on the Indian financial area, appraisal and contextual analysis of AXIS Bank. This auxiliary information is gathered from rumored English papers, periodicals, different locales on the web, and other distributed examination diaries in this field and from authorities of public and worldwide foundations like RBI, IMF, Axis Bank, and so on The information accessible on different locales and papers, magazines, and different destinations have been examined and seen cautiously while reaching right determinations for this article. The idea of the review is simply distinct. The nature of the study is purely descriptive.

Sampling Frame

Sample Size: The Sample Population for the Study is the Public Bank AXIS BANK.

Sampling Unit: The Sample Population for the Study is the Public Bank AXIS BANK.

Research Line

The present study is a descriptive study that efforts to establish the relationship between NPAs, advances and net profit. The research done was quantitative research as it dealt with numerical, applied statistics and the use of graphs and tables.

Data collection: The study is planned with the help of secondary data.

Increase in non-performing assets due to COVID-19

According to an estimate, the number of such mortgages may increase as a result of the lockdown in the Indian banking sector, which is already under the pressure of large NPAs. "Banks have expressed concern that even after the end of the lockdown, it will not be easy for some sectors companies to return to normality and start production as before. Especially in the Micro, Small and Medium Enterprises sector (Micro, Small and Medium Enterprise- MSME) and the manufacturing sector and the energy sector, there is a possibility of increasing NPA in a large amount.

Banks have shared their worries with the government regarding the sensitive sector, despite the cooperation of the Reserve Bank of India. Micro, Small and Medium Enterprises (Micro, Small and Medium Enterprise- MSME) The Micro, Small and Medium Sector Enterprises are divided into two categories under the Micro, Small and Medium Enterprises Development Act, 2006":

1. Manufacturing Enterprise:

Micro: For whose establishment an investment of not more than Rs 25 lakh is required. Small: Investment limit between Rs 25 lakh to Rs 5 crore. Medium: Investment limit between Rs 5 to 10 crores.

2. Service Enterprise:

Micro: The total investment in the equipment required for its installation does not exceed Rs 10 lakh. Small: Investment limit between Rs 10 lakh to Rs 2 crore. Medium: Investment limit between Rs 2 to 5 crores.

Reasons for increase in NPAs:

According to experts, in recent times, Indian products were fighting with the ever-decreasing demand in the market, so taking such industries back to normalcy after the nationwide lockdown will be a big challenge. At present, in India as well as in many countries of the world, the full or partial effect of covid still remains. In such a situation, those industrial units which are dependent on other countries for raw materials will be seriously affected due to disruption of supply service. There are apprehensions of production disruption in such industrial units for some time even after the lifting of restrictions due to the exodus of workers in the MSME and unorganized sector due to the lockdown. Apart from this, demand for capital intensive sectors like air transport, real estate, jewelery etc. may also take time to pick up.

Effects

According to financial sector analysts, the financial sector and bank stocks have suffered more than 'fast moving consumer goods' (FMCG) in the stock market.

Recently, the US rating agency 'Moody's Investors Service' has placed the Indian banking sector in the negative category instead of stable as per the estimates of the institution, due to constraints in the Indian economic sector in the coming days. There may be a decline in the assets of banks. According to experts, currently 44% of loans in the Indian banking sector are from high-resilience category industries such as pharmaceuticals, telecommunications, fertilizers, oil refineries, power and gas distribution, etc. and 52% of loans in the Moderate Resilience category. Companies such as automobile manufacturers, power generation, roads and construction have been given. Only 4%

of the loans have been given to Least Resilient Sectors such as Airlines, Jewelery related companies and Real State etc., which may be most affected by this lockdown.

NPA rules may change, borrowers will get additional time of 60 days.

The Reserve Bank is preparing to amend the rules for resolution of non-recoverable loans (NPA) and under this, it can give additional time of 60 days to the borrowers to pay the loan so that the suffering of honest borrowers can be reduced. . Sources have given this information. He said that due to the quashing of the circular of February 12, 2018 of the Reserve Bank by the Supreme Court, the work on the revised rules is going on and they will be issued soon. Now under the new framework of NPA, various options are being considered. These include the option of giving an additional 30 to 60 days for NPAs from the existing 90-day clearing timeline. He said that the system of declaring bad loans as NPAs after a period of 90 days will continue, but the Reserve Bank is looking at giving other options to the bodies to repay the loan. He said that by giving more time for payment, the problem of MSME will be reduced to some extent.

IMF asked India to strengthen capitalization in public sector banks

Let us tell you, the Reserve Bank had issued a circular on 12 February 2018. According to this, in case of delay of even one day in repayment of the loan, the process of declaring the company as insolvent will be adopted. However, this rule applies to loans of more than 2000 crores. Whereas the Supreme Court quashed this circular of the Reserve Bank. RBI had already said that in its financial stability report, it has been said that the NPAs of banks may increase to 12.5 per cent by March 2021 as compared to 8.5 per cent in March 2020. Earlier, global body S&P Global Ratings had estimated that India's NPAs will increase to 13.2 percent by next year. The gross non-performing assets (NPAs) of banks under the comparative scenario may increase to 12.5 per cent by the end of the current financial year. It was 8.5 percent in March 2020. This is stated in the Financial Stability Report of the Reserve Bank. According to the report, gross NPAs may go up to 15 per cent by March 2022 in a very severe stress scenario.

It said, the Covid-19 stress test indicates that the gross NPA ratio of all scheduled commercial banks may increase from 8.5 per cent in March 2021 to 12.5 per cent in March 2021. This assessment has been done on the basis of comparative scenario. According to the report, “If the macroeconomic environment worsens, the ratio may increase to 14.7 percent in a very severe stress scenario.

It said that the strength of the country banks was tested in the backdrop of macro-economic shocks. This test was done through a large pressure test. In this, it was assessed that whatever shocks or pressures will happen, what will be the effect on the books of banks. In addition, the Gross NPAs and Capital to Risk Weighted Asset Ratio (CRAR) were calculated. In this, the scenario was calculated under three circumstances…moderate, severe and very severe with comparative basis. According to the report, the comparative outlook has been assessed on the basis of estimated values of other macroeconomic variables including GDP (Gross Domestic Product) growth, gross fiscal deficit as a ratio of GDP and inflation based on consumer price index."

According to Live Mint, this estimate for gross NPAs is the highest in the last two decades. Earlier in the year 1999, the NPAs reached a high level.

At the same time, the estimate given by RBI is close to the estimate given by global rating body S&P Global Ratings. S&P Global Ratings has projected that India's NPAs will increase to 14.6 percent by 2022 next year.

Table 1. Non-Performing Asset of Banks

Items	**Amount Outstanding (As at end-March Month)**	
	2019	**2020 (P)**
Net NPAs	3,55,068	2,89,531
Gross NPA ratio (Gross NPAs as % of Gross Advances)	9.1	8.2
Net NPA ratio (Net NPAs as % of Net advances)	3.7	2.8
Provision Coverage Ratio (Not write-off Adjusted) (%)	60.5	66.2

Source: RBI website

Table 2. Bank Wise NPAs Distribution

(Value in Crore)

Bank	Gross NPAs					Net NPAs	
	As on March 31(previous year)	Addition during the Year	Reduction during the Year	Write-off during the Year	As on March 31(current year)	As on March 31(previous year)	As on March 31(current year)
	(1)	(2)	(3)	(4)	(5)	(6)	(7)
Public Sector Banks	717849.76	238464.08	99691.53	178305.31	678317.00	276936.83	230917.59
Private Sector Banks	183603.66	131248.99	51335.43	53949.08	209568.14	67308.89	55745.87
Foreign Banks	12242.26	6750.76	3832.03	4952.67	10208.32	2051.44	2084.03
Small Finance Banks	1659.64	1764.43	1045.81	668.93	1709.32	872.58	783.63

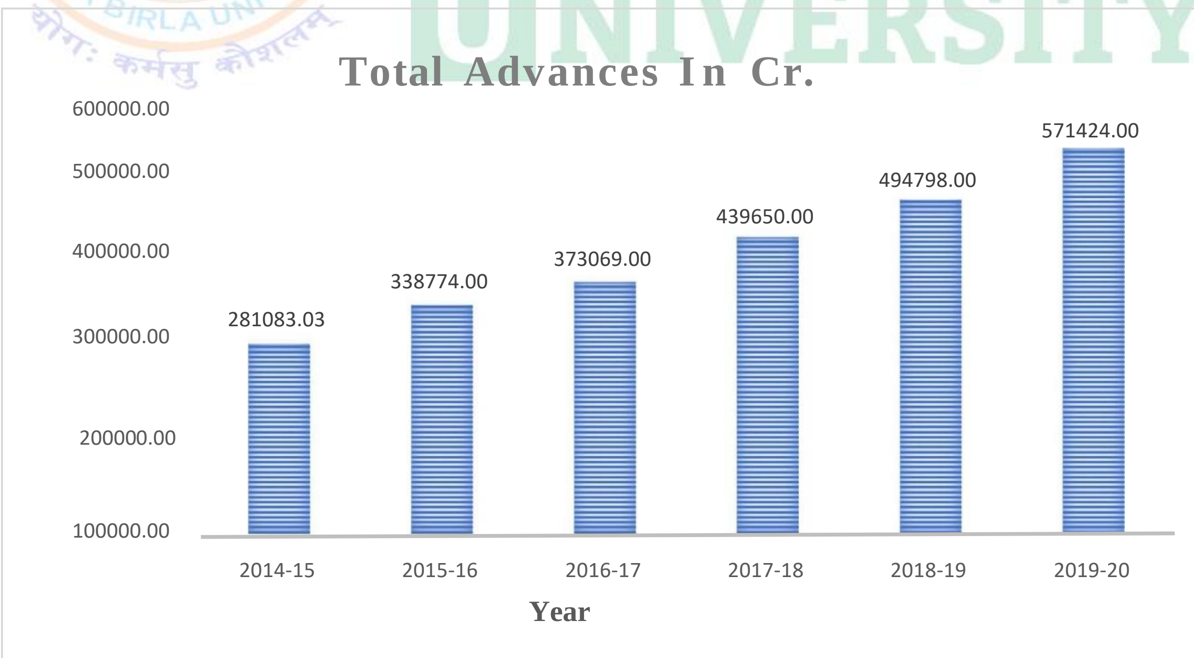
(Source: RBI website)

However, this Table shows to be "The gross non-performing assets (GNPA) figures of banks have yet to reflect the impact of the COVID-19. According to the Trends and Progress Report on Banking by RBI (2019-20), there will be a reduction in gross non-performing assets of 7.5% at the end of September 2020.8.2% in March 2020. The COVID-19 relief measures extended by the RBI on relaxed Income Recognition and Asset Classification (IRAC) norms helped this fall. However, going forward, it is expected that the asset quality of the banking system may deteriorate sharply due to the economic disruption induced by COVID-19." Gradually, when various policy supports are withdrawn, it can have a serious impact on the financial health of banks in India.

Table-3 Data Interpretation & Analysis of AXIS BANK

I. Axis Bank

Year	NPAs (CR)	Net Profit (CR)	Total Advances (CR)
2014-15	1316.71	7357.82	281083.03
2015-16	2522.14	8223.66	338774.00
2016-17	8626.55	3679.28	373069.00
2017-18	16591.71	275.68	439650.00
2018-19	11275.60	4676.61	494798.00
2019-20	9360.41	1627.22	571424.00



Explanation:

In the above Table and Chart, "The NPA for the year 2014-15 is Rs. 1316.71 Cr and Net Profit for the year is 7357.82 Cr. In the subsequent year, both the net profit and NPA of the bank increase, i.e. Rs.7357.82 crore and Rs.1316.71 crore respectively. The reason behind this is that the net profit of the bank is much higher than the NPA of the bank. Thus, nominal or no effect of NPAs on bank profits has been observed in the years 2014-15 and 2015-16. The net profit of the bank declined to Rs 3679.28 crore in the year 2016-17 and the NPA of the bank exceeded the net profit of the bank. NPA has increased to Rs.8626.55 crore. Thus, it is clearly seen that the sudden increase in NPAs of the bank has majorly affected the profitability of the bank in the year 2016-17. The reason for the sudden increase in NPAs in the year 2016-17 is that there was high liquidity and there was very little corporate credit demand. Nevertheless, the company was able to raise loan advances in the year 2016-17, but the increase in NPAs consumed all the gains.

The NPAs of the bank doubled in the year 2017-18 as compared to 2016-17. This again majorly impacted the profitability of the bank for the year. The profit of the bank was reduced to Rs 275.68 crore. NPAs decreased and net profit increased in the year 2018-19." Thus, it is clearly seen that there is an inversely proportional relationship between the NPAs and the net profit of the bank.

Epidemic Effect:

Both net profit and NPA are declining in the year 2019-20.

1. NPAs are declining

2. Loan disbursement is also increasing

Above both, the parameters suggest that the net profit should increase but actually it is not so. The reason behind this is:

1. NPAs exceed net profit

2. It has a huge impact on the Indian economy.

3. The bank increased the provisions of NPAs for the year due to the pandemic.

The above three reasons reduced the profitability of Axis Bank for the year 2019-20.

Findings Result

Axis Bank has demonstrated growth in advances and declining profitability in the year 2020-21 as compared to previous years due to the COVID-19 pandemic.

Conclusion

Despite the measures taken, banking institutions are supposing a long-term negative impact on their economic activities. If borrowers are impotent to generate sufficient cash, banks are at risk of facing bad loans or an increasing number of non-performing assets (NPAs). Moreover, according to S&P Global Ratings, the recovery of the Indian banking sector will be slow and will begin only after 2023. Provisions and losses may accumulate in the period after the exception is withdrawn. It is possible that most deposits will be withdrawn if the pandemic doesn't end soon, which could result in the replacement of low-cost deposits with high-cost borrowings, which may adversely affect net interest income, margins and spreads.Banks cannot find proper avenues to lend due to the crisis, resulting in either extra funds lying idle or being invested in low-yield investments of course, there will be many challenges before the banks. Nonetheless, if banks have strong risk management functions and can partner with borrowers who have potential and adapt to the new normal, there will be substantial positives and benefits.Continuous measures need to be taken to permit smooth functioning of both money and capital markets. It is expected that actual NPAs will remain suppressed until the extended moratorium period is over. The outbreak of Covid-19 has negatively impacted both the Indian economy and its banking sectorThe situation will become clear after the pandemic is over. This pandemic situation calls for strong and resilient leadership to protect the Indian economy from long-term damage.

Suggestions

- RBI should now emphasis on the financial system and its context to maintain liquidity in the post COVID-19 situation.
- After the lockdown is lifted, all small and medium enterprises should have the facility of giving loans to keep them on track.
- Government of India must reduce the insecurity and economic stress in the economy.
- Both money market and capital market should be correctly run.

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