

## **IMPACT OF COVID-19 ON NON-PERFORMING ASSETS OF LEADING INDIAN BANKS**

**Pitresh Kaushik**

Assistant Professor, Department of Accounting and Finance, Doon Business School,  
Dehradun

**Saptarshi Chakraborty**

Scholar, Doon Business School, Dehradun

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### **ABSTRACT**

The growth of the Indian economy depends on the working of the banking sector of the country. One of the major important factors that helps in measuring the position and the health of the banking sector is the size of the NPA. It affects the profitability in the banks in terms of rising the cost of capital, increase in risk perception which thereby affects the liquidity position of the bank. In this chapter we are here to examine the level of NPA of the Indian Banks and then analyse the reason for the change of NPA. Data from 5 leading banks of the country was extracted from the RBI database to analyse the trend of NPA in the past 17 years. Along with that the impact of Covid-19 was also analysed in the context of NPA. It was found that despite the pandemic and Moratorium banks were able to improve their NPA figures.

Key words: Indian economy, Leading Indian Banks

### **Introduction**

The banking system of India has evolved with an immense network of branches and variety of financial products. It has gained good progress in the next two decades after Nationalization. The thought process of banking system has gone for complete change to gain a quick socio-economic progress. Banking theory has moved from his traditional approach to move in the approach of lending from security centric to purpose orientation, which has become a new concept in this time. Though there are several progress made by the system, poor capital base, inefficient organisational structure, declining profitability and high growth of NPA has grown up as a main block in the banking sector after the nationalization period.

Increase in NPA has a direct impact on the profit status of the banks as really banks are not allowed to book income on such accounts. At the same time banks are forced to make provisions on assets as per the guidelines of Reserve Bank of India which are subdivided as substandard assets, doubtful assets, or loss assets.

**NON-PERFORMING ASSET (NPA)** is a loan or advance which remain unpaid for the period of 90 days or more, both the interest and the Principle Amount.

In this paper we have gone through all the public sector, private sector and small finance Banks to have a detailed study of comparison of NPA among all these banks along with their contribution to different sector in the economy. Through this extensive study of these banks we have also derived the reasons behind the rise of NPA in the Indian Banking System.

The NPA is divided into parts:-

- GROSS NPA
- NET NPA.

Gross NPAs is the summation of all loan asset which are stated as NPA as per RBI rules. It basically states the quality of loans sanctioned by the banks. It is the sum total of all nonstandard assets which are basically loss assets.

Formula of Gross NPA:-

Gross NPAs = Gross NPAs / Gross Advances

Net NPAs is the resultant of Gross NPA minus the provisions which are deducted by the banks. Net NPA basically reflects the actual burden of the bank. In India, as the banks have huge NPA amount in their balance sheet, it is difficult to write off and recover these loans quickly. So there is a big difference between Gross NPA and Net NPA in terms of its value.

Formula of Net NPA:-

Net NPAs = Gross NPAs – Provisions / Gross Advances – Provisions.

India witnessed a pandemic in the form of Covid 19 in March 2020 which resulted in shutting down of almost entire country. It significantly impacted the Indian economy and banks were also not in any perkier position due to the same. Due to announcement of moratorium by Government of India to provide relief to the citizens, the speculations of banks suffering the most was quite high. Yet, by the closure of Financial Year 2020-21, banks were able to recover their NPAs with the help of National Company Law Tribunal (NCLT), Debt Recovery Tribunal (DRT), Compromise and other initiatives.

### Context and Discussion

NPA of Banks during Covid period

One of the indicators of the position of the banking sector is the level of NPA of the bank. The level of NPA in the banks reflects the performance of the bank. If the banks are higher in NPA level it indicates inefficiency and poor performance of the management whereas lower level of NPA shows good performance and management of the fund. It has a direct impact on profitability, liquidity and solvency position of the bank. For better performance of the banks the NPA level needs to be controlled. NPA is draining away the capital of the bank weakening its financial strength. Compared to private sector, public sector banks have higher NPA levels. So public sector banks should be more careful in issuing loans and must take proper preventive measures to lower the level of NPA.

In this chapter, the NPA data of five leading banks of the country is collected from the RBI database. The below-mentioned table shows the trends of NPA during the first wave of covid in India. Most of the banks have shown a declining trend in NPA after March 2020 quarter. Where it was highly speculated that the banks will suffer a lot due to covid and announcement of moratorium, banks were actually able to mitigate the risk of covid. Possible reasons of lowering NPAs can be quick dispute redressal by National Company Law Tribunal (NCLT), Debt Recovery Tribunal (DRT), compromises by banks and the special efforts of the respective banks.

Declining number of covid cases in the third quarter of FY 2020-21 also resulted in declining NPA of banks. NPA figures of all five banks significantly improved in December quarter as compared to September quarter of FY 2020-21.

Year	SBI	PNB	ICICI	HDFC	AXIS
2004	5.09	9.35	4.78	1.8	2.88
2005	5.96	5.96	2.98	1.65	1.98
2006	3.88	4.21	1.51	1.4	1.67
2007	2.92	3.45	2.08	1.36	1.11
2008	3.04	2.74	3.3	1.41	0.81
2009	2.98	1.77	4.32	1.98	1.08
2010	3.28	1.71	6.52	1.44	1.39
2011	3.48	1.79	5.8	1.06	1.28
2012	4.9	3.15	4.83	0.95	1.18
2013	4.75	4.27	3.2	0.85	1.19
2014	4.95	5.25	3.03	0.91	1.29
2015	4.25	6.55	3.78	0.89	1.36
2016	6.5	12.9	5.82	0.92	1.71

2017	6.9	12.53	8.74	1.04	5.21
2018	10.91	18.38	9.9	1.28	6.79
2019	7.53	15.5	7.38	1.35	5.31
2020	6.15	14.21	6.04	1.25	4.52
2021	4.98	14.12	4.96	1.32	3.7

Table 1: Gross NPA of during last 17 years

Source: RBI Database

The Table 1 represents the NPA of 5 leading banks of the country over the period of last 17 years. In 2018, the Banks have seen a steep rise in their NPA leading with Punjab National Bank with 18.38% followed by State Bank of India with 10.91%. These time has seen a decrease in share price of the banks with high NPA as shown in the graph respectively.

In 2020 and 2021 the world has seen a hit of pandemic situation of Covid 19 situation where all the banks has suffered a setback in form of NPA in the banking sector. The highest NPA in this time has been registered by Punjab National Bank by 14.12% followed by State Bank of India by 4.98%. Yet in this period of Covid 19 HDFC BANK has shown a great performance by lowering its NPA to 1.32% only. This is also one of the major reasons of high share price of HDFC BANK in this period also.

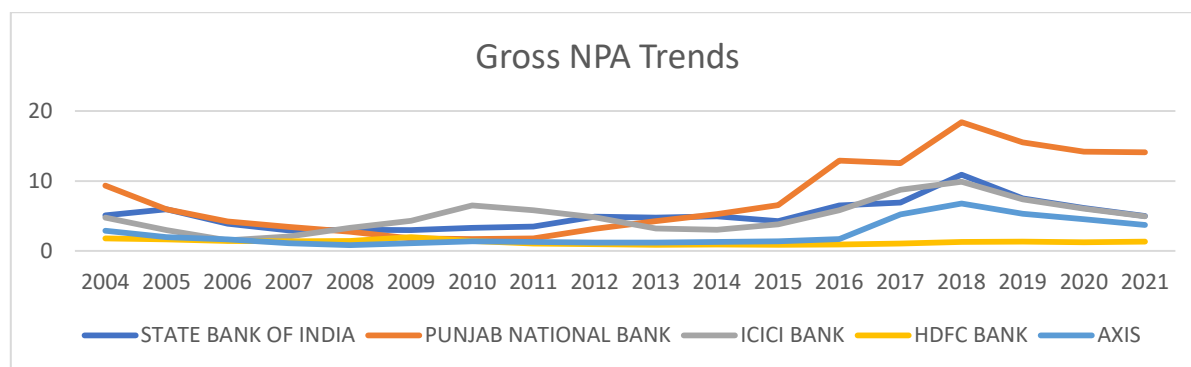


Chart 1: Trends of Gross NPA over the last 17 years

### Impact of Covid

Talking about the annual figures of NPA, to the surprise of everyone, NPAs have declined for all the leading banks of the country barring HDFC. HDFC still managing to have lowest NPA percentage amongst all banks standing at 1.32%. In the times of unemployment and cash crunch, banks able to stay afloat and improved their NPA numbers. Special mention of SBI, Axis Bank and ICICI is inevitable as these banks significantly improved their NPA figures by 19.02%, 18.14% and 17.88% respectively.

BANKS	Mar-21	Dec-20	Sep-20	Jun-20	Mar-20
SBI	4.98	4.77	5.28	5.44	6.15
ICICI	4.96	4.38	5.17	5.46	5.53
HDFC	1.32	0.81	1.08	1.36	1.26
Axis	3.7	3.44	4.18	4.72	4.86
PNB	14.12	12.99	13.43	14.11	14.21

Table 2: Quarterly analysis of NPA during Covid

Source: RBI Database

### Conclusion

In the analysis of leading banks of the country it was found that despite of cash crunch and economic slowdown in the country, leading banks were somehow able to manage their Non- Performing Assets and just opposite to the expectations, NPA figures improved instead of getting worse. SBI, PNB and Axis did a commendable job and reduced their NPAs by even more than 15%. Out of top 5 banks

of the country, except HDFC, all other 4 banks showed improvements in their NPA figures. Even HDFC witnessed a very minor increase in their Gross NPA and still remained the bank with lowest NPA of 1.32% in Financial Year ending 2021.

We can say that NPA in 2020 and 2021 has increased due to the impact of Covid 19 situation in the country. People are unable to pay back their loans taken from the Banks because there is an acute fall in the income of the people along with people also lost their jobs due to Covid 19 situation which in turn has increased the NPA of all the banks in the country.

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