



An Analytical Study of Covid-19 Impact on Indian Banking Industry

Akhil Kumar Mittal *

Faculty of Commerce, S.S.V. (PG) College, Hapur, U.P., India
E-mail: akhilmittal1970@gmail.com

Abstract

The destruction created by the global COVID-19 pandemic; has fallen the world's economic indicators. Whether it is a developing nation, underdeveloped nation, or the world's most powerful economy, for that matter, no country escaped safely from its impact. All industries have been hit adversely due to the COVID-19 pandemic. It has created a bad situation in the market. The banking industry has also not been spared from being affected by this. The outbreak of COVID-19 has challenged the Indian banking industry adversely. Indian Banks informed rise in NPAs, demand of Loan and in turn, impacted profitability. Because of the nation-wise lockdown, industries and markets were shutdown. There were no sources of Income and increasing expenses. Therefore, the Public was demanding loans, and alternatively, they were not capable of repaying the loan. So, a liquidity crisis arose. To overcome this COVID-19 pandemic situation, India's apex body bank Reserve Bank of India, and Central Government have taken several steps to provide relief. This research paper intends to analyze the relationship between NPAs, Advances, and Profitability due to COVID-19 and the effect of steps taken by RBI and the government on the Indian Banking Industry. For this purpose, we have an analytical study of Public and Private banks. Out of these two public banks, Bank of Baroda, Punjab National Bank, and two private banks, ICICI Bank, HDFC Bank for consecutive six previous years. The data were analyzed using statistical tools to examine the impact of NPAs and net advances during COVID-19. It also analyzes the impact of the bank's profitability.

Key Words: Non-Performing Assets (NPAs), Economy, Reserve Bank of India (RBI), Covid-19.

PAPER/ARTICLE INFO

RECEIVED ON: 03/12/2021

ACCEPTED ON: 26/12/2021

Reference to this paper should be made as follows:

Mittal, A.K. (2021), "An Analytical Study of Covid-19 Impact on Indian Banking Industry", *Int. J. of Trade and Commerce-IIARTC*, Vol. 10, No. 2, pp: 341-352

*Corresponding Author

DOI: 10.46333/ijtc/10/2/13

1. Introduction

Shocking news came from Wuhan city of China on December 31st, 2019, about the outbreak of the novel coronavirus. This type of virus came to be seen for the first time, a new type of virus. Research suggests that the coronavirus spreads very quickly in the human body. This coronavirus spreads like the common cold and can cause severe autism syndrome. To fight this coronavirus from spreading across the nation, the Government of India announced a lockdown on March 24th, 2020. It is extended to May 3rd, 2020. Many governments take various actions in the world. WHO appreciated Prime Minister Narendra Modi and other governments of the nation for the timely action against coronavirus in the form of lockdown. Without any medicine without any vaccine, there was no better option at that time. However, international organizations like IMF, WTO, World Bank said that imposing a lockdown will also have a devastating effect on the economy. Moreover, its main effect will also be on India's GDP. The IMF, on April 14th, 2020, in its report on global growth projections, said that this financial crisis is similar to the global Great Depression of 1930 or could be worse.

The second situation of coronavirus is worst than earlier, which had versely affected the economy of several nations, including India. It is also impacted the Indian economy too. A large number of people died due to coronavirus. In the second phase Government of India again took the step of lockdown. Due to lockdown, most small businesses sunk and were never set up again. On May 31st, 2021, the Government of India provides the information of GDP that in the FY 2020-21, GDP contract by 7.3 percent. It is the most severe contraction from the time India got its independence. The only reason for all this is that businesses and markets were closed due to the lockdown. As a result, the unemployment rate is increasing. Moreover, household consumption has also decreased.

Any modern economy depends on its banking industry to function. It is one of the financial industry's most vital business pillars, and it plays a vital role in the economy's operation. It is essential for the economic development of any nation for its financial requirements of trade, industrial sector, and agriculture sector are fulfilled with more commitment and responsibility. Reserve Bank of India (central bank of India) is the apex body of India. Reserve Bank of India makes policy and regulates the banking system in India. It administers the government's monetary policy. We can say that RBI is the banker's bank. During the covid-19 pandemic, RBI introduced crucial policies and regulations to stabilize India's economy and banking sector.

Indian banks have faced difficulty during the pandemic period, and it has changed the profitability of the Indian banks. Banks encountered face problems during the time of COVID-19. Simultaneously, a drastic change has been observed in terms of the profitability and financial statements of Indian banks. There was an immense threat being sensed by all banks that increment of NPAs and incapability of repayment by the borrower in future. In order to overcome such a situation, acquainted many policies for banks.

The banking sector in India

Banks play a vital role in day-to-day life. The country's banking system is an important pillar holding up the financial system of the country's economy. The economy of any country cannot be imagined without a bank. Banks usually accept deposits and Provide demand withdrawal

facilities. Lend money to the borrower by investing in marketable debt securities and other forms of money lending. Bank provides the deposit facility, gives loans to customers with locker facilities, and deals with foreign exchange. Banks are fundamental to the nation's financial system. The banking system plays an essential role in promoting economic growth by channeling savings into investments and improving the allocative efficiency of resources. The recent empirical evidence suggests that the banking system contributes to economic growth by improving the allocative efficiency of resources than by channeling resources from savers to investors. An efficient banking system is now regarded as a necessary pre-condition for growth.

In November 2021, there are 43 regional rural banks, 12 public-sector banks as of 15 along with as on August 2021, 21 private banks in India.

RBI announced policies during the pandemic covid-19 situation for balancing the Indian banking sector.

1. **Loan Moratorium** - In a massive relief for the borrower, the RBI governor also announced that lenders could give a moratorium of 3 months on term loans, outstanding as of March 1st, 2020. It applies to All Commercial Banks, including Regional, Rural, Small Finance Banks, Co-operatives Banks, and NBFCs, including housing finance and microfinance.
2. **Cash Reserve Ratio (CRR)** -RBI also declared that CRR would be decreased by 100bps, or 1%, to 3%. It is applicable from March 28th and would inject Rs. 1,37,000 crores.
3. **Long Term repo Rate (LTRO)**- RBI allowed further liquidity with the banks. However, the banks are stated that this liquidity will be deployed in commercial papers, investment-grade corporate bonds, and non-convertible debentures.
4. **Repo Rate** -Reserve Bank of India announced reducing the repo rate by 75bps, or 0.75% to 4.4%. The Repo Rate was previously 5.15, Last reduced in October 2019.
5. **Reverse Repo Rate**- RBI also announced that it would cut the Reverse Repo Rate by 90 bps, or 0.90%. On a daily average, banks had been parking Rs. 3,00,000 crores with the RBI. The present Reverse repo rate was 4%. Currently, Reverse Repo Rate is 3.35%.
6. **Easy of Working Capital financing**- RBI allowed lenders to recalculate drawing power by reducing margin and reassessing the borrowers' working capital cycle. The RBI also stated that such a change would not affect in asset classification downgrade
7. **Working Capital Interest**- A three months interest moratorium permitted to all lenders.
8. **Deferment of NSFR**-The Net Stable Funding Ratio (NSFR), which reduces funding risk by requiring banks to fund their activities with sufficiently stable funding sources, was postponed to October 1st, 2020. The NSFR was previously supposed to be applied by April 1st, 2020.
9. **Marginal Standing Facility (MSF)**- MSF has also been increased to 3% of SLR, available till June 30th, 2020. The RBI said, "This measure should provide comfort to the banking system by allowing it to avail an additional Rs. 1,37,000 crores of liquidity under the LAF window in times of stress at the reduced".
10. **Fresh Liquidity**- The effect of all the decisions today shall inject almost 3.2% of GDP, the Governor said in his brief today. The RBI also added that since February 2020it had injected Rs. 2.8 lakh crores of liquidity, equivalent to 1.4% of GDP.

2. Literature Review

Mishra Ambrish Kumar et al. (2021) study shows the consequences of the Covid-19 on the performance of the Indian banking industry by making and assessing the main comprehensive knowledge base called ontology (Covid19-IBO) to get semantic information in continuation of the same. We explored some powerful research queries in respect of the Indian economy.

Bobade Priyanka (2020) In this research paper study shows Indian Banking system has added various measures due to COVID-19 Pandemic to make the Banking system smooth and effective. Maximum Indian Banks were facing the problem of NPA, Non-recovery of loans, customer frauds, Bad Loans, etc., and to add on to it, COVID-19 has advanced the failure of the Indian Banking business. Undoubtedly, banks are created for the primary purpose of making a profit. However, banks also provide banking facilities to the customers like giving loans, depositing money, demand draft, etc. However, then Covid-19 has changed the situation of Indian customers. Due to the lockdown of businesses, the income source of the people came to a stop. Then how can the borrower repay of loan or interest of the loan? These challenges our banks encountered in the present pandemic situation.

S.K.S. Yadav, M. M. Qureshi (2020) This study attempts to examine the significant effect of the Covid-19 pandemic on the Indian travel & tourism industry in the Indian economy. This study was systematic and utilized secondary data of Indian companies involved in the travel and tourism sector and listed on National Stock Exchange (NSE) & Bombay Stock Exchange (BSE).

Poonam Sharma and Neha Mathur (2021) This research paper tried to assess the causal effect of covid-19 on Indian banks due to lockdown. Consequently, all business organizations, academic institutions, and public and private sector offices closed. The research paper has specified a severe effect of the lockdown on banks moving beyond July 2020.

Asif Perwej (2020) this research paper demonstrates the impact of covid-19 on the banking & financial industry. India's coronavirus pandemic threatens the years-long cleanup of its financial system, as stated by the Indian bank. No economy can be imagined without a bank, and they provide funding to businesses and individuals. Their stability is critical to retain the system up and running.

3. Research Methodology

• Problem Statement

Impact of Covid-19 on the Indian Banking Industry

• Objectives of the study

To analyze the relationship between the NPAs and Net advances of the banks

To evaluate the net profit/loss of the banks in the Indian banking sector.

To investigate how the RBI's actions have helped banks overcome NPAs and advances. What the future consequences may be on Indian banks.

• Sampling Frame

Sample size: The population for the analysis is Indian Public and Private Banks. It consists of 2 public banks and two private banks.

• **Research Design**

The present work reports a descriptive study that tries to create the relationship between the NPA and Net advances. This research paper also studies the bank's profitability using statistical tools, such as tables, graphs, and other statistical necessary formulas.

• **Collection of Data**

This research-based is on secondary data sources. Bank's annual reports, journals, articles, newspapers, and other website sources were used as secondary data sources.

• **Limitations of the study**

This research has taken only four banks of the two Public and two private banks. We have considered five consecutive financial years (2015-16 to 2020-21) for study.

4. Data Analysis

4.1 ICICI Bank Ltd.

(Amount in Rs. Crore)

Year	NPAs (Rs.)	Net Profit (Rs.)	Net Advances (Rs.)
2015-16	12,963.08	9,726.29	435,263.94
2016-17	25,216.81	9,801.09	464,232.08
2017-18	27,823.56	6,777.42	512,395.29
2018-19	13,449.72	3,363.30	586,646.58
2019-20	9,923.24	7,930.81	645,289.97
2020-21	9,117.66	16,192.68	733,729.09

Table No: 1 ICICI Bank Ltd. Net Profit, NPAs and Net Advances during FY 2015-16 to 2020-21.

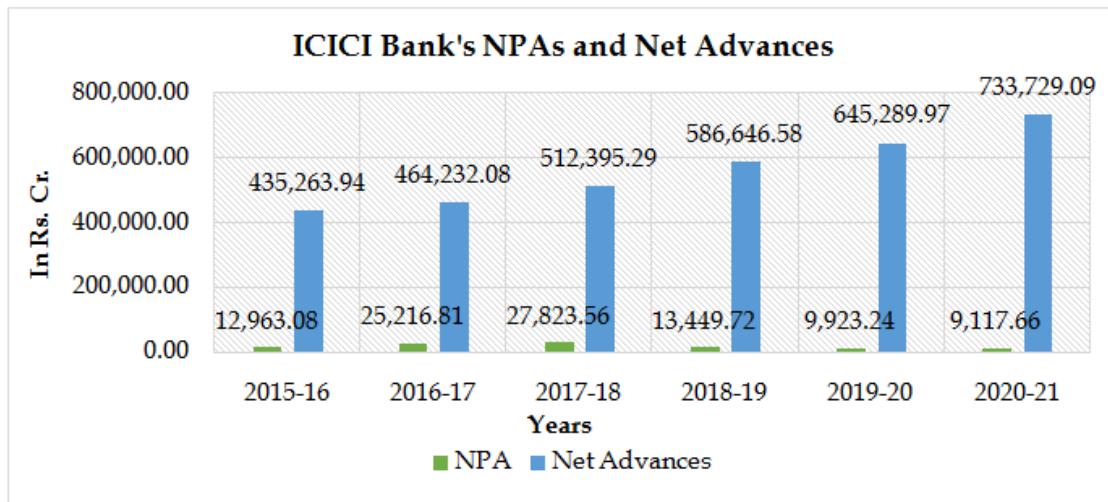


Figure No: 1 Statistics of ICICI Bank Ltd. for FY 2015-16 to 2020-21.

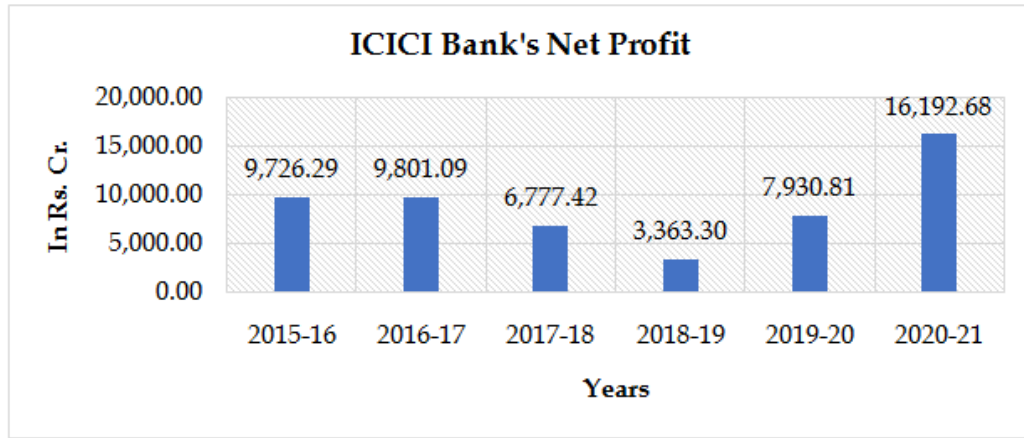


Figure No: 2 Statistics of ICICI Bank Ltd. for FY 2015-16 to 2020-21.

Figure No. 1 & 2 shows the results; Non-Performing Assets (NPAs) for the year 2015-16 is Rs. 12,963.08 CR and Net loan advances is Rs 4,35,263.94 Cr. Moreover, the bank's net profit was positive, i.e., Rs. 9,726.29 Cr. In the following year, the NPAs of the bank slightly decreased and retained with a comparatively high rise in loan advances Rs. 4,64,232.08CR and net profit of the bank increased, i.e., Rs.9801.09 Cr. The reason behind positive profit, recovery of NPAs. In the following year, 2017-18, NPAs of the bank again have increased Rs.27823.56, but the bank tried to increase loan advances in the result of net profit of the bank was Rs6777.42. In the following year, 2018-19, NPAs of the bank has decreased to Rs. 13449.72 and bank increased loan advances higher than last year to Rs.5,86,646.58 Cr. The net profit of the bank was Rs. 3363.30.

In the year 2019-20, the NPAs of the bank have decreased to Rs. 9,923.24 Cr. and net loan advances of the bank have increased, i.e., Rs.645,289.97 Cr. Along with net profit higher increased comparatively previous year Rs. 7,930.81. Thus, it is seen that the decrease of the NPAs of the bank has majorly impacted the bank's profitability in the year 2019-20. In the following year 2020-21, NPAs of the bank is comparatively increased and high rise in the loan advances, i.e., Rs. 7,33,729.09 Cr. Then high rise in net profit of the bank too, i.e., Rs. 16,192.68. The reason behind of sudden increase was company managed to increase the loan advances in the year 2020-21. Moreover, RBI gives moratorium benefits to borrowers. So, ICICI bank has increased loan advances every year to make net profits and reduce NPAs.

It is observed that the impact of covid-19 on the Banking Sector has been to a lesser extent because the bank increased loan advances during covid-19 and reduced NPAs to a great extent in terms of net profit.

4.2 Punjab National Bank (PNB)

(Amount in Rs. Crore)

Year	NPAs (Rs.)	Net Profit (Rs.)	Net Advances (Rs.)
2015-16	35,422.56	-3974	412,326
2016-17	32,702.10	1325	419,493
2017-18	48,684.29	-12282	433,735

2018-19	30,037.66	-9975	458,249
2019-20	27,218.90	336	471,828
2020-21	38,575.70	2022	674,230

Table No: 2 PNB Net Profit, NPAs and Net Advances during FY 2015-16 to 2020-21

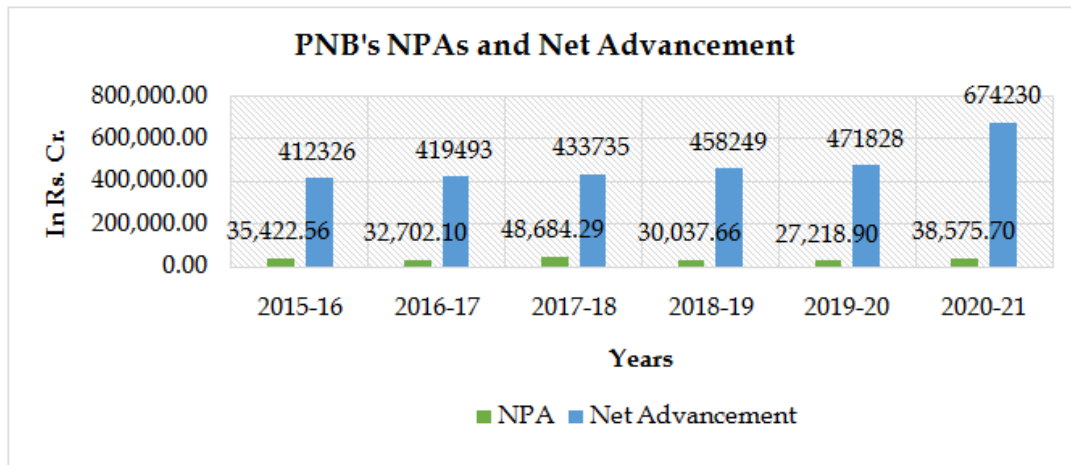


Figure No: 3 Statistics of Punjab National Bank for FY 2015-16 to 2020-21

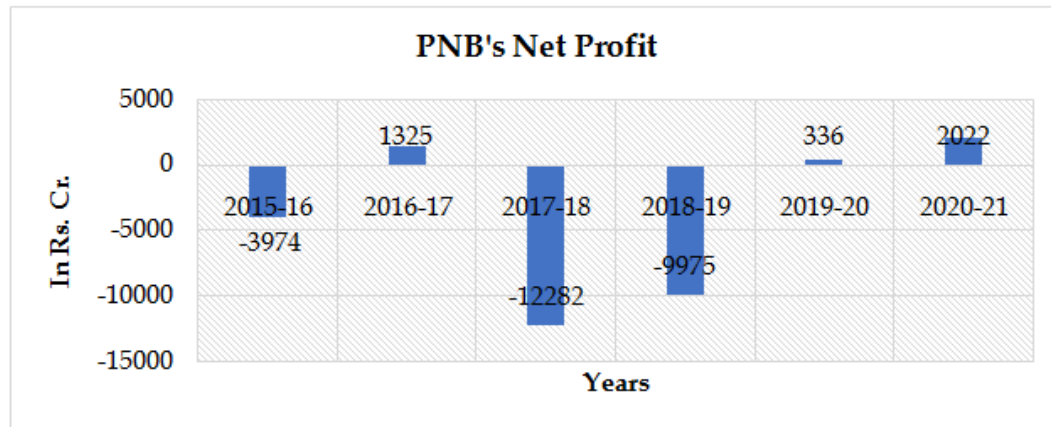


Figure No: 4 Statistics of ICICI Bank Ltd. for FY 2015-16 to 2020-21

The above graphs show that Non-Performing Assets (NPAs) for 2015-16 is Rs. 35,422.56 Cr., and Net loan Advances are Rs.4,12,326 Cr. But in the same year, net profit negative, i.e., Rs. (3,974) Cr. In the following year, the NPAs of the bank slightly decreased but retained with the rise of loan advances Rs. 419493, and the bank's net profit increased positively, i.e., Rs.1,325Cr.The reason behind the positive profit recovery of NPAs. In the following year, 2017-18, NPAs of the bank again have increased Rs. 48,684, but the bank tried to increase loan advances in the result of net

profit of the bank was in negative Rs 1,22,82 Cr. We got to see the same result in 2018-19 years also. Thus, the adverse effect of NPAs is seen on the bank's profit in the year 2017-18 and 2018-19. In the year 2019-20, the NPAs of the bank have decreased to Rs 27,218.90 Cr, and net advances of the bank have increased, i.e., Rs. 4,71,828CR. Along with net profit increased come in positive Rs. 336CR. Thus, it is seen that the sudden decrease of the NPAs of the bank has majorly impacted the profitability of the bank in the year 2019-20. In the following year 2020-21, NPAs of the bank is comparatively increased, and high rise in the loan advances. i.e., Rs. 6,74,230 Cr. Then the net profit of the bank increased too. The reason behind of sudden increase was company managed to increase the loan advances in the year 2020-21. So, PNB has increased loan advances every year to make net profits and reduce NPAs.

It is found that the impact of covid-19 has been found but to a lesser extent because the bank increased loan advances in the time of covid-19 and reduced NPAs to a great extent in terms of net profit.

4.3 Bank of Baroda (Amount in Rs. Crore)

Year	NPAs (Rs.)	Net Profit(Rs.)	Net Advances(Rs.)
2015-16	19,046.46	-5,395.54	383,770.18
2016-17	18,080.00	1,383.14	383,259.22
2017-18	23,483.00	-2,431.81	427,431.83
2018-19	15,609.50	433.52	468,818.74
2019-20	21,576.60	546.19	690,120.73
2020-21	21,800.00	828.96	706,300.51

Table No: 3 Bank of Baroda Net Profit, NPAs and Net Advances during FY 2015-16 to 2020-21

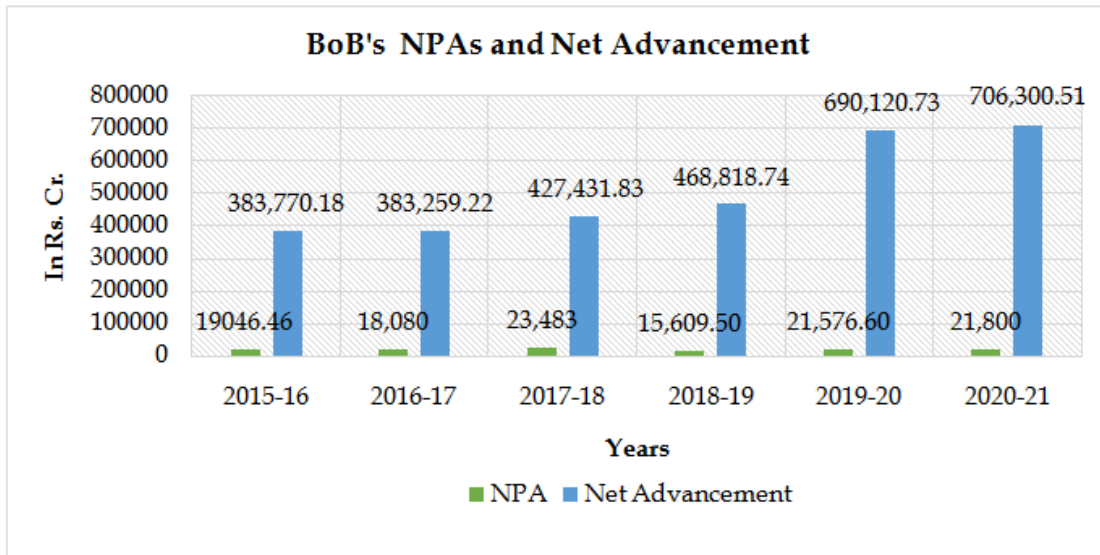


Figure No: 5 Statistics of Bank of Baroda for FY 2015-16 to 2020-21

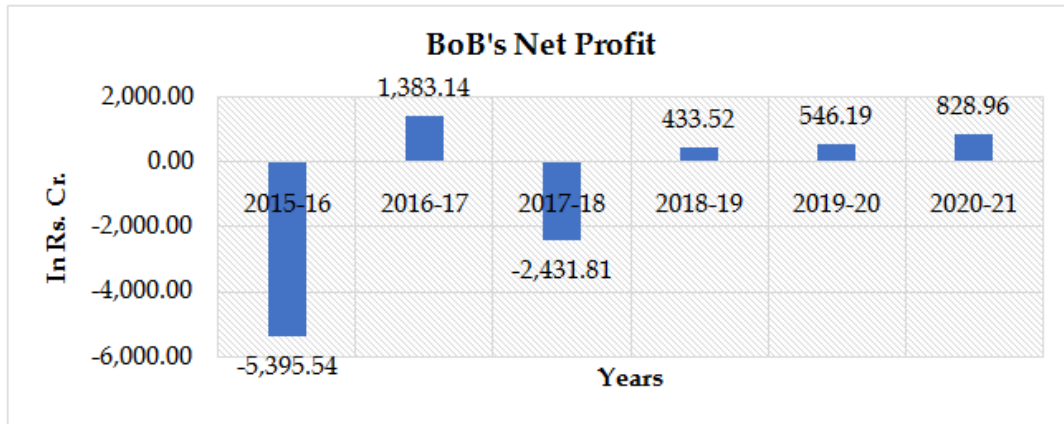


Figure No: 6 Statistics of Bank of Baroda for FY 2015-16 to 2020-21

The above charts show the results: Non-Performing Assets (NPAs) for 2015-16 is Rs. 19,046.46 CR and Net loan advances are Rs 3,83,770.18 Cr. But net profit of the bank was negative, i.e., Rs. (5,395.54) Cr. In the following year, the NPAs of the bank slightly decreased but retained with loan advances Rs. 3,83,259.22 Cr. and net profit of the bank increased positively, i.e., Rs. 1,383.14 Cr. The reason behind the positive profit recovery of NPAs. In the next year, 2017-18, NPAs of the bank again have increased Rs. 23,483, but the bank tried to increase loan advances as the result of net profit of the bank was in negative Rs (2,431.81). In the following year, 2018-19, NPAs of the bank has decreased to Rs. 15,609.50 Cr. and the bank increased loan advances to Rs. 4,68,818.74 Cr. subsequently, the bank's net came in positively with Rs. 433.52 Cr.

In the year 2019-20, the NPAs of the bank have increased to Rs. 21,576.60 Cr., and net loan advances of the bank have increased, i.e., Rs. 6,90,120.73 Cr. Along with net profit increased come in positive Rs. 546.19 Cr. Thus, it is seen that the sudden increase of the NPAs of the bank has majorly impacted the profitability of the bank in the year 2019-20. In the following year 2020-21, NPAs of the bank is comparatively increased, and high rise in the loan advances i.e., Rs 7,06,300 Cr. Then the net profit of the bank increased too. The reason behind of sudden increase was company managed to increase the loan advances in the year 2020-21. So, the Bank of Baroda has increased loan advances every year for earned net profits and tried to reduce NPAs.

This research paper found that the impact of covid-19 has been found but to a lesser extent because the bank increased loan advances in the time of covid-19 and reduced NPAs to a great extent in terms of net profit.

4.4 HDFC Bank Ltd.

Year	NPAs(Rs.)	Net Profit(Rs.)	Net Advances (Rs.)
2015-16	1,320.37	12,296.21	464,593.96
2016-17	1,843.99	14,549.64	554,568.20
2017-18	2,601.02	17,486.73	658,333.09
2018-19	3,214.52	21,078.17	819,401.22

2019-20	3,542.36	26,257.32	993,702.88
2020-21	4,554.82	31,116.53	1,132,836.63

Table No. 4 Bank of Baroda Net Profit, NPAs and Net Advances during FY 2015-16 to 2020-21

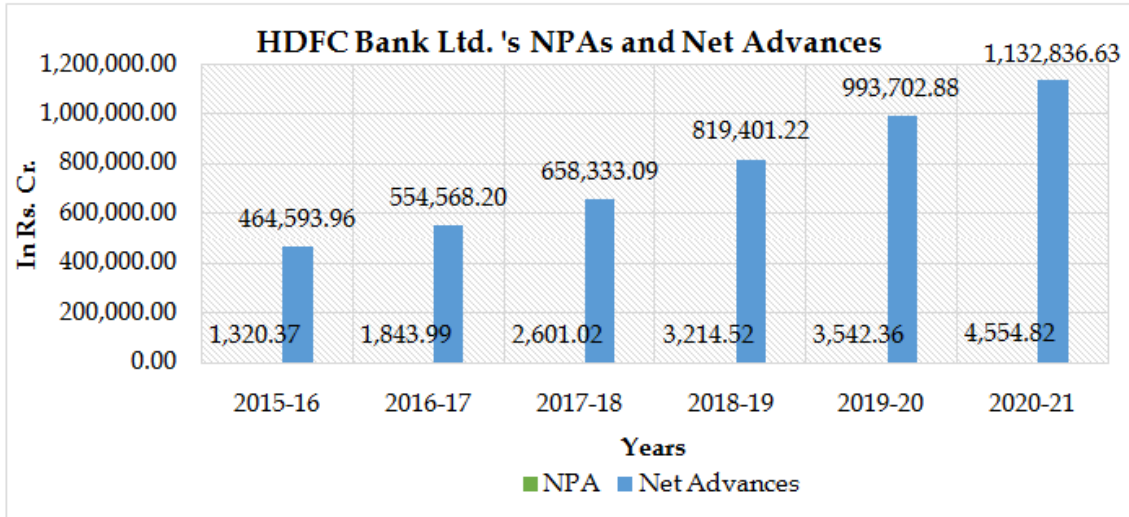


Figure No: 7 Statistics of Bank of Baroda for FY 2015-16 to 2020-21

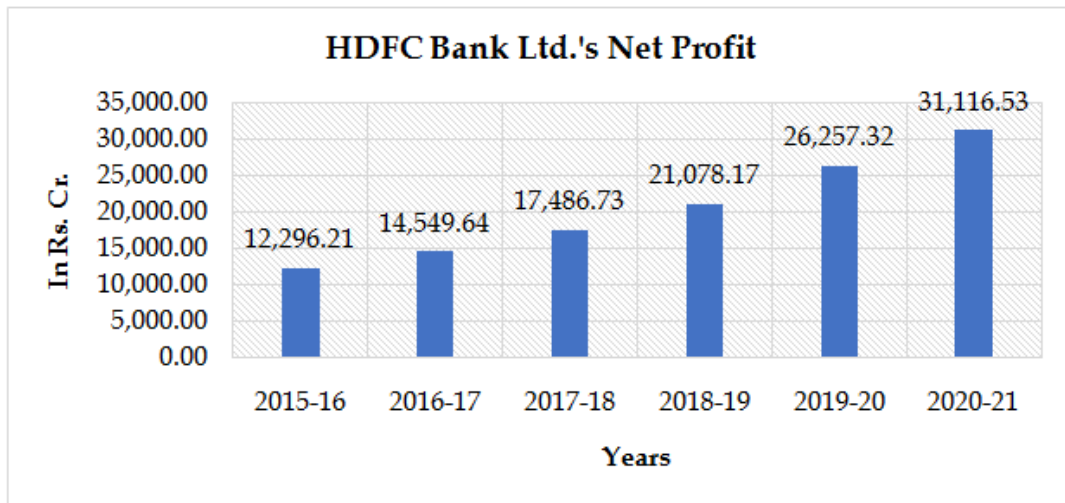


Figure No: 8 Statistics of Bank of Baroda for FY 2015-16 to 2020-21

The above graphs show the results, Non-Performing Assets (NPAs) for 2015-16 is Rs. 1,320.37 Cr., and Net loan Advances is Rs. 4,64,593.96 Cr. However, in the same year, the net profit was Rs. 12,296.21. In the following year, the NPAs of the bank slightly increased but retained with a high rise of loan advances Rs. 55,45,568.20 and net profit of the bank increased to i.e., Rs. 14549.64 Cr.

The reason behind the positive profit recovery of NPAs. In the next year, 2017-18, NPAs of the bank again has increased Rs. 2601.02 Cr. However, the bank tried to increase loan advances. As a result, the bank's net profit increased by Rs 17486.73Cr. There were surprising findings obtained for the year 2018-19 NPAs of the bank: Rs. 3214.52Cr and increment in loan advances Rs. 8,19,401.22Cr. The net profit of the bank was Rs. 21078.17Cr.

In 2019-20, the bank managed NPAs Rs 27218.90 Cr, and net advances of the bank have increased, i.e., Rs. 4,71,828 Cr. simultaneously, net profit increased Rs. 26,257.32 Cr. Thus, it is seen that the sudden decrease of the NPAs and increment of loan advances of the bank has majorly impacted the bank's profitability in the year 2019-20. In the following year 2020-21, NPAs of the bank is comparatively increased and high rise in the loan advances, i.e., Rs. 1,132,836.63 Cr. Then net profit of the bank high increased too. The reason behind of sudden increase was company managed to increase the loan advances in the year 2020-21. So, HDFC Bank Ltd. has increased loan advances every year for earned net profits and tried to reduce NPAs.

This research paper found that the impact of covid-19 has been found but to a lesser extent because the bank increased loan advances in the time of covid-19 and reduced NPAs to a great extent in terms of net profit.

5. Conclusion

The banking industry has also not been spared from being affected by COVID-19. The outbreak of COVID-19 has exaggerated the Indian banking industry. The Naval coronavirus is affecting the Banking industry in many ways. We tried to summarize the impact of covid-19 on the Indian economy and the Indian Public and private banking sector. We carried out our study by considering Punjab National Bank, Bank of Baroda, HDFC Bank Ltd., and ICICI Bank Ltd. as our samples and NPAs, net profit, net loan & advances for five consecutive years. Data were used as the variables from various sources.

Furthermore, the action taken by RBI to overcome this covid-19 pandemic situation on the economy and banking sector are discussed here. In the public sector banks, Punjab National Bank managed NPAs and Net advances due to increasing net profit every year. PNB and Bank of Baroda tried to overcome this pandemic situation, increased loan advances, reduced to NPAs, and positively earned profit. In Private sector banks, ICICI Bank and HDFC bank surprisingly managed NPAs and Net advances comparatively public sector banks. Private sector banks remained either unaffected or slightly affected adversely during the pandemic. In contrast, public sector banks were affected severely due to non-recoverable NPAs and could not positively maintain profitability.

References

- [1] Ambrish Kumar A. P., & Jain, S. (2021). Impact of Covid-19 Outbreak on Performance of Indian Banking. International Semantic Intelligence Conference, New Delhi: CEUR Workshop Proceedings (CEUR-WS.org).
- [2] Agarwal, Shubhi & Singh, Archana (2020). Covid-19 and Its Impact on Indian Economy. International Journal of Trade and Commerce-IIARTC, 9 (1), 72-79
- [3] Bobade, P. (2020). Study the Effect of Covid-19 in the Indian Banking Sector. Proceedings of 2nd International Research E-Conference on Corporate Social Responsibility & Sustainable

- Development (pp: 179-184). Pune: Novateur Publication's JournalNX- A Multidisciplinary Peer Reviewed Journal.
- [4] Yadav, S.K.S. & Qureshi , M. M. (2020). Impacts of Covid-19 on Indian Travel & Tourism Industry. *International Journal of Trade and Commerce-IIARTC*, 9 (2) 310-318.
- [5] Parwej, Asif (2020). The Impact of Pandemic Covid-19 on the Indian Banking System. *International Journal of Recent Scientific Research*, 11 (10), 39873-39883
- [6] Sharma, Poonam & Mathur, Neha (2021). Covid-19: Impact of Banking Sector. *JPS Scientific Publications*, chapter no-23
- [7] <https://www.bankofbaroda.in/shareholders-corner/annual-reports>
- [8] https://v1.hdfcbank.com/aboutus/cg/annual_reports.htm
- [9] <https://www.icicibank.com/aboutus/annual.page>
- [10] <https://www.pnbindia.in/annual-reports.html>
- [11] <https://www.moneycontrol.com/financials/bankofbaroda/results/yearly/BOB>
- [12] <https://www.moneycontrol.com/financials/bankofbaroda/profit-lossVI/BOB#BOB>
- [13] <https://www.moneycontrol.com/financials/icicibank/balance-sheetVI/ICI02>
- [14] <https://www.moneycontrol.com/financials/icicibank/profit-lossVI/ICI02#ICI02>
- [15] <https://www.moneycontrol.com/financials/canarabank/results/yearly/CB06>
- [16] <https://www.moneycontrol.com/financials/canarabank/profit-lossVI/CB06#CB06>
- [17] <https://www.moneycontrol.com/financials/punjabnationalbank/results/yearly/PNB05>
- [18] <https://www.moneycontrol.com/financials/punjabnationalbank/profitlossVI/PNB05PNB05>
- [19] <https://bfsi.economictimes.indiatimes.com/news/policy/10-decisions-taken-by-rbi-to-counter-coronavirus-impact-on-economy/74844644>