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IMPACT OF COVID-19 ON SELECTED BANK OF INDIA

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Abstract

The COVID-19 outbreak has challenged Indian Banking sector adversely. The pandemic is impacting the Banking Sector in multiple ways — from business continuity issues and operational considerations to the overall financial outlook. Indian Banks reported Increase in NPAs, demand of credit and in turn impacted profitability. Because of the shutdown, there were no source of Revenue and expenses were increasing. So, People were demanding advances and on the other hand they were not able to repay the loan. So, liquidity crisis arose. To overcome this situation, Reserve bank of India and central Government has taken many measures to provide relief. This Research Paper is an attempt to analyse the relationship between NPAs, and Profitability due to COVID-19 and also impact of measures taken by RBI and government in Indian Banking sector. For the purpose, we have analysed four Indian Banks i.e. Axis Bank, ICICI Bank, YES Bank, Kotak Mahindra Bank for a period of 4 years from 2018 to 2021. The data was analysed using statistical tools like correlation coefficient to examine the impact of NPAs on profitability. Some experts believe that Banking sector mainly in India may take long time to recover from the impact of this pandemic.

Introduction

In January 2020, corona virus emerged in India and hit millions of lives with thousands of deaths across the world. To combat with COVID-19, Indian Government announced complete lockdown in the country starting on March 24, 2020 and the same was extended to 3rd May, 2020. A similar action has been taken by many governments around the world. However, this kind of measures taken by Indian Government to control the spread of covid-19 pandemic impacted the GDP of the country in disruptive way. One of the most important sectors of Indian economy is banking sector which is responsible for all the financial activities going on in the country and working as a supporting hand to all of the industries in term of financing, credit, transactions, collection and payment and so on. Covid-19 has caused so much repercussion in the performance of the Indian banking sector in terms of NPAs, Profitability, etc.

Indian banks have faced a difficulty during the pandemic period and it has changed the profitability of the Indian banks. They have faced many challenges and the changes they made, have impacted on their financial statements. One of the core impacts was because of the increase in NPAs, non-repayment of loans and demand of credit and these have caused the banks to reduce their profitability from the year 2019 onwards.

To Lessen the impact of COVID-19 on Indian Banks, various policy measures were taken by Reserve Bank of India and Indian Government at centre level and state level. some experts believe that Banking sector mainly in India may take long time to recover from the impact of this pandemic.

Introduction of Indian Banking Sector

Before touching the real issue, let us first give a background of the Indian Banking sector. A bank is an institution which has a primary function to accept deposits and lend money to needful individuals, businesses, and governments. Banks are considered to be trustworthy around the world. When any individual deposits money in the bank, doesn't matter what is the amount, the individual knows that the money will be safe in the bank as compared to anywhere else. Besides this, banks provide numerous services such as loan facilities, fixed deposit schemes, debit & credit card facilities, etc. In India, currently there are a total of 33 banks, of which 12 are public sector banks and rest 21 are private sector banks.

The banks have dominant position in India's economy and it is major contributor towards employment in India. Unfortunately, many of the performance indicators of India's banks have faced negative situation since last five years. This situation holds accurate in case of PSBs as they seem more inefficient compared to their peer groups.

To get the better picture of impact of covid-19 on Indian banks, one must be aware of the factors that affect the profitability of bank.

LITERATURE REVIEW

Covid-19 Virus starts spread up in the world from 1st December 2019, Many of the researcher starts writing on the research article related to Covid-19. Their Effect on word economy, Covid-19 effect on Indian economy, How the human beings psychological become week due to Corona Virus.

Research Paper published on June 2020 on the title of "A study on impact of COVID-19 on banking sector". An Indian Perspective Research paper is emphasize on decrease in productivity of the corporate, Supply chain disruption, Manufacturing Hindrances & crippled health systems. Banking & Financial system suffer from losses. Increased in Bad loan, reduce income of tourism entertainment sector etc.

Research Paper is based on The Impact of COVID-19 on Financial Markets, Banking Systems, and the Overall Economy published on June 2020. The paper emphasize on what are the effect of COVID-19 on fiscal policies, why the financial market go down what are the changes in banking policy, why the economy is slowdown etc.

Research Methodology

I. Problem Statement:

How Covid-19 will impact Banking sector of India.

II. Objectives of the study:

To find the Impact of the covid-19 pandemic on the profitability of the bank. To establish the relationship among the NPAs and Net profit. To study how the steps taken by RBI have overcome the NPAs in Indian banks what will be the future effects of the same.

III. Sampling Frame:

Sample Size: The Sample population for the study is All the Public & Private banks of India. Sampling Unit: The sampling units consist of four banks.

IV. Research Design:

The present study is a descriptive study which tries to establish the relationship among the NPAs, advances and Net profit. The research undertaken was a quantitative research as it was concerned with numerical, applied statistics, and use of graphs and tables.

V. Data collection:

The study is planned to be carried out with the help of secondary data.

VI. Sources of Data:

Bank's annual reports
Money control

Magazines, newspaper, articles, and journals
Literature review

VII. Scope of future research:

The research can be further done on various banks including public as well as private banks. Our research can be used to predict the future impact of the NPAs and moratorium given.

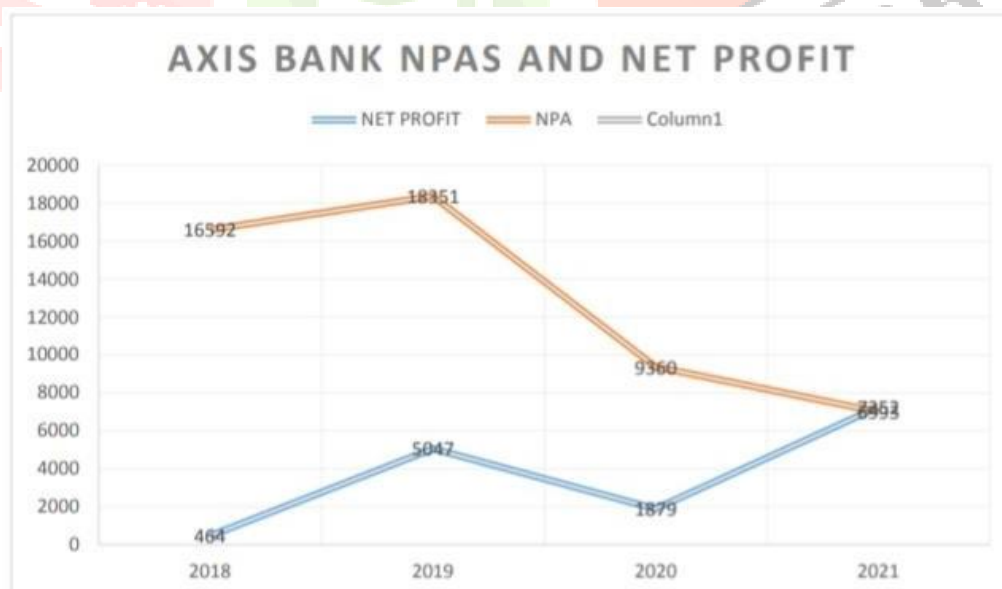
VIII. Limitations of the study:

To do the research, we have taken only four banks.

We have taken only four years' period for the research including 2020-21.

Data Interpretation:**Axis Bank**

YEAR	2018	2019	2020	2021
Net Profit	464	5047	1879	7252
NPA	16592	18351	9360	6993



Interpretation:

In the above chart, NPAs for the year 2018 is Rs. 16592 CR and Net Profit for the year is Rs464 CR. In the subsequent year, NPA is very high as compare to net profit. As it shows there is an effect of NPA on the profit. It shows an adverse effect between NPA and net profit. In 2019 Net profit is subsequently rise as compare to 2018. The NPA is Rs 18351 CR and Net profit is Rs 5047 CR. Here both NPA and net profit rises together. Due to the increase in advances and Net cash flow the net profit and NPA rise.

In 2020, pandemic situation was there due to which Net profit and NPA has been gradually reduce. As compare to 2019 the Net profit is reduce to Rs 3168 CR and NPA is reduce to Rs 8991 CR. As Covid-19 effect reduce the NPA and net profit in the year 2020. In 2021, the Net profit is Rs 7252 CR and NPA is Rs 6993 CR. Here Net profit is increase but NPA is decrease as compare to 2020. As NPA reduce the profitability of bank has been increase. As low level of NPA suggests low probability of a less number of credit default that affect the profitability and net worth of bank and also erodes the value of the assets.

Pandemic effect:

In the year 2020 Net profit and NPA both are decreasing. But in the year 2021 Net profit is rising and NPA is decreasing.

1. NPAs are decreasing
2. Loan disbursement is also increasing

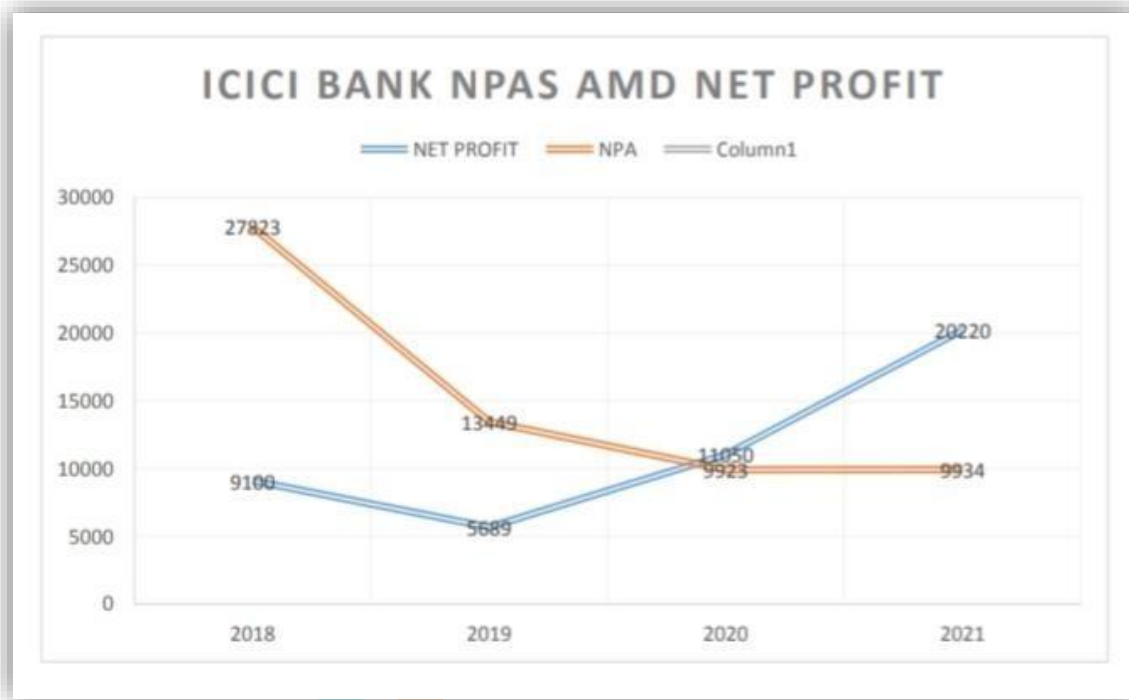
Above both the parameters show that the NPA is reducing and Net profit is increasing. The reason behind the same are:

1. NPAs are lower than the Net profit
2. There is a huge impact on the Indian economy
3. As the pandemic decrease the NPA there is an increase in Net profit.

The above reasons led to increase the profitability of the bank for the year 2021.

ICICI BANK

YEAR	2018	2019	2020	2021
Net Profit	9100	5689	5689	20220
NPA	27823	13449	13449	9934



Interpretation

As per the above data it shows that Net profit has been increase and NPA has been decrease from 2018 to 2021.

In 2018, the Net profit is Rs 9100 CR and NPA is Rs27823 CR here NPA is higher than Net profit. In 2019 the net profit and NPA decrease. The Net profit has been reduce to Rs 5689 CR there is an decrease of Rs3411 CR in net profit as compare to 2018. The NPA has been reduce to Rs 13449 CR there is a decrease of Rs 14374 in NPA as compare to 2018.

In 2020, when pandemic break there was an increase in Net profit as compare to 2019. The Net profit has been rise very high as compare to 2019 it is rise by 51% in 2020. In 2021 the Net profit has been increase to Rs 20220 CR and the NPA has been stable for 2020 and 2021. Due to the no effect in NPA the Net profit has been increase. As the interest on loan and advance is been high a no further credit was been there.

Pandemic effect:

In year 2020 and 2021 Net profit is increase and NPA is been decrease.

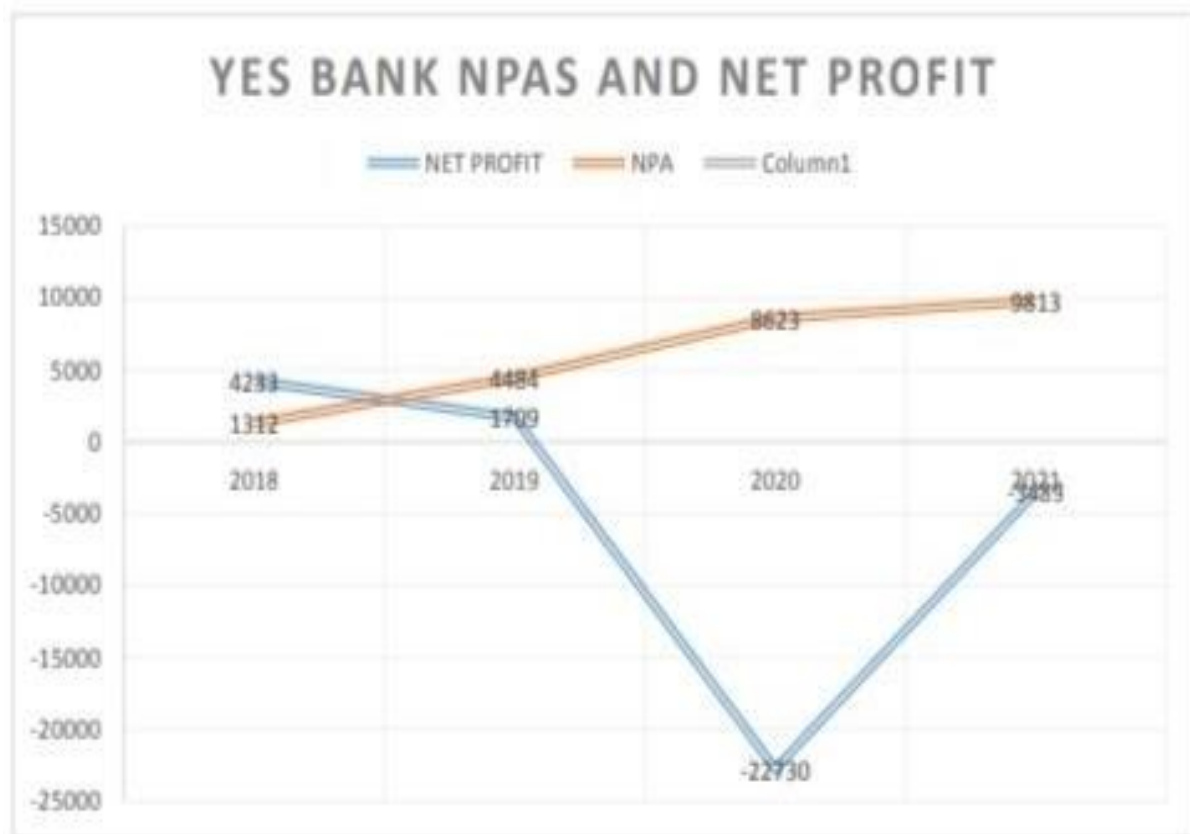
1. NPAs are decreasing
2. Loan disbursement is also increasing

Above both the parameters show that Net profit is increasing. The reason behind the same are:

1. NPAs are lower than the Net profit
2. Indian economy shows a huge impact
3. The recovery of NPA in 2021 is 77.7%.

YES BANK

YEAR	2018	2019	2020	2021
Net Profit	4233	1709	-22730	-3489
NPA	1312	4484	8623	9813



Interpretation

As per the above chart the net profit is been reduce and NPA is been increase from the year 2018 to 2021.

In 2018, the Net profit is Rs 4233 CR and NPA is Rs 1312 CR as here NPA is low so the Net profit is high. In 2019 the Net profit reduce to Rs1709 there is been reduction of RS 2524 CR and NPA has been increase by Rs 4484 CR. As it shows profitability will reduce when NPA is high.

In 2020 profitability goes in negative way due to increase in NPA. Here the loans and advances is given very high due to pandemic. Customer demand for more and more credit so NPA is high. In 2021 also Net profit is going in negative only and NPA is increase from Rs 8623 CR to Rs9813 CR. It is seen that Net profit is reduce as NPA is increasing.

Pandemic effect:

NPA has been increase gradually in the Covid-19. As people are demanding more credit. Due to the pandemic there was shortage of cash in economy and more advances were demanded. As increase in NPA reduce the probability of increase in profitability.

Above both the parameters shows that Net profit is decreasing. The reason behind the same are:

1. NPA are higher than the Net profit
2. There is an huge impact on the Indian economy.
3. The bank increase the provision for the NPA for the year on account of pandemic.

The above three reasons led to reduce the profitability of the bank for the year 2021.

Kotak Mahindra Bank

YEAR	2018	2019	2020	2021
Net Profit	1665	1695	1744	3105
NPA	6147	7120	8607	9903

**Interpretation**

Kotak Mahindra Bank's NPA and Net profit are increasing from 2018 to 2021. It is clearly seen that there is no any effect of increased NPA on Net profit. The reason behind the same is loan advances and net profit. Net profit is much higher than the NPA of the companies. Thus NPA have not affected the profitability of the business.

Pandemic effect:

There was gradually increase in NPA and net profit. The increase in Net profit was same from 2018 to 2021. Thus there was a negligible impact on the Net profit of the bank thought the whole Indian economy was down.

Correlation:-

Correlation Of	AXIS BANK	ICICI BANK	YES BANK	KOTAK MAHINDRA BANK
Profit AndNPAs	-0.37	0.8	-0.65	0.81

Note:

- If the correlation is **less than 1** then there is reciprocal relation between the two variables.
- If the correlation is **near 0**, then there is no relation between the two variables.
- If the correlation lies between **0.1 to 0.5**, then there is moderate impact of one variable on the other.
- If the correlation is **more than 0.5**, then there is high impact of one variable on the other.

Axis Bank:

The correlation between Net profit and NPAs comes to -0.37. This shows that both the variable have reciprocal relationship. It shows that NPAs is higher than it Net profit. Thus NPAs, have greater and negative impact on profitability of the business.

ICICI Bank:

The correlation between Net profit and NPAs comes to 0.80. The correlation of Net profit and NPAs shows that there is positive relation between the two. This is because ICICI Bank has much higher profitability than its NPAs are. Thus, there is no impact of NPA on profitability of the bank.

Yes bank:

The correlation between Net profit and NPAs comes to -0.65. The reason is justifiable for the about correlation. There is a reciprocal relationship between NPAs and Net profit. The reason is that the yes bank have higher NPAs than their Net profit. Their loans advances increased in 2019. During the pandemic period, people were in need of credit demand. Thus the NPA is rise in 2021 due to which profitability has been decreased.

Kotak Mahindra Bank:

The correlation between Net profit and NPAs comes to 0.81. The correlation 0.81 shows that there is a positive relation between Net profit and NPAs. This is because Kotak Mahindra Bank has much higher profitability than, its NPAs are. Thus the increasing NPAs does not have impact or negligible impact on the profitability of the bank.

FINDINGS

- Axis Bank has exhibited increase in profitability and decreasing NPAs in 2021.
- On the other hand, ICICI bank has reported sudden increase in profit and decrease in NPAs in2021.
- Yes Bank has reported increase in NPAs and decrease in Net Profit. Reason behind the decrease isPandemic Situation.
- Kotak Mahindra Bank there was no effect of Pandemic Situation as there is an increase in Net andNPAs.
- Correlation between Net Profit and NPAs:

AXIS BANK	Reciprocal Relationship
ICICI BANK	Positive Relationship
YES BANK	Reciprocal Relationship
KOTAK MAHINDRA BANK	Positive Relationship

MEASURES & RELIEF BY RBI IN RESPONSE TO COVID-19:

The measures announced by the RBI were primarily aimed boosting liquidity, expanding credit flow and easing the stress in the banking and financial services sector.

1. **Repo Rate** – RBI announced that it was cutting the repo rate by 75 bps, or 0.75% to 4.4. The Repo Rate was earlier 5.15; last being cut in October 2019.
2. **Reverse Repo** – The regulator 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 lakh crore with the RBI. The current reverse repo rate was 4%.
3. **Loan Moratorium** – In a massive relief for the middle class, the RBI Governor also announced that lenders could give a moratorium of 3 months on term loans, outstanding as on 1 March, 2020. This is applicable to All Commercial Banks including Regional, Rural, Small Finance, Co-Op Bank, All India Financial Institutions and NBFCs including Housing Finance and Microfinance.
4. **CRR** – The RBI also announced that the Cash Reserve Ratio (CRR) would be reduced by 100 bps, or 1%, to 3%. This would be applicable from March 28, and would inject Rs. 1,37,000 crores
5. **LTRO** – The RBI will also undertake Long Term Repo Operations (LTRO); allowing further liquidity with the banks. The banks however are specified that this liquidity will be deployed in commercial papers, investment grade corporate bonds and non-convertible debentures.
6. **Ease of Working Capital financing** – Lenders were allowed lending to recalculate drawing power by reducing margins and/or by reassessing the working capital cycle for the borrowers. The RBI also specified that such a move would not result in asset classification downgrade.
7. **Working Capital Interest** – A Three-month interest moratorium shall also be permitted to all lending institutions.
8. **Deferment of NSFR** - The Net Stable Funding Ratio (NSFR), which reduces funding risk by requiring banks to fund their activities with sufficiently stable sources of funding was postponed to October 1, 2020. The NSFR was earlier supposed to be implemented by April 1, 2020.
9. **MSF** – Marginal Standing Facility (MSF) has also been increased to 3% of SLR, available till June 30, 2020. “This measure should provide comfort to the banking system by allowing it to avail an additional ` 1,37,000 crore of liquidity under the LAF window in times of stress at the reduced.” said the RBI.
10. **Fresh Liquidity** – The impact of all the announcements today shall inject almost 3.2% of GDP, the Governor said in his brief today. The RBI also added that since February 2020 it had injected Rs 2.8 lakh crore of liquidity, equivalent to 1.4 percent of GDP.

CONCLUSION:-

COVID-19 outbreak has hampered the Indian Banking operations and overall Banking sector not only banking sector but it has severely affected every industry across the globe. As industries are attempting to recover, there is need of some solid measures and strategic initiatives. RBI must take all possible initiatives to maintain sufficient liquidity in the financial system and its constituents in the face of COVID-19. Government is required to take decisions and actions to uncertainty and financial stress in the economy. Continuous measures should be taken to enable the smooth functioning of both money and capital markets. COVID-19 breakdown has caused severe damage in banking sector. Actual NPAs will remain suppressed till the extended moratorium period gets over. According to S&P Global rating, Indian Banking sector will be slower to recover and it will happen only beyond 2023. The path to recovery will be more painful for emerging market such as India. There is an expectation of an economic rebound in 2021 because of the release of vaccines. After an economic rebound also, it may take a full 18 months or more to recover. There is

much uncertainty on the recovery path. For now, we can only focus on systematic measures to revive the profitability and maintain liquidity in the market.

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