

A STUDY ON OUTBREAK OF COVID-19 PANDEMIC FINANCIAL PERFORMANCE OF SELECT BANKS IN BANGALORE

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Abstract

Indian banking sector plays a vital role in development of the Indian economy. In 2019 where COVID-19 outbreak has challenged entire world it has an impact on the Indian Banking sector also. Reserve Bank of India (RBI) states that , India's banking sector is sufficiently capitalised and well-regulated. Credit, market and liquidity risk studies suggest that Indian banks are generally resilient and have withstood the global downturn well. In the Pandemic Indian banking industry has recently witnessed lot of innovative banking models like payments and small finance banks. On the other hand few banks are facing the challenges on recovery of the NPAs, Credit recovery that has a impact on the Profits of the banks. This present study is made to an attempt the impact of NPAs, Credit recovery with Profitability in the pandemic situation in select Banks in Bangalore. For the study, five Indian Banks in Bangalore has taken

i.e. Kotak Mahindra Bank, ICICI Bank, HDFC Bank, Axis Bank and YES Bank for a period of 3 years from 2019-20 to 2021-22. The data was analysed using statistical tools like correlation coefficient and graphical representation has been done to evaluate the data.

Key Words: Banking, NPA, RBI, Financial performance, Profitability

Introduction

The ongoing pandemic has forced all sub-sectors within the banking industry to innovate. The banking sector, which is anxiously viewing the rising Covid graph in the country, doesn't expect a repeat of 2020 but bankers are bracing for a rise in non-performing assets (NPAs). On the other hand, they expect the Reserve Bank of India (RBI) to delay normalisation of the accommodative monetary policy and any possible hike in interest rates, with focus remaining on growth. The non-performing assets (NPA) situation of the Indian banking system as represented by 23 banks — nine public sector banks (PSBs) and 14 private sector banks (PvBs)

— that have declared results so far indicates a gradual improvement in the NPA ratio in September 2021, according to an assessment by CARE Ratings.

RBI's Financial Stability Report (FSR) of 2020 foresaw a surge in the Gross NPA ratio of the banking sector up to 13.5 percent in September 2021, from 7.5 percent in September 2020. The Gross NPA (GNPA) ratio of the aforementioned banks has improved to 6.97 per cent as at September-end 2021 against 7.32 per cent as at June-end 2021 and 7.36 per cent as at September-end 2020, the credit rating agency said. The Gross NPA (GNPA) ratio of PSBs has improved to 11.52 per cent as at September-end 2021 against 11.94 per cent as at June-end 2021 and 12.32 per cent as at September-end 2020, according to the agency.

According to the Reserve Bank of India's latest Financial Stability Report (July 2021), macro stress tests indicate that the GNPA ratio of scheduled commercial banks (SCBs) may increase from 7.48 per cent in March 2021 to 9.80 per cent by March 2022 under the baseline scenario; and to 11.22 per cent under a severe stress scenario, although SCBs have sufficient capital, both at the aggregate and individual level, even under stress.

REVIEW OF LITERATURE

Saha, M., and Zaman, A. (2021) in their study titled Management of NPAs in banks with special reference to UBI found that with the decrease in NPA level, profitability of banks increased.

Ambrish Kumar Mishra, Archana Patel and Sarika Jain (2021) carried out a research study titled "Impact of Covid-19 Outbreak on Performance of Indian Banking Sector" demonstrates repercussions of the Covid-19 in the performance of the Indian banking sector by creating and evaluating the largest comprehensive knowledge base called ontology (Covid19-IBO) in order to get semantic information, in continuation of the same they address few important research questions with respect to Indian economy.

Vikas Kumar and Sanjeev Kumar (2021) carried out a research study titled "Impact of Covid- 19 on Indian Economy with Special Reference to Banking Sector: An Indian Perspective" demonstrates overview of the impact of COVID-19 situation on Indian economy and its banking sector and also analyses the various policy measures taken by Reserve Bank of India and Indian Government at centre level and state level to improve the current economic situation of the country.

Hawaldar, I.T, Spulkar, C., Lokesh, A., Birau, R., Robegen, C. (2020) in their study analysing non-performing assets in agriculture loans. A case study in India concluded that there is no significant difference in pre and post sanction of agriculture loans and management of non- performing assets by banks. The wilful default by borrowers and more NPAs in banks are due to debt waiver policies announced by political parties.

Jethwani, B., Dave, D., Ali, T., Phansalker, S., and Ahhirao, S. (2020) in their study Indian agriculture GDP and NPA: A regression model found that the repayment of farm loan adversely affects as factors like rural population, low export value of crop and low crop production for the year. It should be understood that the farm loan waivers cannot solve the problem.

Selvam, P. and Premnath S., (2020) in their study titled “Impact of coronavirus on NPA and GDP of Indian Economy” finds that the NPAs increased during the period and suggested that government should resolve pending cases quickly and stop mandatory landings which is the real problem segment.

Dr. Jitender Singh and Dr. B. S. Bodla (2020) carried out a research study titled “Covid-19 Pandemic and Lockdown Impact on India's Banking Sector: A Systemic Literature Review” demonstrates the impact of this pandemic on Banks and NBFCs due to lockdown which has resulted into closure of all commercial organisations, educational institutions, public and private offices, suspension of means of transportation, etc. by considering views expressed by several groups including economists, financial institutions like IMF, World Bank and consulting firms.

Sharma S., Rathore D.S., and Prasad, J. (2019) They found that both in public & private sector banks the major reason for the NPAs is miss-utilisation of bank loans and poor recovery management. The NPAs are increasing in agriculture and industries. They suggested improving corporate governance for better operational and credit decisions.

Shiv Kumar, V. and Devenadhan, K.(2019) Done a study analyzing the factors implication of NPAs in ICICI BANK through factor analysis to be encountered. Researchers view that

implication of NPAs are at a moderate level. It can be concluded that the loan asset management of ICICI BANK has put the right measures to address the bad effects of funding mismanagement and to resolve serious adverse effects of NPA.

Research GAPS

Many researchers have studied NPAs of banks, but as per literature available very few research has been conducted regarding NPAs of Pandemic situation and NPA in view of Private banking sector. Trend of NPA Level in Private Sector Banks demonstrates trends of NPA in banking industry, the factors that mainly contribute to NPA raising in the banking industry and also provides some suggestions how to overcome this burden of NPA on banking industry in the pandemic situation is the research gap of the study where impact of NPAs is study to evaluate the financial performance in private banking sector in Bangalore branches.

Need for the Study:

This study attempts to evaluate the impact of NPAs on the financial performance select top 5 private banking sector in Bangalore branches. Financial performance is the most importance aspects in the growing economy where in pandemic evert thing is shut down and lock down happens getting cash flows is very challenging task to banks, where lots of NPAs recovery was challenging. Hence this study attempt to analysis the profitability and NPAs in the pandemic scenario.

Objectives of Study:

- To study the impact of the covid-19 pandemic on the profitability and NPAs of the select bank in Bangalore.
- To analysis the relationship in covid-19 pandemic on the profitability and NPAs of the select bank in Bangalore
- To Suggest the implication to overcome this challenging covid-19 pandemic in Bangalore.

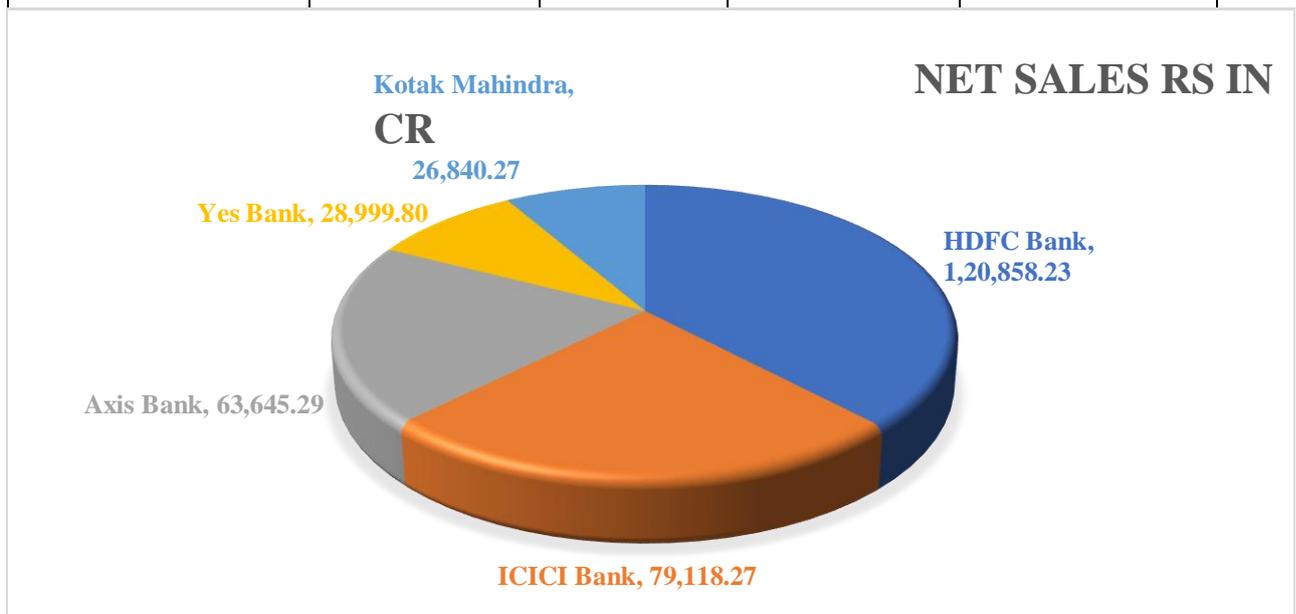
Research Methodology:

This study is a descriptive and analytic in nature which tries to establish the relationship in covid-19 pandemic on the profitability and NPAs of the select bank in Bangalore. The research undertaken was quantitative research as it was concerned with numerical, applied statistics, and use of graphs and tables. Sample Size: The Sample population for the study is top 5 private banks of Bangalore. For the study, five Indian Banks in Bangalore has taken i.e. Kotak Mahindra Bank, ICICI Bank, HDFC Bank, Axis Bank and YES Bank for a period of 3 years from 2019-20 to 2021-22. The study is planned to be carried out with the help of secondary data. **Data Analysis and Interpretation:**

The data collected through the interview and secondary mode by various newspapers, website, banks report are analysed considering each factor and the analysis is presented below.

Table showing the Net Sales of selected banks

Bank Name	Last Price	Change	% Change	Net Sales (Rs. cr)
HDFC Bank	1,531.20	32.80	2.19	120,858.23
ICICI Bank	816.00	6.10	0.75	79,118.27
Axis Bank	802.00	20.95	2.68	63,645.29
Yes Bank	967.00	44.95	4.88	28,999.80
Kotak Mahindra	1,943.00	57.45	3.05	26,840.27

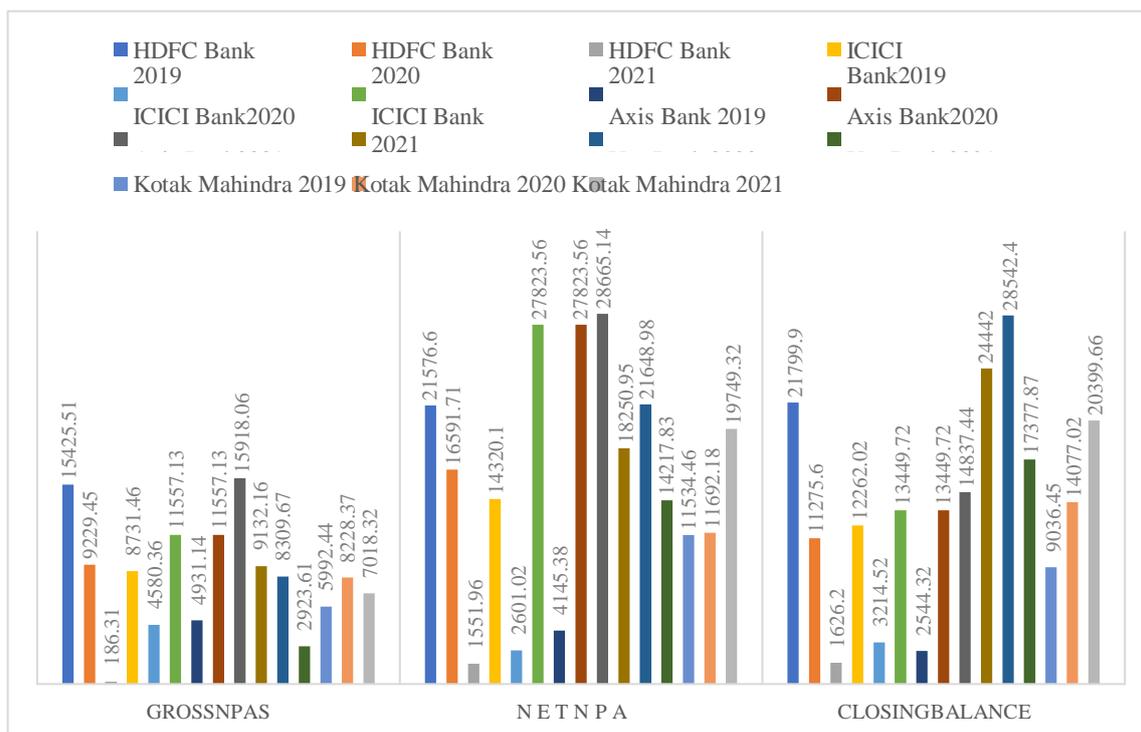


Analysis and interpretation

From the above data the net sale HDFC Bank is high comparative of all the selected banks for the study Rs 120,858.23 in Cr and lowest is Kotak Mahindra with Rs 26,840.27 Cr

Table showing Gross NPAs and Net NPAs in Rs Cr

Name of the Bank and year	Gross NPAs				Net NPAs		
	Openin g Balance	Addition during the Year	Reduct i on during the Year	Write- off during the Year	Closing Balance	Openin g Balance	Closing Balance
HDFC Bank	69381.43	20005.12	7290.05	15425.51	66670.99	21576.60	21799.90
2019							
2020	34248.64	13871.09	9100.84	9229.45	29789.44	16591.71	11275.60
2021	2795.62	1667.98	1016.61	186.31	3260.68	1551.96	1626.20
ICICI Bank	61549.93	8540.03	4823.56	8731.46	56534.94	14320.10	12262.02
2019							
2020	8606.97	14382.03	7184.48	4580.36	11224.16	2601.02	3214.52
2021	53240.18	10595.96	6602.97	11557.13	45676.04	27823.56	13449.72
Axis Bank	12152.15	2202.39	1643.72	4931.14	7779.68	4145.38	2544.32
2019							
2020	33240.18	10595.96	6602.97	11557.13	45676.04	27823.56	13449.72
2021	55588.25	18208.24	7850.49	15918.06	50027.94	28665.14	14837.44
Yes Bank	37041.15	41970.85	9592.00	9132.16	60287.84	18250.95	24442.00
2019							
2020	34202.04	24760.76	3184.66	8309.67	47468.47	21648.98	28542.40
2021	27251.33	17071.24	3268.26	2923.61	38130.70	14217.83	17377.87
Kotak Mahindra	32589.08	6142.34	3462.02	5992.44	29276.96	11534.46	9036.45
2019							
2020	17045.22	14576.86	1180.27	8228.37	22213.44	11692.18	14077.02
2021	35098.26	16824.79	6724.58	7018.32	38180.15	19749.32	20399.66

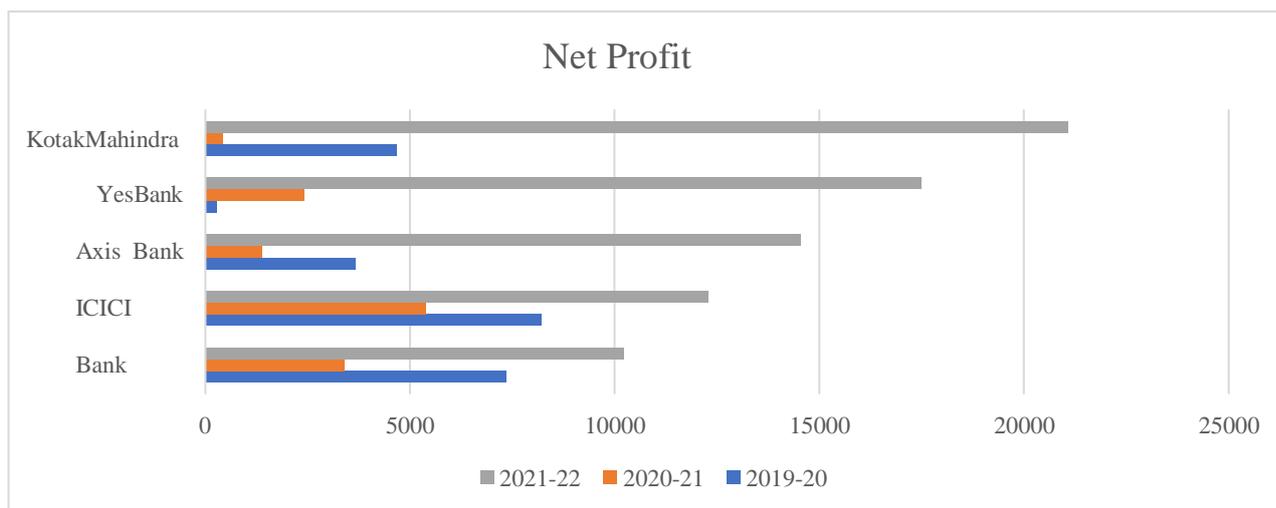


Analysis and Interpretation

HDFC bank and Yes bank is showing more Gross NPA and net NPA, where HDFC is having more sales turnover comparable to Yes bank.

Table showing Profits

Banks	Net Profit (Cr)		
	2019-20	2020-21	2021-22
HDFC Bank	7357.82	3398.44	10215.92
ICICI Bank	8223.66	5395.54	12296.21
Axis Bank	3679.28	1383.14	14549.64
Yes Bank	275.68	2431.81	17486.73
Kotak Mahindra	4676.61	433.52	21078.17

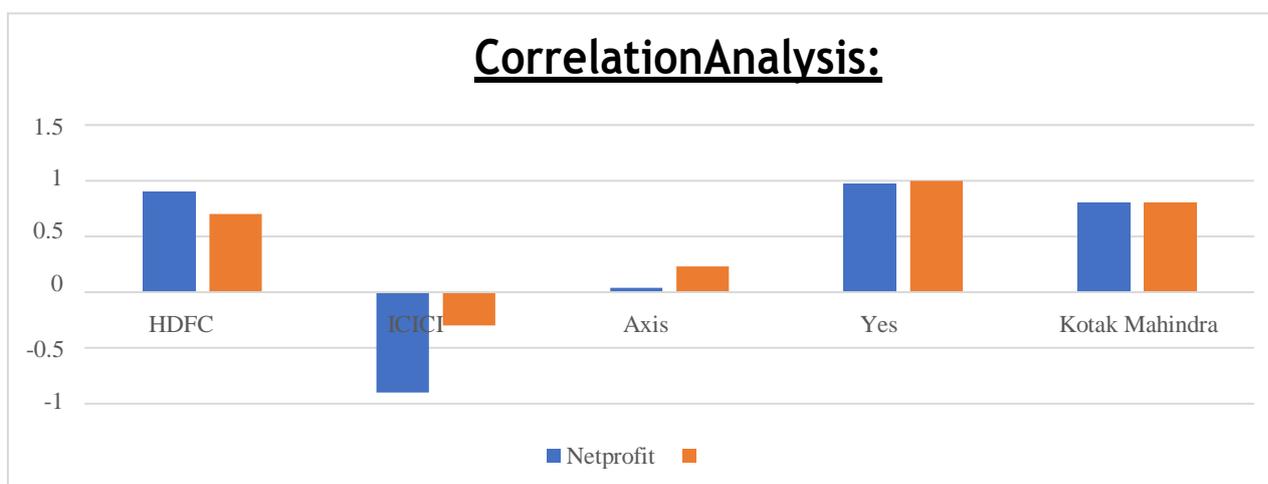


Analysis and Interpretation

Kotak Mahindra Bank’s Net profit are increasing from 2019 and 2021 where there is dip in profit in 2020 due to pandemic . It is clearly seen that there is no any effect of increased NPAs on net profit.. Net profit is much higher than the NPAs of the companies. Thus, NPAs have not affected the profitability of the business. Thus, NPAs is becoming a barrier to reduce the profitability of the bank.

Correlation Analysis:

Correlation of Banks	Net profit	NPAs
HDFC Bank	0.90	0.70
ICICI Bank	-0.90	-0.30
Axis Bank	0.04	0.23
Yes Bank	0.97	1.00
Kotak Mahindra	0.80	0.80



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.

Correlation of Banks	Analysis
HDFC Bank	The correlation between Net profit and NPAs comes to -0.90 and 0,70. This shows that both the variables have reciprocal relation. The reciprocal relation is justified because the profit is very less compared to the NPAs of the bank. Thus, NPAs have greater and negative impact on profitability of the business. Though the advances are increasing, the profitability is hampered because of NPAs.
ICICI Bank	The correlation between Net profit and NPAs comes to -0.90. The reason is justifiable for the above correlations. There is reciprocal relationship between NPAs and Net profit. The reason is that ICICI BANK have higher NPAs than their Net profit. Their loan advances have increased in 2019-20. During the pandemic period, people were in need of credit demand. Also the moratorium given to the customers have led to decrease in NPAs. Thus, their profitability for the year 2019-20 has increased. But the profitability will hamper in the coming years as they will need to make higher provisions for the NPAs and this will reduce the profitability of the bank.
Axis Bank	The correlation between Net profit and NPAs comes to 0.04. The correlation 0.04 shows that there is no relation between net profit and NPAs of the bank. The reason behind the same can be the high fluctuation in the Net profits. Net profits for the five years are fluctuating because there is unevenness in the loan advance. The loan advances have increased in the year 2019-20. For liquidity purpose, Axis bank has invoked the Covid-19 restructuring schemes of the RBI for loans in 2021

Yes Bank	The correlation between Net profit and NPAs comes to 0.97. The correlation of Net profit and NPAs shows that there is positive relation between the two. This is because Yes 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. Their advances have increased 3 times from 2019 to 2020, the same as the Net profit.
Kotak Mahindra	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 Kotak Mahindra bank has much higher profitability than its NPAs

Suggestions

- The gross non-performing assets (NPA) ratio and net NPA ratio of all banks stood at 8.3 percent and 2.9 percent in March 2020, compared to 9.1 percent and 3.7 percent a year back, with the regulator forcing banks to clean their balance sheet.
- The overall capital adequacy ratio for banks improved to 14.8 percent as in March 2020, compared to 14.3 percent a year ago. The CRAR of public sector banks had improved to 13 percent -- with Rs 3.08 lakh crore capita .
- 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.
- The regulator also announced that it would cut the Reverse Repo rate by 90 bps, or 0.90%. The current reverse repo rate was 4%.
- 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 in the year 2020.
- The RBI also announced that the Cash Reserve Ratio (CRR) would be reduced by 100 bps, or 1%, to 3
- 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 in commercial papers, investment grade corporate bonds and non-convertible debentures.
- A Three-month interest moratorium shall also be permitted to all lending institutions.

FINDINGS

- Yes Bank has exhibited increase in advances and decrease in Profitability in the year 2020 compared to previous years due to the COVID-19 Pandemic.
- On the other hand, Kotak Mahindra Bank's has reported sudden increase in Profit and decrease in NPAs . Reasons can be strong well established digital platform Interest income from increased advances, corporate credit demand and MSME lending.
- ICICI bank has reported increase in both NPAs and Profit in pandemic year. Reason behind profitability can be the rise in revenue from interest income due to the increase in advances.
- Axis Bank has reported increase in Advances in 2020-21 due to given by the banks to defaulters and NPAs and Profit have not been increased more than it would have been.

Limitations of the study:

- To do the research, we have taken only 5 selected banks ie Kotak Mahindra Bank, ICICI Bank, HDFC Bank, Axis Bank and YES Bank
- Duration is 3 years from 2019-20 to 2021-22
- Time constrains
- Secondary data only is used for the study

FUTURE SCOPE OF THE STUDY

Research conducted specifically on both Public and private sector banks but further research can be carried forward to agricultural domain where NPAs can be ascertain by small and marginal farmers and untouched variables like loan waivers, will full default by farmers, insufficient funds given by banker, communication gap between the farmer and banker, not explaining the farmer all pros and cons and provisions by banker at the time of giving loan, monitoring of loans by banks after sanction etc.

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