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IMPACT AND STATUS OF NPAS IN THE INDIAN BANKING SECTOR DURING THE COVID 19 CRISES; A CASE STUDY OF ICICI BANK

KEY WORDS: NPAs, COVID-19, RBI, Banks, GDP, Lockdown, Economy, ICICI Bank

Mekala Pavani* Research Scholar Of Commerce *Corresponding Author

ABSTRACT

The Indian economy has suffered greatly as a result of COVID-19, especially the banking industry and its nonperforming assets (NPAs). At the macro level, it has an impact on every industry nationwide. The economy was already unstable before COVID-19 broke out, and the closure of the economy has only made matters worse. As a result of the suspension of all economic activity and the statewide lockdown, the economy may see a persistent decline. The lockdown is having a disruptive effect on the economy because of the wide population across the nation, heavy reliance on casual labour, and uncontrolled banks. The following article illustrates the effects of the COVID-19 issue on the Indian economy and its banking industry. The harm to the economy is worse than current estimates. The paper is an examination of secondary data based on a number of published research publications on the COVID19 pandemic epidemic. The study also examines the many planning initiatives undertaken by the Reserve Bank and the government of India to enhance both the national and state economies. In order to study the relationship between NPAs, advances, and profitability as a result of COVID-19 and the effects of the government's and RBI's actions on the Indian banking industry, we looked at Indian banks. a three-year case study of Icici Bank from 2019–20 to 2021–2022. 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.

INTRODUCTION:

An affliction for the Indian banking industry The loan made to the borrower is regarded as a non-performing asset after 90 days of missed payments on the principle or interest. The categorization of "nonperforming asset" used by financial institutions is closely connected to It occurs as a result of loan, loan, loan, and loan non-payment. The loan made to the borrower is regarded as a non-performing asset after 90 days of missed payments on the principle or interest. NPAs are assets or projects that don't provide cash flow for the length of time or extent that was first planned. The bank takes preparations since it's possible that by transfer, it won't be able to quickly recover the entire amount of the loan. NPAs, on the other hand, occur in the real world for legitimate causes, mistakes/inefficiencies, and malfeasance. Many banks in the nation have recently voiced worry that the rise in non-performing assets (NPAs) that may result from the cessation of industrial activity as a result of COVID-19 may occur soon. It should be mentioned that on March 24, 2020, the Indian government declared a 21-day countrywide lockdown to stop the spread of COVID-19. Following that, practically all activities (traffic, industry, etc.) were outright prohibited throughout the nation, with the exception of vital services.

Reasons for the Increasing Trend of Non-Performing Assets;

In the actual world, NPAs are caused by honest mistakes, inefficiencies, and wrong doings, and the causes may be divided into two categories: the external environment and the internal environment. The external environment consists of the global downturn, the domestic demand slowdown, the policy impasse, and the contested contracts. The following factors affect banks' internal environment: government deficit, poor credit valuation, weak risk management, full debt with no equity, financing for infrastructure, particularly highways, "gold-plated" contracts, power-fault FSAs, pass-through arrangements, deferred payments, as well as pursuing rapid development, making excuses, and expanding. Complex Web Holding Company is a corporate entity in India. Step Down NTTs, Excessive Leverage, International Acquisitions, and "Hesitant Access, Adoption, Changes, and Other Reasons" Selling Price versus

The Minsky Financial Instability Hypothesis and Threat Selling Three types of non-corporate borrowers (Hedges, Speculative, and Ponzi), Kisan Credit Cards, and crop insurance against agricultural distress, lack of prompt support for small and medium-sized businesses, and payment delays. 80% of loans made by public sector banks go to industries, and this portion of loan disbursement accounts for a sizable portion of NPAs. SBI provided Kingfisher with a sizable loan last year to help them get through a financial crisis. The easing of the regulations for providing loans to business entities without properly evaluating their financial situation and credit rating is one of the key causes of the rise in NPAs. Additionally, banks are disbursing unsecured loans widely due to competition, which raises the NPA ratio. If Indian industry is struggling, it will have an impact on the banking sector and cause their NPAs to rise. This cannot be attributed to public sector banks on their own. The status of the banking industry today is also a result of government economic policies and the partnership between politicians and business.

ITS, EFFECTS;

Financial sector analysts claim that banks and the financial industry have fared worse in the stock market than "fast moving consumer goods" (FMCG). Due to limitations in the Indian economic sector in the next days, the US rating agency "Moody's Investors Service" recently downgraded the Indian banking sector from stable to negative, contrary to the institution's predictions. The value of banks' assets can decrease. Experts estimate that at the moment, 52% of loans in the Indian banking industry are in the Moderate Resilience category, with 44% of loans coming from High Resilience businesses including pharmaceuticals, telecommunications, fertilisers, oil refineries, electricity and gas distribution, etc. Given are businesses in the construction, power generating, road building, and vehicle manufacturing industries.

Only 4% of the loans were issued to the least resilient industries, which may be the ones most negatively impacted by this lockout. These industries include airlines, businesses that make jewellery, real estate, etc. Borrowers may receive an additional 60 days of time under the NPA guidelines. To lessen the pain of sincere borrowers, the Reserve Bank is getting ready to alter the regulations for settlement of non-recoverable loans (NPA), which would allow it to provide borrowers an additional 60 days to pay the debt. These details have been provided by sources. He said that because the Supreme Court had struck down the Reserve Bank's circular from February 12, 2018, work is currently being done on fresh guidelines, which would be published soon.

Now, other possibilities are being taken into consideration under the new NPA framework. These options include the choice to extend the current 90-day clearing schedule by an additional 30 to 60 days for NPAs. He said that while the Reserve Bank is looking at offering organisations various ways to repay debts, the current practise of labelling bad loans as NPAs after 90 days will remain in place. He said that by extending the payment deadline, the MSME problem will be somewhat alleviated. India was urged by the IMF to increase bank capitalisation in the public sector. Let me inform you that on February 12, 2018, the Reserve Bank published a circular. According to this, the process of declaring the firm bankrupt is followed if there is even a one-day delay in loan repayment.

The exception to this regulation are loans in excess of Rs. 2000 crore. While the Supreme Court invalidated this Reserve Bank directive. The RBI had previously stated that the NPAs of banks may rise to 12.5% by March 2021 as opposed to 8.5% in March 2020 in its financial stability report. S&P Global Ratings, a global organisation, had previously predicted that India's NPAs would rise to 13.2 percent by the following year. Under the comparable scenario, banks' gross nonperforming assets (NPAs) might reach 12.5% by the conclusion of the current fiscal year. In March 2020, it was 8.5%. This is indicated in the Reserve Bank's Financial Stability Report.

According to the research, in extremely stressful conditions, total NPAs might increase to 15% by March 2022. The gross NPA ratio of all scheduled commercial banks may rise from 8.5 to 12.5% in March 2021, according to the Covid-19 stress test, it was stated. This evaluation was conducted using a comparison scenario. The percentage might rise to 14.7 percent in a situation of extreme stress, the paper states, if the macroeconomic climate worsens. It claimed that against the backdrop of macroeconomic shocks, the nation's banks' resilience was put to the test. This test was conducted under heavy strain.

It was determined in this that whatever pressures or shocks occur, what will be the impact on banks' accounts. Additionally, the Capital to Risk Weighted Asset Ratio (CRAR) and Gross NPAs were computed. This scenario was constructed using comparative data under three different conditions: moderate, severe, and extremely severe. The study states that inflation based on the consumer price index and other macroeconomic factors, such as GDP (Gross Domestic Product) growth and the gross fiscal deficit as a percentage of GDP, have been used to evaluate the comparative outlook. This estimate for gross NPAs is the highest in the previous 20 years, according to Live Mint. The NPAs peaked earlier in 1999, at a high level. The assessment provided by RBI is comparable to that provided by the international rating agency S&P Global Ratings. According to a prediction made by S&P Global Ratings, India's NPAs will reach 14.6 percent by 2022.

ICICI Bank NPA;

The gross non-performing asset (NPA) ratio of ICICI Bank, India's second-largest private lender, was reported to have dropped from 5.15 percent in the same quarter previous year to 3.41 percent as of June 30, 2022. It also stated that its net profit for the quarter ended June 30, 2022 (Q1FY23) climbed by 49.59% to 6,904.94 crore from 4,616.02 crore during the same time the previous year. Gross NPA for the bank as of March 31, 2022, was 3.60 percent. According to ICICI Bank, its net NPA ratio dropped from 0.76 percent on March 31, 2022, and 1.16 percent on June 30, 2021, respectively, to 0.70 percent as of June 30, 2022.

In comparison to net withdrawals of 489 crore in the fourth quarter of 2021–22 and net inflows of 3,604 crore in the first quarter of 2021–22, there were net additions to gross NPAs of 382 crore during the first quarter of the current fiscal year. Gross NPA inflows were $5,825 crore in Q1 2022–23 as opposed to $4,204 crore in Q4 2021–22. NPA recoveries and upgrades in Q1 FY23, excluding write-offs and sales, were $5,443 crore, up from $4,693 crore in Q4 of 2021–22.

The gross NPAs written off in the first quarter of FY23 was $1,126 crore, and the provisioning coverage ratio for NPAs was 79.6%, according to ICICI Bank's regulatory filing. Excluding NPAs, the total outstanding money based to all borrowers under resolution in accordance with the different existent regulations/guidelines decreased to 7,376 crore (US$ 934 billion) or 0.8% of total loans at June 30, 2022 from 8,267 crore (US$ 1.0 billion) at March 31, 2022. As of June 30, 2022, the Bank has provisions of 2,290 crore (US$ 290 million) against these borrowers that were still being resolved. Additionally, as of June 30, 2022, the Bank had contingency provisions of Rs. 8,500 crore (US$ 1.1 billion). The loan and non-fund based outstanding to performing borrowers rated BB and below reduced to 8,209 crore (US$ 1.0 billion) at June 30, 2022 from 10,808 crore (US$ 1.4 billion) at March 31, 2022," ICICI Bank said in a regulatory filing.

EXPLANATION:

The NPA for the year 2018 is shown as Rs. 27886.27 Cr. in the table and chart above, while the net profit is shown as Rs. 6777.42 Cr. The bank's net profit and NPA drop the next year, coming in at Rs. 3633.30 crore and Rs. 13577.43 crore, respectively. Since the company's npa has decreased and its net profit has climbed since 2020, the company's financial performance has improved.

CONCLUSION:

"Banking institutions are supposing a long-term negative impact on their economic activities," despite the measures taken. Banks run the danger of bad loans or an increase in the number of non-performing assets if borrowers are unable to earn enough cash (NPAs). Additionally, the recovery of the Indian banking industry would be gradual and not start until beyond 2023, according to S&P Global Ratings. The time after the withdrawal of the exemption may see an accumulation of provisions and losses. If the epidemic doesn't end soon, it's probable that most deposits will be withdrawn, which might lead to the substitution of low-cost deposits with high-cost borrowings and have a negative impact on net interest income, margins, and spreads.

Due to the crisis, banks are unable to identify appropriate lending channels, which forces them to invest excess assets in low-yield investments or leave them dormant. Naturally, this presents several issues for the banks. However, there will be a lot of advantages and advantages if banks have excellent risk management capabilities, can work with borrowers who have potential, and can adjust to the new normal. To allow the money and financial markets to operate smoothly, ongoing steps must be implemented. Actual NPAs are anticipated to continue to be suppressed until the prolonged moratorium period is finished. The Covid-19 epidemic has had a detrimental effect on the Indian banking industry as well as the country's economy. After the epidemic is finished, everything will be obvious. This pandemic situation calls for strong and resilient leadership to protect the Indian economy from long-term damage.

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