International Journal of Financial Management and Economics

P-ISSN: 2617-9210
E-ISSN: 2617-9229
IJFME 2024; 7(2): 162-165
www.theeconomicsjournal.com
Received: 22-07-2024
Accepted: 26-08-2024

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Navigating COVID-19: Trends in non-performing assets of Indian Commercial Banks

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DOI: https://doi.org/10.33545/26179210.2024.v7.i2.357

Abstract
The effect of the COVID-19 pandemic on non-performing assets in Indian commercial banks is examined in this study. Through the examination of data from the pre-pandemic and post-pandemic periods, the paper evaluates shifts in non-performing assets and the fundamental factors influencing these shifts. According to the research, there was a noticeable decline in non-performing assets after the pandemic. It also examines the regulatory actions in reducing the nonperforming assets. The findings highlight the necessity of focused legislative initiatives and improved risk management systems to handle the changing issues facing the banking industry. It also touches upon the role played by write-offs in reducing NPAs. Policymakers, banking experts, and scholars interested in financial stability and risk management in emerging economies would find this study to be highly insightful.

Keywords: Non Performing Assets, India, COVID-19, Write-offs.

Introduction
Any country's total economic health is greatly influenced by the stability and effectiveness of its banking system, and this is especially true for growing economies like India. The alarming rise of non-performing assets (NPAs) has become one of the most urgent problems facing Indian commercial banks in recent times. NPAs, or non-performing assets, pose a serious threat to the financial stability and operational effectiveness of banks. NPAs are loans or advances for which the principle or interest payments are past due for a predetermined amount of time. When these assets depreciate, systemic hazards to the overall economy arise in addition to hurting financial institutions' profits. Global economies have been greatly impacted by the COVID-19 pandemic, and the Indian financial industry is no exception. Among the several difficulties Indian commercial banks had both during and after the pandemic, the problem of non-performing assets (NPAs) has come to light as a major worry. But this problem has been made worse by the economic disruptions brought on by the pandemic, which have brought attention to weak points in the financial system and sparked questions about the viability of banking operations in the long run. An extraordinary economic slump marked by several company closures, notable disruptions to economic activity, and notable drops in consumer purchasing was sparked by the COVID-19 pandemic. These elements have negatively impacted borrowers' ability to repay debt, which has increased non-performing assets (NPAs) in several industries. As a result, the growing burden of declining asset quality has put the health of commercial banks in India under more and more strain. To address and reduce the risks associated with non-performing assets (NPAs), the Reserve Bank of India (RBI) and other regulatory agencies have put in place a number of measures. These include programs to improve asset quality, stronger regulatory frameworks, and policy reforms. They also innovated ways to mitigate the challenge during and post COVID TO lessen the negative effects of the pandemic on asset quality. These consist of debt repayment moratoriums, restructuring plans, and regulatory forbearance. Notwithstanding these initiatives, the persistence and growth of non-performing assets (NPAs) cast doubt on the efficacy of these interventions and highlight the need for constant observation and creative solutions. The study aims to bring to light the state of NPAS post the pandemic and highlight the trends which can have a bearing on future operations and forecasting undertaken in the banking sector.

Materials and Methods

The research utilizes the financial data available on Reserve Bank of India website. Some data has also been compiled from answers to the parliamentary questions. The paper goes on to apply correlation test to draw suitable conclusions.

Literature Review

Reserve Bank of India defines NPA as "An asset becomes non-performing when it ceases to generate income for the bank. Earlier an asset was considered as non-performing asset (NPA) based on the concept of 'Past Due'. A 'non performing asset' (NPA) was defined as credit in respect of which interest and/or installment of principal has remained 'past due' for a specific period of time".

According to Kumar's (2018) [3] research, non-performing assets (NPAs) significantly impair the banking industry's liquidity and profitability. She claims that if the problem of non-performing assets (NPAs) is effectively handled, numerous microeconomic problems such as unemployment, poverty, and imbalances in the balance of payments can be lessened, the money market can be strengthened, and the Indian banking system's reputation abroad can be enhanced.

Sharma (2018) [5] highlights the banking industry's function as a tool for economic expansion and advancement. The article addresses how banks, particularly public sector banks, are plagued by rising non-performing assets (NPAs).

In their study, Bhaskaran *et al.* (2016) [1] examined the nonperforming assets (NPAs) of public and private sector banks during a ten-year span, from 2004 to 2013. Their analysis clearly shows that private sector banks are outperforming public sector banks in terms of NPA reduction.

In their paper, Rajeev and Mahesh (2010) [4] address the problem of nonperforming assets (NPAs) following the global financial crisis. They contend that self-monitoring and problem awareness alone can greatly aid in the management of the non-performing asset (NPA) issue. Self-help organizations may also be highly beneficial to the loan recovery process.

The status of non-performing assets (NPAs) of State Bank of India (SBI), its affiliates, and other public sector banks is compared by Gupta (2012) [2]. The researcher concludes that each bank should establish its own credit rating agency to assess the solvency of borrowers. It also implies that a committee made up of financial specialists is required to oversee and keep an eye on the NPA problem.

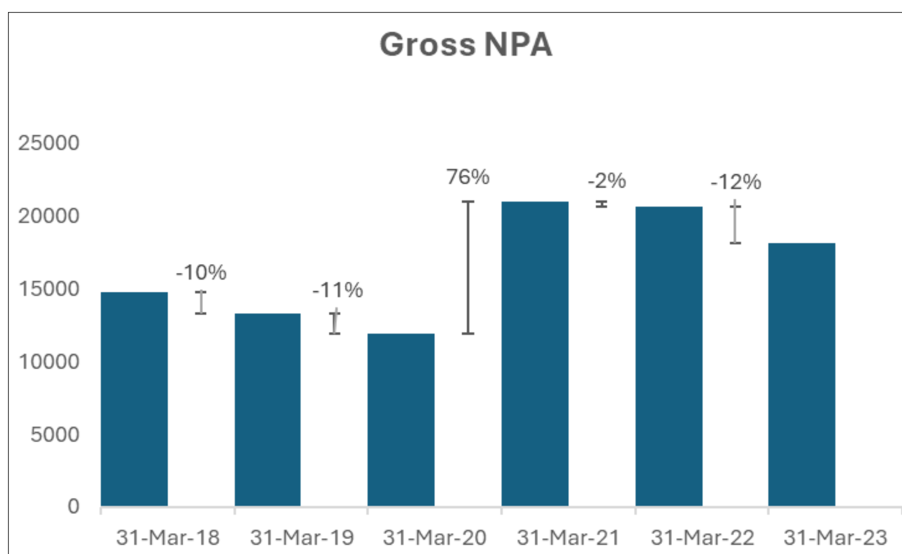
Non-Performing Assets of Banks Post COVID

Table 1: Gross and Net NPA

Year	Gross NPA in (Rs. crore)			Net NPA in (Rs. crore)		
	Closing Balance	Addition	Percentage	Closing Balance	Addition	Percentage
31-Mar-18	14742.83			66364.99		
31-Mar-19	13329.12	-1413.71	-9.59	69945.92	3580.93	5.40
31-Mar-20	11917.64	-1411.48	-10.59	58452.56	-11493.36	-16.43
31-Mar-21	21014.72	9097.08	76.33	61599.24	3146.68	5.38
31-Mar-22	20696.68	-318.04	-1.51	49485.52	-12113.72	-19.67
31-Mar-23	18134.32	-2562.36	-12.38	32801.56	-16683.96	-33.71

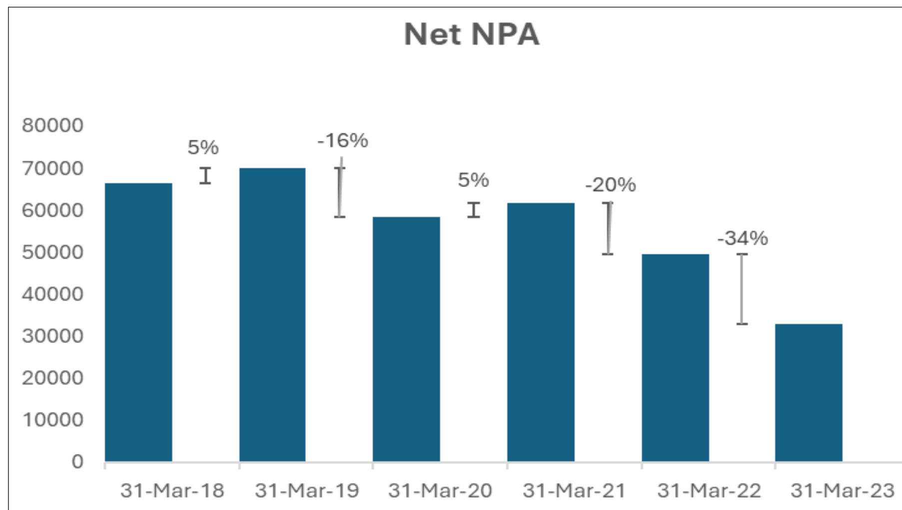
Source: Author's compilation from RBI data

Table 1 shows the state of NPAs of commercial banks in India post COVID-19. The balance of gross NPAs at the start of FY 19 stood at Rs. 13329.12 crore rupees which went on increasing to Rs. 18134.32 crore. The same does not hold true for Net NPA, which registered a decline from FY 19 levels to FY 23. Figures 1 and 2 highlight the changes in NPA post COVID. Gross NPA saw a decline over the years after COVID barring during the period of FY 2020-21. The same observation also holds true in the case of net NPA which showed steady decline except in FY 21. The decline is a result of measures initiated by the Reserve Bank.



Source: Author's compilation from RBI data

Fig 1: Gross NPA with percentage change



Source: Author's compilation from RBI data

Fig 2: Net NPA with percentage change

The fall in NPAs post covid is a culmination of regulatory measures undertaken since the onset of COVID. Various monetary measures helped banks in improving their balance sheet:

1. Monetary measures like reduction in cash reserve ratio and repo rate, and increase in marginal standing facility were introduced. These monetary instruments were utilized to enhance liquidity in the economy. RBI conducted open m market operations to enhance liquidity in the economy.
2. The terms and conditions of loans offered were eased to support the loanee entities who were hit by the hardships of the economy. Moratorium was introduced as a special measure. Payment of installments of term loans was halted and the repayment schedule of such loans were adjusted respectively.
3. RBI extended the date for commencement of commercial operations to support the real estate sector.
4. The norms were also relaxed in respect of working capital. Banks were allowed to defer interest payment for three months for sanctioned overdraft and recalculate drawing power. They could convert the interest into funded interest term loans (FITL) which were to be repaid later. The conversions were not treated as "concessions granted due to financial difficulty of the borrower", consequently having no effect on the asset quality.

Loans write-off

It is a process where after the bank makes provisions for the bad loan, the leftover amount is removed from the balance sheet. The paper finds that commercial banks have been successful in reducing NPAs in their balance sheets by writing off loans as well. Thus, loans write off along with other regulatory measures enabled commercial banks to improve their financial health.

Table 2: Loan written off

Year	Gross NPA	Net NPA	Loans Written off
31-Mar-19	13329.12	69945.92	236265
31-Mar-20	11917.64	58452.56	234170
31-Mar-21	21014.72	61599.24	202781
31-Mar-22	20696.68	49485.52	174966
31-Mar-23	18134.32	32801.56	209144

Source: RBI database and Rajya Sabha Question (Session-260 Unstarred Question No 2148)

Table 3: Correlation Matrix

		Gross NPA	Net NPA	Loans Written off
Gross NPA	Pearson's r	—		
	DF	—		
	P-Value	—		
Net NPA	Pearson's r	-0.385	—	
	DF	3	—	
	P-Value	0.522	—	
Loan Written off	Pearson's r	-0.895 *	0.452	—
	DF	3	3	—
	P-Value	0.040	0.445	—

Source: Compilation of author

A Pearson correlation was conducted to assess the relationship between NPAs and loan written off. There was a significant correlation between gross NPAs and loans written off, $r(3) = -0.895$, $p<0.05$. The variables exhibit a very strong negative correlation.

Post COVID, an increase in loan written off has resulted in decrease in gross NPAs. So, the belief that reduction in NPAs is a result of loan write off is true in case of gross NPAs.

Mechanisms to handle NPAs

Debt Recovery Tribunal (DRT)

It was established to shorten the time needed to settle claims under Recovery of Debt due to Banks and Financial Institutions Act, 1993. The appeal against DRT lies in the Debt Recovery Appellate Tribunal (DRAT). The proceedings in these tribunals were considered judicial proceedings.

Credit Bureaus

In India, credit bureaus are essential to the financial system, supporting effective lending and risk assessment. They function according to the guidelines and regulations set by the RBI. They are governed by the Credit Information Companies (Regulation) Act, 2005. These organizations generate credit scores and reports by analyzing an individual's credit history. Such reports help financial institutions assess creditworthiness and make well-informed lending decisions. This action aims to stop NPAs by disseminating data about deliberate defaulters.

Asset Reconstruction Companies (ARC)

An asset reconstruction company (ARC) is a specialized financial entity that acquires distressed assets from banks at negotiated values and seeks to recover these debts or related securities independently. ARCs are officially registered with the Reserve Bank of India (RBI) and operate under the regulatory framework established by the Securitization and Reconstruction of Financial Assets and Enforcement of Securities Interest Act, 2002 (SARFAESI Act, 2002). This method provided a way to recover stressed assets eluding the courts, which often was a time-consuming process. These bodies enable banks to focus on their core banking operations by helping them clear up their balance sheets.

Joint Lenders Forum (JLFs)

A special coalition of lending institutions called the Joint Lender's Forum was established to expedite decisions. It prevents refinancing of loans by taking new loans. JLFs were designed to identify stressed assets promptly and develop a corrective action plan (CAP) within 45 days. Banks are required to implement the agreed-upon plan without imposing additional conditions, and a monetary penalty will be imposed on those who deviate from the established decision.

Strategic Debt Restructuring (SDR)

Banks were given the power to convert their loans to equity stake in the defaulting company. The SDR process can be initiated by a Consortium of Banks or a JLF that has extended loans to the troubled firm. For the SDR decision to be valid, it must be accepted and recorded by a majority of JLF members, specifically at least 75 percent of creditors by value and 60 percent by number. The primary objective of SDR is to increase the involvement of promoters in the revival of stressed accounts and to provide banks with greater authority to facilitate a change in ownership when accounts do not meet the agreed-upon critical conditions and viability targets.

Asset Quality Review

The Asset Quality Review (AQR) is a specific procedure conducted by inspectors from the Reserve Bank of India (RBI) to examine bank records. A substantial sample of loans is reviewed to ensure that asset classification aligns with loan repayments and that banks have made sufficient provisions. Unlike regular assessments, the AQR is characterized by its random nature rather than a scheduled or periodic review. RBI initiated the exercise in 2015 uncovering huge amount of NPAs with an aim to prevent bad loan bubble from building up.

Insolvency and Bankruptcy Code

IBC, 2016 is India's comprehensive legislation that unifies and revises existing laws related to the insolvency and bankruptcy of corporate entities, partnership firms, and individuals. The IBC addresses claims involving insolvent companies and establishes a time-bound procedure for insolvency resolution. When a default occurs, either the debtor or creditor can initiate the resolution process. Creditors assume control over the debtor’s assets and are required to resolve the insolvency within 180 days. This framework aims to address issues related to non-performing loans impacting the banking sector. The Insolvency and Bankruptcy Board of India (IBBI), created under the IBC, 2016, consists of 10 members representing the Ministry of Finance, the Ministry of Corporate Affairs, and the Reserve Bank of India. The resolution proceedings are adjudicated by the National Company Law Tribunal (NCLT) for corporate cases and the Debt Recovery Tribunal for individual cases.

Conclusion

India’s control over NPAs in these years has been remarkable considering that the country had a problem of unmanageable bad debt in the past with its NPA ratio being one of the worst. The case underscores the relevancy of government intervention in mixed economies at times of crisis. It is concluded that the mix of regulatory measures and write off are the reasons of fall in NPAs.

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