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BANKING SECTOR PERFORMANCE PRE AND POST COVID-19 IN REFERENCE TO INDIAN PUBLIC SECTOR BANKS

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Abstract:

The purpose of this study is to investigate the performance of Public Sector Banks (PSBs) in India both before and after the COVID-19 epidemic. The study focuses on important variables such as asset quality, profitability, capital sufficiency, and digital transformation initiatives. Prior to the pandemic, public sector banks (PSBs) were confronted with difficulties like as non-performing assets (NPAs) and operational inefficiencies, but they played an essential part in providing credit to essential industries. On the other hand, the pandemic made preexisting vulnerabilities even worse, which resulted in an increase in loan defaults and a decrease in the demand for credit. An examination of how PSBs overcame these obstacles is presented in the paper, with a focus on the resilience and adaptive methods that they employed. The inferences that may be drawn from this research have the potential to influence future policy initiatives and operational paradigms in the banking industry .

keywords: Banking, Covid-19, Public sector Banks

Introduction:

Throughout India's history, the banking industry, and more specifically the Public Sector Banks (PSBs), has been an essential component of the country's economic structure. These PSBs have been responsible for meeting the monetary requirements of a wide range of social groups. On the other hand, the beginning of the COVID-19 pandemic in the early 2020s has brought forth difficulties that have never been seen before, therefore transforming the landscape of banking operations and performance. Non-Performing Assets (NPAs), liquidity limitations, and operational inefficiencies were some of the problems that Indian public sector banks (PSBs) were struggling with prior to the epidemic caused by COVID-19. However, in spite of these obstacles, they played a significant part in the process of granting credit to industries that are essential to the expansion of the economy. These industries include retail customers, small and medium-sized businesses (SMEs), and agricultural. The pandemic served as a catalyst, which exacerbated the vulnerabilities that were already present within the financial sector while also bringing additional elements of complexity. PSBs' financial health was further strained as a result of the statewide lockdowns and subsequent economic disruptions, which resulted to an increase in the number of loan defaults, a decrease in the demand for credit, and an increase in the requirements for supplying financial resources. The purpose of this research is to investigate the performance of public sector banks (PSBs) in India both before and after the COVID-19 epidemic. The study will focus on fundamental variables such as asset quality, profitability, capital sufficiency, and digital transformation activities. This research aims to give insights into the resilience of the banking industry by evaluating the issues that public sector banks (PSBs) have experienced and the tactics that they have chosen. Additionally, the research will investigate the implications for future policy measures and operating paradigms.

LITERATURE REVIEW

Vikash kumar,(2021) In the document, it is said that the pandemic caused by the COVID-19 virus has had a detrimental influence on the Indian economy as well as the financial sector. Furthermore, it is stated that it would not be feasible to accurately measure the extent and scope of the harm caused by this virus. The issue will become more transparent after the epidemic has been contained.

Thakori,(2020) The study report underlines the drop in productivity of corporations, disruptions in supply chains, manufacturing hindrances and crippled health systems, an increase in the number of bad loans in banks, decreased income in the tourist and entertainment sectors, and other aspects of the business environment. It makes reference to two potential repercussions for the future of banking. To begin, the financial system will be flooded with liquidity, and interest rates will be at historically low levels. This will allow banks to function effectively. The second point is that the government will have a significant role in the financial sector, both as a borrower (to cover its deficit) and as a "risk absorber," offering guarantees, backstops, and more direct fiscal support for borrowers whose companies and cash flows were affected the most by the virus.

Dr. Priyanka Bobade, (2020) According to the findings of the article, financial institutions promote an environment that is friendly to the workers and provide opportunities for employees to retrain themselves on new procedures. Through various digital platforms, they are working to improve their customer-centric strategy.

Perwej,(2020) The research draws attention to the fact that the COVID has had an effect on every industry available around the world in the most recent few months. The banking and financial services industry is currently confronted with a variety of issues. In order to successfully traverse these issues, financial institutions need to continue to make use of technology and integrate flexibility into their infrastructure.

Das, (2020) According to Deepali V. Seth Chhabria, a banking analyst at S&P Global, "Forbearance is masking asset problems that are arising from Covid-19." When loan repayment moratoriums are lifted, we anticipate a rise in the number of non-performing loans (NPAs). She continues by saying that if there hadn't been a moratorium or an injunction from the Supreme Court, there would have been a greater number of problematic loans up until this point.

Pavan (2018) they talked on how important it is to be profitable. Additionally, the organization's purpose is to either create profits or pay off assets, as well as to invest resources in a variety of monetary resources. Currency resources are characterized by their size and variation in terms of their future profitability, which is the most essential quality. In order to quantify salaries, many practical approaches are utilized. This is due to the fact that wages can be received in a variety of ways. Numerous tactics for measuring profitability have been implemented throughout the course of time, and these strategies are now widely used and considered to be examples of current valuation methodologies.

Gaajera (2016) In his publication he provides "comparative research on financial performance indicators of public and private banks, and specifically shows the factors affecting performance and their impact on performance indicators" . Conduct an analysis and investigation to identify the elements that contribute to variations in financial performance. There is a correlation between the quantitative parts of labor and the evaluation of financial performance. When it comes to delivering a variety of services that have the potential to boost the bank's financial performance, you may want to take into consideration quality concerns, such as the effectiveness of personnel in meeting requirements based only on supplementary data, which can be reinforced by investigating the perspectives of top bank workers regarding the financial performance of the bank. In the course of my inquiry, this can be of assistance in determining the reasons that explain the variations in bank financial performance.

Suresh (2018) According to the banking industry in India, the author of the study compared the risk and return analysis of public and private sector banks that were listed on the Bank Nifty Stock Exchange. Considering that my research is conducted at major Indian banks, this study is pertinent to the topic that I am working on. In addition to this, he discusses the process of analyzing the stocks that are listed on the Bank Nifty. This will provide investors with an idea of whether or not they are required to purchase the stocks based on the performance of the stock over a certain period of time. Because it is exposed to a bigger market risk that cannot be diversified as unsystematic risk, a higher beta is not recommended because it presents a greater risk. Consequently, in order to construct a portfolio, it is preferable to steer clear of companies such as these. An attempt is being made in this research to examine the returns on bank stocks that are listed on the Bank Nifty and to determine which companies are the best to invest in and which stocks are the worst to avoid in India.

OBJECTIVES:

1. To investigate the banking industry in India as well as the performance of Indian banks.
2. To find the returns of public sector banks in India and compare their pre- and post-COVID-19 financial situations.

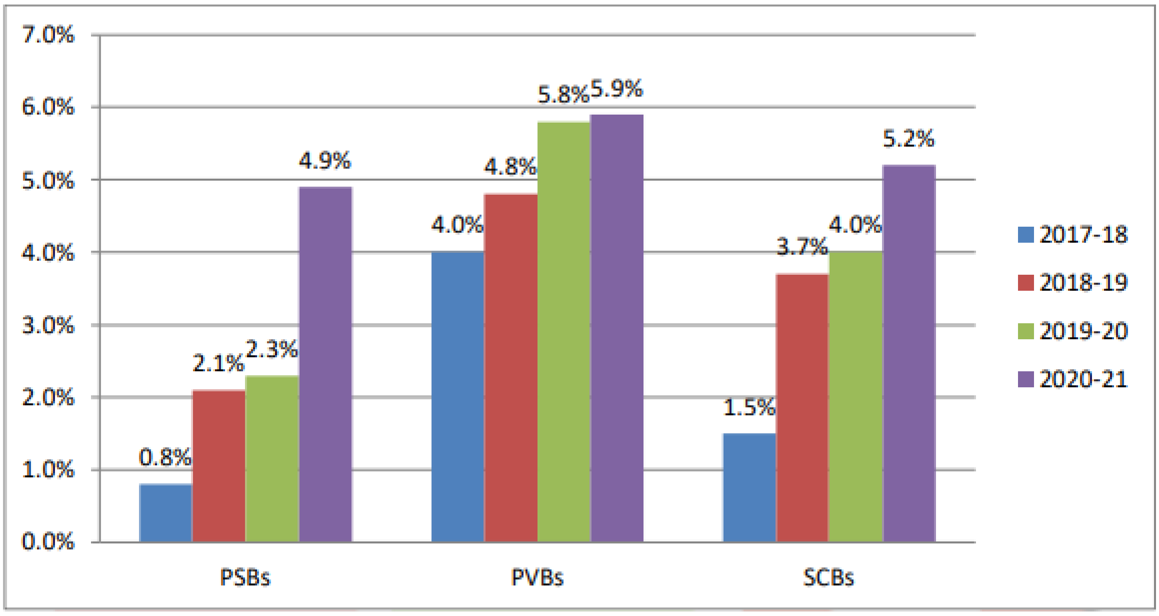
Research Methodology

This research paper is based on secondary sources, which include a variety of research papers that have been published, the website of the Reserve Bank of India (RBI), the RBI's Annual, Half Yearly, Quarterly, Bi-Monthly, Monthly, and Weekly reports, Press Releases issued by the RBI, speeches given by the Governor of the RBI, news articles published in newspapers and magazines, and reports from rating agencies. For the purpose of obtaining a "before and after" image, metrics relevant to the important criteria that were specified above were primarily gathered for the period of 2018-19 as well as 2020-21. The development of bar or line graphs took place. We conducted an analysis of the changes in order to determine the extent to which the pandemic had an effect on the performance of banks in India.

Major findings/Analysis

Growth of Deposits of Indian Banks

Chart 1: Ratio of Indian Bank Deposits to Total Assets

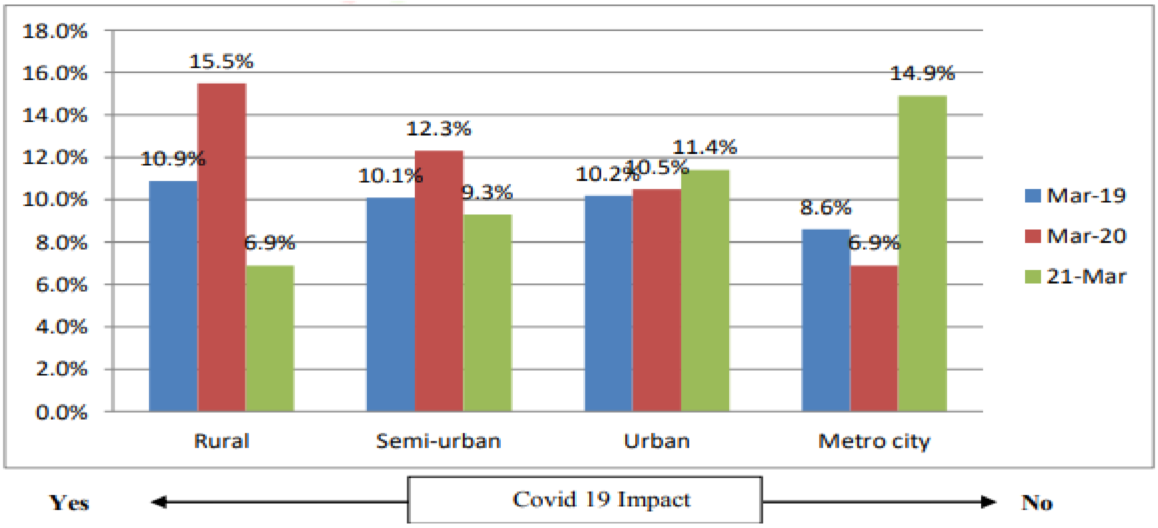


(Source: Prepared by author based on data from RBI - Operation and performance of commercial banks, 2021)

Observation: Throughout the course of the epidemic, there has been a progression toward an improvement in the growth rate of deposits held by scheduled banks. There is a consistent pattern that can be seen in both public sector banks and private sector banks, with the latter often performing better than the former.

Banks' total deposits (Area-wise)

Chart 2: Total value of bank deposits (Area-wise)

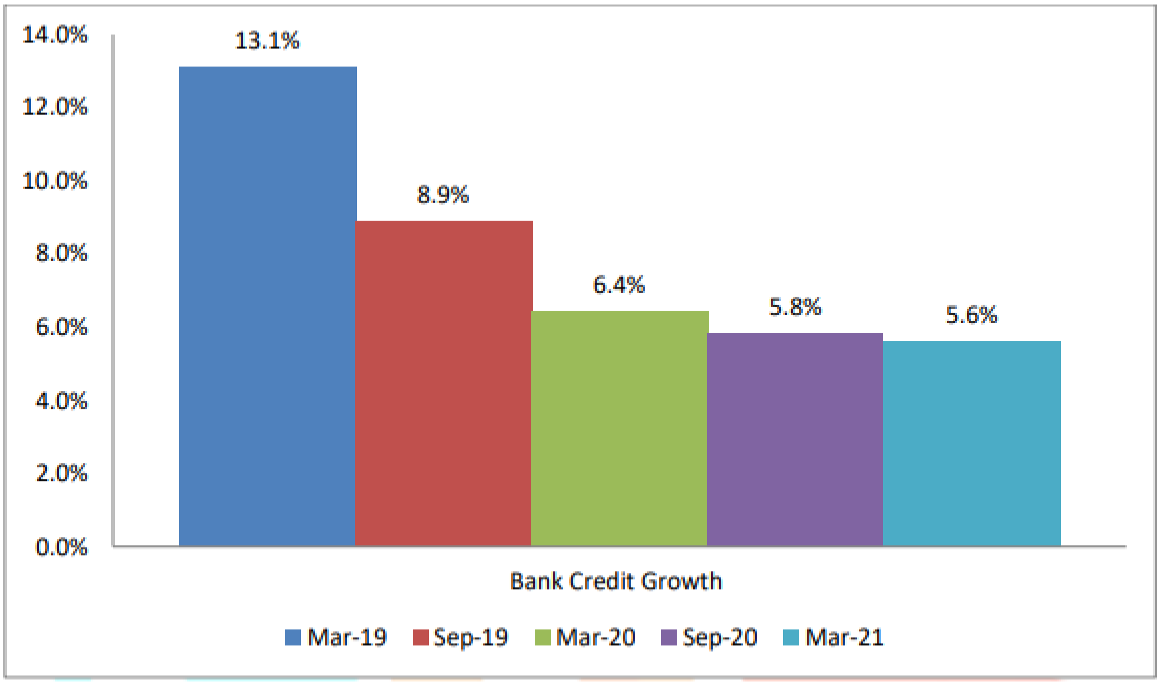


(Source: Developed by authors using data from RBI- Quarterly Statistics on Deposits and Credit of Scheduled Commercial Banks, 2021)

Observation: There has been an increase in deposits across the board between the years 2018 and 2021. It is important to note that the impact of the pandemic is shown in the fact that the year-on-year rise varies from region to region. During the period of 2020-21, the growth rate has seen a significant decrease in the rural region, a little decrease in the semi-urban area, a marginal increase in the urban area, and a significant increase in the metropolitan areas.

Growth of bank credit (Y-O-Y growth %)

Chart 3: The expansion of bank credit (Y-O-Y growth %)

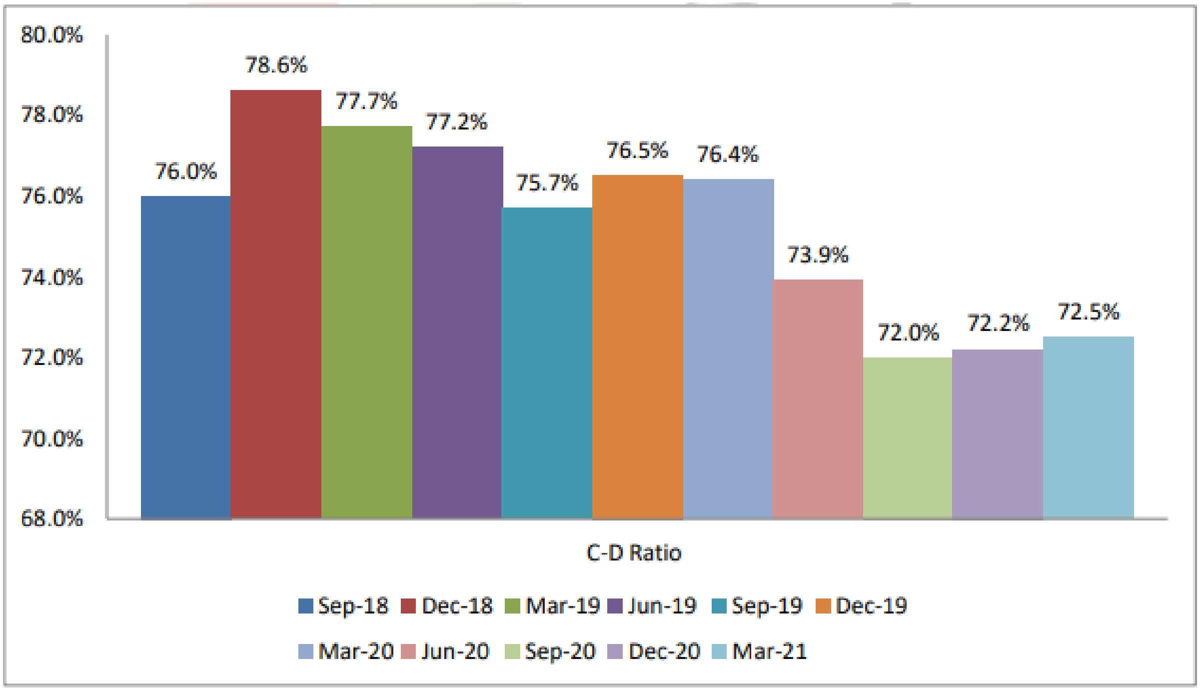


(Source : Prepared by authors on the basis of data from RBI - Quarterly Statistics on Deposits and Credit of Scheduled Commercial Banks, 2021)

It has been observed that the expansion of bank credit has slowed down from 2019 to 2021, hitting an all-time low in March 2021, which is the lowest for the past 59 years. The entire amount of credit that was taken out during the fiscal year 2020-21 was 109.51 lakh crore. The report from the Reserve Bank of India (RBI) indicates that the pandemic had an effect on the provision of credit during the first half of the year 2020-21, when the economy was at a stop. After November 2020, the second half of the year showed some signs of growth.

Trends in C-D ratio

Chart 4: Movements in the C-D ratio

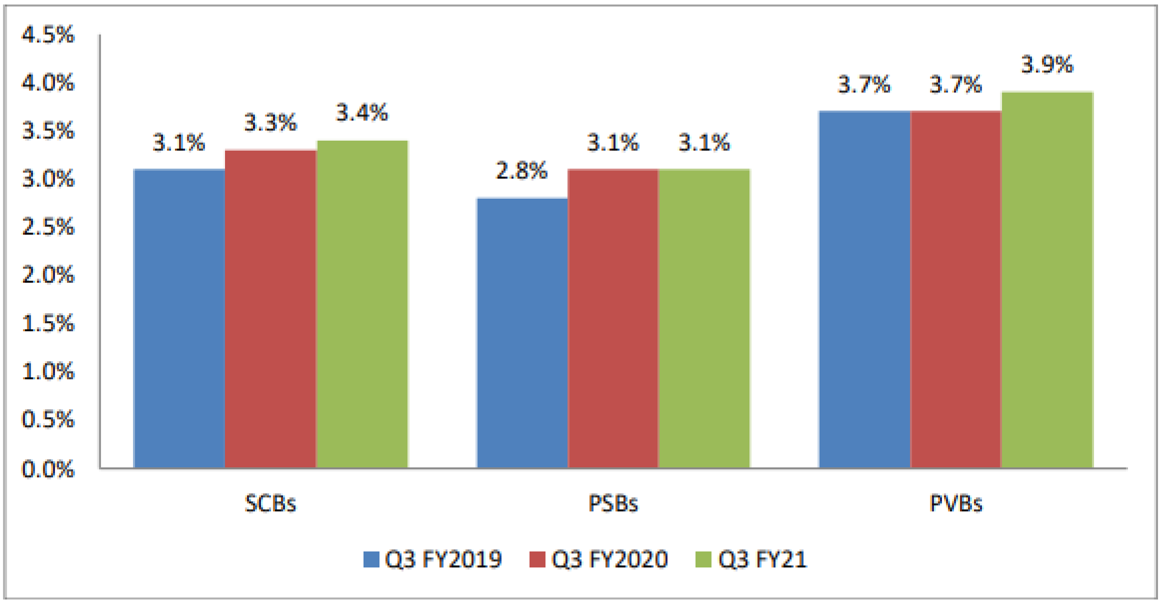


(Source : Prepared by the authors using data from Care_Rating, 2021)

Observation: The C-D ratio was found to have decreased after March 2020, which coincided with the beginning of the pandemic. This plainly demonstrates the onslaught of the pandemic, and it appears to have stabilized at the level of 72%.

Net Interest Margin

Chart 5: The margin of net interest

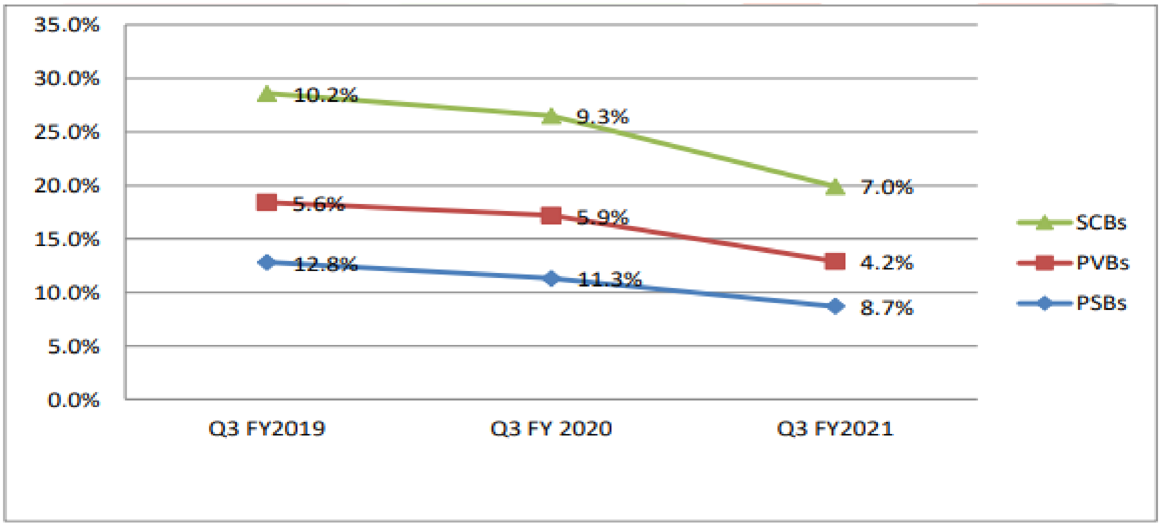


(Source : Prepared by authors based on data from Team, 2021)

Observation: In addition, there has been a marginal enhancement in the net interest margin of financial institutions between the fiscal years 2019 and 2021. PVBs have seen a modest increase, whilst PSBs have remained unchanged.

Gross NPA Ratio

Chart 6: GNPA Ratio



(Source : Prepared from data obtained from Team, 2021)

Observation: From the fiscal year 2019 to the fiscal year 2021, gross nonperforming assets have experienced a considerable decrease. There is a significant difference between the NPA level in PVBs and that of PSBs in any given year.

Conclusion

Public Sector Banks (PSBs) in India have been put to the test by the COVID-19 epidemic, which has shown their weaknesses and also prompted them to innovate and adapt. Issues including operational inefficiencies and Non-Performing Assets (NPAs) were problems for PSBs even before the epidemic. Nevertheless, they continued to play a crucial role in providing finance to essential industries. Loan defaults rose and credit demand fell as a result of these problems being worsened by the start of the epidemic. PSBs had the difficult balancing act of ensuring their own financial security while also lending to the economy. In spite of all this, PSBs showed their mettle by jumping on digital transformation efforts to boost customer service and operational efficiency. COVID-19 was a once-in-a-generation occurrence that rocked the economic foundations. The potential catastrophic effect on the banks' operations was a major concern. However, the research demonstrates that banks have demonstrated resilience, therefore the situation is not worrisome. Since FY 2017–18, deposits have grown at a snail's pace. However, in fiscal year 2020–2021, banks saw the greatest growth rate of any sector. Deposits have increased in both rural and urban regions. Growth in urban areas was fastest during the pandemic, whereas growth in rural regions was slowest.

Positive effects of the epidemic reflect people's desire to maintain more liquid and secure assets on hand. Following March 2020, the CD ratio declined in tandem with the credit collapse. There has been no decline in the Net Interest Margin, and the decline is not too severe, having leveled out at about 72% during the second and fourth quarters of FY 2020-21. Throughout the epidemic, there has been a marked decline in the Gross NPA ratio. The number of digital transactions increased by a significant 28% in FY 2020-21 compared to FY 2019-20, indicating that the epidemic has facilitated digital migration.

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