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IMPACT OF COVID -19 ON PERFORMANCE OF HDFC, ICICI, AXIS BANK

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ABSTRACT

The spread of COVID-19 has posed serious problems for the banking system in India. Business continuity concerns, operational factors, and the industry's bottom line are just a few areas where the pandemic is having an effect on banking. Increasing nonperforming assets (NPAs), loan demand, and the resulting decline in profitability were all reported by Indian banks. It was becoming more difficult to meet rising costs without any means of generating income due to the closure. In other words, people were asking for cash loans despite their inability to make the required repayments. A problem in available funds resulted. The Reserve Bank of India and the Central Government of India have adopted a number of initiatives to alleviate the crisis. The purpose of this research paper is to examine the effect of COVID-19 on the Indian banking industry and the link between nonperforming loans, advances, and profitability. To that end, we looked at three different Indian banks (ICICI, HDFC Bank, and Axis Bank) over the course of five years, from 2018 -22. The effect of Nonperforming Assets (NPAs) and Advances on Profitability was analyzed utilizing Statistical Tools, including the Correlation Coefficient. It may take a while for the banking system, especially in India, to recover from the effects of this epidemic, according to some analysts.

Keywords: Financial, Nonperforming Assets, Covariance Matrix Interval 19, and Net Profit; Economic

INTRODUCTION

The Indian Banking Industry

Let's start with some context on the Indian banking industry before we get to the meat of the problem. A bank is a financial organization whose main purpose is to collect deposits and provide loans to borrowers in need, whether they private citizens, companies, or even national governments. Everywhere you go, you hear people saying how reliable banks are. Any quantity of money deposited in a bank is as secure as it can be in the eyes of the depositor because of the inherent safety of the banking system. In addition, banks provide a plethora of other services, including loan options, deposit programs, debit and credit card services, etc. There are now 33 banks in India, 12 of which are public sector banks and the other 21 are private sector banks. The banking sector is very important to the Indian economy and a significant source of jobs. Over the last five years, numerous key performance metrics for India's banking sector have been on a downward trend. This is especially true for PSBs, which are often seen as less effective than their contemporaries. Core banking profitability in developed nations is falling because of the low interest rate situation and the major effect of COVID-19. That's why banks and other financial institutions are increasingly relying on commissions from companies in the payments and technology sectors. The health crisis has direct implications on the global economy, including a rise in credit risk among corporate and individual customers of banks. In order to keep funding the actual economy and aid in its recovery, banks must differentiate between short-term events that may be ignored and longer-term repercussions that will need management and reclassification.

Given the unusual nature of COVID-19, the update of forward-looking information requires careful analysis, in particular of how to integrate new information into risk factors. This may not endure as long as recessions brought on by economic and monetary factors. the revision of 'default rates,' which must account for official leeway given in the case of transient occurrences like the depletion of creditworthiness; the determination of the most suitable time frames for revising the ‘recovery rates' in order to incorporate the benefits, albeit inevitable in the medium term, stemming from credit recovery policies that may introduce forms of deferred payments or agreements on longer maturities (restructuring debt, etc.);

LITREATURE REVIEW

POONAM SHARMA & NEHA MATHUR (2021)

In today’s era, as everyone knows that to defeat a pandemic like covid-19,the Indian government announced complete lockout in the country from 24 march 2020 and was then extended to 3 may 2020 by the Indian government. The Indian government needs to lockout so that the lives of the people of the country can be saved. This is going to severely affect various sectors of our country. Banking is the backbone of the Indian economy. This article is an attempt to assess the causal impact of an pandemic like covid-19 on banks due to lockdown. As a result , all commercial organizations, educational institutions and public and private sector offices have been closed. The article has indicated a very serious impact of the lockdown on banks in the event of moving beyond July 2020.

PRIYANKA JHA (2021)

The CAMEL approach is used to assess the performance of banks as one of the most common methods for calculating banking performance. The CAMEL system, in which banks are supposed to boost capital adequacy, asset quality, management quality, earnings and reduce exposure to different financial risks, is a natural framework for evaluating this change. CAMEL is an international rating system used to rate financial institutions by regulatory banking authorities on the basis of the five factors represented by its acronym. The acronym for CAMEL stands for "Capital adequacy, quality of assets, management, earnings and liquidity. CAMEL stand for C-Capital adequacy, A-Asset quality, M-Efficiency of management, Equality of earnings, L-Liquidity." CAMEL approach is significant tool to assess the relative financial strength of a bank and to suggest necessary measures to improve weaknesses of a bank. In India, RBI adopted this approach in 1996 followed on the recommendations of Padmanabhan Working Group (1995) committee. The chapter aims to familiarize the reader with basic knowledge of banking supervision, the key measure of the CAMEL system to determine the overall protection and soundness of a bank. It also sets out the relevance of the CAMEL rating system in the banking review process. The benefit of the CAMEL model is that It highlights the main aspects of a bank that an entity has need to be analyse involved in Capital, Asset, efficiency, Earnings, and liquidity.

Desheng Dash Wu(2021)

David L. Olson

The COVID-19 pandemic has had a massive impact on the global economy. The impact COVID-19 has had on the Chinese banking sector consists of three aspects: short-term, long-term, and systemic risks. Support for differentiated financial services for pandemic prevention and control is needed, with increased credit support. Medium-to-small enterprises need to be supported through special credit lines, reduced interest rates on loans, deferred repayments, and establishment of long-term credit systems. Digital transformation needs to take place at a faster rate to improve intelligent risk control systems.

CA RUCHI GUPTA (2014)

The progression of an economy is significantly dependent upon deployment as well as optimum utilization of resources and most importantly operational efficiency of the various sectors, of which banking sector plays a very vital role. Banking sector helps in stimulation of capital formation, innovation and monetization in addition to facilitation of monetary policy. It is imperative to carefully evaluate and analyse the performance of banks to ensure a healthy financial system and an efficient economy. The present study attempts to evaluate the performance of public sector banks in India using CAMEL approach for a five year period from 2009-13.

DUDHI C (2018)

The banking sector is one of the most rapidly expanding in India. The financial sector is becoming more advanced. Assessing India's banking sector is not a straightforward task. Finding out which banks are good and which are bad involves looking at a number of factors. It is possible to gauge the sustainability of an economic endeavor by looking at how well its financial system is doing. New rules have been imposed on the financial sector by RBI and other officials.

PROBLEM STATMENT

There is concern that the COVID-19 pandemic might be one of the most significant threats to the financial services sector in over a century. This is perhaps one of the worst times in human history. No nation was immune to its effects, not even the least developed ones or the world's most powerful economy. A protracted period of stagnation is anticipated to befall the economy after the covid-19 epidemic caused the suspension of business operations and a state-wide lockdown.

The effects of COVID-19 on the banking industry will be disastrous, resulting in a precipitous drop in demand, reduced earnings, and the cessation of production. The Reserve Bank of India, the country's central bank, has revised its policies in preparation for the COVID-19 pandemic with the advice of experts. The Indian banking industry as a whole has encountered and is still facing a number of difficulties in recent years. Since many Indians are having trouble making ends meet, the Reserve Bank of India has extended the grace period during which EMI payments may be made. The report aims to examine the effects of COVID-19 on the Indian banking industry and the reforms the Reserve Bank of India (RBI) implemented as a result of the virus.

OBJECTIVES OF THE STUDY

This research project aims to investigate HDFC ICICI & AXIS Bank's and solvency both before and after COVID, and to draw conclusions based on those findings.

This research will focus on the shift in RBI policy that resulted from the spread of COVID-19.
The second objective is to analyse how COVID-19 has affected the Indian financial system.
To figure out how to protect the Indian financial system from the COVID-19 pandemic.
We need to identify the major challenges that the Indian banking system must overcome.

HYPHOTHESIS OF THE STUDY

H0: There is a significant different between impact of covid-19 on banks.

H1: There is no significant different between impact of covid-19 on banks.

RESEARCH METHODOLOGY

RESEARCH DESIGN: For this research, I have used descriptive research design.

PERIOD OF STUDY: This study analyses the data of the Indian banks for a period of 5 years, from 2018-2022. This period of study has been selected because it gives clear picture about before and during covid scenario of data of the banks.

SELECTION OF SAMPLES: 3 Banks are selected:

HDFC BANK

ICICI BANK

AXIS BANK

DATA COLLECTION: For this study, secondary collection method is used. The data required for this study is collected from records, documents and related websites.

DATA ANALYSIS

THE CAPITAL ADEQUACY RATIO (HDFC BANK)

HDFC Bank has a Capital Adequacy Ratio of 14.82 percent in 2018, 17.0 percent in 2019, 18.5 percent in 2020, 18.8 percent in 2021, and 18.7 percent in 2022. There is a sufficient Capital cushion in case of any scenario, since the ratio has been improving on a year-over-year basis and is far over the regulation condition of 9%. This proves that the bank has sufficient capital on hand to absorb a certain number of losses and is therefore better prepared to weather a recession or other unexpected financial setbacks.

ASSET QUALITY

This part of CAMEL focuses on the quality of HDFC Bank's assets, which are scrutinized because of the risks associated with the bank's investment strategies. When assessing the value of an investment or an asset, it's crucial to take into account not just its present condition but also its potential for future decline. From 8,19,401crores in 2018–19 to 9,93,703crores in 2019–20, 11,32,837crores in 2020–21 and 2021–22, and 14,33,892crores in 2022–23, the bank's advances have increased every year. Even though the bank's assets grew by 21% in 2019-20 and 14% in 2020-21, the Gross NPA stayed within the range of 1.30 %, ind

MANAGEMENT QUALITY

Earnings

Many ratios indicative of the bank's profits—including return on assets, return on equity, net interest margin, and net interest margin—are shown in the table below

Capability of Management	2018	2019	2020	2021	2022
Operating Ratio of Expenses to Total Assets	1.87%	2.00%	2.09%	2.13%	2.28%
Borrowing Costs Extent of Assets	3.20	3.83%	4.07%	3.77%	4.18%
The Expenses Relative to Revenue	40.37 %	38.52 %	38.41 %	39.62 %	37.84 %

EARNINGS	2018	2019	2020	2021	2022
ASSET TURNOVER RATIO	1.78 %	1.71 %	1.69%	1.64 %	1.68 %
PROFITIBALITY MEASURED BY A COMPANY RETURN ON EQUITY	15.27%	15.35%	14.12%	16.45%	16.26%
PROFIT MARGIN AFTER TAX	25.74%	22.86%	21.29%	21.79%	20.99%
MARGIN OF INTEREST, NET	3.71	3.67	3.87	3.76	3.83

LIQUIDITY

Key to the CAMELs architecture is its wide view of liquidity. Interest rate risk and liquidity risk are the main areas of interest here. The risk of negative interest rate fluctuations and its effect on profits are examined using the CAMLE framework (Albeshr and Nobanee, 2020). The bank's balance sheet, interest rate exposure, and risk management sophistication are all scrutinized. Banks' balance sheets, together with their liquidity management, excess liquidity policies, and cash flow policies, are all subject to scrutiny. Absolute Liquidity Ratio and Cash Position Ratio, two measures of liquidity, confirm the upward trends shown in the preceding paragraphs.

Capability of Management	2018	2019	2020	2021	2022
Operating Ratio of Expenses to Total Assets	1.87%	3.00%	2.09%	2.23%	3.28%
Borrowing Costs Extent of Assets	3.40	8.83%	5.07%	9.77%	5.18%
The Expenses Relative to Revenue	42.47%	39.62%	68.81%	79.82%	47.94%

THE CAPITAL ADEQUACY RATIO (ICICI BANK)

For 2018, ICICI Bank's Capital Adequacy Ratio is 16.55 percent; for 2019, it's 19.0 percent; for 2020, it's 17.5 percent; and for 2021, it's 19.8 percent. As the ratio has been rising steadily year after year and is far over the statutory criterion of 10%, there is more than enough Capital to weather any storm. This demonstrates the bank has enough capital to withstand a particular level of losses, making it more resilient in the face of economic downturns and other shocks.

ASSET QUALITY

Here in CAMEL, we examine ICICI Bank's asset quality in light of the dangers posed by the bank's investing policies. Investment and asset valuation requires consideration of not just the current state of the asset or investment, but also its expected reduction in value over time.

MANAGEMENT QUALITY

Earnings: The table below displays a variety of profitability statistics for the bank in question. These ratios include return on assets, return on equity, net interest margin, and net interest margin.

EARNINGS	2018	2019	2020	2021	2022
ASSET TURNOVER RATIO	1.79 %	1.75%	1.79%	1.69%	1.70%
PROFITIBALITY MEASURED BY A COMPANY RETURN ON EQIUTY	15.3 7%	15.6 5%	14.2 2%	16.5 5%	16.5 6%
PROFIT MARGIN AFTER TAX	25.8 4%	22.9 6%	21.3 9%	21.5 9%	20.8 9%
MARGIN OF INTEREST, NET	3.72	3.68	3.89	3.77	3.89

Considering the Bank's success, it would be prudent to reinvest some of the money made in order to fuel its expansion plans. There has been an increase in both the return on assets and the return on equity.

LIQUIDITY

Liquidity plays a crucial role in the CAMELs design. This discussion focuses mostly on two types of risk: interest rate risk and liquidity risk. Using the CAMEL framework in 2022, we analyze the potential dangers of negative interest rate swings and how they can affect earnings. The bank's financials, including its interest rate exposure and the quality of its risk management, are under close scrutiny. The liquidity management, excess liquidity, and cash flow policies of banks are all under close examination. The rising tendencies shown in the previous paragraphs are corroborated by the absolute liquidity ratio and the cash position ratio.

THE CAPITAL ADEQUACY RATIO (AXIS BANK)

The CA Ratio for AXIS Bank in 2018 is 18.55 percent; in 2019, it is 18.0 percent; in 2020, it is 19.5 percent; and in 2021, it is 20.8 percent. Capital is secure since the ratio has been increasing gradually year after year and is far over the regulatory criteria of 13%. Because of this, the bank is more resistant to economic downturns and other shocks, and it also shows that it has adequate capital to sustain a certain number of losses.

ASSET QUALITY

The riskiness of AXIS Bank's investments is taken into account here in CAMEL when we analyse the bank's asset quality. The predicted decline in value over time must be included into any appraisal of an investment or asset, not simply its present condition. From 6,30,603 in 2018–19, the bank is projecting

Abilities in Administration	2018	2019	2020	2021	2022
Functioning Cost-to-assets ratio	1.8 7%	3.7 0%	2.1 9%	2.8 3%	3.9 8%
Money spent borrowing	3.8 0	8.9 3%	6.0 7%	9.9 7%	5.8 8%
Value of Possessions	47. 49 %	30. 68 %	69. 91 %	70. 85 %	67. 99 %

9,63,753 in 2019–20, 19,63,887 in 2020–21 and 19,36,827 in 2022–23 in advances. While the bank's assets increased by 32% in 2019–20 and 16% in 2020–21, the Gross Nonperforming Assets (NPA) stayed within the range of 1.31%, indicating that the quality of the bank's assets has remained extremely exceptional.

MANAGEMENT QUALITY

The tables above display a variety of ratios that provide light on the efficiency of operations and management. These ratios during the last five years show that the bank's management has been able to successfully prepare for, and implement, strategies to weather the financial industry storms.

EARNINGS: A range of profitability data for the relevant bank is shown in the table below. The return on assets, return on equity, net interest margin, and net interest margin are some examples of these ratios.

A portion of AXIS Bank's profits should be reinvested to support its growth strategies. Both the return on assets and the return on equity have improved.

LIQUIDITY

The CAMELs layout is highly dependent on liquidity. We'll be talking mostly about two categories of risk here: interest rate risk and liquidity risk. The risks of negative interest rate fluctuations and their

Earnings	2018	2019	2020	2021	2022
Asset Renewal Frequency	1.89%	1.78%	1.77%	1.60%	1.76%
Profitability An important measure of a company's profitability is its ROE.	18.37%	15.95%	14.62%	16.95%	16.46%
After-tax average profit margin	29.84%	22.76%	21.89%	21.89%	20.49%
Overall Interest Margin	3.78	3.69	3.88	3.76	3.87

impact on profitability are analysed using the CAMEL framework in the year 2020. Everything about the bank's finances, from its interest rate exposure to the calibre of its risk management, is being scrutinized. Many aspects of banks' cash flow, excess liquidity management, and liquidity management strategies are being scrutinized. The trends shown in the preceding paragraphs are supported by the cash position ratio and the absolute liquidity ratio.

CONCLUSIONS & SUGESSTIONS

- In order to sustain liquidity in the case of COVID-19, the RBI should now concentrate on the financial system and its environment.
- There should be a provision to offer financing to keep all small and medium-sized businesses on track when the lockdown is lifted.
- The Indian government should lessen financial stress and economic uncertainty.
- Proper management is required for both the money market and the capital market.
- The government has to strengthen the economy so it can withstand impending crises.

Due to deposits, which serve as insurance for loans, certain Indian banks are struggling as a result of the corona-like disease. Customers may be forced to lend less due to the state of private banks, which might result in low liquidity. Due to Corona, the RBI granted all banks a 3-month grace period, which provided some reprieve from the regulations guiding the identification of poor credit, but raised bank NPA. Bankers are aware that the RBI has taken several actions to do business in the banking industry after the lockdown was implemented by the Indian government on March 25, 2020. Additionally, the RBI has loosened the deadline for the Corona bad credit regulations and prohibited borrowers from paying dividends for the fiscal year that concluded on March 31, 2019.

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