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Research Paper

The Impact of COVID-19 on Non-Performing Assets in the Indian Banking System

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Abstract
Purpose: The study aims to evaluate the impact of the COVID-19 pandemic on the non-performing assets (NPAs) of the banking system of India.
Theoretical framework: The financial health of an economy rests on the soundness of its banking system, which in turn depends on the assets and liabilities held by the banks in the country and their resilience in the face of a crisis. An efficient banking system is necessary for the maintenance of regular cash flows in an economy and the management of the credit and monetary base. The Indian banking sector has been performing on the brink of a crisis for several years now, owing to the increased accumulation of non-performing assets by the scheduled commercial banks, especially in the post 2007-08 crises.
Design/methodology/approach: Qualitative research design has been used to assess the impact of COVID-19 on the NPAs by collecting secondary data from relevant and authentic sources. Tabular and graphical presentation of data has been done to analyze the impact of pandemic crisis on the NPAs.
Findings: The study has highlighted the impact of COVID-19 on stressed assets held by the banks and analyzed the impact of changes in the latter on various concerned parties. The pandemic-induced shock was primarily absorbed by the banks, other financial institutions, and businessmen. The result was a magnification of the banking crisis. The study also presents the measures undertaken by the Central bank of India (RBI) to address the issue.
Research, Practical & Social implications: As the threat of the pandemic became apparent by March 2020, national governments across the world resorted to the implementation of restrictions and lockdowns, which had a considerable impact on the financial health of their economies. The extent of the pandemic, coupled with the failing businesses and investments everywhere, came as a serious blow to the banking sector in India.
Originality/value: The COVID-19 pandemic has been called the 'black swan' of the century in lieu of the strain that the global economic and financial systems have been subjected to. Assessing the impact of this recent crisis on the already prevailing issue of NPAs in the banking system provides a promising research field.
Keywords: *Banking, COVID-19, Non-Performing Assets, Stressed Assets.*
JEL Classification: *E5, G2*

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I. Introduction

The issue of NPAs in the Indian banking sector is one of the foremost and most formidable issues that has impacted the entire banking sector. Higher Non-Performing Assets has a number of negative economic consequences, including rising interest rates to compensate for bad loans, the loss of banking shareholders, the failure of good projects, and liquidity issues. Amid the pandemic, it has become much more relevant to theoretically analyze the issue of rising Non Performing Assets in the banking sector. Before that, it is critical for

both the borrower and the lender to understand the difference between performing and non-performing assets. If the asset is non-performing and interest payments are not made, then the borrower's credit and growth opportunities may be harmed. It will then make it more difficult for them to get future loans. Interest earned on loans is a major source of income for the bank or lender. As a result, non-performing assets will have a detrimental impact on their ability to generate sufficient income and, as a result, on their overall profitability. It is critical for banks to keep track of their non-performing assets (NPAs), as having too many NPAs can have a negative impact on their liquidity and ability to grow. Non-performing assets (NPAs) can be managed, depending on how many there are and how far past due they are. Most banks can take on a reasonable level of nonperforming assets in the short run. However, if the number of non-performing assets (NPAs) continues to rise over time, the lender's financial health and future prosperity are jeopardized. The Genesis of the NPA Problem lies in the boom years of the late 2000s, where a major part of the issue went on track in the latter half of the 2010, as assumptions of persistently high economic growth made several large corporates overzealous in their investment ambitions, thus over-leveraging them in the process. Other than that, easy credit provided by banks has also played its role, as the prospects of high economic growth and the financial sector, led by Public Sector Banks, fuelled these expansion plans through easy money on credit. However, growth and demand had fizzled out following the global financial crisis of 2008. Despite the fire-fighting measures taken by the government, the impact of the global crisis will be felt in coming years. The crisis was further precipitated by the policy paralysis of the government (corruption scandals, coalition politics, and standstill bureaucracy).

The stress from stretched corporate balance sheets (revenue impacted due to the slowdown) infected banks' own books and own capacity for fresh lending. Arvind Subramanian (Former Chief Economic Adviser) had called it India's 'twin balance sheet problem' in the Economic Survey for the financial year 2016-17. Over the course of 2014–19, India's banks were put on high alert by the RBI for tighter recognition norms for bad loans. As a result, in March 2018, when bad loans on their books peaked at over ₹ 10 lakh crore—around 11.5% of all loans. On understanding the seriousness of the problem, several policy measures have been taken to stem the problem. The vicious cycle of twin balance sheet problems was interrupted to an extent by the Insolvency and Bankruptcy Code, which, along with strict recognition standards for bad loans, helped correct the course over time. The onset of COVID-19 has further worsened the problem of NPAs in the banking system. Several regulatory forbearance steps were taken by authorities, such as interest rates were cut after the onset of the pandemic, a loan moratorium was offered on instalments due from borrowers, and liquidity was permeated into the system to keep the wheels of the economy moving without a further shock. At the same time, the invocation of the Insolvency and Bankruptcy Code was suspended for loans that went into default when the lockdown began. Further, the government, under its Atmanirbhar Bharat package, provided credit flows to some productive and COVID-19-stressed sectors.

However, the fact can not be denied that the pandemic has adversely impacted the already worse NPA situation in the Indian banking system. The credit given by the banks to borrowers in the form of loans and other investments makes up the assets of the banks and financial institutions. The quality of these assets in the possession of the financial institutions is the principal determinant of the efficiency and sound performance of the entire banking sector in an economy. Banks holding assets of higher quality have a higher credit rating and are considered able to optimize the allocation of capital across sectors. The quality of these assets depends on the timely interest payment and repayment of the principal amount of the loans by the borrowers. The loans for which either interest or instalments or both have not been paid for 90 days are called Non-Performing Assets (NPAs). NPAs can further be categorized into substandard, doubtful, and loss assets (with the former two having further sub divisions) based on how far beyond the 90-day period the repayment has been delayed. NPAs are only one aspect of assets of deteriorated quality. In order to enable the defaulter borrowers to repay the loans, banks restructure or rephrase the loans by changing the terms of the loan by things like reducing the interest rates, increasing the time limit for repayment, providing for financing of the loan, and other similar pro-borrower conditions. This method results in the conversion of NPAs into restructured loans. Restructured loans are also assets of lesser quality because a) the income of the banks is hit partly and b) these loans still run the risk of default. A third category of bad loans or assets are the written-off assets. When banks recognize NPAs, they are required by the mandate of the RBI to set aside a part or full amount of the loan to provide for if the bank fails to recover the loan. This is called provision, and the rate of provision varies with the type of NPA. While the loan is shown on the asset side of the bank's balance sheet, the amount set as a provision is shown on the liability side. If the bank writes off the defaulted loans on its balance sheet to clean up its balance sheet, i.e., the banks transfer the provision amount to the loan/asset account to the extent of the defaulted loan, the NPA amount will be reduced. This process is called 'writing-off' and the assets not being counted as accruing to the bank are called 'written-off assets'. This, however, does not mean that the borrower is exempt from repayment. Together, these three bad loan categories are called the stressed assets of the bank or financial institution.

Stressed Assets = NPA + Restructured Loans + Written Off Assets

The assets in possession of the banks in the Indian scenario have deteriorated considerably in quality over the years, and this is seen as a cause of concern and a grave risk to the economic and financial health. The increase in stressed assets has been attributed to excessive lending in a short span of time after the Global Recession from 2009–2013, lending to individuals without a proper background check, and crony capitalism. As of March 2018, Indian banks reported GNPA (Gross Non-Performing Assets) totaling more than Rs. 10.25 lakh crore. Out of the total bad loans, 21 Public Sector Undertaking (PSU) banks contributed more than Rs. 8.97 lakh crore. In March 2018, GNPA had increased to 10.14 %. The GNPA ratio of PSU banks was 13.41 % of total advances. The Net NPA stood at Rs. 5.18 lakh crore after provisioning. In comparison to private sector banks, public sector banks led by SBI are in a more perilous position.

II. Review of Literature

In the theory, the asset quality of a bank's balance sheet is interpreted in terms of the credit risk inherent in the loan portfolio. Credit risk in a bank's asset portfolio, i.e., the probability of a bank asset turning into an NPA, is proxy by variables such as (i) NPA to total assets/interest income earning assets; and (ii) loan loss provisions to total assets/total loans (Almarzoqi & Naceur, 2015). NPAs are an important performance indicator for banks. A large number of defaulted borrowers indicate a high level of NPAs. The high level of NPA adversely affects the efficiency and profitability of banks (Singh, 2013). A Positive relationship in NPA, total advances and net profit has been discovered which occurs as a result of poor management, bad lending practices and the bank's poor borrower selection. Resultantly, banks' liquidity gets adversely affected and, due to a paucity of funds, banks are not in a position to give further loans as NPAs have increased (Singh, 2013; Narula, & Singla, 2014). Several studies have suggested that the level of NPAs is much higher in public sector banks than in private sector banks and the main reasons for the issue are excessive lending by banks and higher demand for credit by wilful defaulters (Joseph & Prakash, 2014; Bhaskaran et al., 2016; Singh, 2016; Suvitha & Gayathri, 2018). Other than that, the NPA level of foreign banks is lower than that of Indian banks, and the problem of NPA is more with large borrowers than smaller ones (Singh, 2016). Similar adverse effect of the pandemic has been seen in Iraq's banking system (Al-Karawi & Almashhadani, 2022). However, improvement and recovery was seen in Iraq's banking system with the help of human resource management in banks (Abunaila, 2022).

Main reasons of rising NPAs are industrial sickness, change in government policies, poor credit appraisal system, willful defaults and defect in the lending process (Sahni & Seth, 2017; Kumar et al., 2018). On the same line, regulatory forbearance can also adversely affect the NPA crisis (Sengupta & Vardhan, 2017). The issue of rising NPAs was persistent in the case of Indian banks and more severe in public sector banks. However, with the advent of the COVID-19 pandemic, the NPA situation has worsened. Most of the Indian banks were already facing the problems of NPA, non-recovery of loans, customer fraud, bad loans, and to add to it, COVID-19 has expedited the collapse of the Indian banking sector (Bobade, & Alex, 2020). Several other studies have assessed the pre-pandemic and post-pandemic effects on the bad loans of Indian banks and suggest that NPAs have increased during the period of pandemic and lockdown. Indian banks have experienced an increase in NPAs and demand for credit, which has in turn impacted their profitability. Because of the lockdown, there were no sources of revenue and expenses kept on increasing. As a result of that, people were demanding advances, and on the other hand, they were not able to repay the loans. Thus, a liquidity crisis arose (Selvam & Premnath, 2020; Bagewadi & Dhingra, 2020; Kumar & Kumar, 2021; and Panchal, 2021)

The impact of COVID-19 on banks in India has left some banks struggling due to deposits, as loans are protected by deposits. The condition of private banks has forced customers to lend less, which has led to poor liquidity. The central bank had given grace periods to all banks due to the pandemic, which had brought some relief from the rules governing bad credit recognition, but it definitely affected adversely the stressed assets of banks and, consequently, NPAs have increased (Mehta & Jha, 2020; Perwej, 2020; Singh & Bodla, 2020; Sharma & Mathur, 2021). Since the money blocked in NPAs has a significant adverse impact on the effectiveness of banks. The government has made different mechanisms for recovery such as Lok Adalats, DRT and SARFAESI Act (Swain & Mishra, 2017; Dey, 2018). Other measures to resolve the issue of NPAs has been suggested in the literature which includes, to decrease the priority landing by the Government as it is the area where most of the NPAs are from, Use of suitable credit assessment and risk review of nonperforming assets, early monitoring and management of lent funds, better supervision of end use of funds, information about the credit history of the borrower and assisting the borrowers to develop entrepreneurial skills to ensure that the asset does not convert into a non-performing asset (Karunakar et al., 2008; Rajeev & Mahesh, 2010; Barge, 2012; Singh, 2016; Mishra & Pawaskar, 2017). Other than that, banks should be proactive in adopting structured NPAs management policy where prevention of NPAs receive priority and some legal, regulatory and non-legal corrective measures should be taken to recover the nonperforming loans (Bhaskaran et al.,2016; Thomas & Vyas, 2016; Mittal & Suneja, 2017; Sahni & Seth, 2017).

III. Material and Methodology

The study primarily focuses on the evaluation of the impact of COVID-19 on NPAs, or bad loans, in the banking system in India. The databases used for the purpose of the research include Scopus, Jstor, Web of Science, and Google Scholar search engines to collect relevant information in the context of the rise and fall in the NPAs of the Indian banking sector. To examine the impact of a pandemic on bad loans, the relevant secondary data has been gathered from the websites of the Reserve Bank of India, Indian Banks' Association, Financial Stability Report and other authentic sources. Based on the relevant resources, an exploratory and analytical approach has been used to inspect the impact of the pandemic on NPAs in the Indian banking system. The major findings are discussed below in the subsections of the results.

IV. Results and Discussion

Pre COVID-19 Scenario

The issue of stressed assets in the Indian banking sector is not a new one and has been the subject of discussion, research and policy framework for many years now. Stressed assets in India increased at an alarming rate and reached an all-time high in the last decade alone. The increasing number of stressed assets has had a serious impact on the functioning and lending activities of the banks. Table-1 shows the amount of stressed assets of banks in the Indian scenario from 2013 to 2019 – in the pre-COVID-19 period.

Table-1: Amount of stressed assets (2013-2019)

Year	GNPA (amount in crores)			Loans subject to Restructuring (in crores)		
	PSBs	PVBs	Total	PSBs	PVBs	FBs
2013	155900.00	20000.00	175900.00	317062.30	23553.62	1069.28
2014	216739.20	22743.00	239483.10	380743.80	33961.33	1221.63
2015	262745.00	31576.00	294321.00	476852.70	46179.39	1517.00
2016	502068.00	48380.00	550448.00	392075.30	52057.42	3086.39
2017	641056.00	73842.00	714898.00	287632.10	43484.16	2469.78
2018				257863.20	38943.86	928.84

Source: Author's calculation

Under Gross NPA, the data for public sector banks (PSBs) and private sector banks (PVBs) is presented in columns 2a and 2b, respectively. Column 2c represents the total gross NPAs held by all scheduled commercial banks (SCBs) except foreign banks. Columns 3a, 3b, and 3c show the total amount of restructured loans and corporate debt restructured in crores for PSBs (State Banks and its allies + Nationalized Banks), private sector banks, and foreign banks, respectively.

Considering the time period before the pandemic, the private and foreign sector banks showed better performance in terms of management of stressed assets (both NPAs and corporate debt restructuring) when compared to nationalized and public sector banks. Also, the credit issued to borrowers from non-priority sectors resulted in the accumulation of more stressed assets than the credit issued to priority sector borrowers. Borrowers from textiles, iron and steel, construction, power, and other infrastructural industries defaulted more on loans than other industries in the non-priority sector. The causes of the rise of stressed assets in the pre-COVID-19 period were mostly due to badly performing investments and businesses owing to the economic slowdown and the adverse impacts of demonetization and GST. During the said period, the economic slowdown led to the stalling of several infrastructural and expansionary projects across various industries; and initially the skewed and then the delayed remedial policy measures aggravated the situation.

Post-COVID-19 Scenario

The first COVID-19 infection was detected in India on January 30, 2020, and ever since then, the number of infections has been on the rise. This necessitated the implementation of a series of lockdowns first implemented in March, 2020. The restrictions were eased, but then reinstated as the second wave of infections approached. These lockdowns restricted banking and economic activity significantly, with almost all macroeconomic variables taking a hit due to laggard economic growth and reduced working activities. The activities of the banks pertaining to loan disbursal and business investments were also hit by this pandemic.

The lockdowns have and are further expected to aggravate the stress on the banking sector, which is

already in a dilapidated state. Given that all industrial activities were affected adversely and income also came down due to the economy coming to a halt, loan repayments across all sectors were hit. Some deferred the repayments while others failed to pay at all. This has led to increase in bad loan ratios. Table-2 shows the ratio of GNPA to total advances of public, private, and foreign sector banks from March 2019 to September 2021.

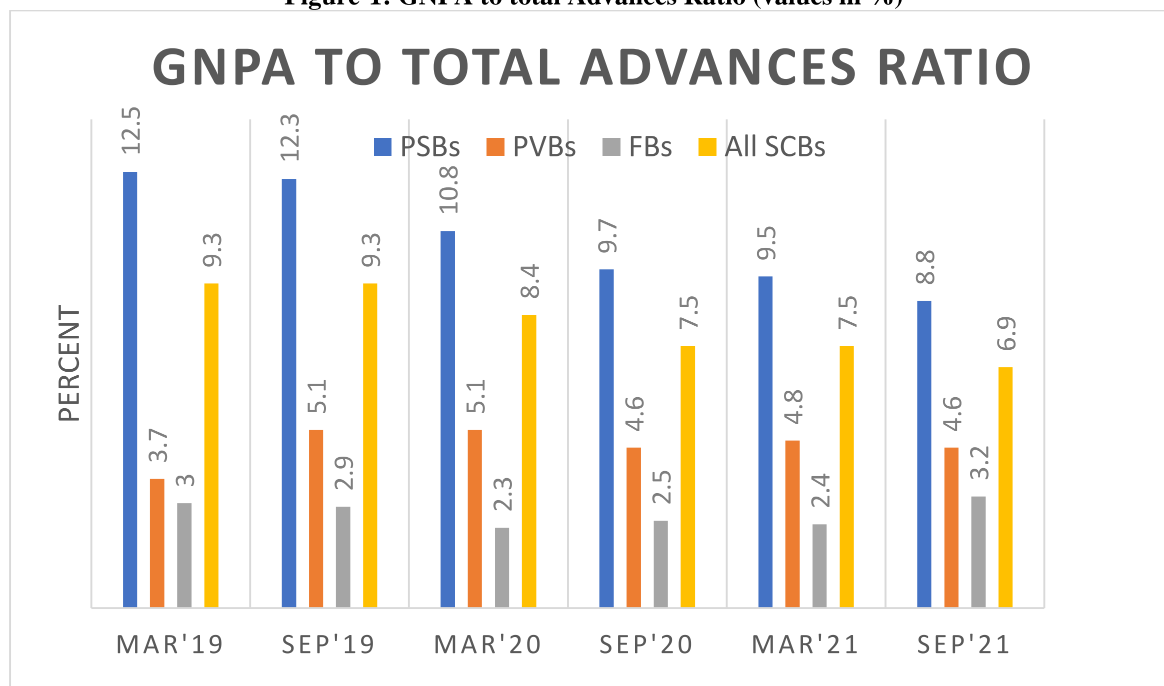
Table-2: GNPA to total Advances Ratio (in %)

Year	GNPA to total Advances Ratio (in %)			
	PSBs	PVBs	Foreign Banks	All SCBs
Mar'19	12.5	3.7	3.0	9.3
Sep'19	12.3	5.1	2.9	9.3
Mar'20	10.8	5.1	2.3	8.4
Sep'20	9.7	4.6	2.5	7.5
Mar'21	9.5	4.8	2.4	7.5
Sep'21	8.8	4.6	3.2	6.9

Source: Author's calculation

Table-2 and Figure-1 show that while the PSBs have managed to stay afloat and haven't worsened their NPA holdings, both private and foreign banks have fared badly after September and March, 2020 respectively. While the overall bad loan ratio for March, 2020 and March, 2021 was 8.5% and 7.5%, respectively, it has shrunk down to 6.9% in September, 2021 against the RBI's projected rate of 14.3%. According to the RBI Financial Stability Report of July 2021, the ratio is expected to reach 11.2% by March, 2022.

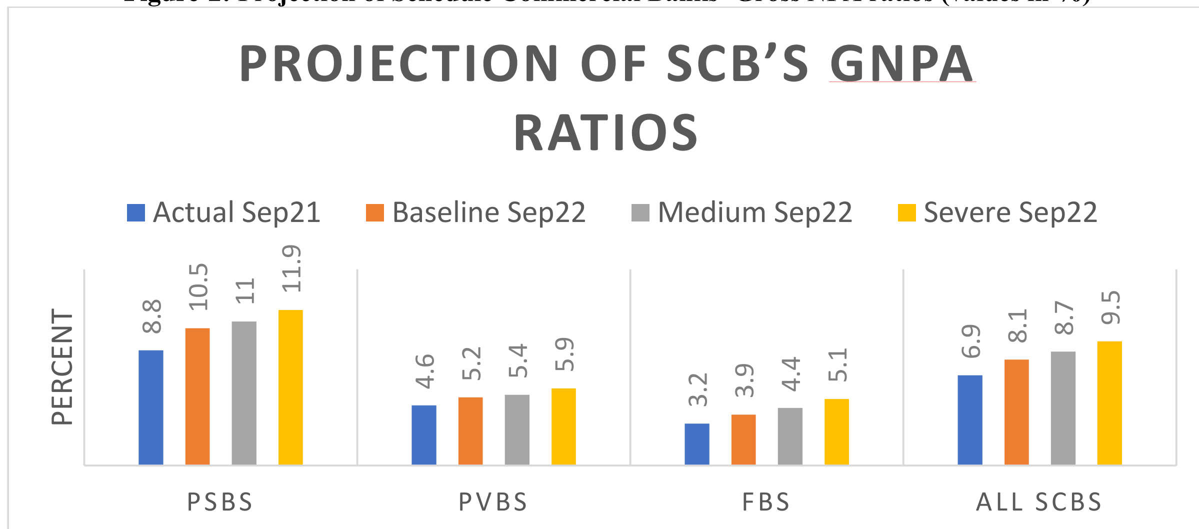
Figure-1: GNPA to total Advances Ratio (values in %)



Source: Author's calculation

Further, the Macro Stress test conducted by RBI indicates that the GNPA ratio of all SCBs may increase to 8.1% by September, 2022 under the baseline scenario and further to 9.5% under severe stress. Within the bank groups, PSBs' GNPA ratio of 8.8% in September, 2021 may deteriorate to 10.5% by September, 2022 under the baseline scenario; for PVBs, the share of bad loans may rise from 4.6% to 5.2%; and for FBs, it is estimated to increase from 3.2% to 3.9% over the same period (Figure-2).

Figure-2: Projection of Schedule Commercial Banks' Gross NPA ratios (values in %)



Source: Author's calculation

On the other hand, if the stress conditions do not materialize and the situation turns optimistic relative to the baseline, the GNPA ratio of all SCBs may moderate.

These future projections are being considered indicative of the impending impairment of the portfolio holdings of the lending institutions, which is expected to have serious ramifications for the overall credit capacity of the banks. The Capital Adequacy Ratio, also known as the Capital to Risk Weighted Assets Ratio, measures how much capital a bank has available to forward as credit and is expected to fall from 15.6% in September 2020 to 14.5% in September 2021 under moderate stress (and to 12.5% under severe stress) and to 13.5% by March 2022. Rakesh Mohan and H. R. Khan, former Deputy Governors of RBI, are of the opinion that the full and proper impact of the second wave hasn't yet been ascertained on the asset quality of the banks and that NPAs of Scheduled Commercial Banks (SCBs) can go up to 18% by the end of FY 21-22.

As per a recent report by the rating agency India Ratings and Research, lenders are exhibiting increased risk averse behavior in the face of the pandemic and this may lead to an increase in the amount of stressed assets by Rs. 1.68 lakh crores, taking the total of corporate debt reeling under stress to Rs. 5.89 lakh crores by the end of the current financial year.

The Expert Panel formed by the RBI under K V Kamath to look into the issue of stressed assets in the wake of COVID-19 ascertained that before the pandemic, a total of 22.2 lakh crores of total debt issued by all SCBs was exposed to stress. The committee found that this number increased by 15.5 lakh crores during the pandemic and the total exposed assets of the bank increased to 37.7 lakh crores. A Hindustan Times article reported this rise to be spread across 19 sectors of the economy and to have increased the risk exposure of loans by 70% due to COVID-19. The committee earmarked the loans given to the following industries as the most severely impacted ones during the pandemic: loans in the personal loan category; tourism, hotels, and restaurants; manufacturing sector; real estate; construction; retail and wholesale trade; and aviation. Loans in the pharmaceutical, telecommunications, agriculture, and information technology sectors have been impacted less. The sector-wise GNPA ratio of the services sector and the personal loans sector increased to 7.5% and 2.1%, respectively, in 2020–21 as compared to a year ago.

In 2020 alone, a loan amount of Rs. 158076.74 crores was subjected to restructuring across all the SCBs. This amount was Rs. 127133.03 crores for PSBs, Rs. 30309.36 crores for PVBs, Rs. 480.81 crores for foreign banks, and around Rs. 153.54 crores for small finance banks. Also, the Kamath committee had also recommended the credit issued to 26 sectors be considered for restructuring. Non-corporate loan amounts totaling Rs. 21000 crores will be restructured, accounting for approximately 1.9% of total banking credit. Had the restructuring not been proposed, NPAs would have been increased by this amount. In spite of this restructuring taking place, bad loans and thus distressed assets are further expected to rise as restructuring becomes more difficult. The main reason for this is that, as per new requirements charted out by the Finance Ministry and RBI, for companies to be eligible for restricting, they need to have a credit rating of investment grade; this makes fewer companies eligible. With less restructuring, more gross bad loans are being predicted. The ratio of written off loans to gross NPAs stood at 20.5% for all the SCBs as in March 2021, with PVBs and foreign banks writing off 31% and 30.9% of their bad loans, respectively. The annual slippage ratio, which is a measure of newly accumulated NPAs as a share of total advances at the beginning of each year, stood at 2.5% in FY-2020–21. While the ratio fell for PSBs

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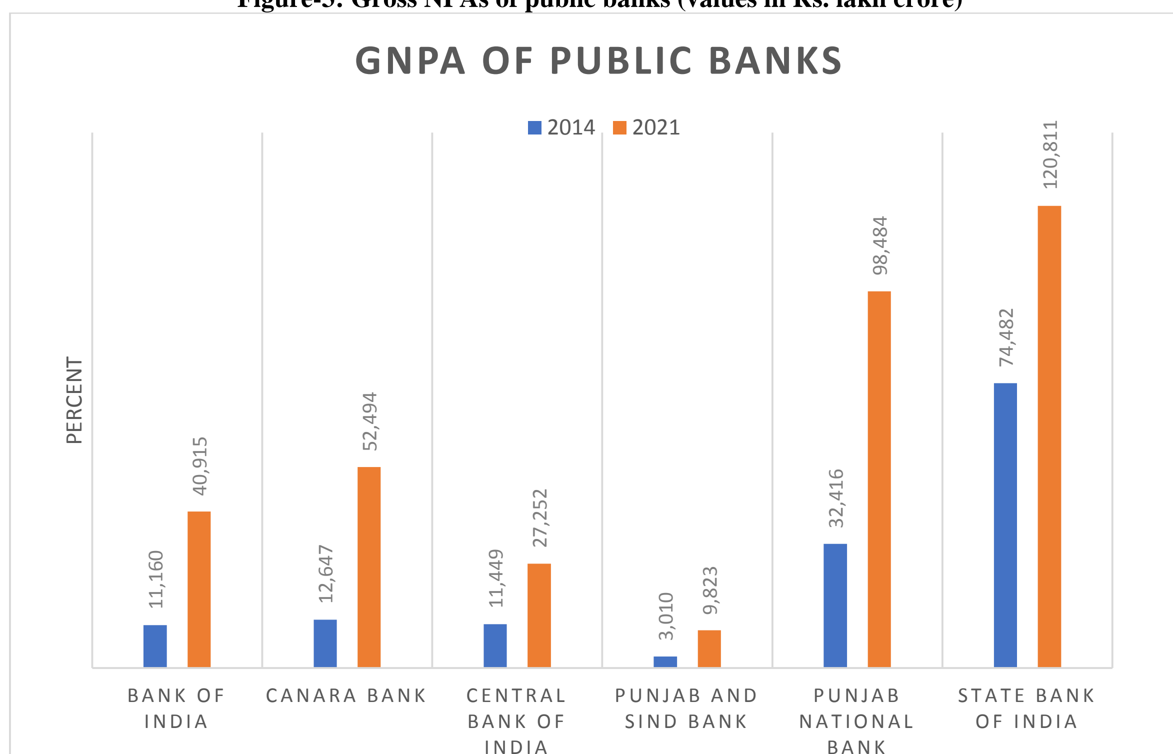
and PVBs, foreign banks recorded an increase of 1.8% compared to the previous year. This suggests the extent of distress in the banks.

The impact of the pandemic can also be ascertained by assessing the number of retail borrowers who have availed the moratorium facility introduced by the RBI. As per the Deloitte Report on Bad Banks, around 80% of retail borrowers who owed money to public sector banks availed the option of moratorium, while 45.9% and 73.2% of borrowers of NBFCs and small finance institutions availed the facility, respectively. The pandemic has also delayed the resolution and closure of existing cases of distressed assets, such as those under the Insolvency and Bankruptcy Code, due to subsequent lockdowns. As the asset quality of the banks declined, Fitch reduced the credit rating of the Indian banks from stable to negative in June 2020.

The rise in stressed assets has impacted the amount of credit issued by banks as they have turned skeptical about the repayment ability of the borrowers. The year-on-year credit growth rates of public sector banks have decreased from 9.6% in March 2019 to a mere 4.6% in September 2020 and further to 3.5% in March 2021. The year-on-year deposits in PSBs have, however, increased from 6.6% in September 2019 to 10.1% in March 2021 – the highest growth in the last 6 years – due to precautionary savings by individuals. The loans, which are interest-earning sources for banks, are decreasing in the wake of uncertainty, while the deposits are increasing. The percentage of all new loans extended by SCBs has decreased from +11.4% in the final quarter of 2019–20 to -24.6% and -7.4% in the first and second quarter of 2020–21, respectively. It may lead to a decrease in the net interest income and margins of the banks, affecting the entire financial system. A study by Kumra (2020) suggests that if the pandemic persists, the banks will become more averse to lending money as they may not find suitable and trust-worthy investment avenues. This might result in the piling up of excess funds with the banks and eventually affect the monetary base and the availability of credit, thus creating a problem for not just the banks, but also regulators and the overall economic activity.

According to the data presented in the Rajya Sabha by Minister of state for finance, the GNPAs of PSBs have doubled in the last seven years to Rs. 5.40 lakh crore in 2021 from Rs. 2.24 lakh crore in 2014. As the Figure-3 depicts, State Bank of India tops the list with the highest GNPAs, followed by Punjab National Bank with bad loans of Rs. 1.21 lakh crore and Rs. 98,484 crore, respectively.

Figure-3: Gross NPAs of public banks (values in Rs. lakh crore)



Source: Author's calculation

Measures taken by the Reserve Bank of India (RBI)

The Reserve Bank of India had set up a panel under KV Kamath to recommend a resolution framework to address the issue of the expected increase in stressed assets in the wake of COVID-19. As per the recommendations of the panel, RBI initiated a loan restructuring programme under the Resolution Framework

1.0 in August 2020 to help those who had difficulty in paying back their loans. This was done with the aim of preventing these loans from turning into stressed assets. A Resolution Framework 2.0 was introduced in June 2021 to deal with the adverse effects of the second wave again in the form of restructuring. This time, retail borrowers and borrowers from the MSME sector who had not availed of restructuring but had made timely loan repayments were allowed to avail loan restructuring. Also, two phases of loan moratoriums were initiated to help individual borrowers. In the Union Budget for 2021, the government also announced the formation of a bad bank, the National Asset Reconstruction Company, to resolve stressed assets of sick companies.

Irrespective of these measures, banks and financial institutions are expecting an adverse impact on their activities and their asset quality in the long run. The trouble is two-fold. Firstly, while the RBI has provided recuperating mechanisms in the form of moratoriums and restructuring to borrowers, the lenders have not been exempted in any way from meeting their obligations of paying interest, allowing withdrawals, etc. This has hit the incomes and profits of the banks. Secondly, considering that the incomes of people have been hit in the second wave, and accounting for the expected impact of the imminent third wave of the pandemic, the incomes are further to take a hit. If it does happen, it will be difficult for the borrowers to generate a sufficient amount of money to facilitate repayments. This may not only affect the restructured loans' repayment but also lead to depreciation in the quality of the existing standard assets once the exemptions provided end or are revoked. The RBI has maintained the stance that, collectively, the banks have adequate mitigating capital to help them stay afloat even if the position of the banks deteriorates to a severe stress level scenario. While the private sector and foreign banks can raise sufficient capital from the financial markets, the public sector banks can rely on capital infusions from the government. However, the banks on their own may not be able to deal with the crisis given that their capital buffers are expected to fall short of even the minimum regulatory requirements mandated by the RBI and they are also expected to face some setbacks in the face of mounting distressed assets.

As the number of nonperforming assets rises, the bank's image suffers, and the public loses faith in it. Depositors may withdraw their funds, forcing banks to run out of cash. Banks are unable to lend for other productive activities in the economy due to a lack of liquidity. The reduction in investment may cause the economy to slow down, resulting in unemployment, inflation, and a bear market, among other things. To keep up their advantage, banks will be constrained to extend interest rates, which once more harm the economy. When money lent becomes uncollectible, banks face financial hardship, which has a negative impact on their overall operations. As a result, NPAs have a direct influence on the bank's performance. In 2020, BANKNIFTY is slipping. Fears of growing NPAs fueled the COVID shutdown in 2020, resulting in BANKNIFTY falling to a low of roughly 47% in 3-4 months. Though NPAs have a short-term negative impact on bank equities, the resolution of NPAs has a long-term impact on stock movement. At the proper moment, the Government of India adopted different corrective measures, such as injecting liquidity, debt restructuring, and so on, reducing the negative impact of NPAs on stock prices. Yes Bank, on the other hand, is a unique instance. When the NPA troubles surfaced in mid-2018, the bank's stock price plummeted. As a result of the bank's NPA crisis, its stock price plummeted on the market. The bank's financial health has been steadily deteriorating, owing to its failure to raise capital on its own to address possible loan losses and downgrades, as well as investors' invocation of bond pledges and withdrawal of stores, driving the RBI to intercede for remedial measures. While the bank's darkest days are likely behind it, the NPA problem resulted in enormous asset destruction for shareholders.

V. Conclusion

COVID-19 has had a significant macroeconomic impact on the Indian economy. The aggregate operational outlook has turned negative owing to uncertainty and skepticism surrounding the lasting severity of the pandemic. Credit issuing and asset quality of the banks have been adversely affected. In a faltering economic situation, it is natural for stressed assets to increase in number. In the case of India, however, the situation is different given the legacy of stressed assets, the twin balance sheet problems which persisted even before COVID-19 and the inadequacy of available bank capital. The problem, which previously only affected credit growth, is now expected to affect the debt market as well. While the RBI measures may offer temporary relief from the issue of asset quality, the long-term effects are on the cards for the banking sector. The situation at hand demands greater hardiness and better measures in order to shield the financial sector and the economy from long-term distress. The rise in nonperforming assets (NPAs) not only has an effect on the keeping money segment, but it too poses a danger to the economy's development. The lull in the economy caused by the collection of NPAs has an unfavorable impact on firms in all divisions by reducing speculation, which has a negative effect on the economy and stock markets. While the keeping money sector's NPA crisis began in the early 2010s, there was a surge in the crisis between 2013 and 2020, which was primarily driven by the commerce sector. Be that as it may, the COVID-19 epidemic contributed to the crisis's expansion by driving a forced lockdown that extremely hurt the retail segment. In any case, since the primary wave, the number of nonperforming resources (NPAs) within the keeping money industry has consistently diminished. Amid Q1FY2022, the moment wave did make a few slight increments in NPAs, but these were generally sensible. In any case, resource quality has kept on moving

forward since Q2FY2022, and the third wave is impossible to have any effect on the managing account segment. The execution of BANKNIFTY, which has bounced back since the moment wave in May, reflects this.
The study is limited to the impact of COVID-19 pandemic on the issue of NPAs whereas other factors responsible and related to the rising NPAs in the banking system of India are not covered here. Also the data presented in this study is only up to September 2021. So there is a future scope of study to include other related factors that impact the condition of NPAs in Indian banking system and data from next months of year 2022 can also be collected to present a further outlook.

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