



Assessing the Impact of COVID-19 on Non-Performing Assets in Regional Rural Banks: A Case Study of Manipur Rural Bank

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ABSTRACT

The financial sector, particularly banking, holds a pivotal role in facilitating economic growth by providing essential credit facilities to individuals and businesses. For a nation to progress economically and improve the standard of living of its citizens, it's imperative to ensure access to credit, especially in rural areas. Recognizing this, regional rural banks were established in India on 2nd October 1975, including Manipur Rural Bank (MRB) in 1981, with the aim of fostering economic development in rural communities, particularly among the marginalized sections. However, the recent onset of the COVID-19 pandemic has presented unprecedented challenges, exacerbating the issue of Non-Performing Assets (NPAs) in financial institutions like MRB. NPAs, as conceptualized by the Narasimhan committee, signify loans that are not being repaid within the stipulated time frame. In this paper, we undertake an analysis of NPA management in MRB, examining both the pre- and post-COVID-19 scenarios. The non-recovery of loans not only impacts the profitability of the bank but also strains its financial resources, limiting its capacity to participate in capital markets. Indeed, the level of NPAs significantly distinguishes between the performance of a robust, well-managed bank and one facing challenges.

Keywords: Banking, credit, NPAs, COVID-19, economic development

Introduction

In today's fiercely competitive global landscape, India, as a developing nation, must prioritize providing adequate credit facilities to its rural population to elevate their standard of living. Rural development is indispensable for India's journey towards becoming a developed nation, considering its predominantly rural demographic. Recognizing this imperative, Regional Rural Banks (RRBs) were established as specialized institutions with funding from the government of India, state governments, and sponsor banks under the Regional Rural Bank Act of 1976. The primary objective of RRBs is to serve as professionally managed channels for credit dispensation, particularly targeting agricultural labourers and the socioeconomically weaker segments of the population, aiming at fostering development in agriculture, commerce, trade, small-scale industries, and other productive activities in rural areas. By mobilizing and disbursing resources locally, RRBs play a crucial role in the development of agriculture and the rural economy.

The emergence of the Coronavirus Disease 2019 (COVID-19) precipitated a global crisis, inducing panic and disruption across the world. While China was the initial epicentre of the COVID-19 outbreak, it swiftly managed to contain the spread of the virus, facilitating a rapid economic recovery. Consequently, China emerged as the only major economy to achieve growth in 2020. However, financial institutions globally suffered an immediate exogenous shock due to the pandemic, as noted by Elnahass et al. (2021). In response, the government of Manipur implemented mitigation strategies such as travel restrictions, border controls, lockdowns, social distancing measures, and curfews to contain the spread of the virus. These measures inevitably impacted the performance of financial institutions. The economic recession triggered by COVID-19 posed challenges to the profitability of financial institutions, leading to a surge in Non-Performing Assets (NPAs) attributable to borrowers' inability to repay loans and a decline in bank income. The pandemic

also stagnated many rural credit banks, forcing some to cease operations. This study seeks to explore the impact of the COVID-19 pandemic on the rise in NPAs of financial institutions, focusing particularly on Manipur Rural Bank (MRB).

Review of Literature

The significance of MRB has been progressively increasing, as it provides loans and advances to various segments of the rural population, including artisans, marginal farmers, landless labourers, traders, and industrialists, under different categories such as medium- and short-term loans. However, MRB is currently grappling with the challenge of NPAs. While numerous studies have examined the role of financial institutions in uplifting rural communities, no research has specifically addressed the impact of COVID-19 on financial institutions, with a focus on MRB's NPAs, in this region.

Juber (2021) emphasized the management of NPAs in Indian public sector banks, focusing on stringent asset classification principles, the utilization of state-of-the-art technological platforms based on Core Banking Solutions, and recovery procedures. Pandey (2022) analysed various planning measures undertaken by the Indian government and the Reserve Bank to ameliorate the country's economic condition at both central and state levels, exploring the interconnection among NPAs, advances, and profitability amid COVID-19 and assessing the effectiveness of measures implemented by the RBI and the government in the Indian banking sector. Nagariya and Sanghavi (2020) discussed the impact of COVID-19 on the banking sector, agriculture sector, and Gross Domestic Product, while also shedding light on the repercussions of the pandemic on NPAs and examining the measures taken by the RBI and the Indian government to address these challenges. Rishikesh (2022) conducted a comparative analysis of the impact of the increase in NPAs on public sector and private sector banks in India, delving into the causes of rising NPAs, their impact on banks and borrowers, and the comparative performance of private and public sector banks. Mulyati et al. (2022) investigated the impact of the COVID-19 pandemic on the performance of rural banking in Indonesia, examining its effects on capital adequacy ratios, non-performing loans, return on assets, and cash ratios. Their findings revealed both positive and negative impacts of the pandemic on various aspects of rural banking. Roy (2007) conducted a study to evaluate the extent to which the objectives of RRBs had been achieved, employing intensive field investigations into the operations of RRBs in West Bengal. Mathur (2005) provided insights into the loan assets held by commercial banks in India, focusing on the magnitude of NPAs, individual bank positions regarding NPAs, efforts undertaken to mitigate NPAs, and concessions announced by the Reserve Bank of India to alleviate the situation. Chakrabarti (2011) highlighted the history and significance of rural banking in India, the development of RRBs, conceptual issues related to RRBs, and the performance of RRBs across different regions. Jitendra (2013) examined the genesis and organizational structure of RRBs, MRB's performance, branch-level performance of MRB, and the impact of MRB's operations on rural development, utilizing statistical analysis and interpreting field survey data.

Objectives

The primary aim of this study is to assess the impact of COVID-19 on Non-Performing Assets (NPAs) specifically within Manipur Rural Bank (MRB). It intends to analyse various aspects of asset classification such as standard assets, substandard assets, doubtful assets, loss assets, as well as provide insights into the statement of NPAs and net NPAs concerning total advances.

Materials and Methods

This empirical research relies entirely on secondary data obtained from sources including the Annual Report of MRB, relevant websites, pertinent literature from books, and research articles published in national and international journals. The data has been manually tabulated to facilitate the comprehensive analysis required for this research article. The study is confined to the operations of MRB within the state of Manipur. It focuses specifically on the challenges related to NPAs within MRB in order to achieve its objectives. The study encompasses a decade, spanning from the fiscal year 2013-14 to 2022-23. The accounting period for data collection extends from April 1st of each year to March 31st of the following year. Meaning of an NPA: The Reserve Bank of India (RBI) mandated all banks to adhere to the 90-day norm for classifying loans as Non-Performing Assets since March 31st, 2004. An advance is classified as an NPA under various circumstances including non-payment of interest or principal for more than 90 days, overdue bills, outstanding amounts remaining unpaid for over 90 days, and specific conditions for agricultural sector loans. Narasimhan Committee Recommendation – RBI, based on the recommendations of the Narasimhan Committee, categorized advances into four types namely Standard Assets, Substandard Assets, Doubtful Assets, and Loss Assets, each with distinct criteria for classification and provisioning. Asset Quality: Following RBI guidelines, the bank has categorized its loans and advances into four types, aiming to maximize standard assets to enhance profitability and improve liquidity.

Analysis and Results

The analysis reveals a consistent upward trajectory in total loan amounts over the studied period, emphasizing the growing financial activity within the MRB. From 2013-14 to 2022-23, the total loan amount surged from Rs. 559,160 to Rs. 2,902,994, indicating a substantial expansion in lending activities. Alongside this, the composition of non-performing assets (NPAs) has also undergone notable changes, with standard assets experiencing a pronounced increase from Rs. 489,220 to Rs. 2,587,717. However, despite this growth, there were fluctuations in NPAs, with a peak at 95.55% in 2016-17 before declining to 71.31% in 2020-21 and subsequently showing signs of improvement. Among the components of NPAs, substandard assets displayed a consistent increase from Rs. 29,094 (5.20%) to Rs. 74,772 (2.58%) over the period, highlighting potential weaknesses in asset quality management. Conversely, doubtful assets witnessed a decline over four consecutive years, indicating efforts to address risks associated with these assets. Loss amounts remained minimal throughout the period, except for a notable increase in 2022-23, reaching Rs. 30,763 (1.06%). The emergence of substandard and doubtful assets as primary contributors to NPAs, with percentages ranging from 13.35% to 1.81% in 2020-21 and from 15.34% to 2.46% in 2016-17, underscores the urgency for proactive risk mitigation strategies. These trends signal challenges for the bank, necessitating focused attention from staff to identify and address underlying risks effectively.

The analysis of MRB's NPA position, as depicted in Table - 2, reveals fluctuations in opening balances over the years, with an overall increase observed up to 2021-22 before a subsequent decline in 2022-23. Additional NPAs exhibited variability but showed an overall upward trend, indicating ongoing challenges in managing asset quality. Recovery performance demonstrated improvement over the years, suggesting proactive measures undertaken by the bank to address NPAs. Various factors contribute to NPAs, including fund diversion, inadequate credit assessment, government debt waiver policies, slow judicial processes, political interference, and lack of borrower integrity. To address these challenges, remedial measures such as rigorous credit appraisal, ethical banking practices, collaboration with government agencies, and enhanced monitoring and supervision of loans are essential.

Discussion

The findings from the analysis of Manipur Rural Bank's (MRB) financial performance underscore several significant trends and challenges within the banking sector. Firstly, there's a clear indication of the bank's robust growth, particularly evidenced by the consistent upward trajectory in total loan amounts over the studied period. The substantial expansion in lending activities from Rs. 559,160 to Rs. 2,902,994 between 2013-14 and 2022-23 highlights the growing financial activity within MRB. This growth reflects the bank's efforts to meet the increasing demand for financial services in rural areas, contributing to economic development and empowerment. However, alongside this growth, there are notable challenges related to non-performing assets (NPAs). While standard assets experienced a pronounced increase, indicating overall asset growth, there were fluctuations in NPAs, with a peak at 95.55% in 2016-17 before declining to 71.31% in 2020-21. The emergence of substandard and doubtful assets as primary contributors to NPAs underscores the urgency for proactive risk mitigation strategies. These trends signal challenges for the bank, necessitating focused attention from staff to identify and address underlying risks effectively. The analysis of MRB's NPA position reveals fluctuations in opening balances over the years, with an overall increase observed up to 2021-22 before a subsequent decline in 2022-23. While recovery performance demonstrated improvement over the years, suggesting proactive measures undertaken by the bank to address NPAs, ongoing challenges in managing asset quality persist. Various factors contribute to NPAs, including fund diversion, inadequate credit assessment, and political interference, highlighting the complex nature of these challenges.

In the light of these findings, it's essential for stakeholders to prioritize NPA management and implement proactive measures to mitigate risks effectively. Remedial measures such as rigorous credit appraisal, ethical banking practices, collaboration with government agencies, and enhanced monitoring and supervision of loans are essential to address these challenges. Moreover, building strong relationships with rural communities and promoting sound banking practices are crucial for sustainable banking operations and rural development in India. The integration of previous findings from studies by Juber, Pandey, Nagariya and Sanghavi, Rishikesh, Mulyati et al., Roy, Mathur, Chakrabarti, and Jitendra provides valuable insights into NPA management, rural banking, and the impact of external factors such as the COVID-19 pandemic. By drawing on these insights, stakeholders can develop comprehensive strategies to address the challenges faced by MRB and contribute to its long-term viability and success in serving rural communities.

Conclusion

The analysis of Manipur Rural Bank's financial performance highlights a robust growth trajectory in total loan amounts, indicative of increased financial activity. However, challenges persist in managing non-performing assets (NPAs), with fluctuations observed over the studied period. Substandard and doubtful assets emerge as primary contributors to NPAs, necessitating proactive risk mitigation strategies. While recovery performance shows improvement, ongoing challenges in asset quality management remain. Stakeholders must prioritize NPA management and implement remedial measures such as rigorous credit appraisal and enhanced monitoring to address these challenges effectively. Collaboration with government agencies and promotion of ethical banking practices are crucial for sustainable rural development. Integrating insights from previous studies offers valuable perspectives for developing comprehensive strategies to ensure the long-term viability and success of Manipur Rural Bank in serving rural communities.

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Table - 1: Classification of Loan Assets (in '000 Rs.) of Manipur Rural Bank

Years	Total advances	Standard assets	Substandard assets	Doubtful assets	Loss assets
2013-14	559,160	489,220 (87.49)	29,094 (5.20)	40,846 (7.30)	0
2014-15	697,762	644,992 (92.43)	16,208 (2.32)	36,562 (5.24)	0
2015-16	901,084	857,235 (95.13)	16,349 (1.81)	27,500 (3.05)	0
2016-17	1,093,918	1,045,264 (95.55)	21,759 (1.99)	26,895 (2.46)	0
2017-18	1,277,582	1,102,828 (86.32)	142,662 (11.17)	32,092 (2.51)	0
2018-19	1,444,556	1,145,755 (79.34)	129,345 (8.95)	169,458 (11.73)	0
2019-20	1,632,595	1,310,028 (80.24)	127,825 (7.83)	194,742 (11.93)	0
2020-21	1,895,954	1,351,977 (71.31)	253,076 (13.35)	290,901 (15.34)	0
2021-22	2,221,340	1,831,585 (82.45)	101,743 (4.58)	288,012 (12.97)	0
2022-23	2,902,994	2,587,717 (89.14)	74,772 (2.58)	209,742 (7.23)	30,763 (1.06)

Source: Compiled from various Annual Report of MRB from 2013-14 to 2022-23
Figures in parenthesis indicate the percentage to total advances of different NPAs

Table - 2: Statement of NPAs (in '000Rs.) of Manipur Rural Bank

Years	NPAs at beginning of yr. (A)	Addition during yr. (B)	Recovery during yr. (C)	NPAs at end of yr. (D=A+B-C)	Provision held against NPAs (E)	Net NPAs (D-E)	Total advance outstanding (G)	Net advance (H=G-C)
2013-14	96,883	29,094	46,598	79,379	18,776	60,603	559,160	512,562
2014-15	69,940	24,037	36,094	57,883	15,693	42,190	697,762	661,668
2015-16	52,770	15,519	18,351	43,849	12,687	31,162	901,084	882,733
2016-17	43,849	28,558	18,802	48,654	22,987	25,667	1,093,918	1,075,116
2017-18	48,654	222,295	31,234	174,754	41,971	132,789	1,277,582	1,246,348
2018-19	174,754	368,271	71,999	298,800	81,963	216,838	1,444,556	1,372,557
2019-20	298,801	225,355	71,067	322,567	101,963	220,604	1,632,595	1,561,528
2020-21	322,567	337,352	83,134	543,977	136,140	407,837	1,895,954	1,812,820
2021-22	543,977	42,675	86,133	389,755	156,731	233,024	2,221,340	2,135,207
2022-23	389,755	258,072	205,120	442,707	178,331	264,376	2,902,994	2,697,874

Source: Compiled from various Annual Report of MRB (from 2013-14 to 2022-23)