

A CRITICAL STUDY ON NON PERFORMING ASSETS OF MICROFINANCE INSTITUTIONS IN INDIA (WITH SPECIAL REFERENCE TO PRE AND POST COVID-19)

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ABSTRACT

In this present scenario we can observe a sea level change in the Micro Finance Sector. Microfinance is an important instrument for both Lenders as well as Borrowers. Growth of Microfinance in India contemplates rapid increase in the demand of credit, savings, insurance and remittances. Due to the timely verge such as Financial Inclusion, Aadhar Enabled Payments, Business Correspondent Model and Pradhan Mantri Jan Dhan Yojana taken by Government of India, the coverage of Microfinance Institutions are growing. Non-Performing Asset is considered as one of the best indicator of financial health of financial institutions. During COVID-19 Non Performing Assets of Microfinance in India has become a major concern for Microfinance Institutions. COVID-19 flicks the whole Indian economy in terms of growth and development. Before COVID-19 hit economy was already facing crisis related to cash flows. COVID-19 crisis becomes a big challenge for Microfinance institutions as well as for lenders and borrowers. This paper is an attempt to find out the various factors for the growth of Microfinance during Pre and Post COVID-19, to examine the various reasons for effect on Non-Performing Assets of Microfinance Institution during Pre and Post COVID-19 to assess the critical analysis on Non-Performing Assets of Microfinance Institution and examine the impact of Pre and Post COVID-19 and to suggest various parameters for better control on Non-Performing Assets of Microfinance Institutions.

KEYWORDS: Non Performing Assets, Microfinance, COVID-19.

Introduction

"Microfinance has already shown that enabling the poor to empower themselves economically can be a good business." Micro Finance refers to the provision of affordable financial services such as small loans, small savings, micro insurance and funds transfer facilities extended to socially and economically poor and disadvantaged segments of the society to enable them to increase their income levels and improve standard of living. Micro finance originated in Bangladesh with the institution of Grameen Bank in 1983. The basic principles of micro finance that distinguish it from the earlier modes of credit delivery are small amounts of loan, lack of physical collateral but emphasis on social collateral or peer monitoring and focus on women borrowers. With these three factors, micro finance is expected to effectively tackle the three problems that are often encountered in any credit delivery program designed for the poor namely, targeting, screening of borrowers, and enforcement of the credit contract. The micro finance experiment in India has been described by NABARD as relationship banking rather than parallel banking elsewhere in the world. In this experiment, there exists a link between SHGs, NGOs and Banks.

A Non Performing Asset (NPA) is a classification used by financial institutions for loans and advances on which the principal is past due and on which no interest payments have been made for a period of time. Non Performing Asset is considered as one of the best indicator of financial health of financial institutions. COVID-19 is an infectious disease caused by the SARS-CoV-2 virus.

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At the aggregate level, the percentage of NPAs to loans outstanding in respect of STCBs reduced to 4.5 per cent as on 31 March 2016, as against 5 per cent as on 31 March 2015. Region-wise analysis showed that the NPA levels in percentage terms of the STCBs in the eastern, north eastern and western regions were higher than the all-India level. As on 30 June 2016, the recovery of STCBs stood at 91.7 per cent. At the aggregate level, the percentage of NPAs to loan outstanding in respect of DCCBs decreased from 9.9 per cent as on 31 March 2015 to 9.4 per cent as on 31 March 2016. As in the case of STCBs, the NPA levels in percentage terms of the DCCBs in the eastern, north-eastern and western regions were higher than the all-India level. At the aggregate level, the percentage of NPAs to loan outstanding in respect of PCARDBs as on 31 March 2016 was 37.03 per cent, which was higher than that of the previous year (36.20 per cent). However, the total NPA level declined from ₹ 361 crore to ₹ 651 crore. This is because of non-functioning of PCARDBs in the central and western regions. As on 30 June 2015, the recovery of PCARDBs stood at 55.47 per cent. The gross NPA of all RRBs increased from 6.15 per cent, as on 31 March 2015 to 6.80 per cent as on 31 March 2016. While 32 RRBs reported Gross NPAs less than 5 per cent as on 31 March 2015, 26 RRBs had reported Gross NPA less than 5 per cent as on 31 March 2016. At the aggregate level, the percentage of NPAs to loans outstanding in respect of STCBs, reduced to 4.08 per cent as on 31st March 2017 as against 4.50 per cent as on 31st March 2016. The Average gross NPAs for DCCBs across India increased from 9.4 per cent as on 31st March 2016 to 10.5 per cent as on 31st March 2017. Rising of NPAs in SHG loans, from a 2.1 per cent in 2008 to 7.4 per cent in 2015 was a concern in the sector. Thereafter, the NPAs started declining from 7.4 per cent (in 2015-16) to 6.12 per cent in 2017-18 which further declined to 5.19 per cent in 2018-19. There has been decline in absolute NPAs implying improvement in quality of loan assets in the sector. All other Regions had the NPA level higher than the all India level of 5.19 per cent except the Eastern Region. Central Region had the highest NPA level with 30.6 per cent and it had increased by 5.9 percentage points during 2018-19. Eastern Region had successfully reduced the NPA level during the year by 1.98 percentage points. The overall NPA position in Eastern Region declined to 5.19 per cent in 2018-19 from 7.17 per cent in 2017-18. Fall in the Gross NPA amount was also observed in other states like Rajasthan, Punjab, Nagaland, and Jharkhand. This is indicative of better recovery of bank loans to SHGs in these states.

Further, because of the COVID-19 Pandemic, the growth prospects has further declined in the last quarter of fiscal 2019-20. The estimate for the growth rate of the economy in the FY 2020-21 has been lowered from 5.8% (pre COVID-19 impact estimate by IMF) to the range of 0.8 % (Fitch) to 2.5% (Moody's). Gross NPAs as percentage of Gross Loans Outstanding at aggregate level increased from 11.15% as on 31 March 2018 to 11.85% as on 31 March 2019. Number of DCCBs having GNPA (%) above 10% increased from 157 as on 31 March 2018 to 162 as on 31 March 2019. Asset quality measured in terms of GNPA (%) showed improvement in the Southern and Eastern regions and deteriorated in the Central, Western and Northern regions when compared to the previous year. SHG-BLP as on 31 March 2020 shown NPA level was 4.92%, decreased from 5.19% as on 31 March 2019. Asset quality has improved marginally during the year with GNPA as percentage of gross loans outstanding reducing from 4.72% as on 31 March 2018 to 4.32% as on 31 March 2019. There has been variation among the StCBs, with 6 StCBs (of which, 5 are in two-tier structure) reporting GNPA higher than 10% of gross loans outstanding and 10 StCBs reporting GNPA between 5%-10% and 17 StCBs reporting GNPA less than 5%. NPA (%) was the highest in the North-Eastern Region and the lowest in the Northern Region. The absolute level of NPAs has also declined from ₹ 5321.70 crore in 2019-20 to ₹ 4889.21 crore in 2020-21, which is a welcome change from the last year. This trend is also seen in Regions except North Eastern and Eastern Region.

India is a fast growing economy. In 2019, it had become the 5th largest economy (World Economic Forum), with a nominal GDP of US \$2.94 trillion. The SHG-BLP Program has indeed become an example of success of a microfinance program globally with an outreach to 13.87 Crore families, providing social, economic and financial empowerment to the rural poor, especially women. During 2020-21, banks have reported an addition of 9.8 lakh savings linked SHGs at all India level registering a growth of 9.5 per cent compared to 2.3 in 2019-20. Region-wise comparative data reveals that in terms of number of SHGs savings linked with banks, positive growth was registered across all regions during 2020-21. Among the regions, Central region registered the highest growth of 19%, whereas the Western Region registered the lowest growth of 5%. Six States/UTs viz., Uttarakhand, Nagaland, Chandigarh, New Delhi, Karnataka, Daman & Diu, registered a negative growth. As many as 19 States/UTs viz., Chhattisgarh, Madhya Pradesh, Andaman & Nicobar, Bihar, Odisha, Arunachal Pradesh, Assam,

Manipur, Meghalaya, Mizoram, Tripura, Haryana, Jammu & Kashmir, Punjab, Andhra Pradesh, Lakshadweep, Puducherry, Telangana and Gujarat registered growth rates higher than the All India average. The decline in savings accounts of SHGs in the six States is mainly due to data sanitization, closure of dormant accounts and reporting errors etc. In terms of savings amount, the Northern Region had the highest growth of 193%, followed by the Western Region (85%), North Eastern Region (73%), Southern Region (45%), Central Region (24%) and the lowest growth of 17% was registered by the Eastern Region. Savings is a key leverage factor while accessing bank loan or loan from any Financial Institution. The savings outstanding of SHGs as on 31 March 2021 increased from ' 26152.05 crore to an all-time high of ' 37477.61 crore, registering a significant growth of 43% over the year 2019-20, with all regions registering a positive growth.

Literature Review

Singh, Shanu & Singh, C. (2017) stated that there is no growth in the positive trend of performing assets in the Microfinance Institutions working in the state of Bihar. Therefore there is downward growth in the nonperforming assets in the MFIs in Bihar. Bhatt, Viral & Parekh, Bhoomi (2019) in their study concluded that there is a correlation between combined causes or situations that lead to arrears/defaults in microfinance loan on overall reasons behind NPAs in microfinance loan and also the combined situations do have impact on reason of NPA.

Shrestha, Prakash (2020) concluded that because of COVID-19, MFIs have also been affected in many ways. Lending to borrowers has broadly declined due to lack of demand for loans. Gangadhar Pandey, & Sateesh Kumar Ojha (2020) concluded that the Measure social distancing and conduct regular banking needs enabling environment which require extensive awareness of using technology at rural where no internet or smart phone user has so this will stop flow of funds. Similarly, MFIs products are still similar as earlier and not yet redesign innovative concept to deal with customer. With these all the researcher can have concluded that MFIs are able to mitigate regulation demand but won't able to solve rural eco-system if similar concept, product and program offer even during COVID-19 and at post COVID-19 phase. Mani, Abilash. (2021) stated that RBI has concentrated on Commercial Banks and declared several steps to limit macro effect of Pandemic situation by increasing period of advances, part rebate of interest rate as well as adopted some measures towards digitization.

Research Gap

The rationale of present research work lies in the fact that in this present scenario the importance of Microfinance is increasing day-by-day which too shows a great impact on our Indian economy. One aspect is to analyze the growth of Microfinance during pre and post COVID-19 and another aspect is to analyze the financial health of financial institutions by studying the Non Performing Assets of Microfinance Institutions during pre and post COVID-19.

Need of the Study

There is a need to provide Microfinance facilities to cater to India's large rural population. As we know that the Non Performing Assets plays a significant role in context of financial health of financial institutions that's why it must be taken care of by the Microfinance Institutions.

Objectives of the Study

- To find out the various factors for the growth of Microfinance during Pre and Post COVID-19.
- To examine the various reasons for effect on Non Performing Assets of Microfinance Institution during Pre and Post COVID-19.
- To assess the critical analysis on Non Performing Assets of Microfinance Institution and examine the impact of Pre and Post COVID-19.
- To suggest various parameters for better control on Non Performing Assets of Microfinance Institutions.

Research Methodology

The purpose of this research paper was to examine the various reasons and impact on Non Performing Assets of Microfinance Institution during Pre and Post COVID-19. Thus this study is descriptive as well as exploratory in nature. This research paper has been done with special reference to one NBFC-MFI Bandhan Financial Services Limited. Secondary data has been collected from various reports of Bandhan Financial Services Limited, MFIs, NABARD, SIDBI, books, journals etc. For analysis purpose mean and trend analysis has been done.

Data Analysis and Interpretation

Table 1: NPAs of Bandhan Financial Services Limited (During the year 2016-17 to 2020-21)

NPAs	2016-17 (Rs. In cr.)	2017-18 (Rs. In cr.)	2018-19 (Rs. In cr.)	2019-20 (Rs. In cr.)	2020-21 (Rs. In cr.)
Net NPAs to Net Advances (%)					
Movement of Gross NPAs	0.36	0.58	0.58	0.58	3.51
Movement of Net NPAs	86.26	373.14	819.56	992.78	5757.76
Movement of Provision for NPAs	61.17	172.90	228.32	389.40	2861.03
Movement of Provision for NPAs	25.09	200.24	591.24	603.38	2896.73

Source: Annual Reports of Bandhan Financial Services Limited

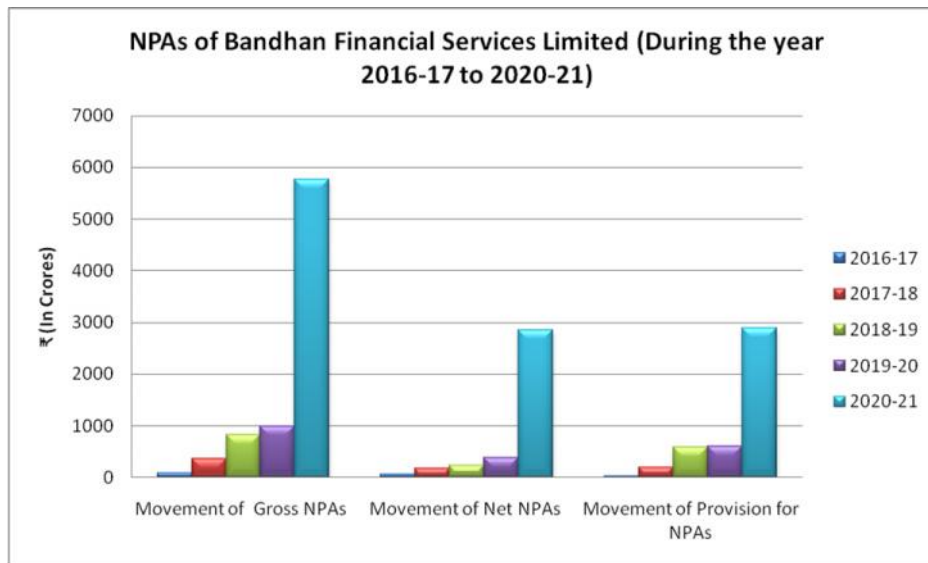


Figure 1: NPAs of Bandhan Financial Services Limited

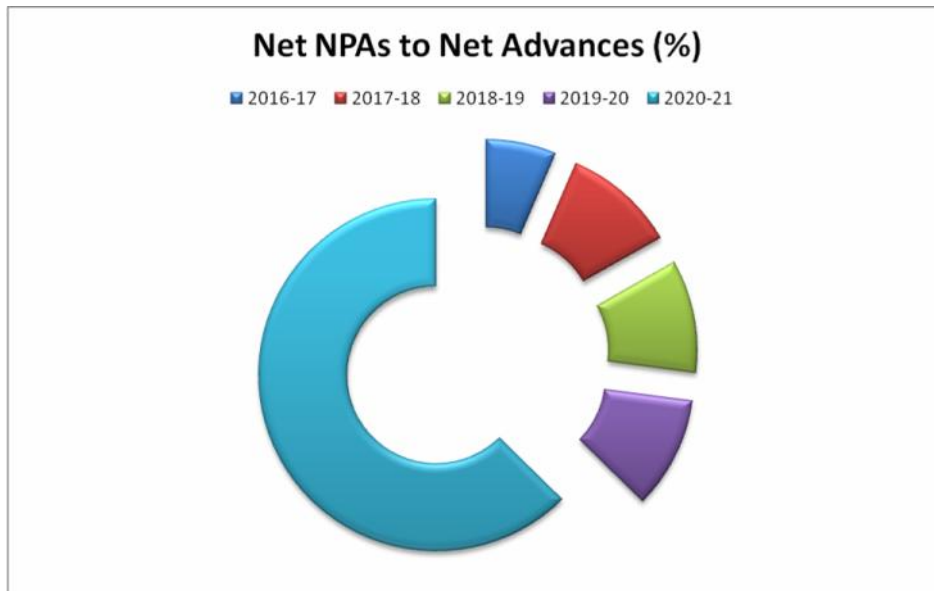


Figure 2: Net NPAs to Net Advances (%)

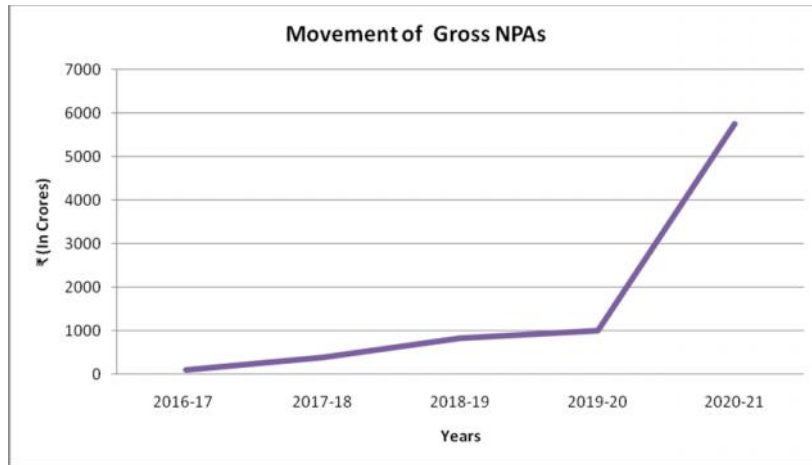


Figure 3: Movement of Gross NPAs

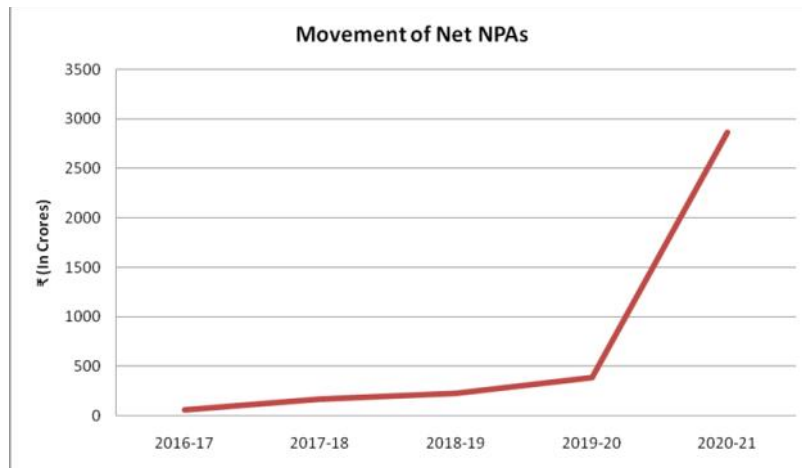


Figure 4: Movement of Net NPAs

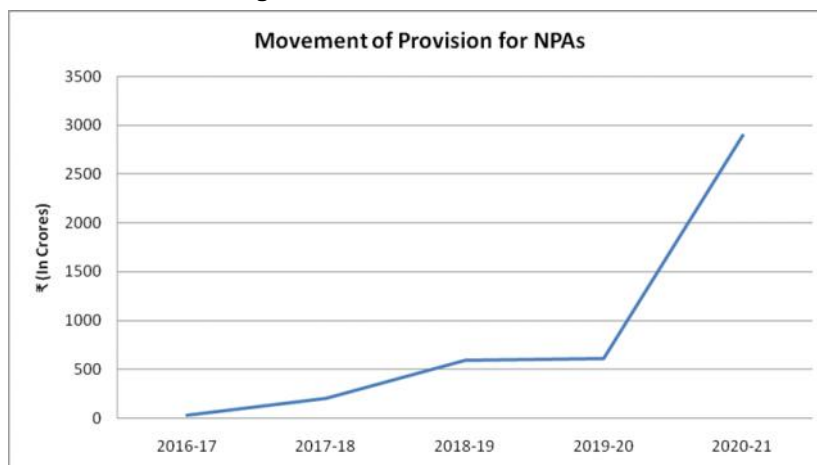


Figure 5: Movement of Provision for NPAs

In the Year 2016-17 Net NPAs to Net Advances was 0.36% as compared to 2017-2018 which was 0.58% that shows an increase of 0.22 %. In the Year 2019-20 the figure of Net NPAs to Net Advances was 0.58% which has been increased by 2.93% in the year 2020-21 as illustrated from table 1 and figure 1, figure 2. The Movement of Gross NPAs in the year 2017-18 was 373.14 crore which show an increase of 446.42 crore in the year 2018-19. In the year 2019-20 the Gross NPA was 992.78 crore compared to 2020-21 which was 5757.76 crore as shown in table 1, figure 1 and figure 3. The Movement of Net NPAs in the year 2016-17 was 61.17 crore and in the year 2017-18 it was 172.90 crore whereas in the year 2018-19 it was 228.32 crore and 389.40 crore in the year 2019-20 as is evident from table 1, figure 1 and figure 4, whereas the Movement of Provision for NPAs is visible in table 1, figure 1 and figure 5, i.e. in the year 2019-20 it was 603.38 crore and in the year 2020-21 it was 2896.73 crore.

Table 2: Total and Average of Gross, Net and Provision for NPAs

Particulars	Total of NPAs (5 Years)	Average of NPAs (5 Years)
Gross NPAs	8029.5	1605.9
Net NPAs	3712.82	742.564
Provision for NPAs	4316.68	863.336

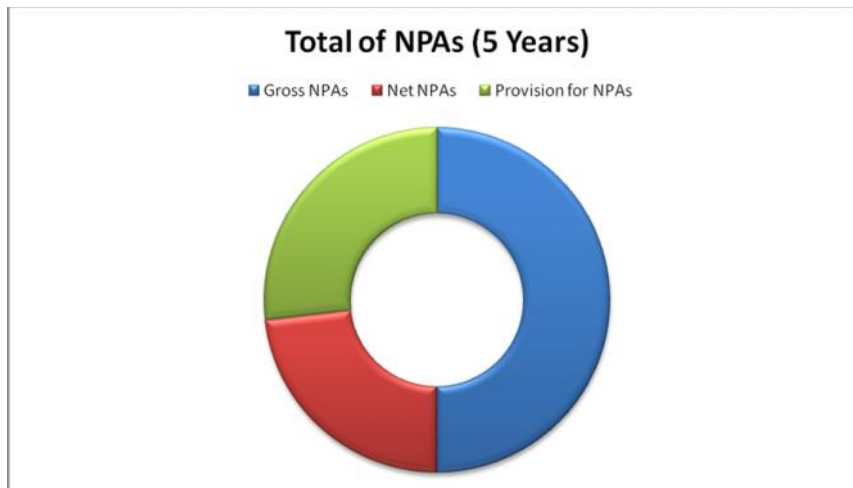


Figure 6: Total of NPAs

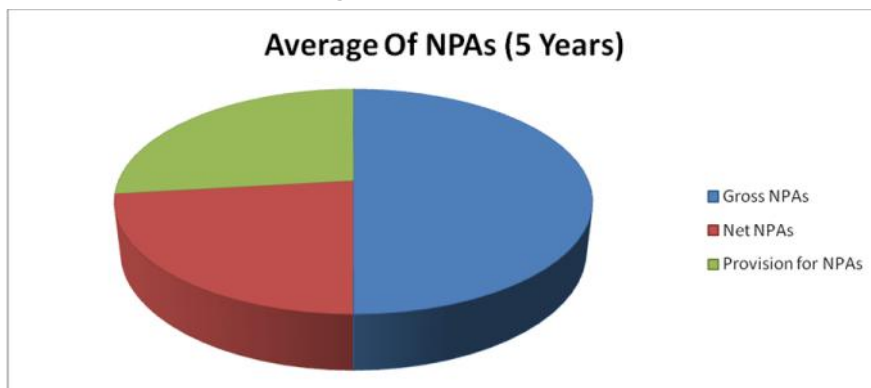


Figure 7: Average of NPAs

The Gross NPAs of five years in aggregate were Rs. 8029.5 crore. Whereas the Net NPAs of five years in aggregate were Rs. 3712.82 crore and provision for NPAs of five years were Rs. 4316.68 crore as evident from table 2 and figure 6. The Average Gross NPAs of five years were Rs. 1605.9 crore and the Average Net NPAs of five years were Rs. 742.564 crore and Average Provision for NPAs of five years were Rs. 863.336 crore as illustrated through table 2 and figure 7.

Limitations of the Study

- The study was limited to only Bandhan Financial Services Limited MFI working in India. The Scope of Microfinance is wider and this study was limited to only Institutions.
- Time Limit was also considered as one of the limitation.

Findings

- After analyzing the data this has been found that Stricter localized lockdowns had most likely hit loan collections for NBFC-MFI and could increase Non Performing Assets (NPAs).
- MFI remain the most vulnerable segments, and thus banks with relatively higher exposure to these segments like Bandhan Bank, Ujjivan small finance bank could be at relatively higher Asset Quality Risk.
- Another reason for increase in NPAs was increase in Bad debts again.

Recommendations

- The MFIS should thoroughly inspect the background of loan seekers to whom they are giving loans to in this way one can reduce NPAs.
- Another way to reduce NPAs is Real-time reporting should be there to avoid any kind of hindrance in efficiency and speed on collections. It is essential to have clear visibility at each stage of the cycle.

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