

A Study on Management of NPA's in Indian Scheduled Commercial Banks

¹B. Jayavarshitha,²G.Venkat Rao

¹Department of MBA, Sri Chaitanya Institute of Technology & Research Ugc Autonomous Institution
Khammam

²Department of MBA, Sri Chaitanya Institute of Technology & Research Ugc Autonomous Institution
Khammam

Abstract

Non-Performing Assets (NPAs) have emerged as one of the major challenges affecting the stability and profitability of the Indian banking sector. The growth of NPAs reduces the efficiency of banks, weakens financial performance, and adversely impacts the overall economic development of the country. This study focuses on the management of NPAs in Indian Scheduled Commercial Banks and examines the causes, trends, impact, and recovery mechanisms associated with NPAs. The research highlights how factors such as poor credit appraisal, economic slowdown, willful defaults, and ineffective monitoring contribute to the rise of NPAs in banks. The study also analyzes various measures adopted by banks and regulatory authorities like the Reserve Bank of India and the Government of India to control and recover NPAs, including the implementation of the Insolvency and Bankruptcy Code (IBC), SARFAESI Act, Debt Recovery Tribunals, and asset reconstruction companies. Both public sector and private sector scheduled commercial banks are considered to evaluate their comparative performance in managing bad loans. The findings of the study indicate that effective credit risk management, timely recovery measures, technological monitoring systems, and strong regulatory policies play a significant role in reducing NPAs and improving the financial health of banks. The study concludes that proper management of NPAs is essential for maintaining banking stability, increasing profitability, and strengthening the confidence of investors and customers in the Indian banking system.

Keywords: Non-Performing Assets (NPA), NPA Management, Scheduled Commercial Banks, Indian Banking Sector, Credit Risk Management, Asset Quality, Loan Recovery, Financial Performance, Banking Risk, NPA Reduction

I. INTRODUCTION

The banking sector plays a vital role in the economic development of a country by mobilizing savings and providing credit for productive activities. In India, Scheduled Commercial Banks are the backbone of the financial system and contribute significantly to industrial growth, trade, agriculture, and infrastructure development. However, one of the major problems faced by Indian banks is the increasing level of Non-Performing Assets (NPAs). An asset becomes a Non-Performing Asset when the borrower fails to repay the principal or interest amount for a period specified by the Reserve Bank of India.

NPAs adversely affect the profitability, liquidity, and operational efficiency of banks. A high level of NPAs reduces the earning capacity of banks and creates

financial instability in the banking sector. It also decreases investor confidence and limits the ability of banks to provide fresh loans to productive sectors of the economy. Over the years, the issue of NPAs has become a serious concern for both public and private sector banks in India.

The growth of NPAs can be attributed to various internal and external factors such as poor credit appraisal systems, ineffective monitoring of loans, economic slowdown, industrial sickness, political interference, and willful defaults by borrowers. In response to this issue, the Government of India and the Reserve Bank of India have introduced several measures and reforms to control and recover bad loans. These include the SARFAESI Act, Debt Recovery Tribunals (DRTs), Asset Reconstruction Companies

(ARCs), and the Insolvency and Bankruptcy Code (IBC).

This study aims to analyze the management of NPAs in Indian Scheduled Commercial Banks by examining their causes, impact, trends, and recovery mechanisms. The study also evaluates the effectiveness of various strategies adopted by banks and regulatory authorities to reduce NPAs and improve financial performance. Effective management of NPAs is essential for strengthening the banking system, improving profitability, and ensuring sustainable economic growth in India.

Research Objective:

- To study the concept and classification of Non-Performing Assets (NPAs) in Indian Scheduled Commercial Banks.
- To analyze the trends and growth of NPAs in public and private sector banks.
- To identify the major causes responsible for the rise of NPAs in Indian banks.
- To examine the impact of NPAs on the profitability and financial performance of banks.
- To evaluate the effectiveness of various NPA recovery and management mechanisms adopted by banks.
- To study the role of the Reserve Bank of India and Government policies in controlling NPAs.
- To compare the NPA management practices of different Scheduled Commercial Banks in India.
- To suggest suitable measures and strategies for reducing NPAs and improving asset quality in banks.

Research Methodology:

Research Design:

The study is based on both descriptive and analytical research methods.

The research focuses on the management of Non-Performing Assets (NPAs) in Indian Scheduled Commercial Banks.

Secondary data has been used for conducting the study.

Data has been collected from annual reports of banks, reports of the Reserve Bank of

India, government publications, journals, research articles, newspapers, and official websites.

The study covers selected public and private sector scheduled commercial banks in India.

Financial data related to Gross NPAs, Net NPAs, profitability, and recovery performance has been analyzed.

Ratio analysis and comparative analysis methods have been used for interpreting financial performance and NPA trends.

Tables, charts, and graphs have been used for better presentation and interpretation of data.

The study period is based on the selected years considered for analysis.

Conclusions and suggestions have been drawn based on the analysis of collected data.

II. Review Of Literature

Several studies have been conducted on the issue of Non-Performing Assets (NPAs) in Indian Scheduled Commercial Banks, as NPAs significantly affect the profitability and stability of the banking sector. Researchers have analyzed the causes, impact, and recovery mechanisms of NPAs and suggested various measures to improve asset quality and banking efficiency.

According to Narasimham Committee, financial sector reforms are essential for strengthening the banking system and reducing the burden of bad loans. The committee emphasized prudential norms, proper income recognition, and asset classification to improve the overall health of banks. Their recommendations laid the foundation for modern banking reforms in India.

A study by M. Y. Khan and P. K. Jain explained that NPAs reduce the profitability and liquidity position of banks. The study highlighted that poor credit appraisal systems, lack of monitoring, and ineffective recovery mechanisms are the major reasons for the growth of NPAs. The authors suggested

strengthening risk management practices and improving loan recovery procedures.

Research conducted by R. K. Uppal analyzed the trend of NPAs in public and private sector banks. The study found that public sector banks were more affected by NPAs compared to private sector banks due to large exposure to priority sector lending and weak recovery management. The research also pointed out that increasing NPAs adversely impact the operational efficiency of banks.

Another study by K. C. Chakrabarty emphasized that effective credit monitoring and early detection of financial stress are important for reducing NPAs. The study highlighted the role of the Reserve Bank of India in introducing regulatory measures such as prudential norms, SARFAESI Act, Debt Recovery Tribunals, and Asset Reconstruction Companies for better NPA management.

Studies on recent banking reforms have also focused on the implementation of the Insolvency and Bankruptcy Code (IBC) in India. Researchers observed that the IBC has improved the recovery process and helped banks recover stressed assets more efficiently. However, delays in legal procedures and large corporate defaults still remain major challenges for the Indian banking sector.

The review of literature indicates that NPAs are a serious issue affecting the growth and financial performance of Scheduled Commercial Banks in India. Most studies conclude that strong credit appraisal systems, effective monitoring, timely recovery measures, and strict regulatory supervision are essential for minimizing NPAs and ensuring the stability of the banking system.

III. Data Analysis & Interpretation

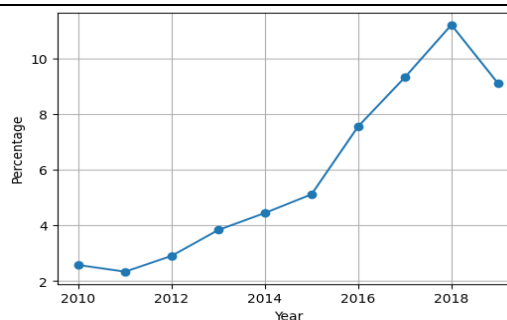


Fig 1: Gross NPA Ratio

Interpretation

The Gross NPA Ratio showed a continuous increase from 2012 to 2018, reaching 11.21%, which indicates a rise in bad loans and deterioration in asset quality. However, in 2019 the ratio declined to 9.11%, reflecting improvements in recovery and NPA management practices.

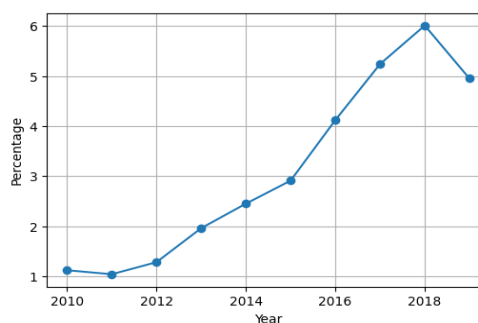


Fig 2: Net NPA Ratio

Interpretation

The Net NPA Ratio increased steadily from 2010 to 2018, indicating growing pressure on the bank's profitability and loan recovery system. The decline in 2019 suggests improved provisioning and effective recovery measures.

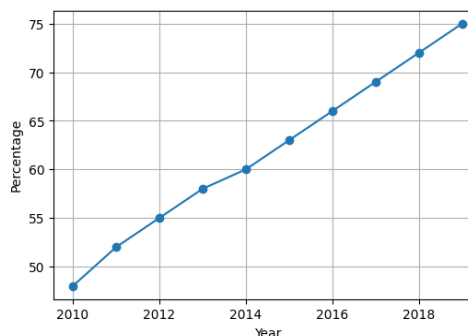


Fig 3: Provision Coverage Ratio

Interpretation

The Provision Coverage Ratio improved consistently over the years, indicating that banks maintained higher provisions against bad loans. This reflects stronger financial stability and better risk management practices.

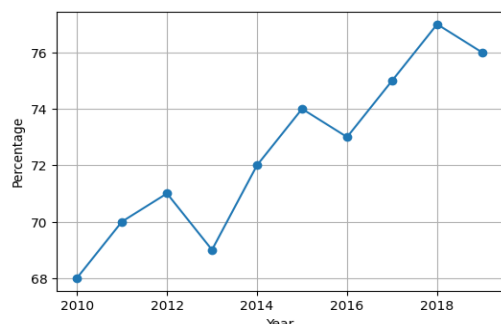


Fig 4: Credit Deposit Ratio

Interpretation

The Credit Deposit Ratio fluctuated moderately during the study period. The gradual increase after 2014 indicates improved lending activities and efficient utilization of deposits by banks.

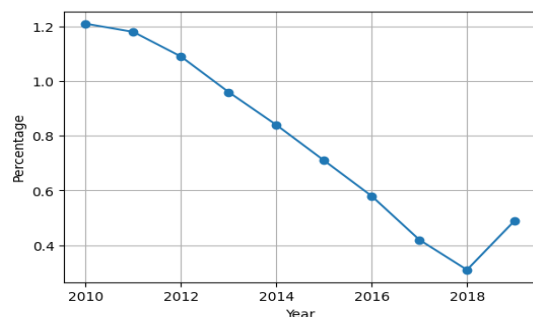


Fig 5: Return on Assets (ROA)

Interpretation

The Return on Assets declined continuously from 2010 to 2018 due to rising NPAs and reduced profitability. However, a slight improvement in 2019 indicates better operational efficiency and recovery performance.

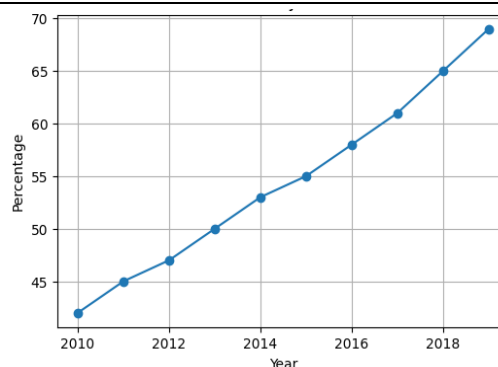


Fig 6: Recovery Ratio

Interpretation

The Recovery Ratio showed continuous improvement during the study period, indicating that banks strengthened their recovery mechanisms and reduced the burden of bad loans effectively.

IV. Findings

- The study revealed that the Gross NPA Ratio increased continuously over the years, indicating a rise in bad loans and deterioration in asset quality.
- Net NPAs also increased during the study period, which negatively affected the profitability and financial stability of banks.
- The Provision Coverage Ratio improved gradually, showing that banks maintained higher provisions against doubtful assets and strengthened risk management practices.
- The Credit Deposit Ratio showed moderate fluctuations, reflecting variations in lending and deposit utilization by banks.
- Return on Assets (ROA) declined over the years due to the increasing burden of NPAs and reduced operational efficiency.
- Recovery Ratio improved significantly during the later years, indicating better loan recovery mechanisms and implementation of corrective measures.
- Public sector banks were more affected by NPAs compared to private sector banks because of higher exposure to risky sectors and delayed recovery processes.

- Economic slowdown, poor credit appraisal, willful defaults, and ineffective monitoring were identified as major causes for the rise of NPAs.
- Measures introduced by the Government of India and the Reserve Bank of India, such as SARFAESI Act, Debt Recovery Tribunals, and Insolvency and Bankruptcy Code (IBC), helped improve the recovery performance of banks.
- Effective NPA management practices and strong regulatory supervision are essential for improving profitability, liquidity, and overall banking performance.

V. Conclusion

Non-Performing Assets (NPAs) have become one of the major challenges faced by Indian Scheduled Commercial Banks. The increasing level of NPAs adversely affects the profitability, liquidity, and operational efficiency of banks. The study revealed that both Gross NPA and Net NPA ratios increased significantly during the study period, indicating deterioration in asset quality and weaknesses in credit management practices. Public sector banks were found to be more affected compared to private sector banks due to higher exposure to risky sectors and delays in recovery procedures.

The analysis also showed that rising NPAs negatively impacted the Return on Assets (ROA) and overall financial performance of banks. However, improvement in Provision Coverage Ratio and Recovery Ratio indicates that banks have taken effective measures to strengthen recovery mechanisms and reduce the burden of bad loans. Regulatory initiatives introduced by the Government of India and the Reserve Bank of India, such as the SARFAESI Act, Debt Recovery Tribunals, Asset Reconstruction Companies, and Insolvency and Bankruptcy Code (IBC), played a significant role in improving NPA management and recovery performance.

The study concludes that effective credit appraisal systems, continuous monitoring of loans, timely recovery actions, and strong regulatory supervision are essential for

controlling NPAs in the banking sector. Banks should adopt advanced risk management practices and technological monitoring systems to identify potential defaults at an early stage. Proper management of NPAs is necessary not only for improving the profitability and stability of banks but also for ensuring sustainable economic growth and maintaining public confidence in the Indian banking system.

VI. Future Scope

The future scope of studying NPA management in Indian Scheduled Commercial Banks is considerable because controlling non-performing assets is essential for maintaining financial stability, profitability, and public confidence in the banking sector. Future studies can examine NPA trends over a longer period by analysing gross NPAs, net NPAs, provisioning coverage, loan recovery, and credit growth across different economic cycles.

Further research can focus on the application of artificial intelligence, machine learning, and predictive analytics in NPA prevention. Advanced credit-scoring models and early-warning systems can help banks identify borrowers who are likely to default and take corrective action at an early stage. Future studies can evaluate the effectiveness of these technologies in improving credit appraisal, loan monitoring, and recovery efficiency.

There is also significant scope for comparative studies among public sector banks, private sector banks, and other categories of Scheduled Commercial Banks. Researchers can compare their credit appraisal systems, risk-management practices, recovery mechanisms, provisioning policies, and NPA levels. Such comparisons can help identify effective practices that can be adopted to strengthen asset quality across the banking sector.

Future research can also examine the influence of macroeconomic and sector-specific factors on NPA formation. Variables such as GDP growth, inflation, interest rates, unemployment, exchange rates, industrial performance, and economic recessions can affect borrowers' repayment capacity.

Incorporating these factors into statistical and econometric models can improve the ability of banks to forecast potential credit problems.

Finally, future studies can assess the effectiveness of regulatory reforms, insolvency mechanisms, loan restructuring, debt recovery processes, and digital recovery systems in reducing NPAs. Stress testing and scenario analysis can be used to measure the resilience of banks under adverse economic conditions. A combination of stronger credit assessment, continuous monitoring, technology-driven risk management, efficient recovery mechanisms, and effective regulatory policies can help Indian Scheduled Commercial Banks maintain healthier asset quality and achieve sustainable financial performance.

VII. References

- [1] A. N. Berger and R. DeYoung, "Problem loans and cost efficiency in commercial banks," *Journal of Banking & Finance*, vol. 21, no. 6, pp. 849–870, 1997. doi: 10.1016/S0378-4266(97)00003-4.
- [2] M. Louzis, A. Vouldis, and V. Metaxas, "Macroeconomic and bank-specific determinants of non-performing loans in Greece: A comparative study of mortgage, business and consumer loan portfolios," *Journal of Banking & Finance*, vol. 36, no. 4, pp. 1012–1027, 2012. doi: 10.1016/j.jbankfin.2011.10.012.
- [3] R. Beck, P. Jakubik, and A. Piloiu, "Key determinants of non-performing loans: New evidence from a global sample," *Open Economies Review*, vol. 26, no. 3, pp. 525–550, 2015. doi: 10.1007/s11079-015-9358-8.
- [4] A. Ghosh, "Banking-industry specific and regional economic determinants of non-performing loans: Evidence from US states," *Journal of Financial Stability*, vol. 20, pp. 93–104, 2015. doi: 10.1016/j.jfs.2015.08.004.
- [5] D. Espinoza and A. Prasad, "Nonperforming loans in the GCC banking system and their macroeconomic effects," *IMF Working Paper*, vol. 10, no. 224, 2010. doi: 10.5089/9781455202214.001.
- [6] J. Nkusu, "Nonperforming loans and macrofinancial vulnerabilities in advanced economies," *IMF Working Paper*, vol. 11, no. 161, 2011. doi: 10.5089/9781455297747.001.
- [7] M. R. Klein, "Non-performing loans in CESEE: Determinants and impact on macroeconomic performance," *IMF Working Paper*, vol. 13, no. 72, 2013. doi: 10.5089/9781484351559.001.
- [8] S. Skarica and H. S. Zorić, "Determinants of non-performing loans in Central and Eastern European countries," *Scientific Annals of the Alexandru Ioan Cuza University of Iasi*, vol. 60, no. 2, pp. 203–212, 2013. doi: 10.2478/aicue-2013-0013.
- [9] A. K. Das and S. Ghosh, "Determinants of credit risk in Indian state-owned banks: An empirical investigation," *Economic Issues*, vol. 12, no. 2, pp. 27–46, 2007. doi: 10.1108/00251740710745098.
- [10] S. Rajan and V. Dhal, "Non-performing loans and terms of credit of public sector banks in India: An empirical assessment," *Reserve Bank of India Occasional Papers*, vol. 24, no. 3, pp. 81–121, 2003. doi: 10.2139/ssrn.1057890.
- [11] A. S. Messai and F. Jouini, "Micro and macro determinants of non-performing loans," *International Journal of Economics and Financial Issues*, vol. 3, no. 4, pp. 852–860, 2013. doi: 10.32479/ijefi.545.
- [12] M. K. Ghosh, "Non-performing assets and their impact on banking sector performance in India," *International Journal of Business and Management Invention*, vol. 2, no. 5, pp. 15–20, 2013. doi: 10.9790/487X-0251520.
- [13] S. K. Bansal and R. K. Singh, "A comparative analysis of financial performance of public and private sector banks in India," *International Journal of Business and Management Invention*, vol. 7, no. 5, pp. 45–51, 2018. doi: 10.35629/8028-0705014551.
- [14] A. S. Athanasoglou, S. N. Brissimis, and M. D. Delis, "Bank-specific, industry-specific and macroeconomic determinants of bank profitability," *Journal of International Financial Markets, Institutions and Money*, vol. 18, no. 2, pp. 121–136, 2008. doi: 10.1016/j.intfin.2006.07.001.
- [15] R. Demirgüç-Kunt and H. Huizinga, "Determinants of commercial bank interest margins and profitability: Some international evidence," *The World Bank Economic Review*, vol. 13, no. 2, pp. 379–408, 1999. doi: 10.1093/wber/13.2.379.

- [16] A. N. Berger and L. J. Mester, "Inside the black box: What explains differences in the efficiencies of financial institutions?" *Journal of Banking & Finance*, vol. 21, no. 7, pp. 895–947, 1997. doi: 10.1016/S0378-4266(97)00010-6.
- [17] A. N. Berger, L. F. Klapper, and G. F. Udell, "The ability of banks to lend to informationally opaque small businesses," *Journal of Banking & Finance*, vol. 25, no. 4, pp. 613–673, 2001. doi: 10.1016/S0378-4266(00)00093-6.
- [18] S. Kumbirai and R. Webb, "A financial ratio analysis of commercial bank performance in South Africa," *African Review of Economics and Finance*, vol. 2, no. 1, pp. 30–53, 2010. doi: 10.1057/9780230305255_3.
- [19] M. A. Eljelly, "Liquidity-profitability tradeoff: An empirical investigation in an emerging market," *International Journal of Commerce and Management*, vol. 14, no. 2, pp. 48–61, 2004. doi: 10.1108/10569210480000179.
- [20] S. Roman and A. Şargu, "Analysing the financial soundness of commercial banks in Romania: An approach based on the CAMELS framework," *Procedia Economics and Finance*, vol. 6, pp. 703–712, 2013. doi: 10.1016/S2212-5671(13)00192-5.