

Non-Performing Assets: A Study on Indian Banking

Dr. Ranjith Kumar S¹, Muthamma B.U², Mario Noel Rex Joseph³,
Pranoy Das⁴, S.M. Abdul Hafeez Junaidi⁵

^{1,2,3,4,5}School Of Economics and Commerce CMR University Bangalore, India

Abstract

The banking sector plays a vital role in the development of any country's economy. India's Central Bank (RBI), commercial banks, cooperative bank, and development banks comprise India's banking system. In the banking sector, non-performing assets (NPAs) play a pivotal role serving as indicators of asset quality and financial health of banks. These are loans or advances that have ceased to generate income for the bank due to default by the borrower. The presence of NPAs can significantly impact a bank's profitability, solvency, and overall stability. It necessitates prudent risk management practices, strategic restructuring efforts, and effective resolution mechanisms to mitigate adverse consequences. Addressing NPAs is crucial for sustaining the integrity of the banking sector, ensuring the efficient allocation of capital, and fostering economic growth by maintaining a sound and resilient financial environment. This article attempts to study an existing literature on NPA by reviewing fifty articles and thus highlight the root causes of NPAs, their economic implications, and suggests viable remedial measures to mitigate the rising NPA crisis. This research work may propose a roadmap for future research and policy considerations, emphasizing the urgency of collaborative efforts to fortify the resilience of Indian banks and foster sustainable financial health.

Keywords: Non-Performing Assets (NPA), financial health, banking sector, profitability, solvency.

Introduction

Non-performing assets (NPA) are an extension of NPA. Any advance or loan that is past due by more than ninety days is classified as a non-performing asset in India's Central Bank (RBI)

As per the RBI circular from 2007, "an asset becomes non-performing when it ceases to generate income for the bank."

The 90-day overdue standard for identifying non-performing assets (NPAs) was introduced by the RBI in order to better align with global practices. It became effective for the year that ended on March 31, 2004. Non-performing assets also come in several varieties, depending on how long they have been non-performing assets (NPAs).

What do a bank's nonperforming assets and assets mean?

All that is owned is considered an asset. All that is owned is considered an asset.

Because the interest we pay on these loans is one of the bank's main sources of income, a loan considered as an asset by the bank, becomes "non-performing" when consumers, whether corporate or retail, are inadequate to pay the interest since the asset is not propagate any revenue for the bank. NPAs, then, are

assets that no longer bring in money for the RBI.

Objective of Study

- A. To examine NPA patterns and trends in Indian banks.
- B. To determine the main causes of the growth in non-performing assets.
- C. To evaluate NPAs' effects on the Finance industry.
- D. To assess the logicality of current regulatory and policy frameworks
- E. To provide plans for the efficient handling and resolution of underperforming assets in Indian banks

Review Of Literature

	Title of the paper	Author	Objective	Findings
1.	Impact of Non-Performing Assets on the Profitability of the Indian Banking Sector	Baljinder Kaur, Rupinder Kaur, Kiran Sood, Simon Grima	The main aim of this article is to study how non-performing assets (NPAs) impact the profitability of eight major Indian banks, namely (PNB), (BOI), UCO Bank, (PSB), HDFC Bank, Axis Bank, ICICI Bank, and Yes Bank, during the period 2017 to 2022.	The study utilized statistical analysis including measures of central location (mean and median) and measures of dispersion (standard deviation) to assess and check the normality of the data. Top of Form
2.	Comparative Study of Non-performing Assets	A Bhabani Mishra and S. S. Rath	This article aims to analyse the recent trends and compositions of stressed assets among 45 selected Indian commercial banks. It also investigates the impact of bank mergers on reducing non-performing assets (NPAs).	The study highlights how mergers, such as the amalgamations of State Bank of India with its associates in 2017 and Bank of Baroda with Dena Bank and Vijaya Bank in 2019, have resulted in reductions in stressed assets. It suggests that these mergers may lead to improvements in the asset quality of other banks, particularly those

				merged with the six anchor banks, effective from April 2020a
3.	Non-performing Assets: Magnitude, Status, and Impact (A Comparative Study concerning all public sector, private sector, and foreign banks in India)	Nammi Lalitha, Sudha Mavuri, Taviti Naidu Gongada, Manjushree Paruchuru	This article aims to elucidate the magnitude, status, and impact of non-performing assets (NPAs) on the Indian economy. It also discusses the reforms implemented in the banking sector to mitigate the rise in NPAs.	The article highlights the banking reforms that have been developed, including prudential norms focusing on asset classification, income recognition, and provisioning. These reforms aim to enhance the efficiency of banks and control the rise in NPAs.
4.	Impact of Non-performing Assets (NPAs) in the Performance of Public Sector Banks	Manoj Kumar Sahoo, Muralidhar Majhi	This study aims to investigate the impact of non-performing assets (NPAs) on the profitability and overall performance of public sector banks in India.	The study reveals that NPAs have a significant negative effect on total loans as well as operating costs within public sector banks.
5.	Risks and Financial Performance of Indian Banks: A cursory Look at the COVID-19 Period	Anju Goswami, Pooja Malik	This article aims to examine the impact of the COVID-19 pandemic on the increase in non-performing assets (NPAs) in Indian banks and its repercussions on the Indian economy. It also seeks to identify the risky variables affecting the financial	The study indicates that during the second wave of the COVID-19 crisis, the lending agility of Indian banks was reduced, leading to financial stress and an increase in non-performing loans (NPLs), which subsequently affected their performance negatively. Identifying the risky variables affecting Indian banks' financial performance

			performance of Indian banks during the period from 2018 to 2022.	during this period is crucial for understanding and addressing the challenges posed by the pandemic.
6.	Non-performing Assets Levels and Their Impact on the Efficiency of the Banking Sector	Neha Rani, Dr. Soniya Gambhir	This study aims to analyse the influence of underperforming assets on the productivity of the banking sector, considering the vital role of the banking industry in the economy. commercial and government sector banks.	The study emphasizes that the efficiency of the banking sector has been declining due to the rise in non-performing assets, which hinder the sector's ability to facilitate economic development and growth. It highlights the significance of managing NPAs effectively and compares the performance levels of different bank groups in terms of NPAs over the past six years.
7.	An Empirical Analysis of Non-Performing Assets in Selected Banks of India	Dr. Karunesh Saxena, Dr. Avinash Vikram, Dr. Mukesh Sharma	This article aims to analyse the impact of non-performing assets (NPA) on the profitability of the Indian banking sector and evaluate the effectiveness of strategies employed by banks to reduce NPAs.	The study highlights that non-performing asset have a direct negative effect on the gainfulness of the Indian banking sector and are among the biggest challenges faced by the industry. It acknowledges the positive impact of committee recommendations and ongoing efforts by the Indian government in reducing NPAs.
8.	Non-Performing Assets in Public Sector Banks, Private Sector Banks,	Sanjukta Mohanty, Shakti Ranjan Mohapatra, Leesa Mohanty	This article aims to analyse the current trends of non-performing	The study reveals the growing importance of asset quality as a benchmark for

	and Foreign Banks: A Comparative Study		assets (NPAs) in India's public, private, and foreign banks across various phases of the banking sector, including pre-crisis, post-crisis, and banking merger and consolidation periods	evaluating bank performance and highlights the challenges posed by the problem of non-performing assets over the last two decades. It emphasizes the need for attention to how international, public, and private sector banks handle NPAs.
9.	Non-performing Assets and Technical Efficiency of Indian Banks: A Meta-frontier Analysis	Nitin Arora, Nidhi Grover Arora, Kritika Kanwar	This study aims to investigate whether the growing problem of non-performing assets (NPAs) in the banking sector (India) has reached a level where it negatively impacts the procedural ability levels of commercial banks.	The study intends to provide insights into the relationship between NPAs and technical efficiency in Indian banks, shedding light on whether NPAs have arrived at a critical level that affects the operational proficiency of banks.
10.	Compilation of Theoretical Perspectives on Non-Performing Assets in India	Indumati Pandey	This paper aims to investigate the factors contributing to non-performing assets (NPAs) in India and their impact on banks and the economy.	The report highlights that both internal and external factors and the main causes of non-performing assets, as indicated by the theoretical perspectives synthesized from the research conducted during the specified period. Top of Form

11.	Examining and Analysing the Determinants of Non-performing Assets in Public and Private Sector Banks in India	Swati Singh and Manpreet Arora	This research aims to investigate and analyse the determinants of non-performing assets (NPAs) in both government and non-government sector banks in India	identification of significant variables that impact net NPAs in government & non-government banks, insights into the varying rates of increase in NPAs among different bank groupings, and the results of the complex statistics using panel data
12.	The Causal Factors behind Rising Non-performing Assets of India's Commercial Banks: A Panel Study	T. K. Jayaraman, Chin-Yu Lee, Cheong-Fatt Ng	The objective of this study is to investigate the causal factors behind the rising non-performing assets (NPAs) of India's retail banks.	The outcome of the study were not provided in the given information. However, based on the objective outlined, potential findings could include identification and analysis of factors contributing to the increase in NPAs, such as economic factors, banking sector policies, and internal bank management practices. Top of Form
13.	Non-performing Assets - An Important Parameter of Measuring the Financial Soundness of Banks	Sulagna Das, Amar Kumar Mishra, and Somnath Paul	The objective of this paper is to examine the non-performing assets (NPAs) of public sector banks and private banks in India.	The findings of the study were not explicitly provided in the given information. However, potential findings could include an analysis of trends in NPAs among scheduled commercial banks, comparisons between public and private sector banks, and the efficacy of government initiatives in reducing NPAs.

14.	Non-performing Assets and Institutional Quality Indicators: Evidence from Developing Countries	Shikha Goyal, Jaya Mamta Prosad, and Nikita Singhal	The objective of this study is to examine the causes of (NPAs) in developing countries. It aims to investigate the relationships between bank-specific macroeconomic parameters and NPAs within the institutional context of developing nations	The findings of the study were not explicitly provided in the given information. However, potential findings could include insights into the key factors contributing to NPAs in developing countries, the impact of institutional quality indicators on NPAs, and implications for policymakers and banking institutions in managing NPAs effectively. Top of Form
15.	Panel Regression Analysis of Factors Influencing Non-Performing Assets in Indian Banks	Sharma, Verma, & Sharma	The purpose of this study is to analyse the factors influencing non-performing assets (NPAs) in Indian banks using panel regression analysis.	The findings reveal that key factors like credit-deposit ratio, return on assets, inflation, and exchange rate impact NPAs in Indian banks. The study categorizes banks based on their ownership (public/private/general) and size (big/small) and highlights the significance of these factors in understanding and managing NPAs

Methodology

Data collection

- Data is collected through details found in R.B.I report regarding non-performing assets in Indian banks.
- Details regarding amount of N.P.A, factors behind large amount of N.P.A in Indian banks and steps taken by R.B.I from news portals such as Economic times, Business standard, money control

Statistical tools:

Descriptive statistics, regression analysis, and temporal trend analysis are used to identify the main drivers of NPAs of Indian banks and discovering that high levels of NPAs have resulted in lower profitability,

increased provisioning requirements, and higher borrowing costs.

Source of data:

1. The information received is in secondary in nature.
2. The major data received is from the report of Reserve Bank of India.
3. Data have been collected from news articles of news portals such as
4. Economic times, money control, The Hindu, Business standard

Data and Sample Selection:

The information has been gathered over a span of five years, from 2018 to 2022, to assess the trend of Non-Performing Assets (NPAs) in chosen banks. The analysis indicates a consistent rise in NPAs within these banks over the mentioned timeframe. To facilitate understanding, a comparative statement has been formulated to illustrate the percentage increase of NPAs across the selected banks. The figures detailing the gross and net non-performing assets of specific banks from 2018 to 2022 are provided below. (Table 1, 2)

Table 1: Gross Non-Performing Assets (NPAs) Amount in Crores	<i>HDFC Bank Ltd.</i>	<i>State Bank of India</i>	<i>Bank of India</i>	<i>ICICI Bank</i>	<i>AXIS Bank</i>
2017-18	8,606.97	223,427.46	62,328.46	54,062.51	34,248.64
2018-19	11,224.16	172,750.36	60,661.12	46,291.63	29,789.44
2019-20	12,649.97	149,091.85	61,549.93	41,409.16	30,233.82
2020-21	15,086.00	126,389.02	56,534.95	41,373.42	25,314.84
2021-22	16,140.96	112,023.37	45,605.40	33,919.52	218.22

Table 2: Net Non-Performing Asset (NPA) Amount in Crores	<i>HDFC Bank Ltd.</i>	<i>State Bank of India</i>	<i>Bank of India</i>	<i>ICICI Bank</i>	<i>AXIS Bank</i>
2017-18	4,407.68	110,854.70	28,207.27	27,886.27	16,591.71
2018-19	4,554.82	65,894.74	19,118.95	13,577.43	11,275.60
2019-20	3,542.36	51,871.30	14,320.10	10,113.86	9,360.41
2020-21	3,214.52	36,809.72	12,262.03	9,180.20	6,993.52
2021-22	2,601.02	27,965.71	9,851.93	6,960.89	55.12

The data includes selected public and private banks with the highest turnover, chosen on the basis that banks with higher turnovers tend to have more Non-Performing Assets (NPAs). It's a well-known fact that NPAs are generally higher in Public Sector Banks (PSBs) compared to private banks. Therefore, three private banks and two PSBs were selected to minimize the disparity between bank categories. It's noteworthy that NPAs are predominantly concentrated in PSBs and private banks. Foreign banks, cooperative banks, and other bank categories typically have very few NPAs.

The tables present NPAs figures for the selected banks from the fiscal years 2017-2018 to 2021-2022. Table 1 displays the gross NPAs figures, while Table 2 presents the net NPAs figures. Notably, public sector banks like S.B.I and B.O.I. exhibit higher NPAs compared to private banks like HDFC and ICICI Bank. Over time, there has been a decrease in net NPAs across all banks, indicating the acceptance of hypothesis H02.

Findings:

From the reviews of articles, it is established that the main reasons behind NPA are Economic inadequate risk management procedures, fraudulent activity, political meddling, unstable global finance, high interest rates, excessive leverage, and legal or regulatory changes of the Proactive risk management, strict lending guidelines, efficient monitoring, and recovery techniques are needed to deal with non-performing assets (NPAs).

The gross non-performing assets (GNPA) decreased from 3.9% in March 2023 to 3.2% in September 2023.

All the major industries have shown a general improvement in their GNPA ratios. Nevertheless, the agriculture sectors GNPA ratio remained high at 7%. The number of banks and NBFCs has grown significantly during the last two years. But as of September 2023, the GNPA ratio for personal loans has started to level down. Higher GNPA levels, however, are observed in consumer loans for credit card receivables, especially for foreign banks (FB). NPAs in the housing industry have been comparatively constant despite increased rates.

Suggestions:

Stringent guidelines must be adhered to during the loan approval process. Sufficient security or guarantees must be obtained to ensure maximum recovery in the event of default. Prompt legal measures should be staked against deliberate defaulters. Timely and rigorous implementation of policies outlined by the R.B.I. to mitigate Non-Performing Assets (NPAs) is essential. Each bank should designate a specialized team for NPA recovery. Loans should not be granted based solely on referrals or references without adequate collateral or pledges.

Conclusion:

To mitigate the issue of Non-Performing Assets (NPA) it is recommended to strengthen regulatory monitoring, enhance risk management frameworks, promote openness and accountability, and encourage proactive actions such as asset reconstruction and resolution procedures. Furthermore, in the long run, actions to revitalize distressed industries and advance financial inclusion, along with the cultivation of a culture of responsible lending and borrower discipline, can support sustainable nonperforming asset management. The aggregate results indicate a concerning state of affairs for the banking industry at large. The issue is apparent not just with small-sized banks but also with well-known brands in the banking industry,

according to an examination of the increase rate in the NPA level. Therefore, the crisis has engulfed the entire industry. The RBI's guidelines force banks to set aside a certain amount based on the quality of their assets, which makes them less profitable. This is why the banks' poor asset quality is an issue

References

1. A Bhabani Mishra and S. S. Rath (2021) "Comparative Study of Non-performing Assets Using Non-Parametric Test: Indian Scheduled Commercial Banks" Volume 22, Issue 2; <https://doi.org/10.1177/09767479211027874>
2. Nammi Lalitha, Sudha Mavuri, Taviti Naidu Gongada, Manjushree Paruchuru (2023) "Non-performing Assets: Magnitude, Status, and Impact (A Comparative Study concerning all public sector, private sector, and foreign banks in India)" Vol. 3 No. 2 (2023); <https://doi.org/10.52783/jier.v3i2.121>
3. Manoj Kumar Sahoo, Muralidhar Majhi (2022) OF NON-PERFORMING ASSETS (NPAS) IN THE PERFORMANCE OF PUBLIC SECTOR BANKS-Journal of Commerce & Accounting Research ,11 (4) 2022, 62-73 <http://publishingindia.com/jcar>
4. Anju Goswami, Pooja Malik (2018-2022) "Risks and financial performance of Indian banks: a cursory look at the COVID-19 period"; Benchmarking: An International Journal, <https://doi.org/10.1108/BIJ-02-2023-0109>
5. Neha Rani, Dr. Soniya Gambhir (2023)," NON-PERFORMING ASSETS LEVELS AND VARIATIONS IN INDIAN BANK GROUPINGS" Vol. 5 No. 2 (2023), <https://journalra.org/index.php/jra/article/view/1028>
6. Dr. Karunesh Saxena, Dr. Avinash Vikram, Dr. Mukesh Sharma (2023) An Empirical Analysis of Non-Performing Asset in Selected Banks of India, Vol. 3 No.2(2023) <https://doi.org/10.52783/jier.v3i2.404> .
7. A Ms. Deepti Shinde & Dr. Babasaheb Jadhav (2022)" Study on The Status of Non- Performing Assets (NPA) In Selected Mudra Banks Before and After the Covid- Pandemic", VOL. 13 SPECIAL ISSUE (2022) <https://doi.org/10.47750/pnr.2022.13.S09.874>
8. Nitin Arora, Nidhi Grover Arora, Kritika Kanwar (2018) Non-performing assets and technical efficiency of Indian banks: a meta-frontier analysis Vol. 25 No. 7, pp. 2105-2125. <https://doi.org/10.1108/BIJ-03-2017-0040>
9. Swati Singh and Manpreet Arora (2023), "Examining and analyzing the determinants of non-performing assets in public and private sector banks in India"; Volume 25, No.24: pp 553- <https://doi.org/10.1504/IJEER.2023.131163>
10. Mr. K. Ponnumani, Ms. M.S. Thanus Prabha (2023), "A COMPARATIVE STUDY ON PERFORMANCE EVALUATION AND NON-PERFORMING ASSETS OF PUBLIC AND PRIVATE SECTOR BANKS IN INDIA; Volume:05/Issue:08 I: <https://www.doi.org/10.56726/IRJMETS44369>



DrillBit Similarity Report

12

SIMILARITY %

15

MATCHED SOURCES

B

GRADE

A-Satisfactory (0-10%)
B-Upgrade (11-40%)
C-Poor (41-60%)
D-Unacceptable (61-100%)

LOCATION	MATCHED DOMAIN	%	SOURCE TYPE
1	Non-performing assets and technical efficiency of Indian banks meta, by Arora, Nitin; Arora - 2018	3	Publication
2	slfue.org	1	Publication
3	www.linkedin.com	1	Internet Data
4	Thesis submitted to shodhganga - shodhganga.inflibnet.ac.in	1	Publication
5	www.icmrr.org	1	Publication
6	www.karunya.edu	1	Publication
7	www.scribd.com	1	Internet Data
8	stovekraft.com	1	Publication
9	Thesis submitted to shodhganga - shodhganga.inflibnet.ac.in	<1	Publication
10	bmsce.ac.in	<1	Publication
11	guidely.in	<1	Internet Data
12	www.keka.com	<1	Internet Data
13	369485e5-78d9-46958ee777e624124993.filesusr.com	<1	Publication
18	Thesis Submitted to Shodhganga, shodhganga.inflibnet.ac.in	<1	Publication