International Journal of Research Publication and Reviews

Journal homepage: www.ijrpr.com ISSN 2582-7421

A Study on Non-Performing Assets in Indian Banks

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CHAPTER 1: INTRODUCTION

Background of the Study

The performance of the banking sector is critical to the overall health of a country's economy. One of the most pressing challenges facing Indian banks today is the growing burden of Non-Performing Assets (NPAs). These are loans or advances for which the principal or interest payment has remained overdue for a period of 90 days. NPAs reduce the profitability of banks and undermine their ability to lend further, thereby affecting economic growth.

Importance of the Study

This study is vital because the magnitude of NPAs in India has reached levels that threaten the stability of the banking system. Understanding the reasons behind the accumulation of NPAs and the effectiveness of mechanisms such as the Insolvency and Bankruptcy Code (IBC), SARFAESI Act, and Debt Recovery Tribunals is essential to framing solutions.

Objectives of the Study

- To understand the meaning and classification of NPAs
- To identify the causes and trends of NPAs in India
- To compare NPA levels in public and private sector banks
- To evaluate the effectiveness of current recovery mechanisms
- To propose recommendations to improve asset quality

Scope of the Study

The scope of this research is confined to commercial banks operating in India during the financial years 2018 to 2024. Both public sector and private sector banks are included to provide a comparative analysis.

Limitations of the Study

- The study relies primarily on secondary data sources
- Confidential internal data from banks was not accessible
- The analysis is limited to major commercial banks and excludes cooperative banks and NBFCs

CHAPTER 2: LITERATURE REVIEW

Several research works have explored the phenomenon of NPAs in the Indian banking sector. These studies commonly attribute the rise in NPAs to poor credit appraisal systems, macroeconomic shocks, wilful defaults, and political interference in lending decisions. Regulatory reforms such as the SARFAESI Act (2002) and the Insolvency and Bankruptcy Code (2016) have been extensively analyzed for their effectiveness.

For instance, studies by the Reserve Bank of India and academic researchers emphasize the need for stronger internal credit assessment frameworks and quicker legal resolution mechanisms. Literature also suggests that public sector banks are more prone to high NPA levels due to mandated priority sector lending and weaker monitoring systems.

Despite numerous initiatives, challenges remain in recovering bad loans efficiently. Delays in the legal process, lack of investor interest in distressed assets, and valuation issues continue to hinder recovery efforts.

CHAPTER 3: RESEARCH METHODOLOGY

Research Design

This research employs a descriptive design, which helps in understanding the present scenario of NPAs in Indian banks through analysis of historical data, policy reports, and case- based observations.

Data Collection

- **Primary Data**: A small survey was conducted using a structured questionnaire targeting banking professionals and finance students.
- **Secondary Data**: Collected from RBI reports, Ministry of Finance publications, academic journals, and published financial statements of banks.

Sampling Method

Purposive sampling was used to focus on selected commercial banks with high and low NPA ratios. The banks studied include State Bank of India (SBI), Punjab National Bank (PNB), HDFC Bank, and ICICI Bank.

Tools of Analysis

Qualitative and quantitative tools were used, including trend analysis, ratio analysis (gross and net NPAs), and comparative evaluation.

CHAPTER 4: ANALYSIS AND INTERPRETATION

The burden of NPAs in India has undergone a significant shift in recent years. From alarming levels in 2018, the gross NPA ratio of scheduled commercial banks has improved by 2024. This has been attributed to better loan monitoring, stricter provisioning norms, and improved resolution frameworks.

Public sector banks have generally exhibited higher NPA levels compared to private sector banks. This is mainly due to their mandatory lending to high-risk sectors and lack of efficient internal control systems. In contrast, private banks often use more advanced risk assessment tools and face less political pressure.

Sectoral analysis reveals that industries such as infrastructure, power, iron and steel, and textiles are major contributors to NPAs. These sectors typically face project delays, policy hurdles, and fluctuating demand.

Legal tools such as the Insolvency and Bankruptcy Code (IBC) have had a substantial impact on recovery mechanisms.

Although the average recovery rate has improved, issues such as judicial delays and promoter litigation still hamper swift resolution.

The survey results revealed that a majority of respondents believe technological interventions like AI-based monitoring, early warning systems, and digitized credit assessments can play a pivotal role in preventing future NPAs.

CHAPTER 5: FINDINGS, SUGGESTIONS AND CONCLUSION

Key Findings

- Gross NPAs have shown a consistent decline since 2018, indicating partial success of regulatory interventions
- Public sector banks remain more vulnerable due to structural inefficiencies and external pressures
- Private banks show better credit discipline and recovery rates
- Sector-wise, infrastructure and core industries account for the largest chunk of NPAs
- IBC and SARFAESI have positively influenced recovery but are hindered by procedural complexities

Suggestions

- Enhance the role of data analytics and AI in credit appraisal and risk monitoring
- Improve autonomy and professionalism in public sector bank governance
- Strengthen the legal infrastructure by expanding the capacity of debt recovery tribunals and NCLTs
- Promote financial literacy among borrowers to reduce intentional defaults
- Establish a centralized database of defaulters accessible to all lenders

Conclusion

Non-Performing Assets continue to pose a serious threat to the efficiency and credibility of the Indian banking system. Despite significant reforms and policy measures, the root causes of NPAs require deeper systemic changes. The way forward involves a combination of technological innovation, governance reforms, legal streamlining, and prudent banking practices.

If implemented effectively, these measures can restore asset quality, strengthen investor confidence, and ensure the long-term sustainability of India's financial sector.

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