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A STUDY ON NON-PERFORMING ASSETS OF COMMERCIAL BANKS IN INDIA

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Abstract

Non-Performing Assets (NPAs) have emerged as one of the most critical challenges affecting the stability and profitability of commercial banks in India. NPAs reduce banks' earning capacity, restrict credit growth, and adversely impact the overall financial system. The present study aims to analyze the concept, growth, and impact of non-performing assets on commercial banks in India. It also attempts to examine the causes for the rise in NPAs and the measures taken by banks and regulatory authorities to control them. The study is based on secondary data collected from Reserve Bank of India (RBI) reports, annual reports of banks, journals, and published research studies. Analytical tools such as trend analysis and ratio analysis are used for interpretation. The findings reveal that rising NPAs have significantly affected the profitability and operational efficiency of Indian commercial banks, particularly public sector banks. The study concludes by suggesting effective credit appraisal systems, timely recovery mechanisms, and policy reforms to strengthen asset quality and ensure sustainable banking growth.

Keywords: Non-Performing Assets, Commercial Banks, Asset Quality, Banking Sector, RBI.

Introduction

The banking sector plays a vital role in the economic development of a country by mobilizing savings and channelizing them into productive investments. In India, commercial banks act as the backbone of the financial system, supporting industrial growth, trade, agriculture, and infrastructure development. However, the increasing volume of Non-Performing Assets (NPAs) has become a major concern for the Indian banking industry.A Non-Performing Asset refers to a loan or advance for which the principal or interest payment has remained overdue for a specified period, as defined by the Reserve Bank of India. When assets turn non-performing, banks stop earning income from them, leading to reduced profitability and financial instability. Over the past decade, Indian commercial banks, especially public sector banks, have witnessed a significant rise in NPAs due to factors such as poor credit appraisal, economic slowdown, willful defaults, and ineffective recovery mechanisms.

The growing level of NPAs not only affects the banks but also impacts the overall economy by limiting credit availability and weakening investor confidence. Recognizing the seriousness of the issue, the Government of India and the RBI have introduced several reforms and recovery measures such as the Insolvency and Bankruptcy Code (IBC), Asset Reconstruction Companies (ARCs), and restructuring schemes.In this context, the present study attempts to analyze the nature and extent of NPAs in Indian commercial banks, understand the underlying causes, and evaluate the effectiveness of existing measures in managing and reducing NPAs.

Objectives of the Study

The main objectives of the study are:

1. To understand the concept and meaning of Non-Performing Assets (NPAs) in commercial banks.
2. To analyze the trend and growth of NPAs in Indian commercial banks.
3. To identify the major causes responsible for the increase in NPAs.
4. To study the impact of NPAs on the profitability and financial performance of banks.

5. To examine the measures taken by banks and regulatory authorities to control NPAs.
6. To suggest suitable strategies for effective management and reduction of NPAs.

Scope of the Study

The scope of the study is confined to the analysis of Non-Performing Assets of commercial banks in India. The study covers:

1. Public sector, private sector, and selected foreign commercial banks operating in India.
2. Trends and patterns of NPAs over a selected period.
3. Causes, effects, and management of NPAs.
4. Regulatory guidelines and recovery mechanisms prescribed by the Reserve Bank of India.

The study is based mainly on secondary data and focuses on the overall banking system rather than any single bank.

Statement of the Problem

Non-Performing Assets have become a serious concern for the Indian banking sector in recent years. A continuous rise in NPAs has adversely affected the profitability, liquidity, and solvency of commercial banks. High levels of NPAs reduce banks' lending capacity and weaken the financial system. Despite various policy initiatives and recovery mechanisms introduced by the government and the Reserve Bank of India, the problem of NPAs continues to persist. Hence, it becomes necessary to study the nature, causes, and impact of NPAs and evaluate the effectiveness of existing measures to manage them efficiently. This study attempts to address these issues.

Limitations of the Study

The study is subject to the following limitations:

1. The study is based mainly on secondary data collected from published sources such as RBI reports, bank annual reports, and journals.
2. The accuracy of the study depends on the reliability of secondary data.
3. The study covers only a limited time period, which may not reflect long-term trends.
4. Detailed bank-wise analysis could not be carried out due to data constraints.
5. Changes in banking regulations and policies during the study period may affect the analysis.

Research Methodology

Research Design

The study adopts a descriptive and analytical research design, aiming to analyze the nature, causes, and impact of Non-Performing Assets in Indian commercial banks.

Sources of Data: Secondary Data is used for the study.

Data Collected From

1. Reserve Bank of India (RBI) reports
2. Annual reports of commercial banks
3. Banking journals and research articles
4. Published books and websites related to banking

Period of the Study: The study covers a period of **five years** (for example: 2019–2024).

Tools Used for Analysis

1. Percentage analysis.

2. Trend analysis.
3. Ratio analysis.
4. Comparative analysis.

Data Analysis and Interpretation

(Illustrative data – you may modify as per your syllabus)

Trend of Gross NPAs of Commercial Banks

Year	Gross NPAs (₹ in crore)
2019	9,40,000
2020	8,96,000
2021	8,35,000
2022	7,50,000
2023	6,90,000

Interpretation

The table shows a gradual decline in Gross NPAs over the years, indicating improved recovery mechanisms and stricter regulatory measures.

Sector-wise NPAs

Sector	Percentage of NPAs
Public Sector Banks	65%
Private Sector Banks	28%
Foreign Banks	7%

Interpretation: Public sector banks account for the highest share of NPAs due to large exposure to corporate lending.

Findings of the Study

1. NPAs significantly affect the profitability and asset quality of commercial banks.
2. Public sector banks have higher NPAs compared to private and foreign banks.
3. Major causes of NPAs include poor credit appraisal, economic slowdown, and willful defaults.
4. Regulatory measures like IBC and SARFAESI Act have helped reduce NPAs to some extent.
5. Declining NPAs in recent years indicate improved recovery and monitoring systems.

Suggestions

1. Banks should strengthen credit appraisal and risk assessment systems.
2. Timely monitoring of loans must be ensured to prevent slippage into NPAs.
3. Faster resolution through Insolvency and Bankruptcy Code (IBC) should be encouraged.
4. Special focus should be given to recovery from large corporate borrowers.
5. Adoption of technology and data analytics can help in early identification of problem loans.

Conclusion: Non-Performing Assets pose a serious threat to the stability and growth of the Indian banking system. Although commercial banks in India have taken several steps to control NPAs, the issue still requires continuous monitoring and policy support. Effective credit management, strong recovery mechanisms, and regulatory reforms are essential for maintaining asset quality. A sustained reduction in NPAs will enhance the profitability and lending capacity of banks, thereby contributing to overall economic development.

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