AN ANALYTICAL INSIGHT INTO NON-PERFORMING ASSETS AND THE INDIAN BANKING SYSTEM

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Abstract

One of the main issues facing Indian banks is Non-Performing Assets. NPAs show how well banks are doing. A high percentage of non-performing assets (NPAs) indicates a significant likelihood of many loan defaults, which can have an impact on the profitability of a bank and net worth as well as the asset's value. Non-Performing Assets (NPAs) are a problem for Indian banks. The existence of NPAs has a significant impact on the banks' ability to generate income and profitability. In addition, the non-performance or non-receipt of interest and principal restricted banks' money in the form of funds and prevented their usage for further banking operations, resulting in a decline in the banks' profit margin. In this context, the bank must be aware of the issues and NPA recovery laws. Understanding the amount of Non-Performing Assets (NPAs) and how it affects the profitability of the banks is the goal of the current study. The study took into account the Gross and Net NPA of Public & Private sector banks from 2016 to 2022 for this objective. The analysis found that during the time, the Gross & Net NPA of both public and private sector banks gradually increased. According to this study, there is a strong correlation between the Gross NPA and Net NPA of banks in the public and private sectors. In order to lower the NPA and strengthen the recovery system, this paper advises regulators and the appropriate bank authorities to take the necessary actions.

Keywords: Non-Performing Assets, Public Sector Banks, Net NPA, Banking System.

JEL Classification: A10, E58, G20, G21, Y10.

1. INTRODUCTION

Banking has been a part of India's economic landscape for over two centuries. The inception of banking in India dates back to the latter part of the 18th century when the first banks were established in India. Today, the Indian banking industry is dominated by commercial banks, which make up the majority of the banking sector. These banks serve a vast area and have an extensive network of branches even in rural and semi-urban regions. This widespread presence of commercial banks has made banking accessible to a larger population, leading to financial inclusion in India. Apart from their primary business of accepting deposits and lending money, commercial banks in India have diversified into newer areas such as merchant banking, leasing, housing finance, mutual funds, and venture capital. This diversification has helped these banks cater to the changing needs of their customers while also expanding their revenue streams. These banks have also developed innovative deposit mobilization plans, which have helped them mobilize funds from various sources. Commercial banks in India offer a range of services to their customers, including issuing drafts, travelers' cheques, gift cheques, safe custody services, and modern banking facilities. These services have helped make banking more convenient and accessible to customers, leading to greater customer satisfaction.

Non-performing assets (NPA) are a concern for banks and financial institutions globally, and India is no exception. Non-performing assets refer to loans extended by banks or financial institutions where the borrower's default on the principal or interest payments. When banks are unable to recover these loans or receive regular interest payments, it adversely impacts the flow of funds in the financial industry. As a result, the Reserve Bank of India (RBI) has put in place strict guidelines to monitor and manage NPAs in the banking sector, with the aim of ensuring the stability of the banking industry and safeguarding the interests of depositors. The topic of Non-Performing Assets (NPA) has been a widely discussed issue in the global financial system. The impact of nonperforming loans is not limited to the institutions themselves but can also have adverse effects on the entire national economy. The amount of nonperforming loans in Indian banks reflects the current state of the industry and commerce. The primary function of banking is to provide credit for economic activity, which is encouraged as it stimulates economic expansion. However, lending involves credit risk, which results from the borrower's inability to repay the loan. Non-recovery of debts and interest is a significant obstacle in the credit cycle process.

Such loans have a significant impact on the bank's profitability. Although complete elimination of such losses is impossible, banks can always work towards minimizing them. Therefore, researchers must investigate the effects of non-performing assets on the profitability, growth, and development of banks. The interest earned on loans and advances and principal repayment are the primary sources of income for banks. These assets are classified as non-performing assets (NPA) if they fail to generate income. NPA is defined by the Reserve Bank of India as *a credit facility* for *which the interest and/or principal instalment is "past due"* *for a specified period*. In general, an asset is classified as non-performing if the loan payments have not been made for 90 days. Banks are required to put non-performing assets into one of the following groups based on how long they have been non-performing:

- If an asset has not been making money for less than 12 months, it is a "sub-standard asset."
- If it has not been making money for more than 12 months, it is a "doubtful asset."
- Assets that have losses that have been found by the bank, the auditor, or the inspector but have not been fully written off are called "lost assets."

The banking sector faces several negative consequences due to the accumulation of substandard loans on the books of financial institutions. One of the most significant impacts is on the magnitude and stability of the balance sheet, as these loans are essentially a liability for the banks. Furthermore, substandard loans adversely affect the rate of return on assets, as a significant proportion of the bank's income must be set aside to cover the costs associated with these loans. Substandard loans also reduce the profitability of banks, which is a significant concern for financial institutions. A significant portion of revenue must be allocated to cover the costs of questionable and defaulted loans, reducing the amount of money that banks can allocate towards other productive endeavors.

The rising amount of carrying expenses associated with NPA accounts only exacerbates this problem, further reducing profitability. Moreover, financial institutions must maintain a specific level of capital adequacy to increase their net worth, making it desirable for them to keep bad loans to a minimum. The more substandard loans on their books, the more challenging it is for banks to meet these capital adequacy requirements and improve their net worth. Recent reports in newspapers indicate that substandard loans have significantly impacted the banking industry. Therefore, it is crucial for financial institutions to take appropriate measures to minimize the accumulation of substandard loans on their books and maintain a healthy balance sheet to ensure their long-term sustainability.

The Reserve Bank of India (RBI) has been grappling with the problem of non-performing assets (NPAs). In an effort to resolve this issue, the RBI has implemented several legislative initiatives such as Debt Recovery Tribunals (DRTs), Lok Adalats, the SARFAESI Act, and the Insolvency and Bankruptcy Code (IBC) of 2016. In addition to these measures, the RBI has taken some recent steps to address the problem of NPAs. One such step has been the recapitalization of public sector banks, which involves infusing additional capital into these banks to strengthen their balance sheets and make them better equipped to handle bad loans. Another step has been the establishment of departments to manage stressed assets, which are assets that are at risk of becoming nonperforming.

To identify and manage NPAs, the RBI has proposed the introduction of Special Mention Accounts (SMA). These accounts would help banks to identify early warning signals of stress in a borrower's account and take timely remedial measures to prevent the asset from becoming nonperforming. The SMA accounts are classified into categories such as SMA 0, SMA 1, and SMA 2, depending on the level of overdue payments. Finally, to further address the problem of NPAs, the regulator has put restrictions on eleven public sector banks in the form of the Prompt Corrective Action (PCA). The PCA framework is a set of guidelines that imposes restrictions on banks with weak financial indicators, to prevent them from deteriorating further and causing systemic risks to the banking sector. The restrictions under the PCA include limits on lending, restrictions on expansion, and management changes, among others.

2. OBJECTIVE OF THE STUDY

- The first objective of the study is to determine the level of Non-Performing Assets (NPAs) in both Private and Public sector banks. A high level of NPAs can be an indicator of financial distress in the banking sector, as it suggests that the banks are facing difficulties in recovering their loans. Therefore, determining the level of NPAs is crucial in assessing the health of the banking sector.
- The second objective is to analyze the impact of NPAs on banks' profitability. High levels of NPAs can have a significant negative impact on a bank's financial performance, as it reduces the income generated from interest payments on loans. Moreover, banks have to make provisions for the loans that are classified as NPAs, which can result in lower profits. Therefore, understanding the relationship between NPAs and profitability is important in developing strategies to manage and reduce NPAs.
- The third objective is to provide recommendations to regulators and policymakers based on the findings of the study. The recommendations can help regulators and policymakers develop policies that aim to reduce NPAs and improve the health of the banking sector. The recommendations can also include measures to improve the recovery of NPAs, such as implementing stricter loan recovery mechanisms and enhancing the credit appraisal process.

Overall, the study aims to provide valuable insights into the level of NPAs in the banking sector, its impact on banks' profitability, and recommendations for policymakers and regulators to improve the health of the banking sector. know the level of Non-Performing Assets of Private and Public sector banks.

3. LITERATURE REVIEW

Numerous studies on NPAs in the Indian banking sector have been conducted by academics and researchers. The research articles and research studies reviewed in this section were published in a variety of academic journals.

The findings of Vivek Rajbahadur Singh on the SARFAESI Act and its impact on the number of NPA cases. Singh observed an increase in the number of such cases being referred to the SARFAESI Act between 2008 and 2014. He attributed this increase to the effectiveness of the Act in helping commercial banks recover non-performing loans. Singh's interpretation of the situation is that the SARFAESI Act has turned out to be a "boon in disguise" for commercial banks. He suggests that banks are using the Act extensively to recover their non-performing loans, which in turn boosts their profitability. The Act allows banks to take control of the assets of borrowers who have defaulted on their loans and recover the outstanding amount by selling those assets.

In 2018, Veena and Pathi conducted a study on the post-merger performance of gross and net NPAs. Their findings showed that the performance was better and increasing compared to the pre-merger period. They also concluded that the yearly increase in NPAs had a negative impact on the bank's profitability. As a solution to the NPA issue, they suggested that the government take steps to promptly resolve pending cases.

In a study conducted by Esha Jain, Jonika Lamba, and Nitika Soni in July 2021, it was found that HDFC and CITI Bank have a direct correlation between Total Income and Gross NPA as well as Total Profit and Gross NPA. Similarly, ICICI Bank, SBI, and PNB have a favorable relationship between Total Income and Gross NPA. On the other hand, HSBC Bank has an inverse correlation between Total Income and Gross NPA, as well as Total Profit and Gross NPA. While the ROCE of HDFC, PNB, ICICI, and CITI banks has increased each year, the ROCE of HSBC Bank has declined between 2016-17 and 2020-21. HDFC, ICICI, SBI, PNB, CITI, and HSBC Banks have demonstrated efficient asset-to-profit conversion with higher ROCE and ROA ratios than RBI regulations, signifying their efficiency and financial security. Total Income has a positive correlation with Gross Non-Performing Asset, whereas Total Profit has a negative correlation with Gross NPA. Banks should prioritize controlling the NPA situation by implementing a proper credit risk management system.

In a study conducted by Abid Hussain, Rasikbhai, and I. Prajapati in February 2020, it was found that there are differences in the non-performing assets (NPAs) of private and public sector banks. However, the study revealed that the type of bank and sector-specific NPAs do not have a combined effect on total bank NPAs. The results showed that both priority and non-priority public sector banks had larger NPAs than private banks. During the study period, the average NPAs for all selected private banks were less than 5%, while the average NPAs for all selected public sector financial institutions were greater than 5%. Additionally, the study found that private sector banks had better asset quality and debt coverage efficiency compared to public sector banks, which had more NPAs.

According to Bhawna Mittal (2019), non-performing assets (NPA) have increased in India over the last ten years. This implies that a significant percentage of a bank's assets are no longer generating income for the institution, leading to reduced profitability and a decreased capacity to extend further credit. The decrease in bank profitability is causing adverse economic impacts and jeopardizing consumer deposits.

In 2014, Sonia Narula and Monika Singla conducted a study entitled "Empirical Study on Non-Performing Assets of Bank" to evaluate the non-performing assets of Punjab National Bank and their impact on the bank's profitability, as well as to determine the correlation between total advances, net profits, gross and net non-performing assets. The research analyzed Punjab National Bank's annual reports over a six-year period from 2006-07 to 2011-12, and the data was analyzed using tables and the correlation coefficient. The authors found that decreasing non-performing assets is essential for enhancing the profitability of banks. They suggested that to manage the growing non-performing assets in the Indian banking sector, banks should evaluate, and monitor advances made before and after distribution. When comparing PNB's Gross and Net Non-Performing Assets (NPAs) to its total advances, the authors found that PNB is mismanaging its finances. Furthermore, the study concluded that there is a positive correlation between PNB's net profits and NPAs, indicating that an increase in profits leads to an increase in NPAs due to bank mismanagement.

In 2020, researchers Bepari and Sarkar carried out a study to examine the internal issues that were affecting the cost-effectiveness of lending institutions in both the private and public sectors. The study covered a nine-year period, from 2009-2010 to 2017-2018, and involved the use of analytical tools like correlation and regression to analyze the data. The researchers found that Non-Performing Assets (NPA) were causing disruptions in the efficiency of lending institutions. The impact of NPAs on public banks was greater as compared to private sector banks. This suggests that public banks are more vulnerable to the negative effects of NPAs than private sector banks. Interestingly, in the case of private banks, the study found a positive influence of NPAs on cost-effectiveness. This means that private banks were able to manage their NPAs in a way that did not significantly impact their cost-effectiveness.

Ombir and Sanjeev Bansal (2016) conducted research on the most recent developments in non-performing assets (NPAs) of several categories of Indian banks. The impact of ownership pattern on determining the level of NPAs is explored in comparison to the notion that public sector banks have a considerably higher proportion of NPAs. However, no strong empirical evidence was found to support this perception. Their findings indicated that public-sector financial institutions are as excellent as or worse than their private counterparts; nevertheless, international banks are more profitable than local public and private banks. It has also been discovered that a larger number of NPAs has a detrimental impact on a bank's profitability.

A research study conducted in Indonesia by Hersugondo, Anjani, and Pamungkas (2021) investigated the impact of non-performing assets (NPAs), capital adequacy, and insolvency risk on the perception of risk in private sector commercial banks between 2015 and 2019. The researchers collected data from the annual reports of private sector banks, resulting in a total of 470 observations. The study found that NPAs had a negative impact on the banks' operations. Control factors such as bank size and length of existence were used to quantify risk, and the study also utilized a Z-score to measure insolvency and credit risk.

According to a study by Agarwala and Agarwala (2019), the private banking sector is facing a disproportionate number of nonperforming assets (NPAs) compared to public sector banks during the current economic downturn. The study found that the risk of NPAs has a direct impact on a bank's performance, and that both public and private banks are negatively affected by NPAs. As of March 2019, the gross NPA ratio of listed commercial banks had decreased from 11.5% to 9.3% in 2018-19, indicating a significant improvement in their asset quality. The researchers attributed the increasing nonperforming loans of public sector banks to dogmatic interference in their operations.

Samir and Deepa Kamra (2013) have reported that public sector banks in India face a more severe problem of non-performing assets (NPAs) than private and international banks. The study also found that NPAs are more prevalent in the non-priority sector compared to the priority or public sectors. In addition, the small-scale industries (SSI) sector is responsible for the majority of NPAs in the priority sector, which has adversely affected the financial stability of banks. To address the challenges posed by the rising NPAs, the study suggests that banks in India should adopt fundamental financial management concepts such as improved recovery management, corporate governance, and technology upgrades.

4. METHODOLOGY

In this study, the researchers have chosen an analytical approach to achieve their objectives. To gather the necessary data, the study relies on various secondary sources such as annual reports, press releases, and the websites of major Indian banks, including State Bank of India (SBI), Axis Bank, Reserve Bank of India (RBI), ICICI Bank, Canara Bank, Punjab National Bank (PNB), and HDFC Bank. To determine the average performance and stability of the banks, the researchers computed the Arithmetic Mean. By using this method, the study provides an objective and quantifiable way of assessing the overall performance and stability of the selected banks.

Furthermore, the study examines the relationship between Non-Performing Assets (NPAs) and other key parameters of the banks. The researchers have selected six banks as a representative sample for this analysis:

- Three Public Sector Banks, namely SBI, Canara Bank and PNB.
- Three Private Sector Banks, namely Axis Bank, ICICI and HDFC Bank.

The study assesses how NPAs impact various parameters such as the bank's profitability, asset quality, and capital adequacy. In summary, the study adopts a thorough and objective approach by using multiple secondary data sources and statistical methods to assess the performance and stability of major Indian banks, and their correlation with Non-Performing Assets:

4.1. RESULTS AND DISCUSSION

Table 1. *Gross NPAs Percentage of selected Public and Private Sector Banks in India from 2016 to 2022*

YEAR	Public Sector Banks (Gross NPAs %)			Private Sector Banks (Gross NPAs %)		
	State Bank of India	**Canara Bank**	**Punjab National Bank**	**ICICI Bank**	**HDFC Bank**	**Axis Bank**
2015-16	6.50	9.40	12.90	5.82	0.97	1.67
2016-17	6.90	9.63	12.53	8.74	1.05	5.04
2017-18	10.91	11.84	18.38	9.90	1.30	6.77
2018-19	7.53	8.83	15.50	7.38	1.36	5.26
2019-20	6.15	8.21	14.21	6.04	1.26	4.86
2020-21	4.98	8.93	14.12	5.33	1.32	3.70
2021-22	3.97	7.51	11.78	3.76	1.17	2.82
MEAN	6.705	9.192	14.202	6.71	1.204	4.302

Source: *Database on Indian Economy accessed from*: dbie.rbi.org.in

The above Table 1 shows the Gross NPA Percentage for a few Indian Banks from the Public and Private sectors. The Highest Mean Ratio is held by PNB at 14.202%, which is followed by Canara Bank at 9.192%. At 1.204%, HDFC has the lowest Mean Ratio. Axis Bank has a mean ratio of 4.302%, ICICI has 6.71% and SBI has 6.705%. This table demonstrates the ratio of Gross Non-Performing Assets to Gross Advances.

Table 2. *Relationship between Net Profit and Net NPA of selected Public Sector Banks*

Net Profit & Net NPAs of selected Public Sector Banks (in Crores)						
Year	**State Bank of India**		**Canara Bank**		**Punjab National Bank**	
	Net Profit (in Cr.)	**Net NPAs (in Cr.)**	**Net Profit (in Cr.)**	**Net NPAs (in Cr.)**	**Net Profit (in Cr.)**	**Net NPAs (in Cr.)**
2015-16	9951	55807.02	2813	20832.91	-3974	35422.57
2016-17	10484	58277.38	1122	21648.98	1325	32702.1
2017-18	-6547	110854.7	4222.24	28542.4	-12283	48684.29
2018-19	862	65894.74	347.02	22955.11	-9975	30037.66
2019-20	14488	51871.3	2236	18250.95	336	27218.9
2020-21	20410	36809.72	2558	24442	2022	38575.7
2021-22	31676	27965.71	5678	18668	3457	34908.73
MEAN	11617.71	58211.51	2710.89	22191.47	-2727.42	35359.13

Source: Secondary data compiled by authors from different sources

The above Table 2 demonstrates that when NPA rises at an accelerating rate, banks' net income will decrease. From 2016 to 2019, SBI's Non-Performing Assets increase from 55,807.02 Cr to 65,894.74 Cr, an increase of 18.08%, then gradually decreased to 27965.71 Cr in 2022. From 2016 to 2018, Canara Bank's NPA increased from 20832.91 Cr to 28542.4, then it has gradually decreased and is standing at 18668 Cr in 2022.

And the NPAs of Punjab National Bank (PNB) are increasing from 35422.57 Cr to 30037.66 Cr, then it slightly declined to 27218.9 Cr in 2020. The average Net Profit of SBI is greater than that of PNB and Canara Bank.

We can also see with the help of below given figures that when NPAs increase, the Net Profits of the banks show a decline.

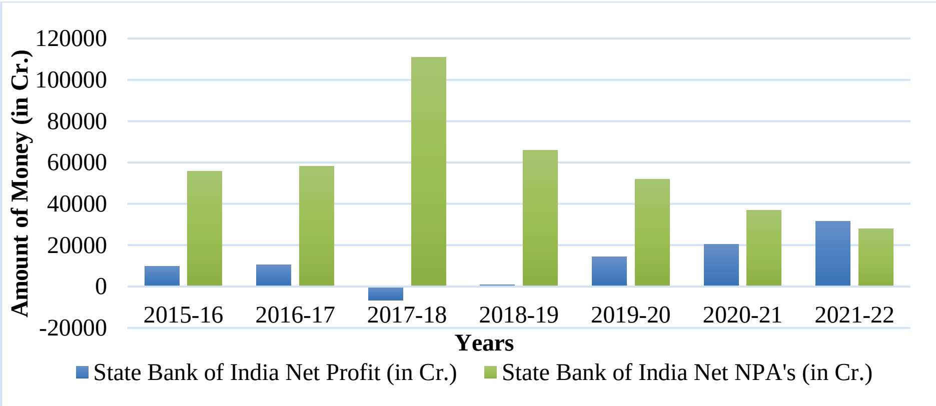

Figure 1. *Relationship between Net Profits and Net NPAs of SBI*

Source: *Compiled by authors*

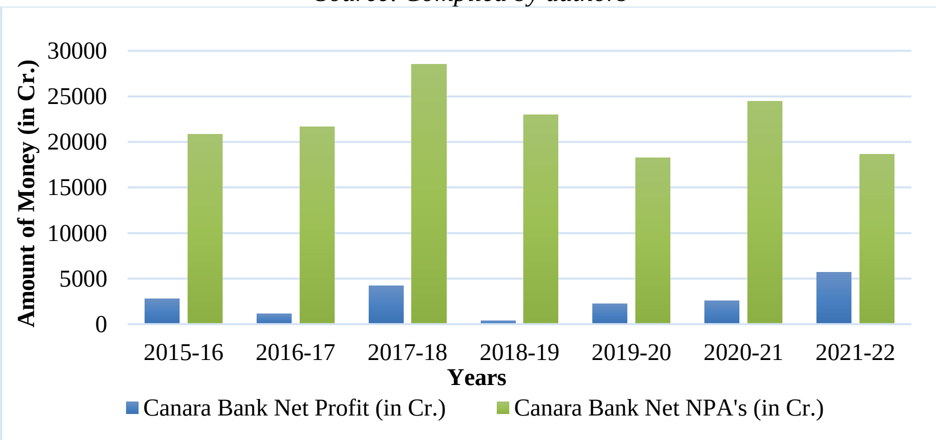

Figure 2. *Relationship between Net Profits and Net NPAs of Canara Bank*

Source: *Compiled by authors*

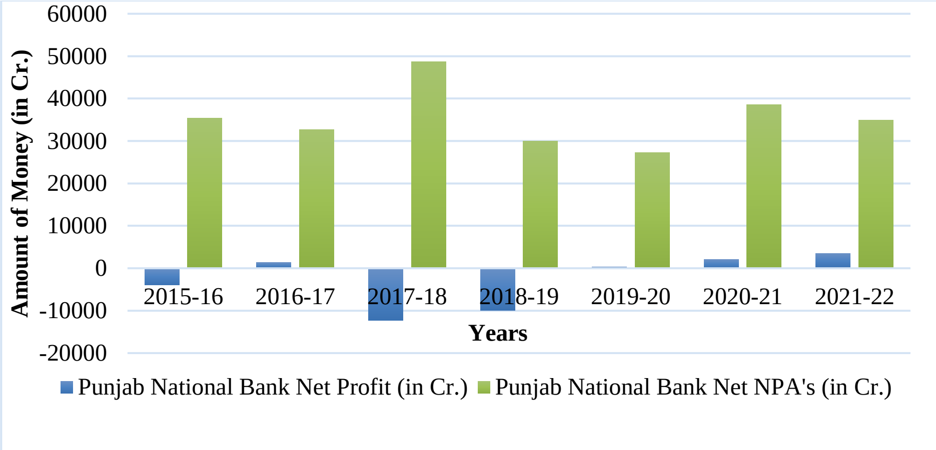

Figure 3. *Relationship between Net Profits and Net NPAs of Punjab National Bank*

Source: *Compiled by authors*

Table 3. *Relationship between Net profit and Net NPA of selected Private Sector Banks*

Net Profit & Net NPAs of selected Private Sector Banks (in Crores)						
Year	**ICICI Bank**		**HDFC Bank**		**Axis Bank**	
	Net Profit (in Cr.)	**Net NPAs (in Cr.)**	**Net Profit (in Cr.)**	**Net NPAs (in Cr.)**	**Net Profit (in Cr.)**	**Net NPAs (in Cr.)**
2015-16	9726.29	6255.53	12296	1320.37	8224	2522.14
2016-17	9801.1	12963.08	14550	1843.99	3679	8226.55
2017-18	6777.42	25216.81	17487	2601.02	275.68	16591.71
2018-19	3363.3	27823.56	21078	3214.52	4677	11275.6
2019-20	7930.81	13449.72	26257.3	3542.36	1627	9360.41
2020-21	16192.6	9923.24	31116.5	4554.82	6589	6993.52
2021-22	23339.49	9117.66	36961.3	4407.68	13025	5512.16
MEAN	11018.72	14964.22	22820.87	3069.25	5442.38	8640.29

Source: Secondary data collected by authors from different sources

Table 3 shows the Net profit (in crores) and Net Non-Performing Assets (in crores) of three private banks; ICICI, HDFC & Axis Bank. Based on the statistics from Axis Bank, the Net NPAs have changed over the past 7 years. At first, it went up at 16591.71 Cr, and then it went down. But Net Non-Performing Assets (NPA) of HDFC bank have grown at a rising rate up to 2021, then it has started to gradually decline. And the Net NPAs of ICICI Bank have been rising up to 27823.56 Cr, then it has started to decline.

The bank with the highest average Net Profit is HDFC Bank, with 22820.87 Cr. And the bank with the highest average Net NPAs is ICICI Bank, with 14964.22 Cr.

We can see from this table that when the Net Non-Performing Assets (NPAs) increases, the Net Profit of banks comes down. As in ICICI bank, when Net NPAs are at highest (27823.56 Cr.), the Net Profit is at its lowest value (3363.3 Cr.) in these 7 years. And as, the NPAs starts decreasing the Profit of the banks' increases.

Now, let us visualize the relationship between the Net Profits and Net NPAs with the help of below given figures.

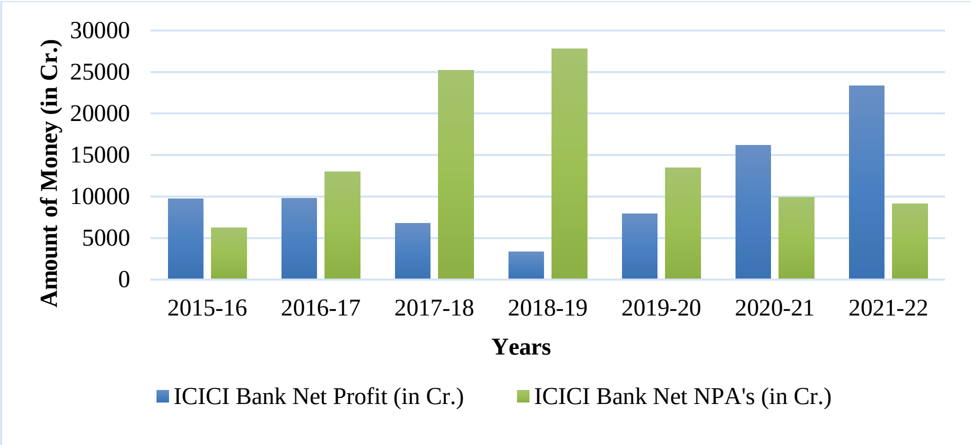

Figure 4. *Relationship between Net Profits and Net NPAs of ICICI Bank*

Source: *Compiled by authors*

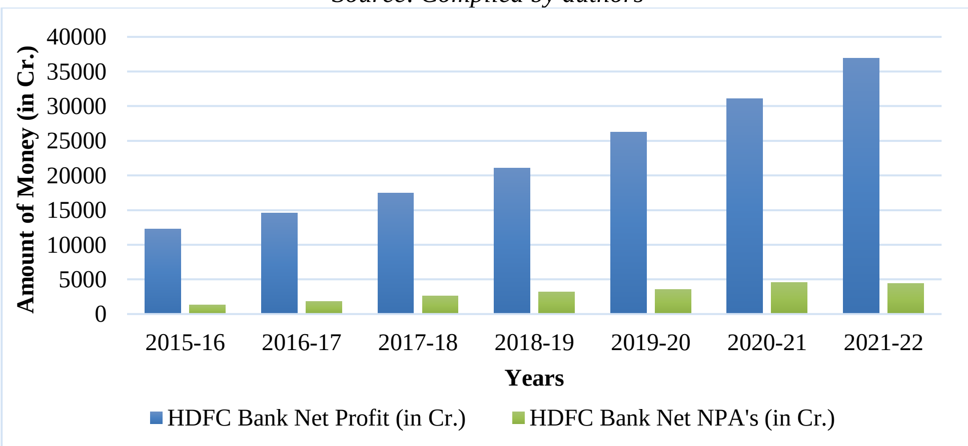

Figure 5. *Relationship between Net Profits and Net NPAs of HDFC Bank*

Source: *Compiled by authors*

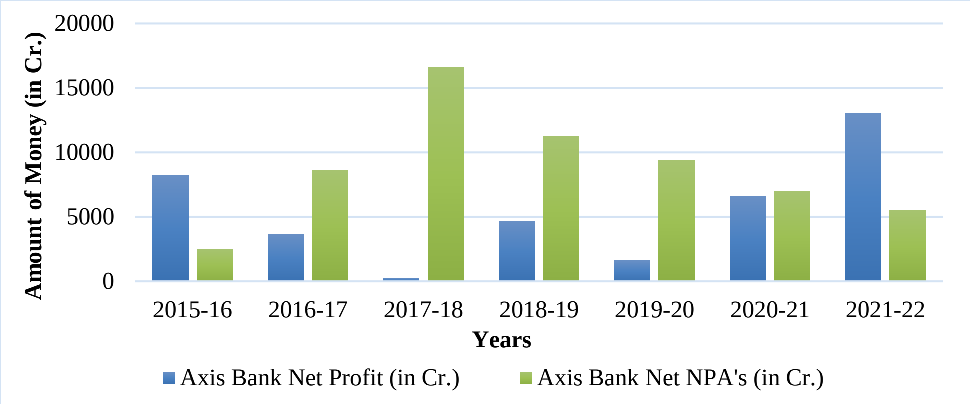

***Figure 6.** Relationship between Net Profits and Net NPAs of Axis Bank*

Source: Compiled by authors

5. FINDINGS

- **Percentage of Gross Non-Performing Assets:-** The Gross Non-Performing Assets (NPAs) percentage is a critical metric used to evaluate the banking industry's overall health. It is an indicator of the total value of loans that are not being repaid by the borrowers. In other words, the Gross NPA percentage measures the proportion of the bank's loans that have not been serviced by the borrower for a particular period.

  In this comparative study of the Indian banking industry, it was found that Public Sector banks, such as Punjab National Bank (PNB), had a higher average Gross NPA percentage of 14.202% compared to Private Sector banks like HDFC Bank, which had a lower average percentage of 1.204%. This means that Public Sector banks were holding a higher proportion of non-performing loans than Private Sector banks, indicating a higher level of risk in their loan portfolio.

  The higher Gross NPA percentage for Public Sector banks may be due to several factors such as inadequate loan appraisal and monitoring, political interference, or economic conditions. On the other hand, Private Sector banks are usually more cautious in lending and have more stringent credit appraisal and monitoring mechanisms, leading to a lower Gross NPA percentage.

- **Net Profit (in Crores):-** The metric of Net Profit is a crucial measure that indicates a bank's profitability. It represents the amount of money left after deducting all the expenses, taxes, and interest payments from the total revenue generated by the bank.

  Among all the banks, HDFC Bank has the highest median Net Profit of 22820.87 Cr. This figure indicates that HDFC Bank has been highly profitable, and the bank has managed to maintain its financial stability and growth in the competitive banking industry.

  On the other hand, Punjab National Bank (PNB) has the lowest median Net Profit, with negative values amounting to -2727.42 Cr. This indicates that

PNB has been facing financial difficulties, and it needs to improve its operations and strategies to become profitable and financially stable.

- **Net Non-Performing Assets Amount (in Cr.):-** When evaluating the financial health of a bank, one important criterion to consider is the amount of Net Non-Performing Assets (NPAs). In this context, a comparison reveals that SBI, a public sector bank, has a significantly higher average NPA value of 58211.51 Cr, while HDFC, a private sector bank, has a comparatively lower average NPA value of 3069.25 Cr. This indicates that HDFC has been more successful in managing and controlling its non-performing assets, which is a positive sign for its financial health and stability. On the other hand, SBI's higher NPA value suggests that it may be facing greater challenges in recovering its loans and managing its credit risks.
- According to the evidence presented, it shows that there were fluctuations in the levels of Gross and Net Non-Performing Assets (NPA) among certain public and private banks. Specifically, banks like ICICI, Axis Bank, and PNB experienced a gradual increase in their Gross and Net NPA levels over a period of time. However, it is noteworthy that these levels subsequently declined between 2016 and 2022. The reasons for such fluctuations could be multifaceted and can include factors such as changes in macroeconomic conditions, shifts in banking policies, and changes in the risk profile of the borrowers.
- **Effects on Business Profitability:-** According to the findings of this study, a steady increase in non-performing assets (NPAs) can have significant implications for the profitability of both public and private sector banks. The study reveals that a higher number of NPAs leads to a drop in the profits made by banks. This drop in profits can have a severe impact on the overall progress of the bank. When a bank experiences a decline in profitability, it may have to curtail its activities and slow down its growth plans to manage its finances effectively. Banks may have to take measures to limit their risks and losses, which can impact their ability to lend to customers or invest in new business opportunities.

  In conclusion, the study's results emphasize the importance of managing non-performing assets and their impact on bank profitability. By doing so, banks can safeguard their financial health and maintain their ability to support the growth of the economy.

6. RECOMMENDATIONS

- **Ensuring Accountability:-** Non-Performing Assets (NPAs) have been a persistent problem faced by the Banks in recent times. In order to tackle this issue, it is crucial to establish accountability within the banking system. While it is common for junior executives to be held responsible for any lapses or oversights, the ultimate decisions that lead to the creation of NPAs are often made by senior-level executives.

  The Credit Sanction Committee, which is responsible for making decisions related to credit and loan approvals, comprises of senior-level executives. The decisions made by this committee have a significant impact on the overall health of the bank's portfolio. Therefore, it is necessary to hold senior executives accountable for the decisions they make and their consequences. Holding senior executives accountable for the creation of NPAs will encourage them to be more cautious in their decision-making process. It will also ensure that they consider all the relevant factors before making any decisions related to credit and loan approvals. This will not only help in reducing the number of NPAs but also improve the overall performance of the banks.

- **Ensuring Effective Corporate Governance:-** Corporate governance refers to the set of processes, principles, and values by which a company is directed and controlled. The government established the Banks Board Bureau in April 2016 to improve the quality of corporate governance in the banking sector by attracting talented professionals to lead the banks. However, despite this effort, the level of corporate governance in the sector has not improved to the desired extent.

  There are still persistent issues that need to be addressed urgently. These issues may include a lack of transparency in decision-making, conflicts of interest, and insufficient oversight. Inadequate checks and balances may lead to financial irregularities, undermining the credibility and stability of the banking sector. To achieve good corporate governance, it is essential to have a robust system of accountability, transparency, and ethical conduct. The regulators need to ensure that the banks have adequate governance structures and processes in place to identify and manage risks. The board members and senior management must have the skills, experience, and integrity to oversee the banks' operations effectively.

- **Enhanced Measures for Non-Performing Asset Retrieval:-** The government needs to amend the laws and give more powers to banks to recover NPAs. The Insolvency and Bankruptcy Code has brought in discipline because of fear of losing the asset. Since debtor control amendments to the Banking Regulation Act, the present scenario allows the RBI to conduct an inspection of a lender but does not give them power to set up an oversight committee. The RBI has asked for nine additional powers under the Banking Regulation Act with regards to PSBs including the ability to remove CMDs and appoint them, the power to supersede the Board of Directors and make application for winding up errant banks, sanction scheme of voluntary amalgamation etc.
- **Managing Credit Risks:-** The management of credit risk is an important aspect of banking. To ensure this, banks should perform a thorough analysis of the project, assess the client's creditworthiness, as well as their skills and experience. During the analysis, sensitivity testing should be done, and protection should be established against external factors. Additionally, an efficient Management Information System (MIS) must be put in place to identify potential problems and send alerts to management in a timely manner, prompting necessary action.
- **Creation of an Asset Reconstruction Company:-** The current economic scenario in India has highlighted the urgent need for the quick resolution of stressed assets of Banks. To achieve this goal, there is a growing consensus that

an Asset Reconstruction Company (ARC) or an Asset Management Company (AMC) needs to be set up. Establishing an ARC or an AMC would help the PSBs to reduce their non-performing assets, which, in turn, would free up capital for lending to other sectors of the economy.

Furthermore, frauds in banks have been on the rise over the last three years, both in terms of frequency and value. Therefore, it is essential to have an effective fraud management system in place. The banks should strengthen their internal controls and adopt technological solutions to prevent and detect fraud.

- **Prompt Notification System:-** The strategy for management of NPAs may be governed by the circumstances connected to each individual case. Generally, the NPA is more likely to be resolved in terms of recovery if the company is in operation. For this to be effective there must be a system of identifying the weakness in accounts at an early stage. Banks may put in place an "Early Alert" system that captures early warning signals in respect of accounts showing first signs of weakness. This system may be an integral part of the risk management process of the bank.
- **Assistance from the Government:-** The government provides relief measures such as state tax waivers and subsidies to ease the financial burden of those who are struggling to meet their obligations. However, the process of obtaining these relief measures can often be quite time-consuming, which can further worsen the overdue position of those who are already struggling to keep up with their payments. By taking these steps, it would be possible to ensure that those who are in dire financial straits receive the support they need in a timely and efficient manner. This, in turn, would help to alleviate the burden of overdue accounts and provide much-needed relief to individuals and businesses that are struggling to keep afloat in the current economic climate.

7. CONCLUSION

The banking industry plays a vital role in our nation's economy, and it is crucial to monitor and preserve the quality of banks' assets to foster their growth. Our study emphasizes the necessity of increased transparency in the system, particularly the public release of a roster of borrowers who have defaulted on loans that banks have written off. To discourage others from following suit, we suggest that stringent measures be taken against those who deliberately default on their loans. Legislation must be enacted to limit non-performing assets (NPAs), and banks should detect early indications of financial distress in their portfolios and classify them as Special Mention Accounts (SMAs) based on the duration of repayment delays. Banks must collaborate in a Common Lenders' Forum to address these concerns as a collective and create a clear plan for cleaning up their balance sheets. Banks can benefit from improved institutional and legal frameworks as well as micro-level caution and monitoring when extending loans with less worry about accruing NPAs. Furthermore, the scope of this study could be broadened to include co-operative and foreign banks' NPAs and to classify NPAs at various levels, such as priority and non-priority sectors, small-scale industries, agriculture, infrastructure, among others.

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