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Examining NPA Status in Indian Scheduled Commercial Banks.

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ABSTRACT

Non-Performing Assets (NPAs) are loans or advances issued by banks or financial institutions that no longer bring in money for the lender since the borrower has failed to make payments on the principal and interest of the loan for at least 90 days. A debt that has been past due and unpaid for a predetermined period is known as a non-performing asset (NPA). As the ratio of NPAs in a bank's loan portfolio rises, its income and profitability fall, its capacity to lend falls, and the possibility of loan defaults and write-offs rises. Indian banking sector is facing one of its major challenges NPAs.

This research paper focuses on the impact of NPAs in the Indian banking sector and describes the different types of NPAs affecting the balance sheet of the Indian banking sector. It also focuses on how the government and the Reserve Bank of India have introduced various policies and methods to manage and reduce the amount of non-performing assets (NPAs) in the banking sector.

Keywords: NPAs, Gross and net NPAs, Code (IBC), SARFAESI, and Government policies.

1. Introduction

Non-performing assets (NPAs) significantly affect a bank's operations and financial health. When a loan or advance is classified as an NPA, it indicates that the borrower has not made interest or principal payments for at least 90 days. This situation has several direct consequences for the bank. First, there's an immediate risk of loss. Since the borrower is not making payments, the bank faces the possibility that the borrowed money might never be repaid. This can force the bank to write off the loan as a loss, which directly affects its profit margins.

In the period from 2004 to 2009, there was a huge growth in the economy, which led to firms taking bank loans very aggressively. Most of the investment was in infrastructure sectors like roads, power, aviation, and steel. Laxity in lending norms by the banks, without analysing the financial health of the companies and their credit ratings. The banning of mining projects delay in environment permit led to a rise in prices of raw materials and a big gap in demand and supply, thereby affecting the power, steel, and iron industries. This affected the capacity of the companies to repay the loans to banks, which resulted in Non-Performing Assets (NPA).

Now, the presence of NPAs on a bank's books relates to additional capital allocation for covering these potential losses. This process, known as provisioning, involves setting aside a certain amount of money to cushion the bank against the financial impact of these non-performing loans. This provisioning reduces the amount of money available for other lending opportunities, limiting the bank's ability to generate income from new loans. It also affects the bank's profitability, as funds that could have been used to earn interest are instead held as a protective measure. Overall, managing NPAs is very important for maintaining a bank's financial health and operational efficiency.

In the banking sector, as we have established already, non-performing assets (NPAs) are loans that have stopped generating income. Now, these are categorised into three main types based on the duration of non-payment and the likelihood of recovery:

- **Substandard Assets:** These are loans where payments are overdue between 90 days and up to 12 months. At this stage, the loans are considered risky because the borrower has started to miss payments, but there is still a possibility that they might resume payment. Banks keep a close watch on these loans to manage the risk effectively.
- **Doubtful Assets:** If a substandard asset continues to be non-performing beyond 12 months, it transitions into a doubtful asset. Here, the chances of recovery begin to go down significantly. The uncertainty of recovering the money increases, and banks may have to consider provisions for potential losses, which can impact their financial statements.
- **Loss Assets:** These are loans where, after thorough evaluation, the bank or an external auditor concludes that recovery is unlikely. The bank has exhausted all practical avenues of recovery, and continuing to consider this asset recoverable becomes unreasonable. Loss assets require banks to write off the debt, acknowledging that the funds lent are unlikely to be recovered.

Impact of Non-Performing Assets on Banking Business Operations

The impact of Non-Performing Assets (NPAs) goes deep into various aspects of a bank's operations, influencing financial health, strategic decisions, and customer relations. Here’s a detailed look at how NPAs affect a bank's operations:

- **Financial Strain:** NPAs increase credit risk, compelling banks to set aside higher provisions for potential losses. This precaution reduces available funds for other profitable lending opportunities, diminishing the overall profitability and restricting financial flexibility.
- **Operational Adjustments:** High levels of NPAs often lead banks to tighten their lending criteria. This response might slow down the bank’s growth by reducing the number of new loans issued and impacting its ability to expand its customer base. Additionally, stricter credit policies may reduce customer satisfaction and service quality.
- **Reputation:** Persistent issues with NPAs can ruin a bank’s reputation. A damaged reputation can deter potential clients and investors, making it challenging to attract new business and maintain stability in the market. Rising NPAs undermine the bank’s image, making the public lose trust in banks. Depositors may withdraw their deposits, causing liquidity issues for banks.
- **Liquidity:** The lack of liquidity prevents banks from lending for other productive activities in the economy. The curb in investments may slow down the economy, leading to unemployment, inflation, bear market, etc.

2. Review of literature

RBI studies and Financial Stability Reports have consistently monitored the movement of gross and net NPAs in scheduled commercial banks. The post-2015 period witnessed a significant recognition of stressed assets, followed by improvement in asset quality after measures such as the Asset Quality Review, Insolvency and Bankruptcy Code (IBC), recapitalisation and strengthened recovery mechanisms.

Reserve Bank of India (2023–2025) reports indicate a substantial improvement in the asset quality of scheduled commercial banks compared with the peak stress period. The decline in GNPA and NNPA ratios has been accompanied by improvements in profitability and capital adequacy. However, the distribution of stressed assets across bank groups and sectors remains an important area for continued research.

Recent literature on NPA management increasingly focuses on the role of digital lending, artificial intelligence, early-warning systems, credit-risk analytics and data-driven monitoring. These studies suggest that technological tools can help banks identify potential defaults at an earlier stage, although issues relating to data quality, model risk and responsible lending remain relevant.

3. Objectives of the study

This research will help to understand the different emerging trends in gross and net NPAs of scheduled commercial banks in India, and their effect on the banking sector in India. The following are the important objectives of the study

- To examine the trend of gross and net non-performing assets (NPAs) of Scheduled Commercial Banks in India.
- To analyse the trend changes in net non-performing assets (NNPA) of scheduled commercial banks during the study period.
- To measure the extent of reduction in GNPA and identify overall directions of NPA trends during the study period.
- To analyse the measures taken by the Government of India to control the gross and net NPAs in the Indian banking sector.
- To offer suggestions based on research findings**.**

4. Research methodology

The research study is based on secondary data collected from journals, annual reports of banks, newspapers, and magazines. The relevant data is collected from the bank journals from 2021-22 to 2023-24. Average and pie charts were used for analysis and interpretation.

Gross NPA: The Gross NPA Ratio measures the total amount of non-performing assets compared to the total loans issued by the bank. This ratio is one of the most important indicators of the financial health of a bank, influencing investor and market confidence. A higher ratio suggests more significant issues with asset quality and potential financial instability

TABLE 1.1 GROSS NPAS OF SCHEDULED COMMERCIAL BANKS FROM 20219-2020 TO 2024-2025 (Amount in crores)

Year	PSBS	PVBS	FBS	SFBS
2020-2021	616616	200141	15044	5971
2021-2022	542174	180782	13786	6911
2022-2023	428197	152214	9526	8608
2023-2024	339541	129164	6523	5590
2024-2025	428197	132674	5321	9989

Source: RBI trends reports

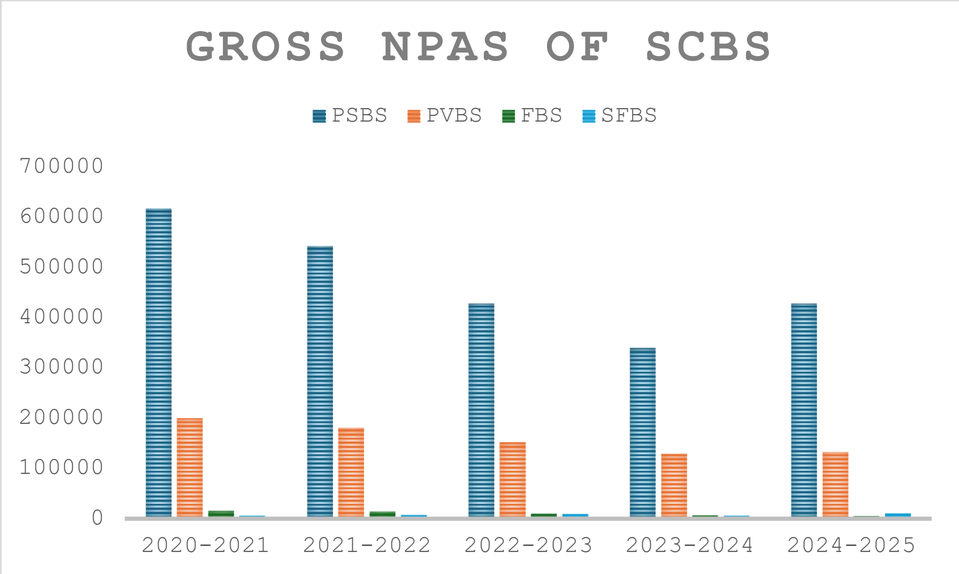

Table 1.1 describes a decrease in the trend of gross NPAs of SCBs because the Reserve Bank of India (RBI) initiated the Asset Quality Review (AQR) in 2015, after which the Government initiated the 4Rs strategy of recognising NPAs transparently, resolving and recovering value from stressed accounts through clean and effective laws and processes, recapitalising PSBs, and reforms in banks and the financial ecosystem to address the problem of rising NPAs and growing loan defaults. Enabled by these initiatives, a large drop in gross NPAs was achieved by PSBs. The 4Rs Strategy: The Government and the Reserve Bank of India (RBI) effectively implemented the 4Rs strategy: Recognising NPAs transparently, Resolving and recovering value, Recapitalising Public Sector Banks (PSBs), and reforming the overall financial ecosystem.

Net NPAs: Net non-performing assets, or net NPA, is a term that most commercial banks use to indicate the net amount of uncertain or poor debts. In simple words, commercial banks set aside an amount to cover their debts. If one deducts provisions for unpaid loans, the overall sum will relate to net non-performing assets. Net NPAs impact greatly on liquidity and profitability of an establishment. Here, low liquidity indicates that the company is unable to perform the tasks due to low cash. So, this means that the company cannot afford to operate its regular activities. Net NPAs may impact profitability as well as the liquidity of a company when compared to gross NPAs.

TABLE 1.2 NET NPAS OF SCHEDULED COMMERCIAL BANKS
FROM 20219-2020 TO 2024-2025 (Amount in crores)

Year	PSBS	PVBS	FBS	SFBS
2020-2021	196451	55809	2987	765
2021-2022	154745	43733	3023	2725
2022-2023	102532	29510	1656	1622
2023-2024	72544	315494	799	1796
2024-2025	55634	35096	776	3910

Source: RBI trends reports

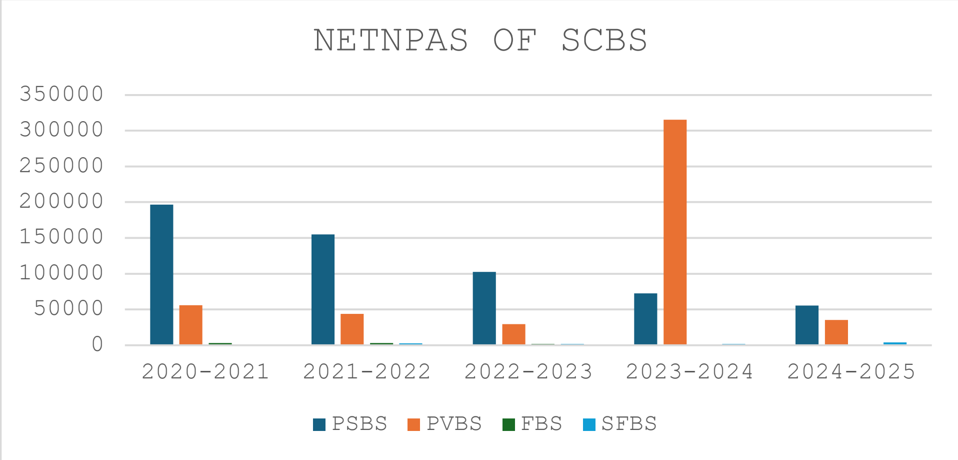

Table and Graph 1.2 describe a decrease in the trend of net NPAs during the five years because **of** aggressive provisioning and write-offs. Banks rapidly increased their Provisioning Coverage Ratio (PCR). High profitability across SCBs allowed them to aggressively provision against bad loans and execute technical write-offs, which directly reduced the Net NPA figures on their balance sheets. Post-pandemic economic expansion and enhanced deleveraging by corporate India fundamentally improved the repayment capacity of large borrowers. This prevented the generation of new toxic assets, lowering the overall slippage ratio.

The Insolvency and Bankruptcy Board of India framework served as the single most effective structural tool to rapidly resolve large corporate defaults and maximise asset recovery. Public Sector Banks (PSBs) instituted specialised internal verticals and dedicated branches exclusively dedicated to monitoring, catching early distress, and driving targeted recoveries. The Government amended the SARFAESI Act and the Recovery of Debts and Bankruptcy Act, alongside widening the administrative and geographical jurisdiction of Debt Recovery Tribunals (DRTs) to accelerate cases

Major findings of the study:

The GNPA ratio of SCBs showed a **consistent declining trend during 2021–2025**. This indicates a substantial improvement in the quality of bank assets and a reduction in the proportion of gross advances classified as non-performing.

The NNPA ratio also declined considerably during the study period. Since NNPA takes provisions already made by banks into account, its reduction indicates that banks strengthened their provisioning and recovery position along with the improvement in asset quality The decline in both GNPA and NNPA was **progressive rather than a single-year phenomenon**. This suggests that the improvement in asset quality was sustained over the period.

The difference between gross and net NPA indicates the extent to which banks have made provisions against bad loans. The relatively low NNPA compared with GNPA demonstrates the significant provisioning coverage maintained by SCBs.

The declining NPA trend coincided with stronger recovery and resolution mechanisms, including the **Insolvency and Bankruptcy Code (IBC), SARFAESI, Debt Recovery Tribunals and improved internal recovery mechanisms**. These developments provide important institutional context, although the trend data alone cannot establish that any particular mechanism caused the reduction.

The reduction in both GNPA and NNPA was accompanied by improvements in other banking indicators, including profitability and capital position. Thus, the period 2021–2025 represents a significant phase of improvement in the asset quality of SCBs.
The fall in GNPA reflects improvement before considering provisions, while the very low NNPA indicates that provisions have substantially absorbed the remaining stressed assets.

5. Conclusion

The analysis of Gross Non-Performing Assets (GNPA) and Net Non-Performing Assets (NNPA) of Scheduled Commercial Banks during 2021–2025 reveals a sustained and significant improvement in asset quality. Both GNPA and NNPA ratios declined progressively during the study period, with NNPA reaching a particularly low level. The findings indicate improved credit quality, enhanced provisioning and recovery, and strengthening of the overall financial position of SCBs. However, the declining aggregate NPA ratio should not be interpreted as complete elimination of credit risk, as sector-wise and bank-group-wise differences may continue to exist.

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