A STUDY ON THE NON-PERFORMING ASSETS IN INDIAN BANKING SECTOR

PROJECT SUBMITTED

TO

ST. TERESA'S COLLEGE (Autonomous), ERNAKULAM

Affiliated to

MAHATMA GANDHI UNIVERSITY

IN PARTIAL FULFILLMENT OF THE REQUIREMENT

FOR THE AWARD OF THE DEGREE OF

BACHELOR OF ART IN ECONOMICS

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MARCH 2024

CERTIFICATE

This is to certify that the project titled "A STUDY ON NON-PERFORMING ASSETS IN INDIAN BANKING SECTOR" submitted in partial fulfilment of the requirement for B.A. Degree in Economics to St. Teresa's College (Autonomous), Ernakulam (Affiliated to Mahatma Gandhi University, Kottayam) is a bona fide record of the work done by the project group under my supervision and guidance.

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DECLARATION

We hereby declare that the project titled "A STUDY ON THE NON-PERFORMING ASSETS IN INDIAN BANKING SECTOR" submitted by us for the B.A. Degree in Economics is our original work.

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ACKNOWLEDGEMENT

First and foremost, we thank God almighty for blessing us and giving strength to carry out the research and complete the project.

We extend our heartfelt gratitude to our guide, Dr. Thushara George, Assistant Professor, Department of Economics, St. Teresa's College Ernakulam (Autonomous) without whose support and encouragement this project would never have been completed.

We also extend our sincere gratitude to the members of the faculty of the Department of Economics for their encouragement and support.

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CHAPTER I
INTRODUCTION

1. Introduction

Banking institutions play an important role in the economic development of a country. Banks are growth-drivers, and the banking business is exposed to various risks, such as credit risk, liquidity risk, interest risk, market risk, operational risk and management risk. Apart from these risks the most important risk is loan recovery. The financial position of a bank depends upon the recovery of loans or its level of Non-Performing Assets (NPAs). NPAs or Non-Performing Assets, refer to loans or advances where no payment is received for more than 90 days. Non-Performing Assets are one of the major concerns for banks in India. NPAs reveal the performance of banks. Liquidity and profitability of banks are affected by high levels of NPAs which additionally affect the quality and survival of banks. A serious problem has been faced by the banking sector of India due to the high and large NPAs. The profitability of any bank is directly impacted by NPAs. It involves the necessity of provisions, which reduces the overall profits and share value. To improve the efficiency and profitability of banks, the NPA needs to be reduced and controlled. This study aims to delve into the intricate dynamics of NPAs by meticulously examining their trends and patterns, offering a comprehensive analysis to understand the underlying factors.

Non-Performing Assets (NPAs) are an important and challenging issue in the banking sector nowadays. It is quite uncontrollable, which badly affects the banking sector and the economy of the nations. Non-Performing Assets are also commonly known as Non-Performing Loans (NPLs). Non-Performing Assets are like a blunt weapon in the banking sector. It does not generate any income, whereas the bank is required to make provisions for such assets. The problem of NPA is not limited to only any nation's banks; but it prevails in the entire banking industry in the world. There are many researchers who have focused on the issues regarding NPAs. Non-Performing assets have a direct impact on the financial performance of banks, i.e, their profitability. It denotes the efficiency with which a bank is optimizing its total resources and, therefore, serves as an index to the degree of asset utilization and managerial effectiveness. NPAs affect the profitability of the banks in terms of rising costs of capital, increasing risk perception, thereby affecting the liquidity position of banks.

The first objective of this study is to scrutinize the trend and pattern of NPAs in the Indian banking sector. In the Indian banking sector, trends and patterns in non-performing assets (NPAs) have shown a significant increase in recent years, particularly in sectors like infrastructure, power, and steel. Economic cycles play a crucial role in the fluctuation of NPAs, with regulatory interventions such as the Insolvency and Bankruptcy Code (IBC) impacting the resolution of stressed assets. Sector-specific distribution and the necessity for higher provisions have also emerged as key considerations for banks aiming to manage their loan portfolios effectively and improve their overall financial health. Understanding and addressing these trends are essential for stakeholders to navigate the challenges posed by NPAs in the Indian banking industry.

The second objective, credit risk management, plays a pivotal role in preventing non-performing assets (NPAs) in the banking sector by proactively assessing, monitoring, and mitigating risks associated with lending. Effective credit risk management involves robust underwriting processes, comprehensive credit analysis, and continuous monitoring of borrower creditworthiness. By conducting thorough due diligence before approving loans, banks can identify potential red flags and avoid extending credit to risky borrowers. Implementing risk-based pricing strategies, setting appropriate credit limits, and establishing early warning systems help in detecting deteriorating credit quality early on, allowing banks to take timely corrective actions. Moreover, regular portfolio reviews, stress testing, and scenario analysis enable banks to anticipate potential credit risks and adjust their risk management strategies accordingly. Overall, a sound credit risk management framework is essential for banks to maintain a healthy loan portfolio and prevent the accumulation of NPAs.

The third objective explores the impact of external shocks on NPAs, recognizing the vulnerability of the banking sector to economic fluctuations and external disruptions. By analysing instances of external shocks and their subsequent effects on NPAs, we strive to elucidate the interplay between broader economic conditions and the stability of banking assets. External shocks, like economic downturns or policy changes, can increase the number of NPAs in the banking sector. This happens when borrowers face difficulties in repaying their loans due to financial stress caused by the shock. Banks then have to deal with higher levels of bad loans, affecting their profitability and overall stability. It's important for banks to have robust risk management systems in place to mitigate the impact of external shocks on NPAs. Based on the data from 2021, external shocks like the COVID-19 pandemic had a significant impact on NPAs. The pandemic caused economic disruptions, leading to job losses, business closures, and financial difficulties for individuals and companies. This resulted in a higher number of loan defaults and an increase in NPAs for banks. The banking sector had to implement measures such as loan restructuring and provisioning to manage the rise in NPAs. It's crucial for banks to closely monitor the economic environment and adapt their risk management strategies to mitigate the impact of external shocks on NPAs. In 2021, several sectors were significantly affected by the rise in NPAs. Industries such as hospitality, tourism, aviation, and retail faced major challenges due to the COVID-19 pandemic. These sectors experienced a decline in revenue and cash flow, making it difficult for businesses to repay their loans. Additionally, sectors like real estate and infrastructure also witnessed a rise in NPAs as projects faced delays and demand decreased. It's important for banks to closely monitor these sectors and implement appropriate risk management strategies to address the impact on NPAs.

In navigating these objectives, this study aspires to contribute valuable insights to both the academic and practical realms. By understanding the trends, assessing risk management practices, and unraveling the impact of external shocks, stakeholders in the banking sector can gain a more robust understanding of the NPAs landscape. This knowledge is not only instrumental in informed decision-making but also aids in formulating policies and strategies to fortify the resilience of the Indian banking sector against the challenges posed by non-performing assets.

1.2 Review of Literature

Dr. Urmila Bharti, Dr. Surender Singh, and Dr. Rakesh Kumar (2022), delve into the phenomenon of non-performing assets (NPAs) within commercial banks, emphasizing their detrimental effect on financial stability. The increasing trend of NPAs necessitates urgent measures to rectify the situation. Proposals suggest that managing a select number of large cooperatives could mitigate the impact, particularly in the midst of global financial crises. NPAs pose a significant threat not only to banking institutions but also to overall economic growth. Identified root causes include factors such as the global financial meltdown, financial misconduct, natural calamities, deliberate defaults, and economic fluctuations. The severity and continued increasing trend of NPAs necessitate rigorous vigilance from banks in identifying and addressing such cases. Effective and innovative strategies and policies led by governmental and regulatory bodies are essential to combat this issue.

Lokesh Y. R. and Moiz Abdul (2023), in their article, focus on the impact of COVID-19 and the rise of NPA's. The COVID pandemic had a negative impact not only on economic development and social wellbeing but also on the banking sector. In the context of India being a low-paced, developing country with an immense population, the effect of COVID-19 was more threatening than anything else. Although the negative shock of the pandemic hit almost all sectors, the small, micro, and medium-scale industries felt the most severe blow. The production of goods in these firms was not possible even after the lockdown was lifted. Banks have requested the support of the RBI in tending to these sectors. The surge in NPAs in these sectors was a major reason for the rise in NPAs nationwide. NPA increased drastically during the pandemic, which was a pure loss for the banking sector.

Ganesh Sai N. V. and Dr. . S. V. Kumar Pradeep (2023) in their article focus on the effect of NPA on bank profitability. They asserted the pivotal role of the banking sector in the growth and development of a nation by providing credit for investment and production.There are several reasons for the occurrence of non-performing assets, like high prices, economic slowdowns, input shortages, etc. NPAs pose a significant threat to the development of the country, and the central bank is forced to take strict preventive measures to eradicate NPAs from the economy. However, despite strong efforts, NPAs continue to rise, and they are reducing the profit margin of the banks. They still pose threats to the development and growth of the country.

J. K. Das and Surojit D. E. Y. (2018), in their article, focus on the factors contributing to non-performing assets in India. The non-performing assets in India come from various factors. They have identified 10 general factors contributing to NPAs. They are economic downturns, poor credit appraisal, weak risk management practices, insider lending, sectoral vulnerabilities, regulatory changes and delays, inadequate recovery mechanisms, corporate governance issues, external shocks, and overleveraging. The influence of most of these factors can be diminished with a good credit and operations management system, strict monitoring for risks, and good leadership and management teams in both governments and corporations. Although the impact of external shocks, economic downturns, and other exogenous factors cannot be ignored, their impact can be mitigated with good management and leadership skills.

Dr. Raj Kumar Mital and Ms. Deeksha Suneja (2017), in their article, focus on the problem of rising NPAs in the banking sector in India. The issue of rising non-performing assets in the banking sector in India has been a significant concern. Posing threats to financial stability, economic growth, and investor confidence. The problem of NPAs is linked to the lending procedures of banks. A bank gives out money and earns income over a promised time period given by the borrower to repay. When it is not repaid, the bank loses both its income and its capital. High levels of NPAs weaken the financial health of banks, affecting their profitability, capital adequacy, and ability to lend. It will also destroy the confidence of investors in the banking sector and the overall economy.

Singh (2013) asserted that effective credit risk management must be a critical component of a bank's overall risk management methodology and that it is fundamental to the long-term prosperity of any banking institution. It turns out to be increasingly critical, with a specific end goal of guaranteeing supportable benefits in banks.

Mitrica, Moga, and Stanculescu (2010) displayed a risk analysis for the Romanian banking system. The investigation was carried out with the purpose of prudential guidelines and, furthermore, from the perspective of the Romanian banking system’s introduction to remote assets. The investigation presumed that outside assets were an important source of risk for the banking system in Romania.

Basel (1999), in his investigation of the credit risk management system, supported the banks in setting up a rational procedure for establishing new credit in addition to the extension of existing credit. Moreover, these procedures are followed after checking with intensive care, and other proper advances are taken into consideration to control or relieve the risk of connected lending.

Atakelt and Veni (2015) opined that assessing the determinants of credit risk is the foundation for the feasibility of risk management systems and practices.Without a reasonable picture of the credit risk drivers, credit risk management techniques, strategies, and procedures—such as optimal portfolio diversifications, the development of a comprehensive credit restrict system, and advance evaluation—are compared to driving an automobile without a break and knowing where you're going. As a result, business banks' success and continued existence heavily depend on an effective credit risk management system and procedure.

Greuning and Bratanovic, (2009) emphasised credit risk as a critical risk zone in the banking business. It leads to non-performing assets, lowers net income, depletes capital, and, in extreme circumstances, can precipitate an early bank failure if it is not properly overseen and managed. Credit risk management, accordingly, must be an essential banking process to work on, including distinguishing proof, estimation, accumulation, control, and nonstop checking of credit risk. The advantages of implementing better risk management led to better bank performance. Better bank performance expands their reputation and impression from a public or market perspective. The banks additionally get more chances to build beneficial resources, prompting higher bank productivity, liquidity, and solvency for better functioning. (Eduardus et al., 2007).

Kolapo, Ayeni, and Oke, (2012) affirmed the fact that among different risks experienced by banks, credit risk plays an essential role in banks' financial performance since a substantial amount of banks' income is collected from advances through which interest margins are inferred.

Bagchi (2003) analysed and studied credit risk management in banks. He analysed risk identification, risk estimation, risk checking, risk control, and risk review as essential aspects to be contemplated for credit risk management for the better performance and functioning of banks.

Muninarayanappa and Nirmala (2004) designed the idea of credit risk management in banks. They featured the goals and elements that determine the bank's strategies for credit risk management. The difficulties identified with internal and external factors in credit risk management are also highlighted. They concluded that the achievement of credit risk management requires the maintenance of a proper credit risk environment, credit procedures, and strategies. In this way, a definitive point is required to secure and enhance the loan quality.

Kumar and Koteshwar (2006) in their study, examined the Broadway sector of banks, which is the private sector banks. Based on pertinent data, they discovered some interesting perspectives regarding the credit risk management practices of business banks in India, namely: More popular credit assessment techniques, such as Altman's Z score demonstrate, J.P. Morgan credit framework, and Zeta examination, failed to identify the role of the commercial banks' credit evaluation toolbox. Workers receive insufficient training to improve their theoretical understanding of credit risk and their ability to manage it. Business banks in India, particularly public sector banks, are not effectively controlling the use of data innovation for efficient credit risk management. Wide-ranging information accessibility for credit evaluation is still far from being honed in Indian commercial banks.

Naveenan, Sriyank and Sarah (2019) states that a high level of NPA is a poor indicator of bank performance. Non-performing assets reflect the overall performance of the banking institutions. To keep in check the NPAs and prevent deceleration in the credibility of the institutions, careful steps like selection of right borrowers, viable economic activity, correct usage of funds, and strategies to control and recover the loans in time are essential. The Non-Performing Assets should be controlled for the smooth functioning of the financial system.

Laila Memdani, Shilpam Dubey and Suresh K.G, (2017) attempted to study the determinants of Non-performing Assets in the Public Sector Banks in the Indian Banking sector. The increasing trend of Non-performing Assets in the public sector banks are eroding their profitability. Results from the application of the Haysman Taylor model illustrated that the bank specific variables are not significant but macroeconomic variables are significant. Therefore, they suggested that the government can concentrate on macroeconomic fundamentals to control NPAs. They also advocated for increasing private sector participation or private equity and control over the management of these banks to improve their efficiency.

Sirus Sharifi, Arunima Haldar, and S.V.D. Nageswara Rao (2019) in their article, attempted to investigate the relationship between the components of credit risk and the effectiveness of credit risk management as well as the increase in non-performing assets. The study suggests that identification of credit risk can significantly affect the credit risk performance. The rising pattern of NPAs will have adverse consequences for credit flow in the economy in the absence of appropriate intervention by government and central bank in the form of changes in institutional and regulatory framework. The constraints in the banking and financial services sector will lead to lower industrial and aggregate economic growth. The credit risk performance of private banks is significantly higher than that of government banks owing to the higher degree of operational freedom enjoyed by private banks, and their objective of achieving superior performance. The government banks suffer due to interference from different agencies of government.

1.3 Research Problem

Non-performing assets are assets that fail to generate returns. They are an important indicator of the credibility and the overall performance of a banking institution. Due to the influence of a myriad of factors, the non-performing assets in the country are showing an upward trend. NPAs pose a significant threat not only to the profitability of banking institutions but also to the economic prosperity of the country. The control and rectification of the surge in NPAs is imperative for the growth and smooth functioning of a financial system. Our project aspires to examine the factors contributing to this surge, the measures to counter them, and the impact of external shocks on them and ultimately on the growth and development of the country..

1.4 Objectives

- To examine the trend and pattern of Non-Performing Assets in the Indian banking sector.
- To analyse the role of credit risk management in prevention of Non-Performing Assets.
- To examine the impact of external shock on Non-Performing Assets.

1.5 Methodology

The study was focused on analyzing the trends and patterns of non-performing assets in the Indian banking sector, the role of credit risk management in the prevention of NPAs, and the impact of external shocks on NPAs. The study was carried out by collecting secondary data, which was accumulated from online articles, projects, books, etc. Bar diagrams and graphs are used to interpret the data and forecast conclusions.

1.6 Limitations

1. Lack of secondary data from the sources.
2. Insufficient accurate data.
3. The study does not cover the whole aspects of NPA's.
4. Analysis is only based on quantitative indicators.
5. Unavailability of data.

1.7 Scheme of Study

Chapter 1 of our study consists of a brief introduction to our topic, review of literature, research problem, objectives of the study, methodology and the limitations of our study.

CHAPTER II

AN OVERVIEW OF BANKING SYSTEM IN RELATION TO NPA

2.1 Banking System

The banking sector plays a critical role in the economic development of the country. The country has undergone significant technological changes in recent years. Many financial services and products have come into the market. The Indian banking system has different types of banks, such as commercial, small finance and cooperative banks. These banks operate and abide by the guidelines that are set as per the Banking Regulation Act 1949.

2.2 Different Phases Of The Indian Banking System

2.2.1 Phase 1 (1786 -1969)

This phase has lasted for over 200 years, and this was before independence. In this period, there were around 600 banks, and major developments have taken place in the banking world during this era. The first bank to be started in India was the Bank of Hindustan. However, it was closed in 1932.

Presidency bank

Three presidential banks were started by the East India Company. The names of those banks include the Bank of Madras, the Bank of Calcutta, and the Bank of Bombay. All these banks were merged and renamed as the Imperial Bank of India. However, soon the bank name was changed to the State Bank of India. This all happened in 1955. After this period, more banks have come into the Indian banking world, such as Punjab National Bank and Allahabad Bank. The banking sector saw a drop in its operation from 1913 to 1948. There have been a lot of failures that the banking world has experienced. Not many people were confident about the banking sector of India, resulting in slow mobilization of funds. There were a total of 1100 banks in this period.

2.2,2 Phase 2 (1969 – 1991)

After India gained independence, not many Indians were confident about the private banks. They preferred to take money from the money lenders in their places if they needed financial help. To overcome this issue, the Indian government has started over 14 commercial banks. These were nationalized in 1969. The key objective of the move is to not let the families in the country control power and wealth. Some of the reasons for nationalization include:

- Support the agricultural sector.
- Mobilize savings
- Expand the Indian banking network by increasing the number of bank branches.
- Give a lot of scope to the private banks.

A few of the banks that were nationalized in 1961 are:

- Central Bank of India
- Union Bank of India
- Bank of India
- Allahabad Bank
- United Bank
- Canara Bank
- Indian Overseas bank

Some of the banks that were nationalized in 1960 are:

- Corporation bank
- Vijaya bank
- Andhra bank
- Oriental bank of commerce
- New Bank of India

Some of the financial institutions that were established by the government with some objectives are:

- National Housing Board – It was established to fund housing projects.
- NABARD – To support agricultural-related activities.
- SIDBI – To offer financial aid for people who want to start or expand their small-scale industries.

2.2.3 Phase 3 (1991- Present)

The banking system has evolved. The Indian government is encouraged to receive foreign investments and accept private and foreign investors. During this period, online banking has become a revolution. There are a lot of online banking services offered to customers to allow them to bank in the comfort of their place.

Many foreign banks operating in India include:

- Bank of America
- Citibank
- HSBC
- DBS Bank

The government has also approved many private banks such as Axis Bank, ICICI Bank and IndusInd Bank.

Many reforms that happened in the banking sector:

- Small finance banks have got the approval to open many new branches across India.
- The government and RBI started to consider private and public banks almost the same.
- Banks are performing transactions and many other banking operations.
- Well-established payment banks have come into force.

Functions happening in the banking system:

- Will accept money deposits & withdraw the money any time you want.

- Offer loans of different types based on the requirements and interest rates.
- Offer debit and credit cards, fund remittance.
- Allow you to make bill payments & Internet banking.

2.3 Nationalization of Banks

A nationalized bank is a bank that is owned by the central government of a country. In India, nationalized banks are also referred to as public sector banks or scheduled public sector banks1. These banks play a crucial role in the country's financial system and economy.

Benefits of nationalization

- Increase banking industry in India efficiency.
- Improve small-scale industries.
- Give a massive boost to agriculture.
- Increase the number of deposits made by the public.
- Give a better outreach.
- Increase employment opportunities.
- Reasons For Nationalization of Banks

The government has decided to nationalize banks due to the following reasons:

- Improve priority sectors – The banks were collapsing at a brisk pace. A total of 361 banks were closed between 1947 to 1955. Many customers have lost deposits and were not able to recover those deposits.
- Neglected the agricultural sector – Many banks have been showing interest towards large industries and businesses and have ignored the rural sector.
- Expand the number of branches of the bank – Due to nationalization, the banks can start new branches to expand the banking services to people in different nooks and crannies of the country.
- Mobilization of savings – When the banks are nationalised, people will get access to banks allowing them to save money in banks. This will inject additional revenue that can eventually increase the economy of the country.

2.4 Types Of Banks In India

The Indian banking sector is composed of several types of banks, each with different ownership structures and operational characteristics. The types of banks in the Indian banking sector include:

- Central banks: The Reserve Bank of India (RBI) is the central bank of India and is responsible for regulating the banking sector, managing monetary policy, and maintaining financial stability. It is also responsible for printing currency notes, managing foreign exchange reserves, and providing banking services to the government.

- Commercial banks: Commercial banks are the most common type of banks in India and offer a wide range of financial services to individuals, businesses, and other organizations. They include public sector banks, private sector banks, and foreign banks.

- Public sector banks: These are banks in which the government has a majority stake, and they are also referred to as nationalized banks. They were established with the objective of promoting financial inclusion and providing banking services to all sections of society.

- Private sector banks: These are banks owned by private individuals or corporations. They are divided into two categories: old private sector banks, which were established before liberalization, and new private sector banks, which were established after liberalization.

- Foreign banks: These are banks that are headquartered outside India but have a presence in India. They are regulated by the Reserve Bank of India and must comply with Indian banking laws and regulations.

- Cooperative banks: These are banks that are owned and operated by members of a cooperative society, usually with a common interest or purpose. They are further divided into two types: urban cooperative banks and rural cooperative banks.

- Regional Rural Banks: RRBs were established with the objective of providing banking services to the rural areas of India. They are jointly owned by the central government, state government, and sponsor banks (i.e., public sector banks).

- Specialized/Development banks: There are various types of specialized banks in India that cater to specific sectors or industries. For example, the National Bank for Agriculture and Rural Development (NABARD) provides financial services to the agricultural sector, while the Small Industries Development Bank of India (SIDBI) provides financial services to small and medium-sized enterprises (SMEs).

- Payment banks: Payment banks are a new category of banks in India that were introduced with the objective of increasing financial inclusion and providing basic banking services to underserved segments of the population. They can accept deposits up to Rs. 2 lakh and offer services such as remittance, mobile payments, and ATM/debit cards.

2.5 Services Provided By The Indian Banking Sector

The Indian banking sector offers a wide range of services to its customers, from individuals to large and small businesses. Following are some of the main services offered by the banking system of India:

- Deposits: Banks offer various types of deposit accounts, such as savings accounts, current accounts, fixed deposit accounts, recurring deposit accounts, and tax-saving deposit accounts. These accounts provide a safe place to deposit money and earn interest on the amount.
- Loans: Banks provide various types of loans, such as home loans, car loans, personal loans, education loans, and business loans. These loans help individuals and businesses meet their financial needs and goals.
- Credit cards: Bank-issued credit cards allow individuals to make purchases on credit and pay back the amount over time or on an agreed upon date. Credit cards also offer rewards and cashback on transactions.
- Debit cards: debit cards allow individuals to withdraw cash from ATMs and make purchases using the card's balance. Debit cards are linked to a savings or current account and are used to access and make payments directly from the funds in the account.
- Online and mobile banking: These are services that allow customers to access their accounts, transfer funds, pay bills, and make other transactions from the convenience of their homes or mobile devices. For example, Real-Time Gross Settlement (RTGS), National electronic Fund Transfers (NEFT) etc.
- Investment products: Banks offer various investment options, such as mutual funds, insurance products, and fixed deposits, that help individuals grow their wealth and meet their long-term financial goals.
- Forex and remittance services: the banking sector offers foreign exchange and remittance services that allow individuals and businesses to send and receive money from across borders.
- Trade finance services: trade finance services, such as letters of credit, bank guarantees, and export financing, help businesses engage in international trade.

2.6 Challenges Faced By The Indian Banking System

The Indian banking system faces several challenges that can impact its growth and stability. Some of the main challenges faced by the Indian banking system have been given below:

1. Non-performing assets: The problem of NPAs, or bad loans, is a major challenge faced by the Indian banking system. NPAs arise when borrowers fail to repay their loans, leading to a significant impact on banks' profitability and liquidity.

2. Cybersecurity risks: As the banking sector becomes increasingly digitized, the risk of cyber - attacks and data breaches has become a major concern. Banks need to invest in robust cybersecurity measures to protect their systems and customer data.

3. Regulatory compliance: The Indian banking sector is highly regulated, with several laws and regulations that banks must comply with. Ensuring compliance with these regulations can be a complex and time-consuming process.

4. Competition from new players: The Indian banking sector is witnessing increased competition from new players, such as payment banks and fintech companies. These players are leveraging technology to offer innovative products and services, challenging the traditional banking model.

5. Financial inclusion: Despite significant progress in recent years, financial inclusion remains a challenge in India. A large segment of the population, especially in rural areas, still lacks access to basic banking services.

2.7 What Are Non-Performing Assets?

The strongest indicator of a nation's banking system's health is the percentage of non-performing assets in that nation (NPAs). NPAs have an effect on liquidity and profitability, in addition to jeopardising asset quality and bank sustainability. One of the biggest problems facing the Indian banking industry has been the growth of non-performing assets (NPAs). It has a direct impact on banks' ability to make money. Non-performing assets are the biggest problem the banking industry is dealing with. These harm banks' performance by lowering earnings, lowering investable funds, and lowering other financial indicators. NPAs are one of the most important criteria used to assess how well banks are performing on the stock market. In India, NPAs are rising as a result of bad lending practices and banks' mandated lending to priority and public sectors. One of the main causes of non-performing assets (NPA) in the banking industry is the directed credit system (DCS), which mandates that commercial banks allocate at least 40% of their annual advances quota to priority sectors like agriculture, small-scale industries, and other segments like small business, retail trade, road and water transport operators, professional and self-employed persons, housing, and education loans.

2.7.1 Causes of Non-Performing Assets

- Macroeconomic Factors:
  Economic slowdown and its impact on various industries Economic slowdowns, characterized by reduced GDP growth and business activity, can have a cascading effect

on multiple industries. During such periods, businesses may face declining revenues, lower profits, and cash flow constraints, making it difficult for them to meet their financial obligations, including loan repayments. The reduced economic activity can lead to a decrease in consumer demand, which further affects businesses' ability to generate income and repay loans.

- Industry-specific issues leading to loan defaults:
  Certain industries might face specific challenges that impact their ability to repay loans. For instance, sectors heavily reliant on external factors such as global demand, regulatory changes, or technological disruptions can experience financial stress. Industries facing structural issues, policy uncertainties, or oversupply can also struggle to generate sufficient cash flows for debt servicing. These issues can contribute to a higher likelihood of loan defaults.
- Irregularity in commodity prices affecting borrower repayment capacity:
  Many borrowers, especially those in sectors like agriculture, mining, and manufacturing, are sensitive to fluctuations in commodity prices. Sharp declines in commodity prices can lead to reduced revenues for borrowers, making it challenging for them to honour their loan obligations. This phenomenon can be exacerbated by global commodity market trends and geopolitical events that impact prices.
- Lack of due diligence in loan disbursement:
  Lack of due diligence refers to a failure in conducting thorough assessments of the borrower's background, financial statements, and intentions for the loan. Banks might neglect to verify the accuracy of information provided by borrowers, resulting in instances where loans are disbursed without a clear understanding of the borrower's capacity to repay. This lack of scrutiny can lead to loans turning into NPAs.
- Weak corporate governance and management:
  Weak corporate governance practices involve inadequate oversight by the company's board of directors and management. A lack of transparency, accountability, and effective decision-making can contribute to mismanagement of funds, diversion of resources, and unethical practices. These issues can lead to financial stress within the borrower's organization, increasing the likelihood of loan defaults.
- Inadequate risk assessment and mitigation:
  Banks failing to conduct comprehensive risk assessments might not adequately evaluate the potential risks associated with the borrower, the industry, and the economic environment. Failure to identify and mitigate these risks early can result in loans turning non-performing. Additionally, inadequate risk mitigation strategies might prevent banks from responding effectively to adverse situations.

2.7.2 Consequences of Non-Performing Assets

- Impact on Banking Sector:

The presence of a significant amount of non-performing assets (NPAs) has profound implications for the overall health and stability of the banking sector. This impact extends beyond individual banks, affecting the entire financial system and the economy as a whole. Erosion of bank capital and profitability NPAs have a direct impact on a bank's financial health by eroding its capital base. When loans turn non-performing, banks need to set aside provisions to cover potential losses. These provisions reduce the bank's profits and weaken its capital adequacy. As NPAs continue to increase, they absorb a portion of the bank's capital that could otherwise be used for lending and investment activities.

- Increased provisioning requirements affecting liquidity:

The requirement to create provisions against NPAs ties up funds that could otherwise be used for lending or investment. This can lead to liquidity constraint for the bank, making it harder to meet short-term obligations and full fill the credit needs of customers. Additionally, provisioning for NPAs reduces the distributable surplus, affecting dividend payouts and investor confidence.

- Reduced lending capacity and credit growth:

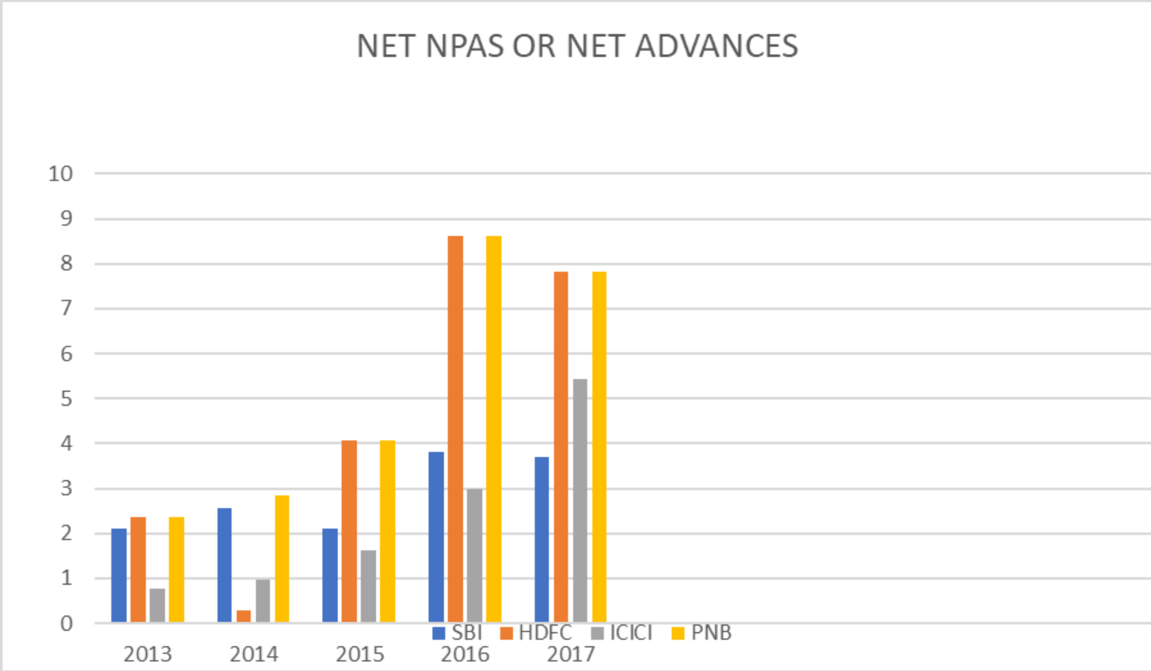
The presence of a high level of NPAs limits a bank's ability to extend new loans. Banks need to allocate more capital towards provisioning for existing NPAs, which in turn reduces the funds available for new lending. As a result, the credit growth of the bank is hampered, affecting its ability to support economic growth and investment. Moreover, reduced lending capacity can create a credit crunch in the economy, hindering overall economic activity.

2.8 Net Non-Performing Assets

Majority of Indian banks are suffering from this crisis, specifically the government-owned banks are hit the most. The RBI data indicates that the public sector banks are a significant contributor towards non-performing assets as compared to the private banks. Due to this financial health of public sector banks are at higher risk.
The above table shows the comparison of Net non-performing assets in a period of 5 years of four different banks.

2.9 Comparison of Net Non-Performing Assets to Net Advances of Select Indian Banks from 2013-2017

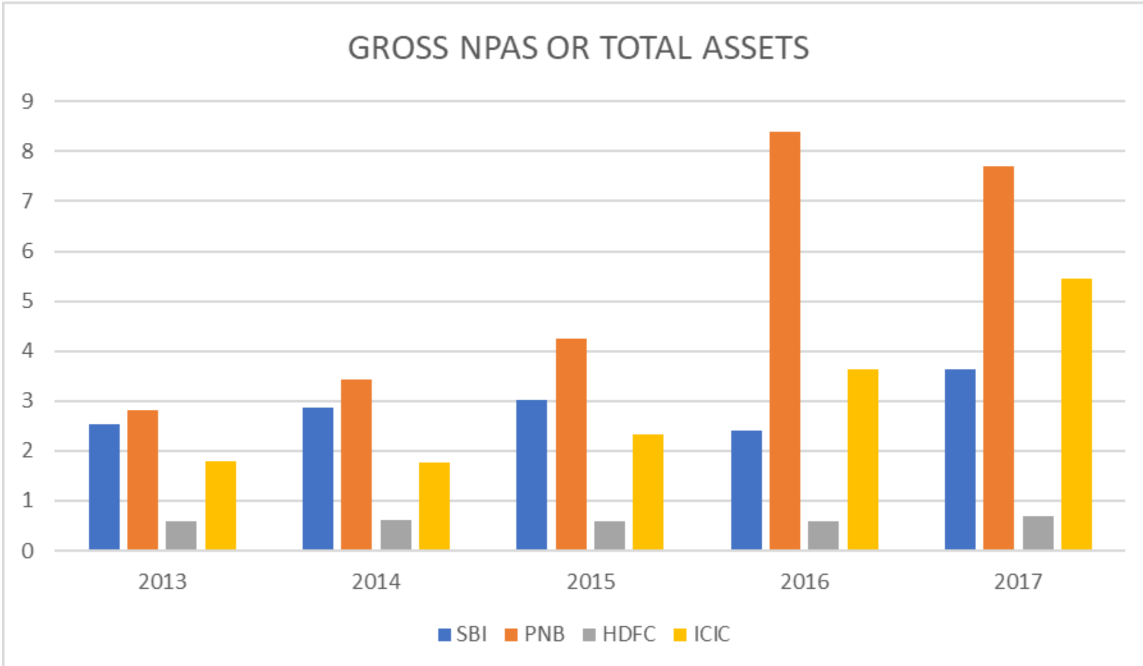
YEAR	HDFC	SBI	ICICI	PNB
2013	2.350	2.100	0.770	2.350
2014	2.850	2.570	0.970	2.850
2015	4.060	2.120	1.610	4.060
2016	8.610	3.810	2.980	8.610
2017	7.810	3.710	5.430	7.810



The table shows that PNB had the highest net NPAs as a percentage of net advances for all the years, followed by SBI, ICICI Bank, and HDFC Bank. The data suggests that all four banks experienced an increase in net NPAs as a percentage of net advances over the years, which could be attributed to factors such as weak credit appraisal processes, inadequate loan recovery mechanisms, wilful default by borrowers, and the economic slowdown.

2.10 Comparison of Gross NPAs to Total Assets of Select Indian Banks from 2013-2017

YEAR	SBI	PNB	HDFC	ICICI
2013	2.53	2.81	0.58	1.79
2014	2.86	3.43	0.61	1.77
2015	3.01	4.26	0.58	2.34
2016	2.41	8.36	0.59	3.64
2017	3.63	7.69	0.68	5.46



The table shows that PNB had the highest gross NPAs as a percentage of total assets for all the years, followed by ICICI Bank, SBI, and HDFC Bank. The percentage of gross NPAs to total assets increased for all banks over the five-year period.

CHAPTER III

PERFORMANCE OF PUBLIC AND PRIVATE SECTOR BANKS

3.1 Introduction

The foundation and the prerequisite for the growth of any country is a thriving and efficient banking system. Credit is a necessary and fundamental component for the development of the sectors, especially the industrial sector. With this thought in mind, the leaders of our nation initiated numerous schemes and policies to ensure and foster the growth of this sector. Although there are many classifications, the most important distinction is made based on public sector banks and private sector banks. Currently there are 12 Public sector banks and 21 Private sector banks. The unified and concerted efforts of both the public and private sector banks have been an indispensable factor in helping the country reach new heights.

3.2 Public sector banks

3.2.1 Pre reform period

After independence, it was decided to follow the system of a mixed economy to attain faster, balanced, and more sustainable growth. The banking sector was at the helm of the growth driver policies, as credit was indispensable for growth. The rapid growth of the banking system in terms of presence as well as inclusivity over the two decades immediately following nationalization of banks in 1969 was monumental. By the 1990s, the public sector banks had a 90 percent share of the country's banking business. By March 1992, all the public sector banks together had a phenomenal branch network of 60,646 branches spread across the length and breadth of the country and held deposits of Rs. 1,10,000 crore and advances of Rs. 66,760 crores. * (RBI reports)

Even though the banking system was growing at a fast pace, by the beginning of the 1990s, the nationalization of banks had increased government control and impaired the role of market forces in the financial sector. Increased bureaucratic control and issues of red- tape increased the non-performing assets, which led to a fall in the efficiency of the banking sector. The financial strength and operational efficiency of the Indian banks, which were working in a highly protected and regulated environment, were not measuring up to the standards set by international banking systems. The global and domestic developments called for corrections primarily with a view to strengthening the financial system and bringing it on par with institutions abroad. Hence, in 1991, a process of financial sector reforms as part of a broader programme of structured economic reforms was set in motion.

3.2.2 Post reform period

The reforms of 1991 had a huge impact on the financial sector. The Narasimham Committee report (1991), among other important suggestions like reducing the cash reserve ratio (CRR) and the statutory liquidity ratio (SLR), also recommended de-regulating the interest rates in order to provide the required independence to the banks for setting the interest rates themselves for the customers. The reforms also facilitated a rise in private ownership of means of production, including credit institutions. These private sector banking institutions had relatively higher operational efficiency and impressive management techniques and technology, whereas the public sector banks were plagued by corruption, red tape, etc., which resulted from the stringent controls and regulations and lack of independence. Although these regulations were toned down with the implementation of the New Economic Policy, compared to the new private sector banking institutions, the public sector banks still lagged behind considerably. The public sector banks could not handle the competition from these private institutions, and they deteriorated further. Despite attempts by the government to revive the banking industry, public sector banks continued to show poor performance and accumulate NPAs.

The working group of the RBI (1999) noted in their report that "till the adoption of prudential norms, twenty-six out of twenty-seven public sector banks were reporting profits (UCO Bank was incurring losses from 1989–90). In the first post-reform year, i.e., 1992–93, the profitability of PSBs as a group turned negative, with as many as twelve nationalised banks reporting net losses. The remaining seven nationalised banks could show only marginal profits between Rs. 4 crore and Rs. 38 crore. As of March 31, 1993, only one public sector bank had a capital adequacy ratio above 8 percent. By March 1996, the outer time limit prescribed for attaining capital adequacy of 8 percent, eight public sector banks were still short of the prescribed level. The NPAs of the banks, aggregating Rs. 39,253 crore as of March 31, 1993, brought the latent weaknesses in their asset portfolio out in the open."

The emphasis on maintenance of capital adequacy and compliance with the requirements of asset classification and provisioning norms, deregulation of interest rates on deposits and advances, and intensified competition from other public sector banks, private sector banks, foreign banks, and financial institutions put further pressure on the profitability of public sector banks.

The response of the public sector banks to the changes undertaken in the reform period was diverse. While some banks preserved and withstood this pressure, others failed to adapt to changing scenarios. "The profitability of the public sector banks as a group remained negative in 1993–94. Despite improvement in 1994–95, there was a slippage again when the loss incurred by Indian Bank affected the profitability of the entire public sector bank group." RBI Working Group (1999) However, it is a noteworthy fact that since then there have been considerable improvements in the performance of public sector banks, and they are now reporting profits.

3.2.3 Public Sector Banks: Assets/Gross and Net Non-Performing Assets

Sr. No.	Banks	Total Assets			Gross NPA			Net NPA		
I	**NATIONALISED BANKS**	**2021**	**2022**	**2023**	**2021**	**2022**	**2023**	**2021**	**2022**	**2023**
1	Bank of Baroda	1,155,365	1,278,000	1,458,562	66,671	54,059	36,764	21,800	13,365	8,384
2	Bank of India	725,856	734,614	815,556	56,535	45,605	37,686	12,262	9,852	8,054
3	Bank of Maharashtra	196,665	230,611	267,651	7,780	5,327	4,334	2,544	1,277	435
4	Canara Bank	1,153,675	1,228,105	1,345,732	60,288	55,652	46,160	24,442	18,668	14,349
5	Central Bank of India	369,215	386,423	406,165	29,277	28,156	18,386	9,036	6,675	3,592
6	Indian Bank	623,427	671,668	710,501	38,455	35,214	28,180	12,271	8,849	4,043
7	Indian Overseas Bank	274,010	299,377	313,746	16,323	15,299	14,072	4,578	3,825	3,266
8	Punjab & Sind Bank	110,482	121,068	136,455	9,334	8,565	5,648	2,462	1,742	1,412
9	Punjab National Bank	1,260,633	1,314,805	1,461,831	104,423	92,448	77,328	38,576	34,909	22,585
10	UCO Bank	253,336	267,784	300,863	11,352	10,237	7,726	4,390	3,316	2,018
11	Union Bank of India	1,071,706	1,187,591	1,280,752	89,788	79,587	60,987	27,281	24,303	12,927
	TOTAL OF NATIONALISED BANKS [I]	**7,194,370**	**7,720,045**	**8,497,815**	**490,226**	**430,150**	**337,270**	**159,642**	**126,780**	**81,065**
II	State Bank of India (SBI)	4,534,430	4,987,597	5,516,979	126,389	112,023	90,928	36,810	27,966	21,467
	TOTAL OF PUBLIC SECTOR	**11,728,800**	**12,707,642**	**14,014,794**	**616,615**	**542,173**	**428,198**	**196,452**	**154,746**	**102,532**

	BANKS [I+II]									

3.2.4 Public Sector Banks : Profit (as on march 31st in crores)

Sr. No.	**Banks**	**Operating Profit**			**Provision & Contingencies**			**Net Profit**		
I	**NATIONALISED BANKS**	**2021**	**2022**	**2023**	**2021**	**2022**	**2023**	**2021**	**2022**	**2023**
1	Bank of Baroda	21,199	22,389	26,864	20,370	15,117	12,754	829	7,272	14,110
2	Bank of India	10,273	9,988	13,393	8,112	6,584	9,370	2,160	3,405	4,023
3	Bank of Maharashtra	3,960	4,848	6,099	3,410	3,696	3,497	550	1,152	2,602
4	Canara Bank	19,689	23,089	27,716	17,131	17,411	17,112	2,558	5,678	10,604
5	Central Bank of India	4,579	5,197	6,884	5,466	4,152	5,302	(887)	1,045	1,582
6	Indian Bank	10,966	12,717	15,271	7,961	8,772	9,989	3,005	3,945	5,282
7	Indian Overseas Bank	5,896	5,763	5,942	5,065	4,053	3,843	831	1,710	2,099
8	Punjab & Sind Bank	772	1,330	1,450	3,504	291	137	(2732)	1,039	1,313
9	Punjab National Bank	22,159	20,762	22,529	20,137	17,305	20,022	2,022	3,457	2,507
10	UCO Bank	4,149	4,797	4,341	3,982	3,868	2,478	167	930	1,862
11	Union Bank of India	19,667	21,873	25,467	16,761	16,641	17,034	2,907	5,232	8,433
	TOTAL OF	**123,309**	**132,75**	**155,954**	**111,89**	**97,890**	**101,538**	**11,410**	**34,864**	**54,**

	NATIONALISED BANKS [I]		**4**		**9**					**417**
II	State Bank of India (SBI)	71,554	67,873	83,713	51,144	36,198	33,481	20,410	31,676	50,232
	TOTAL OF PUBLIC SECTOR BANKS [I+II]	**194,863**	**200,627**	**239,667**	**163,043**	**134,088**	**135,018**	**31,820**	**66,540**	**104,649**

Source: Indian Banks Association

3.3 Private sector banks

Private sector banks are financial bodies owned wholly by private individuals or institutions with the primary objective of earning profit. Although they have a higher degree of independence, unlike their counterparts, they still need to adhere to the rules and regulations laid down by the RBI and the government. On account of profit being their main motive, they provide services efficiently to customers, often at a relatively higher cost when compared to the public sector banks.

The New Economic Policy of 1991 gave rise to the dawn of privatisation, which has played a monumental part in the growth and development of the country. Although India had decided to follow the system of a mixed economy, private individuals and institutions did not have much ground to play before the liberalisation policies. The private sector was under tight control of the government, and these restrictions demotivated individuals from taking up productive and risky activities. The liberalisation policies gave way to dereserved areas and the abolishment of the license and permit system, and consequently, private individuals were in need of credit facilities. The operational inefficiency of the public sector banks and the innovative technology and management specialties of the private sector in the face of globalisation are some of the many reasons that prompted the government to dereserve the banking sector for private individuals.

The liberalisation policies marked a pivotal moment of change in the Indian economy and financial sector as private players entered the scene. This move aimed to enhance competition, efficiency, and innovation in the banking industry, fostering a more dynamic financial landscape. Over the years, private sector banks have played a crucial role in modernising the banking sector, introducing advanced technologies, and providing diverse financial services to cater to the evolving needs of India's growing economy. Some of the main private players in the banking industry are HDFC Bank, ICICI Bank, Axis Bank, etc.

3.3.1 Private Sector Banks : Assets/Gross and Net Non-Performing Assets (as on march 31dt in crores)

S.No	Banks	Total Assets			Gross NPA			Net NPA		
		2021	2022	2023	2021	2022	2023	2021	2022	2023
1	City Union Bank Ltd.	53,312	61,531	66,595	1,893	1,933	1,920	1,075	1,191	1,018
2	Tamilnad Mercantile Bank Ltd.	47,527	52,858	57,895	1,085	571	521	614	318	230
3	The Catholic Syrian Bank Ltd.	23,337	25,356	29,162	393	290	263	169	107	72
4	Dhanlaxmi Bank Ltd	13,097	13,796	15,132	657	534	511	323	232	109
5	The Federal Bank Ltd.	201,367	220,946	260,342	4,602	4,137	4,184	1,569	1,393	1,205
6	The Jammu & Kashmir Bank Ltd.	120,292	130,602	145,962	6,955	6,521	5,204	1,969	1,750	1,334
7	The Karnataka Bank Ltd.	85,615	91,584	99,058	2,588	2,251	2,293	1,645	1,377	1,021
8	The	74,623	80,071	90,179	4,143	3,431	1,458	1,719	1,261	468

	Karur Vysya Bank Ltd.									
9	Nainital Bank Ltd. *	8,182	8,338	8,656	651	508	443	207	164	78
10	RBL Bank	100,651	106,209	115,876	2,602	2,728	2,420	1,241	807	773
11	The South Indian Bank Ltd.	94,149	100,052	107,698	4,143	3,648	3,708	2,735	1,778	1,294
I	**TOTAL OF OLD PVT BANKS [I]**	**822,153**	**891,344**	**996,556**	**29,713**	**26,551**	**22,925**	**13,267**	**10,377**	**7,602**
II	**NEW PRIVATE SECTOR BANKS**									
12	Axis Bank Ltd.	986,798	1,175,429	1,317,326	25,315	22,681	18,566	6,994	6,584	4,745
13	DCB Bank Ltd.	39,602	44,793	52,366	1,083	1,290	1,123	594	573	357
14	HDFC Bank Ltd.	1,746,871	2,068,535	2,466,081	15,086	16,141	18,019	4,555	4,408	4,368
15	ICICI Bank Ltd.	1,230,433	1,411,298	1,584,207	41,373	33,920	31,184	9,180	6,961	5,155
16	Indusind Bank Ltd.	362,973	401,975	457,804	5,795	5,517	5,826	1,477	1,530	1,715
17	Kotak Mahindra Bank Ltd.	383,470	429,428	489,862	7,426	6,470	5,768	2,705	1,737	1,193

18	YES Bank	273,543	318,220	354,786	28,610	27,976	4,395	9,813	8,205	1,658
19	Bandhan Bank	115,016	138,995	155,770	5,758	6,380	5,299	2,861	1,564	1,228
20	IDFC First Bank Ltd.	163,144	190,182	239,942	4,303	4,469	3,884	1,883	1,808	1,304
21	IDBI Ltd.	297,764	301,603	330,502	36,212	34,115	10,969	2,519	1,864	1,495
II	**TOTAL OF NEW PVT BANKS [II]**	**5,599,613**	**6,480,458**	**7,448,646**	**170,961**	**158,958**	**105,033**	**42,582**	**35,234**	**23,219**
III	**TOTAL OF PVT BANKS [I+II]**	**6,421,766**	**7,371,802**	**8,445,202**	**200,674**	**185,509**	**127,958**	**55,849**	**45,611**	**30,821**

Gross NPA amount in FY 22 & FY 23 is net of interest suspense amount

3.3.2 Private Sector Banks : Profit (as on march 31st in crores)

S. No	**Banks**	**Operating Profit**			**Provisions & Contingencies**			**Net Profit**		
		2021	**2022**	**2023**	**2021**	**2022**	**2023**	**2021**	**2022**	**2023**
1	City Union Bank Ltd.	1,468	1,595	1,818	875	835	881	593	760	937
2	Tamilnad Mercantile Bank Ltd.	1,202	1,516	1,573	599	695	544	603	822	1,029
3	The Catholic Syrian Bank Ltd.	516	614	707	297	155	160	218	458	547
4	Dhanlaxmi	86	134	123	49	98	74	37	36	49

	Bank Ltd									
5	The Federal Bank Ltd.	3,801	3,758	4,794	2,210	1,868	1,784	1,590	1,890	3,011
6	The Jammu & Kashmir Bank Ltd.	1,584	1,062	1,858	1,152	561	661	432	502	1,197
7	The Karnataka Bank Ltd.	1,908	1,634	2,208	1,426	1,125	1,028	483	509	1,180
8	The Karur Vysya Bank Ltd.	1,292	1,631	2,476	932	957	1,370	359	674	1,106
9	Nainital Bank Ltd.	118	101	77	117	71	31	1	30	46
10	RBL Bank	2,917	2,745	2,202	2,409	2,820	1,320	508	(75)	883
11	The South Indian Bank Ltd.	1,662	1,248	1,508	1,600	1,203	732	62	45	776
I	**TOTAL OF OLD PVT BANKS [I]**	**16,553**	**16,038**	**19,345**	**11,666**	**10,388**	**8,583**	**4,887**	**5,650**	**10,762**
II	**NEW PRIVATE SECTOR BANKS**									
12	Axis Bank Ltd.	23,128	24,742	19,791	16,539	11,717	10,211	6,589	13,025	9,580
13	DCB Bank Ltd.	886	797	787	550	509	321	336	288	466
14	HDFC Bank Ltd.	57,361	64,077	70,405	26,244	27,116	26,296	31,117	36,961	44,109
15	ICICI Bank Ltd.	36,397	39,251	49,086	20,204	15,910	17,190	16,193	23,341	31,896
16	Indusind Bank Ltd.	11,727	12,775	14,346	8,890	8,165	6,957	2,836	4,611	7,390
17	Kotak Mahindra Bank Ltd.	11,762	12,051	14,848	4,797	3,478	3,909	6,965	8,573	10,939
18	YES Bank	4,648	2,916	3,183	8,111	1,850	2,465	(3462)	1,066	717
19	Bandhan Bank	6,768	8,014	7,091	4,563	7,888	4,897	2,205	126	2,195
20	IDFC First Bank Ltd.	2,498	3,284	4,932	2,046	3,138	2,495	452	145	2,437

21	IDBI Ltd.	7,035	7,496	8,736	5,676	5,056	5,091	1,359	2,440	3,645
II	**TOTAL OF NEW PVT BANKS [II]**	**162,210**	**175,402**	**193,205**	**97,620**	**84,826**	**79,832**	**64,590**	**90,576**	**113,373**
III	**TOTAL OF PVT BANKS [I+II]**	**178,763**	**191,440**	**212,550**	**109,286**	**95,214**	**88,415**	**69,477**	**96,226**	**124,135**

A well-developed banking sector and a sound financial system is essential for the growth and development of a country. Banking institutions form the foundation for this financial system and therefore their growth and operations should be given priority and extreme care. A poor banking system can hinder the development and worsen the hurdles faced by both producers and consumers. Banks have a huge influence on the rate of interest, inflation and many economic indicators.

Both the public and private sector banks have grown tremendously over the years and is one of the major factors which contributed to the quick progress of the nation. Although they have faced many setbacks like an increasing trend of non performing assets, their dedication to equitable growth and financial penetration cannot be ignored.

For the growth of the country, it is imperative that both the public and private sector banks join hands and lead with a unified mind. They should fuel each other's drive to improve and foster and have the common aim of development and financial inclusivity. A faster sustainable and inclusive growth can only be achieved with the unified and concerted efforts of both the public and private banking sectors.

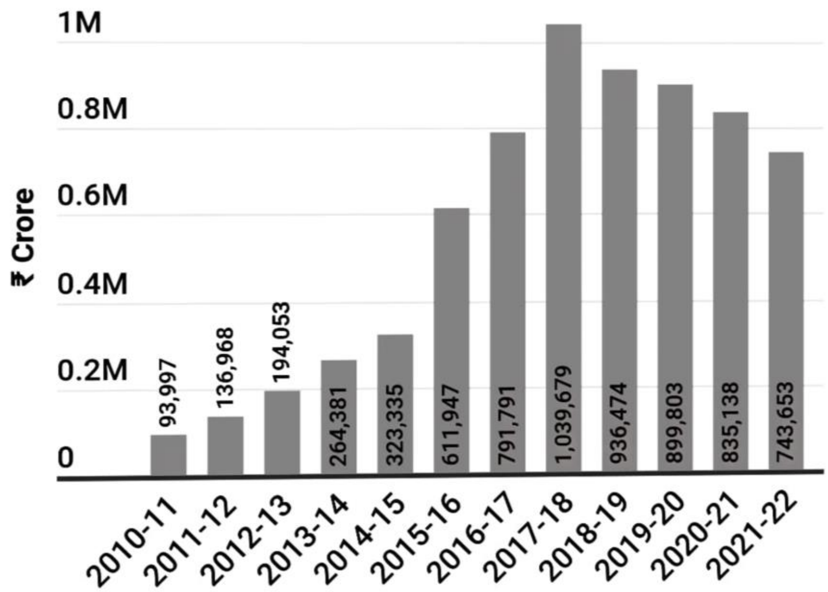
CHAPTER IV
PERFORMANCE OF NPAs IN INDIA

4.1 Introduction

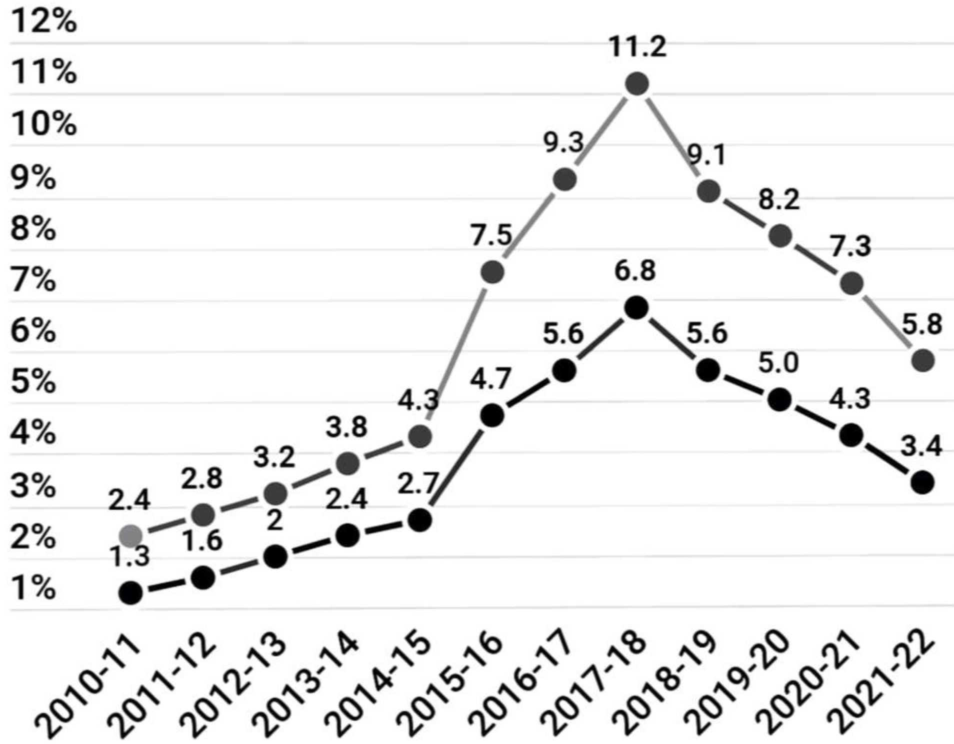
This chapter deals with the analysis of the secondary data on the Non-Performing Assets in the Indian banking sector. The study is done in a virtual mode by collecting secondary data from various sources. The primary objective of the study is to analyze the trends and patterns of the Non-Performing Assets and the role of Credit Risk Management in the prevention of the same. This chapter also aims to analyze the impact of external shocks especially covid-19 on NPAs.

4.2 Year Wise Analysis Of India's Npas

4.2.1 Amount



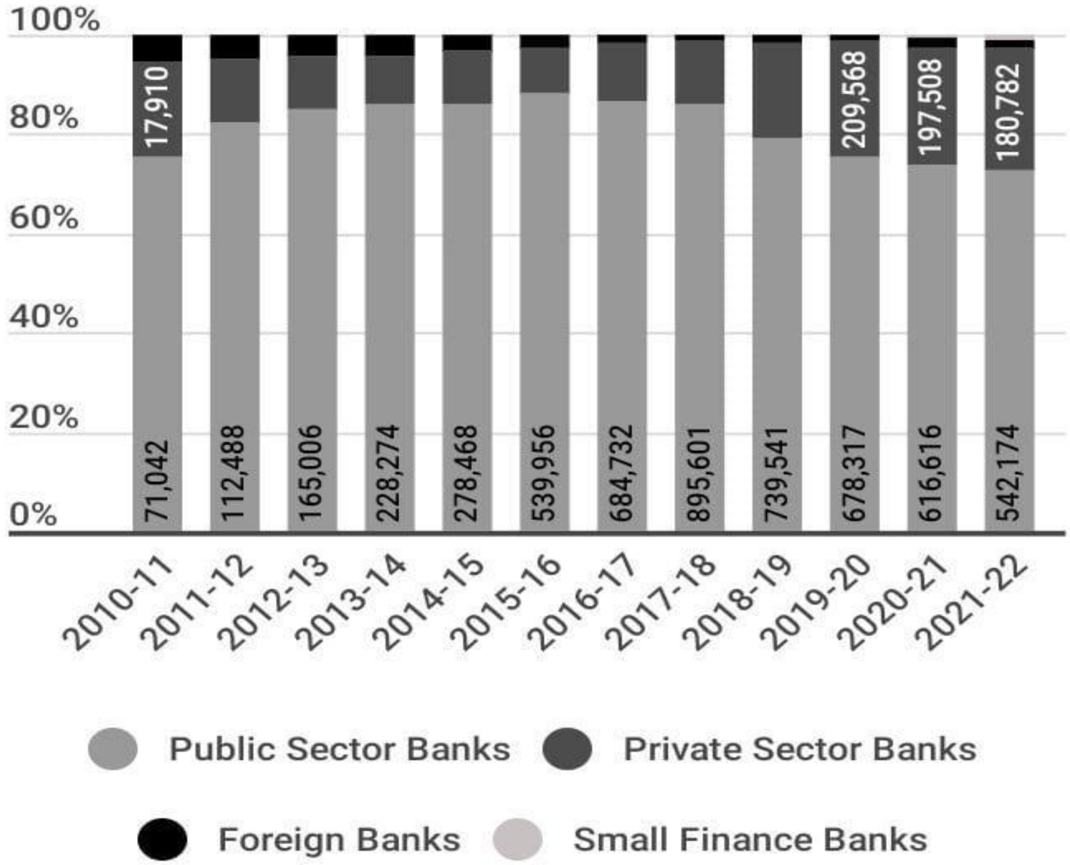
4.2.2 Ratio



(source: RBI)

- The gross NPA of all scheduled commercial banks in India dropped to ₹7,43,653 crore in 2021-22 from ₹8,35,138 crore a year ago.
- The gross NPA ratio (% of total advances) in 2021-22 was 5.8%, in comparison to 7.3% a year ago. The gross NPA ratio has fallen consecutively for 4 years since hitting a record 11.2% in 2017-18.
- After reaching a high of 6.8% in 2017-18, the gross NPAs in 2021-22 equaled 3.4% of the

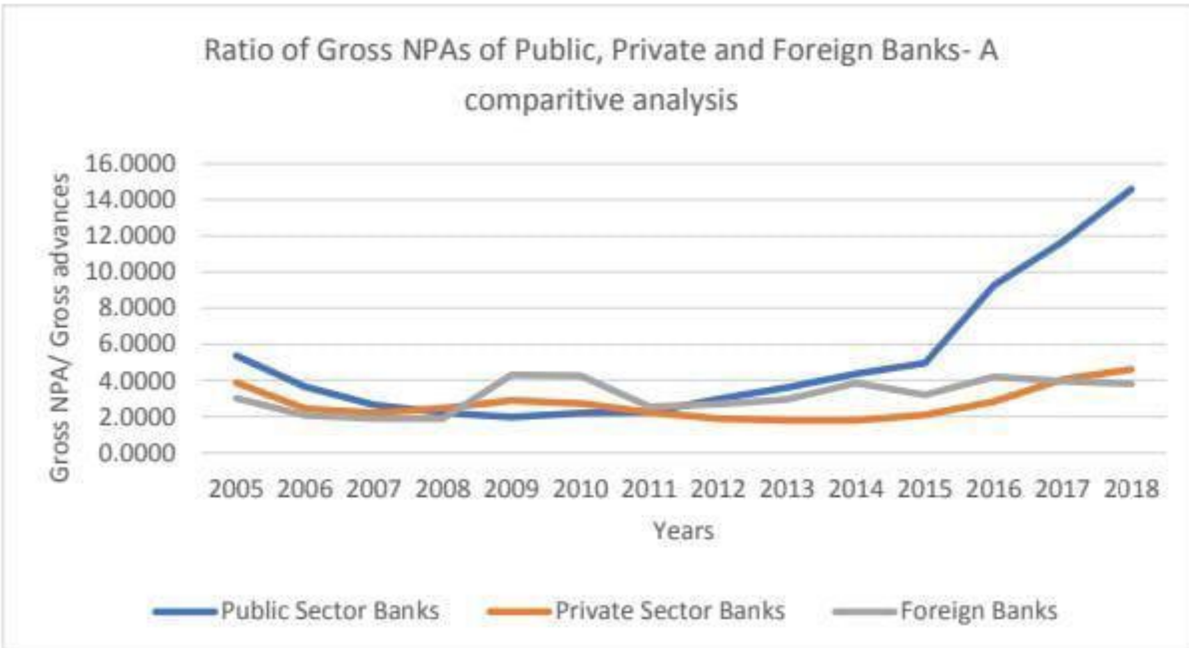
4.2.3 Banks



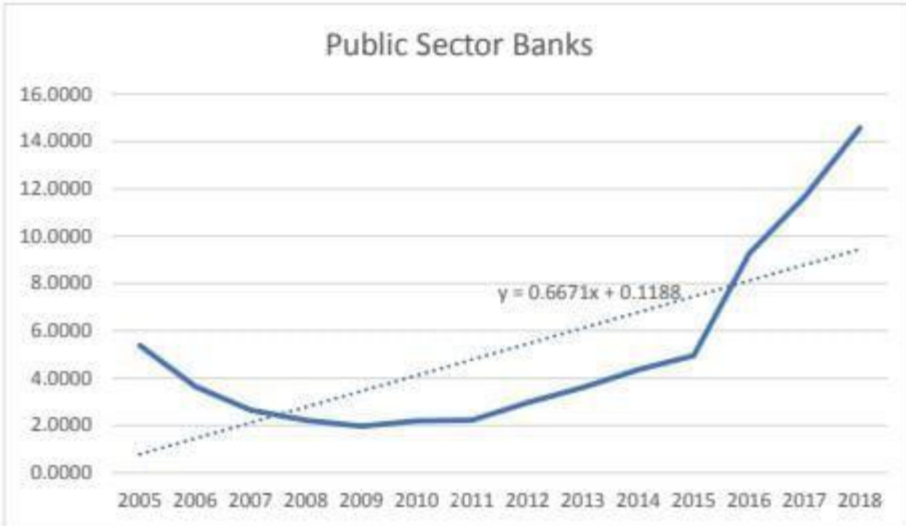
(Source: RBI)

- 72.9% of the total gross NPAs of all scheduled commercial banks in 2021-22 were recognized by the public sector banks, the lowest ratio since 2011-12.
- Private banks recognized 24.3% of the total gross NPA while foreign banks recognized 1.85% of the total gross NPA in 2021-22.

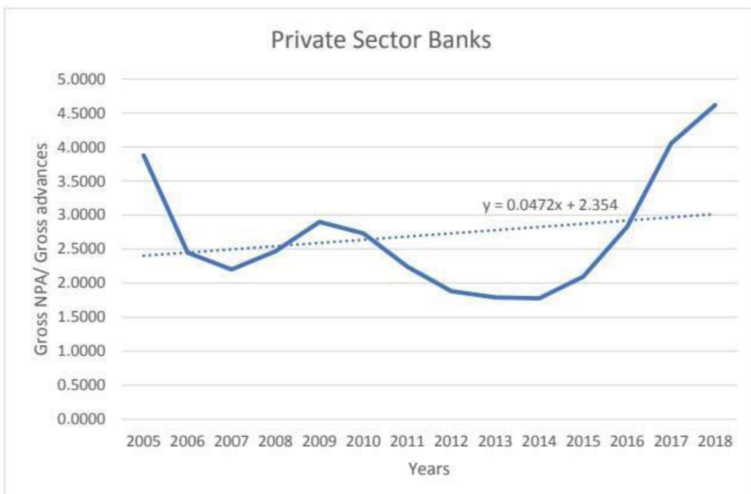
4.2.4 Trends and Pattern In Npas



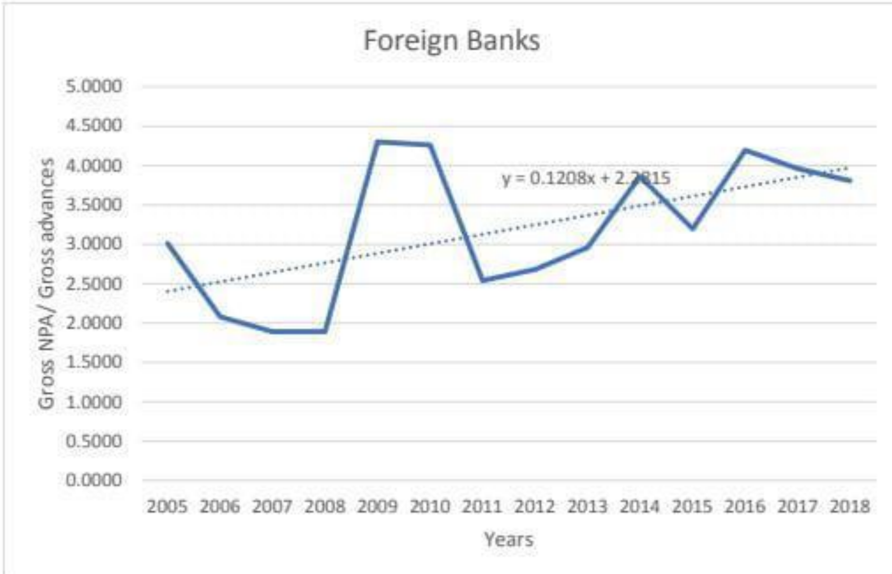
- The above graph shows that the level of NPAs has remained constant for a long period of time. However, during the past few years, NPA in the banks, has started to see an upward trend. While the increase has been slight in the case of private and
- foreign, the level of NPA is rising at a rapid rate in public sector banks.



The above graph shows that the NPAs of public sector banks are showing an increasing trend for the study period. The growth rate is 0.66% p.a.



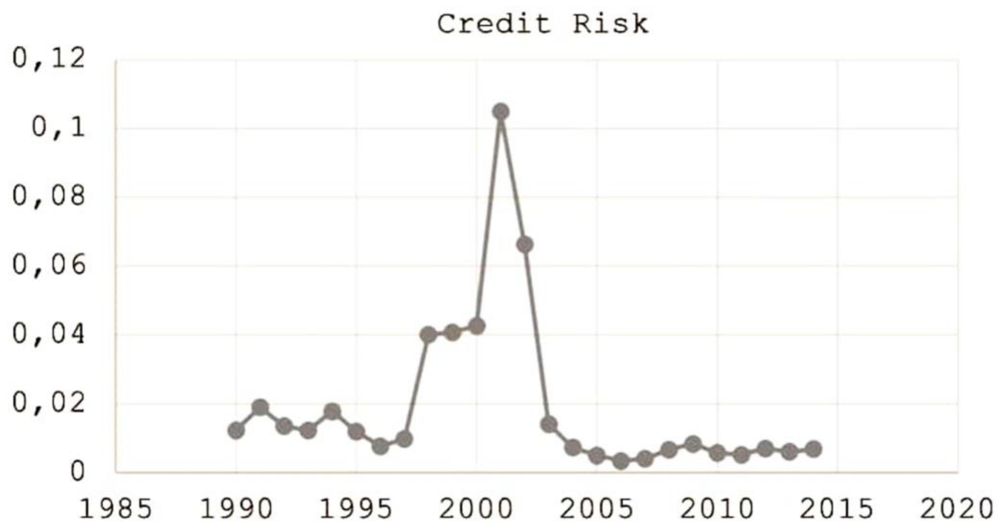
From the above graph, it is evident that the NPAs of private sector banks are growing at a much lower rate of 0.047% p.a. as compared to 0.66% p.a. of public sector banks.



The graph of the foreign banks' NPA ratio also seems to show a rising trend over the years for the study period, with the growth rate being 0.12% p.a. While this is higher than that of private banks (0.047% p.a.), it is much lower than that of public sector banks (0.66% p.a.). Unlike the trend of public sector and private sector banks, NPA follows a downward trend in the previous two years. The average NPA of 2018 for foreign banks is much lower than that of other two groups of banks.

(Source: The data on the Trends and Patterns in NPAs was collected from the report "The Trends and Differences in NPAs across Bank Groups in India" by Vrinda Batral, Dr. Neetika Batra)

4.2.5 Credit Risk

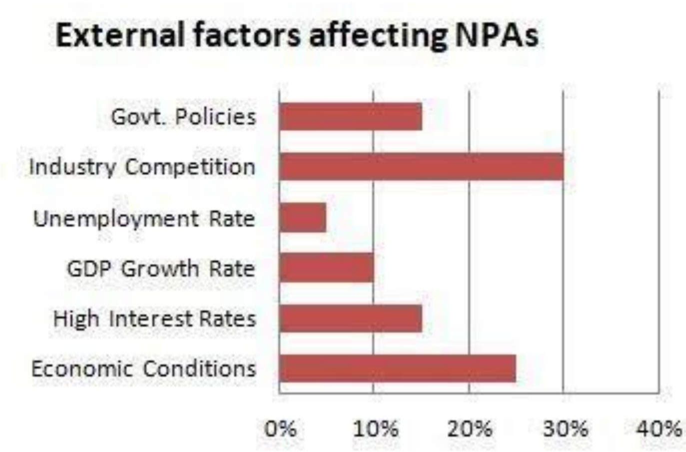


(SOURCE – ResearchGate)

The credit risk for NPA's had a sluggish increase and decrease from 1990 – 1995 but during the period of 1996 -1997 risk for credit decreased below (0 ,2) which did not last for a long period, the credit risk grew from (0,2) to (0,4).

During 2000 the credit risk had a peak of growth which reached (0,10) which then continued for two years and then by 2005 the trend in credit risk relaxed between 0 and 1 which continued till 2015.

4.2.6 External Factors Affecting Npa's



(SOURCE – Allied Academies)

- Unemployment rate which affects the NPA's is the least among the remaining factors which is 5%.
- Followed by the GDP growth rate – 10%.
- The government policies and high interest rate occupied back to back 15% which affect the NPA's
- Economic conditions affect 25% of credit risks in NPA's.
- The main external factor which affects the increase of NPA is industry competition.

4.2.7 Impact on external shock in NPA

Table 1: Non-Performing Asset of Banks

Items	Amount Outstanding (As at end-March Month)	
	2019	2020(P)
Net NPA's	3,55,068	2,89,531
Gross NPA ratio (Gross NPA's as % of Gross Advances)	9.1	8.2
Net NPA ratio (Net NPA as % of Net advances)	3.7	2.8
Provision Coverage Ratio (Not write-off Adjusted) (%)	60.5	66.2

Source: RBI website

Table 2: Bank Wise NPAs Distribution

(Values in Crores)							
Bank	Gross NPA's					Net NPA's	
	As on March 31 (previous year)	Addition during the year	Reduction during the year	Write-off during the year	As on March 31 (current year)	As on March 31 (previous year)	As on March 31 (current Year)
	(1)	(2)	(3)	(4)	(5)	(6)	(7)
Public Sector Bank	717849.76	238464.08	99691.53	178305.31	678317.00	276936.83	230917.59
Private Sector Bank	183603.66	131248.99	51335.43	53949.08	209568.14	67308.89	55745.87
Foreign banks	12242.26	6750.76	3832.03	4952.67	10208.32	2051.44	2084.03
Small Finance Bank	1659.64	1764.43	1045.81	668.93	1709.32	872.58	783.63

Source: RBI website

This Table, on the other hand, appears to be Banks gross non-performing assets (GNPA) numbers have yet to reflect the COVID-19's impact. According to the RBI's Trend and Progress Report on Banking (2019-20), gross non-performing assets will have decreased by 7.5 percent by the end of September 2020. In March 2020, the unemployment rate will be 8.2 percent. The RBI's COVID-19 relief measures on relaxed Income Recognition and Asset Classification (IRAC) norms contributed to this drop. However, because to the economic disruption caused by COVID-19, it is projected that the banking system's asset quality will deteriorate substantially in the future. When various policy supports are gradually withdrawn, it can have a significant influence on the financial

NPA Situation Before COVID-19

Bank	As on FY-18	As on FY-20	% age increase between FY-18 to FY-20
Allahabad Bank	20,520	28,698	39.85%
Andhra Bank	17,670	28,974	63.97%
Bank of Baroda	34,935	40,388	15.61%
Bank of India	42,724	51,167	19.76%
Bank of Maharashtra	17,189	15,324	(-)10.85%
Canara Bank	31,801	36,165	13.72%
Central Bank of India	27,251	32,356	18.73%
Corporation Bank	17,045	20,724	21.58%
Dena Bank	12,619	12,768	1.18%
IDBI Bank Limited	38,223	-	-
Indian Bank	9,588	13,156	37.21%
Indian Overseas Bank	32,521	32,416	(-)0.33%
Oriental Bank of Commerce	22,859	21,717	(-)5.00%
Punjab and Sind Bank	6,298	8,606	36.65%
Punjab National Bank	53,121	76,724	44.43%
State Bank of India (SBI)	1,05,549	1,70,813	61.83%
Syndicate Bank	15,662	22,348	42.70%
UCO Bank	21,699	29,233	34.72%
Union Bank of India	30,928	47,554	53.76%
United Bank of India	10,952	12,053	10.06%
Vijaya Bank	6,382	8,923	39.82%

health of Indian banks.

- COVID-19 has generated significant instability and high volatility in global capital markets. The financial sector has been one of the most affected, with bank valuations dropping in all countries around the world.
- Banking stocks were impacted during COVID-19. In the period from 01 December 2019 to 30 April 2020 – most banks saw a price slump in mid-March.

4.2.8 Impact of external stock on financial intermediation

Source: Quarterly Statistics on Deposit and Credit of SCBs.

The above chart shows that the Indian financial sector came under severe stress during the pandemic. With illiquidity and risk aversion becoming pervasive and heightened uncertainty clouding the near-term outlook for income and employment, the Reserve Bank faced the twin challenge of preserving financial stability and mitigating the ravages of COVID-19. Through conventional and unconventional measures, financial conditions were quickly eased to avert liquidity concerns while supporting business continuity and recovery. Regulatory measures were carefully calibrated to shore up the health of the financial system. As the Indian economy recovered from the deep recession in H1:2020-21, advocacy started to gain ground for pursuing a finance-led growth strategy, accompanied by necessary reforms.

CHAPTER V

FINDINGS AND CONCLUSION

5.1 Introduction

The noticeable decline in gross NPAs from 2020-21 to 2021-22, attributed partly to pandemic-induced debt forgiveness and repayments, the sectoral distribution paints a stark picture. Public sector banks continue to grapple with significantly higher NPAs compared to their private and foreign counterparts, indicating underlying challenges in operational efficiency and management. This trend underscores the imperative for tailored strategies to address NPAs and enhance the resilience of India's banking system in the face of evolving economic landscapes and external shocks.

The credit risk management's role in NPA prevention reveals multifaceted trends influenced by both internal and external factors. From age group demographics to industry competition and economic conditions, various variables impact the trajectory of credit risk over time. Understanding these nuances is crucial for formulating effective risk management strategies and policies to mitigate NPAs and ensure the stability of financial institutions. As the banking sector navigates through uncertain terrains, leveraging insights from credit risk analysis becomes imperative for fostering resilience and sustainability amid changing market dynamics and emerging challenges.

The study emphasizes the imperative for collaborative efforts across public and private sectors to address the NPA crisis and foster sustainable growth and development. While challenges like rising NPAs pose significant hurdles, they also present opportunities for innovation and reform. By adopting proactive measures, enhancing risk management frameworks, and embracing digital innovations, the banking sector can pave the way for a more inclusive and resilient financial ecosystem. As India strives for economic recovery and equitable development, the banking sector stands as a pivotal force driving progress and prosperity for all segments of society.

5.2 Findings

1. **Analysis of the trend and pattern of Non Performing Assets in the Indian banking sector:**

- Overall NPA Trends:

India's scheduled commercial banks experienced a decline in gross NPAs from ₹8,35,138 crore in 2020-21 to ₹7,43,653 crore in 2021-22. This resulted in a reduction in the gross NPA ratio from 7.3% to 5.8% over the same period. The periods 2020-22 we're affected by a global pandemic due to covid. The decline in NPAs could have been due to debt forgiveness on account of increased death rate apart from repayment.

- Sector-wise Distribution:

Public sector banks accounted for 72.9% of the total gross NPAs in 2021-22, marking the lowest ratio since 2011-12. Private banks recognized 24.3% of the total gross NPA, while foreign banks recognized 1.85%. The Public sector banks have significantly higher rates of NPAs as opposed to their counterparts. This data serves as evidence to the fact that private sector banks are superior to public sector banks in terms of operational efficiency, technology and management. Although the total gross NPAs of public sector banks have declined, they have a long way to go to attain efficiency and to be on par with their counterparts and foreign rivals.

- Trend Analysis:

Public sector banks have shown a consistent upward trend in NPAs, with a growth rate of 0.66% per annum. In contrast, private sector banks experienced a much lower growth rate of 0.047% per annum. Foreign banks, although with a higher growth rate compared to private banks (0.12% per annum), still lag significantly behind public sector banks (0.66% per annum). The quantitative indicators are further proof to the inefficiency of the public sector banks. The growth rate of NPAs is much higher than that of the private sector banks. Private sector banks have a lower rate of NPAs. This could be due to the efficient credit risk management system and other facilities. Critics also say that private sector banks are more diligent in working owing to their profit motive whereas public sector banks are plagued by corruption and red tapism.

2. Analysis of the role of credit risk management in prevention of Non-Performing Assets.

- Credit Risk Trends:

The credit risk for NPAs fluctuated over the years, with notable peaks and troughs. Between 1990 and 1995, there was a sluggish increase and decrease in credit risk. However, from 1996 to 1997, the credit risk decreased below (0,2), albeit briefly, before growing to (0,4). In 2000, there was a peak in credit risk growth, reaching (0,10), which persisted for two years. By 2005, the trend in credit risk relaxed between 0 and 1 and continued until 2015. A good credit risk management system is essential for the strength and prosperity of banking institutions. Credit risk should be carefully monitored.

- Age Group Analysis:

Comparing credit risk between younger and middle-aged groups, the data indicates that the younger age group exhibits higher credit risk. For instance, in the 30-34 age group, the credit risk for “yes” is 20%, while for “no” it is just 5%. Conversely, in the 45-49 age group, the credit risk for “yes” is 11%, while for “no” it rises to 19%. Interestingly, in the 65-75 age group, the credit risk percentage decreases to zero.

- External Factors:

Various external factors affect NPAs, with industry competition emerging as the primary factor. Among the factors influencing NPAs, economic conditions account for 25% of credit risks, followed by government policies and high-interest rates at 15%. The GDP growth rate contributes 10%, while the unemployment rate has the least impact at 5%.

3. <u>Analysis of the impact of external shock on Non-Performing Assets</u>

- Impact of COVID-19 on GNPA: Despite the initial decrease in gross non-performing assets (GNPA) by 7.5 percent by September 2020, the full impact of COVID-19 on bank asset quality was not reflected. Economic disruptions caused by the pandemic are projected to substantially deteriorate the banking system's asset quality in the future, especially as various policy supports are gradually withdrawn.

- Global Capital Market Instability: COVID-19 induced significant instability and high volatility in global capital markets. This instability affected bank valuations worldwide, leading to a price slump in mid-March 2020 for most banking stocks.

- Severe Stress on Indian Financial Sector: The Indian financial sector faced severe stress during the pandemic, characterized by illiquidity, risk aversion, and heightened uncertainty. This stress clouded the near-term outlook for income and employment, presenting a twin challenge for the Reserve Bank of India (RBI) to preserve financial stability and mitigate the impacts of COVID-19.

5.3 Conclusion

The analysis shows the divergent trajectories of NPA trends among different categories of banks in India. While public sector banks continue to grapple with a persistent rise in NPAs, private and foreign banks demonstrate relatively slower growth rates. This variation necessitates tailored strategies for risk management and asset quality maintenance across bank sectors to ensure the stability and resilience of India's banking system.

The analysis reveals dynamic patterns in credit risk for NPAs over time, influenced by both internal and external factors. While age group demographics play a role, external factors such as economic conditions, government policies, and industry competition exert significant influence. Understanding these trends and factors is essential for formulating effective risk management strategies and policies to mitigate NPAs and ensure the stability of financial institutions.

The COVID-19 pandemic has posed significant challenges to India's banking sector, impacting asset quality, profitability, and stock market valuations. As the economy navigates through recovery, a finance-led growth strategy supported by digital innovations and policy reforms emerges as a potential avenue for sustained economic revival. Sectoral analysis of NPAs underscores the importance of targeted interventions to address specific challenges faced by different sectors, ensuring a more resilient and inclusive financial system.

The banking sector is crucial for a country's growth, forming the backbone of its financial system. Both public and private sector banks have experienced significant growth over the years, contributing to the nation's progress. Despite challenges like rising non-performing assets, they remain dedicated to equitable development and financial inclusion. It's essential for both sectors to collaborate and aim for sustainable growth, fostering financial penetration and inclusivity. With unified efforts, they can achieve faster, sustainable, and inclusive development.

The comparison of net non-performing assets (NPAs) to net advances across select Indian banks from 2013 to 2017 reveals a concerning trend of increasing NPAs as a percentage of net advances for all banks. PNB consistently had the highest net NPAs followed by SBI, ICICI Bank, and HDFC Bank. This rise in NPAs can be attributed to factors such as weak credit appraisal processes, inadequate loan recovery mechanisms, wilful default by borrowers, and the overall economic slowdown. The data underscores the urgency for banks to strengthen their risk management practices and implement effective measures to address the NPA crisis. Proactive steps are essential to safeguard the financial health of banks and ensure stability in the banking sector.

NPA's have become a major threat for the development of the banking system which directly de promote the growth and development of an economy. Several steps are taken by the banking sector to control the NPA's. Effective risk management plays an important role in controlling non-performing assets credits must be monitored by the authorities. New strategies must be implemented which make the people aware about the consequences behind it.
Charging a high amount as fine will help to an extend in collecting back the interest, credit. Frequent stress testing which gives an idea that how a bank can perform during its hostile economic condition. Providing financial literacy to the borrows and the staffs about the need of repayment of the assets. New technologies bring up new technological strategies which analysis and identifies the risk at early stage.

APPENDIX

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