



# A STUDY ON THE IMPACT OF NPA ON BANKING SECTOR AND INDIAN ECONOMY

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## ABSTRACT

The Indian banking sector is now grappling with the fifth-largest quantity of non-performing loans (NPAs) in the world. The banking sector's gross non-performing assets (NPAs) amounted to 11.52% of total assets, while net NPAs amounted to 5.92% of assets. Gross non-performing assets (NPAs) are 11.68%, while net NPAs are 6.21% and currently there has been actions taken by the RBI to avoid it.

Industrial credit expanded at a substantially faster pace during the period of 2018-2020, when the GDP growth rate was at its highest point ever recorded. While the expansion of total credit slowed, industrial credit continued to rise. After 2018, when GDP growth slowed, the profit margin of the industrial sector fell, and corporations began defaulting on loan payments, non-performing assets (NPAs) rose and due to pandemic it rose higher and in 2021 banks loss have an impact in the economy

**Keywords :** Bad loans, Loan recovery, Financial distress, Defaulted loans, Securitization.

## INTRODUCTION

Banks are losing money and trust as the NPA increases. A large amount of non-performing loans in commercial banks threatens to destroy the capital base of public financial institutions. If a bank starts to lose money and doesn't address the underlying issues, the situation can escalate and jeopardize customer confidence. A complete collapse of the financial system is inevitable when depositors start withdrawing money from banks. For this reason, NPAs should not exceed sustainable limits. Otherwise, the system will eventually become unstable. As a result, the increase in non-performing loans poses a long-term threat to the financial health of the banking system. As noted above, over the entire period from 2006 to 2011, credit growth in the industrial sector outpaced both overall credit growth and GDP growth. Therefore, NPAs were much more common in the industrial sector than in any other sector. As a result, banks were reluctant to finance the needs of the late-stage industrial sector, slowing its development. The micro, small and medium enterprise (MSME) sector is one area

where lending is shrinking. The economic slowdown in the post-demonetization era has forced banks to stop developing loans to the industrial sector as manufacturing has become less profitable. A shortage of investment capital is a long-term threat to the expansion of the industrial sector. In 2014-15, credit expansion in the industrial sector lagged behind that in agriculture and services. Reduced availability of credit will adversely affect the economy and certain sectors.

The food processing industry was also strongly represented among other sectors, accounting for his 5.3% of total NPA. The food processing industry is one of the most labor-intensive industries in the economy, and its expansion has also contributed to the expansion of agriculture. The food processing industry is vital to the economy because of the jobs it creates and agricultural production.

## SCOPE OF STUDY

Private investment was required to expand industrial activity. But for a variety of reasons, private banks were unable to meet these investment needs. Additionally, a hefty interest rate was imposed. Some of the government programs were the lead bank system and priority sector banking. However, compared to the associated costs, the real value added by these programs was insignificant.

A significant amount of public funds was wasted. It caused the government to reflect on the importance of the banking sectors.

To know the NPA performance Of public and private sector banks

To get to know their profitability and how they are tackling to reduce the problems caused due to the increase of NPA.

## RESEARCH OBJECTIVES

- To comprehend the idea of NPA and its many methods of recovery.
- To know how the NPAs impact the economy
- To analyze the performance of selected banks at different levels of NPA during last 10 years

## RESEARCH DESIGN

Research is descriptive in nature.

All the secondary data taken are analyzed in a quantitative way. The actions taken to avoid and resolve NPAs can be divided into two categories: regulatory actions, which involve resolving NPAs in accordance with various laws including the IBC, etc and corrective actions, which the RBI takes to restructure stressed assets.

## METHOD FOR COLLECTION OF DATA

Secondary data

### SECONDARY DATA

Secondary source of data was collected from Books, Journal, Websites.

### PLAN OF ANALYSIS

Representation through tables Findings & suggestions

### DATA ANALYSIS & INTERPRETATION

#### PRIVATE BANKS

##### Overview of Axis bank

Axis Bank Limited (previously known as UTI Bank (1993–2007)) is an Indian banking and financial services company headquartered in Mumbai, Maharashtra. We sell financial services to large and medium-sized businesses, small businesses, and retailers.

As of 30 June 2016, 30.81% of the shares were owned by Promoter and Promoter Group (United India Insurance Company Limited, Oriental Insurance Company Limited, National Insurance Company Limited, New India Assurance Company Ltd, GIC, LIC and UTI). The remaining 69.19% of the shares are owned by mutual funds, FIIs, banks, insurance companies, corporations, and individual investors.

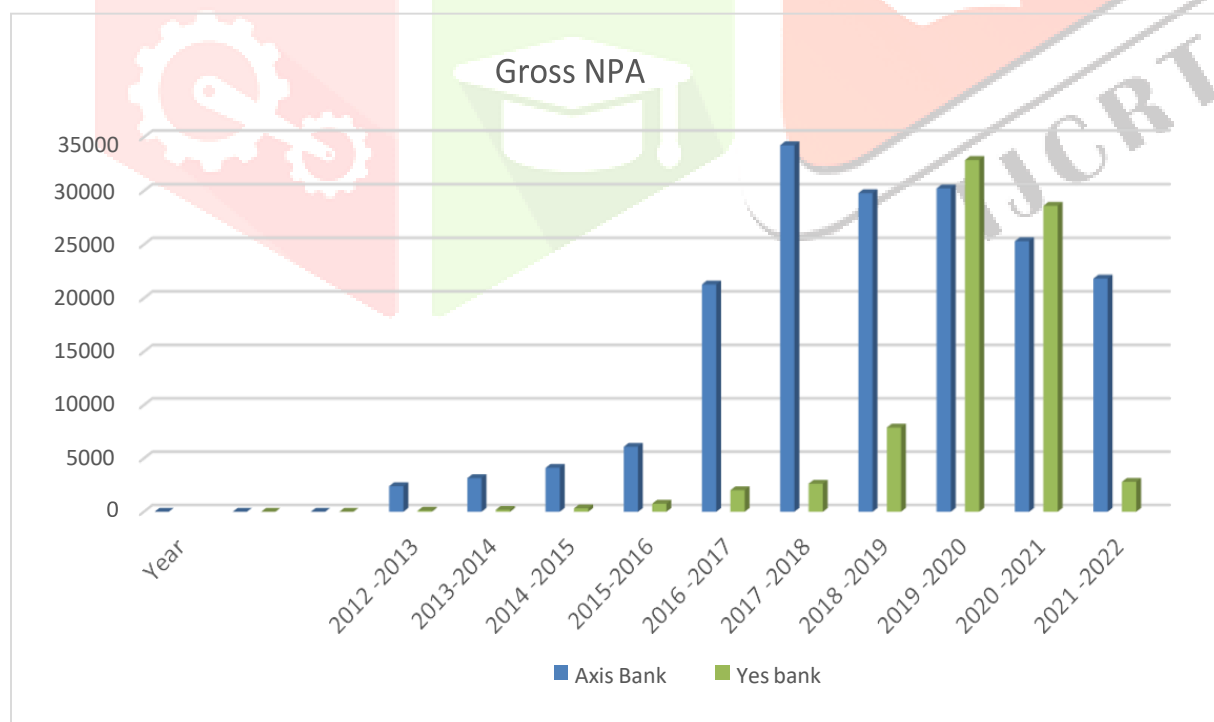
##### Overview of Yes bank

Yes Bank is an Indian bank headquartered in Mumbai, India, founded in 2004 by Rana Kapoor and Ashok Kapoor.

Through our retail banking and wealth management services, we offer a wide range of differentiated products to corporate and individual clients. On March 5, 2020, the Reserve Bank of India (RBI) took control to prevent the bankruptcy of a bank that had excessive levels of non-performing loans. The RBI then restructured its board of directors, appointing Prashant Kumar, former Chief Financial Officer and Deputy Managing Director of the State Bank of India, as his MD and CEO of Yes Bank, and former Non-Executive Chairman of the Punjab National Bank.

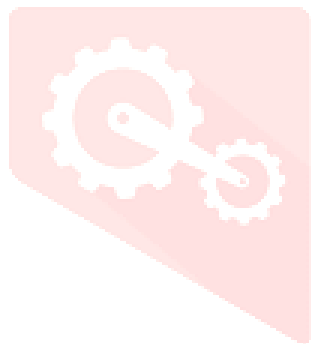
**Table: 1** – Gross NPA of Private bank (Axis bank and Yes bank)

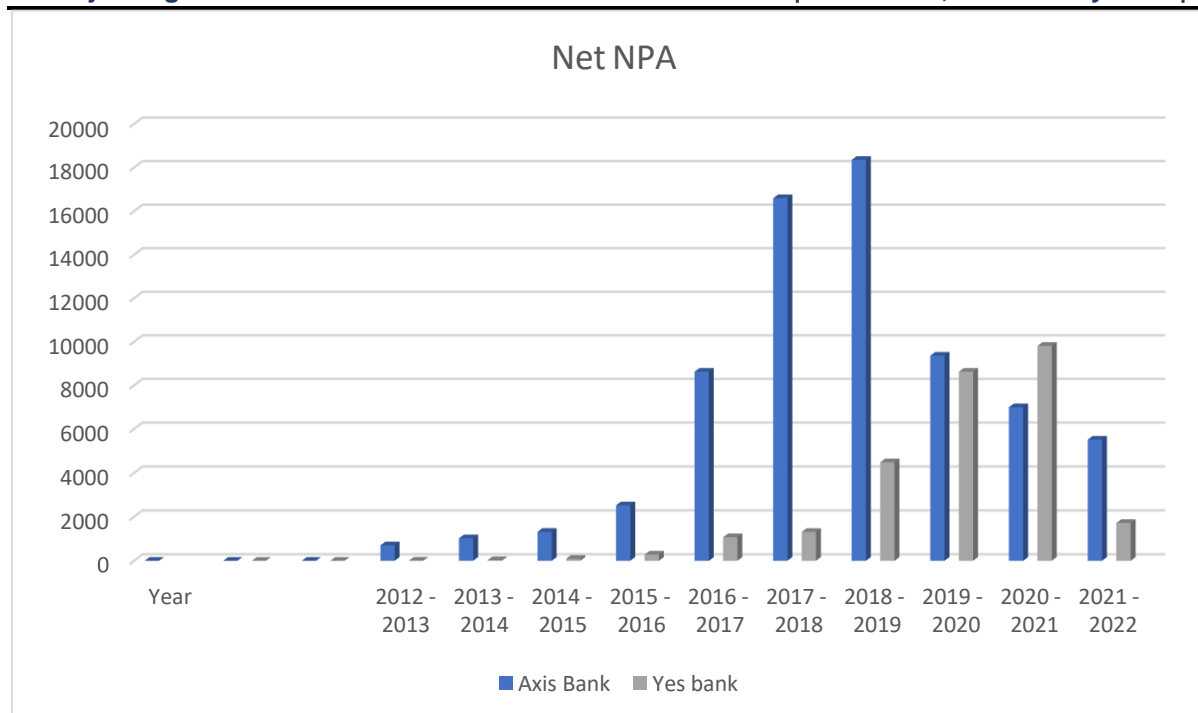
Year	Gross NPA			
	Axis Bank		Yes Bank	
	Rs	%	Rs	%
2012 -2013	2,393.42	1.00	94.32	0.00
2013-2014	3,146.41	1.00	174.93	0.00
2014 -2015	4,110.19	1.00	313.40	0.00
2015-2016	6,087.51	2.00	748.98	1.00
2016 -2017	21,280.48	5.00	2,018.56	2.00
2017 -2018	34,248.64	7.00	2,626.80	1.00
2018 -2019	29,789.00	5.00	7,882.56	3.00
2019 -2020	30,233.82	5.00	32,877.59	17.00
2020 -2021	25,314.84	4.00	28,609.53	15.00
2021 -2022	21,822.32	3.00	2,797.60	14.00



**Table 2** Net NPA of private bank (Axis Bank and Yes Bank)

Year	Net NPA			
	Axis Bank		Yes Bank	
	Rs	%	Rs	%
2012 - 2013	704.13	0.36	6.99	0.01
2013 - 2014	1,024.62	0.44	26.07	0.05
2014 - 2015	1316.71	0.46	87.72	0.12
2015 - 2016	2,522.14	0.74	284.47	0.29
2016 - 2017	8,626.60	2.27	1072.27	0.81
2017 - 2018	16,592.00	3.69	1,312.75	0.64
2018 - 2019	18,351.00	2.06	4,484.85	1.86
2019 - 2020	9,360.41	1.56	8,623.78	5.03
2020 - 2021	6,993.52	1.05	9,813.36	5.88
2021 - 2022	5,512.16	0.73	1,720.84	4.53



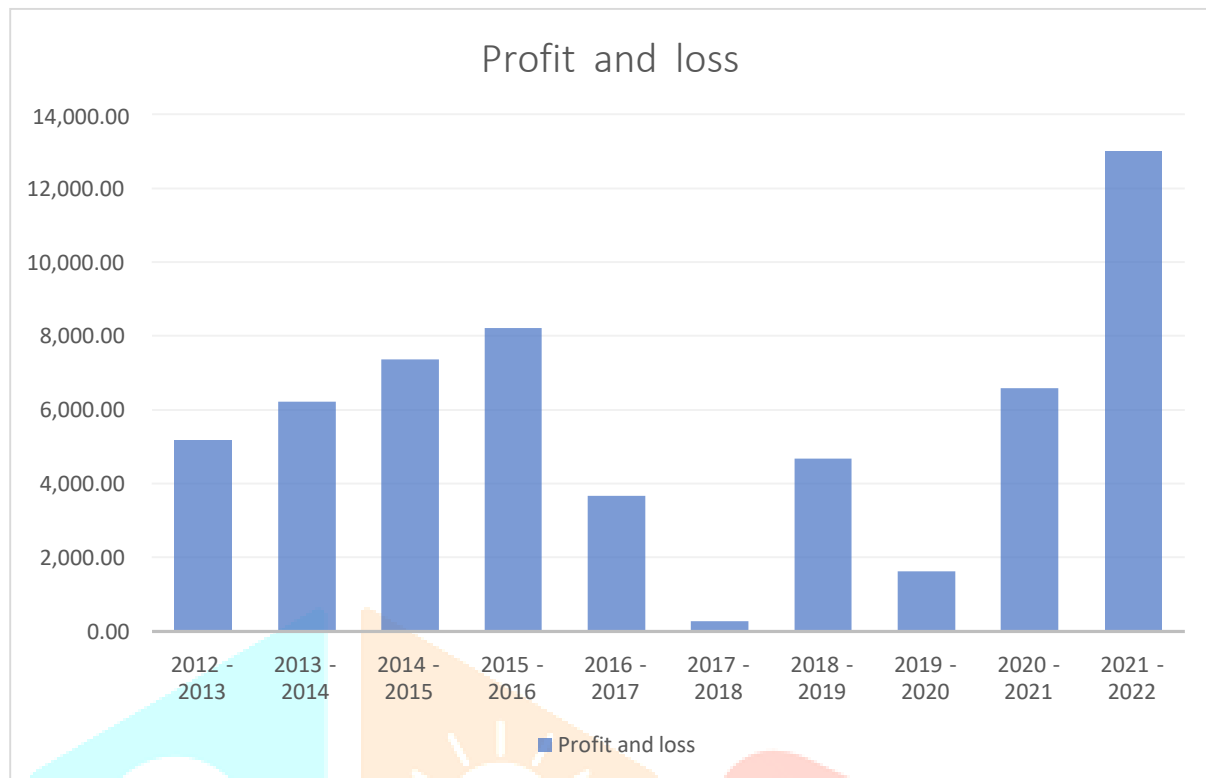


### INTERPRETATION :

The NPA axis is very large, but the chart shows that both total and net NPA are declining. In 2017 his NPA level was around 8627 Cr but now he has dropped to 5512 Cr. This is how Axis has successfully reduced NPA. This bodes well for banks, as the increase is largely due to higher provisions for non-performing assets. The net NPA ratio increased from 10.74% as of March 31, 2015 to 2.27% as of March 31, 2016. A weak global economic environment, a sharp contraction in the commodity cycle and a gradual recovery in the domestic economy adversely affected borrowers in certain sectors such as steel, start-ups and energy. Banks are working to manage borrower stress in some of these sectors, but are cautious about unsecured loans in the consumer credit segment.

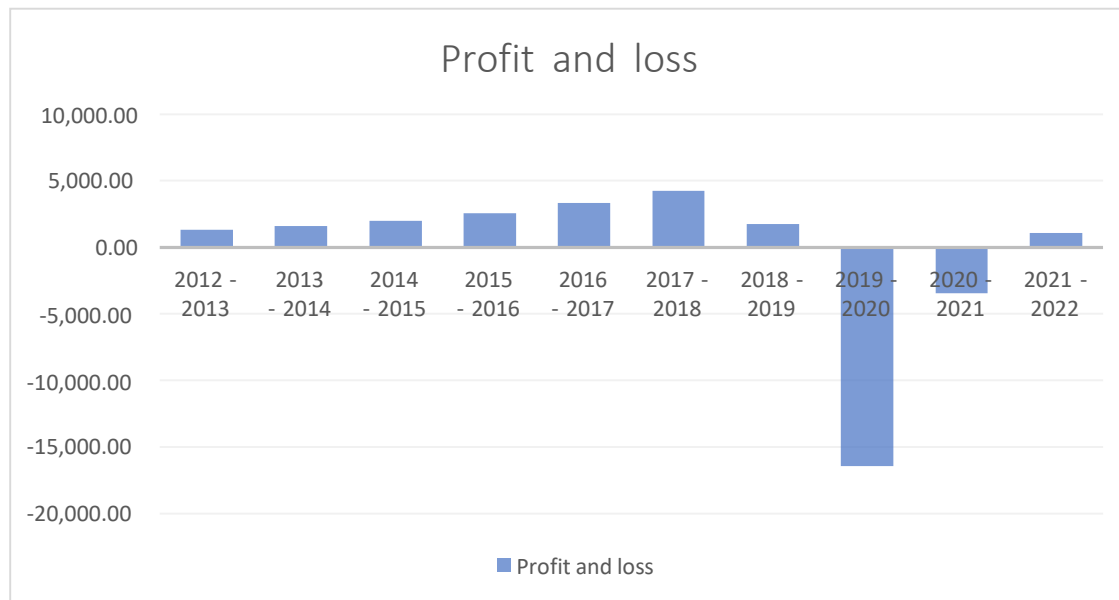
**Table 3** Evaluating the profitability position of the selected banks Profit and loss of Axis Bank

<b>Axis Bank</b>	
<b>Year</b>	<b>Profit and loss</b>
2012 – 2013	5,179.43
2013 – 2014	6,217.67
2014 – 2015	7,357.82
2015 – 2016	8,223.66
2016 – 2017	3,679.28
2017 – 2018	275.68
2018 – 2019	4,676.61
2019 – 2020	1,627.22
2020 – 2021	6,588.50
2021 – 2022	13,025.48



**Table :4** Profit and loss of Yes Bank

<b>Yes Bank</b>	
Year	Profit and loss
2012 – 2013	1,300.68
2013 – 2014	1,617.78
2014 – 2015	2,005.36
2015 – 2016	2,539.45
2016 – 2017	3,330.10
2017 – 2018	4,224.56
2018 – 2019	1,720.28
2019 – 2020	-16,418.03
2020 – 2021	-3,462.23
2021 – 2022	1,066.21



### INTERPRETATION:

From the selected private bank, Axis has been doing good in the recent years. From the study Axis has had good profit in 2012 and then it gradually slowed down and in 2018 it had a profit of 275 Cr which was very low and it had slowly grown and currently it has a profit of Rs13,025 Cr which is a good sign for the bank and in Yes bank the bank had only less profit and it faced a huge loss in the year 2019-2020.

### PUBLIC BANKS

#### Overview of State Bank of India

State Bank of India (SBI) is an Indian multinational public bank and financial services company headquartered in Mumbai, Maharashtra. SBI is his 49th largest bank in the world by total assets. It is a public sector bank and India's largest bank with 23% market share by assets and 25% of the total lending and deposit market. It is also India's fifth largest employer with approximately 250,000 employees.

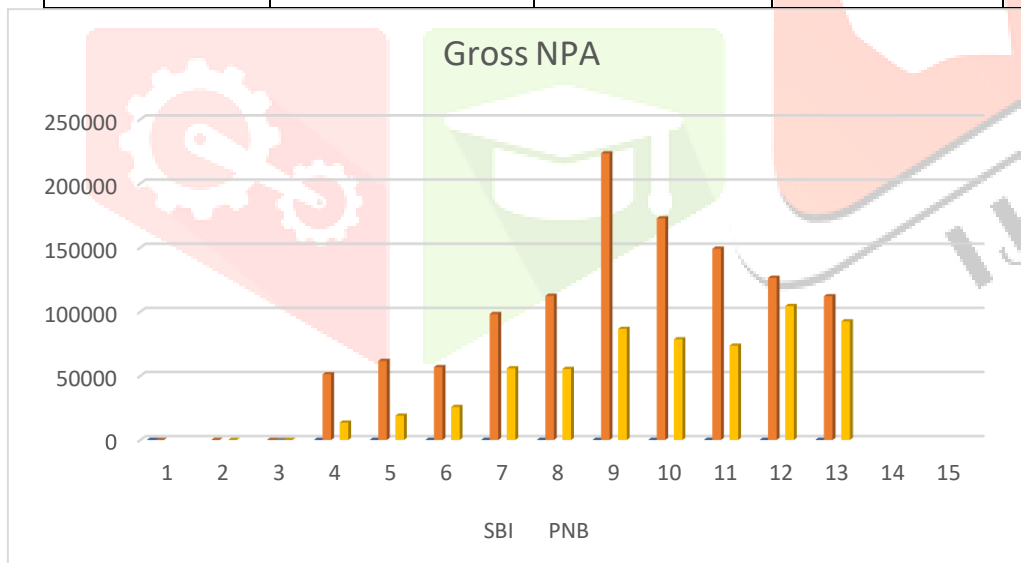
#### Overview of Punjab National Bank

The Punjab National Bank is headquartered in Delhi. Established in May 1894, the bank is the second largest state-owned bank in India in terms of both volume and network. The bank has over 180 million customers, 12,248 branches and over 13,000 ATMs.



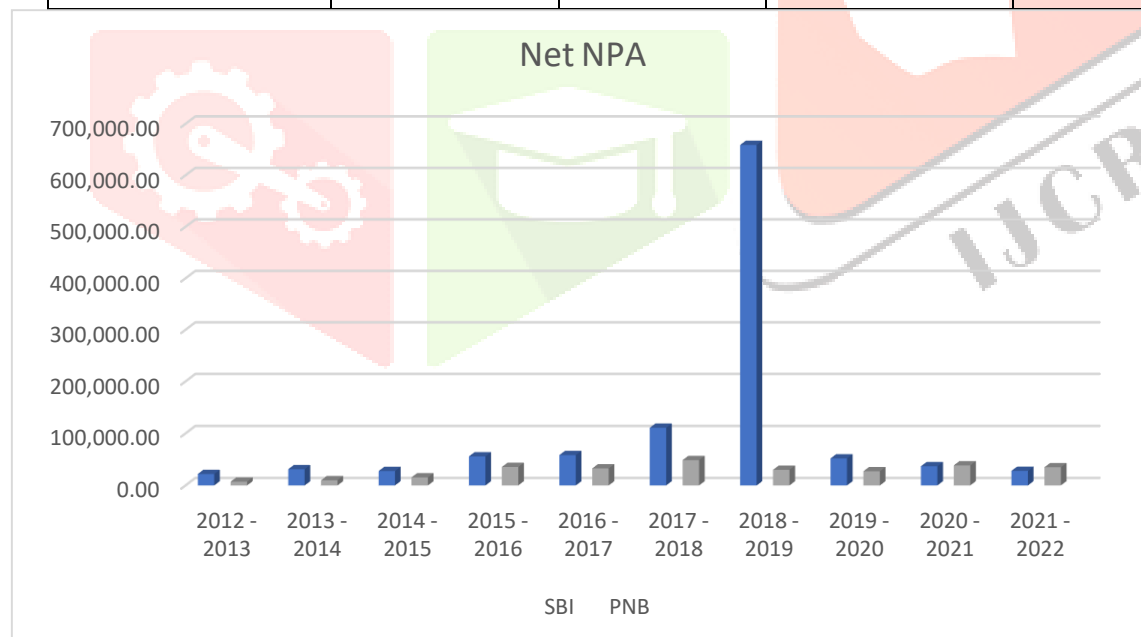
**Table 5** Gross NPA of Public bank (State Bank of India and Punjab National Bank)

Year	Gross NPA			
	State Bank of India		Punjab National Bank	
	Rs	%	Rs	%
2012 - 2013	51,189.39	5.00	13,465.79	4.00
2013 - 2014	61,605.35	5.00	18,880.06	5.00
2014 - 2015	56,725.34	4.00	25,694.86	7.00
2015 - 2016	98,172.80	7.00	55,818.33	13.00
2016 - 2017	112,342.99	7.00	55,370.45	13.00
2017 - 2018	223,427.46	11.00	86,620.05	18.00
2018 - 2019	172,753.60	8.00	78,472.70	16.00
2019 - 2020	149,091.85	6.00	73,478.76	14.00
2020 - 2021	126,389.00	5.00	104,423.42	14.00
2021 - 2022	112,023.00	4.00	92,448.04	12.00



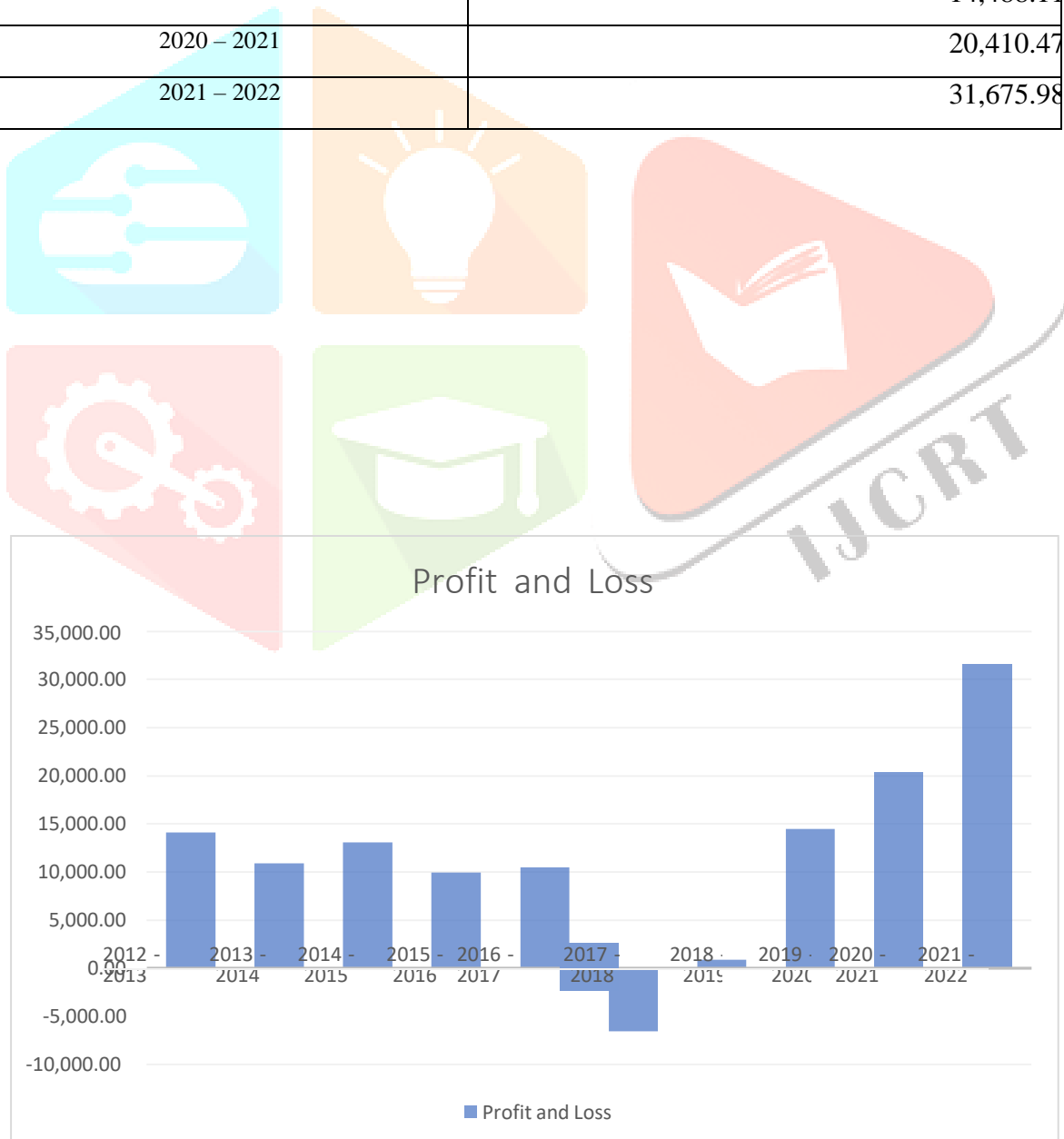
**Table: 6** – Net NPA of public bank (State Bank of India and Punjab National bank)

Year	Net NPA			
	State Bank of India		Punjab National Bank	
	Rs	%	Rs	%
2012 - 2013	21,956.48	2.10	7,236.50	2.35
2013 - 2014	31,096.07	2.57	9,916.99	2.85
2014 - 2015	27,590.58	2.12	15,396.50	4.06
2015 - 2016	55,807.02	3.81	35,422.56	8.61
2016 - 2017	58,277.38	3.71	32,702.10	7.81
2017 - 2018	110,854.70	5.73	48,684.29	11.24
2018 - 2019	658,947.40	3.01	30,037.66	6.56
2019 - 2020	51,871.30	2.23	27,218.90	5.78
2020 - 2021	36,809.72	1.50	38,575.70	5.73
2021 - 2022	27,965.71	1.02	34,908.73	4.80



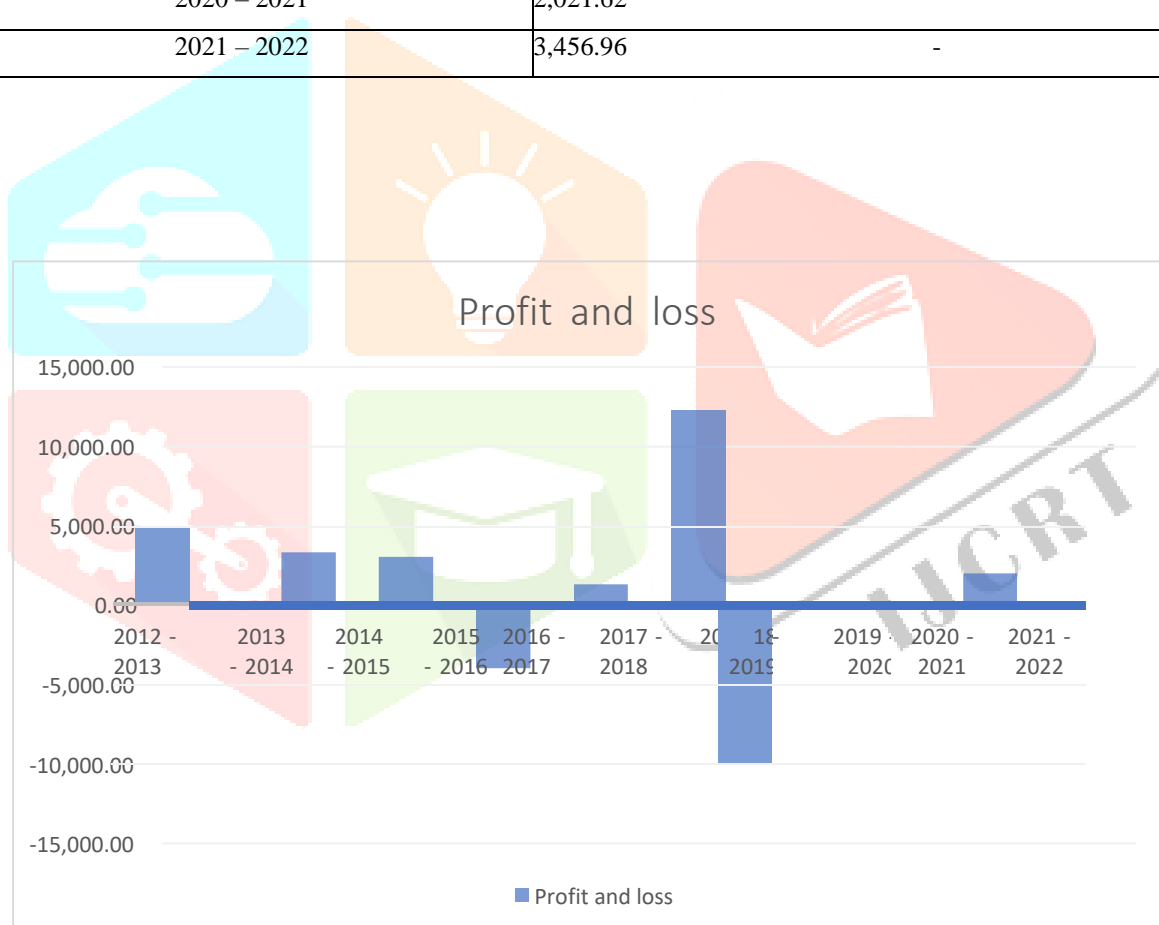
**Table 7:** Evaluating the profitability position of the selected banks Profit and loss of State Bank of India

State Bank of India	
Year	Profit and Loss
2012 – 2013	14,104.98
2013 – 2014	10,891.17
2014 – 2015	13,101.57
2015 – 2016	9,950.65
2016 – 2017	10,484.10
2017 – 2018	-6,547.45
2018 – 2019	862.23
2019 – 2020	14,488.11
2020 – 2021	20,410.47
2021 – 2022	31,675.98



**Table 8: Profit and loss of Punjab National Bank**

Punjab National Bank	
Year	Profit and loss
2012 – 2013	4,747.67
2013 – 2014	3,342.58
2014 – 2015	3,061.58
2015 – 2016	-3,974.40
2016 – 2017	1,324.80
2017 – 2018	12,282.82
2018 – 2019	-9,975.49
2019 – 2020	336.19
2020 – 2021	2,021.62
2021 – 2022	3,456.96



Comparing both the public banks, State Bank of India has been functioning good and the profit has been grown to the highest when compared to the last 10 years and Punjab National Bank has good profits in the beginning and then in the financial period 2018 – 2019 the bank has suffered a severe loss where the bank found itself in a risk and now the bank has been doing good in the recent years.

The study observed that both private sector banks and public sector banks decreased their NPA during the study period, despite an increase in prepayments. This is a good signal for the banking industry when the quality of bank assets is improved. The study concluded that the above results were achieved through rigorous standards

and regulatory initiatives. The study results show that the NPA of the State Bank of India also gradually increased in rupee and percentage terms throughout the study period. It was also found that the bank did not properly verify when allowing customers to prepay. The study showed that the NPA of the selected banks increased year on year during the study period. The banks selected for the study are public sector banks and it is concluded that the NPA of public sector banks in India is gradually increasing. This study was conducted to measure the relationship between the bank's net income and NPA. The study notes that private sector banks have higher NPAs than public sector banks. Furthermore, there is a strong relationship between a bank's net income and NPA. All banks in all sectors face NPA problems. It also shows that the NPA of the public sector is relatively higher than that of the private sector banks.

## RESEARCH OUTCOMES AND FINDINGS

- Table 1,2,3,4 shows the gross NPAs, Net NPAs and Profits of the selected private banks.
- Several NPA recoveries have been implemented and the recovery process has been good for several years.
- Although there have been various implementations in the banking industry and it has grown steadily over the past year and into the future, NPAs will still be used if banks encounter liquidation or other types of risk and may go out of business. poses a great threat. When NPA Exceeds Expectations.
- If a bank fails, the country's economy will be affected, even if other sectors of the economy are growing.
- Therefore, RBI has issued guidelines that his NPA of a bank should not exceed its management capacity and functions. All external factors are taken into account and each bank has ways of dealing with the situation.
- As the number of NPAs increases, banks will be under pressure to cut interest rates on savings deposits in order to increase margins.

## OUTCOMES

The problem of non-performing loans (NPA) has had a major impact on the Indian banking sector. Everyone worries when NPA crosses a certain threshold. Correct credit flow is essential as NPA affects credit flow which in turn affects economic growth and expansion.

Banks reuse assets acquired from borrowers in addition to acquiring new assets through new deposits. NPAs affect banks' profits as they have to ensure higher provisions for non-performing loans and non-performing loans. A study is being conducted to examine the impact of NPAs on bank profitability. Additionally, the review analyzes what key financial variables mean for NPAs.

The study includes a combined NPA of private and public banks in India. A review of the literature indicates that there are not many studies examining the relationship between NPA and profitability and other important financial factors. It is therefore important to understand these characteristics of bank NPAs.

## CONCLUSION

Only proper credit checks and risk management strategies can solve the NPA problem. Excess liquidity raises concerns about the potential risk of declining asset quality, poor asset selection and an increasing stock of non-performing loans (NPA) due to the banking system's eagerness to lend more. In order to reduce, if not eliminate, the problem of NPAs, sound standards must be implemented in the banking system.

Rising NPAs often make it difficult for borrowers to obtain financing from banks. Banks are reluctant to provide legitimate borrowers with the cash they need, or charge very high prices to cover lenders' losses due to high NPA rates. The quality of loans a bank makes is reflected in the Gross NPA, while the Net NPA reveals the true burden on the bank and causes startups to fail due to lack of funding.

Banks should take the lead in reducing non-performing loans through a time-bound strategic plan. The period considered in classifying debt as nonperforming is steadily shrinking. The continued period reduction aims to align Indian banking standards with global standards. Such a policy change would undoubtedly lower the NPA and improve the bank's asset quality.

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