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FINANCIAL DISTRESS IN INDIAN BANKS: THE NPA CRISIS AND ITS ECONOMIC FALLOUT

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ABSTRACT
Non-Performing Assets (NPAs) have become a recurring problem in the Indian banking system, which has had a substantial impact on financial stability and economic growth. This paper examines the underlying causes of the buildup of NPAs in India, such as economic slowdowns, weak credit appraisal, willful defaults, and industry-specific stress, especially in infrastructure and power. It also discusses the wider economic effects of increasing NPAs, including lower bank profitability, investor pessimism, and constrained credit to productive sectors. The study also points out recent reforms and policy initiatives by the Reserve Bank of India (RBI) and the government, including the Insolvency and Bankruptcy Code (IBC), to contain the effect of NPAs. The essay concludes by recommending ways to enhance asset quality and improve the Indian banking sector's resilience.

***Keywords**: Non-Performing Assets, Indian Banking Sector, Credit Risk, Financial Stability, Insolvency and Bankruptcy Code, Economic Impact, Asset Quality, RBI Reforms, Loan Default, Banking Crisis*

INTRODUCTION
Non-Performing Assets (NPAs) have consistently posed a significant challenge for the banking sector in India. NPAs not only undermine the financial stability of banks but also restrict their capacity to extend credit, which is essential for economic development. This research paper delves into the management of NPAs within India's banking sector, highlighting the difficulties encountered in addressing this issue. The Indian banking system has historically been regarded as strong and well-founded. This resilience was evident during the 2008 sub-prime crisis when banking systems worldwide faced imminent collapse, yet our domestic banking framework managed to withstand the severe turmoil. However, recent developments have drastically altered this landscape. The primary factors contributing to this shift include an economic slowdown driven by global trends and inherent structural issues, both of which directly affect credit distribution. The continuous and alarming increase in non-performing assets poses a significant threat to the Indian banking sector. It is widely recognized that banks serve as intermediaries, channeling domestic savings into productive investments to foster national growth. Nevertheless, it is also understood that banks generate assets through loans and advances as part of their operational model. Thus, the management of these assets is crucial for the sustainability of the banking system; a decline in asset quality can lead to challenges in fulfilling obligations to depositors. In this context, effective management is vital for maintaining the credibility of banks, as it pertains to the quality of their loans and advances, given that borrowers are a primary source of revenue. The Basel Committee on Banking Supervision defines credit risk as the 'potential default of a borrower to meet obligations in accordance with the agreed terms.' Consequently, the success of a banking institution is fundamentally evaluated based on its profitability and the quality of its assets.

MEANING OF MANAGEMENT OF NON-PERFORMING ASSETS (NPAS) IN THE INDIAN BANKING SECTOR
The term "management of non-performing assets" (NPAs) in the Indian banking industry refers to the methods and measures used by the banking system and financial institutions to recognize, categorize, mitigate, and retrieve loans and advances that have prevented the lender from earning any money because of borrower default. When a borrower defaults on a loan for a predetermined amount of time, usually 90 days or more, they are referred to as non-performing assets (NPAs) or bad loans. Background 1.1: The handling of nonperforming assets (NPAs) in India's banking industry has become a crucial and intricate problem with significant ramifications for the nation's financial stability and economic expansion. Bad loans are another term for non-performing assets (NPAs). In other words, advances or loans that have suffered from borrower defaults and forced banks to stop making any money at all. It is impossible to overestimate the importance of efficient non-performing asset (NPA) management given the vital role banks play in promoting investment, facilitating economic activity, and guaranteeing the flow of credit to economic sectors.

Background
The handling of nonperforming assets (NPAs) in India's banking industry has become a crucial and intricate problem with broad ramifications for the nation's economic development and financial stability. NPAs are frequently referred to as bad loans in everyday speech. In other words, advances or loans that have been forced to stop or produce any revenue for banks as a result of borrower defaults. Given the important role banks play in

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promoting investment, facilitating economic activity, and guaranteeing the flow of credit to different sectors of the economy, the importance of effective NPA management cannot be overstated.

Research Objectives

The goal of this study is to thoroughly examine the complex environment of non-performing asset (NPA) management in the Indian banking industry. This study's main goals are to: Examine the main tactics and procedures used by Indian banks for the detection, categorization, provisioning, settlement, and recovery of non-performing assets. to evaluate how regulatory frameworks—such as the Insolvency and Bankruptcy Code (IBC) and the Reserve Bank of India's (RBI) guidelines—affect the management of non-performing assets. to look into the difficulties and barriers banks encounter when trying to manage non-performing assets (NPAs) efficiently. to investigate the risk-related, governance, legal, and economic elements influencing the growth of non-performing assets. to make practical suggestions and tactics that could solve the issues and strengthen the Indian banking industry's ability to handle non-performing assets (NPAs).

3 SCOPE AND LIMITATIONS

The management of nonperforming assets in India's banking industry, which includes both public and private sector banks, is the main topic of this study. The study mostly uses data that is accessible to the public, legal documents, and scholarly works. It is important to remember that the results might not reflect the most recent advancements after the September 2021 knowledge cut-off date because of how dynamic the banking sector and regulatory environment are.

RESEARCH METHODOLOGY

This study uses a mixed-method approach to accomplish the stated goals. While quantitative analysis involves looking at past NPA data, financial indicators, and pertinent statistical techniques to find trends and patterns, qualitative analysis is used to evaluate the regulatory framework, strategies, and difficulties surrounding NPA management. This comprises scholarly publications, bank annual reports, and the Reserve Bank of India report. Furthermore, case studies and interviews with banking professionals and industry experts will offer insightful information about the real-world applications of NPA management. A thorough grasp of the subject will be made possible by the integration of qualitative and quantitative methods, which will also help to produce well-informed conclusions and suggestions.

LITERATURE REVIEW

The nation's banking industry's nonperforming assets (NPAs) have been the focus of much investigation and study. According to the Reserve Bank of India's (RBI) 2021 report, non-performing assets (NPAs) are loans or advances whose principal or interest payments by the defaulter are past due for a predetermined amount of time. These loans fall into one of three categories: loss assets, doubtful assets, or substandard. The degree of default determines them.

Mishra and Kumar (2018) Economic downturns, borrower defaults, insufficient credit evaluation, and subpar risk management techniques are among the factors cited in their journal as contributing to non-performing assets (NPAs). Prusty (2019) also emphasizes how a lack of oversight and monitoring can result in the accumulation of non-performing assets.

However, in their 2016 paper, Rajaraman and Vasishtha shed light on the negative effects of non-performing assets (NPAs) on the Indian banking industry. According to them, non-performing assets (NPAs) reduce a bank's profitability and capital adequacy, which restricts its capacity to provide credit and impedes economic expansion. While Agarwal and Agarwal (2017) stress the necessity of efficient NPA management to shield the industry from any vulnerable disaster, they also highlight the connections between NPAs, systemic risk, and financial stability.

The regulatory framework, where the Reserve Bank of India (RBI) has put rules and guidelines in place to guarantee uniform practices, is another issue that has a big impact on NPA management. Dutta and Sagar (2019) emphasize the importance of the RBI's prudential standards in NPA recognition and provisioning on the same topic. Furthermore, the insolvency and bankruptcy code has revolutionized the process of resolving non-performing assets (NPAs), according to Ramchandran and Dash (2019).

In **2012, Mehta** His article goes into great detail about the NPA issue. As per his explanation, the primary obstacle facing Indian banks is restructuring their low-quality assets, which has resulted in a significant amount of non-performing assets. He believes that the standards would favor the big banks simply due to their ability to manage risk and their diverse portfolios.

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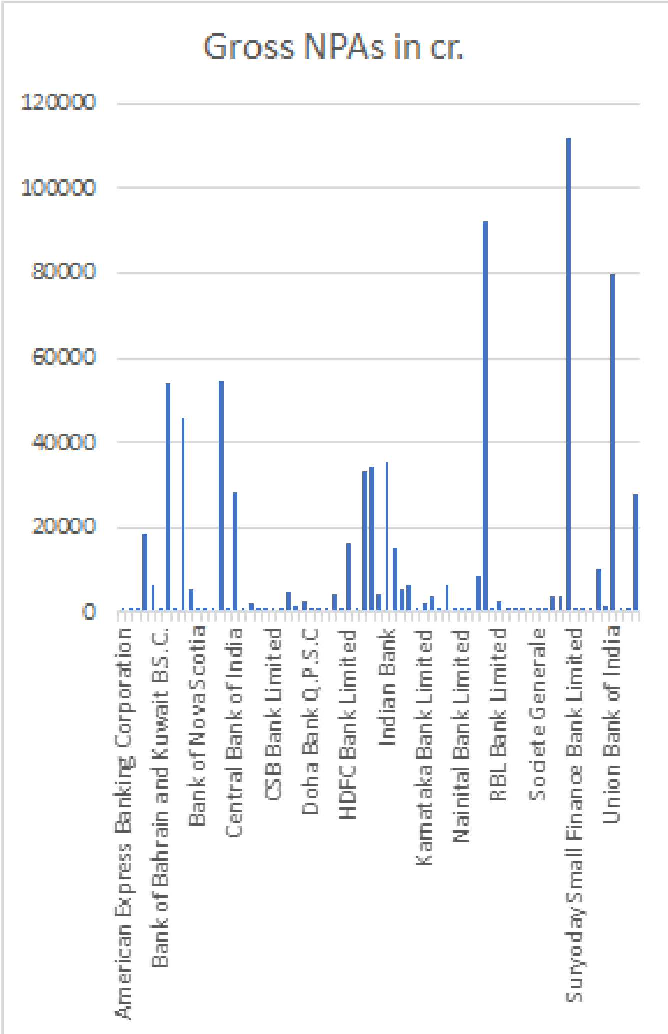
Balasubramaniam (2002) highlighted the management-related cause. He claims that managing non-performing assets (NPAs) takes a lot of time and effort from management, and that this is an additional indirect expense that banks must pay. After all, it has an impact on banks' solvency, which eventually causes deposits to decline. The author of the particular study on non-performing assets (NPAs) focuses on the banking system reforms implemented in India to lower NPAs and comes to the conclusion that these changes were neither effective nor significant in lowering NPAs in India.



KEY FEATURES THAT PLAY PIVOTAL ROLE IN THE MANAGEMENT OF NPAS IN THE INDIAN BANKING SECTOR

Certainly, there are several features that play major role in maintaining the legacy of banking system by managing the NPAs. Out of those, some of them are as follows-

Identification and Classification- A bank must regularly evaluate the quality of its loan portfolios and categorize loans as standard, sub-standard, doubtful, or loss assets depending on the degree of repayment irregularities and the extent of default because it is a body that needs careful management. For this classification, the Reserve Bank of India (RBI) offers guidelines.

Provisioning- To help them cover potential losses resulting from non-performing assets (NPAs), banks must set up a positive ratio by allocating a portion of their profits as provisions. The provisioning requirements, which are meant to guarantee that banks have enough capital to handle any losses, must be based on the asset classification.

Bank-wise Details of Recovery in Non-Performing Assets (NPAs) by Public Sector					
Bank	**2020-21**	**2021-22**	**2022-23**	**2023-24**	**2024-25**
Bank of Baroda	8357	8564	9572	7199	4535
Bank of India	4684	7858	7236	7720	4166
Bank of Maharashtra	2302	1816	1876	1610	968
Canara Bank	10318	11324	17029	9095	4358
Syndicate Bank	NA	NA	NA	NA	NA
Central Bank of India	2972	3441	4505	3402	1542
Indian Bank	4473	5087	7039	6654	2892
Allahabad Bank	NA	NA	NA	NA	NA
Indian Overseas Bank	1668	1397	1229	3614	844
Punjab and Sind Bank	1004	1273	1818	1600	223
Punjab National Bank (PNB)	13939	19229	16309	13206	4854
Oriental Bank of Commerce	NA	NA	NA	NA	NA
United Bank of India	NA	NA	NA	NA	NA
State Bank of India	23678	18125	20122	15169	7037
UCO Bank	2155	2845	2979	2227	1282
Union Bank of India (UBI)	7727	8601	12827	11277	4552
Andhra Bank	NA	NA	NA	NA	NA
Corporation Bank	NA	NA	NA	NA	NA

Recovery and Resolution- The sale of distressed assets to Asset Reconstruction Companies (ARCs), loan restructuring, and borrower negotiations are some of the strategies banks uses to recover non-performing assets (NPAs). For the National Company Law Tribunal (NCLT) to resolve non-performing assets (NPAs), the Insolvency and Bankruptcy Code (IBC) has emerged as a key instrument.

Preventive Measures-Banks also implement preventive measures to reduce the occurrence of NPAs. This includes thorough credit risk assessment, due diligence, effective loan monitoring, and stringent documentation.

Debt Recovery Tribunals (DRTs)- DRTs are special courts in India that handle cases related to the recovery of debt and NPAs. Banks can file cases with DRTs to expedite the recovery process.

Asset Quality Reviews (AQRs)- RBI is an institution that conducts AQRs periodically to assess the true asset quality of banks. It involves a thorough examination of a bank's loan portfolio to identify hidden or unreported NPAs.

Prompt Corrective Action (PCA)- PCA is a regulatory framework by RBI that is triggered when a bank's financial health deteriorates due to NPAs. It imposes restrictions on the bank's operations until it improves its financial position.

Stressed Asset Funds- RBI has introduced various schemes and funds, such as the Stressed Asset Stabilization Fund (SASF), to help banks in managing and recovering stressed assets.

Recapitalization-The government may infuse capital into public sector banks to strengthen their balance sheets and help them deal with NPAs effectively.

Credit Culture and Governance- Improvement in the credit culture and governance practices within banks is essential to prevent the recurrence of NPAs.

Project Sashakt- It is an initiative that introduced in 2018 to address and identify the issue of NPAs in the India’s banking system. It mainly focuses on resolving stressed assets, including large corporate loans, through a market-driven approach. It promotes the formation of asset management companies (AMCs) to take over and manage stressed assets.

SARFAESI Act Amendments: - To give banks and other financial institutions more authority to recoup delinquent loans, the Securitization and Reconstruction of Financial Assets and Enforcement of Security Interest (SARFAESI) Act was modified. These changes made it possible for NPAs to be resolved more quickly. The aforementioned mechanism is unquestionably crucial for more rigorous and effective NPA management. These characteristics are essential to the stability and well-being of the banking industry in India. It supports responsible lending practices, helps banks maintain appropriate capital levels, and safeguards the general stability of the financial system. In order to preserve financial stability, the RBI, the body that oversees and controls the Indian banking sector, is crucial in controlling and monitoring the handling of non-performing assets (NPAs) in the country.

The Prompt Corrective Action (PCA) framework, which aims to identify and address issues at banks with poor financial health, is one of the measures that the Reserve Bank of India has put in place specifically to lower non-performing assets (NPAs). Additionally, India has a sizable public sector banking system, which may have an impact on the amount of non-performing assets (NPAs). This is because these banks are frequently viewed as "too big to fail" and may be eligible for government assistance during difficult financial times.

Glimpses of Causes and Challenges of NPAs in India: A statistical Analysis: When talking about non-performing assets (NPAs), it has been recognized that there are a number of internal and external factors that contribute to this issue in India. It should be mentioned that the specific statistics and trends may have changed since September 2021, when the historical data was used. Let's attempt to comprehend a few typical reasons for non-performing assets in India.

Economic Downturns: - When talking about non-performing assets (NPAs), it has been recognized that there are a number of internal and external factors that contribute to this issue in India. It should be mentioned that the specific statistics and trends may have changed since September 2021, when the historical data was used. Let's attempt to comprehend a few typical reasons for non-performing assets in India.

Sectors with High NPAs- When talking about non-performing assets (NPAs), it has been recognized that there are a number of internal and external factors that contribute to this issue in India. It should be mentioned that the specific statistics and trends may have changed since September 2021, when the historical data was used. Let's attempt to comprehend a few typical reasons for non-performing assets in India.

Policy and Regulatory Changes- Policy and regulatory changes, such as environmental clearances, land acquisition issues, and changes in government regulations, can impact projects' viability, leading to NPAs in sectors like infrastructure and mining.

Global Economic Factors- Global economic factors, such as fluctuations in commodity prices or changes in global demand, can affect sectors like export-oriented industries and commodities, leading to NPAs.

Mismatch in Asset-Liability- Banks often face NPAs when there is a mismatch between the maturity of their assets (loans) and liabilities (deposits). If a bank has short-term liabilities but has given long-term loans, it can face liquidity challenges.

Lack of Due Diligence- Inadequate due diligence by banks and financial institutions while assessing borrower creditworthiness can lead to NPAs. Statistical analysis may reveal patterns of loans extended without proper risk assessment.

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Bank	Number of NPA Accounts
American Express Banking Corp.	107042
AU Small Finance Bank Limited	48621
Australia and New Zealand Banking Group Limited	2
Axis Bank Limited	577952
Bandhan Bank Limited	836263
Bank of Bahrain & Kuwait B.S.C.	49
Bank of Baroda	683257
Bank of Ceylon	5
Bank of India	1411132
Bank of Maharashtra	406538
Bank of Nova Scotia	4
Barclays Bank Plc	3
BNP Paribas	1
Canara Bank	971127
Capital Small Finance Bank Limited	838
Central Bank of India	872983
Citibank N.A	28239
City Union Bank Limited	12306
Cooperatieve Rabobank U.A.	3
Credit Agricole Corporate and Investment Bank	1
CSB Bank Limited	45849
CTBC Bank Co., Ltd.	1
DBS Bank India Ltd.	5105
DCB Bank Limited	161535
Deutsche Bank Ag	1595
Doha Bank Q.P.S.C	2
Equitas Small Finance Bank Limited	212233
Esaf Small Finance Bank Limited	461132
Federal Bank Ltd	61791
Fincare Small Finance Bank Limited	600742
HDFC Bank Ltd.	1301624
Hongkong And Shanghai Banking Corpn.Ltd.	6514
ICICI Bank Limited	367823
IDBI Bank Limited	167780
IDFC First Bank Limited	635670
Indian Bank	950114
Indian Overseas Bank	191954
Indusind Bank Ltd	528734
Jammu & Kashmir Bank Ltd	42116
Jana Small Finance Bank Limited	244576
Karnataka Bank Ltd	19968
Karur Vysya Bank Ltd	21135
Keb Hana Bank	1
Kotak Mahindra Bank Ltd.	269807
Mizuho Bank Ltd	1
Nainital Bank Ltd	6271
North East Small Finance Bank Limited	74103
Punjab and Sind Bank	75244
Punjab National Bank	2136256
Qatar National Bank (Q.P.S.C.)	1
RBL Bank Limited	637987
Sberbank	2
SBM Bank (India) Ltd.	854
Shivalik Small Finance Bank Limited	1616
Societe Generale	3
Sonali Bank	17
South Indian Bank Ltd	9887
Standard Chartered Bank	23957
State Bank of India	3593597
Suryoday Small Finance Bank Limited	418868
Tamilnad Mercantile Bank Ltd	7478
The Dhanalakshmi Bank Ltd	2856
UCO Bank	529635
Ujjivan Small Finance Bank Limited	564167
Union Bank of India	1123858
United Overseas Bank Ltd	1
Utkarsh Small Finance Bank Limited	332273
Yes Bank Ltd.	121002

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Over-Optimistic Projections- Lending institutions and borrowers sometimes make overly optimistic projections about the viability of projects, leading to loans becoming non-performing when these projections do not materialize.

Legal and Regulatory Delays- Delays in the legal and regulatory process can hinder the resolution of NPAs. The slow pace of the legal system and challenges in recovering assets through the legal route can contribute to the persistence of NPAs.

Political and Social Pressures- Sometimes, political and social pressures influence the resolution process, leading to delays or sub-optimal solutions. This can hinder the banking sector's ability to handle NPAs effectively.

Inadequate Skills and Technology- Banks need skilled professionals and advanced technological tools to assess, manage, and recover NPAs efficiently. Lack of expertise in handling distressed assets and outdated technology can impede the resolution process.

GOVERNANCE ISSUES IN THE BANKING SYSTEM

Ineffective monitoring of loan utilization is always the result of weak and ineffective corporate governance mechanisms. India appears to be slipping in the governance rankings, and this action is hurting the country's economy overall and the banking sector specifically. This has arisen in part because of the relationship between politicians and corporations, in part because of widespread corruption in the banking industry, and in part because of the banks' inadequate training programs, which have prevented employees from rising to the occasion and dealing with the NPA issue.

It was recognized that managerial shortcomings continue to be the paradox of the positive managerial task when analyzing the reasons behind the non-performing assets (NPAs). To protect the bank's own interests, the banker must choose the borrower carefully and should take physical assets into account as security. As a result, it is crucial that banks adhere to the principles of risk diversification, which are founded on the well-known adage "Do not keep all the eggs in one basket." This means that bankers should refrain from concentrating in a small number of industries or making advances to a select group of large farms, as they currently do. In such a scenario, the bank's overall standing could be jeopardized if a particular new, large customer experiences bad luck. Because of the banks' and policymakers' indifferent attitude, managerial shortcomings result in situations where non-performing assets keep rising. Here are a few of the obstacles that make the loans in question unfavorable. NPAs rise as a result of banks' lax underwriting standards, which frequently result in noncompliance with underwriting guidelines when making loan decisions. Another factor contributing to the rise in non-performing assets (NPAs) is the low interest rates, which make it hard for banks to make enough money to pay for bad loans.

COLLECTION AND ANALYSIS OF THE PRIMARY DATA GATHERED

General information about the respondents is one of the two sections into which the data is separated. e. their gender, age, income, occupations, and level of education, while the second half consists of questions specifically about the issue of non-performing assets (NPAs) within India's political borders. In total, 140 respondents provided data, which was analyzed to gain a thorough grasp of non-performing assets (NPA) and the difficulties that both public and private banks face. According to the analytical reports, banks have been severely impacted by rising non-performing assets (NPAs), as they frequently lose a significant amount of money due to loans that are not promptly repaid. According to the data, the majority of respondents strongly agree that important figures or powerful politicians play a significant role in the loan lending process, and that these loans eventually turn into non-performing assets (NPAs). These kinds of acts occur in practically every sector. e. primary, tertiary, and manufacturing. Moreover, the majority of respondents believe that widespread corruption serves as a deterrent to the growth of non-performing assets. Aside from these, insufficient and ineffective bank employees are also a contributing factor to the increase in non-performing assets (NPAs), as the majority of loans are not thoroughly examined. Many loans consequently end up in the non-performing asset (NPA) trap. In addition to natural disasters, government programs, etc. are the additional reasons behind the notable rise in the NPA.

CONCLUSION

Nonetheless, this study offers some hope by outlining a number of tactics and actions that can be taken to successfully manage non-performing assets. These consist of risk diversification, asset quality evaluations, early detection and prevention, technology adoption, loan recovery and resolution tactics, bolstering the legal system, skill and training development, and careful capital adequacy planning. Banks can lessen the negative effects on their financial stability and drastically lower their NPA levels by putting these strategies into practice. However,

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the combined efforts of banks, regulators, legislators, and borrowers will be crucial to the success of NPA management initiatives. As a result, the banking industry must take a proactive, multifaceted approach that tackles the underlying causes of non-performing assets (NPAs). This includes enhancing risk assessment, fortifying legal frameworks, and developing recovery capabilities. If properly implemented, these steps will support the general stability and expansion of the Indian economy in addition to assisting banks in recovering their troubled assets. The banking must be done immediately.

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