

A Study of Non-Performing Assets of Commercial Banks and it's Recovery in India

Submitted in partial fulfilment of the requirements for the award of

MASTER OF BUSINESS ADMINISTRATION

by

**CAROLIN LYDIA. C
(40410037)**



SCHOOL OF MANAGEMENT STUDIES

**SATHYABAMA
INSTITUTE OF SCIENCE AND TECHNOLOGY
(DEEMED TO BE UNIVERSITY)
Accredited with Grade “A” by NAAC**

JEPPIAAR NAGAR, RAJIV GANDHI SALAI, CHENNAI – 600119

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Jeppiaar Nagar, Rajiv Gandhi Salai, Chennai – 600119

www.sathyabama.ac.in

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BONAFIDE CERTIFICATE

This is to certify that this Project Report is the bonafide work of **CAROLIN LYDIA.C 40410037** who carried out the project entitled “**A Study of Non-Performing Assets of Commercial Banks and it’s recovery in India**” under my supervision from January 2022 to March 2022.

Dr. SASIREKHA. K

Internal guide

External Guide

Dr. BHUVANESWARI. G

Dean – School of Management Studies

Submitted for Viva voce Examination held on _____

Internal Examiner

External Examiner

DECLARATION

I **CAROLIN LYDIA. C (40410037)** hereby declare that the Project Report entitled “**A Study of Non-Performing Assets of Commercial Banks and it’s recovery in India**” done by me under the guidance of **DR. SASIREKHA. K** is submitted in partial fulfilment of the requirements for the award of Master of Business Administration degree.

DATE:

PLACE: Chennai

CAROLIN LYDIA.C

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TABLE OF CONTENT

Chapter No	Title	Page No
	Abstract	I
	List of Tables	li
	List of Charts	lii
1.	Introduction	8 – 9
	1.1 Introduction	8
	1.2 Industry Profile	9
	1.3 Types of Banks	9
	1.4 Market Size	9
	1.5 Products and Services	10
	1.6 Non-Performing Assets in India	11
2.	Review of Literature	12 – 15
	2.1 Review of Literature	12
3.	Research Methodology	16 -17
	3.1 Need for Study	16
	3.2 Scope of Study	16
	3.3 Objectives of the Study	16
	3.4 Research Design	16
	3.5	17
		17
4.	Data & Interpretation	18 – 26
	4.1 Recovery Channels of NPAs	18
	4.2 Recoveries	20
	4.3 Impacts of NPAs	25

5.	Findings, Suggestions & Conclusions	26 – 29
	5.1 Findings	26
	5.2 Suggestions	28
	5.3 Conclusion	29
	References	30 – 33
	Annexure	34

Abstract

The Indian banking sector has been facing a serious problem of rising Non-Performing Assets (NPAs). The NPAs growth has a direct impact on profitability of banks. Non-Performing assets are one of the major concerns for scheduled commercial banks in India. It continues to be expressed from every corner that there has rarely been any systematic evaluation of the best way of tackling the problem. There seems to be no unanimity in the proper policies to be followed in resolving this problem. NPAs reflect the performance of banks. A high level of NPAs suggests high probability of many credit defaults that affect the profitability and net worth of banks and erodes the value of the asset. NPAs affect the liquidity and profitability, in addition to posing threat on quality of asset and survival of banks. The problem of NPAs is not only affecting the banks but also the whole economy. In fact, the high level of NPAs in Indian banks is nothing but a reflection of the state of health of the industry and trade. It is necessary to trim down NPAs to improve the financial health in the banking system. An attempt is made in this paper to understand NPA, the status and trend of NPAs in Indian scheduled commercial banks, the factors contributing to NPAs, reasons for high impact of NPAs on Scheduled commercial banks in India and recovery of NPAs through various channels.

List of Tables

Table No	Particulars	Page No
4.1	Recovery Channels of NPAs	22
4.2	Gross & Net Advances	24

List of Charts

Chart No	Particulars	Page No
4.1	Recovery Channel of NPAs 2019 – 2020	23
4.2	Recovery Channels of NPAs 2020 – 2021	23
4.3	Percentage of Gross & Net advances	25
4.4	Percentage of Total assets of Gross & Net	26

CHAPTER – 1

Introduction

1.1 Introduction.

The banking industry plays a critical role in the economy of our country. It grew in leaps and bounds and so is the complexity associated with it. However, a troubled crisis affecting the banking sector, Non- Performing Assets (NPA). Growing incidents of non-performing advances or loans can have a potential adverse impact on the performance of the banks by squeezing their earnings, thereby reducing their profitability. Typically, a loan or advances become non- performing assets(NPAs) when a borrower defaults on the repayment of either the principal amount or is unable to service his debt. An NPA not only makes an asset unproductive, banks also fail to recover the principal capital. On the one hand, the interest earning of the bank declines, on the other side, there is a risk of recovery of principal amount. The major problem today faced by the entire banking sector is the increasing risk of non-performing assets, which poses a challenge to their ultimate survival.

Asset quality was not prime concern in Indian banking sector till 1991, but was mainly focused on performance objectives such as opening wide networks/branches, development of rural areas, priority sector lending, higher employment generation, etc. While the primary function of banks is to lend funds as loans to various sectors such as agriculture, industry, personal loans, housing loans etc., but in recent times the banks have become very cautious in extending loans. The reason being mounting nonperforming assets (NPAs) and nowadays these are one of the major concerns for banks in India. Bankers are the custodians and distributors of the liquid capital of the country. Therefore most important function of the banking system is to mobilize the savings of the people by accepting deposits from the public. The banker becomes the trustee of the surplus balances of the public. Deposit mobilization promotes the economic prosperity by controlling the money circulation and canalizing for development and productive purposes. In order to mobilize deposits, the commercial banks undertake deposit mobilization through various deposit schemes suited to the different sections of the people. The deposits along with other sources of funds namely capital, reserves and borrowings, form the sources of funds for the banks. The lending and investment activities of the bank are based on the sources of funds.

1.2 Industry Profile.

A bank is a financial institution that provides banking and other financial services to their customers. Banks are a subset of the financial services industry and play an important role in the global economies. They are a key player in stimulating economic growth. Banking is an important undertaking. The movement of capital handled by banks allows economies to grow and prosper. Businesses and governments need money to operate, and banks act as intermediaries between the suppliers of funds and users of funds.

1.3 Types of Banks in India

There are several types of banks in India that are broadly divided into 2 categories i.e. Scheduled Banks and Non – Scheduled Banks.

In this research paper we have opted Scheduled Commercial Banks, They are listed in the second schedule of the RBI Act. These have a paid up capital of Rs. 5 lakhs or more and comply with all the requirements of the RBI. They maintain a cash reserve ratio with RBI. They are authorized to borrow funds from the Reserve Bank of India. They are comparatively more financially stable.

Scheduled banks are of,

- Central banks,
- Cooperative banks.

1.4 Market size.

The Indian banking system consists of 12 public sector banks, 22 private sector banks, 46 foreign banks, 56 regional rural banks, 1485 urban cooperative banks and 96,000 rural cooperative banks in addition to cooperative credit institutions As of September 2021, the total number of ATMs in India reached 213,145.

In FY 2018-2021, banking assets across all sectors increased. Total assets in the banking sector as a whole (including public and private banks) amounted to US\$2.48 trillion in fiscal year 21.

In fiscal year 2021, the total assets of the public and private banking sectors totalled \$1,602.65 billion and \$878.56 billion, respectively.

During FY16-FY21, bank credit increased at a CAGR of 0.29%. As of FY21, total credit extended surged to US\$ 1,487.60 billion. During FY16-FY21, deposits grew at a CAGR of 12.38% and reached US\$ 2.06 trillion by FY21.

According to the RBI, bank credit stood at Rs. 110.46 trillion (US\$ 1.47 trillion) and credit to non-food industries stood at Rs. 109.82 trillion (US\$ 1.46 trillion) as of September 24, 2021.

1.5 PRODUCTS AND SERVICES OF BANK

Bank is a business operation with the following as the major products and services,

- Acceptance of Deposits
- Lending of Funds
- Clearing of Cheques
- Remittance of Funds
- Lockers & Safe Deposits
- Bill Payment Services
- Online Banking
- Credit & Debit Cards
- Overseas Banking Services
- Wealth Management
- Investment Banking
- Social Objectives.

1.6 Non – Performing Assets in India.

According to the Reserve Bank of India (RBI), the gross non-performing assets in Indian banks, specifically in public sector banks, are valued at around Rs 400,000

crore (~US\$61.5 billion), which represents 90% of the total NPA in India, with private sector banks accounting for the remainder.

The Reserve Bank of India (RBI) has defined the NPAs as those assets for which principal or interest payment remains overdue for a period of ninety days. The RBI has classified three types of assets within the category NPAs.

Asset classification categories of NPAs

1. Standard Assets.

Standard assets are the ones in which the bank is receiving interest as well as the principal amount of the loan regularly from the customer. Here it is also very important that in this case the arrears of interest and the principal amount of loan do not exceed 90 days at the end of the financial year.

2. Sub-standard Assets

With effect from 31 March 2005, a substandard asset would be one, which has remained NPA for a period less than or equal to 12 months.

3. Doubtful assets

A loan is classified as doubtful if it remained in the sub-standard category for 12 months

4. Loss Assets

A loss asset is one which is considered uncollectible and of such little value that its continuance as a bankable asset is not warranted although there may be some salvage or recovery value. Also, these assets would have been identified as loss assets by the bank or internal or external auditors or the RBI inspection but the amount would not have been written off wholly.

CHAPTER - 2

Review of Literature

2.1 Review of Literature.

Many published articles are available in non- performing assets and a large number of researchers have studied the issue of NPA in the banking industry. A review of the relevant literature has been described.

Nikhat fatima, Husain ashraf, October 2020. The study investigated the various parameters of NPAs in scheduled commercial banks (SCBs) as well as examined the performance of three major legal recovery channels for NPAs that is, Lok Adalats, SARFAESI and DRTs. The study employed ANOVA and Kruskal-Wallis test for analyzing the differences among recovery channels. The analysis revealed that there is significant difference in NPA recovery ratio across these channels. The author found that there has been significant increase in NPA ratios during 2007 to 2018 and concluded that SARFAESI is the most effective recovery channel as its procedure is not lengthy plus it empowers secured creditors to recover their debts without the intervention of court.

R. Alamelumangai & B. Sudha, August 2019, Indian Banking industry is growing with Non-performing assets in the recent past. The amount of stressed advances was enlarged and the trend of NPA recovery remains sluggish in the Scheduled Commercial Banks (SCBs). To understand the significant difference in the trend of NPA recovery among the existing channels, a statistical test of Analysis of Variance (ANOVA) has been used.

Rabindra kumar swain, Muna Sahoo, Anjali prava mehra, January 2018. From the study it is inferred that recovery of NPAs is still a measure of concern for commercial banks in India. One of the reasons for the poor recovery from NPAs is that the mechanisms created for this purpose are not effective. That's why banks are not able to derive full benefits from these.

Sowmya (2019). The reasons responsible for the momentous amount of NPAs have been elucidated as well as measures were suggested for reducing them effectively. The author compared the NPAs of public and private sector banks (PvSBs) for the period covering from 2010-11 to 2016-17. The study found that banks contained more NPAs due to poor management policies and techniques. It suggested that banks should revise their recovery mechanisms and follow proper credit appraisal while lending loans.

Sahni & Seth (2017) made a study on NPAs in Indian commercial banks and they opined that for improving financial performance in the banking sector, the NPAs have to be organised. Government has taken different measures to reduce the NPAs. It is in the part of bank to be carefully while giving loans. They must be very much careful and also ensure the credit worthiness of various customers.

Banana & Chepuri (2017) in their study stated that the growth rate in advance is decreasing and growth rate in NPAs is increasing, which is not desirable to the bank. Sufficient and strict steps are needed to be taken before sanctioning of the loans and effectiveness must be there in the supervision of disbursed loans.

Singh (2016) stressed on recovery aspect of NPAs in the Indian banking sector. Though different measures have been taken by the government to reduce the NPA level, there is still a need for strong measures. No bank can make its NPA level at zero. The internal authority must take necessary steps to speed up the recovery process.

Garg (2016) in his research paper concluded that the problem of NPA impacts profitability, liquidity and results in credit loss. Proper remedial measures are needed to be taken to reduce the quantity of huge NPA.

Dubey & Kumari (2016) in their study opined that if MCAP of banks is taken as a reflection of stock market performance of banks then advances and indicator in the post crisis period of the Indian economy remaining equity MCAP of market may be taken as a good enough and may be used for picking bank stocks.

Kumar (2013) in his study on A comparative study of NPA of old private sector banks and foreign banks has said that Non- performing assets (NPAs) have become a nuisance and headache for the Indian banking sector for the past several years. One of the major issues challenging the performance of commercial banks in the late 90s adversely affecting was the accumulation of huge non-performing assets.

Selvarajan & Vadivalagan (2013) in A study on Management of Non-performing Assets in priority sector reference to Indian bank and public sector banks (PSBs) find that the growth of Indian bank's lending to priority sector is more than that of the public sector banks as a whole. Indian banks have slippages in controlling NPAs lies in the system of credit risk management by the banks. Banks are required to have adequate preventive measures in fixing pre- sanctioning appraisal responsibility and an effective post- disbursement supervision. Banks should continuously monitor loans to identify accounts that have potential to become non- performing.

Gupta (2012) in her study A comparative study of Non- Performing Assets of SBI & Associates & other public sector banks had included that each bank should have its own independence credit rating agency which should evaluate the financial capacity of the borrower before credit facility and credit rating agencies should regularly evaluate the financial condition of the clients.

Rai (2012) in her study on the performance of NPAs of Indian commercial banks found out that corporate borrowers even after defaulting continuously never had the fear of banks taking action to recover their dues. This is because there was no legal framework to safeguard the real interest of banks.

Chatterjee, MUKHERJEE. J, and Das (2012) in their study on Management of Non-performing assets a current scenario has concluded that banks should find out the original purpose of loan required by the borrower. Proper identification of the guarantor should be checked by the bank including scrutiny of his/her wealth.

Kaur Khand Singh B. (2011) in their study on non-performing assets of public and private sector banks studied that NPAs are considered as an important parameter to

judge the performance and financial health of banks. The level of NPAs is one of the drivers of financial stability and growth of the banking sector.

Prasad G.V.B and Veena (2011) in their study on NPAs reduction strategies for commercial banks in India stated that the NPAs do not generate interest income for banks but at the same time banks are required to provide provisions for NPAs from their current profits, so NPAs have destructive impact on the return on assets in the following.

Chaundhary K. and Sharma M. (2011) in their research stated that an efficient management information system should be developed. The bank staff involved in sanctioning the advances should be trained about the proper documentation and charge of securities and motivated to take measures in preventing advances turning into NPA.

CHAPTER - 3

RESEARCH METHODOLOGY

3.1 Need for Study.

For Banks in India, tackling the ballooning Non- Performing Assets (NPA) will be the biggest challenge in 2022 as loan defaults have spiked sharply in Covid-hit 2020.

Many small and medium-scale company are still struggling to repay dues owed to banks

3.2 Scope of the Study.

- The study could suggest measures for the banks to avoid future NPAs and to reduce existing NPAs.
- The study may help the government in creating and implementing new strategies to control NPAs.
- The study will help to select appropriate techniques suited to manage the NPAs and develop a time bound action plan to check the growth of NPAs.

3.3 Objectives of the Study.

- To study the status of Non- Performing Assets of Indian Commercial Banks in India.
- To study the impact of NPAs on banks.
- To find the recovery of NPAs through various channels.
- To make appropriate suggestions to avoid future NPAs and to manage existing NPAs in banks.

3.4 Research design.

Derived data

Derived data involves using existing data points, often from different data sources, to create new data through some sort of transformation, such as an arithmetic formula or aggregation.

In this research secondary has been used which has been taken from the websites of RBI.

3.5 Source of data.

Information for this study has been gathered from secondary sources. These incorporate information from RBI report trends what's more, progress of banking in India, different distributed articles, books, journals, and research papers.

3.6 Period of Study.

The research has been analysed for a period of 3 years, from 2019 -2021 to compare and analyse the NPA recovery in Scheduled Commercial Banks.

Chapter 4

Data and Interpretation

4.1 Recovery Channels of NPAs.

NPAs are the centre of monetary issues of the banks. More significant level of NPAs suggests higher monetary unsteadiness in banks. An itemised clarification of the three most utilised recuperation channels by banks are given beneath:

The Securitization and Reconstruction of Financial Assets and Enforcement of Security Interest (SARFAESI) Act, 2002 (54 of 2002): The SARFAESI Act came into force on June 21, 2002, and it was re-proclaimed on August 22, 2002. Under SARFAESI Act, 2002, a securitization organization (SC)/remaking organization (RC) carries on the matter of securitization or resource recreation as given in Section 10 of this Act (RBI, 2003). It is obligatory for each SC/RC to enrol itself with RBI prior to conveying the matter of securitization and recreation of monetary resources (FAs) (The Securitization and Reconstruction, 2016). This act is the result of ideas suggested by Narasimham and Andhyarujina Committees. The base recommended sum for doing the matter of securitization or resource recreation ought not be under 15% of the complete last resources procured or to be obtained by the Company on a total premise or Rs. 100 crores, whichever is lower, and it ought to begin its business in somewhere around a half year from the date of acquiring declaration of enrolment. The time of acknowledgment of obtained resources reached out from 5 years to 8 years and if the SC/RC can't in settling the resources or reclaiming the Security Receipt (SR) within this time span, then the FAs will be considered as misfortune resources (RBI, 2013).

The report observed that the Securitisation and Reconstruction of Financial Assets and Enforcement of Securities Interest Act, 2002, (SARFAESI) channel also emerged as a major mode of recovery in terms of the amount recovered as well as the recovery rate, the report said. Under SARFAESI, Rs 52,563 crore was recovered in 2019-20 against Rs 38,905 crore in 2018-19. With the applicability of the SARFAESI Act extended to co-operative banks, recovery through this channel is expected to gain further traction, the report said. Apart from recovery through various resolution

mechanisms, banks also clean up balance sheets through sale of NPAs to assets reconstruction companies (ARCs) for a quick exit.

Lok Adalats:

Lok Adalats are under Legal Services Authorities Act, 1987. It gives a stage to all SCBs and FIs for settlement of their levy through method for discretion, assuagement, intervention, split the difference, agreeable or arranged arrangement. These actions for settling questions are set down under Section 89 of the Civil Procedure Code (Report on Non-Performing Assets, n.d.). This discussion is generally utilised by banks/FIs for recuperating their NPAs including more modest sums as it charges no expenses when new cases or questions alluded to it. The gathering cautiously discern any current suit documented in the court by the banks/FIs as well as pass requests in regards to new questions later investigating the matter and accordingly diminishes the weight on court. In the event that it has not shown up to any settlement, then, at that point, the parties (i.e., banks/FIs and borrowers) can go on with court or other legal actions. On May 2, 2001, the RBI had given rules in regard of give and take settlement of duty of banks/FIs through Lok Adalats including more modest sums upto Rs. 5 lakhs and it incorporates both suit recorded and non-suit documented accounts covering all NPA accounts (RBI, 2001b). There are no removed dates in Lok Adalats as it is an on-going interaction (RBI, 2001a). Afterward on, the Gol in meeting with RBI, raise as far as possible from Rs. 5 lakhs to Rs. 20 lakhs (RBI, 2004a, 2004b, 2005).

DRTS

The DRTs and DRATs can be established by Gol under sub-section (1) of Section 3 and Section 8 of this Act respectively. Before the establishment of these tribunals, the procedure of recovering suit filed loan was quite cumbersome and prolonged for banks/FIs due to lengthy legal proceedings. There were huge amount of funds stuck in NPAs which was unproductive and that cannot be recycle in profitable avenues, thereby hindering the growth of country. But after their establishment the number of cases came down and the situation was improved (DFS, 2015a; The Debt Recovery Appellate Tribunal, 1997; The Debt Recovery Tribunal, 1997). Banks/FIs have to file an application to DRTs for recovering the debt from borrower. On receiving application, the tribunal will issue the summon to the defendant to explain the reason within 30

days for not paying the debt. Thereafter, DRTs will conduct the hearings between defendant and applicant (i.e., banks/FIs). In case, the defendant will not be able to provide proper evidences in his favor regarding debt failure or fails to supply security for recovering debt, then the tribunal will issue an order for attachment of whole or part of that security for recovering the debt amount claimed by the applicant to the extent of secured debt. If the defendant does not follow any order given by the Tribunal, then he will be detained in the civil prison for a term not exceeding 3 months, unless in the meanwhile the Tribunal directs his release (DFS, 2015b). The applicant can appeal to DRATs, if he is not satisfied by the order passed by the DRTs, but the appeal will not be considered by the Appellate Tribunal unless he will deposit 75 per cent of the amount due from him.

The Insolvency and Bankruptcy Code (IBC)

Non-performing assets (NPAs) recovered by scheduled commercial banks through the Insolvency and Bankruptcy Code (IBC) channel increased to about 61 per cent of the total amount recovered through various channels in 2019-20 against 56 per cent in 2018-19, according to latest Reserve Bank of India (RBI) data. In absolute terms, of the total amount of Rs 1,72,565 crore recovered through various channels in 2019-20, IBC route accounted for Rs 1,05,773 crore. In 2018-19, of the total recovered amount of Rs 1,18,647 crore, the recovery via IBC channel was Rs 66,440 crore. "Going forward, insolvency outcomes will hinge around uncertainties relating to Covid-19." "The government has suspended any fresh initiation of insolvency proceedings in respect of defaults arising during one year commencing March 25, 2020 to shield companies impacted by Covid-19," RBI said.

4.2 Recoveries.

During 2020-21, all the recovery channels, most notably Lok Adalats, witnessed a sizable decline in the cases referred for resolution. Even though initiation of fresh insolvency proceedings under the Insolvency and Bankruptcy Code (IBC) of India was suspended for a year till March 2021 and COVID-19 related debt was excluded from the definition of default, it constituted one of the major modes of recoveries in terms of amount recovered. Allowing pre-pack resolution window for MSMEs is expected to

assuage the mounting pressure of pending cases before NCLTs, reduce haircuts and improve declining recovery rates.

Another important mode of asset resolution for banks, especially PVBs, has been sale of NPAs to asset reconstruction companies (ARCs) by taking haircuts. In recent years, however, the preference of banks has shifted to alternative avenues, with asset sales declining as a proportion to outstanding GNPA's across bank groups. This was partly due to the worsening acquisition cost of ARCs as a proportion of book value of assets, reflecting higher haircuts and lower realisable values in respect of their acquired assets.

The recovery of security receipts (SRs) issued by ARCs is a critical indicator of their performance. Since 2018, the Reserve Bank has been disincentivizing banks from holding SRs more than 10 percent of the transaction value of sale of stressed assets through increased provisions.⁵ Consequently, the share of SRs subscribed to by banks has decreased over the years, and their share hovered around 58 per cent in 2019-20 and 2020-21.⁶ The share of ARCs in SR holdings has declined over the years, with the investor base having gradually diversified with an increasing share of foreign.

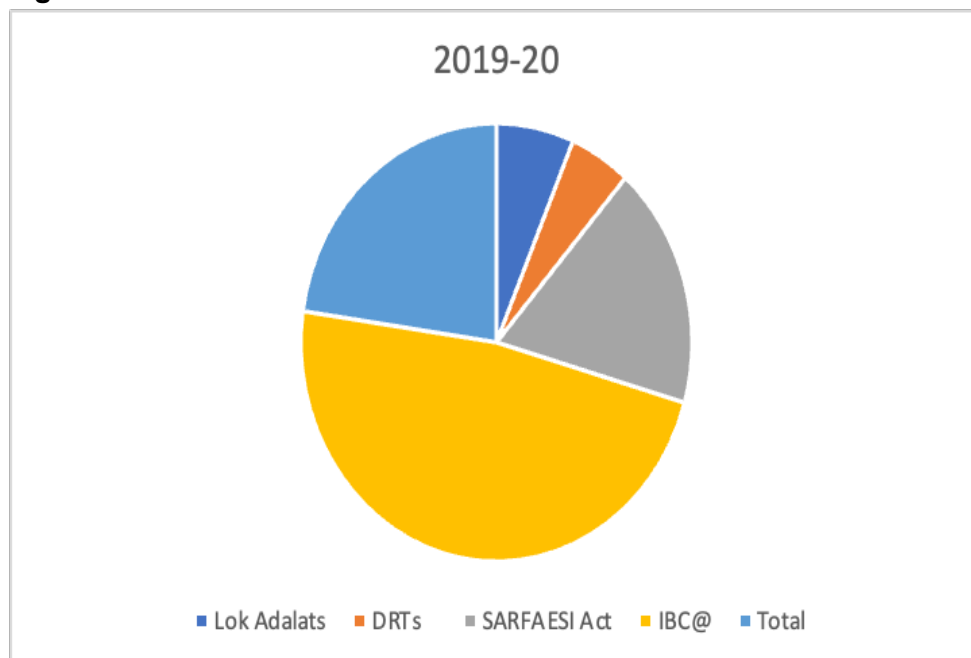
Table 4.1. Recovery Channels of NPAs.

Recovery Channel	2019-2020				2020-2021 (P)			
	No. of cases referred	Amount involved.	Amount recovered *	%	No. of cases referred	Amount involved.	Amount recovered *	%
Lok Adalats	59,86,790	67,801	4,211	6.2	19,49,249	28,084	1,119	4.0
DRTs	33,139	2,05,032	9,986	4.9	28,182	2,25,361	8,113	3.6
SARFAESI Act	1,05,523	1,96,582	34,283	17.4	57,331	67,510	27,686	41.0
IBC@	1,986	2,24,935	1,04,117	46.3	537	1,35,139	27,311	20.2
Total	61,27,438	6,94,350	1,52,597	22.0	20,35,299	4,56,094	64,228	14.1

Inference.

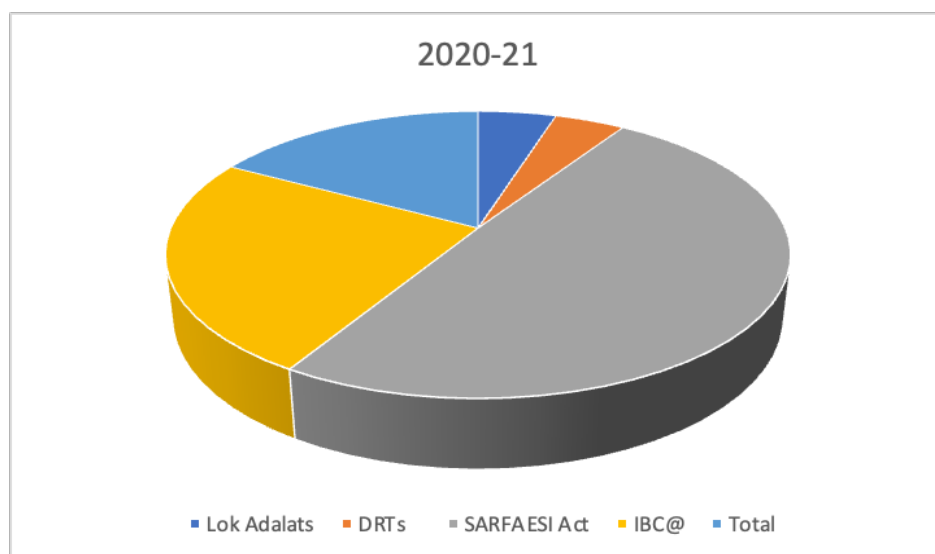
Through the data given it has been found that the majority of the amount recovered is through the IBC recovery channel in the 3 years study.

Figure 4.1.

**Inference.**

From the above table and figure, we have found that the Majority of the NPA recovery was done through the IBC of 46.3% of Amount recovered. Through SARFAESI act 17.4% has been recovered. Through Lok Adalats 6.2% of NPA amount has been recovered. Through DRTs 4.9% of the amount has been recovered.

Figure 4.2.



Inference.

From the above table and figure, we have found that the Majority of the NPA recovery was done through the SARFAESI act of 41.0% of Amount recovered. Through IBC 20.2% has been recovered. Through Lok Adalats 4.0 % of NPA amount has been recovered. Through DRTs 3.6% of the amount has been recovered.

Non-Performing Assets in Indian Scheduled Commercial Banks.**Table 4.2. Gross & Net Advances and Gross & Net NPAs of SCB.**

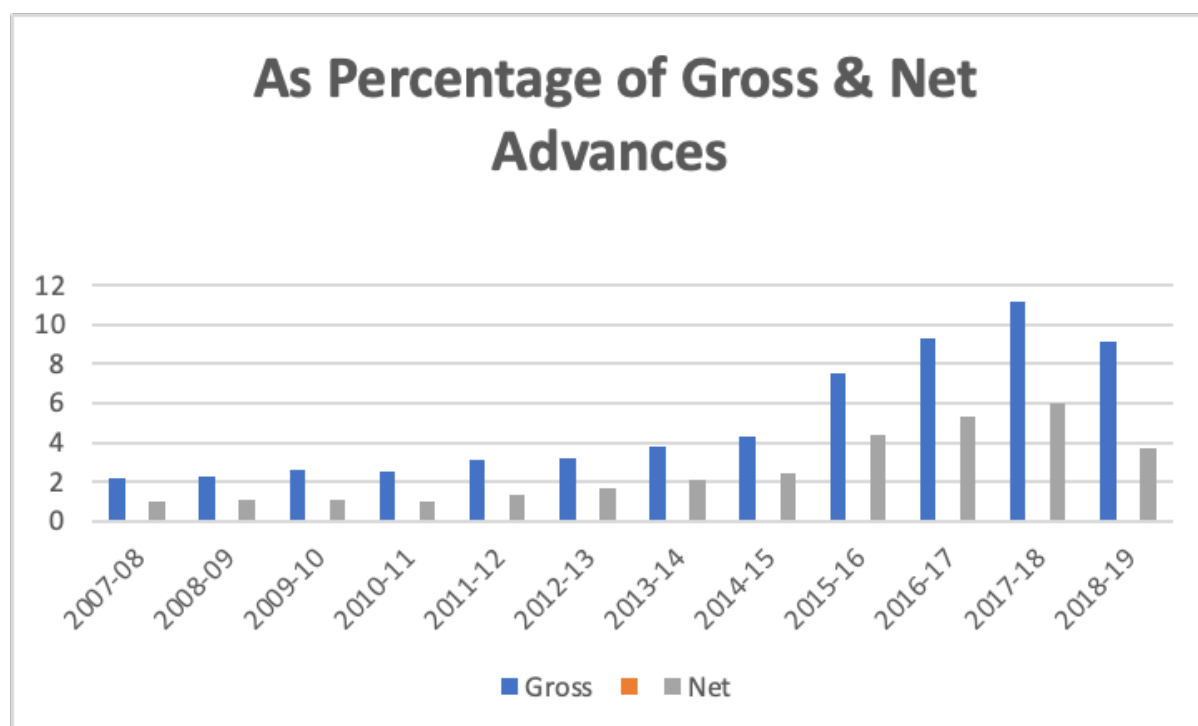
Advances		Non-Performing Assets (NPAs)						
Gross	Net	Gross			Net			
		Amount	As Percentage of Gross Advances	As Percentage of Total Assets	Amount	As Percentage of Net Advances	As Percentage of Total Assets	
1	2	3	4	5	6	7	8	9
Scheduled Commercial Banks								
2007-08	2503431	2476936	56309	2.2	1.3	24730	1.0	0.6
2008-09	3024652	2999924	68328	2.3	1.3	31564	1.1	0.6
2009-10	3262079	3496720	84701	2.6	1.4	39127	1.1	0.6
2010-11	3995982	4297487	97973	2.5	1.4	41799	1.0	0.6
2011-12	4648808	5073559	142903	3.1	1.7	65205	1.3	0.8
2012-13	5971820	5879773	194053	3.2	2.0	98693	1.7	1.0

2013-14	6875748	6735213	264381	3.8	2.4	142656	2.1	1.3
2014-15	7560666	7388160	323335	4.3	2.7	175841	2.4	1.5
2015-16	8171114	7896467	611947	7.5	4.7	349814	4.4	2.7
2016-17	8476705	8116109	791791	9.3	5.6	433121	5.3	3.1
2017-18	9266210	8745997	1039679	11.2	6.8	520838	6.0	3.4
2018-19	10287085	9709829	936474	9.1	5.6	355076	3.7	2.1

Inference.

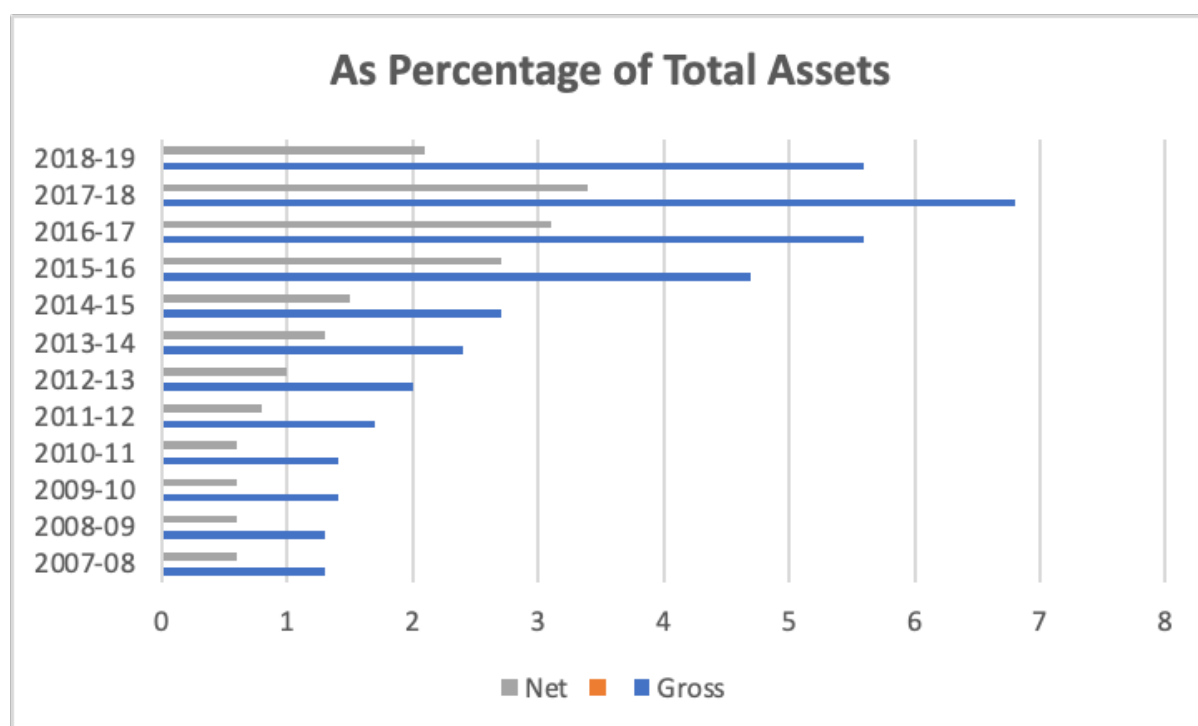
From the above depicted data driven from the RBI Trend and progressing of India, there was an increase in Gross NPA from 2476936 billion in the year 2007 - 08 to 10287085 billion in the year 2020- 21. Similarly, there is an increased Net NPA amount of 24730 billion in the year 2007 -08 to 355076 billion in the year 2020 - 2021.

Figure 4.3. Percentage of Gross and Net Advances.



From the above data, the percentage of Gross advance has increased from 2.2% to 9.1%. The Net advance has also increased from 1.0% - 3.7% in the year 2020-21.

Figure 4.4. Percentage of Total Assets of Gross and Net.



From the above figure it shows that the total assets have increased for Gross Npas from 1.3% to 5.6%. Similarly Net Npa assets have also increased from 0.6% to 2.1%.

4.3 IMPACTS OF NPAs.

NPA sway the presentation and productivity of banks. The most striking effect of NPA is a change in investor's opinions which might ruin credit extension for useful reasons. Banks might lean towards additional gamble free ventures to keep away from and diminish peril, which is not favourable for the development of the economy. In the event that the degree of NPAs isn't controlled opportune they will:

- Lessen the procuring limit of resources and severely influence the ROI.
- The expense of capital will go up.
- The resources and risk jumble will extend.
- Higher provisioning necessity on mounting NPAs unfavourably influence capital sufficiency
- proportion and banks benefit.
- The financial worth increments (EVA) by banks blow up on the grounds that EVA is equivalent to the net
- working benefits less expense of capital.
- NPAs cause the worth of offer once in a while even beneath their book esteem in the capital market.
- NPAs influence the gamble confronting capacity of banks.
- Diminish the procuring limit of resources and severely influence the ROI.
- The expense of capital will go up.
- The resources and responsibility bungle will augment.
- Higher provisioning prerequisite on mounting NPAs unfavourably influence capital ampleness proportion and bank productivity.
- The monetary worth increases (EVA) by banks fly off the handle in light of the fact that EVA is equivalent to the net working benefits of short capital.
- NPAs cause the worth of offer once in a while even beneath their book esteem in the capital market.
- NPAs influence the gamble confronting capacity of bank

Chapter 5

Findings, Suggestions and Conclusion

5.1 Findings.

- From the above depicted data driven from the RBI Trend and progressing of India, there was an increase in Gross NPA from 2476936 billion in the year 2007 - 08 to 10287085 billion in the year 2020- 21. Similarly, there is an increased Net NPA amount of 24730 billion in the year 2007 -08 to 355076 billion in the year 2020 - 2021.
- From the above data, the percentage of Gross advance has increased from 2.2% to 9.1%. The Net advance has also increased from 1.0% - 3.7% in the year 2020-21.
- From the above figure it shows that the total assets have increased for Gross Npas from 1.3% to 5.6%. Similarly Net Npa assets have also increased from 0.6% to 2.1%.
- Through the data given it is been found that the majority of the amount recovered is through the IBC recovery channel in the 3 years study.
- From the above table and figure, we have found that the Majority of the NPA recovery was done through the IBC of 46.3% of Amount recovered. Through SARFAESI act 17.4% has been recovered. Through Lok Adalats 6.2% of NPA amount has been recovered. Through DRTs 4.9% of the amount has been recovered.
- From the above table and figure, we have found that the Majority of the NPA recovery was done through the SARFAESI act of 41.0% of Amount recovered. Through IBC 20.2% has been recovered. Through Lok Adalats 4.0 % of NPA amount has been recovered. Through DRTs 3.6% of the amount has been recovered.
- Ineffective recovery, wilful defaults and Defective lending process are the important factors which are responsible for the rise of NPAs in banks.
- NPAs reduce the earning capacity of banks and badly affect the ROI.

5.2 Suggestions.

- RBI should revise existing credit appraisals and monitoring systems.
- Banks should improved upon and strengthen the loan recovery methods.

- Credit appraisal and post –loan monitoring are crucial steps which need to concentrate by all the public sector banks.
- There must be regular follow-up with the customers and it is the duty of banker to ensure that there is no diversion of funds. This process can be taken up at regular intervals. Personal visits should be made after sanction and disbursal of credit and further close monitoring of the operations of the accounts of borrowed units should be done periodically. Managers under credit monitoring and recovery department should have dynamism in their work. Many managers say that “we do not fear to negotiate but we do not negotiate out of fear. Such fear leads to arbitrary negotiation, which fails.
- Frequent discussions with the staff in the branch and taking their suggestions for recovery of dues.
- Assisting the borrowers in developing his/her entrepreneurial skill will not only establish a good relation between the borrowers but also help the bankers to keep a track of their funds. RBI may initiate actions against defaulters like, publishing names of defaulters in News papers, broadcasting media, which is helpful to other banks and financial institutions.
- As a part of curative measures, bankers may resort to Compromise Settlement or One Time Settlement. Lok Adalats and Debt Recovery Tribunals are other ways for the recovery of dues. It has been observed that Banks these days are highly resorting to SARFAESI Act for the management of NPA.
- If the delinquencies are due to reasons beyond the control of the borrower which are namely draughts, floods, or other natural calamities, the banker should suitably restructure the loans taking into account the genuine difficulty of the borrowers.

5.3 Conclusion.

The Non-Performing Assets have always created a big problem for the banks in India. It is not only a problem for the banks but for the economy too. The money locked up in NPAs has a direct impact on profitability of the bank as Indian banks are highly dependent on income from interest on funds lent. This study shows that the extent of NPA is comparatively very high in public sector banks. Although various steps have been taken by the government to reduce

the NPAs, still a lot needs to be done to curb this problem. The NPAs level of our banks is still high as compared to the foreign banks. It is not at all possible to have zero NPAs. The bank management should speed up the recovery process. The problem of recovery is not with small borrowers but with large borrowers and a strict policy should be followed for solving this problem. The government should also make more provisions for faster settlement of pending cases and also it should reduce the mandatory lending to priority sector as this is the major problem creating area. So the problem of NPA needs lots of serious efforts otherwise NPAs will keep killing the profitability of banks which is not good for the growing Indian economy at all.

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Annexure I.

A Study of Non-Performing Assets of Commercial Banks and it's Recovery in India.

Ms. Carolin Lydia. C B.A., M.B.A.

School of management studies, Sathyabama Institute of Science and Technology, Chennai

carolynclement28@gmail.com

Dr.K.Sasirekha B.Sc., B.Ed., MBA., Ph.D.,

Assistant Professor, Sathyabama Institute of Science and Technology, Chennai

sasirekha.soms@sathyabama.ac.in

Abstract.

The Indian banking sector has been facing a serious problem of raising Non- Performing Assets (NPAs). The NPAs growth has a direct impact on profitability of banks. Non-Performing assets are one of the major concerns for scheduled commercial banks in India. It continues to be expressed from every corner that here has rarely been any systematic evaluation of the best way of tackling the problem. There seems to be no unanimity in the proper policies to be followed in resolving this problem. NPAs reflect the performance of banks. A high level of NPAs suggests high probability of many credit defaults that affect the profitability and net worth of banks and erodes the value of the asset. NPAs affect the liquidity and profitability, in addition to posing threat on quality of asset and survival of banks. The problem of NPAs is not only affecting the banks but also the whole economy. In fact, the high level of NPAs in Indian banks is nothing but a reflection of the state of health of the industry and trade. It is necessary to trim down NPAs to improve the financial health in the banking system. An attempt is made in this paper to understand NPA, the status and trend of NPAs in Indian scheduled commercial banks, the factors contributing to NPAs, reasons for high impact of NPAs on Scheduled commercial banks in India and recovery of NPAs through various channels.

I. Introduction.

The banking industry plays a critical role in the economy of our country. It grew in leaps and bounds and so is the complexity associated with it. However, a troubled crisis affecting the banking sector, Non- Performing Assets (NPA). Growing incidents of non- performing advances or loans can have a potential adverse impact on the performance of the banks by squeezing their earnings, thereby reducing their profitability. Typically, a loan or advances become non- performing assets(NPAs) when a borrower defaults on the repayment of either the principal amount or is unable to service his debt. An NPA not only makes an asset unproductive,

banks also fail to recover the principal capital. On the one hand, the interest earning of the bank declines, on the other side, there is a risk of recovery of principal amount. The major problem today faced by the entire banking sector is the increasing risk of non-performing assets, which poses a challenge to their ultimate survival.

II. Problem Statement.

For banks in India, tackling the ballooning non-performing assets (NPA) will be the biggest challenge in 2021 as loan defaults have to spiked sharply in Covid-hit 2020. Many small and medium-scale companies are still struggling to repay dues owed to banks.

III. Review of literature.

Nikhath fatima, Husain ashraf, October 2020. The study investigated the various parameters of NPAs in scheduled commercial banks (SCBs) as well as examined the performance of three major legal recovery channels for NPAs that is, Lok Adalats, SARFAESI and DRTs. The study employed ANOVA and Kruskal-Wallis test for analyzing the differences among recovery channels. The analysis revealed that there is significant difference in NPA recovery ratio across these channels. The author found that there has been significant increase in NPA ratios during 2007 to 2018 and concluded that SARFAESI is the most effective recovery channel as its procedure is not lengthy plus it empowers secured creditors to recover their debts without the intervention of court.

R. Alamelumangai & B. Sudha, August 2019, Indian Banking industry is growing with Non-performing assets in the recent past. The amount of stressed advances was enlarged and the trend of NPA recovery remains sluggish in the Scheduled Commercial Banks (SCBs). To understand the significant difference in the trend of NPA recovery among the existing channels, a statistical test of Analysis of Variance (ANOVA) has been used.

Rabindra kumar swain, Muna Sahoo, Anjali prava mehra, January 2018. From the study it is inferred that recovery of NPAs is still a measure of concern for commercial banks in India. One of the reasons for the poor recovery from NPAs is that the mechanisms created for this purpose are not effective. That's why banks are not able to derive full benefits from these.

Sowmya (2019). The reasons responsible for the momentous amount of NPAs have been elucidated as well as measures were suggested for reducing them effectively. The author compared the NPAs of public and private sector banks (PvSBs) for the period covering from 2010-11 to 2016-17. The study found that banks contained more NPAs due to poor management policies and techniques. It suggested that banks should revise their recovery mechanisms and follow proper credit appraisal while lending loans.

IV. Materials and Methods.

A. research design

Derived data involves using existing data points, often from different data sources, to create new data through some sort of transformation, such as an arithmetic formula or aggregation.

In this research secondary has been used which has been taken from the websites of RBI.

B. Objectives of the research.

- To study the status of Non- Performing Assets of Indian Commercial Banks in India.
- To study the impact of NPAs on banks.
- To find the recovery of NPAs through various channels.
- To make appropriate suggestions to avoid future NPAs and to manage existing NPAs in banks.

C. sampling design

Secondary quantitative research is also known as desk research. In this research method, researchers use the already existing data also known as secondary data. This existing data is then

summarized and arranged to increase the overall efficacy of the research.

D. data collection design.

Data for this study has been gathered from secondary sources. These incorporate information from RBI report trends what's more, progress of banking in India, different distributed articles, books, journals, and research papers.

V. Data Analysis.

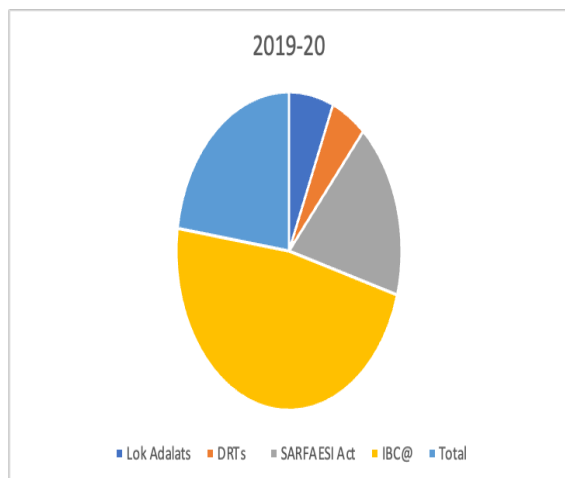
Table 4.1. Recovery Channels of NPAs.

Recovery Channel	2019-2020				2020-2021 (P)			
	No. of cases	Amount	Amount recovered	%	No. of cases	Amount	Amount recovered	%
	refer red	inv olv ed.	*		refer red	inv olv ed.	*	
Lok Adalats	59,86,790	67,801	4,211	6.2	19,49,249	28,084	1,119	4.0
DRTs	33,139	2,05,032	9,986	4.9	28,182	2,25,361	8,113	3.6
SARFAESI Act	1,05,523	1,96,582	34,283	17.4	57,331	67,510	27,686	41.0
IBC @	1,986	2,24,935	4,117	6.3	537	1,35,139	27,311	20.2
Total	61,27,438	6,94,350	2,597	2.0	20,35,299	4,56,094	64,228	14.1

Inference.

Through the data given it has been found that the majority of the amount recovered is through the IBC recovery channel in the 3 years study.

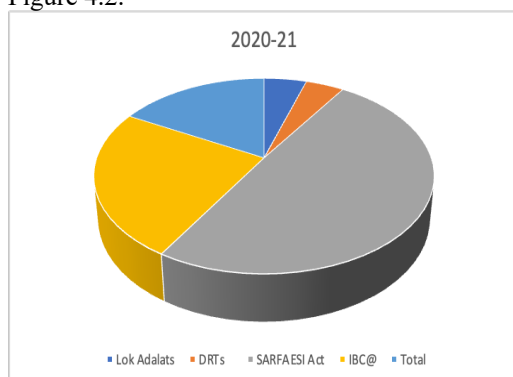
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From the above table and figure, we have found that the Majority of the NPA recovery was done through the IBC of 46.3% of Amount recovered. Through SARFAESI act 17.4% has been recovered. Through Lok Adalats 6.2% of NPA amount has been recovered. Through DRTs 4.9% of the amount has been recovered.

Figure 4.2.



Inference.

From the above table and figure, we have found that the Majority of the NPA recovery was done through the SARFAESI act of 41.0% of Amount recovered. Through IBC 20.2% has been recovered. Through Lok Adalats 4.0 % of NPA amount has been recovered. Through DRTs 3.6% of the amount has been recovered.

Table 2. Gross & Net Advances and Gross & Net NPAS of SCB.

Advances		Non-Performing Assets (NPAs)						
Gross	Net	Gross			Net			
		Amount	As Percentage of Gross Advances	As Percentage of Total Assets	Amount	As Percentage of Net Advances	As Percentage of Total Assets	
1	2	3	4	5	6	7	8	9
Scheduled Commercial Banks								
2007-08	2503431	2476936	56309	2.2	1.3	24730	1.0	0.6
2008-09	3024652	2999924	68328	2.3	1.3	31564	1.1	0.6
2009-10	3262079	3496720	84701	2.6	1.4	39127	1.1	0.6
2010-11	3995982	4297487	97973	2.5	1.4	41799	1.0	0.6
2011-12	4648808	5073559	142903	3.1	1.7	65205	1.3	0.8
2012-13	5971820	5879773	194053	3.2	2.0	98693	1.7	1.0
2013-14	6875748	6735213	264381	3.8	2.4	142656	2.1	1.3
2014-15	7560666	7388160	323335	4.3	2.7	175841	2.4	1.5
2015-16	8171114	7896467	611947	7.5	4.7	349814	4.4	2.7
2016-17	8476705	8116109	791791	9.3	5.6	433121	5.3	3.1

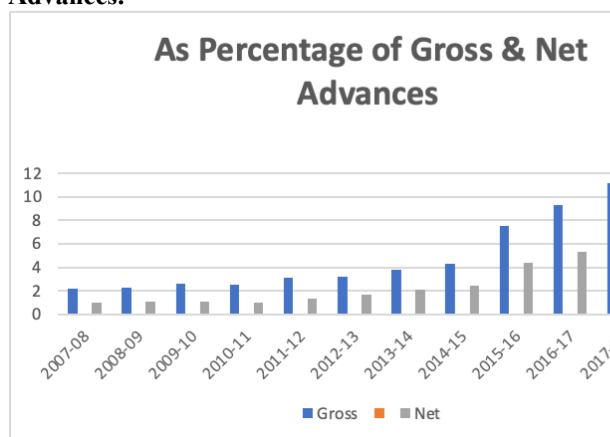
2017-18	9266210	8745997	1039679	11.2	6.8	520838	6.0	3.4
2018-19	10287085	9709829	936474	9.1	5.6	355076	3.7	2.1

From the above figure it shows that the total assets have increased for Gross Npas from 1.3% to 5.6%. Similarly Net Npa assets have also increased from 0.6% to 2.1%.

VI. Findings.

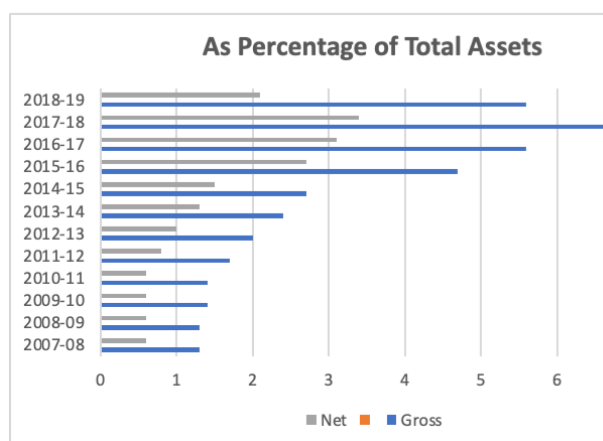
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Figure 4.4. Percentage of Total Assets of Gross and Net.



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