

# A STUDY ON NON-PERFORMING ASSETS AT KOTAK MAHINDRBANK, ANANTAPUR

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## ABSTRACT

A strong banking sector has always been important factor for economy to flourish. Once the banking sector fails it always has negative effect on the other sectors. Non-performing assets have always been one of the major concerns in India. Banks performance is reflected by its NPA level. Non-Performing Assets are a burning topic of concern for banks, as managing and controlling NPA is very important. The current paper with the help of secondary data, from RBI website, tried to analyze the 5 years, (from 2019-20 to 2024-25) net non-performing asset data of Kotak Mahindra bank by using correlation, and with the help of Excel. The main objective of the study is to study the trend of NPA, to understand the relationship between Net NPA and Net Profit, how the non-performing assets effecting the profitability of the bank and to analyze their provision coverage ratio. This paper also focuses on the asset quality and financial position of the bank.

## INTRODUCTION

A loan or advance is classified as a Non-Performing Asset (NPA) when the borrower fails to make interest or principal repayments for a continuous period exceeding 90 days. In simple terms, it means the asset is no longer generating income for the bank. Non-Performing Assets (NPAs) are one of the most important indicators of the financial health of a bank. In the banking system, loans and advances given to

customers are considered assets because they generate income in the form of interest. However, when borrowers fail to repay the interest or principal amount within the agreed time, such assets stop generating income and become non-performing.

The problem of NPAs has become a major concern for the Indian banking sector as it directly affects profitability, liquidity, and overall stability. Higher NPAs indicate poor asset quality and weak credit management practices. When loans turn into NPAs, banks are required to make provisions, which reduce their net profits and impacts their lending capacity. Persistent growth in NPAs can also weaken investor confidence and disturb the smooth functioning of the financial system.

NPAs arise due to various internal and external factors such as economic slowdown, poor credit appraisal, ineffective monitoring, willful default, industrial sickness, and unforeseen circumstances like natural calamities. If not managed properly, NPAs can slow down economic growth by restricting the flow of credit to productive sectors. Therefore, effective identification, monitoring, and recovery of NPAs are essential for maintaining a sound banking system. Understanding the concept and implications of NPAs is crucial for analyzing the performance and asset quality of banks. A detailed study of NPAs helps in assessing risk management practices and the overall efficiency of banking operations.

## GROSS NPA AND NET NPA

**Gross NPA** refers to the total amount of loans and advances that have become non-performing (i.e., overdue for more than 90 days) before making any deductions for provisions. It represents the overall level of bad loans in a bank.

### Formula for Gross NPA Ratio:

$$\text{Gross NPA Ratio} = (\text{Gross NPAs} \div \text{Gross Advances}) \times 100$$

**Net NPA** refers to the actual burden of bad loans on the bank after deducting provisions (amount set aside to cover potential losses). It shows the real financial risk remaining with the bank.

### Formula for Net NPA Ratio:

$$\text{Net NPA Ratio} = (\text{Gross NPAs} - \text{Provisions} \div \text{Gross Advances} - \text{Provisions}) \times 100$$

## Net Profit

Definition:

Net profit is the final profit earned by business after deducting all expenses, taxes, and interest from total revenue.

### Formula

$$\text{Net Profit} = \text{Total Revenue} - \text{Total Expenses}$$

### Detailed Formula

$$\text{Net Profit} = \text{Gross Profit} - \text{Operating Expenses} + \text{Interest} + \text{Tax}$$

## Gross Advances

Definition:

Gross advances are the total loans and advances given by a bank to its customers before deducting provisions for bad debts or Non-Performing Assets (NPAs).

### Formula

$$\text{Gross Advances} = \text{Total Loans} + \text{Cash Credits} + \text{Overdrafts} + \text{Bills Discounted}$$

## IMPACT OF NPA ON BANK

Non-Performing Assets (NPAs) serve as a key metric for assessing a bank's financial strength and asset

quality. A loan is classified as a Non-Performing Asset when the borrower fails to repay the principal or interest for more than 90 days. Elevated levels of NPAs signify that a significant share of bank loans has ceased generating revenue, thereby adversely impacting the bank's overall performance. The presence of NPAs not only diminishes profitability but also impacts liquidity, capital adequacy, and investor confidence. Consequently, the level of NPAs is a critical factor in determining the stability and efficiency of the banking sector.

### 1. Profitability Erosion

A primary and severe consequence of NPAs is the decline in bank profitability. Banks derive the majority of their revenue from interest earned on loans and advances. When borrowers default on their loans before the agreed-upon deadline, the loans are classified as non-performing, preventing banks from recognizing interest income from these assets. Consequently, the bank forfeits a significant revenue stream.

Beyond the loss of interest income, banks must also set aside provisions for non-performing assets in compliance with Reserve Bank of India regulations. Provisioning involves allocating a portion of profits to offset potential losses from bad loans. Increased non-performing assets necessitate higher provisions, which directly diminish the bank's net profit. As a result, key profitability metrics like Return on Assets (ROA) and Return on Equity (ROE) decrease.

### 2. Erosion of Capital Adequacy

A further significant impact of increasing NPAs is the deterioration of capital adequacy. Banks must maintain a minimum capital level to absorb potential financial risks linked to their lending activities. Under Basel III standards, banks are required to hold adequate capital relative to their risk-weighted assets.

As NPAs rise, the risk level of the bank's assets also increases. This compels banks to hold higher capital reserves to safeguard depositors and ensure financial stability. Should the bank fail to uphold the mandated capital adequacy ratio, it could encounter regulatory constraints and diminished operational flexibility.

### 3. Liquidity Problems

NPAs can also lead to liquidity problems for banks. Typically, banks depend on consistent loan repayments to sustain a steady flow of funds. When borrowers fail to make their payments, this inflow of funds is interrupted. Consequently, banks may face a shortage of liquid funds needed for their daily operations.

Liquidity issues can impair a bank's ability to extend new loans and may hinder its capacity to satisfy depositor withdrawal requests. In extreme instances, on going liquidity deficits can trigger depositor panic and erode public trust in the banking system.

### 4. Decline in Lending Capacity

High levels of non-performing assets diminish banks' lending capacity by tying up a substantial portion of their funds in loans that are not performing. Because these loans fail to generate income and are difficult to recover, banks grow cautious when issuing new ones.

To offset potential losses, banks might tighten credit policies and raise interest rates on new loans.

5. Continuous asset quality issues can trigger credit rating downgrades, thereby increasing the cost for the bank to borrow funds from the market.

### MEASURES TAKEN TO TACKLE NPAS

- The Insolvency and Bankruptcy Code of 2016 (IBC) establishes a time-bound framework for resolving or liquidating companies in default.
- The SARFAESI Act of 2002 empowers banks to seize and sell secured assets without requiring court intervention.
- The Debt Recovery Tribunal (DRT) facilitates the expedited recovery of bank dues by utilizing specialized tribunals.

- Asset Reconstruction Companies (ARCs) are entities to which banks sell non-performing loans for recovery purposes.

- The Reserve Bank of India's bank recapitalization and PCA framework aims to bolster weak banks and curb risky lending.

### INDUSTRY AND COMPANY PROFILE

#### INDUSTRY PROFILE

The banking sector is a key component of the financial system and plays a vital role in the economic development of a country. It acts as a financial intermediary by mobilizing savings from the public and channelizing them into productive investments. Banks support trade, industry, agriculture, and services by providing credit, payment, and risk-management services.

The Indian banking industry plays a crucial role in economic growth by providing credit to agriculture, industry, trade, and services. However, the level of Non-Performing Assets (NPAs) has been one of the major challenges affecting the profitability and stability of banks. NPAs arise when borrowers fail to repay loans for more than 90 days, reducing income generation and weakening asset quality. High NPAs impact banks' lending capacity, capital adequacy, and overall financial performance.

The problem of NPAs in India increased significantly during periods of rapid credit growth, especially in sectors like infrastructure, power, steel, and real estate. Public Sector Banks were particularly affected due to large corporate exposures. To address this issue, stricter asset classification norms, improved credit appraisal systems, and enhanced risk management practices were introduced to strengthen the banking sector.

## COMPANY PROFILE

PARICULARS	DESCRIPTION
NAME OF THE COMPANY	KOTAK MAHINDRA BANK
INDUSTRY	BANKING INDUSRTY
HEAD OFFICE	MUMBAI , MAHARASTRA
FOUNDER	MR.UDAY KOTAK
SECTOR	PRIVATE SECTOR
ORIGINAL ENTITY	KOTAK MAHINDRA FINANCE LIMITED
YEAR OF ESTABLISHMENT	1985
YEAR OF CONVERSION INTO BANK	FEBRUARY,2003
REGULATORY AUTHORITY	RESERVE BANK OF INDIA
AREA OF OPRERATION	PAN INDIA
SPECIAL MILESTONE	FIRST NON BANKING FINANCIAL COMPANY TO CONVERT INTO A COMMERCIAL BANK

The bank is headquartered in Mumbai, Maharashtra, and operates through an extensive network of branches and ATMs across India. Kotak Mahindra Bank provides a wide range of financial products and services including personal banking, corporate banking, investment banking, wealth management, treasury services, and vehicle financing and digital banking solutions. The bank caters to individuals, small and medium enterprises (SMEs), large corporates, and institutional clients.

Kotak Mahindra Bank has consistently focused on maintaining strong asset quality and capital adequacy. The bank follows conservative lending policies and effective credit appraisal systems, which have helped it maintain relatively low levels of Non-Performing Assets (NPAs) compared to many peers in the banking sector. Its emphasis on risk management, provisioning practices, and technological innovation has strengthened its financial stability over the years.

The bank has also made significant progress in digital banking by introducing advanced mobile banking platforms, online investment services, and customer-centric digital products. These initiatives have enhanced customer convenience and improved operational efficiency. Kotak Mahindra Bank's strategy focuses on sustainable growth, customer satisfaction, and technological integration.

Financially, the bank has shown steady growth in advances, deposits, and profitability over recent years. Its improving Return on Assets (ROA) and Return on Equity (ROE) indicate efficient utilization of resources and effective management performance. The bank's strong Provision Coverage Ratio (PCR) reflects its ability to absorb potential credit losses and maintain financial resilience.

Today, Kotak Mahindra Bank is recognized as one of India's most trusted banking institutions, contributing significantly to the country's financial system through

responsible lending, innovation, and customer-focused services. Its consistent performance and disciplined banking approach make it an appropriate case for analysing trends in Non-Performing Assets and profitability.

## REVIEW OF LITERATURE

- M. Karthik (2017) a study on non-performing assets at Andhra Pradesh grameena vikas bank. The study reveals that Gross NPA and Net NPA levels of the bank fluctuate over the years, showing no consistent trend. Total advances and net profits also vary annually, indicating instability in performance. A positive relationship is observed between total advances and NPAs, suggesting issues in credit management. Rising NPAs adversely affect the bank's liquidity position and reduce its ability to extend fresh loans to new customers.
- G.Meera Ramesh Bai (2021) A comparative study on NPA at public and private sector banks. The findings show an increasing trend in Gross and Net NPAs for both public and private sector banks. Private sector banks maintain better asset quality due to higher provisioning and a stronger standard asset position. Sub-standard assets are declining in both bank groups, while doubtful assets remain nearly similar. Loss assets show an increasing trend across both sectors. Overall, NPAs have a negative impact on bank profitability and earning capacity.
- Mrs. Nutan Singh (2025) A study on the impact of non performing assets on profitability of public and private sector banks in India. The study finds a strong inverse relationship between NPAs and profitability indicators such as Net Profit and ROA. Public sector banks showed improvement in profitability as NPAs declined over time. Private sector banks like HDFC and ICICI maintained better asset quality, though growth strategies influenced NPA levels.

## NEED OF THE STUDY

- The main purpose of this study is to study the level and trend of NPAs in Kotak Mahindra Bank and to understand the relationship between the bank's

profitability and NPAs and to know how well the bank is covering its NPAs.

## SCOPE OF THE STUDY

- The study covers the analysis of Non-Performing Assets (NPAs) at Kotak Mahindra Bank ,Anantapur for a period of five years i.e., from 2020-2021 to 2024-2025

## OBJECTIVES OF THE STUDY

- To study the trend of Non-Performing Assets (NPAs) at Kotak Mahindra Bank.
- To understand the relationship between Net NPAs and Net profit of Kotak Mahindra Bank.
- To analyze the provision coverage ratio at Kotak Mahindra Bank.

## RESEARCH METHODOLOGY

- This study mainly based on the secondary data ,the secondary data is collected through
  - Bank annual reports
  - Bank websites
  - RBI publications and reports,
  - Research journals articles and financial magazines.

Website:<https://www.kotak.bank.in/en/investor-relations/financial-results/annual-reports.html>

## TOOLS AND TECHNIQUES

The entire study is completed by using MS excel

- Graphs
- Tables
- Charts
- Correlation analysis

## LIMITATIONS OF THE STUDY

- This study is limited to the Non-performing assets (NPAs) analysis at Kotak Mahindra Bank, Anantapur.

**DATA ANALYSIS AND INTERPRETATION**

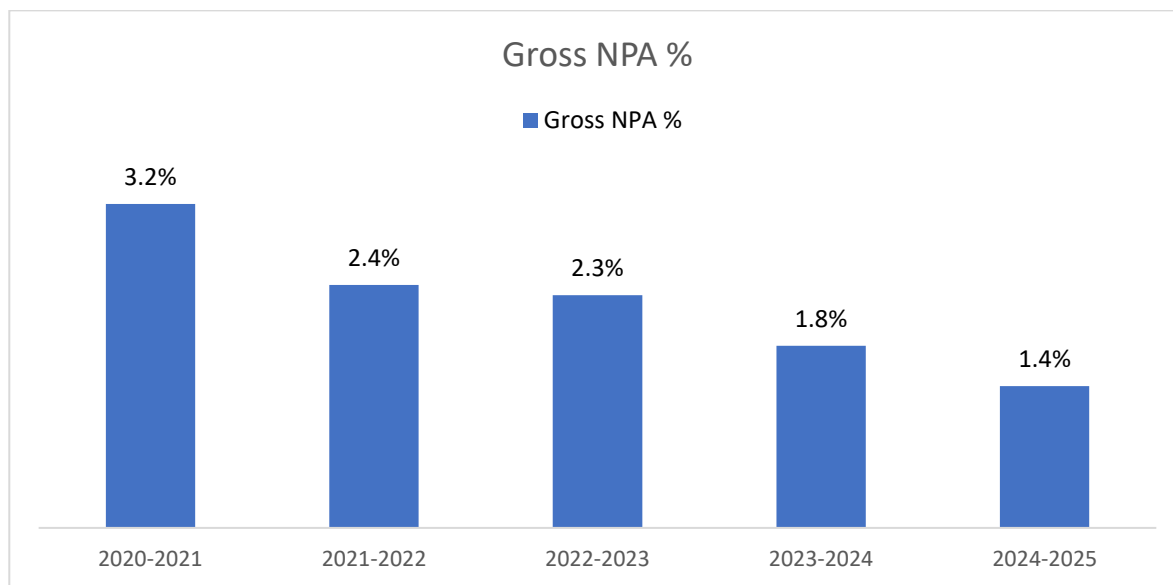
TABLE 4.1 GROSS NPA%

Gross NPA %

$$\text{Gross NPA \%} = \text{Gross NPA} \div \text{Gross Advances} \times 100$$

Financial year	Gross NPA (Cr)	Gross Advances(Cr)	Gross NPA %
2020-2021	8,276	2,52,170	3.2%
2021-2022	7,334	3,04,474	2.4%
2022-2023	6,419	3,59,107	2.3%
2023-2024	6,266	4,30,352	1.8%
2024-2025	6,133	4,86,166	1.4%

CHART 4.1 Gross NPA %



**Interpretation**

The table 4.1 and chart 4.1 showing that Gross NPA decreased from ₹8,276 Cr in 2020-21 to ₹6,133Cr in 2024-25, showing improvement in recovery. Gross Advances increased steadily every year, indicating growth in lending. Gross NPA % reduced from 3.2% to 1.4%, showing better asset quality. So there is decreasing trend of NPA at kotak Mahindra bank

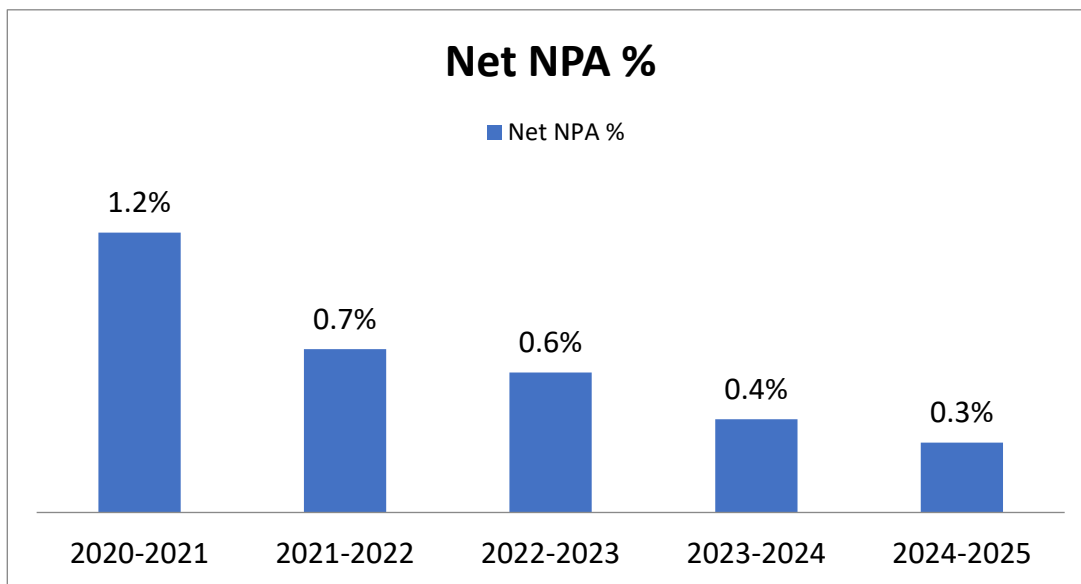
TABLE 4.2 Net NPA %

Net NPA % =  $\frac{\text{Net NPA}}{\text{Net Advances}} \times 100$

[Net NPA = Gross NPA - Provisions] [Net Advances = Gross Advances - Provisions]

Financial year	Net NPA	Net Advances (Cr)	Net NPA %
2020-2021	3,106	2,58,833	1.2%
2021-2022	2,419	3,45,571	0.7%
2022-2023	1,752	3,69,750	0.6%
2023-2024	1,567	3,91,750	0.4%
2024-2025	1,479	4,38,000	0.3%

Chart 4.2 net NPA %



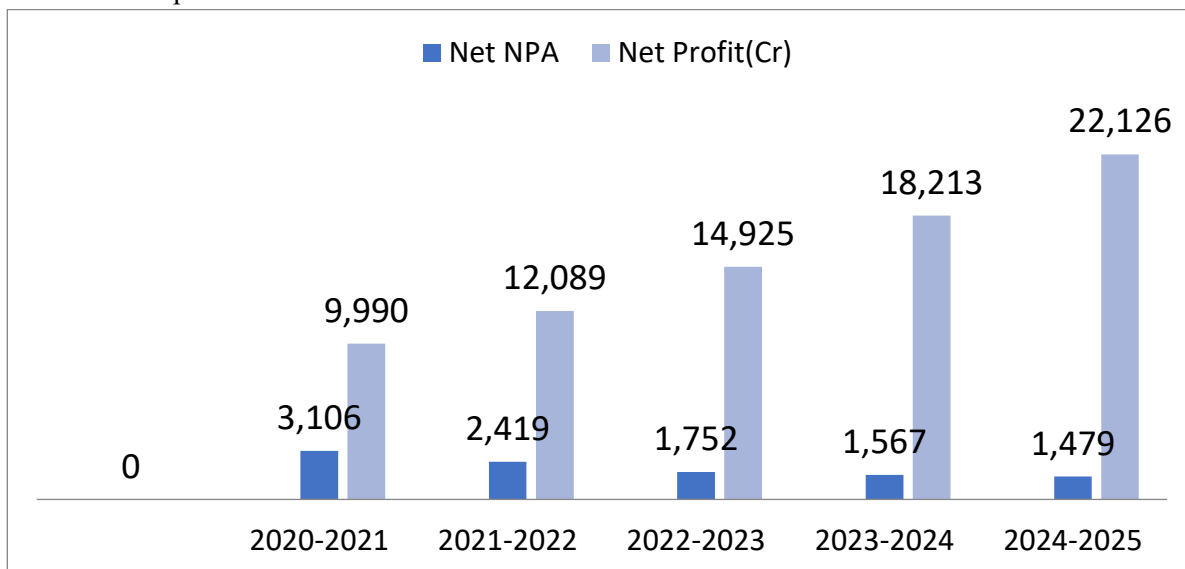
Interpretation

The chart 4.2 showing, Net NPA % declined from 1.2% to 0.3%, reflecting better loan recovery and credit management. Net NPA decreased from 3,106 Crores in 2020–2021 to 1,752 crores in 2024–2025. Advances increased from 2, 58,833 Crores to 4,38, 000 crores indicating growth in lending activities. There is a decreasing trend of NPA at kotak Mahindra bank.

Table 4.3 Net profit and net NPA

Financial year	Gross NPA(Cr)	Net NPA (Cr)	Net Profit(Cr)
2020-2021	8,276	3,106	9,990
2021-2022	7,334	2,419	12,089
2022-2023	6,419	1,752	14,925
2023-2024	6,266	1,567	18,213
2024-2025	6,133	1,479	22,126

Chart 4.3 Net profit and net NPA



Interpretation

The chart and table shows, Gross NPA reduced from 8,276 Crores in 2020–21 to 6,133 in 2024–25. Net NPA reduced from 3,106 crores to 1,479 from 2020-2021 to 2024-2025. Net Profit increased steadily from ₹9,990 Cr to ₹22,126 Cr. More than double growth in 5 years. There is an inverse relationship between NPA and profitability, as NPA decreased net profit increased and if net npa increased net profit decreased.

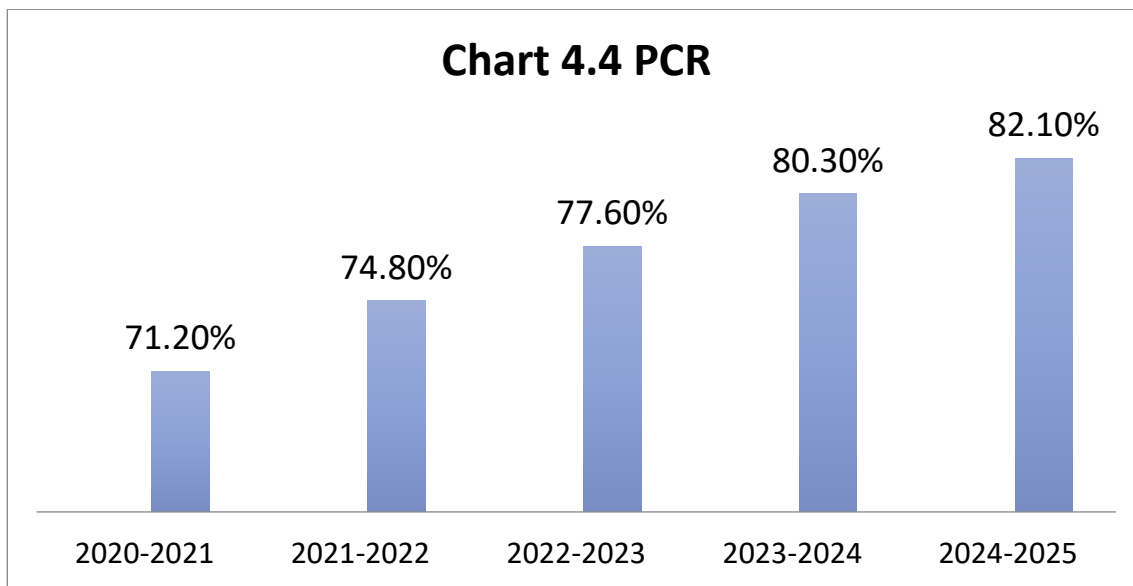
**Analysis of PCR**

Table 4.4 Analysis of PCR

Total provisions/Gross NPA x100

Financial year	Gross NPA (Cr)	Total provisions (Cr)	PCR %
2020-2021	8,276	58.9	71.2%
2021-2022	7,334	58.0	74.8%
2022-2023	6,419	50.7	77.6%
2023-2024	6,266	50.2	80.3%
2024-2025	6,133	50.3	82.1%

Chart 4.4 Provision coverage ratios



**INTERPRETATION**

This chart shows that PCR increased from 71.2% in 2020–21 to 82.1% in 2024–25, showing a total rise of 10.9%. This shows overall upward movement. In 2024–25, PCR reached 82.1% indicating strong coverage. So the average PCR comes to 77.2% for five years which clearly shows that there is a high coverage, strong financial safety and bank is at low risk.

**TABLE 4.5 HYPOTHESIS TESTING**

**CORREALTION TEST**

H0: There is no significant relationship between Net NPA and Net Profit.

H1: There is a significant relationship between Net NPA and Net profit.

4.6

Financial year	Net NPA %	Net Profit (Cr)
2020-2021	1.2%	9,990
2021-2022	0.7%	12,089
2022-2023	0.6%	14,925
2023-2024	0.4%	18,213
2024-2025	0.3%	22,126

**CORRELATION TABLE**

	Net NPA%	Net Profit
Net NPA%	1	-0.90946
Net Profit	-0.90946	1

**Interpretation**

Reject H0: There is a significant relationship between net NPA and net Profit ,As the chart showing correlation value of -0.90946 indicates a strong negative (inverse) relationship between Net NPA % and Net Profit. This means when Net NPA % increase Net Profit decreases and when net NPA% decreases Net Profit increase.

## FINDINGS

- Decrease in Gross NPA, Gross NPA reduced from ₹8,276 Cr in 2020–21 to ₹6,133 Cr in 2024–25. Gross NPA % declined from 3.3% to 1.4%, indicating improvement in asset quality.
- Reduction in Net NPA, Net NPA decreased from ₹3,106 Cr to ₹1,479 Cr over five years. Net NPA % declined from 1.2% to 0.3%, showing effective loan recovery and credit management
- Increase in Bank Advances, Gross advances increased from ₹2,52,170 Cr to ₹4,86,166 Cr. Net advances increased from ₹2,58,833 Cr to ₹4,38,000 Cr, indicating growth in lending activities.
- Growth in Net Profit, Net profit increased from ₹9,990 Cr in 2020–21 to ₹22,126 Cr in 2024–25. The bank's profitability has more than doubled in five years.
- Improvement in Provision Coverage Ratio (PCR), PCR increased from 71.2% to 82.1%. A higher PCR indicates strong financial stability and better coverage for bad loans.
- Correlation between Net NPA% and Net Profit The correlation value is -0.90946, which indicates a strong negative relationship between Net NPA and Net Profit.
- This means when Net NPA decreases, Net Profit increases. Hypothesis Testing Result Since the correlation is strong; Null Hypothesis (H0) is rejected. Alternative Hypothesis (H1) is accepted, meaning there is a significant relationship between Net NPA and Net Profit.

## CONCLUSION

The study concludes that the bank has significantly enhanced its financial performance between 2020 and 2025. The steady decline in both gross and net NPA levels reflects improved asset quality and effective credit management. Concurrently, advances and net profits have risen significantly, underscoring expansion in both banking operations and profitability. The correlation analysis reveals a strong negative relationship (-0.90946) between Net NPA

and Net Profit, indicating that a decrease in NPAs results in increased profitability. The hypothesis test confirms a significant relationship between Net NPA and Net Profit, leading to the rejection of the null hypothesis. In summary, the bank has exhibited robust financial stability, enhanced risk management, and superior operational performance throughout the five-year span.

## SUGGESTIONS

- The bank should prioritize loan quality over quantity to maintain low NPA levels.
- To improve loan monitoring, the bank should implement continuous monitoring of loan accounts, which can help detect early signs of default.
- Kotak Mahindra Bank should adopt advanced data analytics and predictive models to identify risky borrowers and prevent bad loans.
- To enhance recovery mechanisms, the bank should strengthen its efforts through legal actions, restructuring, and settlement schemes.
- To promote responsible lending, loans should be approved only after a thorough assessment of the borrower's repayment capacity.
- To mitigate the risk of substantial non-performing assets stemming from a single industry, the bank should diversify its lending portfolio across various sectors.

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