

A Study on Non-Performing Assets (NPAs) in Indian Banks with Reference to Punjab National Bank

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Abstract

Non-Performing Assets (NPAs) significantly influence the financial health and operational efficiency of banks. This research examines the causes, impact, and management of NPAs with reference to Punjab National Bank. Using primary and secondary data, the study analyses customer perceptions, credit appraisal practices, recovery mechanisms, and risk management. The results highlight the importance of effective credit monitoring, timely recovery measures, and technology-driven risk management in improving asset quality and banking performance.

Keywords: Non-Performing Assets, Punjab National Bank, Credit Risk, Asset Quality, Banking Performance, Loan Recovery.

1. INTRODUCTION

The banking sector plays a vital role in promoting economic development by mobilizing savings, extending credit, supporting investment, and maintaining financial stability. Banks function as financial intermediaries that channel funds from surplus units to deficit sectors, thereby facilitating business growth and economic expansion. The strength of a banking system depends largely on the quality of its assets, making efficient credit management essential for sustainable banking operations. Among the various challenges confronting banks, Non-Performing Assets (NPAs) remain one of the most critical issues affecting profitability, liquidity, and operational performance.

A Non-Performing Asset is a loan or advance for which interest or principal remains overdue beyond the period specified by the Reserve Bank of India. Such assets reduce banks' earning capacity because expected interest income cannot be realized, while additional provisions must be created against doubtful loans. Rising NPAs weaken financial performance, reduce lending capacity, and affect overall banking stability. Consequently, effective NPA management has become an important priority for financial institutions and regulators alike.

The Indian banking industry comprises public sector banks, private sector banks, foreign banks, regional rural banks, cooperative banks, and small finance banks. Public sector banks play a major role in implementing government development programmes and promoting financial inclusion. However, they have experienced considerable challenges in controlling stressed assets due to economic fluctuations, borrower defaults, weak credit appraisal, and operational inefficiencies. These issues have increased the need for stronger risk management systems and effective loan monitoring practices.

Several factors contribute to the growth of NPAs. Economic slowdown, industrial recession, inflation, poor business performance, borrower defaults, diversion of loan funds, inadequate credit appraisal, and ineffective recovery mechanisms all increase the likelihood of loan defaults. High NPAs adversely affect profitability by reducing interest income and increasing provisioning requirements. They also weaken liquidity, reduce banks' ability to sanction fresh loans, lower asset quality, and negatively influence investor confidence. To address these challenges, the Reserve Bank of India has introduced prudential norms, while legal mechanisms such as the SARFAESI Act, Debt Recovery Tribunals (DRTs), and the Insolvency and Bankruptcy Code (IBC) have strengthened recovery efforts. Banks have also adopted

technology-driven credit monitoring systems, data analytics, and early warning mechanisms to improve risk assessment and recovery performance.

Punjab National Bank (PNB), one of India's oldest and largest public sector banks, serves millions of customers through an extensive branch network. Like many public sector banks, PNB has encountered challenges arising from rising NPAs. To improve asset quality, the bank has implemented enhanced credit appraisal procedures, strengthened recovery mechanisms, introduced technology-based monitoring systems, and adopted comprehensive risk management practices. Evaluating these initiatives provides valuable insights into the effectiveness of NPA management and identifies opportunities for further improvement. This research analyses the causes, effects, and management of NPAs at Punjab National Bank and offers recommendations for strengthening banking performance and financial stability.

2. LITERATURE REVIEW

Non-Performing Assets (NPAs) have attracted considerable attention in banking research because of their direct influence on profitability, liquidity, asset quality, and financial stability. Researchers have consistently observed that rising NPAs reduce banks' lending capacity, increase provisioning requirements, and weaken overall operational performance. The uploaded project report reviews several significant studies that explain the causes of NPAs, their consequences, and the strategies adopted by banks to control them.

The **Narasimham Committee (1991)** emphasized the importance of prudential norms relating to income recognition, asset classification, and provisioning. The committee recommended stronger financial discipline and systematic credit monitoring to improve asset quality and reduce the accumulation of stressed assets. These recommendations laid the foundation for major banking reforms in India. **Kaveri (2002)** identified weak credit appraisal procedures and inadequate loan monitoring as the primary reasons for the growth of NPAs in commercial banks. The study suggested that effective borrower evaluation and continuous monitoring are essential for reducing loan defaults.

Reddy (2004) examined the increasing level of NPAs in public sector banks and concluded that borrower defaults, industrial slowdown, and adverse economic conditions significantly contribute to asset deterioration. Likewise, **Vashistha and Rajaraman (2005)** observed that poor lending decisions, inadequate supervision, and unfavourable macroeconomic conditions increase credit risk. Their findings highlighted the need for comprehensive risk assessment before loan sanctioning and regular monitoring throughout the loan period.

Mishra (2007) analysed the relationship between NPAs and bank profitability and reported that increasing NPAs reduce interest income while raising provisioning expenses, thereby weakening financial performance. **Ghosh (2010)** further observed that high NPAs adversely affect operational efficiency and reduce banks' ability to extend fresh credit. The study recommended proactive credit monitoring, timely identification of stressed accounts, and stronger recovery mechanisms to improve asset quality.

Recent research has highlighted the role of technology in NPA management. **Singh and Kumar (2014)** reported that technology-based monitoring systems, stronger regulatory frameworks, and efficient recovery mechanisms help reduce loan defaults. **Gupta and Sharma (2018)** found that public sector banks generally carry higher stressed assets than private sector banks and stressed the importance of credit risk management and continuous loan monitoring. **Prasad and Reddy (2021)** demonstrated that data analytics, credit scoring models, and early warning systems improve risk assessment and facilitate timely intervention. **Rao and Verma (2023)** concluded that legal mechanisms such as the **SARFAESI Act**, **Debt Recovery Tribunals (DRTs)**, and the **Insolvency and Bankruptcy Code (IBC)** have strengthened recovery performance, although banks should continue improving their internal credit management practices.

3. Research Objectives

The objectives of the research are:

1. To examine the concept and trend of Non-Performing Assets (NPAs) in Punjab National Bank.
2. To identify the major factors responsible for the growth of NPAs.
3. To evaluate the impact of NPAs on the financial performance of Punjab National Bank.
4. To assess the effectiveness of the bank's NPA recovery and management practices.
5. To recommend suitable measures for improving asset quality and reducing NPAs.

4. RESEARCH METHODOLOGY: The research adopted a **descriptive research design** to analyse the causes, impact, and management of Non-Performing Assets at Punjab National Bank. Primary data were collected from **100 respondents** through a structured questionnaire using the convenience sampling technique. Secondary information was obtained from RBI publications, annual reports, banking journals, research articles, government reports, and official bank publications. Percentage analysis and descriptive analysis were used to interpret the collected data.

5. DATA ANALYSIS AND INTERPRETATION

Table 1: Awareness of Non-Performing Assets

Awareness Level	Respondents	Percentage (%)
Highly Aware	34	34
Aware	36	36
Neutral	14	14
Less Aware	10	10
Not Aware	6	6
Total	100	100

Interpretation: A combined **70%** of respondents were either aware or highly aware of Non-Performing Assets, indicating good public understanding of NPA-related issues. Only **16%** reported limited or no awareness, suggesting that banking customers are generally familiar with the concept and its significance in financial institutions.

Table 2: Major Causes of Non-Performing Assets

Cause	Respondents	Percentage (%)
Business Failures	34	34
Economic Slowdown	24	24
Poor Credit Appraisal	18	18
Wilful Default	14	14
Others	10	10
Total	100	100

Interpretation: Business failures emerged as the leading reason for NPAs, accounting for **34%** of responses. Economic slowdown ranked second with **24%**, followed by weak credit appraisal (**18%**) and wilful defaults (**14%**). These findings indicate that both economic conditions and internal lending practices influence the growth of stressed assets.

Table 3: Impact of NPAs on Bank Profitability

Response	Respondents	Percentage (%)
Very High	35	35
High	35	35
Moderate	14	14
Low	10	10
Very Low	6	6
Total	100	100

Interpretation: The majority of respondents (**70%**) believed that NPAs have a high or very high impact on bank profitability. Rising NPAs reduce interest income, increase provisioning requirements, and weaken financial performance. This highlights the importance of effective credit risk management and timely recovery measures for maintaining banking stability.

6. Results

The analysis shows that respondents possess a good understanding of Non-Performing Assets and recognise their impact on banking operations. Business failures, economic slowdown, weak credit appraisal, and borrower defaults were identified as the primary reasons for the growth of NPAs. Respondents also agreed that high NPAs adversely affect profitability, lending capacity, and overall financial performance. Effective credit appraisal, technology-based monitoring, legal recovery mechanisms, and stronger risk management practices were considered essential for improving asset quality and reducing future loan defaults.

7. Suggestions

Punjab National Bank should strengthen credit appraisal procedures before loan sanctioning and continuously monitor high-risk loan accounts. Greater use of data analytics and early warning systems can improve risk assessment. Recovery mechanisms should be accelerated through timely legal action and effective borrower follow-up. Regular employee training in credit risk management and borrower evaluation will further enhance asset quality and reduce the incidence of NPAs.

8. Conclusion

Non-Performing Assets remain a major challenge affecting the financial performance and operational efficiency of Punjab National Bank. Effective credit assessment, continuous monitoring, technology-driven risk management, and timely recovery strategies are essential for maintaining asset quality. Strengthening these practices will improve profitability, reduce credit risk, and support long-term financial stability while enabling the bank to contribute more effectively to economic development.

9. Scope for Further Research

Future studies may compare NPAs across multiple public and private banks and examine the role of artificial intelligence, predictive analytics, and digital credit monitoring in improving asset quality.

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