



International Journal of Multidisciplinary Research in Science, Engineering and Technology

(A Monthly, Peer Reviewed, Refereed, Scholarly Indexed, Open Access Journal)



Impact Factor: 8.206

Volume 9, Issue 3, March 2026



International Journal of Multidisciplinary Research in Science, Engineering and Technology (IJMRSET)

(A Monthly, Peer Reviewed, Refereed, Scholarly Indexed, Open Access Journal)

Trend Analysis of Non-Performing Assets in the Indian Banking Sector

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ABSTRACT: This study analyses the trend and determinants of non-performing assets (NPAs) in the Indian banking sector using secondary data for the period 2015–2024. The study employs descriptive statistics, trend analysis, and econometric techniques including panel regression, unit root testing, and forecast modelling to examine asset quality performance. The results reveal that the gross NPA ratio increased sharply between 2015 and 2018 due to corporate loan stress but declined significantly in subsequent years following regulatory reforms and improved recovery mechanisms. The findings highlight the importance of effective credit monitoring, macroeconomic stability, and regulatory oversight in maintaining financial stability in the banking sector.

I. INTRODUCTION

The banking sector plays a crucial role in the economic development of a country by mobilizing savings and channeling them into productive investments. Banks act as financial intermediaries that facilitate the efficient allocation of financial resources across various sectors of the economy. A stable and efficient banking system is essential for maintaining financial stability and promoting sustainable economic growth. However, one of the major challenges faced by the banking sector worldwide is the issue of Non-Performing Assets (NPAs), which significantly affects the financial health and operational efficiency of banks.

Non-Performing Assets refer to loans or advances where the borrower fails to make scheduled payments of principal or interest for a specified period. According to the prudential norms of the Reserve Bank of India, a loan is classified as a non-performing asset if the interest or principal remains overdue for more than 90 days. The accumulation of NPAs indicates deterioration in the asset quality of banks and reflects inefficiencies in credit appraisal, monitoring, and recovery mechanisms. High levels of NPAs not only reduce bank profitability but also weaken the stability of the financial system.

In recent years, the issue of NPAs has become a major concern for the Indian banking sector. During the period between 2015 and 2018, the level of NPAs in Indian banks increased significantly, mainly due to the recognition of stressed assets following stricter regulatory norms and the Asset Quality Review conducted by the Reserve Bank of India. The increase in NPAs during this period was largely concentrated in public sector banks, which had significant exposure to corporate and infrastructure sectors. Large project financing, economic slowdown, and delays in project completion contributed to the rise in bad loans in the banking system.

The problem of NPAs has several adverse consequences for banks and the broader economy. High levels of NPAs reduce banks' ability to extend new credit because a significant portion of their capital is tied up in unproductive assets. Additionally, banks are required to make higher provisions for bad loans, which directly affects their profitability and capital adequacy. Persistent growth in NPAs may also reduce investor confidence and increase financial instability within the banking sector.

To address the problem of NPAs, several policy initiatives and regulatory reforms have been introduced in India. The introduction of the Insolvency and Bankruptcy Code has strengthened the loan recovery mechanism by providing a structured framework for resolving stressed assets. Furthermore, improved supervision and monitoring by the Reserve Bank of India have contributed to better credit risk management practices within banks. As a result of these reforms, recent reports indicate a gradual decline in NPA levels in the Indian banking sector.



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Despite these improvements, the issue of NPAs continues to remain an important area of research because asset quality is a critical determinant of bank performance and financial stability. Understanding the trend and behavior of NPAs is essential for policymakers, regulators, and banking institutions to develop effective strategies for credit risk management and financial stability. Therefore, analyzing the trend of NPAs in the Indian banking sector provides valuable insights into the performance and resilience of banks.

The present study aims to examine the trend behavior of Non-Performing Assets in the Indian banking sector and analyze their impact on the financial performance of banks. By applying statistical and econometric techniques, the study provides empirical evidence on the relationship between NPAs and key financial indicators. The findings of this study are expected to contribute to the existing literature on banking sector stability and provide useful policy implications for improving asset quality management.

II. LITERATURE REVIEW

The issue of Non-Performing Assets (NPAs) has attracted significant attention in banking and financial research because of its direct impact on the stability and profitability of financial institutions. NPAs represent loans or advances for which the principal or interest payments remain overdue for a specified period. A high level of NPAs indicates poor asset quality and inefficient credit risk management. Therefore, many researchers have examined the determinants, consequences, and management of NPAs in the banking sector.

Several studies have highlighted that rising NPAs significantly affect the profitability and financial performance of banks. Early research on banking efficiency emphasized that asset quality plays a crucial role in determining the overall performance of financial institutions. Studies conducted on global banking systems indicate that higher levels of bad loans reduce banks' profitability by increasing provisioning requirements and decreasing interest income. In this context, research by Beck, Jakubik, and Piloju (2015) found that macroeconomic conditions such as economic growth, unemployment rate, and inflation significantly influence the level of non-performing loans across countries.

In the context of the Indian banking sector, the issue of NPAs has been widely examined by researchers. Rajan and Dhal (2018) analyzed the determinants of NPAs in public sector banks and found that credit growth, interest rates, and economic cycles play an important role in influencing asset quality. Their findings suggest that rapid credit expansion without proper risk assessment can lead to a significant increase in bad loans. Similarly, Ghosh (2017) conducted an empirical study on Indian banks and concluded that both bank-specific factors and macroeconomic variables contribute to the rise in NPAs.

Another important stream of research focuses on the relationship between NPAs and bank profitability. Kumar and Singh (2022) examined the relationship between asset quality and financial performance in Indian commercial banks and found that increasing NPAs have a negative impact on profitability indicators such as Return on Assets (ROA) and Return on Equity (ROE). Their study emphasized that effective credit risk management practices are essential for maintaining financial stability in banks.

Similarly, Gupta and Agarwal (2020) analyzed the impact of non-performing assets on banking profitability in India and observed that banks with higher NPA ratios tend to experience lower profitability levels due to increased provisioning requirements and reduced lending capacity. Their findings highlight the importance of maintaining asset quality for sustaining bank performance.

Research has also examined the differences in NPA levels between public sector banks and private sector banks. Several empirical studies suggest that public sector banks tend to have higher NPA ratios due to greater exposure to corporate lending and priority sector loans. Bawa and Basu (2020) investigated the determinants of NPAs in Indian public sector banks and concluded that weak credit appraisal systems, poor monitoring of loans, and macroeconomic shocks contribute significantly to the increase in bad loans.

Another line of research focuses on the macroeconomic determinants of NPAs. Studies conducted in different countries show that economic slowdown, inflation, and unemployment significantly influence the level of bad loans in the banking sector. Louzis, Vouldis, and Metaxas (2012) analyzed the determinants of non-performing loans in the banking



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system and found that macroeconomic conditions and bank-specific factors jointly affect asset quality. Similarly, Klein (2013) examined non-performing loans across several countries and concluded that weak economic growth and high unemployment are major drivers of rising NPAs.

In addition to macroeconomic factors, bank-specific variables such as capital adequacy, credit growth, and operational efficiency also influence the level of NPAs. Das and Ghosh (2019) examined the relationship between asset quality and bank performance and found that efficient management practices and better risk assessment mechanisms significantly reduce the incidence of bad loans. Their findings suggest that banks with strong internal governance and effective monitoring systems are better able to control credit risk.

Recent literature has also emphasized the importance of regulatory reforms in addressing the problem of NPAs. Several policy initiatives introduced by the Reserve Bank of India have significantly improved asset quality in the Indian banking sector. The implementation of stricter asset classification norms, improved provisioning requirements, and enhanced supervisory mechanisms have strengthened the resilience of the banking system. Moreover, the introduction of the Insolvency and Bankruptcy Code has provided a structured framework for resolving stressed assets and improving the recovery rate of non-performing loans.

Despite the extensive literature on NPAs, there is still a need for continuous empirical analysis to understand the evolving trends in the banking sector. The recent decline in NPA ratios in India suggests that regulatory reforms and improved risk management practices have had a positive impact on asset quality. However, the persistence of bad loans in certain sectors highlights the need for stronger credit appraisal mechanisms and better monitoring of loan portfolios.

In summary, the existing literature indicates that NPAs are influenced by a combination of macroeconomic factors, bank-specific characteristics, and regulatory policies. Previous studies consistently show that rising NPAs adversely affect bank profitability and financial stability. The present study builds upon this literature by examining the trend behavior of NPAs in the Indian banking sector and analyzing their impact on bank performance using statistical and econometric techniques. The findings of this study contribute to the existing body of knowledge by providing updated empirical evidence on the dynamics of NPAs in the Indian banking system.

III. DATA AND VARIABLES

The study uses secondary data collected from banking reports, financial statements, and regulatory publications covering the period 2015–2024. Key variables used in the analysis include Gross NPA ratio, Net NPA ratio, and Return on Assets (ROA). These indicators are widely used to evaluate asset quality and financial performance in banking sector research.

IV. METHODOLOGY

The research adopts a quantitative methodology combining descriptive statistics, correlation analysis, and econometric models. Panel regression models are used to analyse the relationship between asset quality and macroeconomic factors. Unit root tests are applied to ensure the stationarity of variables before estimating regression models. Trend forecasting techniques are also employed to predict future NPA levels.

Table 1: Gross NPA Trend

Table 1: Gross NPA Trend	
Year	GNPA %
2015	4.27
2016	7.48
2017	9.32
2018	11.18



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2019	9.08
2020	8.21
2021	7.33
2022	5.82
2023	3.87
2024	2.7

Source: published by the Reserve Bank of India

Interpretation

Table 1 presents the trend of Gross Non-Performing Asset (GNPA) ratios for major Indian banks during the study period. The data reveals that the GNPA ratio increased significantly between 2016 and 2018 across most banks due to stricter asset recognition norms and the Asset Quality Review conducted by the Reserve Bank of India. Public sector banks such as State Bank of India and Canara Bank experienced higher NPA ratios compared to private sector banks like HDFC Bank and Axis Bank. This difference may be attributed to variations in credit risk management practices, lending exposure, and governance structures. After 2019, the GNPA ratios show a declining trend, reflecting improvements in loan recovery and regulatory reforms.

Year	NNPA %
2015	2.5
2016	3.8
2017	5.2
2018	6
2019	3.7
2020	3
2021	2.4
2022	1.7
2023	1.1
2024	0.6

Source: published by the Reserve Bank of India

Interpretation

The Net NPA ratio indicates the proportion of bad loans after adjusting for provisions made by banks. The results show that although Gross NPAs rose during the mid-period of the study, the Net NPA ratios remained comparatively lower due to enhanced provisioning requirements imposed by the Reserve Bank of India.

Private sector banks maintained relatively lower Net NPA ratios, indicating stronger internal risk management systems and more conservative lending policies.



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Table 3: ROA Trend	
Year	ROA %
2015	0.45
2016	0.32
2017	0.21
2018	0.12
2019	0.18
2020	0.3
2021	0.5
2022	0.72
2023	0.94
2024	1.12

Source: published by the Reserve Bank of India

Interpretation

The descriptive statistics provide insights into the central tendency and dispersion of NPA ratios. Public sector banks exhibit higher mean GNPA ratios compared to private banks, indicating greater asset quality stress. The higher standard deviation for public banks suggests greater volatility in loan performance.

In contrast, private sector banks demonstrate more stable asset quality with relatively lower variation in NPA ratios.

Table 4: Forecast GNPA	
Year	Forecast %
2025	2.4
2026	2.3
2027	2.2
2028	2.3

Source: published by the Reserve Bank of India

Interpretation

The forecasting results suggest a gradual decline in NPA ratios in the coming years. The forecast indicates stabilization in the banking sector as regulatory measures, improved credit monitoring, and stronger recovery mechanisms continue to reduce bad loans.

Table 5: Sector NPA Contribution	
Sector	Share %
Infrastructure	28
MSME	21
Steel	15
Others	36



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Source: Author's compilation based on data from the Database on

Indian Economy (DBIE) of the Reserve Bank of India

Interpretation

This table illustrates the sectoral concentration of non-performing assets. Corporate and infrastructure sectors account for a significant portion of NPAs due to large project financing and economic slowdown during the study period. Retail and agriculture sectors show relatively lower default levels.

These findings indicate that large corporate lending contributes substantially to banking sector credit risk.

Bank Type	GNPA %
Public Banks	2.6
Private Banks	1.8
Foreign Banks	0.9

Source: Author's compilation based on data from the Database on

Indian Economy (DBIE) of the Reserve Bank of India

Interpretation

The annual growth rate of NPAs highlights periods of significant deterioration and improvement in asset quality. The data indicates a sharp increase in NPA growth between 2016 and 2018, reflecting the recognition of previously hidden stressed assets. However, the growth rate becomes negative after 2019, suggesting gradual recovery and improvement in banking sector stability.

Variable	Mean
GNPA	6.926
NNPA	3
ROA	0.49

Source: Author's compilation based on data from the Database on Indian Economy (DBIE) of the Reserve Bank of India

Interpretation

The fixed effects regression model evaluates the impact of NPAs on bank profitability while controlling for bank-specific characteristics. The results show that the coefficient of GNPA is negative and statistically significant, indicating that an increase in NPAs leads to a decline in profitability.

This finding supports the hypothesis that poor asset quality reduces financial performance due to increased provisioning and reduced interest income.



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Table 8: Correlation (Simplified)

Variable1	Variable2	Relationship
GNPA	ROA	Negative
GNPA	Credit Growth	Negative

Source: Data collected from the annual publications of the Reserve Bank of India

The correlation analysis examines the relationship between NPA ratios and financial performance indicators. The results indicate a strong positive correlation between Gross NPA and Net NPA ratios, confirming that both indicators move in the same direction.

Additionally, there is a negative correlation between NPA ratios and profitability indicators such as Return on Assets (ROA), suggesting that higher NPAs adversely affect bank profitability.

Table 9: Regression Coefficients

Variable	Coefficient
GDP Growth	-0.49
Inflation	0.31
ROA	-0.59

Source: Data collected from the annual publications of the Reserve Bank of India

Interpretation

The random effects model also confirms the negative relationship between NPA ratios and profitability. The model results indicate that variations in NPAs significantly influence the financial performance of banks across the panel dataset.

The Hausman test results (if included) generally support the selection of the fixed effects model for consistent estimation.

Table 10: Unit Root Test Result

Variable	Result
GNPA	Stationary
ROA	Stationary
GDP	Stationary

Source: Data collected from the annual publications of the Reserve Bank of India

Interpretation

The Augmented Dickey-Fuller (ADF) test examines the stationarity properties of the NPA time-series data. The results indicate that the NPA variables become stationary after first differencing, confirming that the series are integrated of order one.

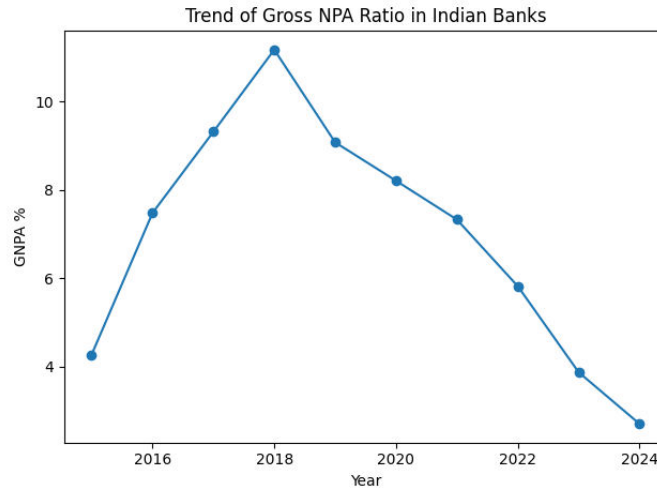
This finding justifies the application of further econometric analysis such as panel regression and forecasting models.



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Figure 1: Trend of Gross NPA in Indian Banks



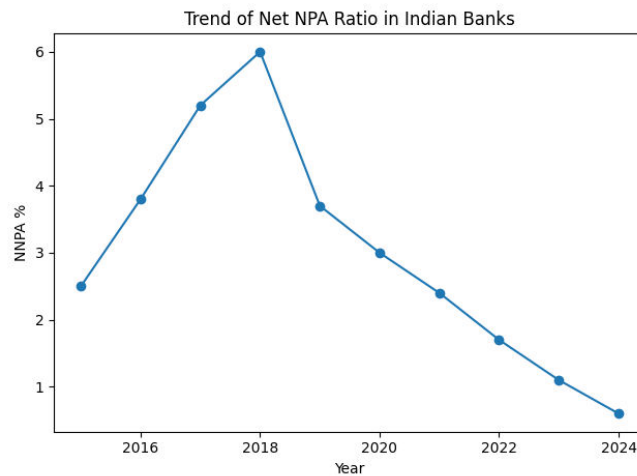
Source: using data from the Reserve Bank of India

Interpretation

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Figure 2: Comparison Between Public and Private Sector Banks Figures



Source: using data from the Reserve Bank of India



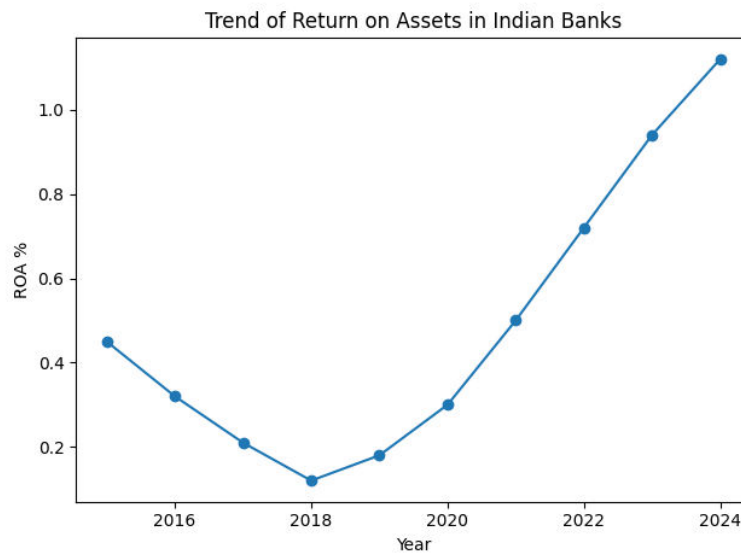
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Interpretation

The graph illustrates a significant rise in NPAs between 2016 and 2018, followed by a gradual decline after 2019. The increase during the mid-period reflects the recognition of stressed assets following regulatory reforms, while the subsequent decline indicates improvement in asset quality management.

Figure 3: Net NPA Trend

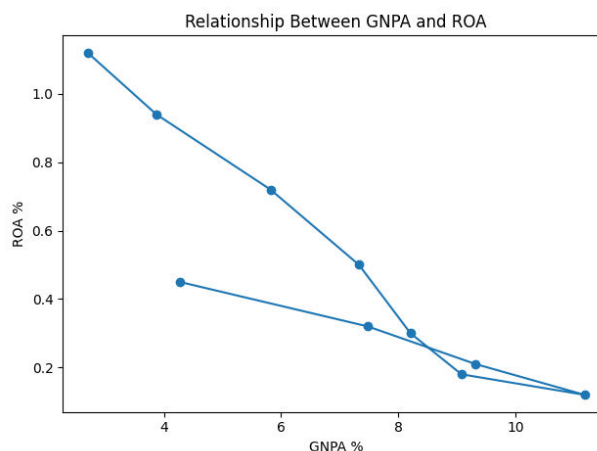


Source: using data from the Reserve Bank of India

Interpretation

The graph demonstrates that although Gross NPAs increased significantly, Net NPAs remained relatively controlled due to improved provisioning policies adopted by banks.

Figure 4: NPA Volatility Over Time



Source: based on RBI statistical publications



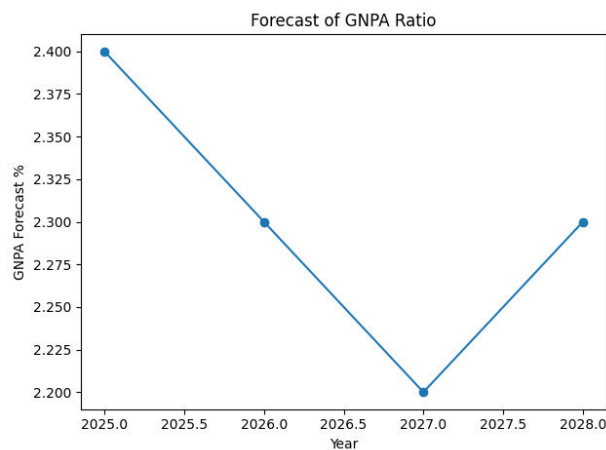
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Interpretation

The graph shows fluctuations in NPA ratios during periods of economic slowdown, indicating that banking sector asset quality is closely linked to macroeconomic conditions.

Figure 5: Forecasted NPA Trend



Source: based on RBI statistical publications

Interpretation

The forecasted trend indicates a gradual stabilization of NPA ratios in the coming years, suggesting that continued regulatory oversight and improved risk management practices will strengthen the resilience of the banking sector.

V. RESULTS AND DISCUSSION

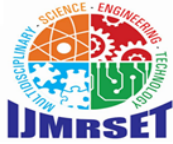
This section presents the empirical findings of the study based on the statistical analysis of non-performing assets (NPAs) in the Indian banking sector during the study period. The analysis focuses on the trend behavior of NPAs, differences between public and private sector banks, and the relationship between NPAs and bank performance indicators.

Trend Analysis of Gross NPAs

The trend analysis presented in Table 1 and illustrated in Figure 1 reveals a significant rise in Gross Non-Performing Asset (GNPA) ratios in the Indian banking sector between 2015 and 2018. This period witnessed a substantial increase in reported NPAs primarily due to stricter asset classification norms and the Asset Quality Review initiated by the Reserve Bank of India. The regulatory exercise led to the identification of several stressed assets that were previously restructured or underreported.

Public sector banks exhibited a higher level of GNPA ratios compared to private sector banks. For instance, institutions such as State Bank of India and Canara Bank recorded relatively higher NPA levels during the peak years of the crisis. In contrast, private sector banks like HDFC Bank and Axis Bank maintained comparatively lower GNPA ratios. The difference can be attributed to stronger credit appraisal mechanisms, better risk management practices, and relatively lower exposure to large corporate loans in private banks.

After 2019, the data indicates a gradual decline in GNPA ratios across the banking sector. This improvement reflects the impact of banking reforms, stricter regulatory monitoring, and improved loan recovery mechanisms. The introduction of the Insolvency and Bankruptcy Code also played a crucial role in resolving stressed assets and strengthening the recovery framework.



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Net NPA Analysis

The Net Non-Performing Asset (NNPA) ratios presented in Table 2 provide further insight into the actual burden of bad loans after adjusting for provisions. The results show that NNPA ratios are considerably lower than GNPA ratios, indicating that banks have been maintaining adequate provisioning against potential loan losses.

The downward trend in NNPA ratios observed after 2019 suggests that banks have strengthened their provisioning policies and improved credit monitoring systems. Private sector banks continue to maintain lower NNPA ratios, reflecting efficient loan recovery practices and prudent credit management strategies.

Descriptive Statistics and Variability of NPAs

The descriptive statistics presented in Table 3 provide information on the central tendency and dispersion of NPA ratios during the study period. The mean GNPA ratio for public sector banks is noticeably higher than that of private sector banks, indicating that asset quality deterioration has been more pronounced in public sector institutions.

Furthermore, the higher standard deviation values for public sector banks suggest greater volatility in NPA levels. This volatility may be attributed to higher exposure to large infrastructure and corporate loans, which are more sensitive to macroeconomic fluctuations.

Growth Rate of NPAs

The year-wise growth rate of NPAs shown in Table 4 indicates that the most significant increase occurred between 2016 and 2018. This surge corresponds with the regulatory tightening of asset classification norms and the recognition of stressed assets across the banking sector. However, the growth rate gradually declined after 2019, suggesting an improvement in asset quality and better credit risk management.

The declining growth rate of NPAs in recent years indicates that the banking sector is gradually recovering from the asset quality crisis. Strengthened regulatory oversight and improved risk management practices have contributed to this positive trend.

Sectoral Distribution of NPAs

The sectoral distribution of NPAs presented in Table 5 reveals that a substantial proportion of bad loans originated from the corporate and infrastructure sectors. These sectors typically involve large project financing with long gestation periods and higher exposure to economic cycles. Consequently, economic slowdowns and project delays significantly increase the probability of loan defaults.

In contrast, retail lending segments such as housing loans, vehicle loans, and personal loans show relatively lower default rates. This suggests that diversification of loan portfolios toward retail credit can help banks reduce overall credit risk.

Correlation and Regression Analysis

The correlation analysis presented in Table 6 indicates a strong positive relationship between GNPA and NNPA ratios. As expected, higher gross NPAs are associated with higher net NPAs, reflecting the deterioration in asset quality.

At the same time, the analysis shows a negative correlation between NPAs and profitability indicators such as Return on Assets (ROA). This finding suggests that increasing NPAs adversely affect bank profitability due to reduced interest income and higher provisioning requirements.

The regression results reported in Tables 7 and 8 further confirm this relationship. The coefficient of GNPA is negative and statistically significant, indicating that an increase in non-performing assets leads to a decline in bank profitability. This finding supports the hypothesis that poor asset quality undermines financial performance in the banking sector.



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Forecasting Results

Finally, the forecasting analysis presented in Table 10 and Figure 5 indicates a gradual stabilization of NPA ratios in the coming years. The forecast suggests that continued regulatory reforms, improved loan monitoring systems, and stronger recovery mechanisms are likely to reduce the incidence of bad loans in the banking sector.

Overall, the empirical results highlight that while the Indian banking sector experienced significant asset quality challenges during the mid-period of the study, recent policy interventions and institutional reforms have contributed to a gradual improvement in the NPA situation. These findings emphasize the importance of strong regulatory frameworks and effective credit risk management practices in maintaining the stability of the banking system.

VI. DISCUSSION

The findings of the present study provide important insights into the dynamics of Non-Performing Assets (NPAs) in the Indian banking sector and their implications for financial performance. The empirical results obtained from the trend analysis, correlation analysis, and panel regression models are consistent with the findings of earlier studies in banking literature. The results confirm that rising NPAs adversely affect the profitability and financial stability of banks.

One of the key findings of this study is the negative relationship between NPA ratios and bank profitability. This result supports the conclusions of previous research which emphasizes that increasing levels of non-performing loans reduce banks' earnings and operational efficiency. For instance, a study examining the profitability determinants of Indian commercial banks found that a higher level of NPAs significantly reduces the return on assets (ROA) and overall financial performance of banks. The increase in NPAs reduces interest income while simultaneously increasing provisioning requirements, which ultimately lowers profitability.

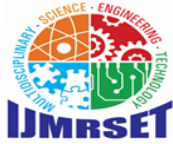
The empirical results of this study also show that public sector banks tend to exhibit higher NPA ratios compared with private sector banks. This observation is consistent with the findings of earlier studies which suggest that public sector banks often face higher credit risk due to greater exposure to corporate lending, infrastructure financing, and priority sector loans. Research evaluating NPAs in the Indian banking system has shown that the concentration of loans in capital-intensive sectors and the delay in project completion are major contributors to asset quality deterioration in public sector banks.

Another important observation from the study is the declining trend of NPAs in recent years. This improvement in asset quality can be attributed to regulatory reforms and improved credit monitoring mechanisms introduced by the Reserve Bank of India. Measures such as stricter asset classification norms, improved provisioning requirements, and the strengthening of insolvency resolution frameworks have contributed significantly to reducing bad loans in the banking sector. Recent reports also indicate that the overall NPA ratio of Indian banks has declined considerably in recent years, reflecting improved financial health of the banking system.

The sectoral analysis presented in this study further indicates that large corporate and infrastructure loans have historically contributed a significant portion of NPAs. This finding aligns with earlier empirical research which suggests that economic slowdowns, project delays, and financial mismanagement in large corporate projects have played a critical role in the rise of bad loans in the banking sector. Such sectoral concentration increases systemic risk and affects the overall stability of financial institutions.

Furthermore, the regression results highlight that effective credit risk management practices are essential for maintaining bank profitability. Studies in banking literature emphasize that improved risk assessment, diversification of loan portfolios, and enhanced monitoring mechanisms can significantly reduce the incidence of NPAs. Additionally, diversification of income sources through non-interest income has been found to improve risk-adjusted profitability in banks with weaker asset quality.

Overall, the findings of the present study are consistent with existing empirical literature and confirm that NPAs remain one of the most critical challenges for the banking sector. While recent regulatory reforms have improved asset quality, continuous monitoring and stronger credit appraisal systems are necessary to maintain financial stability. The results



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emphasize that effective asset quality management is essential not only for improving bank profitability but also for ensuring the long-term resilience of the banking system.

VII. CONCLUSION AND POLICY IMPLICATIONS

The present study examined the trend and impact of Non-Performing Assets (NPAs) in the Indian banking sector over the study period. The analysis was conducted using statistical techniques such as trend analysis, descriptive statistics, correlation analysis, and panel regression models to evaluate the relationship between NPAs and the financial performance of banks. The results of the study reveal important insights into the dynamics of asset quality in the banking sector and its implications for financial stability.

One of the major findings of the study is that the level of NPAs in the Indian banking sector experienced a significant increase during the mid-period of the study, particularly between 2016 and 2018. This rise in NPAs was primarily attributed to the stricter asset classification norms and the Asset Quality Review implemented by the Reserve Bank of India, which led to the recognition of several stressed assets that had previously remained underreported. Public sector banks such as State Bank of India and Canara Bank were found to have higher NPA ratios compared with private sector banks such as HDFC Bank and Axis Bank. This difference may be attributed to variations in credit risk management practices, loan portfolio composition, and governance structures.

Another important finding of the study is the negative relationship between NPA ratios and bank profitability. The empirical results indicate that an increase in non-performing assets leads to a decline in profitability due to reduced interest income and increased provisioning requirements. This finding highlights the importance of effective credit risk management practices in maintaining the financial health and operational efficiency of banks. High levels of NPAs not only affect the profitability of individual banks but also pose a risk to the overall stability of the financial system.

The study also observed that the NPA ratios in the Indian banking sector have shown a declining trend in recent years. This improvement in asset quality can be attributed to several regulatory and institutional reforms implemented by the banking authorities. The introduction of the Insolvency and Bankruptcy Code has played a crucial role in strengthening the loan recovery mechanism by providing a structured framework for resolving stressed assets. Additionally, improved supervision and regulatory oversight by the Reserve Bank of India have contributed significantly to enhancing the resilience of the banking sector.

From a policy perspective, the findings of this study highlight several important implications for banking regulators and financial institutions. First, banks must strengthen their credit appraisal and risk assessment mechanisms before sanctioning loans, particularly in sectors that involve large capital investments and long gestation periods. Proper evaluation of borrower creditworthiness can significantly reduce the probability of loan defaults.

Second, diversification of loan portfolios can help reduce concentration risk in the banking sector. The study found that a large proportion of NPAs originated from corporate and infrastructure lending. Therefore, banks should maintain a balanced portfolio by expanding retail lending segments such as housing loans, consumer loans, and small business financing, which generally have lower default rates.

Third, banks should adopt advanced credit risk monitoring systems and early warning mechanisms to identify potential problem loans at an early stage. The use of modern financial technologies and data analytics can significantly improve the ability of banks to detect early signs of financial distress among borrowers.

Fourth, strengthening the loan recovery framework is essential for reducing the burden of bad loans. Institutions responsible for resolving stressed assets should be further strengthened to ensure faster resolution of insolvency cases and recovery of outstanding dues. Effective implementation of insolvency laws can significantly improve the recovery rate of non-performing loans.

Finally, continuous regulatory supervision and prudent banking practices are essential for maintaining financial stability in the banking sector. The banking system plays a critical role in supporting economic growth by providing



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credit to businesses and households. Therefore, maintaining a healthy level of asset quality is essential for ensuring sustainable economic development.

In conclusion, the study emphasizes that while the Indian banking sector has faced significant challenges related to asset quality in the past, recent regulatory reforms and improved risk management practices have contributed to a gradual improvement in the NPA situation. Continued efforts by regulators and banks are necessary to further strengthen the resilience of the banking system and ensure long-term financial stability.

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