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Research Article

Impact Of Non-Performing Assets (NPAS) On Profitability Of Public Sector Banks In India

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ABSTRACT

The Indian banking sector has undergone substantial changes in recent decades, with public sector banks (PSBs) playing a crucial role in the nation's financial system. However, amidst this evolution, the issue of Non-Performing Assets (NPAs) has emerged as a significant challenge for banks across all categories. This research paper explores the intricate relationship between NPAs and the profitability of public sector banks in India. The primary objective of this study is to thoroughly examine the extent to which NPAs influence the profitability of PSBs in India.

Through an extensive literature review, this research establishes the context of NPAs within the Indian banking system, detailing the regulatory framework, classification criteria, and historical trends. Building on the existing body of knowledge, this article highlights the global and Indian significance of NPAs for banking institutions.

This study investigates how NPAs, commonly referred to as bad loans, impact the profitability of public sector banks in India. The findings reveal that NPAs adversely affect the financial performance of PSBs and state the critical importance of effective NPA management for maintaining profitability and sustainability in the banking sector.

The banking sector in India has experienced significant transformations over the years, evolving into a dynamic and competitive landscape. Public sector banks (PSBs) have historically played a pivotal role in driving the nation's economic growth, contributing to financial inclusion and infrastructure development. However, the emergence of new private sector banks has introduced a fresh wave of innovation and market orientation, increasing competition and offering customers a broader range of financial products and services.

Key Words: Non -Performing Assets, Profitability, Public sector banks

Introduction

The banking sector in India has experienced significant transformations over the years, evolving into a dynamic and competitive landscape. Public sector banks (PSBs) have historically played a pivotal role in driving the nation's economic growth, contributing to financial inclusion and infrastructure development. However, the emergence of new private sector banks has introduced a fresh wave of innovation and market orientation, increasing competition and offering customers a broader range of financial products and services.

Despite these advancements, the issue of Non-Performing Assets (NPAs) has become a critical concern for banks in India, particularly for public sector banks. NPAs, commonly referred to as bad loans, are loans or advances that cease to generate income due to the borrowers' failure to repay them. This has far-reaching implications on the financial health and profitability of banks. The erosion of interest income, the need for substantial provisioning, and the associated operational and administrative costs are some of the detrimental impacts of NPAs. Furthermore, high levels of NPAs can undermine a bank's capital adequacy and market perception, leading to a loss of depositor and investor confidence.

The historical context of NPAs in India reveals that before the liberalization of the economy in 1991, asset quality was not a primary concern for Indian banks. The focus was predominantly on expanding the banking

network, priority sector lending, and employment generation. However, the recommendations of the Narasimham Committee in 1991 highlighted the burden of NPAs on Indian banks, leading to the implementation of prudential norms by the Reserve Bank of India (RBI) in 1992-1993. These norms introduced stricter criteria for classifying assets as non-performing, reducing the period from 180 days to 90 days for recognizing NPAs.
To address the burgeoning NPA crisis, the RBI and the Government of India have introduced several debt recovery mechanisms, including Debt Recovery Tribunals (DRTs), Lok Adalat's, and the SARFAESI Act, 2002. Despite these measures, NPAs remain a significant challenge, impacting the profitability and stability of the banking sector.
This research work delves into the complex and multifaceted issue of NPAs and their profound impact on the profitability of public sector banks in India. By examining the period from 2019 to 2023, the study aims to analyze how NPAs, along with other bank-specific characteristics, affect the financial performance of PSBs. The findings highlight that NPAs have a significant negative impact on the profitability of scheduled commercial banks, measured using return on assets (ROA) and return on equity (ROE). Additionally, factors such as net interest margin and non-interest income positively influence bank profits, while rising wage bills and lower operational efficiency negatively affect ROA and ROE.
Understanding the impact of NPAs on public sector banks' profitability is crucial for developing effective strategies to manage and mitigate bad loans, ensuring the stability and growth of the Indian banking sector. As India aspires to become a $5 trillion economy, a robust and healthy banking system is essential for supporting infrastructure growth and achieving sustainable economic development.

Literature Review:

Kaur K. and Singh B. (2011) highlighted in their study on ''Non-Performing Assets of Public and Private Sector Banks: A Comparative Study' 'that NPAs are a crucial indicator for assessing the performance and financial health of banks. The level of NPAs significantly influences the financial stability and growth of the banking sector. **C., Mukherjee J., and Das (2012)** emphasized in their study titled "Management of Non-Performing Assets - A Current Scenario," the importance of banks identifying the original reasons or purposes behind the borrower's loan requirement. They suggested that banks should conduct thorough checks on the guarantor's identity and scrutinize their financial standing to mitigate risks associated with NPAs. **Namita Rajput et al (2013)** identified an inverse relationship between profitability and NPAs. They suggested that banks can achieve an upward trajectory in profitability only through an effective reduction in NPAs. This reduction would enhance the asset quality of banks, subsequently decreasing provisioning requirements and bolstering profits. Ultimately, this cycle leads to an overall improvement in the profitability and performance of banks. **Krishna Murari (2014)** observed that public sector banks have experienced a continuous increase in gross and net NPAs compared to private sector banks. Despite this, there's no significant difference in NPAs ratios between the two sectors, implying concerted efforts by both to mitigate NPAs, driven by regulatory and supervisory pressures. Murari highlighted the importance of technology in aiding banks to proactively manage and anticipate NPA challenges. **Shriharsha Reddy (2015**) explored the influence of ownership on NPAs. He found that ownership type significantly affects NPA levels, with new private banks exhibiting the lowest NPAs, followed by old private banks and public sector banks. Additionally, his research revealed a negative and significant impact of priority sector lending on NPA levels, suggesting that NPAs in India are largely driven by lending to non-priority sectors, particularly sensitive areas like personal loans and the real estate industry. **Singh (2016**) stated the importance of focusing on the recovery aspect of NPAs in the Indian banking sector, suggesting that while various government measures have been implemented, stronger actions are still required. He highlighted that while achieving zero NPA levels may be unrealistic, internal authorities must take decisive steps to expedite the recovery process.
Garg (2016) concluded in his research paper that NPAs significantly affect profitability, liquidity, and result in credit losses. He stressed the necessity for implementing effective remedial measures to reduce the substantial quantity of NPAs. **Banana & Chepuri** (2017) In their study, pointed out a concerning trend: a decline in the growth rate of advances coupled with an increase in NPAs, posing challenges for banks. They emphasized the necessity for rigorous measures pre-loan sanction and effective supervision post-disbursement to address this issue. **Veena and Pathi (2018)** found that post-merger, the performance of NPAs worsened, with increasing levels compared to pre-merger periods. They observed annual increments in NPAs, adversely affecting bank profitability, and recommended that the Government of India expedite pending case settlements to address the NPA issue. **Chary and Fasi (2019**) observed that NPAs are functioning as a performance impediment for public sector banks. **Ripon Bepari and Subhas Chandra Sarkar (2020**) analyzed the profitability performance of selected public and private sector banks in India from 2010 to 2018. They noted a significant negative effect of NPAs on profitability for public sector banks, while private sector banks exhibited a positive impact of net NPAs on profitability. **Kumar Das and Utpal (2021**) identified a negative impact of NPAs on Return on Assets (ROA) for Indian commercial banks, integrating economy-wide variables such as inflation and GDP growth rate.

Research Gap

A review of the literature reveals extensive research on various aspects of NPAs in the Indian banking sector, including the causes of NPAs, measures to control NPAs, NPA management, and overall banking efficiency. However, there is a noticeable lack of studies specifically examining the impact of NPA on performance of Indian public sector banks and recovery mechanisms for NPAs in the context of public sector banks. This gap has been identified and addressed in this study.

Statement of Problem

While the banking sector plays a pivotal role in a country's financial system, directly contributing to GDP and facilitating savings mobilization and investment dissemination, it faces formidable challenges. Among these challenges, Non-Performing Assets (NPAs) have emerged as a significant hurdle and impacting not only their own performance but also exerting adverse effects on the Indian economy at large. The escalating volume of NPAs undermines the stability of the banking sector and hampers economic growth. Therefore, this study aims to investigate NPAs impact on the profitability of public sector banks in India.

Objectives of the study

1.To Study the status of Non-Performing Assets of Public sector Banks in India from 2014-2023.
2. To Study the impact of NPAs on Profitability of public sector Banks in India from 2014-2023.

Research methodology:

Data

The study relies on secondary data, which has been gathered from published research articles and in national and international journals and books. These includes data base of Indian economy of Reserve Banks of India and annual Reports of Public sector banks.

Study Period

This study spans a period of nine years, from 2014 to 2023, to compare and analyze the trends in NPA recovery in Scheduled Commercial Banks in India.

Methodology

Descriptive analysis will be conducted to present the current state of NPAs in public sector banks. Quantitative analysis will be used to examine the relationship between NPAs and profitability metrics such as Return on Assets (ROA) and Return on Equity (ROE), Net Profit,

Concept of Non-Performing Assets

Non-Performing Assets (NPAs) are loans or advances where the borrower fails to pay either interest or principal, typically for a period of 90 days or more. According to Reserve Bank of India guidelines, NPAs are classified into Standard Assets, Substandard Assets, Doubtful Assets, and Loss Assets, each requiring different levels of provisioning based on the duration of non-payment and the security held.
Standard assets are those with no risk of default, while substandard assets become so after being non-performing for up to 12 months. Doubtful assets extend beyond 12 months of non-payment, with varying provisions based on the duration and security status. Loss assets, being non-performing for over 3 years, require 100% provisioning.
In India, the level of gross NPAs surpasses net NPAs, reflecting challenges in credit recovery due to legal limitations, lengthy legal processes, and a history of sticky loans to public sector entities and priority sector lending. Addressing these challenges is crucial for enhancing credit recovery and overall financial health of banks.

Reasons of NPAs in public sector banks in India:

- Economic downturns trigger business failures and job losses, making loan repayment challenging.
- Inadequate due diligence may result in loans extended to individuals or businesses lacking creditworthiness.
- Weak risk management practices within banks, including poor credit risk assessment, contribute to NPAs.
- Inefficient loan recovery mechanisms can lead to delayed or unsuccessful recovery efforts.
- Fraudulent activities or willful default by borrowers result in NPAs, necessitating legal action.
- Global economic factors like exchange rate fluctuations or financial crises impact NPAs for banks with international exposure.
- Delays in project implementation for infrastructure or large projects contribute to NPAs.
- High-interest rates strain borrowers' ability to service loans, increasing the risk of defaults.

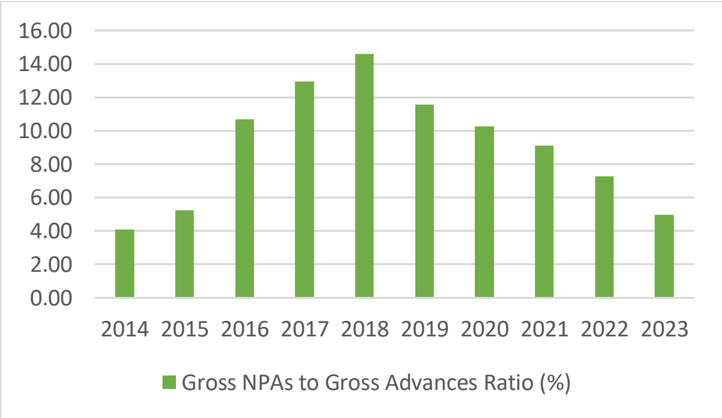
Status of Non-Performing Assets (NPAs)

The status of Non-Performing Assets (NPAs) in public sector banks (PSBs) in India remains a significant concern, reflecting challenges in credit quality and asset management. Over the years, PSBs have grappled with a high burden of NPAs, impacting their financial health and overall performance. Despite various regulatory measures and efforts to enhance asset quality, NPAs in PSBs have persisted, posing a threat to stability and profitability. The level of NPAs in PSBs is closely monitored by regulatory authorities like the Reserve Bank of India (RBI) to ensure adherence to prudential norms and maintain the resilience of the banking sector. Addressing the NPA issue in PSBs requires comprehensive strategies, including robust risk management practices, proactive loan monitoring, effective recovery mechanisms, and structural reforms to enhance operational efficiency and credit quality.

Table 1: Gross Non-Performing Assets, Gross Advances and Gross NPA Ratio of Public Secor Banks During 2014-2023

(Amount in ₹ Crores)Years	Gross NPAs	Gross Advances	GNPAs Ratio (%)
2014	147,447.43	3,607,182.10	4.09
2015	204,959.54	3,897,549.00	5.26
2016	417,987.78	3,911,175.56	10.69
2017	506,921.68	3,914,442.25	12.95
2018	895,601.30	6,141,698.16	14.58
2019	739,541.00	6,382,460.85	11.59
2020	678,317.01	6,615,111.59	10.25
2021	616,615.55	6,770,362.52	9.11
2022	540,958.21	7,433,006.34	7.28
2023	428,197.37	8,610,114.69	4.97

Source: Reserve Bank of India



Gross NPAs increased significantly from 2014 to 2018, peaking in 2018 at ₹895,601.30 crore. Post-2018, there's a notable decline in Gross NPAs, falling to ₹428,197.37 crore by 2023. The ratio rose from 4.09% in 2014 to a peak of 14.58% in 2018. This indicates a deterioration in asset quality, with a higher proportion of advances turning non-performing. The ratio gradually decreased from 14.58% in 2018 to 4.97% in 2023. This suggests an improvement in the quality of the loan portfolio and possibly better recovery or restructuring efforts by the banks. Post-2018, there is a sharp reduction in NPAs. This period may have seen concerted efforts by banks and regulators to clean up the balance sheets, such as through recovery of bad loans, write-offs, or improved credit appraisal mechanisms. Despite the reduction in NPAs, Gross Advances continued to grow, indicating increased lending activities. The decreasing NPA ratio, from 14.58% in 2018 to 4.97% in 2023, signifies better asset quality and a more stable banking sector. The data reveals that the Indian banking sector faced significant challenges related to NPAs up to 2018. However, there has been a notable recovery and improvement in the following years, marked by reduced NPAs and a healthier ratio of NPAs to Gross Advances. The trends reflect improved management of credit risk and possibly stronger economic conditions facilitating better loan performance.

Table : 2 Net **Non-Performing Assets, Net Advances and Net NPA Ratio of Public Secor Banks During 2014-2023**

(Amount in ₹ Crores)

Years	Net NPAs	Net Advances	Net NPAs Ratio (%)
2014	124,095.35	4,478,384.22	2.77
2015	214,548.68	5,472,796.69	3.92
2016	324,372.32	5,592,089.26	5.80
2017	382,087.31	5,573,317.79	6.86
2018	454,220.87	5,697,991.16	7.97
2019	284,689.06	5,925,249.48	4.80
2020	231,550.72	6,166,093.90	3.76
2021	197,359.65	6,347,982.41	3.11
2022	154,306.04	7,043,191.23	2.19
2023	103,080.53	8,282,790.24	1.24

Source: Reserve Bank of India

Net NPAs rose significantly, peaking at ₹454,220.87 crore in 2018.There is a marked decline in Net NPAs, reaching ₹103,080.53 crore by 2023.Continuous Growth, Net Advances steadily increased from ₹4,478,384.22 crore in 2014 to ₹8,282,790.24 crore in 2023.The ratio increased from 2.77% in 2014 to a peak of 7.97% in 2018, indicating worsening asset quality. The ratio improved significantly, dropping to 1.24% by 2023, reflecting better asset quality and effective recovery measures. The period saw a rise in Net NPAs and the ratio, suggesting deteriorating loan quality and challenges in the banking sector. There is a clear improvement with declining Net NPAs and a lower ratio, indicating enhanced asset quality, improved recovery efforts, and stronger credit risk management by banks. Overall, the data indicates that while the banking sector faced significant challenges up to 2018, there has been substantial recovery and stabilization in subsequent years.

Table 3. Classification of Loan Assets of Public Sector Banks During 2014-2023

(Amount in ₹ Crores)

Year	Standard Advances		Sub-Standard Advances		Doubtful Advances		Loss Advances		Gross NPAs
	Amount	%	Amount	%	Amount	%	Amount	%	Amount
2014	4,988,655.75	95.6	95,758.03	1.8	121,646.62	2.3	9,859.26	0.2	227,263.91
2015	5,338,249.47	95.0	105,416.03	1.9	163,048.91	2.9	10,003.06	0.2	278,468.00
2016	5,287,543.06	90.7	200,462.76	3.4	323,229.41	5.5	16,264.16	0.3	539,956.34
2017	5,181,641.00	88.3	173,079.00	3.0	490,371.00	8.4	21,283.00	0.4	684,732.00
2018	5,246,097.00	85.4	214,624.00	3.5	627,712.00	10.2	53,265.00	0.9	895,601.00
2019	5,642,919.85	88.4	140,758.82	2.2	523,537.60	8.2	75,244.58	1.2	739,541.00
2020	5,936,794.61	89.7	136,850.55	2.1	424,828.82	6.4	116,637.63	1.8	678,317.00
2021	6,153,746.97	90.9	113,246.31	1.7	367,614.57	5.4	135,754.68	2.0	616,615.56
2022	6,892,048.10	92.7	77,406.18	1.0	341,247.18	4.6	122,304.86	1.6	540,958.23
2023	8,181,917.35	95.0	63,551.57	0.7	233,780.70	2.7	130,865.08	1.5	428,197.36

Source: Reserve Bank of India

Classification of Loan Assets of Public Sector Banks During 2014-2023

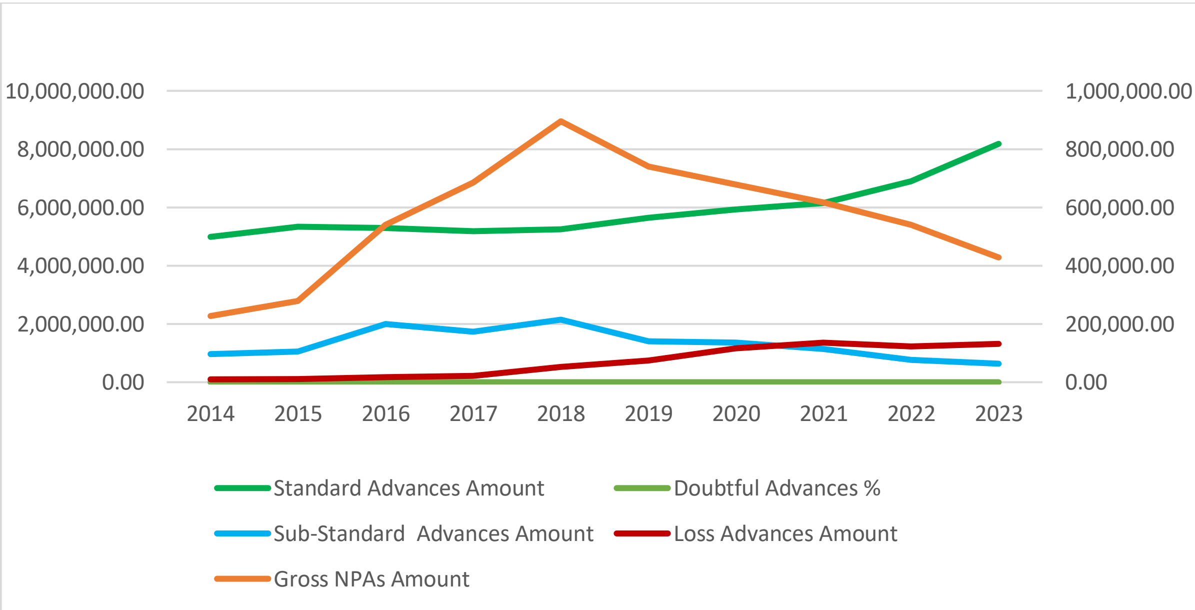


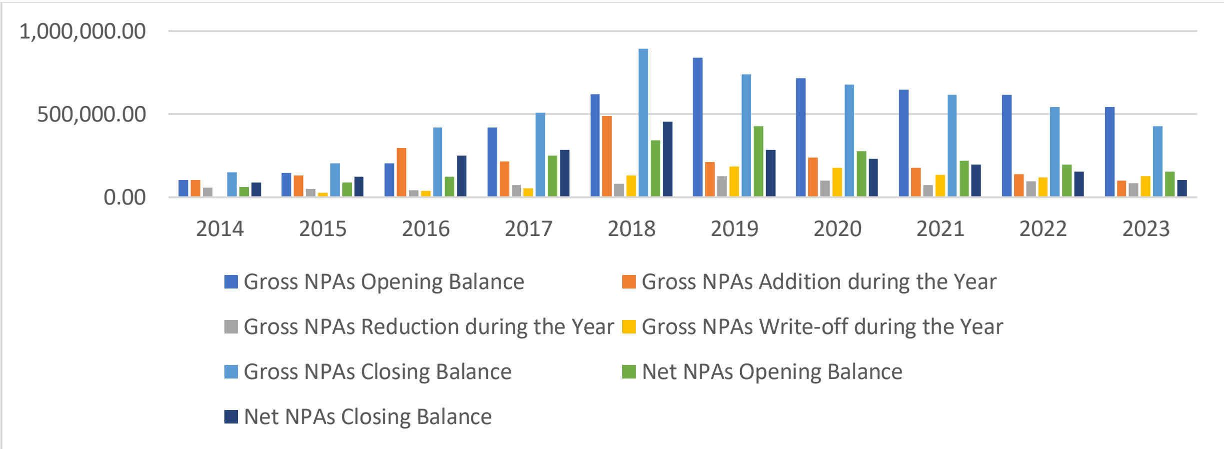
Table 3 Classification of Loan Assets of Public Sector Banks During 2014-2023

Standard Advances have consistently formed the bulk of total advances, ranging from 85.4% in 2018 to 95.0% in 2023. The proportion of Standard Advances improved, reaching 95.0% in 2023, indicating better asset quality. The percentage fluctuated, peaking at 3.5% in 2018 and decreasing to 0.7% by 2023, showing a reduction in lower-quality loans. The percentage of Doubtful Advances peaked at 10.2% in 2018 and then declined to 2.7% by 2023, indicating an improvement in handling riskier loans.The proportion of Loss Advances increased from 0.2% in 2014 to 2.0% in 2021, then slightly decreased to 1.5% by 2023. Gross NPAs rose significantly from ₹227,263.91 crore in 2014 to a peak of ₹895,601.00 crore in 2018. Following this, there was a notable decrease to ₹428,197.36 crore by 2023.There was a notable increase in non-performing assets, with a rise in Sub-Standard, Doubtful, and Loss Advances, leading to higher Gross NPAs. There has been a significant improvement in the quality of advances. The proportions of Sub-Standard and Doubtful Advances decreased, and Standard Advances increased, reflecting better asset management and recovery efforts. Consequently, Gross NPAs have declined, indicating a healthier loan portfolio.

Table 3. Movement of Non-Performing Assets (NPAs) of Public Sector Banks (2014-2023)
(Amount in ₹ Crores)

Year	Gross NPAs					Net NPAs	
	Opening Balance	Addition during the Year	Reduction during the Year	Write-off during the Year	Closing Balance	Opening Balance	Closing Balance
2014	102,227.22	104,655.82	57,513.26	912.57	148,457.21	61,936.20	88,819.73
2015	147,447.41	132,610.86	48,691.39	26,407.41	204,959.47	88,578.70	122,673.35
2016	204,959.47	295,184.89	43,025.49	39,131.08	417,987.79	122,722.57	251,480.76
2017	417,987.78	216,016.78	72,884.22	54,152.00	506,921.66	251,567.86	286,156.54
2018	619,209.66	488,175.38	82,280.21	129,503.57	895,601.26	344,489.39	454,472.66
2019	840,013.01	210,531.87	127,835.39	183,168.49	739,541.00	425,807.52	285,122.17
2020	717,849.74	238,464.08	99,691.54	178,305.31	678,316.98	276,936.83	230,917.59
2021	646,629.67	178,977.08	75,046.15	133,944.90	616,615.70	219,816.30	196,450.80
2022	616,615.71	139,905.31	94,634.30	119,712.90	542,173.82	196,683.00	154,745.38
2023	542,173.82	98,291.47	84,278.28	127,990.03	428,196.99	154,745.38	102,531.56

Source: Reserve Bank of India

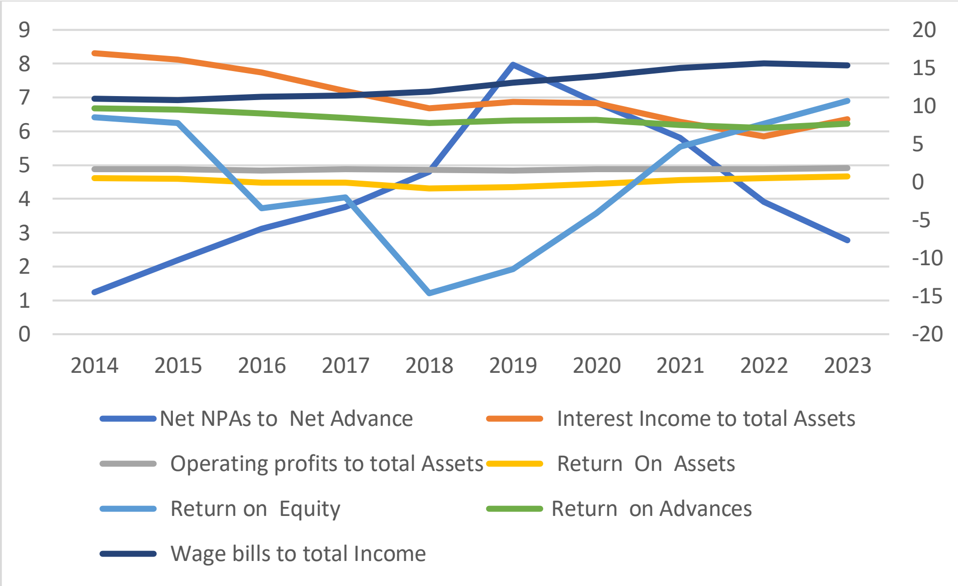


The above table provides detailed data on Gross Non-Performing Assets (NPAs) and Net NPAs for a period spanning from 2014 to 2023. The interpretation of this data involves analyzing trends and key figures to understand the performance and challenges faced in managing NPAs over these years. There is a significant upward trend in Gross NPAs, starting from 102,227.22 in 2014 and peaking at 895,601.26 in 2018. This sharp rise indicates worsening asset quality and growing financial stress.2019-2023: After peaking in 2018, Gross NPAs start to decline, reducing to 428,196.99 by 2023. This decline suggests improved asset quality and better NPA management strategies. The highest addition to Gross NPAs occurred in 2018 (488,175.38), coinciding with the peak in Gross NPAs. This spike likely reflects a significant number of defaults and possibly stricter NPA recognition norms.The additions have generally decreased from 2019 onwards, with the lowest addition recorded in 2023 (98,291.47). The reduction and write-off figures indicate efforts to manage and clean up NPAs. The highest reduction occurred in 2019 (127,835.39), while the highest write-off was in 2018 (129,503.57). Write-offs are significant in reducing the overall NPA levels, particularly visible in years with substantial declines, such as 2019 and 2023. The changes in Net NPAs are less volatile compared to Gross NPAs. The largest decline in Net NPAs occurs in 2023, suggesting effective NPA resolution or significant provisioning and write-offsThe data from 2014 to 2023 reflects a period of significant challenges in managing NPAs, followed by notable improvements in recent years. The peak in 2018 serves as a critical point, after which sustained efforts in recovery and write-offs have led to a healthier financial position by 2023. Continued focus on stringent credit monitoring and effective resolution strategies will be essential to maintain this positive trajectory.

Table 4 Impact of Net NPAs of Public sector bank with other profitability indicators during 2014-2023
(Amount in ₹ Crores)

Years	Net NPAs to Net Advance	Interest Income to total Assets	Operating profits to total Assets	Return On Assets	Return on Equity	Return on Advances	Wage bills to total Income
2014	1.24	8.31	1.71	0.5	8.48	9.69	10.99
2015	2.19	8.12	1.66	0.46	7.76	9.5	10.77
2016	3.11	7.74	1.51	-0.07	-3.47	9.02	11.23
2017	3.76	7.2	1.68	-0.1	-2.05	8.44	11.41
2018	4.8	6.68	1.57	-0.84	-14.62	7.77	11.85
2019	7.97	6.87	1.51	-0.65	-11.44	8.07	13.09
2020	6.86	6.84	1.66	-0.23	-4.16	8.16	13.88
2021	5.8	6.28	1.73	0.28	4.67	7.49	15.01
2022	3.92	5.85	1.73	0.51	7.63	7.11	15.6
2023	2.77	6.36	1.84	0.74	10.67	7.69	15.37

Sources: Data Compiled



From the table can understand that Interest Income to Total Assets Declined from 8.31% in 2014 to 6.68% in 2018. Higher NPAs typically reduce interest income as non-performing assets do not contribute to income. Operating Profits to Total Assets Dropped slightly from 1.71% to 1.57%, indicating stress on profitability due to rising NPAs. Return on Assets (RoA) Turned negative, falling from 0.5% in 2014 to -0.84% in 2018. High NPAs increase provisions, reducing net profits and hence RoA. Return on Equity (RoE) Declined sharply from 8.48% to -14.62%. Increasing NPAs erode equity through higher loss provisions. Return on Advances Decreased from 9.69% to 7.77%. High NPAs affect the returns from advances as defaults reduce overall yield. Wage Bills to Total Income Rose from 10.99% to 11.85%, reflecting that wage expenses became a larger part of the total income as overall income fell due to high NPAs.. Interest Income to Total Assets: Shows a slight recovery from 6.87% in 2019 to 6.36% in 2023, indicating improvement as asset quality improves. Operating Profits to Total Assets Increased slightly from 1.51% to 1.84%, suggesting better profitability as NPAs decrease. Return on Assets (RoA) Improved from -0.65% in 2019 to 0.74% in 2023. Lower NPAs lead to fewer provisions, enhancing net profitability. Return on Equity (RoE) Rose from -11.44% to 10.67%. As NPAs reduce, the equity base stabilizes and profitability improves, enhancing RoE. Return on Advances Improved marginally from 8.07% to 7.69%. Although the recovery is not dramatic, it indicates better asset performance. Wage Bills to Total Income Increased from 13.09% to 15.37%, likely due to better employee compensation as overall profitability improves.

High NPAs directly correlate with lower interest income and reduced operating profits, as seen during the peak NPA years (2016-2018). This trend reverses as NPAs decrease, with improvements in both interest income and operating profits post-2019. Returns on Assets (RoA) and Equity (RoE) were negatively impacted by rising NPAs, turning negative during peak NPA years. As NPAs declined from 2019 onwards, both RoA and RoE showed significant recovery, highlighting improved profitability and asset management. The proportion of wage bills to total income increased over the years, reflecting higher operational costs in relation to income during periods of high NPAs. While this ratio continued to rise even as NPAs fell, it suggests that banks were likely investing in human resources to support better asset management and recovery processes. he data indicates that rising net NPAs have a detrimental effect on various financial metrics, particularly interest income, profitability, and returns. Conversely, the decline in net NPAs from 2019 onwards correlates with improvements in these areas, reflecting better financial health and operational efficiency. Effective management of NPAs is thus critical for maintaining and improving overall financial performance in the banking sector.

Key Findings:

1. From 2014 to 2018, Gross NPAs significantly increased, peaking at ₹895,601.30 crore with the NPA ratio rising from 4.09% to 14.58%, reflecting severe asset quality deterioration. Post-2018, Gross NPAs sharply reduced to ₹428,197.37 crore by 2023, and the NPA ratio decreased to 4.97%, indicating effective recovery efforts, write-offs, and improved credit appraisal by banks and regulators.
2. Even with the reduction in NPAs from 2018 onwards, Gross Advances continued to grow, indicating increased lending activities and a decreasing NPA ratio from 14.58% in 2018 to 4.97% in 2023, signifying better asset quality and a more stable banking sector. This trend reflects improved credit risk management, stronger economic conditions, and more effective loan performance, leading to a healthier ratio of NPAs to Gross Advances.

3. There has been a significant improvement in the quality of advances, with the proportion of Standard Advances increasing to 95.0% by 2023, while Sub-Standard and Doubtful Advances decreased, leading to a notable decline in Gross NPAs and reflecting better asset management and recovery efforts.
4. High NPAs led to declining interest income and profitability from 2016 to 2018, but improvements post-2019 show a reversal of this trend.
5. Decreasing NPAs from 2019 onwards resulted in significant recovery in returns on assets and equity, indicating improved financial health and profitability.

Conclusion

This study concludes with the significant impact of Non-Performing Assets (NPAs) on the profitability and financial health of public sector banks (PSBs) in India. From 2014 to 2018, the banking sector faced substantial challenges related to rising NPAs, leading to severe asset quality deterioration and declining profitability metrics. But, after the year of 2018, needed efforts by banks and regulators, including effective recovery measures and improved credit appraisal, have resulted in a notable reduction in NPAs and an improvement in asset quality. The decline in NPAs from 2019 onwards, coupled with the growth in Gross Advances, reflects enhanced lending activities and a more stable banking sector. Improvements in financial metrics such as Interest Income to Total Assets, Operating Profits to Total Assets, Return on Assets (RoA), and Return on Equity (RoE) indicate better profitability and asset management as NPAs decreased. While challenges remain, including the need for continued vigilance in credit monitoring and recovery processes, the data suggests a positive trajectory for public sector banks in India. Effective management of NPAs will be crucial for maintaining and improving overall financial performance, ensuring the stability and growth of the Indian banking sector in the years to come.

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