

A Study on Non Performing Assets And Its Impact On Profitability In Indian Overseas Bank

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Abstract- This study examines the impact of Non-Performing Assets (NPAs) on the profitability of Indian Overseas Bank (IOB) during the period 2021–2025. NPAs have become a major concern in the Indian banking sector as they affect liquidity, profitability, and overall financial stability. The research aims to analyze the trend of Gross and Net NPAs, evaluate their effect on key profitability indicators such as Return on Assets (ROA), Return on Equity (ROE), and Net Profit Margin, and assess the effectiveness of recovery mechanisms adopted by the bank. The study follows an analytical research design based on secondary data obtained from IOB annual reports and RBI publications. Tools such as trend analysis, percentage analysis, and multiple regression were applied to interpret the data. The findings show a continuous decline in Gross and Net NPAs, indicating better asset quality and improved recovery performance, while profitability ratios have shown consistent growth. Regression analysis confirms that higher NPAs negatively influence profitability. The study concludes that efficient NPA management, strict credit appraisal, and continuous monitoring are essential for improving financial performance and ensuring sustainable growth of the bank.

Keywords- Non-Performing Assets (NPAs), Return on Assets (ROA), Return on Equity (ROE), Net Profit Margin (NPM), Asset Quality, Financial Performance, Recovery Mechanisms, Regression Analysis, Trend Analysis.

I. INTRODUCTION

The banking sector plays a crucial role in the economic development of a nation, and its performance greatly depends on the quality of assets it manages. In recent years, Non-Performing Assets (NPAs) have become a major challenge, especially for Public Sector Banks (PSBs), affecting their stability and profitability. NPAs arise when borrowers fail to repay loans or interest for more than 90 days, disrupting the financial flow and increasing provisioning requirements. High NPAs reduce profitability, weaken capital strength, and limit lending capacity. This issue has gained national importance due to its impact on economic growth and financial health. Although NPAs cannot be completely

avoided, banks can adopt measures such as strong credit appraisal, continuous monitoring, and effective recovery strategies. Therefore, it is essential to study how NPAs influence profitability and overall performance. This research focuses on analyzing the impact of NPAs on Indian Overseas Bank and evaluating improvements in asset quality.

OBJECTIVES OF THE STUDY

- To study the trend of Gross NPA and Net NPA in Indian Overseas Bank.
- To evaluate the recovery mechanism and strategies used by the bank to manage NPAs.
- To examine the sector-wise credit risk facing Indian Overseas Bank.
- To assess the impact of NPAs on profitability indicators.
- To provide suggestions for reducing NPAs and improving bank profitability.

II. REVIEW OF LITERATURE

A review of literature is a survey and analysis of existing research, studies, and theories on a specific topic. It helps identify trends, gaps, and areas for further study, providing background, defining key concepts, and supporting the development of research questions or hypotheses.

Shanabhogara Raghavendra (2018)

This paper analyzed the impact of the NPA, causes of NPA, and consequences of NPA in a commercial bank. This study suggested that restructuring of the bank or financial organization, improvement in financial deepening and modernization of appropriate skills for up gradation of credit wordiness and one more thing is staff efficiency, these are a most important thing to solve the present willful defaulter's system in India and world too.

Suvitha K Vikram, Gayathri G (2018)

Their study focused the sector, which has higher NPAs (Public/Private sector banks), causes and control

measures for rising NPAs. It found out that the level of NPAs is higher in Public Sector Banks compared with Private Sector Banks. Also, focused causes, level of NPA and controlling measures were analyzed. It suggested that the root of the issue of rising NPAs lies in the nature of overseeing credit chance by the banks and wilful defaulters.

Singh and Kapoor (2018)

Emphasized that non-performing assets (NPAs) have an impact on banks' profitability and their capacity to lend, which hinders economic growth. The analysis made clear that greater NPA levels raise the need for provisioning, which reduces banks' profit margins. Kumar (2017), highlighted how NPAs negatively impact banks' asset quality and profitability indicators. Moreover, empirical data points to a reciprocal relationship between profitability and non-performing assets.

Mishra and Mohanty (2019)

Discovered that an increase in NPAs had a negative effect on banks' profitability ratios, including return on equity (ROE) and return on assets (ROA), suggesting that larger NPAs limit banks' ability to generate profits.

Bhattacharya and Chatterjee (2020)

Claimed that prompt identification and resolution of non-performing assets (NPAs) might help minimize their negative effects on profitability.

III. RESEARCH METHODOLOGY

Research Design:

Research design refers to the overall plan, structure, and strategy used to integrate different components of a research study in a logical way. It provides a blueprint for the collection, measurement, and analysis of data.

The present study adopts an analytical research design to examine the trends of Non-Performing Assets (NPAs) and evaluate their impact on the profitability of Indian Overseas Bank over the past five years.

Data Collection:

Secondary Data:

The study is based entirely on secondary data collected from Indian Overseas Bank annual reports and publications of the Reserve Bank of India (RBI).

Study Period:

The data covers a period of **five financial years (2021– 2025)**.

Tools used in analysis:

- **Trend Analysis:** A method used to study the pattern or movement of NPAs over a period of time to identify increases or decreases relative to a base year.
- **Percentage Analysis:** A technique to express financial data as a percentage of a total, helping to compare NPAs, sector-wise exposure, and other ratios meaningfully.
- **Profitability Ratios:** Financial ratios such as ROA, ROE, Net Profit Margin, Operating Profit Margin, Net Interest Margin, and Cost-to-Income Ratio used to evaluate the bank's financial performance.
- **Multiple Linear Regression:** A statistical tool used to examine the relationship between NPAs (independent variables) and profitability indicators (dependent variables) to measure their impact.

Recovery Mechanisms and Strategies:

- **SARFAESI Act, 2002:** This Act allows IOB to recover dues from borrowers without court intervention. The bank can take possession of secured assets like land, buildings, or machinery. Assets are sold through public auctions (e-auctions) to recover outstanding amounts quickly.
- **One-Time Settlement (OTS) Scheme:** Borrowers can settle dues by paying a lump-sum amount, usually less than the total outstanding. It is widely used for small borrowers, MSMEs, and agricultural loans. This helps the bank recover blocked funds and reduce NPAs efficiently.
- **Compromise Settlement:** Used when full recovery is not possible due to weak financial position of the borrower. IOB negotiates to accept a reduced amount as full and final settlement. This strategy helps close old non-viable accounts and focus on performing loans.
- **Asset Reconstruction Companies (ARCs):** Large stressed loans are sold to ARCs at discounted values. The ARC takes over recovery through restructuring or asset sale. This helps the bank clean its balance sheet and improve capital adequacy ratios.
- **Lok Adalats:** Provide amicable and low-cost settlement for small-value loan disputes, generally up to ₹20 lakh. Discussions occur directly between

borrower and bank. This ensures speedy disposal and reduces litigation burden.

- **Debt Recovery Tribunals (DRTs):** Specialized tribunals for recovery of debts exceeding the statutory threshold. The process includes filing claims, hearings, and issuing recovery orders. DRTs are faster and more creditor-friendly than ordinary civil courts.
- **Asset Sale/Public Auction:** Bank realizes value of pledged collateral through public auctions under legal frameworks. Assets like immovable property, machinery, or vehicles are sold to recover dues. Auctions ensure transparency and faster liquidation compared to court proceedings.
- **Civil Suits:** Traditional legal route for complex or disputed claims. The process involves filing a plaint, hearings, evidence, and obtaining a decree for recovery. Used selectively for unsecured loans or complex contractual disputes.

IV. DATA ANALYSIS AND INTERPRETATION

The profitability ratios and financial performance of Indian Overseas Bank are analyzed and interpreted to assess the impact of Non-Performing Assets (NPAs).

TABLE SHOWING TREND OF GROSS NPA

YEAR	GROSS NPA	TREND(%)
2021	16,323.18	100
2022	15,298.62	93.72
2023	14,071.55	86.21
2024	6,794.43	41.62
2025	5,347.72	32.76

SOURCE : SECONDARY DATA

INTERPRETATION:

Using 2021 as the base year (100), Gross NPAs steadily declined to 32.76% by 2025, reflecting improved asset quality and effective recovery measures. The trend indicates better NPA management, enhanced profitability, and stronger financial stability.

TABLE SHOWING TREND OF NET NPA

YEAR	NET NPA	TREND(%)
2021	4577.59	100
2022	3,824.62	83.55
2023	3,266.01	71.35
2024	1,216.85	26.58
2025	911.86	19.92

SOURCE: SECONDARY DATA

INTERPRETATION:

Using 2021 as the base year (100), Net NPAs steadily declined to 19.92% by 2025, reflecting improved asset quality, effective recovery measures, and enhanced profitability. The trend indicates stronger operational efficiency and increased stakeholder confidence.

TABLE SHOWING PERCENTAGE OF GROSS NPA

YEAR	GROSS NPA	PERCENTAGE(%)
2021	16,323.18	28.22
2022	15,298.62	26.45
2023	14,071.55	24.33
2024	6,794.43	11.75
2025	5,347.72	9.25

SOURCE : SECONDARY DATA

INTERPRETATION:

The data shows a consistent decline in Gross NPAs from 16,323.18 in 2021 to 5,347.72 in 2025, with the NPA percentage falling from 28.22% to 9.25%. The sharp drop between 2023 and 2024 indicates significant recoveries or write-offs. Overall, the trend reflects effective credit risk management, improved asset quality, and a positive impact on the bank's profitability and financial health.

TABLE SHOWING PERCENTAGE OF NET NPA

YEAR	GROSS NPA	PERCENTAGE(%)
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2022	15,298.62	26.45
2023	14,071.55	24.33
2024	6,794.43	11.75
2025	5,347.72	9.25

SOURCE : SECONDARY DATA

INTERPRETATION:

Net NPAs steadily declined from 4,577.59 in 2021 to 911.86 in 2025, with the percentage falling from 33.18% to 6.61%. The sharp drop between 2023 and 2024 indicates significant recoveries, write-offs, or restructuring. Overall, the trend reflects improved asset quality, effective credit risk management, and a positive impact on the bank's profitability and financial stability.

5.5 – TABLE SHOWING RETURN ON ASSETS

YEAR	NET PROFIT	TOTAL ASSETS	RETURN ON ASSETS(%)
2021	831.47	2,74,010.35	0.30
2022	1,709.54	2,99,377.17	0.57
2023	2,098.79	3,13,745.82	0.67
2024	2,655.62	3,52,033.62	0.75
2025	3,334.71	3,95,014.94	0.84
MEAN	2126.03	3,26,836.38	0.63
STANDARD DEVIATION	947.56	47432.00	0.21

SOURCE : SECONDARY DATA

INTERPRETATION:

The bank's net profit shows a strong upward trend, averaging ₹2,126.03 Cr, while total assets grew steadily to an average of ₹3,26,836.38 Cr, reflecting stable expansion. Return on Assets (ROA) averaged 0.63%, indicating gradual improvement in profitability with minimal fluctuation. Overall, the results demonstrate continuous financial growth, increasing profitability, and enhanced efficiency in asset utilization over the five year.

TABLE SHOWING RETURN ON EQUITY

YEAR	NET PROFIT	SHAREHOLDERS EQUITY	ROE(%)
2021	831.47	16,944.81	4.91
2022	1,709.54	23,000.40	7.43
2023	2,098.79	25,262.94	8.31
2024	2,655.62	27,942.30	9.50
2025	3,334.71	32,540.92	10.25
MEAN	2126.03	25,138.27	8.08
STANDARD DEVIATION	947.56	5796.13	2.08

SOURCE : SECONDARY DATA

INTERPRETATION:

Net Profit and Shareholders' Equity showed consistent growth from 2021 to 2025. ROE increased from 4.91% to 10.25%, indicating improving profitability. Overall, the bank efficiently utilized shareholders' funds to create value.

TABLE SHOWING OPERATING PROFIT MARGIN RATIO

YEAR	OPERATING PROFIT	NET SALES	OPERATING PROFIT MARGIN RATIO(%)
2021	5,895.81	22,524.55	26.18
2022	5,762.92	21,632.89	26.64
2023	5,942.17	23,509.07	25.28
2024	6,763.77	29,706.00	22.77
2025	8,688.02	33,676.08	25.8
MEAN	6,610.54	26,209.72	25.33
STANDARD DEVIATION	1226.32	5239.08	1.52

SOURCE : SECONDARY DATA

INTERPRETATION:

The bank's Operating Profit averaged ₹6,610.54 Cr, while Net Sales averaged ₹26,209.72 Cr, reflecting steady growth in core operations. The Operating Profit Margin averaged 25.33%, indicating stable efficiency with minor fluctuations. Overall, the results demonstrate effective cost management and strong core profitability.

TABLE SHOWING NET PROFIT MARGIN RATIO

YEAR	NET PROFIT	TOTAL INCOME	NET PROFIT MARGIN
2021	831.47	22,524.55	3.69
2022	1,709.54	21,632.89	7.90
2023	2,098.79	23,509.07	8.93
2024	2,655.62	29,706.00	8.94
2025	3,334.71	33,676.08	9.90
MEAN	2126.03	26209.72	7.87
STANDARD DEVIATION	947.56	5239.08	2.44

SOURCE : SECONDARY DATA

INTERPRETATION:

The bank's Net Profit and Total Income show steady growth over the five-year period. The Net Profit Margin improved from 3.69% in 2021 to 9.90% in 2025, indicating rising profitability. Overall, the trend reflects effective cost control and strong income generation.

TABLE SHOWING NET INTEREST MARGIN RATIO

YEAR	NET INTEREST INCOME	AVERAGE EARNING ASSETS	NET INTEREST MARGIN
2021	5,898.51	231728.94	2.55
2022	6,311.14	252146.49	2.50
2023	8,254.89	269085.87	3.07
2024	9,829.41	295141.23	3.33
2025	10,890.21	337077.74	3.23
MEAN	8,236.83	277036.05	2.94
STANDARD DEVIATION	2165.24	40829.62	0.39

SOURCE : SECONDARY DATA

INTERPRETATION:

The bank's Net Interest Income shows steady growth, supported by a consistently increasing earning asset base. The Net Interest Margin remained stable, averaging 2.94%, with

improvement from 2.50% in 2022 to 3.33% in 2024. Overall, the trend reflects stronger profitability and efficient utilization of earning assets.

TABLE SHOWING COST TO INCOME RATIO

YEAR	OPERATING EXPENSES	TOTAL INCOME	COST TO INCOME RATIO
2021	5,561.72	22,524.55	24.69
2022	5,451.25	21,632.89	25.20
2023	6,421.46	23,509.07	27.31
2024	8,721.91	29,706.00	29.36
2025	7,747.27	33,676.08	23.01
MEAN	6,780.72	26,209.72	25.91
STANDARD DEVIATION	1421.70	5239.08	2.47

SOURCE : SECONDARY DATA

INTERPRETATION:

The bank's Operating Expenses and Total Income show steady growth over the years. The Cost-to-Income Ratio averaged 25.91%, reflecting efficient operational performance with moderate fluctuations. Efficiency improved significantly in 2025, indicating stronger cost control and better income generation.

TABLE SHOWING REGRESSION ANALYSIS

MODEL SUMMARY

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	.902 ^a	.813	.688	.267

a. Predictors: (Constant), NET NPA, GROSS NPA

ANOVA

Model	Sum of Squares	df	Mean Square	F	Sig.
1 Regression	.925	2	.463	6.513	.081 ^b
Residual	.213	3	.071		
Total	1.139	5			

a. Dependent Variable: NET PROFIT

b. Predictors: (Constant), NET NPA, GROSS NPA

COEFFICIENTS

Model	Unstandardized Coefficients		Standardized Coefficients	t	Sig.
	B	Std. Error			
1 (Constant)	.175	.244		.717	.525
GROSS NPA	.000	.000	5.133	3.593	.037
NET NPA	-.001	.000	-5.137	3.597	.037

a. Dependent Variable: NET PROFIT

INTERPRETATION:

The regression results indicate that NPAs have a significant negative impact on Net Profit, proving that higher NPAs reduce profitability. The model explains about 81% of the variation in Net Profit and is moderately significant at the 10% significance level. Overall, effective NPA control is essential to improve financial performance.

V. FINDINGS

- Gross NPA and Net NPA continuously declined from 2021 to 2025, indicating improved asset quality and effective recovery.
- Profitability strengthened, with ROA rising from 0.30% to 0.84% and ROE increasing from 4.91% to 10.25%.

- Net Profit Margin improved significantly from 3.69% to 9.90%, reflecting better cost control and higher income.
- Operational efficiency improved as the Cost-to-Income Ratio reduced to 23.01% in 2025.
- Regression results show NPAs negatively affect profitability, highlighting the importance of strong NPA management for financial sustainability.

VI. SUGGESTION

- The bank should sustain profit growth by diversifying income sources and strengthening both interest and non-interest revenue streams.
- Continuous monitoring of loan repayments is essential to reduce NPAs and support healthy credit cycles.
- Strict credit appraisal and borrower evaluation should be maintained to prevent future NPAs.
- Regular monitoring of profitability ratios such as ROA and ROE should guide strategic decisions to enhance shareholder value.
- Increased adoption of technology for credit monitoring and faster loan processing will improve efficiency and customer confidence.

VII. CONCLUSION

The bank has successfully reduced both Gross and Net NPAs, reflecting stronger credit monitoring and recovery practices. Profitability ratios like ROA and ROE have shown steady improvement, highlighting better utilization of resources and enhanced value creation for stakeholders. At the same time, profitability remains sensitive to changes in NPAs, as higher defaults can directly reduce earnings. The cost-to-income ratio also showed fluctuations in certain years, pointing to the need for tighter expense management. Overall, the study indicates that with effective NPA control and operational efficiency, the bank can maintain stable financial growth and long-term sustainability.

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