A COMPARATIVE STUDY ON NPA OF PUBLIC SECTOR AND PRIVATE SECTOR BANKS IN TELANGANA STATE

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Abstract

The extent of non-performing assets (NPAs) is the most accurate measure of the stability and strength of a country's banking sector. The purpose of Credit Appraisal is to guarantee and uphold the standard of lending while effectively managing the credit risk. The Credit Appraisal process is multifaceted and encompasses various dimensions, such as Management appraisal, financial appraisal, Commercial appraisal, Economic appraisal, and technical appraisal. The study elucidates that assessment is conducted to assure the credit's recuperation, in addition to effective oversight, monitoring, and relationship management. Credit appraisal is the evaluation conducted by a lender to assess the creditworthiness of a potential borrower. Typically, this entails evaluating the Borrower's payment track record and determining the reliability and durability of their revenue. The lender assesses the borrower's intentions by conducting an interview or engaging in personal discussions. This study compared the performance of public and private sector banks in the state of Telangana.

1. INTRODUCTION

An economy's ongoing growth and prosperity heavily rely on the existence of a strong and vibrant banking sector. The collapse of the banking sector has detrimental repercussions on other sectors of the economy as well. Banks operating in India are concerned about the problem of nonperforming assets and advances. Nonperforming assets are financial assets that have failed to provide the anticipated revenue or return on investment. Assets and advances are credit arrangements in which the principal amount and accumulated interest stay due for a period beyond ninety days. Nonperforming loans and advances are used as metrics to assess the performance of the banking industry in the country. A high level of nonperforming assets and advances indicates multiple cases of loan defaults, which negatively affect the profitability and net worth of banks, ultimately reducing the value of their assets. The rise in nonperforming assets and advances requires the deployment of measures that lead to a decrease in overall earnings and returns to shareholders. The issue of nonperforming assets has been widely discussed in the context of global financial systems. The problem of nonperforming assets and advances not only affects banks but also has substantial consequences for the entire economy.

The objective of this study is to improve understanding of credit management theories, non-performing loans and advances, and the utilization of the 7C credit evaluation techniques to evaluate the level of non-performing assets in public and private banks operating in the state of Telangana.

Credit risk pertains to the probability that borrowers will fail to meet their obligation to repay loans and advances in accordance with the agreed terms upon the provision of the

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facility. The basic goal of credit management is to maximize the risk-adjusted rate of return for banks by keeping credit exposure within permissible limits. Granting loans to businesses and individuals involves taking on risks with the aim of generating significant financial profits. Financial institutions employ loans as a strategic instrument to efficiently market and provide supplementary fee-based services. Multiple reasons can contribute to loan defaults. The factors include the decline of the industry due to current economic trends, the specific challenges that firms face as a result of changing technological trends, labor unions taking industrial actions, and fluctuations in the business cycle in response to changes in individual incomes (MacDonald, et al., 2006).2.

A. NON-PERFORMING ASSETS

If a person who has borrowed money from a financial institution does not make timely payments of both the original amount and the accumulated interest, their account is classified as a non-performing asset. Non-performing assets (NPAs) have a negative impact on the financial system since they indicate that a bank's money are tied up and cannot be used for productive purposes. The existence of a continuous and increasing trend in non-performing assets (NPAs) creates a substantial risk to the sustainability of a bank, since it negatively impacts the bank's capacity to meet its repayment responsibilities. Non-performing assets are accounts held by borrowers that have been classified as substandard, doubtful, or loss assets by a bank or financial institution. After the government took control of the banking system in our country, there was a strong focus on expanding the number of bank branches in even the most isolated areas of the nation. The government also seeks to encourage the utilization of bank credit by the public populace for their various financial needs, rather than depending on private lenders. Significant financing has been provided to sectors such as agriculture, small-scale businesses, manufacturing, and households. The emergence of non-performing assets (NPA) in Indian public sector banks (PSBs) during the early 1990s caused considerable concern and outrage among many stakeholders due to its seriousness. Mathur (2002) suggests that the issue can be traced back to an earlier stage, evident from the continual recapitalization of many public sector banks (PSBs) since the fiscal year 1985-86.

The incidence of malfunctioning in Public Sector Banks (PSBs) significantly increased towards the end of the 1980s, regardless of the underlying circumstances behind this phenomenon. Consequently, the Narasimham Committee (1991) was established, acknowledging non-performing assets (NPA) as a significant role in the inefficiency of public sector banks (PSBs). In order to evaluate the scale of the Non-Performing Assets (NPA) problem, the Narasimham Committee (1991) required banks to annually disclose the size of their NPAs. Non-performing assets (NPAs) are a category of assets that includes loans, invoices, overdrafts, cash credits, and other financial instruments. These assets are considered NPAs when the due amount remains unpaid for a period of 180 days or longer. The Narasimham Committee I, which was formed in 1991, holds substantial scholarly significance.

The Narsimham committee's main recommendations included restructuring the banking system, allowing branch licensing, granting foreign banks the freedom to establish offices, removing dual control of banks, establishing an asset reconstruction fund, creating a specialized tribunal for loan recovery, and implementing direct credit programs, among other measures. The Narsimham committee report of 1998, subsequently published, contained various recommendations. These included advocating for increased autonomy in the banking system, establishing a stronger and more efficient banking system, eliminating non-performing assets (NPAs), ensuring sufficient capital, and tightening provision requirements, among other suggestions. To fully understand the NPA (Non-Performing Asset) problem, it is crucial to gain a clear understanding of the growth of the banking industry in India. The phenomena occurs in a sequence of five separate phases. During the initial period, financial institutions were established and subsequently ceased to exist. The third stage, occurring between 1949 and 1969, is often known as the business period. The process of bank nationalization was executed during the third phase. The fourth phase pertains to the period subsequent to the process of liberalization. The main reasons for the high levels of non-performing assets (NPAs) in the banking industry may be traced back to the government's focus on industrial development after nationalization. A substantial amount of credit was assigned to emerging sectors; nevertheless, a major proportion of these industries fell short of expectations, leading to their inability to repay the loans extended by financial institutions.

B. NEED FOR THE STUDY

Non-performing assets adversely affect a bank's profitability and financial efficiency. A substantial amount of non-performing assets (NPAs) suggests an increased probability of multiple credit defaults, which can negatively impact the profitability and net worth of banks, as well as decrease the value of their assets. An essential task is to evaluate the asset quality of the banking sector in India by examining the performances of nationalized, private, and public sector banks, particularly with regard to their Non-Performing Assets (NPAs). An essential need in the assessment process is to fully understand the anticipated expenses and results of a project, usually expressed in terms of inputs and outputs. Furthermore, it is crucial to have a precise comprehension of the expected timeframe. A thorough evaluation is usually necessary before making judgments and extending offers.

C. OBJECTIVES OF THE STUDY

1. To make a comparison of management of NPAs in both public and private sector banks.
2. To study the perception of banking officials regarding causes and effect of NPA.

2. LITERATURE REVIEW

This chapter provides a concise overview of the key discoveries and concepts derived from previous research on NPA. A literature evaluation is an essential component of every research project as it provides an explanation for the underlying purpose of the current research endeavors. Numerous scholarly articles worldwide examine the correlation between the quality of assets and non-performing assets (NPAs). In the period following India's liberalization, the research mostly concentrated on comparing non-performing assets (NPAs) among different bank groups. A comprehensive analysis of how the Indian banking sector handles non-performing assets (NPA) was conducted through a survey of pertinent scholarly literature. The researcher conducted comparative studies to evaluate the prevalence and management of non-performing assets (NPA) in different countries' economies. Non-performing assets (NPA) have been thorough analysis by numerous scholars and professionals in the banking sector. Below is a concise overview of the pertinent literature:

In his work, Saravanasamy, J. (2019) examined the current policies and procedures implemented by banks and proposed additional policy dimensions to prevent non-performing assets (NPA). It has been discovered that formulating efficient policies to tackle non-performing asset (NPA) problems in the Indian banking sector is crucial, however, the execution of these policies holds more significance. Without the execution of the strategies and regulations, all the endeavors to alleviate and restore Non-Performing Assets (NPAs) are futile.

In their work, Chhatoi and Sahoo (2019) conducted a review on the influence of micro factors (such as branch specific files) and macro factors (such as economic environment factors) on the management of non-performing assets (NPAs) in the banking sector. It was discovered that the managerial effectiveness of public and private sector banks in terms of NPA (Non-Performing Assets) differs, a difference that can be attributed to the level of staff involvement.

In their study, Misra and Rana (2019) examined the top five private-sector banks in India. The research was conducted from the fiscal years 2014-15 to 2018-19. They employed ratio and trend analysis. Complete eradication of NPA in the banking industry is unattainable. The proposal involved expediting tribunal hearings and implementing a monitoring system to regulate NPA slippages, both before and after they occur.

In their research work, Sheikh and Saxena (2020) examined the liquidity status of India during the COVID-19 pandemic and discovered that the emergence of new non-performing assets (NPAs) is a significant challenge for the Indian banking sector. They proposed establishing a robust redressal and revival process to enhance the management and recovery of non-performing assets (NPAs).

Of his study, Chandrashekhar (2020) examined the non-performing assets (NPAs) of Indian commercial banks and discovered that despite regulatory interventions and diligent monitoring, the NPAs of these banks continue to rise. Additionally, they highlighted the arduous and protracted nature of the legal actions involved in recovering non-performing assets (NPAs). They recommended taking preventative precautions, such as exercising attention while approving loans.

In her research, Lalitha, B.S. (2020) conducted an investigation of the Non-Performing Assets (NPA) of selected banks in India and discovered that none of the institutions deviated from the NPA problem. Additionally, it was discovered that once a loan transitions into non-performing asset (NPA) status, it necessitates careful supervision, as it has the potential to rapidly deteriorate into a problematic asset for the bank.

In their study, Harchekar, J. S., Kandalgaonkar, S. R., and Tilak, P. (2020) reached the conclusion that banks engage in profit-making activities through the creation of credit, mostly by providing loans. When an asset becomes a non-performing asset (NPA), it directly affects the bank's profitability by impairing its primary revenue stream. Consequently, it is imperative to regularly manage such assets.

In his study, Tanted, N.M. (2020) examined the income and asset quality of the leading public and private sector banks in India. The study indicated that public sector banks in India are experiencing significantly higher levels of non-performing assets (NPAs) compared to private sector banks. As a result, they are unable to prioritize the development of new revenue sources or even their existing business. They proposed implementing a watchful management system to address the issue of non-performing assets (NPAs) in banks.

In their work, Jayaraman and Bhuyan (2020) conducted an analysis on the influence of non-performing assets (NPAs) and written off loans on the profitability efficiency of banks. They discovered that these accounts diminish the impact of the balance sheet. Additionally, they proposed that write-offs should not be only employed as a means of purging the financial statements of banks.

In their study, Kumar, Kalyani &Medatwal (2021) examined the efficacy of different channels employed by banks to recover non-performing asset (NPA) accounts. They discovered that while there has been an enhancement in recovery rates following the implementation of the SARFAESI Act, there is still scope for further improvement.

In their study, Goswami and Gulati (2021) examined the patterns of productivity in Indian banks from 1999 to 2017, focusing specifically on non-performing assets (NPA). Additionally, they concentrated on assessing the Indian banks' capacity to withstand economic shocks such as the Global Financial Crisis of 2007-2009. It was discovered that economic shocks, such as the crisis that occurred between 2007 and 2009, had an impact on the growth path of Indian banks.

3. RESEARCH METHODOLOGY

Research Design

A research design serves as the structural plan or framework for the research process, providing explicit instructions and guidance for the application of various tools and techniques in data collection, analysis, and interpretation. The objective of this study is to evaluate the credit appraisal methodologies for Non-Performing Assets (NPA) between Public Sector and Private Sector Banks. Additionally, it aims to understand the perspectives of banking professionals on the causes and effects of NPA. In order to accomplish this, a primary survey was conducted using a self-structured questionnaire.

Population of the Study

The scope of the study is limited to encompassing all public and private sector banks within the Indian banking system. In order to assess the overall influence as viewed by bankers in the state of Telangana, primary data was gathered from four prominent public sector banks and four private sector banks. The chosen banks have a significant presence in the state of Telangana and are very suitable for the purpose of this study. In addition, these banks offered the researcher the convenience of picking both the state and banks, while also providing coverage of significant areas within the banking industry.

Period of the Study

Researcher collected the responses of respondent (Banker's) of credit appraisal techniques of NPA in their respective banks during the period of March 2023 to June 2023.

Data Collection Process

For the goal of conducting a study comparing Public and Private sector banks, eight banks were selected. The study captured the perceptions of employees from these banks regarding credit appraisal methodologies of Non-Performing Assets (NPA).

Public Sector Commercial Bank	Private Sector Bank
State Bank of India	ICICI
Central Bank	Axis
Indian Overseas Bank	HDFC
Union Bank	Kotak

Primary Data

A self-structured questionnaire is created, and its validity is assessed by banking professionals and a statistician. In order to assess its reliability, pilot research is conducted to collect data with the objective of resolving and finding a solution to the study. Data was primarily collected from branch managers, loan officers, credit analysts, and other relevant personnel. A comprehensive set of pre-validated questionnaires was used to assess the different significant factors that influence non-performing assets (NPA). In order to achieve this objective, a total of eight prominent banks in the state of Telangana were selected for analysis.

Sample Size and Techniques

A sample is a subset or section of a population that is necessary for studying the entire population. The size of a sample is crucial in studies with huge populations because obtaining information on the entire population is difficult. The sample size is influenced by various factors, including the population size, variability within the population, and the desired level of significance. A larger sample size is necessary when the population size increases. According to the study conducted by Krejce and Morgan in 1970, a sample size of around 385 is recommended for making accurate conclusions about the population, particularly when dealing with a somewhat big sample.

Upon verification of the tool's validity, questionnaires were disseminated to the personnel of the designated banks. Each bank was subjected to judgement sampling, resulting in a sample of 70 respondents. Out of the 560 surveys that were issued, only 503 were completed and considered for further study. These questionnaires were from various banks, including SBI (63), IOB (57), Central Bank (67), Union Bank (61), AXIS (61), HDFC (68), Kotak (64), and ICICI (62).

4. DATA ANALYSIS AND INTERPRETATION

In order to examine the specified goals, the data obtained from the participants were organized and examined using suitable statistical techniques outlined in the research methodology. This chapter presents the outcomes of the statistical analysis to address the research objectives. The frequency distribution is utilized to examine the demographic factors and background information of the respondent. This study was conducted to obtain replies to the same inquiry across the banking sector in the state of Telangana.

Table 1:Frequency and Percentage Distribution of Respondents Personal Information - Part A

Personal Information		Frequency	Percent
Current Position	Officer in Inspection in Audit Department	65	12.9
	Relationship officer	99	19.7
	Loan Officer	143	28.4
	Recovery Manager	196	39.0
Level In Hierarchy	Senior Level	40	8.0
	Middle Level	256	50.9
	Junior Level	207	41.2
Name of the Bank	Axis Bank	61	12.1
	Central Bank	67	13.3
	HDFC	68	13.5
	ICICI	62	12.3
	IOB	57	11.3
	Kotak	64	12.7
	SBI	63	12.5
	Union Bank	61	12.1
Bank Sector	Public Sector Bank	248	49.3
	Private Sector Bank	255	50.7
Branch Located	Rural Area	119	23.7
	Urban Area	308	61.2
	Semi urban Area	76	15.1
Service Tenure	0-10 years	362	72.0
	10-20 year	92	18.3
	20 years and above	49	9.7
	Total	**503**	**100.0**

Table 1 displays the characteristics of the individuals who participated in the study. Among the 503 respondents, the majority (39%) hold the position of Recovery Manager. Following this, 28.4% of the respondents are Loan Officers, 19.7% are Relationship Officers, and 12.9% are Officers in the Inspection and Audit Department. With respect to the hierarchical level, the majority of respondents (50.9%) belong to the middle level, followed by 41.2% who are at the junior level. Only 8% of the respondents are at the senior level. The majority of respondents are currently employed at HDFC Bank (13.5%), followed by Central Bank (13.3%), Kotak Bank (12.7%), SBI (12.5%), ICICI (12.3%), Union Bank (12.1%), and IOB (11.3%). Out of the participants, 50.7 percent are employed in a Private Sector Bank, while 49.3 percent are employed in a Public Sector Bank. Out of all the branches, 61.2

percent are situated in urban areas, 23.7 percent are situated in rural areas, and 15.1 percent are situated in semi-urban areas. In terms of Service Tenure, 72 percent of the respondents have a service tenure of 0-10 years, while 18.3 percent have a tenure of 10-20 years. Only 9.7 percent of the respondents have a tenure of 20 years or more.

Table 2 displays the primary cause for assets transitioning into Non-Performing Assets (NPA). The Chi-Square test reveals a significant difference ($\chi 2=48.843$; $p<0.000$) in the most frequent reason for assets becoming Non-Performing Assets (NPA) between Public and Private Sector Banks. Based on the information presented in Table 5.3, there are observations related to public sector banks. 39.5% of employees believe that inadequate recovery management is the main cause for assets turning into non-performing assets (NPA). Subsequently, 30.6% of employees indicated a deficiency in prompt action. Only 4% of the respondents indicated that the reason for assets becoming non-performing loans was the diversion of funds. Regarding private sector banks, a majority of the respondents (42%) said that the key reason for assets becoming non-performing loans (NPA) is the lack of managerial capabilities. 27.1% of employees expressed dissatisfaction with the recovery management, whereas just 3.5% expressed concerns about monies being misappropriated.

Table 2: Cross Tabulation of Most Prominent Reason for Assets Becoming Non-Performing Asset (NPA) in Public and Private Secor Bank

Most Prominent Reason for Assets Becoming Non-Performing Asset (NPA)		**Public Sector Bank**	**Private Sector Bank**
Less managerial skills	Nos.	37	107
	%	14.9%	42.0%
Lack of expertise	Nos.	27	28
	%	10.9%	11.0%
Lack of timely action	Nos.	76	42
	%	30.6%	16.5%
Poor recovery management	Nos.	98	69
	%	39.5%	27.1%
Siphoning of funds	Nos.	10	9
	%	4.0%	3.5%
Total	**Nos.**	**248**	**255**
	%	**100.0%**	**100.0%**
Chi-Square=48.843, df=4, P<0.000			

H02: There exists a substantial correlation between Public and Private sector banks regarding the cause of assets turning into Non-Performing Assets (NPA). In other words, the primary reason for assets becoming NPAs is not reliant on the kind of banks.

There is a notable distinction between Public and Private sector banks regarding the primary cause of assets becoming non-performing assets. This implies that both types of bankers have different key reasons for assets being non-performing.

Table 3: Cross Tabulation of NPA Status During Last Five Years in Public and Private Sector Bank

NPA Status During Last Five Years		Bank	
		Public Sector Bank	Private Sector Bank
Highly Decreasing	Nos.	44	0
	%	17.7%	0.0%
Slowly decreasing	Nos.	79	122
	%	31.9%	47.8%
Constant	Nos.	106	82
	%	42.7%	32.2%
Slowly Increasing	Nos.	19	51
	%	7.7%	20.0%
Total	**Nos.**	**248**	**255**
	%	**100.0%**	**100.0%**
Chi-Square=70.808, df=3, P<0.000			

Table 3 displays the non-performing asset (NPA) status during the past five years. The Chi-Square test reveals a highly significant difference in the NPA status between Public and Private Sector Banks over the last five years ($\chi 2=70.808$; $p<0.000$). Based on the information provided in Table 5.4, the Non-Performing Asset (NPA) situation of public sector banks during the past five years may be observed. 42% of employees expressed that the non-performing asset (NPA) status has been constant over the past five years. 31.9% of employees reported a gradual decline in their status, while only 7.7% of respondents indicated a gradual increase in non-performing assets (NPA) during the past five years. Regarding private sector banks, a majority of the respondents (47.8%) expressed the view that non-performing assets (NPAs) have been gradually reducing over the past five years. 32.2% of employees expressed that the position has remained constant, while only 20% of them reported a gradual decrease in non-performing assets (NPA) during the past five years.

H03: There exists a substantial correlation between Public and Private sector banks in terms of the Non-Performing Asset (NPA) status during the past five years. The status of non-performing assets (NPA) during the past five years is not influenced by the types of banks.

There is a notable disparity between the NPA status of Public and Private sector banks over the past five years, indicating that both types of bankers have had distinct developments in Non-Performing Asset (NPA) rates.

Table 4 demonstrates that the industry makes a significant contribution to non-performing assets (NPA). The Chi-Square test reveals a substantial difference in the sector's contribution to Non-Performing Assets (NPA) between Public and Private Sector Banks ($\chi 2=69.251$; $p<0.000$). According to Table 5.5, the sector that contributes significantly to the Non-Performing Asset of public sector banks is highlighted. 35.5% of the employees expressed their opinion in favor of the Agriculture and Allied industries. 31% of employees indicated that they work in the industries sector, while 11.7% mentioned personal loans, and just 10.5% of respondents expressed their involvement in the services business. Regarding private sector banks, the majority of respondents, 35.7%, expressed the view that personal loans had a significant contribution to non-performing assets (NPAs). Among the employees surveyed, 27.5% expressed the view that industries had a significant impact on non-performing assets (NPA), whereas only 9.8% said that Agriculture and Allied industries have a similar influence.

Table 4: Cross Tabulation of Sector Contributes Highly Towards Non-Performing Asset (NPA) in Public and Private Secor Bank

Sector Contributes Highly Towards NPA		Bank	
		Public Sector Bank	Private Sector Bank
Agriculture and Allied industries	Nos.	88	25
	%	35.5%	9.8%
Industries	Nos.	77	70
	%	31.0%	27.5%
Services industry	Nos.	26	34
	%	10.5%	13.3%
Personal Loans	Nos.	29	91
	%	11.7%	35.7%
Business Loans	Nos.	28	35
	%	11.3%	13.7%
Total	**Nos.**	**248**	**255**
	%	**100.0%**	**100.0%**
Chi-Square=69.251, df=4, P<0.000			

H04: There is a strong correlation between the NPA status of public and private sector banks during the past five years. This means that the NPA status during this period is not influenced by the kind of bank.

There is a notable disparity between the NPA statuses of public and private sector banks over the past five years. This indicates that both types of banks have had distinct developments in terms of Non-Performing Asset (NPA) growth.

Table 5: Cross Tabulation for Factor Considered for the Appraisal of a Loan Proposal in Public and Private Secor Bank

Factor Considered for the Appraisal of a Loan Proposal		Bank	
		Public Sector Bank	Private Sector Bank
Credibility and integrity of borrower	Nos.	55	96
	%	22.2%	37.6%
Financial soundness of customer	Nos.	49	37
	%	19.8%	14.5%
Economic Viability	Nos.	117	105

Factor Considered for the Appraisal of a Loan Proposal		**Bank**	
		Public Sector Bank	**Private Sector Bank**
	%	47.2%	41.2%
Technical and Financial Feasibility	Nos.	27	17
	%	10.9%	6.7%
Total	**Nos.**	**248**	**255**
	%	**100.0%**	**100.0%**
Chi-Square=15.634, df=3, P=0.001			

Table 5 displays the criteria taken into account while evaluating a loan proposal. The Chi-Square test reveals a significant difference ($\chi2$=15.634; p=0.001) in the factors evaluated for the appraisal of a loan proposal between Public and Private Sector Banks. The information regarding the factors evaluated for the appraisal of a loan proposal in public sector banks may be observed in Table 5.7 above. 47.2% of the employees expressed their opinion on the economic feasibility. 22.2% of the employees prioritize the trustworthiness and integrity of the borrower, while 19.8% emphasize the financial soundness of the customer. Only 10.9% of the respondents consider the technological and financial feasibility. Regarding private sector banks, a majority of the respondents (41.2%) expressed the view that economic viability should be taken into consideration when evaluating a loan proposal. 37.6% of employees expressed their belief in the reliability and integrity of the borrower, whereas just 6.7% of them expressed their belief in the technical and financial feasibility considerations.

H06: There exists a substantial correlation between Public and Private sector banks regarding the factor considered for evaluating a loan proposal. Specifically, the type of bank does not influence the factor considered for evaluating a loan proposal.

There is a notable disparity between Public and Private sector banks in terms of the criteria used to evaluate a loan request. This implies that bankers in both sectors have distinct factors that they consider when appraising a loan application.

5. SUGGESTIONS

- ❖ The problem of Non-Performing Assets (NPAs) arises due to various circumstances, including legal and economic issues, as well as management inadequacies such as inadequate training, lack of follow-up, and too aggressive lending practices. The government should implement measures to prevent defaulters from evading legal consequences due to inefficiencies in the system. The laws that are antiquated and biased towards those who violate them should be revised. Additional tribunals should be established in each area to expedite the retrieval of non-performing assets (NPAs). The tribunals should be adequately manned. Bank officials should receive periodic training and it should be assured that thorough monitoring of each loan is conducted. Banks should actively prohibit risky lending practices in order to preserve the integrity of their assets inside the banking system.
- ❖ The user's text is a symbol.Given the demonstrated correlation between NPAs and the service and industrial sectors, banks should exercise additional prudence when approving

loans for these sectors. Furthermore, the government should implement suitable measures and endeavor to ascertain the cause of default within these areas.

- ❖ The user's text is a symbol. Financial institutions must to establish explicit guidelines about their loan portfolio, and these guidelines should be effectively communicated to the staff at the service points.
- ❖ The user's text consists of a symbol. The branch authorities must conduct credit assessment without any prejudice, adhering to the well specified policies established for the loan portfolio.

6. CONCLUSION

Upon completion of the study, it is determined that the researcher thoroughly addressed the key factors related to non-performing assets (NPA) and made efforts to determine the impact of NPA credit appraisal procedures on bank profitability.

In addition, researchers also examined the primary cause accountable for the increase in Non-Performing Assets (NPAs) based on the perceptions obtained from bank executives. The study identified eight primary factors contributing to the rise of non-performing assets (NPAs) in banks. These factors include insufficient post-disbursement follow-up, unreliable credit appraisal, poor credit compliance, uncertain credit and operational management policies, fraudulent practices, political intervention in loan dispersal, poor credit monitoring, and illegal credit practices. Hence, it is imperative for banks to prioritize the criteria outlined in the study in order to uphold superior asset quality, thereby enhancing their financial performance.

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