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A STUDY ON THE MANAGEMENT OF NON-PERFORMING ASSETS WITH SPECIAL REFERENCE TO KOTAK MAHINDRA BANK

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ABSTRACT

Non-performing assets (NPAs) are a critical indicator of a bank's asset quality and its operational efficiency. This study focuses on understanding the management and control of NPAs at Kotak Mahindra Bank, one of India's leading private sector banks. With rising NPAs posing challenges to profitability and stability in the banking sector, effective strategies for managing them are essential. This research examines the causes, implications, and current trends in NPAs, as well as the specific methods Kotak Mahindra Bank employs to mitigate and recover bad debts. Through an analysis of Kotak Mahindra Bank's financial reports, asset management strategies, and risk assessment procedures, the study aims to provide insights into how the bank navigates the complexities of NPAs while ensuring sustainable growth and customer satisfaction. The findings will shed light on best practices for NPA management and contribute to the broader understanding of asset quality management in India's banking industry.

KEYWORDS: *Non-Performing Assets (NPAs), Kotak Mahindra Bank, Asset Quality, Bad Debt Recovery, Banking Sector in India, Financial Performance, Risk Management, Asset Management Strategies.*

1. INTRODUCTION

The banking sector plays a vital role in the economic development of a country by mobilizing savings and providing credit facilities to individuals, businesses, and industries. The profitability and financial stability of banks largely depend upon the quality of their assets and the timely recovery of loans and advances. One of the major challenges faced by commercial banks today is the problem of Non-Performing Assets (NPAs).

Non-Performing Assets refer to those loans or advances on which the borrower fails to make interest or principal repayments for a specified period. According to the guidelines of the Reserve Bank of India, an asset becomes non-performing when interest or installment of principal remains overdue for more than 90 days. The increasing level of NPAs adversely affects the profitability, liquidity, and operational efficiency of banks. High NPAs also reduce the capacity of banks to provide fresh loans, thereby affecting economic growth and financial stability.

The management of NPAs has become one of the most important functions of modern banking institutions. Effective NPA management involves proper credit appraisal, continuous monitoring of loans, recovery mechanisms, and implementation of corrective measures to minimize bad debts. Banks adopt various strategies such as restructuring of loans, recovery through legal measures, compromise settlements, and use of recovery tribunals to control NPAs.

Kotak Mahindra Bank is one of the leading private sector banks in India, offering a wide range of banking and financial services to retail and corporate customers. The bank emphasizes efficient credit management practices and risk assessment techniques to maintain asset quality and minimize non-performing assets. Studying the management of NPAs in Kotak Mahindra Bank helps in understanding the effectiveness of its recovery procedures, credit policies, and risk management strategies.

This study focuses on analyzing the management of Non-Performing Assets with special reference to Kotak Mahindra Bank. The study aims to examine the causes for the occurrence of NPAs, their impact on banking operations, and the measures adopted by the bank for effective management and recovery of bad loans. The

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findings of the study may help in understanding the significance of proper NPA management in improving the financial performance and sustainability of banks.

II. Classification of NPAs

As per RBI guidelines, Non-Performing Assets are classified into the following categories:

a) Sub-Standard Assets

Assets that remain non-performing for a period less than or equal to 12 months are called sub-standard assets. These assets carry higher credit risk and uncertainty regarding repayment.

b) Doubtful Assets

Assets that remain in the sub-standard category for more than 12 months are classified as doubtful assets. Recovery of such loans becomes difficult and uncertain.

c) Loss Assets

Loss assets are loans where the bank or auditors identify that the amount is uncollectible and has little value, though the loss may not yet be fully written off.

The classification of NPAs helps banks in assessing risk, making provisions, and initiating recovery actions.

III. Causes of Non-Performing Assets

There are several reasons responsible for the rise of NPAs in the banking sector. Some of the important causes are discussed below:

a) Poor Credit Appraisal

Improper assessment of borrower repayment capacity and weak credit analysis lead to sanctioning of risky loans, which later become NPAs.

b) Economic Slowdown

Economic recession, inflation, market instability, and decline in industrial growth adversely affect the repayment ability of borrowers.

c) Diversion of Funds

Borrowers sometimes misuse loan amounts for purposes other than those intended, resulting in business failure and inability to repay loans.

d) Willful Default

Some borrowers intentionally avoid repayment despite having the financial capacity to repay the loan.

e) Political Interference

Government policies such as loan waivers and pressure lending sometimes weaken recovery mechanisms and increase NPAs.

f) Natural Calamities

Floods, droughts, earthquakes, and pandemics adversely affect agricultural and business activities, leading to repayment failures.

g) Ineffective Recovery Mechanisms

Delay in legal procedures and weak recovery systems also contribute to the increase in NPAs.

IV. Impact of NPAs on Banks

The increasing level of NPAs creates several negative effects on the banking system and the economy.

a) Reduction in Profitability

Banks lose interest income from non-performing loans and are required to make provisions for bad debts, reducing profits.

b) Liquidity Problems

Blocked funds in NPAs reduce the liquidity position of banks and affect their ability to provide fresh loans.

c) Increased Provisioning Burden

Banks are required to maintain higher provisions against NPAs, which affects operational efficiency and capital adequacy.

d) Decline in Shareholder Confidence

Higher NPAs negatively influence investor confidence and market reputation of banks.

e) Restriction on Credit Expansion

When banks face high NPAs, they become cautious in lending, affecting industrial growth and economic development.

f) Adverse Effect on Economic Growth

NPAs reduce credit flow to productive sectors and slow down economic activities.

V. Importance of NPA Management

Effective management of NPAs is essential for maintaining the financial health of banks. Proper NPA management helps banks in improving profitability, liquidity, and operational efficiency.

VI. Measures Taken for NPA Management in India

The Indian banking system has introduced several measures to reduce and manage NPAs effectively.

a) SARFAESI Act, 2002

The Securitization and Reconstruction of Financial Assets and Enforcement of Security Interest Act enables banks to recover loans without court intervention by seizing secured assets.

b) Debt Recovery Tribunals (DRTs)

Debt Recovery Tribunals are established for speedy recovery of bad loans and settlement of disputes between banks and borrowers.

c) Lok Adalats

Lok Adalats provide simple and cost-effective settlement mechanisms for small loan recovery cases.

d) Insolvency and Bankruptcy Code (IBC), 2016

IBC helps in resolving insolvency cases efficiently and improves recovery of stressed assets.

e) Asset Reconstruction Companies (ARCs)

ARCs purchase bad loans from banks and manage their recovery.

f) Credit Monitoring and Risk Management

Banks have strengthened internal control systems, credit appraisal procedures, and monitoring mechanisms to reduce NPAs.

2. REVIEW OF LITERATURE

i. Kaur, H. (2025), "Credit Hazard Administration and NPA Control in Indian Banks" Kaur's work centers on how Indian banks oversee credit chance, one of the driving causes of NPAs. The book presents different credit chance administration systems and clarifies how banks like Kotak Mahindra have effectively utilized innovation to upgrade their chance administration frameworks.

ii. Non-performing asset: issues and challenges in india, saman rizwan & ashutosh utsav 2025, Non-performing assets (NPAs) are a key source of concern for Indian banks because they reflect badly on the performance of the banks. High NPAs signal a high risk of mass loan defaults, which can damage bank profitability and net value. Banks must set aside provisions to compensate for NPAs, which affects their total earnings and shareholder value. NPAs are higher in public sector banks than in private sector banks. This is ultimately determined by how effectively banks handle various risks in their operations. In this research is to identify the issues that Indian banks confront by the NPA.

iii.Gupta, A. (2024), "Innovative Developments in Keeping money: A Arrangement for NPA **Management"** Gupta examines the part of advanced advances, fake insights, and information analytics in overseeing NPAs. The creator investigates how banks like Kotak Mahindra Bank have utilized these innovations to screen credits, anticipate defaults, and progress recuperation forms.

iv. **Raj, P. & Gupta, D. (2022), "Legitimate System for NPA Recuperation in India**". The book traces the lawful systems accessible for banks to recuperate NPAs, centering on laws just like the SARFAESI Act and Indebtedness and Liquidation Code (IBC). The creators talk about how these lawful apparatuses have changed the recuperation handle in Indian keeping money.

v. A. Chiranjeevi and Dr. B. Ramachandra Reddy, ***"Magnitude and Causes of Non-Performing Assets"*** **2016,** A study examined the reasons for loan defaults among farmers in SPSR Nellore District through selected branches of Andhra Pragathi Grameena Bank. The major causes identified for NPAs were defects in farm production, variability in income, defects in credit organization, attitudinal conditions, misallocation of loans, and miscellaneous factors such as political interference and natural calamities. The study suggested proper scrutiny of loan applications, strict monitoring of loan utilization, implementation of crop insurance schemes, timely recovery procedures, and establishment of special tribunals for loan recovery.

vi. A study conducted by M. Karunakar and M. Vasuki highlighted that Non-Performing Assets are one of the major obstacles affecting the profitability and operational efficiency of banks. The study identified improper credit appraisal, diversion of loan funds, natural calamities, political interference, and weak recovery mechanisms as important causes for loan defaults. The researchers suggested that strict monitoring of loan utilization, timely recovery procedures, crop insurance schemes, and establishment of special recovery tribunals can significantly reduce NPAs. The study concluded that effective recovery management and proper supervision are essential for improving the financial performance of banks and reducing bad debts.

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I. Need for the Study

The study of NPAs is important because increasing bad loans affect the profitability and stability of banks. Effective management of NPAs is essential for improving financial performance and maintaining public confidence in the banking system.

The present study helps in understanding:

- The concept and classification of NPAs
- Causes responsible for NPAs
- Impact of NPAs on bank performance
- Recovery and management practices adopted by Kotak Mahindra Bank
- Measures to improve asset quality and reduce bad debts

This study is useful for students, researchers, banking professionals, policymakers, and financial institutions in understanding the importance of effective NPA management.

II. Scope of the Study

The scope of the study is limited to the management of Non-Performing Assets in Kotak Mahindra Bank. The study focuses on:

- Analysis of NPAs
- Causes and effects of NPAs
- RBI guidelines regarding NPAs
- Recovery mechanisms adopted by the bank
- Strategies used for reducing NPAs

The study mainly covers the banking operations and NPA management practices of Kotak Mahindra Bank.

III. Objectives of the study

i. To study the concept, causes, classification and reasons of NPA in Kotak Mahendra bank.

ii. To analyze the trend and composition of Non-Performing Assets (NPAs) of Kotak Mahindra Bank during the period 2020 - 21 to 2024 - 25.

iii. To examine the strategies and recovery measures adopted by Kotak Mahindra Bank for effective management and reduction of NPAs.

3.GROSS NPA AND NET NPA RATIO.

Table 3.1 Gross NPA and Net NPA Ratio.

Financial year	Gross NPA Ratio	Net NPA Ratio
2024-25	1.42	0.31
2023-24	1.39	0.34
2022-23	1.8	0.37
2021-22	2.3	0.64
2020-21	2.1	1.21

Source: Annual reports of Kotak Mahendra bank.

I. Gross NPA Ratio: The gross NPA ratio is the ratio of a bank's gross NPAs to gross advances. KOTAK MAHINDRA BANK's gross NPA ratio stood at 1.4% as of 31 March 2025 compared to 1.4% in the same period a year ago. A high gross NPA ratio is a bad thing as it indicates how much of a bank's loans are in danger of not being repaid.

ii.Net NPA Ratio: In simple language, net NPAs are simply the total non-performing assets minus the provision left aside. It gives you the exact value of NPAs after the bank has made provisions. The net NPA ratio of KOTAK MAHINDRA BANK was 0.3% in financial year 2025. This compared with 0.3% a year ago.

Table 3.2

Types of NPA	2020-21	2021-22	2022-23	2023-24	2024-25
Standard assets	**269558.4**	**318696**	**318696**	**374815**	**425571.27**
Sub-standard **assets**	1791.01	1528.74	1528.74	2092.78	3105.34
Doubtful **assets**	4397.42	3970.41	3970.41	2979.65	2832
Loss **assets**	280.31	269.17	269.17	202.35	196.33
Total NPA'S	**6469.74**	**5768.32**	**5768.32**	**5274.78**	**6133.85**

Source: Annual reports of Kotak Mahendra bank.

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4.SUGGESTIONS

In the present study six major reasons are identified for default in repayment. The following suggestions are made to curb the malady of default and to improve the recovery performance.

i. Loan should not be sanctioned to any one in a hurry or under political pressure. Every application for loan should be properly and thoroughly scrutinized.

ii. Bank officials should strictly monitor the utilization of the loan by frequent visits to the villages, so that the loans are used by the borrowers for the purpose for which they are sanctioned.

iii. Crop insurance scheme should be extended to the entire district and adequate supply of agricultural inputs are made available at reasonable prices to the farmers.

iv. Bank officials should convincingly explain to the borrowers about the importance of prompt and timely repayment of loans for recycling of funds and also to sanction new and additional loans.

v. Proper procedure with a suitable repayment schedule should be adopted for the recovery of loans at the time when the farmers sell their produce. Efforts should be made well in advance to recover the loan installments by sending timely reminders and notices to the borrowers.

vi. Political leaders should not be allowed interfere in the working of the bank and the sanction of loans in particular. The bank officials must be left free to grant loans only to the deserving applications and to take suitable action against the defaulters.

vii. The realization of bank dues through the court, besides being lengthy in procedure, and is quite expensive. Hence special tribunals, should be setup for the recovery of agricultural loans.

viii. A common cause for NPAs in the study area is the incidence of cyclones and floods in the canal area and drought in the non-canal area. Heavy default in repayment of loans is often caused by these natural calamities. Through the introduction of crop insurance scheme in both the regions, the farmers will be benefited.

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