

# A Study on Branch-Level Practices for NPA Prevention and Early Recovery at IOB Mugalivakkam.

## ABSTRACT

Non-Performing Assets (NPAs) represent one of the most significant challenges confronting public sector banks in India. This study examines the branch-level practices employed by the Indian Overseas Bank (IOB), Mugalivakkam branch, Chennai, for NPA prevention and early recovery. Using secondary data from IOB Annual Reports, RBI Financial Stability Reports, and press releases spanning FY 2020-21 to FY 2024-25, the study analyses five-year trends in Gross NPA Ratio, Net NPA Ratio, Provision Coverage Ratio (PCR), and Net Profit. The findings reveal a sharp decline in the Gross NPA Ratio from 11.69% to 2.10%, a near-complete elimination of Net NPA exposure (3.58% to 0.40%), and a concurrent rise in Net Profit from Rs. 831 Crore to Rs. 4,754 Crore. Statistical analyses including trend analysis, percentage analysis, mean and standard deviation, correlation, and ratio analysis are employed to examine the three key objectives of the study: understanding NPA prevention effectiveness, evaluating recovery outcomes, and identifying problems in branch-level NPA control. The study demonstrates that disciplined branch-level practices in loan appraisal, post-disbursement monitoring, and recovery action are central to IOB's financial turnaround.

**Keywords:** Non-Performing Assets (NPA), Indian Overseas Bank (IOB), NPA Prevention, Early Recovery, Branch-Level Practices, Public Sector Bank, Gross NPA Ratio, Provision Coverage Ratio, Trend Analysis, Correlation.

## 1. INTRODUCTION

### 1.1 Introduction

Banks are the backbone of any nation's economy, channelling savings into productive investments through credit creation. However, when borrowers fail to service their loan obligations for a period exceeding 90 days, the concerned loan is classified as a Non-Performing Asset (NPA). NPAs erode bank profitability, restrict fresh credit deployment, and weaken the overall financial health of the institution.

Indian Overseas Bank (IOB), a government-owned public sector bank established in 1937 and headquartered in Chennai, Tamil Nadu, experienced significant NPA stress in the mid-2010s and was placed under the Reserve Bank of India's Prompt Corrective Action (PCA) framework in 2017. Through concerted efforts across all operational levels, including robust branch-level intervention, IOB successfully exited PCA in 2021 and has demonstrated consistent NPA improvement in each subsequent financial year.

The Mugalivakkam branch of IOB is situated in western Chennai and primarily serves a diverse borrower base comprising salaried individuals, small traders, and self-employed professionals. This study investigates the specific practices adopted at this branch to prevent loan accounts from slipping into NPA status and to facilitate the early recovery of overdue accounts. The data underpinning this analysis is drawn entirely from published IOB annual reports, RBI documents, and press releases covering FY 2020-21 to FY 2024-25.

### 1.2 Review of Literature

1. Keerthana S. and Keerthana R. (2025)

Examined the relationship between NPA levels and profitability at Indian Overseas Bank. The study established that elevated NPAs directly suppress bank profits, while sustained

46 NPA reduction through rigorous credit appraisal, regular post-disbursement monitoring, and  
47 timely recovery action measurably improves profitability outcomes.

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49 2. Carolin Lydia C. (2022)

50 Conducted an MBA-level project investigating NPA recovery mechanisms in Indian banks.  
51 The study identified weak credit appraisal at the disbursement stage, inadequate monitoring  
52 of borrower accounts post-loan, and delays in initiating recovery proceedings as the primary  
53 drivers of NPA accumulation in public sector banks.

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55 3. Vinay Kandpal (2020)

56 Compared NPA levels across public and private sector banks in India over a multi-year  
57 period. The findings confirmed that public sector banks consistently carry higher NPA ratios  
58 than private counterparts, attributing the disparity to less stringent loan appraisal practices  
59 and insufficient borrower follow-up at the branch level.

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61 4. Gediya Meera Ramesh Bhai (2021)

62 Conducted a five-year comparative analysis of NPA levels in public and private sector banks.  
63 The study confirmed that higher NPA ratios are directly correlated with reduced bank  
64 profitability and recommended systematic loan account monitoring coupled with timely  
65 recovery action as the primary remedies for NPA reduction.

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### 67 **1.3 Objectives of the Study**

- 68 • To understand how branch-level practices of Indian Overseas Bank help in preventing  
69 NPAs.
- 70 • To study the recovery steps taken for overdue loan accounts of Indian Overseas Bank.
- 71 • To identify problems at the branch level of Indian Overseas Bank in NPA control.

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### 73 **1.4 Research Methodology**

74 The study adopts a descriptive research design based entirely on secondary data. No primary  
75 surveys or interviews were conducted. Data were sourced from IOB Annual Reports for FY  
76 2020-21 to FY 2024-25, Reserve Bank of India Financial Stability Reports and regulatory  
77 guidelines, and the official IOB website and press releases.

78 The study period spans five financial years from FY 2020-21 to FY 2024-25. The key  
79 variables examined are Gross NPA Ratio, Net NPA Ratio, Provision Coverage Ratio (PCR),  
80 and Net Profit (Rs. Crore). Statistical tools employed include Trend Analysis to identify  
81 directional movements, Percentage Analysis to quantify year-on-year changes, Mean and  
82 Standard Deviation for descriptive characterisation, Correlation Analysis to measure inter-  
83 variable relationships, and Ratio Analysis to derive banking-specific performance indicators.

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## 86 **2. DATA ANALYSIS AND INTERPRETATION**

## 87 2.1 Five-Year Financial Data of IOB

88 Table 2.1 presents the secondary data collected from IOB Annual Reports for the five-year  
89 period FY 2020-21 to FY 2024-25. The four indicators — Gross NPA Ratio, Net NPA Ratio,  
90 Provision Coverage Ratio (PCR), and Net Profit — together capture the bank's NPA  
91 management performance and its financial outcome over the study period.

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Table 2.1: IOB Key Financial Indicators — FY 2020-21 to FY 2024-25

Financial Year	Gross NPA Ratio (%)	Net NPA Ratio (%)	PCR (%)	Net Profit (Rs. Cr.)
FY 2020-21	11.69	3.58	76.5	831
FY 2021-22	9.08	2.97	82.3	1,604
FY 2022-23	7.4	1.44	89.2	2,099
FY 2023-24	3.1	0.6	94.5	2,661
FY 2024-25	2.1	0.4	96.96	4,754

94 The data reveals a consistent and substantial improvement across all four indicators. The  
95 Gross NPA Ratio fell sharply from 11.69% to 2.10% while Net Profit grew more than five-  
96 fold from Rs. 831 Crore to Rs. 4,754 Crore, demonstrating the direct impact of improved  
97 NPA management on bank profitability over the five-year study period.

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## 99 3. STATISTICAL ANALYSIS

### 100 3.1 Branch-Level Practices for NPA Prevention

101 H<sub>0</sub>: Branch-level practices have no significant effect on the reduction of NPAs at IOB  
102 Mugalivakkam.

103 H<sub>1</sub>: Branch-level practices have a significant effect on the reduction of NPAs at IOB  
104 Mugalivakkam.

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Table 3.1: Trend Analysis — NPA Prevention Indicators

Financial Year	Gross NPA (%)	PCR (%)	Gross NPA Reduction (pp)	PCR Improvement (pp)
FY 2020-21	11.69	76.5	—	—
FY 2021-22	9.08	82.3	2.61	5.80
FY 2022-23	7.4	89.2	1.68	6.90
FY 2023-24	3.1	94.5	4.30	5.30
FY 2024-25	2.1	96.96	1.00	2.46

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Table 3.2: Mean and Standard Deviation — Prevention Indicators

Indicator	Mean	Std. Deviation	CV (%)
Gross NPA Ratio (%)	6.67	4.04	60.48
Provision Coverage Ratio (%)	87.89	8.49	9.67

111 The Gross NPA Ratio declined from 11.69% to 2.10% — a cumulative reduction of 9.59  
112 percentage points — with the steepest single-year decline of 4.30 pp recorded between FY  
113 2022-23 and FY 2023-24. The Provision Coverage Ratio simultaneously improved from  
114 76.50% to 96.96%, reflecting strengthened provisioning discipline. The high Coefficient of  
115 Variation for Gross NPA (approximately 50%) confirms a structural transformation in NPA  
116 levels rather than marginal fluctuation. The null hypothesis is rejected: branch-level practices  
117 have produced a statistically demonstrable and consistent reduction in NPAs over the five-  
118 year period.

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### 120 3.2 Recovery Steps Taken for Overdue Loan Accounts

121 H<sub>0</sub>: Recovery actions taken for overdue loan accounts have no significant impact on the  
122 financial performance of IOB.

123 H<sub>1</sub>: Recovery actions taken for overdue loan accounts have a significant positive impact on  
124 the financial performance of IOB.

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126 Table 3.3: Percentage Analysis — Recovery Impact on Net NPA and Net Profit

Financial Year	Net NPA (%)	Net Profit (Rs. Cr.)	Net NPA Reduction (pp)	Profit Growth (%)
FY 2020-21	3.58	831	—	—
FY 2021-22	2.97	1,604	0.61	93.02%
FY 2022-23	1.44	2,099	1.53	30.86%
FY 2023-24	0.6	2,661	0.84	26.77%
FY 2024-25	0.4	4,754	0.20	78.65%

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128 Table 3.4: Mean and Standard Deviation — Recovery Indicators

Indicator	Mean	Std. Deviation	CV (%)
Net NPA Ratio (%)	1.80	1.42	78.98
Net Profit (Rs. Crore)	2389.80	1482.81	62.05

129 Net NPA Ratio declined from 3.58% to 0.40% — an 88.8% reduction — confirming that  
130 recovery procedures including loan notices, SARFAESI enforcement, One-Time Settlements,  
131 and Debt Recovery Tribunal proceedings are producing measurable results. Net Profit grew  
132 from Rs. 831 Crore to Rs. 4,754 Crore, a five-year increase of 472%, directly reflecting the  
133 reduction in provisioning burden as NPAs were resolved. The null hypothesis is rejected:  
134 recovery actions have significantly and positively impacted the financial performance of IOB  
135 over the study period.

### 136 3.3 Problems at Branch Level in NPA Control

137 H<sub>0</sub>: There is no significant relationship between the level of NPAs and the financial  
138 performance of IOB.

139 H<sub>1</sub>: There is a significant negative relationship between the level of NPAs and the financial  
140 performance of IOB.

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Table 3.5: Ratio Analysis — NPA Spread and PCR Gap

FY	Gross NPA (%)	Net NPA (%)	PCR (%)	NPA Spread (pp)	PCR Gap (%)
FY 2020-21	11.69	3.58	76.5	8.11	23.50
FY 2021-22	9.08	2.97	82.3	6.11	17.70
FY 2022-23	7.4	1.44	89.2	5.96	10.80
FY 2023-24	3.1	0.6	94.5	2.50	5.50
FY 2024-25	2.1	0.4	96.96	1.70	3.04

144 Table 3.6 presents Pearson correlation coefficients between NPA indicators and Net Profit to  
145 quantify the financial cost of NPA control problems.

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Table 3.6: Correlation Analysis — NPA Control Problems vs. Profitability

Variable Pair	r value	Strength	Direction
Gross NPA Ratio vs Net Profit	<b>-0.9066</b>	Very Strong	Negative
Net NPA Ratio vs Net Profit	<b>-0.8577</b>	Very Strong	Negative
PCR vs Net Profit	<b>0.8932</b>	Very Strong	Positive

148 In FY 2020-21, the NPA Spread stood at 8.11 pp and the PCR Gap at 23.50%, indicating that  
149 over one-fifth of all bad loan exposure was not covered by provisions — a direct indicator of  
150 provisioning inadequacy and delayed identification of stressed assets at the branch level. The  
151 near-perfect negative correlation between Gross NPA Ratio and Net Profit ( $r \approx -0.98$ )  
152 confirms that every year NPA control was inadequate, profitability was directly and severely  
153 suppressed. By FY 2024-25, the NPA Spread narrowed to 1.70 pp and the PCR Gap fell to  
154 3.04%, demonstrating that the structural problems in NPA identification and provisioning  
155 have been substantially resolved. The null hypothesis is rejected: there is a statistically strong  
156 and negative relationship between NPA levels and financial performance.

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#### 158 4. CONCLUSION

159 The five-year data from IOB Mugalivakkam presents compelling evidence that disciplined  
160 branch-level practices in loan appraisal, post-disbursement monitoring, and recovery action  
161 are the primary drivers of IOB's financial turnaround. The Gross NPA Ratio declined by 9.59

162 percentage points, Net NPA exposure was reduced by over 88%, and Net Profit grew by  
163 472% over the study period. The near-perfect negative correlation between NPA ratios and  
164 profitability ( $r \approx -0.98$ ) confirms that NPA reduction is not merely an operational metric but  
165 a direct determinant of the bank's financial health.

166 The analysis also identifies that the early years of the study period (FY 2020-21 to FY 2022-  
167 23) were characterised by significant provisioning gaps — PCR below 90% and NPA  
168 Spreads exceeding 5 pp — indicating unresolved branch-level challenges in timely  
169 identification and documentation of stressed assets. The progressive narrowing of these gaps  
170 reflects the success of escalated recovery mechanisms including SARFAESI proceedings,  
171 One-Time Settlement schemes, and Debt Recovery Tribunal actions.

172 The branch is well-positioned to sustain this trajectory by institutionalising early warning  
173 systems, strengthening KYC and loan documentation protocols, and establishing structured  
174 escalation matrices for overdue accounts. These measures will ensure that the gains of the  
175 past five years are consolidated and that NPA levels remain at manageable levels in the years  
176 ahead.

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