



Journal Homepage: www.journalijar.com
**INTERNATIONAL JOURNAL OF
ADVANCED RESEARCH (IJAR)**

Article DOI:10.21474/IJAR01/23128
DOI URL: <http://dx.doi.org/10.21474/IJAR01/23128>



RESEARCH ARTICLE

A STUDY ON BRANCH-LEVEL PRACTICES FOR NPA PREVENTION AND EARLY RECOVERY AT IOB MUGALIVAKKAM

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Manuscript Info

Manuscript History

Received: 14 January 2026
Final Accepted: 16 February 2026
Published: March 2026

Key words:-

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.

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.

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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.

Review of Literature:-

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

Carolin Lydia C. (2022):-

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

Vinay Kandpal (2020):-

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

Gediya Meera Ramesh Bhai (2021):-

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

Objectives of the Study:-

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

Research Methodology:-

The study adopts a descriptive research design based entirely on secondary data. No primary surveys or interviews were conducted. Data were sourced from IOB Annual Reports for FY 2020-21 to FY 2024-25, Reserve Bank of India Financial Stability Reports and regulatory guidelines, and the official IOB website and press releases. The study period spans five financial years from FY 2020-21 to FY 2024-25. The key variables examined are Gross NPA Ratio, Net NPA Ratio, Provision Coverage Ratio (PCR), and Net Profit (Rs. Crore). Statistical tools employed include Trend Analysis to identify directional movements, Percentage Analysis to quantify year-on-year changes, Mean and Standard Deviation for descriptive characterisation, Correlation Analysis to measure inter-variable relationships, and Ratio Analysis to derive banking-specific performance indicators.

Data Analysis and Interpretation:-

Five-Year Financial Data of IOB:-

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

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

Financial Year	Gross NPA Ratio (%)	Net NPA Ratio (%)	PCR (%)	Net Profit (Rs. Cr.)
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

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

Statistical Analysis:-

Branch-Level Practices for NPA Prevention:-

H₀: Branch-level practices have no significant effect on the reduction of NPAs at IOB Mugalivakkam.

H₁: Branch-level practices have a significant effect on the reduction of NPAs at IOB Mugalivakkam.

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

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

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

Recovery Steps Taken for Overdue Loan Accounts:-

H₀: Recovery actions taken for overdue loan accounts have no significant impact on the financial performance of IOB.

H₁: Recovery actions taken for overdue loan accounts have a significant positive impact on the financial performance of IOB.

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%

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

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

Problems at Branch Level in NPA Control:-

H₀: There is no significant relationship between the level of NPAs and the financial performance of IOB.

H₁: There is a significant negative relationship between the level of NPAs and the financial performance of IOB.

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	Gross NPA (%)	Net NPA (%)	PCR (%)	NPA Spread (pp)	PCR Gap (%)
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

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

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

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

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

Conclusion:-

The five-year data from IOB Mugalivakkam presents compelling evidence that disciplined branch-level practices in loan appraisal, post-disbursement monitoring, and recovery action are the primary drivers of IOB's financial turnaround. The Gross NPA Ratio declined by 9.59 percentage points, Net NPA exposure was reduced by over 88%, and Net Profit grew by 472% over the study period. The near-perfect negative correlation between NPA ratios and profitability ($r \approx -0.98$) confirms that NPA reduction is not merely an operational metric but a direct determinant of the bank's financial health. The analysis also identifies that the early years of the study period (FY 2020-21 to FY 2022-23) were characterised by significant provisioning gaps — PCR below 90% and NPA Spreads exceeding 5 pp — indicating unresolved branch-level challenges in timely identification and documentation of stressed assets. The progressive narrowing of these gaps reflects the success of escalated recovery mechanisms including SARFAESI proceedings, One-Time Settlement schemes, and Debt Recovery Tribunal actions. The branch is well-positioned to sustain this trajectory by institutionalising early warning systems, strengthening KYC and loan documentation protocols, and establishing structured escalation matrices for overdue accounts. These measures will ensure that the gains of the past five years are consolidated and that NPA levels remain at manageable levels in the years ahead.

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