An Assessment of Non-Performing Assets (NPAs) in Selected Public and Private Sector Banks in India: A Comparative Study

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ABSTRACT

The banking sector plays a crucial role in the economic development of a country, and a strong and stable banking system is vital for the economy's growth. Non-Performing Assets (NPAs) are a key indicator of the banking industry's health, reflecting the performance of banks. In India, NPAs have become a significant concern for the economy, as they directly affect banks' liquidity, solvency, and profitability. This paper aims to examine the issue of NPAs through a comparative analysis of public and private sector banks in India. For the study, two public sector banks—State Bank of India (SBI) and Punjab National Bank (PNB)—and two private sector banks—ICICI Bank and HDFC Bank—have been chosen, as they are leaders in their respective categories. The study explores various factors, including % of Gross NPA, % of Net NPA, Net Non-performing Assets, Net Profit, and others, to assess the performance of both public and private sector banks during 2020 to 2024. The Statistical tools, mean has been computed to evaluate the average performance and examine the consistency in the banks' performance, as well as to investigate the relationship between NPAs and other essentials.

[**Keywords**: Non-performing Assets, Public sector banks, Private sector banks]

1. Introduction

The banking sector is a cornerstone of a nation's financial system, fulfilling numerous roles in managing maturity, liquidity, and risk. The economic stability of a country is closely tied to the strength of its banking system. As a result, the banking system plays a crucial role in the overall as the world's largest independent democracy and an emerging economic powerhouse, India requires a robust and successful banking system to support its growth and bring prosperity to all sectors of the country. In the past three decades, India's banking sector has significantly transformed, contributing significantly to the nation's achievements.

It has expanded beyond urban and metropolitan areas, reaching even the most remote and distant regions, which has been a key factor in India's growth. However, it is crucial to note that after the implementation of the LPG (Liberalization, Pr ivatization, and Globalization) reforms, despite the government's efforts to liberalize policies in support of the banking sector, post-economic reforms revealed a major issue: Non-Performing Assets (NPAs). The issue of NPAs became a contemporary concern in the banking sector when the Reserve Bank of India introduced prudential norms based on the recommendations of the Narasimham Committee during the 1992-93 financial year.

The role of banks in economic development is to bridge the capital gap by encouraging savings and investments. A strong banking system mobilizes the small and widely spread savings of the community directs them toward and productive enterprises. Capital is essential for any economic development plan, and significant economic progress is impossible without adequate capital formation. A characteristic feature of underdeveloped economies is the lack of capital, resulting from insufficient savings within the community. Banks play a crucial role by exercising discretion in ensuring their safety while also optimizing the utilization of the community’s financial resources. In India, the period of economic development has coincided with a remarkable rise in bank deposits and the expansion of bank branches. As a result, banks have become central in promoting economic growth by mobilizing financial resources and channeling them into productive ventures. Today, Indian banks are actively playing a role in the nation's economic development, significantly impacting the growth of all sectors of the economy.

2. Meaning Of Non-Performing Assets (NPA)

A Non-Performing Asset (NPAs) is a term used by financial organisations to describe loans or advances where the principal has not been repaid, and no interest payments have been made for a specified period. Generally, loans are classified as NPAs when they remain unpaid for a period of 90 days or longer, although some lenders may consider a shorter period.

2.1 Definition of Non-Performing Assets: An NPA is a loan or advance for which either the principal or interest repayments have been unpaid for more than 90 days. It is an asset that no longer generates income for a bank or financial institution after this period. As of 31st March 2004, the classification of NPAs includes:

1. For term loans: When the interest or principal payment is unpaid for over 90 days.
2. For Overdraft or Cash Credit accounts: When the account remains out of order for over 90 days.
3. For bills purchased or discounted: When the bills remain overdue for over 90 days.
4. For agricultural loans: When the interest or principal payment is overdue for two harvest seasons, but not exceeding two half-years.
5. For other accounts: When any amount due to the bank remains overdue for over 90 days.

In all cases, an amount is considered overdue if it has not been paid by the **bank's due date**.

2.2 Classification of NPAs: Banks must categorize NPAs into four distinct types: Standard, Substandard, Doubtful, and Loss assets.

1. **Standard Assets**: These assets do not show any signs of problems and carry no more than the usual risk associated with the organisation. These assets are regarded as performing assets and are not classified as NPAs.
2. **Substandard Assets**: These are assets that have been non-performing for 12 months or less.
3. **Doubtful Assets**: An asset is treated as doubtful if it has remained in the substandard category for more than 12 months.
4. **Loss Assets**: According to the Reserve Bank of India (RBI), a loss asset is one that is deemed uncollectible and has little value, making it no longer viable as a creditworthy asset. However, there may still be some potential for salvage or recovery.

3. Literature Review

Sengupta and Bhardhan (2017) in their study contended that regulatory leniency does not aid in resolving issues and may, in fact, exacerbate the crisis in the banking system by encouraging banks to postpone NPA recognition and delay necessary actions. They argued that loan restructuring should be a bank's commercial decision and should not automatically receive regulatory concessions, such as delays in recognizing NPAs.

Mittal (2019) in their study emphasized the growing impact of NPAs in India, observing that they have increased over the last decade. This suggests that a substantial share of bank assets is no longer producing income, which in turn diminishes the bank's profitability and its ability to extend further credit. The decline in profitability is triggering adverse economic effects and putting consumer deposits at risk.

Girnara (2020) conducted a study analyzing public-sector and private-sector banks over the past five years. Various ratios associated with NPAs were computed, and a comparison of NPAs between the two categories of banks was made. The study revealed that both Gross NPA and Net NPA were significantly increased in public-sector banks relative to private-sector banks, which has a detrimental impact on the banks' profitability.

Javheri et al. (2022) in their research titled "A STUDY ON NPAS OF SELECTED PRIVATE & PUBLIC SECTOR BANKS IN INDIA," examined the trend of Non-Performing Assets (NPAs) within the Indian banking sector over a period of five years, from 2015 to 2020. The results revealed that although the rise in NPAs has posed challenges for both public and private banks, the adverse effects have been more significant for public sector banks than for private sector banks.

Bharti, Singh, and Kumar (2023) conducted a trend analysis of Non-Performing Assets (NPAs) in Scheduled Commercial Banks in India, covering the period from 2008-09 to 2017-18. Their descriptive research highlighted the significant effect of NPAs on the performance of public, private, and foreign banks, with public-sector banks showing higher NPA levels. The study emphasizes the need for careful monitoring of defaulters and advocates for the introduction of innovative policies by the government and regulatory authorities to minimize NPAs and improve asset quality within the banking sector.

4. Objectives of the Study

1. To explore the relationship between NPAs and the key factors of the banks included in the present study.

2. To determine the effect of NPAs on the Net Profit and (ROA) Return on Assets, of the banks selected for this study.

5. Research Methodology

In this paper, the researchers aim to analyze the NPA issue through a comparative assessment of public and private banking institutions in India. For this study, two public sector banks—State Bank of India (SBI) and Punjab National Bank(PNB) and two private sector banks ICICI Bank and HDFC Bank—have been selected, as they are prominent in their respective categories and leaders in their field. The study focuses on various aspects such as the Gross NPA %, Net NPA %, Net NPA, Net Profit, etc., to examine the performance of both public and private sector banks.

5.1 Scope of the Study

The area of the study is limited to the comparative analysis of the NPAs of two public sector banks, State Bank of India and Punjab National Bank, and two private sector banks, ICICI and HDFC Bank, in India, covering the period from 2020 to 2024.

5.2 Sources of Data

The present study is based on secondary data, which has been gathered from various sources, including the annual reports of SBI, PNB, ICICI, and HDFC Bank; press release reports from these institutions; as well as relevant subject matter and official websites of both public and private sector banks in India.

6. Sample Design

The public and private sector banks chosen for this study were selected using the convenience sampling method. The two public sector banks selected are State Bank of India (SBI) and Punjab National Bank (PNB), while the two private sector banks selected are ICICI Bank and HDFC Bank, based on their market capitalization. The study covers the period from 2020 to 2024.

Statistical Tools Used

The mean has been computed to determine the average performance and assess the stability of the bank's performance, as well as to explore the relationship between NPAs and other key bank parameters.

Data Analysis and Interpretation

Table 1: % of Gross NPA for Selected Public and Private Sector Banks in India from 2020 to 2024

Year	**Public Sector Banks % Gross NPA**		**Private Sector Banks % Gross NPA**	
	SBI	**PNB**	**HDFC**	**ICICI**
2020	6.15	14.21	1.26	5.53
2021	4.98	14.12	1.32	4.96
2022	3.97	11.78	1.17	3.60
2023	2.78	8.74	1.12	2.81
2024	2.24	5.73	1.24	2.16
Mean	**4.024**	**10.916**	**1.222**	**3.812**

Interpretation: The table above shows the percentage of Gross NPA for selected public and private sector banks in India. Punjab National Bank (PNB) has the highest mean ratio at 10.916%, followed by tState Bank of India (SBI) with 4.024%. HDFC Bank has the lowest mean ratio at 1.222%, while ICICI Bank has a mean ratio of 3.812%. This indicates a consistent pattern in the ratio of Gross NPA to gross advances, or the percentage of Gross NPA.

Table 2: % of Net NPA for Selected Public and Private Sector Banks in India from 2020 to 2024

Year	**Public Sector Banks % Net NPA**		**Private Sector Banks % Net NPA**	
	SBI	**PNB**	**HDFC**	**ICICI**
2020	2.23	0.04	0.36	1.41
2021	1.50	0.15	0.40	1.14
2022	1.02	0.26	0.32	0.76
2023	0.67	0.18	0.27	0.48
2024	0.57	0.73	0.33	0.42
Mean	**1.198**	**1.36**	**1.68**	**0.842**

Interpretation: The table above shows the percentage of Net NPA for selected public and private sector banks in India. Punjab National Bank (PNB) has the highest mean ratio at 1.36, followed by State Bank of India (SBI) with 1.198. ICICI Bank has the lowest mean ratio at 0.842, while HDFC Bank has a mean ratio of 1.68%.

Table 3: Relationship between Net NPA and Net Profit of Selected Public Sector Banks

Year	**Public Sector Banks**			
	SBI		**PNB**	
	Net Profit (In cr.)	**Net NPA (In cr.)**	**Net Profit (In cr.)**	**Net NPA (In cr.)**
2020	19767.80	51871.30	438.45	27218.90
2021	22405.45	36809.72	2561.98	38575.70

2022	35373.88	27965.71	3860.74	34908.73
2023	55648.17	21466.64	3348.45	22585.00
2024	67084.67	21051.08	9107.20	6978.77
Mean	**40055.994**	**31832.89**	**3863.364**	**26053.42**

Interpretation: The table above illustrates that the trend of NPAs is mixed. SBI's NPAs show a decreasing trend from 2020 to 2024, declining from 51871.30 crore in 2020 to ₹21051.08 crore in 2024. During this period, SBI's net profits have steadily increased. As shown in the table, SBI's net profit rose from ₹19767.80 crore in 2020 to ₹67084.67 crore in 2024. In the case of Punjab National Bank (PNB), NPAs increased from ₹27218.90 crore in 2020 to ₹38575.70 crore in 2021, then decreased to ₹34908.73 crore in 2022, and subsequently fell to ₹6978.77 crore in 2024.PNB's net profits have shown an overall increasing trend. The average net profit of SBI is higher compared to PNB, with SBI also having a higher average NPA of ₹31832.89 crore.

Table-4: Relation between Net Profit and Net NPA of Selected Private Sector Banks

Year	**Private Sector Banks**			
	HDFC		**ICICI**	
	Net Profit (In cr.)	**Net NPA (In cr.)**	**Net Profit (In cr.)**	**Net NPA (In cr.)**
2020	27253.96	3542.36	9566.31	9923.29
2021	31833.21	4554.82	18384.32	9117.66
2022	38052.75	4407.68	25110.10	6391.64
2023	45997.11	4368.43	34036.64	51500.70
2024	64062.04	8091.74	47904.65	5377.79
Mean	**41439.814**	**4993.006**	**27000.404**	**16462.216**

Interpretation: Table-4, presents the Net Profit (in crore) and Net NPA (in crore) for two private sector banks, HDFC Bank and ICICI Bank. The data for ICICI Bank shows that both net profit and Net NPA fluctuate over the five-year period. In contrast, for HDFC Bank, both Net NPA and Net profit show consistent growth at an increasing rate over the five years. The mean value of net profit is highest in HDFC Bank at ₹41439.814 crore, while the mean value of NPA is highest in ICICI Bank at ₹16462.216 crore.

6.2 Steps to Address the Problem of NPAs: The following approaches can be utilised to oversee the growing issue of NPAs in India and effectively monitor and control their rise in banks, enabling them to maintain a clean balance sheet:

1. **Insolvency and Bankruptcy Code (IBC)**: To regulate asset quality, the RBI has advocated for the IBC. This resolution process is expected to accelerate with the implementation of the IBC.
2. **Strengthening Credit Monitoring**: An efficient and comprehensive Management Information System (MIS) should be implemented to track credit warning signals. A robust MIS will assist banks in detecting problems early and sending timely alerts to management.
3. **Amendments to Banking Laws to Grant RBI More Authority**: Currently, the RBI can only inspect lenders but lacks the authority to establish an oversight committee. Modifying the existing laws to empower the RBI to monitor large accounts and form oversight committees could be beneficial. In light of the substantial provisions set aside by PSU lenders for NPAs, the RBI could require these banks to create larger reserves, potentially reporting lower profits as a result.
4. **Corporate Governance Issues**: Banks, particularly public sector banks, must establish proper guidance and frameworks for appointing senior-level executives.
5. **Accountability**: While lower-level employees are often held accountable, key decisions are made by senior executives. As a result, it is essential to hold senior executives accountable in order for Indian banks to effectively address the NPA issue.
6. **Stricter NPA Recovery**: It is suggested that current laws be amended to give banks greater authority in recovering NPAs, moving away from a passive "wait-and-watch" approach.
7. **Credit Risk Management**: Effective Credit Risk Management can play an essential role in controlling the rise of NPAs in Indian banks. Banks should conduct thorough credit appraisals and regular monitoring. Additionally, to protect against external factors, banks should perform sensitivity analysis.

7. Findings of The Study

The following conclusions can be drawn from the present study:

1. **Gross NPA%**: This is a crucial indicator of the banking sector's health. The comparative analysis reveals that % of Gross NPA is higher in the public sector bank, Punjab National Bank (PNB), with a mean of 10.916%, and lower in the private sector bank, HDFC Bank, with a mean of 1.222%.
2. **Net Profit (in crores)**: This reflects the bank's profitability. The mean net profit is highest in HDFC Bank at ₹414319.814 crore, and lowest in Punjab National Bank (PNB), at ₹3863.364 crore.
3. **Net NPA Amount (in crores)**: This is another key measure of the bank's financial position. The comparison shows that the public sector bank, State Bank of India (SBI), has a higher mean NPA amount of ₹31832.89, while the private sector bank, HDFC, has a lower mean NPA amount of ₹4993.006 crore.
4. **Net NPA%**: In the comparison between public and private sector banks, the Net NPA% is higher in the public sector bank, Punjab National Bank (PNB), with a mean value of 1.36% , and lower in the private sector bank, ICICI Bank, with a mean Net NPA% of 0.842%.

8. Conclusion

In conclusion, the growing issue of NPAs is a vital concern in the banking sector, reflecting the financial strain faced by banks in India. While completely eliminating NPAs from banks may be challenging, efforts can be made to reduce them to the lowest possible levels as it is evident that a failure in the banking sector would have a detrimental effect on other industries. However, increased credit facilities lead to better economic activities, job creation, and overall economic growth. Therefore, both the provision of credit and the efforts to recover loans are equally crucial. The present study highlights that HDFC Bank has a stronger financial position, with low Gross NPA%, low Net NPA%, and higher Net Profits over the past five years and reveals that the NPA problem is more pronounced in public sector banks compared to private sector banks as Public sector banks tend to be more customer-driven and consumer-oriented.

The NPA issue in India is primarily linked to lending in non-priority and sensitive sectors such as personal loans and real estate. Addressing this problem requires focused efforts on the recovery and reduction of NPAs in public sector banks. A robust and efficient Management Information System (MIS) should be implemented to monitor early warning signals of credit issues. Banks must ensure accountability in loan assessment and monitoring, alongside strategies for minimizing default risks. Banks should adhere to the government's credit policies and take prompt, decisive action against NPAs. Additionally, current recovery laws should be revised to grant the RBI more authority to oversee large accounts and establish supervisory committees.

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