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A comparative study of non-performing assets between public and private sector banks in India

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Abstract

Non-Performing Assets (NPAs) are loans or advances on which borrowers have stopped making interest or principal repayments for a specified period, usually 90 days or more. NPAs are a key indicator of a bank's financial health and efficiency. This study makes a comparative analysis of NPAs in public sector banks and private sector banks in India. Public sector banks often face higher NPA levels due to large exposure to priority sector lending, infrastructure projects, and government-directed loans. In contrast, private sector banks usually have stricter credit appraisal systems, diversified loan portfolios, and faster recovery mechanisms, which help in keeping NPAs relatively lower. The study examines trends over recent years, reasons for differences, and the impact of NPAs on profitability, liquidity, and overall performance of banks. It also highlights the role of the Insolvency and Bankruptcy Code (IBC), SARFAESI Act, and other recovery measures taken by the Reserve Bank of India (RBI) and the Government of India. The findings suggest that while both sectors face NPA challenges, better risk management and technology-driven monitoring in private banks have resulted in comparatively healthier asset quality.

Keywords: Non-performing assets, public sector banks, private sector banks, RBI, IBC, SARFAESI

Introduction

Non-Performing Assets (NPAs) have become a serious concern for the Indian banking sector as they directly affect the stability, profitability, and credibility of banks. An NPA is a loan or advance where the borrower fails to make repayment of principal or interest for a period of 90 days or more. High NPAs reduce the earning capacity of banks, block capital, and weaken the flow of credit in the economy. In India, both public sector banks (PSBs) and private sector banks are engaged in providing credit to various sectors of the economy, but the level and trend of NPAs differ between them. Public sector banks, due to their larger involvement in priority sector lending, infrastructure financing, and government-directed schemes, often face higher NPA levels. On the other hand, private sector banks generally maintain tighter credit appraisal norms, faster decision-making processes, and better recovery strategies, leading to relatively lower NPAs.

A comparative study of NPAs in these two sectors is important to understand the underlying causes, trends, and the effectiveness of measures taken for recovery. This understanding can help in formulating better policies, improving risk management practices, and ensuring healthier asset quality in the banking system.

Literature Review

This literature review summarizes key findings from past studies on Non-Performing Assets (NPAs) with a focus on comparing public sector banks (PSBs) and private sector banks in India. It is written in simple language and organized by themes so you can quickly see what researchers have found and where gaps remain. Overall, the literature shows PSBs traditionally carry higher NPAs than private banks due to structural exposures and governance issues, while reforms (IBC, stronger monitoring) have started improving recoveries. However, differences within each group and evolving factors (technology, policy changes) call for continued research.

Sailaja & Madhavi (2016) ^[24] – A Comparative Study on NPAs in Public Sector and Private

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Sector Banks in India Offers early insights into trends in NPAs across PSBs and private banks during the mid-2010s. Rao & Patel (2015) ^[25] – A Study on Non-Performing Asset Management with Reference to Public, Private & Foreign Banks in India Compares NPA ratios and management across different bank types between 2009–2013 using ANOVA.

Indumati Pandey *et al.* (2024) ^[26] – Non-Performing Assets in India: A Comparative Analysis of Public and Private Sector Banks Analyzes GNPA levels from 2005 to 2021, showing PSBs' higher exposure and volatility.

Thakur (2024) ^[27] – A Comparative Study of NPAs of Selected Public and Private Sector Banks in India Focuses on four banks (2020–2024), showing PNB's gross NPA much higher than HDFC; links NPA to profitability via negative correlation.

Govindu (2024) ^[28] – Non-Performing Assets in Indian Public and Private Sector Banks

Uses factor analysis to identify 50 NPA-influencing factors, highlighting behavioral and monitoring shortcomings.

Anu Singh & Chaturvedi (2023) ^[29] – Managing NPAs in Public and Private Sector Banks: Strategies and Effectiveness Examines how PSBs and private banks differ in managing NPAs, including the use of AI and recovery frameworks.

Javheri & Gawali (2022) ^[30] – A Study on NPAs of Selected Private & Public Sector Banks in India Finds public banks more hit by NPA rise during COVID-19 era; highlights trends but without quantitative bank-level breakdown.

Prajapat & Ojha (2020) ^[31] – Sector Wise Comparative Analysis of NPAs of Public vs Private Sector Banks Compares NPAs of SBI and PNB with ICICI and Axis, with insights into sectoral lending and profitability.

Bhartia & Rai (2025) ^[32] – Non-Performing Asset Management: A Comparative Study of Public & Private Sector Banks Uses data from 2020–2024; projects that PSBs will face more NPA challenges in 2025 than private or foreign banks.

Rajkumar & Deepa Paul (2025) ^[33] – Trends and Patterns of NPAs in Public & Private Sector Commercial Banks in India: A Decadal Analysis (2013–2023)

Offers a detailed 10-year perspective; private banks maintain much lower GNPA ratios (~2.3%) than PSBs (~5%) by 2022–23.

Limitations of the Study

1. The study uses data only from selected years, so short-term changes may not be fully captured.
2. Findings are based on a few chosen public and private banks, not all banks in India.
3. Secondary data from reports and websites may have minor errors or delays in updates.
4. Economic events like COVID-19 or policy changes during the period may influence results.
5. Differences in size, market share, and operations of banks make direct comparison difficult.

Objectives of the Study

1. To compare the level of NPAs in public sector and private sector banks in India.
2. To study the trends of NPAs over the selected period.
3. To find the main causes of NPAs in both types of banks.
4. To examine the impact of NPAs on the performance of

banks.

5. To suggest possible measures for reducing NPAs.

Public Sector Banks in India

Public sector banks (PSBs) are banks in which the Government of India holds more than 50% of the share capital. These banks are owned and managed primarily by the government, either directly or through the Reserve Bank of India. The main aim of PSBs is not only to earn profit but also to provide banking services to a wider section of society, support economic development, and implement government policies like priority sector lending.

PSBs often have a vast branch network in rural and semi-urban areas, which helps in financial inclusion but also exposes them to higher risk in certain loan segments. They are governed by the Banking Companies (Acquisition and Transfer of Undertakings) Act and follow Reserve Bank of India regulations.

Examples of Major Public Sector Banks in India (after recent mergers):

1. State Bank of India (SBI) – The largest PSB in India.
2. Punjab National Bank (PNB)
3. Bank of Baroda (BoB)
4. Canara Bank
5. Union Bank of India
6. Indian Bank
7. Bank of India
8. Central Bank of India
9. UCO Bank
10. Punjab & Sind Bank
11. Bank of Maharashtra

Private Sector Banks in India

Private sector banks are banks in which private individuals or companies hold a majority of the share capital. These banks are owned, managed, and operated by private promoters, though they are regulated by the Reserve Bank of India. Private banks focus on profitability, efficiency, and customer service, often using modern technology and faster decision-making to attract clients. They usually have lower NPA ratios compared to public sector banks due to stricter credit appraisal systems.

Examples of Major Private Sector Banks in India:

1. HDFC Bank
2. ICICI Bank
3. Axis Bank
4. Kotak Mahindra Bank
5. IndusInd Bank
6. Yes Bank
7. Federal Bank
8. South Indian Bank

Comparative study of NPA of Public V/S Private Banks in India

In India, the problem of Non-Performing Assets (NPAs) affects both public and private sector banks, but the intensity differs sharply. As per Financial Year 2024th data, public sector banks (PSBs) reported a gross NPA (GNPA) ratio of 3.5%, compared to 1.8% for private sector banks. In rupee terms, PSBs carried a far higher absolute volume of NPAs, exceeding ₹4 lakh crore, largely because of their larger loan books and greater exposure to priority sectors

like agriculture, MSMEs, and infrastructure. Private banks, with a GNPA below ₹1.5 lakh crore, have managed to contain stressed assets more effectively. When looking at net NPA (NNPA) ratios, which adjust for provisions, PSBs stood at around 0.8%, while private banks recorded about 0.5%. This indicates better provisioning coverage and faster recovery efforts in private banks. The disparity is mainly due to differences in credit appraisal quality, monitoring systems, and governance. PSBs often face political and social pressures to lend to riskier segments, while private banks exercise more commercial discretion and adopt advanced risk-management tools. Consequently, private sector banks have been able to maintain healthier balance sheets and sustain profitability, whereas PSBs still carry the challenge of legacy bad loans.

Table 1: Gross NPAs and Gross NPAs ratio of public sector Bank (PSBs)

Financial year	Gross NPAs in Crores	Gross NPA Ratio
2021	616616	9.11
2022	540958	7028
2023	428197	4.97
2024	339541	3.47
2025	283650	2.58

Source: - RBI annual report

Interpretations: Above Table No.-1, seems that gross NPAs of Public sector Banks has been decline from last 5 years. Non-Performing Assets (NPAs) have been a critical concern for India's banking sector, especially in Public Sector Banks (PSBs). However, over the last five financial years, the gross NPAs of PSBs have shown a consistent decline, reflecting the impact of various reforms and recovery mechanisms implemented by the Government of India and the Reserve Bank of India (RBI).

Table 2: Gross NPAs and Gross NPAs ratio of private sector Bank (PSBs)

Financial year	Gross NPAs in Crores	Gross NPA Ratio
2020	205848	Not published
2021	202266	Not published
2022	180742	Not published
2023	124925	1.8
2024	129039	1.8

Source: RBI annual report

Interpretations: - Above Table No.-2, seems that gross NPAs of Private sector Banks has been decline from last 5 years Absolute GNPA for private sector banks fell from ₹2.06 lakh crore in FY 2020 to ₹1.24 lakh crore by FY 2023, with a minor uptick to ₹1.29 lakh crore in FY 2024. The RBI generally reports GNPA ratios combined for all bank groups (SCBs) but provides breakdowns in stress-test scenarios. In the severe stress scenario of the June 2024 RBI Financial Stability Report, private sector banks' GNPA ratio was shown rising from 1.8% in March 2024 to 2.8% by March 2025, pointing to their baseline at 1.8% in 2023-24. It is positive impact on Indian economy and Banking sector profitability and CAG Ratio.

Research Methodology

This study follows a descriptive and analytical research design to compare the Non-Performing Assets (NPAs) of public sector banks and private sector banks in India. The

research relies mainly on secondary data collected from authentic sources such as the Reserve Bank of India (RBI) reports, annual reports of selected banks, publications from the Ministry of Finance, and other reputed financial databases. The study period covers the last five years, ensuring recent and relevant trends are captured. For analysis, key indicators such as Gross NPA Ratio, Net NPA Ratio, and total NPA amounts (in ₹ crore) are compared between public and private banks. Data is tabulated and presented in graphical form to highlight differences and trends. Percentage changes, growth rates, and comparative ratios are calculated to make the analysis more meaningful. The methodology involves comparing performance patterns, identifying the causes behind differences in NPA levels, and understanding their impact on banking efficiency. The research adopts a simple statistical approach for clarity and avoids complex econometric models, focusing instead on clear interpretation. This approach helps in presenting a transparent and easy-to-understand comparison of NPAs in public and private sector banks in India.

Analysis of NPAs in Public and Private Sector Banks

The comparative analysis of Non-Performing Assets (NPAs) between public and private sector banks in India reveals a consistent difference in their levels over the past five years. Public sector banks generally report higher Gross NPA (GNPA) and Net NPA ratios compared to private sector banks. For example, major public sector banks such as State Bank of India, Punjab National Bank, and Bank of Baroda have faced GNPA ratios ranging from 5% to 10% in certain years, while leading private banks like HDFC Bank, ICICI Bank, and Axis Bank have mostly maintained GNPA ratios below 4%. This gap is often due to differences in lending practices, risk assessment, and recovery mechanisms. Public sector banks, with a larger share of priority sector and corporate lending, are more exposed to sectors like agriculture, infrastructure, and small industries, which are more vulnerable to economic fluctuations. In contrast, private sector banks tend to have stricter credit appraisal processes and faster decision-making in loan recovery.

However, the overall NPA trend in both sectors has improved in recent years, largely due to measures like the Insolvency and Bankruptcy Code (IBC), stricter RBI norms, and better provisioning policies. Still, the data shows that public sector banks continue to face greater challenges in asset quality management compared to private sector banks.

Conclusion

The comparative study of Non-Performing Assets between public and private sector banks in India highlights a clear distinction in asset quality management. Public sector banks have consistently recorded higher NPA levels than private sector banks, primarily due to greater exposure to high-risk sectors, large corporate defaults, and socio-economic lending obligations. Private sector banks, with stronger credit appraisal systems, diversified portfolios, and quicker recovery processes, have been more successful in maintaining lower NPA ratios. While both sectors have benefited from regulatory reforms such as the Insolvency and Bankruptcy Code (IBC), strengthened provisioning norms, and stricter RBI monitoring, the gap in performance remains. Public sector banks need to further improve credit risk assessment, enhance recovery strategies, and adopt

more technology-driven monitoring systems to reduce NPA levels. Private banks, although better positioned, must remain vigilant against emerging risks from retail and small business loans. Overall, the analysis suggests that sustainable improvement in NPA levels requires a combination of strong governance, timely recovery actions, and prudent lending practices in both public and private sector banks. Reducing NPAs will not only strengthen the banking system but also promote financial stability and economic growth in India.

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