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# A Comprehensive Comparative Study on Non-Performing Assets in Public and Private Sector Banks in India

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**ABSTRACT**

Non-Performing Assets (NPAs) have become one of the most urgent problems confronting the Indian banking industry currently. Both the public and private sector banks have seen NPAs increase, even though the scale and cause might differ between the two. This research is a comparative study intended to examine the trends, causes, and consequences of NPAs in Indian public and private sector banks. It also examines how these banks treat NPAs differently depending on their ownership structure, internal policies, and governance frameworks.

Government-run public sector banks, generally with government support, tend to disburse loans with socio-economic obligations and are exposed to riskier segments of borrowers like agriculture and small industry to a greater extent. Private sector banks, which are more commercial in their operation, tend to have tighter credit appraisal systems but are not without NPAs in the context of corporate loans as well as in economic downturns.

This study employs secondary data gathered from bank annual reports, RBI publications, and government reports over a recent years' period for comparative analysis. Major financial parameters like Gross NPA Ratio, Net NPA Ratio, and Return on Assets (ROA) are examined to quantify the effect of NPAs on bank performance.

The results show that there is a greater NPA burden at public sector banks as compared to private sector banks, mostly because of structural and regulatory reasons. But recent changes and the adoption of avenues such as the Insolvency and Bankruptcy Code (IBC) have begun to yield some positive outcomes in both sectors.

Finally, this study tries to provide insights into how to manage NPAs and proposes methods that banks and policy makers can implement to minimize bad loans and make the overall financial system healthier. A healthy banking system is crucial for long-term economic growth, and controlling NPAs is an integral part of realizing that vision.

***Keywords***

- ***Non-Performing Assets (NPAs):*** These are loans or advances against which the borrower has stopped making interest or principal payments for more than 90 days. NPAs are key gauges of a bank's financial health and directly affect its profitability and lending ability.
- ***Public Sector Banks (PSBs):*** These are banks where the government holds more than 50% of the stake. They are motivated not only by profit but also by social and economic responsibilities, usually required to lend to priority sectors like agriculture and small-scale industries.
- ***Private Sector Banks (PVBs):*** These are private sector-owned and operated banks. They are generally more concerned with profitability, efficiency, and customer service, and are more selective in their lending approach than PSBs.
- ***Gross NPA***: This is the aggregate value of loans that have become non-performing. It provides a raw estimate of the bank's asset quality without taking into account any provisions made against losses
- ***Net NPA***: This is obtained by deducting provisions made from gross NPAs. It shows the real loss the bank can possibly absorb, hence providing a better image of financial risk.
- ***Provisioning:*** This is the amount that banks keep aside against possible losses from NPAs. Proper provisioning is key to financial stability and serves to take in shocks of bad loans.
- ***Asset Quality:*** This is a general health of a bank's assets, particularly its loan book. Higher NPAs typically reflect poor asset quality and a concern regarding credit risk management.

- ***Return on Assets (ROA***): This is a profitability metric that measures how effectively a bank utilizes its assets to produce net income. NPAs have a negative impact on ROA since they lower earnings and raise provisioning expenses.
- ***Credit Risk***: This is the risk of a borrower not paying back the loan. Proper management of credit risk assists in lowering NPAs. Private sector banks tend to have more stringent risk assessment processes than public sector banks.
- ***Recovery Mechanisms***: These comprise legal and institutional mechanisms like Debt Recovery Tribunals (DRTs), SARFAESI Act, and Insolvency and Bankruptcy Code (IBC) utilized to recover amounts from defaulters
- ***Priority Sector Lending (PSL):*** PSL is a directive to banks, particularly public sector banks, to lend a certain percentage of their credit to sectors such as agriculture, micro and small enterprises, education, and housing. While good socially, PSL tends to result in increased NPAs due to lower repayment ability in such sectors.
- ***Corporate Lending:*** This entails lending to large corporates and companies. Although high returns are possible, it is riskier if due diligence is inadequate. Private banks at times experience NPAs from corporate exposures, particularly in the case of economic downturns.
- ***Financial Stability:*** This is the general health of the banking system. Excessive NPAs have the potential to jeopardize financial stability by undermining profitability and investor confidence.
- ***Comparative Study:*** A research approach applied in this paper to compare and contrast NPAs of public and private banks with a view to derive meaningful conclusions regarding their causes, trends, and effects.

These keywords are the basis for defining the fundamental issues, metrics, and themes used throughout the paper.

## 1. Objectives

The problem of Non-Performing Assets (NPAs) is one of the biggest problems being faced by the banking industry in India today. Since both public sector and private sector banks contribute heavily to the economy, comparing and understanding their performance in handling NPAs becomes highly relevant. This research is aimed at assessing the variations in NPA ratios between the public and private sector banks and key reasons and implications of such variations. The objectives of the research have been elaborated below in detail:

1. ***To comprehend the Concept and Types of NPAs:*** The initial goal is to acquire a proper grasp of what constitutes a Non-Performing Asset. This also involves investigating both Gross and Net NPAs, asset classification (standard, sub-standard, doubtful, and loss assets), and Reserve Bank of India's regulatory definitions. A proper conceptual basis is needed prior to performing any comparative investigation.
2. ***To Compare the NPA Levels of Public and Private Sector Banks:*** One of the key aims of this research is to make a comparison between the NPAs of public and private sector banks over a given time frame. This involves comparing financial statistics like NPA ratios, provisions, return on assets, and profitability ratios to observe trends and deviations. The comparison assists in ascertaining which sector is more effective in dealing with bad loans and why.
3. ***To Examine the Principal Reasons for NPAs in Public and Private Sector Banks***: The research seeks to investigate the root causes of increasing NPAs in both public and private sector banks. Political interference, priority sector lending as a requirement, and weak credit appraisal systems are cited as causes for NPAs in public sector banks. On the other hand, NPA problems may be caused by aggressive lending, excessive corporate loan exposure, or insufficient risk assessment in some cases for private banks.
4. ***To Analyze the Effect of NPAs on Bank Profitability and Performance***: Another fundamental goal is to analyze how NPAs influence the profitability and general financial performance of banks. As NPAs rise, banks are compelled to set higher provisions, which directly affect their earnings and lower returns to shareholders. The study investigates how various banks deal with this effect and what they do to counter it.
5. ***To Analyze the Effectiveness of Recovery Mechanisms***: This study also seeks to analyze the recovery efforts made by banks to minimize NPAs. This involves studying mechanisms such as the SARFAESI Act, Insolvency and Bankruptcy Code (IBC), Debt Recovery Tribunals (DRTs), and other restructuring measures. It is essential to observe how public sector and private sector banks are different in their asset recovery approach.
6. ***To Provide Recommendations to Minimize NPAs in the Banking Industry***: On the basis of the analysis and findings, the study has a goal to provide operational and strategic recommendations to the banks and policymakers. These recommendations are made with the aim to decrease future NPA levels, reinforce credit risk management systems, and enhance the banking sector's resilience.

In short, the aims of this study do not only stop at comparison, but go also towards solution-based analysis. In achieving these aims, the research provides further insight into the NPA crisis and how various banking models react to it.

## 2. Introduction

The banking sector is the pillar of a nation's financial system. It plays a key role in mobilizing savings, channeling investment, and providing efficient use of funds to catalyze economic growth. However, the soundness and good health of such a system predominantly depend on the quality of assets that the banks hold. One of the most significant challenges facing this asset quality is the problem of Non-Performing Assets (NPAs), which has been a perennial problem for the Indian banking system.

A Non-Performing Asset is one on which the borrower has stopped paying interest or principal for a specified time duration of typically 90 days or more. As such loans increase, they immediately impact the financial health of the banking system, its lending capacity through credit, and its profitability. Indian banks have seen a sharp rise in NPAs in the past decade, primarily post-economic slowdown, lack of effective debt recovery mechanisms, and indiscriminate exposure to riskier segments like infrastructure, real estate, and power.

Indian banking has been bifurcated predominantly between private sector banks (PVBs) and public sector banks (PSBs). While public sector banks are government-held institutions with the majority ownership resting in the government's hands, private sector banks are privately owned. Though both banks operate with the intention to serve the financial needs of people and businesses, their operating model, governance mechanism, and risk appetite are markedly different.

Public sector banks owned by the state normally operate under socio-political compulsions and need to lend to priority sectors like agriculture and small-scale industry, which involve higher default risks. As a result, PSBs typically have relatively higher NPAs. On the other hand, private banks normally have more stringent due diligence practices and risk appraisal frameworks, and as a result, they have relatively healthier loan books. Even in their case, NPAs are unavoidable, especially during economic downturns or business failures.

Reserve Bank of India (RBI) has been closely monitoring and overseeing asset quality through various measures such as Asset Quality Review (AQR), the Insolvency and Bankruptcy Code (IBC), andstringent provisioning guidelines. NPAs continue to hinder the performance of the banking system in providing new credit, hence dampening economic and investment activity despite these efforts.

This is a comparative study to analyze the growth of NPAs in public sector banks and private sector banks. On the basis of trends, financial data, and recovery channels, the study attempts to find out the essence of differences and draw useful inferences about their impact on bank performance. It also analyzes the impact of NPAs on major indicators such as profitability, return on assets (ROA), and capital adequacy.

The NPA issue is not a numbers game; it is a metaphor for the larger challenge of maintaining growth and fiscal discipline. Growing NPAs not only hurts banks but also has spillover effects in the broader economy on employment, investment, and faith in the financial system.

By default, understanding NPAs and how they disproportionately impact public and private sector banks is imperative while formulating policies for the consistent, inclusive, and solid banking system in India.

## 3 .Research Methodology

The research method is the column of any educational research as it explains the approach and procedures to collect, analyze and explain the data. For this research, a comparative study of non-performing assets (NPAs) has been presented in public and private sector banks. It aims to determine NPA trends, causes and implications in public and private sector banks and evaluate their impacts on bank performance.

The following section discusses the research design, data sources, sampling techniques, planned equipment and boundaries.

- ***Research Design***: Descriptive and analytical research design has been adopted by this study. It is described in nature as it describes the trends, patterns and characteristics of NPA in banking. It is also analytical in nature, as financial ratios and statistical measures are used to analyze and compare the performance of public and private banks. The study emphasizes both qualitative and quantitative to provide a holistic picture.
- ***Type of research***: Secondary data has been used in studies, and it is non-professional in nature. There were no primary interview or survey. Rather, the available data was collected and analyzed to draw conclusions.
- ***Sources of Data:*** The data used in this study is collected from various real and authentic secondary sources. they are: Annual report of selected public and private sector banks Reserve Bank of India Publication (RBI) (RBI) Report submitted by Ministry of Finance Research articles and magazines Financial details of banks issued by banks RBI bulletin and statistical release Research papers and doctoral research available in academic repository
- ***Sample Selection:*** A purposeful sampling is used

## 4. Review of Literature

A well-organized review of literature provides insight into the current research, identifies gaps, and provides a base for future research. The problem of Non-Performing Assets (NPAs) has drawn significant attention from researchers, policymakers, and bankers in India and globally. This part provides a synthesis of major research studies carried out on NPAs in the public and private sector banks, placing emphasis on their outcomes and additions to the topic.

***1. J.K. Das and Surojit Dey (University of Calcutta, 2020)***

Their research examined priority and non-priority sector lending and how corporate debt restructuring has increased NPAs. They observed that priority sector loans, although socially necessary, contributed significantly to NPAs in public banks, whereas corporate debt greatly contributed to NPAs in private banks. They found a significant negative correlation between NPAs and GDP growth.

***2. Malyadri and Sirisha (2011)***

This article compared public sector and private sector banks and concluded that the public sector banks were more exposed to NPAs because of political influence and lack of effective credit monitoring. It also noted that there has been an improvement in recovery mechanisms of public sector banks because of regulatory reforms.

***3. Rajput et al. (2012)***

Their study showed a high negative correlation between NPAs and profitability of public sector banks. While NPAs grew, return on assets and return on equity fell. They stressed the necessity of improved credit appraisal and recovery techniques.

***4. Uppal (2009)***

Uppal found that the large number of loans advanced to the priority sector under pressure from the government was a prime cause of increasing NPAs in public sector banks. The paper contended that private banks, which had greater autonomy and more stringent lending norms, were better placed to deal with bad loans.

***5. Singh and Taneja (2016)***

This comparative study analyzed NPAs in leading banks like SBI and ICICI. It was observed that although public sector banks had higher NPA ratios, they also had stronger regulatory support from the government for recovery and provisioning.

***6. Preeti Srivastava and Mansi Joshi (2022)***

In their article, they evaluated trends and variations in NPAs during and after COVID-19. They concluded that public sector banks were hit harder than private banks, and urged for more robust digital recovery mechanisms and real-time risk monitoring.

***7. Dr. Kapil K Dave (2016)***

This research stressed the need for autonomous credit rating mechanisms for all banks. It recommended constituting an expert committee within every bank to track NPAs, and that creditworthiness should be updated frequently.

***8. Harani and Mutyala (2019)***

Their research emphasized that NPAs are a long-term risk to the financial health of Indian banks. They noted that the public banks reported more NPAs in priority and non-priority sectors and highlighted the importance of policy reforms and digitalization in reducing the problem.

Summary of Gaps Identified: Numerous studies have analyzed NPAs in private and public sector banks, but few studies are available that compare in detail the year-wise trend, particularly since recent regulatory steps like the IBC and reforms implemented during COVID-19. This research intends to fill that gap by applying recent data (2018–2023) and by analyzing comparatively the performance with a special emphasis on recovery mechanism and profitability effect.

## 4. Data Analysis and Interpretation

This part deals with a comparative study of Non-Performing Assets (NPAs) in the case of chosen public sector and private sector banks using certain financial parameters. The objective here is to evaluate how both the sectors have tackled NPAs for the last few years and gauge the implications regarding profitability and working efficiency. Most of the data used here has been secondary and has been garnered from bank annual reports, RBI reports, and financial databases during 2020–2023.

1. ***Gross NPA Ratio Comparison (2020–2023):***

Gross NPA ratio reflects the absolute size of loans that have become non-performing as a percentage of total advances. Public sector banks (PSBs) such as State Bank of India (SBI) and Bank of Baroda (BoB) exhibited Gross NPA ratios between 7% and 9% in 2020 but significantly reduced to approximately 4.5% by 2023. On the other hand, private sector banks (PVBs) including HDFC Bank and ICICI Bank kept relatively lower Gross NPAs across, that is, between 1.2% and 2.5%.

***Interpretation:***

This indicates enhanced credit screening and risk management within private banks. Public banks have, however, improved with regard to aggressive recovery efforts, recapitalization from the government, and IBC proceedings.

2. ***Net NPA Ratio Comparison:***

Public sector banks' Net NPAs (after provisioning) have come down from around 4% in 2020 to less than 1.5% in 2023, reflecting significant improvement in provisioning and recovery. Private sector banks maintained their Net NPAs at all times below 1%, reflecting financial prudence and strong collection mechanisms.

***Interpretation***

Lower Net NPAs in private banks indicate that they can hold losses in the future early on and have cleaner balance sheets. Public banks' improvement is quite notable and captures reforms such as the ECL (Expected Credit Loss) model and asset quality reviews.

3. ***Return on Assets (ROA):***

Public banks demonstrated ROA of approximately 0.3% to 0.5% in 2020, which increased to almost 1% by 2023. Private sector banks held ROA between 1.2% to 1.8% in the same span of time.

***Explanation:***

Private bank ROA higher reflects better asset utilization, whereas the upward trend in public bank ROA reflects revival and improved NPA and provisioning norms management.

4. ***Relationship Between Net Profit and NPAs:***

Statistical analysis from previous studies and bank reports show a strong negative correlation between NPAs and net profits. As NPAs decline, profitability improves. For example, SBI’s net profit increased from ₹14,000 crore in FY20 to over ₹40,000 crore in FY23, in parallel with a drop in its Net NPA ratio.

5. ***Sector-Wise Trends:***

Public sector banks' NPAs are primarily priority sector advances like agriculture and MSMEs, which are subject to economic and climatic shocks. NPAs for private sector banks come mostly from corporate lending, which may surge in times of economic recessions or sectoral crisis (e.g., telecom, infrastructure).

***Conclusion of Analysis***

Though public sector banks continue to grapple with a bad loan legacy, their performance over the past few years has been significantly better. Private banks, due to improved technology integration and risk systems, have managed to have healthier asset quality. Yet, increasing corporate defaults and economic shocks can affect both segments, highlighting the importance of strong risk management and recovery processes.

## 5. Findings

The comparison of Non-Performing Assets (NPAs) between public and private sector banks in India has produced a number of important findings. These are derived from the literature review, financial statistics from 2020 to 2023, and interpretations of performance metrics such as Gross NPA, Net NPA, Return on Assets (ROA), and profitability ratios.

1. ***Public Sector Banks Have Historically Higher NPAs:***

The single most significant discovery is that the PSBs repeatedly registered Gross and Net NPA ratios higher than PVBs. This behavior has been repetitive throughout the decade. Political meddling, priority sector lending being stipulated, and the inheritance of bad loans are reasons for the persistency seen in PSBs.

2. ***Private Banks Have Better Asset Quality:***

Private sector banks like HDFC and ICICI showed lower levels of NPA. This can be explained due to their strict credit appraisal mechanisms, sophisticated risk management techniques, and selective lending. They also have leaner operations and faster decision-making processes, enabling them to identify and act on stressed accounts more rapidly.

3. ***Improvement in PSBs' Asset Quality in Recent Years:***

Although PSBs began with a higher level of NPA, the study found that there was a remarkable improvement in their asset quality between 2020 and 2023. The Gross NPA ratio in most PSBs has fallen below 5%, and Net NPAs are usually less than 2%. This is a result of numerous policy measures like recapitalization, the Insolvency and Bankruptcy Code (IBC), improved provisioning norms, and tighter recovery frameworks.

4. ***NPAs Affect Profitability Directly:***

There is a clear inverse relationship between NPAs and profitability in both bank types. As NPAs decrease, Return on Assets (ROA) and net profits increase. For example, as SBI's NPAs declined over the study period, its profitability rose sharply. Private banks, with consistently low NPAs, have shown steady profits and high returns throughout.

5. ***Sectoral Differences in NPA Sources:***

In public sector banks, NPAs are mostly explained by priority sector lending like agriculture, MSMEs, and education loans that are prone to macroeconomic and environmental shocks. In private sector banks, corporate and retail lending—personal and business loans in particular—are the major contributors. This explains the different lending mandates and risk profiles of both sectors.

6. ***Improved Recovery Mechanisms Enhancing NPA Handling***

Both types of banks have embraced more aggressive recovery procedures in the past few years. Legal instruments such as SARFAESI Act, Lok Adalats, and the IBC have helped banks recover dues more effectively. PSBs continue to be delayed because of bureaucratic procedures and legal logjams as well.

7. ***Regulatory Steps Have a Positive Impact:***

Interventions of the Reserve Bank of India (RBI) and the Finance Ministry—e.g., asset quality reviews, more stringent provisioning requirements, and the implementation of ECL requirements—have begun yielding dividends. Both industries now have improved disclosure in reporting and provisioning against stressed assets.

8. ***Digital Banking Has Helped Private Banks More***

Private sector banks' quicker implementation of digital banking and analytics have all along helped increase the monitoring of loan performance more effectively, enable earlier defaults identification, and enable quicker recovery efforts. Public sector banks are gaining ground but somewhat slower.

## 6. Conclusion

Non-Performing Assets (NPAs) remain one of the most critical issues plaguing the health and efficiency of the Indian banking industry. This study, which presents a comparative study between public sector banks (PSBs) and private sector banks (PVBs), identifies significant differences in the extent, reasons, and handling of NPAs in these two groups of financial institutions.

The study concludes that public sector banks, by virtue of their socio-economic obligations and structural constraints, have long borne a disproportionate burden of NPAs. Their risk exposure in sectors like agriculture, micro and small-scale industries, and priority sector lending schemes mandated by the government has subjected them to higher risks of loan defaults. Private sector banks, however, have been able to keep their NPAs relatively lower as a result of more stringent lending guidelines, improved risk management processes, and a more profit-focused lending approach.

Yet, the distance between the two sectors has started to decrease in recent times. Public sector banks have made tangible gains in lowering their NPA levels by way of government-initiated recapitalization drives, enhanced internal monitoring, and the facilitation of external frameworks like the Insolvency and Bankruptcy Code (IBC) and SARFAESI Act. These efforts have assisted in enhancing asset quality, raising provisioning coverage, and progressively restoring financial stability in PSBs.

Private sector banks, being more efficient in NPA control, are not risk-free. Excessive exposure to large corporate accounts and increasing retail loan defaults have surfaced as possible dangers, particularly in volatile economic conditions. Their performance throughout the COVID-19 pandemic was resilient, but their long-term prospects still need to be watched out for and proactive approaches.

The study also emphasizes the fact that NPAs directly and significantly affect bank profitability, investor confidence, and credit availability in the economy. As and when the banks are weighed down with bad loans, their lending capacity is curbed, thereby slowing down investment and economic growth. Hence, NPA management is not only necessary for the banking sector but also for the overall economy.

Another significant conclusion is that digital transformation and data analytics have become game-changers in how banks detect, monitor, and recover bad loans. Private banks have been at the forefront of embracing digital tools for early warning systems and behavior analysis of customers, but public banks are catching up with new investment in financial technology.

In short, although both public and private sector banks are grappling with the issue of NPAs, the fundamental causes, management, and recovery methods are quite different. The collective efforts of policymakers, regulators, and banking entities have begun to bear fruit, but a consistent and strategic policy push is still needed to reduce NPA levels to a level acceptable internationally.

For India's banking industry to flourish and be able to contribute significantly towards the country's economic growth, both industries need to strengthen their credit appraisal systems continually, invest in information technology, and bring greater accountability in credit decisions. Then only the NPA crisis can really be contained, and long-term financial stability achieved.

## **7**.Recommendations

The recurring phenomena of non-performing assets (NPAs) demands a strategic intervention not only from banks, but also from policy makers, regulators and borrowers.

- ***Credit evaluation and monitoring systems improve:*** Banks, especially public sector banks, need to apply more rigid and data-intensive credit assessment processes. It should only be provided only after the rigorous examination of the repayment capacity of the borrowers, the viability of the business, the credit track record, and the regional risks.
- ***Periodic examination of loan accounts:*** It is necessary that banks regularly monitor the loan account. The minimum warning signal (EWS) such as delay in EMI payment, overdraft, or unexpected decline in turnover should be detected and immediately responded.
- ***Encourage digital changes and analytics:*** Private banks have proved the advantages of including technology in NPA management. Public sector banks are required to implement the implementation of artificial intelligence, machine learning, and big data analytics for initial default detection, better recovery rates and borrower conduct and automatic monitoring of credit and automatic monitoring.
- ***Strengthen legal structure and enforcement:*** While mechanisms like Sarfaesi Act and Insolvency and Bankruptcy Code (IBC) have increased recovery rates, court procedures and legal flaws

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