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# "Analysis of NPA and their impact on bank's profitability: A Comparison between Private and Public Sector Banks"

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**Abstract**

This observe investigates the important impact that non-acting belongings have on the profitability of financial establishments, particularly banking establishments. A non-acting mortgage is a loan for which the borrower has now not made bills on the predominant or interest for a period of 90 days or longer. As a result in their accumulation, total income are decreased on account that banks are compelled to make higher preparations for the opportunity of default. To hold monetary stability, then, it is important to have green NPA control.

Non-acting property are loans which are overdue by way of extra than ninety days, in step with the Reserve Bank of India. These are in addition separated into substandard belongings because of this default within 12 months, dubious property because of this default past twelve months, and misplaced assets which means that are considered irrecoverable. The upward push in non-performing assets may be attributed to range of troubles, which include bad credit critiques, intentional defaults, monetary downturns, and politically motivated lending practices.

NPAs harm bank profits, make lending more cautious, erode investor consider, and jeopardize the general viability of the economic system. In reaction, several modifications had been applied by way of the RBI and the Indian authorities, which include the SARFAESI Act, the Insolvency and Bankruptcy Code, and the introduction of One-Time Settlement packages as well as Asset Reconstruction Businesses. Public sector banks normally file higher NPAs because of systemic inefficiency and political constraints, even as private-quarter economic establishments typically sustain greater NPA manage via more stringent credit assessment and present day technology. Despite those measures, non-performing assets continue to be an problem, requiring stringent oversight and ongoing coverage revisions.

## 1 Introduction

Banks are the spine of an economy through lending money, dispensing capital, and encouraging economic inclusion. The developing quantity of non-performing assets, also known as NPAs, poses a primary risk to the steadiness and effectiveness of the Indian banking quarter.

An asset is deemed an NPA if the borrower misses on the hobby or primary for more than ninety days. The growth in non-performing belongings that adversely affects banks' revenue streams necessitates improved provisioning for ability losses. As a end result, this restricts their lending capability, which hurts credit-established groups like infrastructures micro, small and medium and agriculture.

The problem worsened following economic deregulation in 1991, which brought about a surge in lending, especially with the aid of public-zone banks. Due to inadequate company management and unpredictable economies, many of those loans had been granted without a comprehensive threat assessment and eventually have become complex.

On the opposite hand, non-public banks followed virtual tracking systems and greater thorough credit evaluation strategies, which multiplied their profitability and promoted more environmentally pleasant lending practices.

To address the non-appearing belongings crisis, the Indian authorities and Reserve Bank of India put in region range of widespread guidelines. Among those have been:

- The Act on SARFAESI (2002), which offers banks the authority to capture property so as to get better debts without going to courtroom.
- A systematic, deadline-driven shape for managing belongings in times of disaster is hooked up under the Code on Insolvency and Bankruptcy 2016.
- Other mechanisms encompass recapitalization plans, One-Time Settlements plans, which includes asset reconstruction companies.

- Non-performing assets not only reduce bank profitability however additionally undermine investor self-belief and the steadiness of the financial system as a whole.

## 2. LITERATURE REVIEW

### 2.1 NPA Trends in India

Non-acting property sharply surged following monetary liberalization, in keeping with early research like Reddy (2002). Poor credit evaluation and insufficient restoration procedures had been mainly blamed for this boom. Data from RBI reports (2017–2023) shows that Public Sector Banks have consistently said higher NPA default than Private Banks. According to studies by using Rastogi (2020) and Gupta & Jain (2018), non-appearing property have a unfavorable impact on key profitability indicators which incorporates go back on fairness and return on belongings. Laws just like the Insolvency and Bankruptcy Code and the SARFAESI Act have addressed the difficulty, but their effectiveness has been hindered by means of implementation delays.

### 2.2 Public as well as Private Sector Bank Performance

The RBI's financial assessments show that public zone banks have higher gross non-performing asset costs than their non-public region opposite numbers. Private Sector Banks perform better due to more suitable inner controls and hazard control practices, in line with studies through Sarkar (2021) and Banerjee (2020). Sharma & Goyal (2021) nation that while PVBs employ asset reconstruction agencies (ARCs) and simplified healing strategies more typically, PSBs have a tendency to depend more on authorities-subsidized packages. In the opinion of Singh & Rajput (2022), the Insolvency and Bankruptcy Code has benefited both sectors; nevertheless, systemic inadequacies and procedural delays remain a hassle for PSBs.

## 3. Statement of the Problem

With an emphasis on evaluating the efficacy of existing corrective actions and contrasting public and private sector banks, this study attempts to examine trends and the effects of non-performing assets (NPAs) within the Indian banking industry.

The continuous increase in non-performing assets suggests flaws in operational supervision, risk assessment, and credit management. High non-performing assets deplete capital reserves, impair a bank's lending capacity, and erode investor trust.

Profitability drops as banks make more provisions for poor loans, which has an impact on important indicators such as return on assets as well as declining shareholder value. Banks may respond by raising interest rates, which would increase the cost of borrowing for both individuals and companies. If left unchecked, high non-performing assets (NPAs) can turn into financial crises that need government assistance.

Financial stability depends on reducing non-performing assets, even though they cannot be completely eradicated. NPAs continue to be an issue in India and around the world, frequently impacted by both internal governance shortcomings and external economic situations. Loan defaults decrease liquidity, constrain future lending, and limit credit availability.

## 4. Objectives

1. To compare the NPA tiers of banks in the public and private sectors
   - Examine and comparison the net and gross non-performing assets.
   - Identify the primary reasons at the back of the better non-performing asset proportions of Public Sector Banks.
2. To Assess the Impact of NPAs on Bank Profitability
   - Examine the effect of non-performing property on economic indicators inclusive of return on equity, return on assets, internet interest margin, and capital adequacy ratio.
   - Examine the effect of improved provisioning necessities on overall profitability.
3. To Make Recommendations for Better Regulatory Frameworks
   - Modify rules like the Insolvency and Bankruptcy Code and the SARFAESI Act to lead them to stricter.
   - Emphasize the want for advanced governance norms and more sturdy credit appraisal processes.
   - Promote the greater use of gear such as Asset Reconstruction Companies, One-Time Settlement preparations, and debt restructuring.

## 5. Hypothesis:

The null hypotheses for the contemporary research are as follows.

- There is no correlation among the ROA and NPA of the sample banks.
- The profitability of non performing assets is not significantly impacted.

## 6. Methods of Research

### 6.1 Data Collection Method

1. Design
   - Methodology this is quantitative and comparative
   - Comparing PSBs and PVBs the use of monetary facts as well as results.

2. Data Collection
   - Industry periodicals, bank reports, RBI guides, and economic portals have been the sources of secondary facts for economic financial year 2020-2024.

3. The sampling method is referred to as useful sampling.
   - Sample banks: AU Small Finance, IDBI, YES, Axis, and ICICI are non-public.
   - Public: Canara Bank, Union bank, SBI, PNB, and Bank of Baroda.
   - Criteria: Market prominence and statistics accessibility.

### 6.2 Data Analysis and Interpretation

**NPA of Axis Bank**

| Years | Mar 24 | Mar 23 | Mar 22 | Mar 21 | Mar 20 |
|---|---|---|---|---|---|
| Gross NPA | 15127.12 | 18604.23 | 21822.32 | 25314.84 | 30233.82 |
| Net NPA | 3247.47 | 3558.92 | 5512.16 | 6993.52 | 9360.41 |
| % of Gross NPA | 1.43 | 2.02 | 2.82 | 3.70 | 4.86 |
| % of Net NPA | 0.31 | 0.39 | 0.73 | 1.01 | 1.56 |
| Return on Assets % | 1.83 | 0.80 | 1.21 | 1.11 | 0.20 |

Axis Bank's gross and net nonperforming assets have regularly declined through the years, indicating progressed asset fine. The ROA climbed dramatically in 2021, an illustration of higher economic performance and extra profitability.

**NPA of AU Small Finance Bank**

| Years | Mar 24 | Mar 23 | Mar 22 | Mar 21 | Mar 20 |
|---|---|---|---|---|---|
| Gross NPA | 1237.40 | 981.31 | 924.38 | 1502.83 | 457.78 |
| Net NPA | 400.99 | 245.16 | 230.85 | 755.45 | 217.30 |
| % of Gross NPA | 1.67 | 1.66 | 1.98 | 4.25 | 1.68 |
| % of Net NPA | 0.55 | 0.42 | 0.50 | 2.18 | 0.81 |
| Return on Assets % | 1.54 | 1.79 | 1.87 | 0.34 | 1.81 |

Even though there were decrease in the decades that accompanied, AU Bank's non-performing assets rose in 2018. Despite the volatility, it maintained a sturdy ROA above 1.5%, demonstrating correct operational performance.

**NPA of YES Bank**

| Years | Mar 24 | Mar 23 | Mar 22 | Mar 21 | Mar 20 |
|---|---|---|---|---|---|
| Gross NPA | 3982.56 | 4394.57 | 27975.98 | 28609.53 | 32877.59 |
| Net NPA | 1329.73 | 1658.09 | 8204.53 | 9813.36 | 8623.78 |
| % of Gross NPA | 1.70 | 2.17 | 13.93 | 15.41 | 16.80 |
| % of Net NPA | 0.60 | 0.83 | 4.53 | 5.88 | 5.03 |
| Return on Assets % | 0.30 | 0.20 | 0.40 | -5.70 | -5.10 |

YES Bank has a critical asset disaster from 2017 to 2019, as visible through its massive non-performing assets and low return on assets. Though profitability has not stabilized, it has exhibited indications of restoration after restructuring.

**NPA of IDBI**

| Years | Mar 24 | Mar 23 | Mar 22 | Mar 21 | Mar 20 |
|---|---|---|---|---|---|
| Gross NPA | 8916.84 | 10969.29 | 34114.83 | 36211.95 | 47272.37 |
| Net NPA | 643.83 | 1494.74 | 1863.51 | 2519.38 | 5439.49 |
| % of Gross NPA | 4.53 | 6.38 | 20.16 | 22.37 | 27.53 |
| % of Net NPA | 0.34 | 0.92 | 1.36 | 1.97 | 4.19 |
| Return on Assets % | 1.65 | 1.20 | 0.84 | 0.70 | -4.26 |

Despite having extremely big gross non-performing assets in 2017, IDBI was capable of lowering them till 2021. Its ROA considerably multiplied from 4.26% to 1.65%, demonstrating a successful turnaround plan.

**NPA of ICICI Bank**

| Years | Mar 24 | Mar 23 | Mar 22 | Mar 21 | Mar 20 |
|---|---|---|---|---|---|
| Gross NPA | 27961.68 | 31183.70 | 33919.52 | 41373.42 | 41409.16 |
| Net NPA | 5377.79 | 5155.07 | 6960.89 | 9180.20 | 10113.86 |
| % of Gross NPA | 2.16 | 2.81 | 3.60 | 4.96 | 5.53 |
| % of Net NPA | 0.42 | 0.48 | 0.76 | 1.41 | 1.41 |
| Return on Assets % | 2.37 | 2.16 | 1.84 | 1.42 | 0.81 |

Strong risk control by ICICI Bank's shown constant decline in non-performing assets. It's Return on Assets elevated year after year until it reached a wonderful 2.37% in 2021, demonstrating awesome performance and profitability.

**Analysis of Private Sector Banks**

1. Important Outcome:
   - Despite a steady upward thrust in non-performing property, Axis Bank and ICICI Bank's net non-performing asset percent is still low, suggesting sturdy provisioning.
   - The banks with the greatest gross non-appearing belongings percentages, YES Bank and IDBI Bank, are in financial difficulties.
   - AU Small Finance Bank has continually had lower non-acting assets than larger banks; however, in a single 12 months, NPA multiplied by 4.25%, indicating threat in smaller financial institutions.
2. Performance Perspectives:
   - The massive gross and internet non-appearing property of YES Bank and IDBI Bank result in a bad or low go back on belongings, indicating economic instability.
   - Despite a growing tendency, ICICI and Axis Bank are advanced at coping with non-appearing assets.
   - AU Small Finance Bank is attractive for its consistent profitability and relatively few non-performing assets.

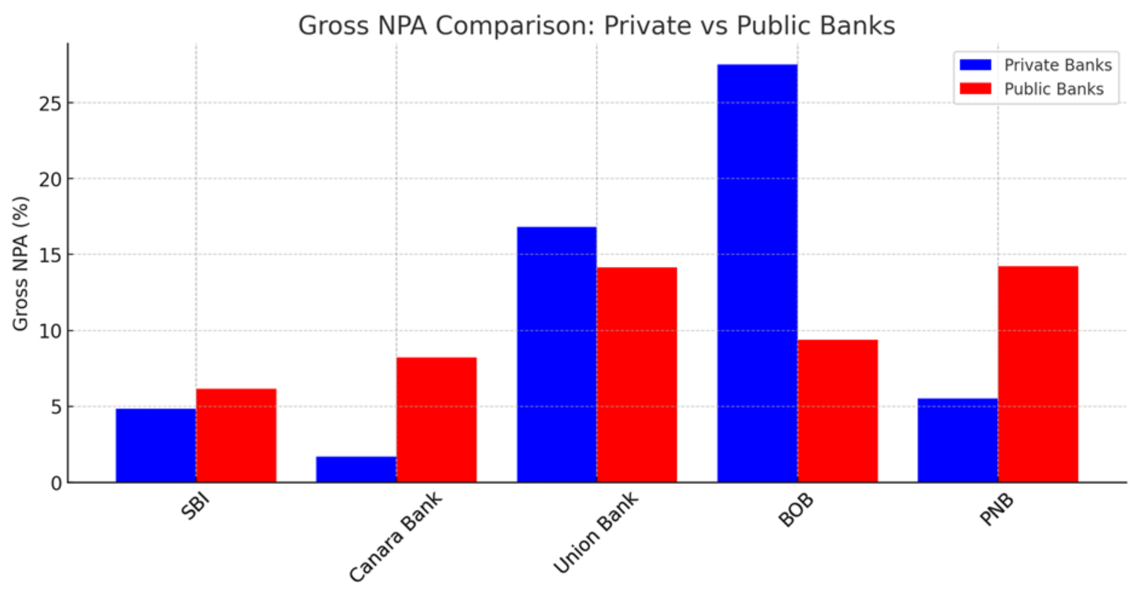


**Fig.1**

**PUBLIC SECTOR BANKS**

**NPA of SBI**

| Years | Mar 24 | Mar 23 | Mar 22 | Mar 21 | Mar 20 |
|---|---|---|---|---|---|
| Gross NPA | 84276.33 | 90927.78 | 112023.37 | 126389.02 | 149091.85 |
| Net NPA | 21051.08 | 21466.64 | 27965.71 | 36809.72 | 51871.30 |
| % of Gross NPA | 2.24 | 2.78 | 3.97 | 4.98 | 6.15 |
| % of Net NPA | 0.57 | 0.67 | 1.02 | 1.50 | 2.23 |
| % Return on Assets | 1.04 | 0.96 | 0.74 | 0.48 | 0.38 |

SBI has drastically increased the overall value of its assets by decreasing non-performing assets. Furthermore, ROA climbed up, showing better profitability and management by 2021.

**NPA of Canara Bank**

| Years | Mar 24 | Mar 23 | Mar 22 | Mar 21 | Mar 20 |
|---|---|---|---|---|---|
| Gross NPA | 40604.57 | 46159.51 | 55651.58 | 60287.84 | 37041.15 |
| Net NPA | 11822.83 | 14349.33 | 18668.02 | 24442.07 | 18250.95 |
| % of Gross NPA | 4.23 | 5.35 | 7.51 | 8.93 | 8.21 |
| % of Net NPA | 1.27 | 1.73 | 2.65 | 3.82 | 4.22 |
| Return on Assets % | 1.01 | 0.51 | 0.48 | 0.23 | -0.32 |

Throughout the years 2017 and 2021, Canara Bank has made brilliant profits by reducing non-performing assets. As the financial institution's ROA expanded from zero to a decent 1.01%, its performance additionally stepped forward.

**NPA of UNION BANK OF INDIA**

| Years | Mar 24 | Mar 23 | Mar 22 | Mar 21 | Mar 20 |
|---|---|---|---|---|---|
| Gross NPA | 43097.73 | 60987.29 | 79587.07 | 89788.20 | 49085.30 |
| Net NPA | 8989.92 | 12927.44 | 24303.30 | 27280.52 | 17303.14 |
| % of Gross NPA | 4.76 | 7.53 | 11.11 | 13.74 | 14.15 |
| % of Net NPA | 1.03 | 170.00 | 3.68 | 4.62 | 5.49 |
| % Return on Assets | 1.03 | 0.69 | 0.47 | 0.27 | -0.53 |

Union Bank's NPA numbers fell precipitously. A reporting mistake or records mismatch appears to be the cause of the 2020 net NPA of 170%. The bank's profitability and asset quality had substantially increased by 2021

**NPA of Bank of Baroda**

| Years | Mar 24 | Mar 23 | Mar 22 | Mar 21 | Mar 20 |
|---|---|---|---|---|---|
| Gross NPA | 31833.63 | 36763..68 | 54059.39 | 66670.99 | 69381.43 |
| Net NPA | 7213.34 | 8384.32 | 13364.65 | 21799.88 | 21576.59 |
| % of Gross NPA | 2.92 | 3.79 | 0.07 | 8.87 | 9.40 |
| % of Net NPA | 0.68 | 0.89 | 0.02 | 3.09 | 3.13 |
| % Return on Assets | 1.17 | 1.03 | 0.01 | 0.07 | 0.06 |

BOB confirmed progress in decreasing NPA percentages, especially after 2018. ROA elevated dramatically after 2019, indicating higher monetary health and profitability.

**NPA of PNB**

| Years | Mar 24 | Mar 23 | Mar 22 | Mar 21 | Mar 20 |
|---|---|---|---|---|---|
| Gross NPA | 56342.05 | 77327.67 | 92448.04 | 104423.42 | 73478.76 |
| Net NPA | 6798.77 | 22585.04 | 34908.73 | 38575.70 | 27218.89 |
| % of Gross NPA | 5.73 | 8.74 | 11.78 | 14.12 | 14.21 |
| % of Net NPA | 0.73 | 2.72 | 4.80 | 5.73 | 5.78 |
| % Return on Assets | 0.54 | 0.18 | 0.26 | 0.15 | 0.04 |

PNB showed a constant increase in asset quality via reducing its Gross and Net NPA rates. Despite the truth that ROA remained low, the overall trend is positive, and there are signs that the recuperation is ongoing.

**Analysis of Public Sector Banks**

1. Key Findings:
    - SBI, PNB, Canara Bank, and Union Bank have notably higher gross & net non-acting assets (NPAs) than private banks.
    - The highest Gross Non-Performing Asset (NPA) percentage of 14% at PNB and Union Bank recommend concerns about asset quality.

- The high but enhancing non-performing assets (NPAs) of Canara Bank and BOB show recoveries and provisioning efforts.

2. Performance insights:
   - The biggest PNB, SBI, has made development in coping uo with net non-performing assets (NPAs), but its gross NPAs are high.
   - Deteriorating the condition of assets at PNB & Union Bank is indicated by using low or bad ROA.
   - Canara Bank and BOB have a considerable quantity of non-performing assets (NPAs) in spite of latest improvement.

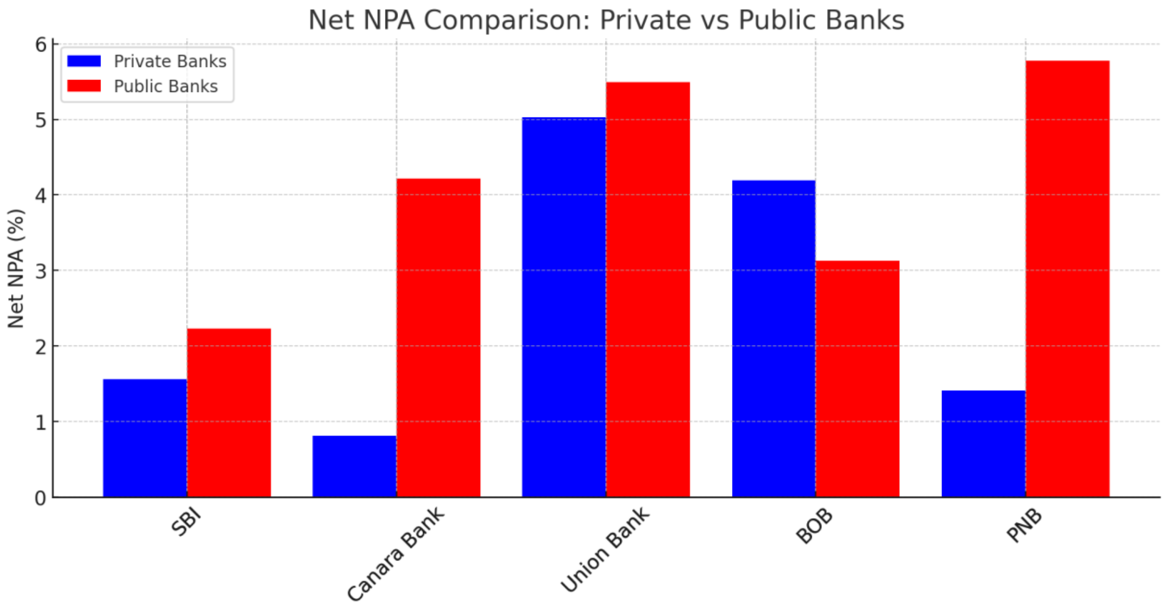


**Fig.2**

**Return on Assets of Private VS Public Banks**

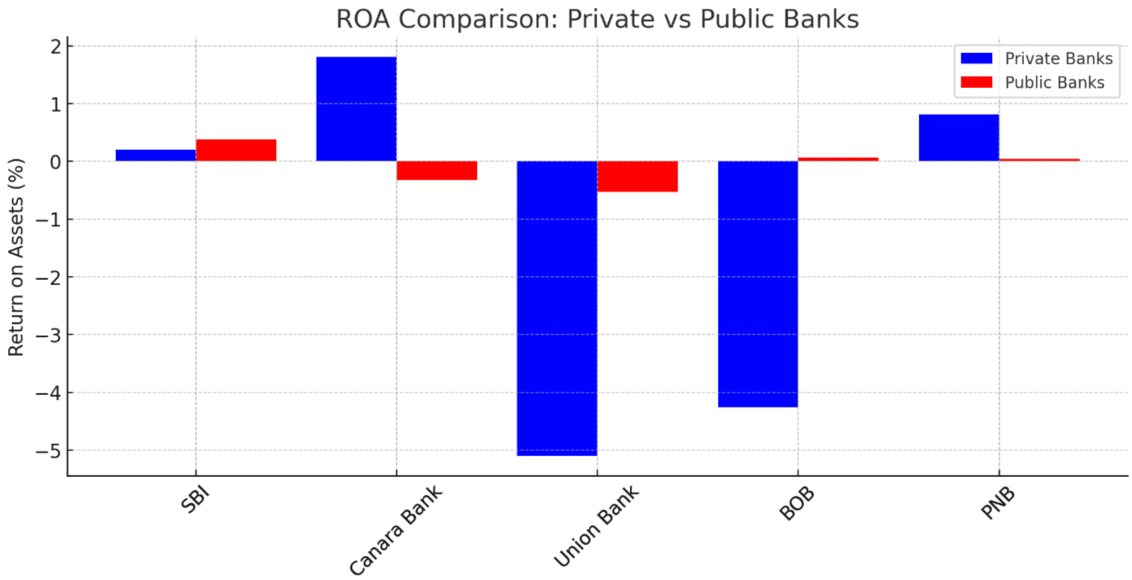


**Fig.3**

After beginning the day higher, private sector banks—mainly Yes Bank and IDBI—noticed steep declines. Public sector banks had small but steady returns, numerous are actually terrible, a sign of growing pressure.  SBI and ICICI Bank are stable and well-run than different banks in their respective industries

## 7. Conclusion:

The massive effect that non-performing assets have on the stableness and protection of Indian banks' finances is emphasized in this studies. Non-performing assets (NPAs) disproportionately harm Public Sector Banks, basically as of structural inefficiencies, political meddling, and a loss of enforcement. Private sector banks, on the other hand, have more potent monetary effects due to improved governance and era integration. The boom in non-performing assets has numerous repercussions, consisting of decreased revenue, higher provisioning necessities, and a confined capability to extend credit. However, asset recuperation has expanded because of legal guidelines like the SARFAESI Act, the Insolvency and Bankruptcy Code, and the usage of Asset Reconstruction Companies, which are in particular beneficial for Public Sector Banks.

Innovative technology like artificial intelligence & risk tracking gadget are more and more getting used to forecast defaults and enhance early intervention. For India's banking sector to be resilient and viable over the longer term, legislative involvement and ongoing innovation are crucial. The long term resilience and sustainability of India's banking sector depend upon ongoing innovation and legislative reform.

### 7.1 Summary of finding

The records actually indicates that non-performing assets have a damaging impact on banks' operational effectiveness and profitability, with Public Sector Banks being the most critically impacted. PSBs reported excessive NPA degrees among FY 2020 & 2024, commonly because of priority sector commitments and legacy lending policies. On the other hand, private banks with decrease default rates, like Axis Bank ICICI Bank, executed higher.

High non-performing assets were situated to be strongly correlated with deteriorating Return on Assets higher provisioning requirements, and institutional instability, as established by YES Bank and IDBI Bank.Even though asset resolution has greater due to reforms like the Insolvency and Bankruptcy Code, Public Sector Banks nevertheless battle with implementation and are slow to undertake new technology. For the NPA problem to be positively addressed, strengthening governance frameworks and speeding up virtual integration are critical measures.

### 7.2 Implications and Suggestions

1. The following suggestions are made with the aid of the report:
   - Increasing PSB governance and autonomy
   - Establishing constant standards for loan assessment throughout institutions.
   - Accelerating legal recoveries through the use of Insolvency and Bankruptcy Code and Debt Recovery Tribunals.
   - Supporting AI-powered early warning structures, giving rewards for on-time payments; and helping Micro, Small and Medium Enterprises.
   - The anticipated outcomes consist of increased lending, progressed profitability, and more potent financial growth supported by a strong banking sector.

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