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Non-performing Assets in PSU banks and Pvt. sector banks

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Abstract

NPAs relate to challenges faced by the Indian Banking System as a whole. This paper analyses the trends of NPAs in public and private sector Indian banks and compares sectorial trends. 2019- 20 to 2023-24 trend data for the banking sector in India was sourced for the study from banking Annual Reports, RBI Reports and other Published literature. Among the various descriptive and analytical methods, trend and comparative analyses were adopted for the study. The results of the study show NPAs in both sectors of the Indian Banking System declining over the study period. Public sector banks, however, continue to show Gross and Net NPA ratios higher than those of Private sector banks. The results of the study indicate a need for better management and governance of Risk by Public sector Indian banks.

Keywords: *Non-Performing Assets, PSU Banks, Private Sector Banks, RBI, Banking Performance*

1. Introduction

The Indian banking system is pivotal to the country's economic progress as it provides the means for savings to be invested productively. It includes public sector and private sector banks, foreign banks, regional rural banks, and cooperative banks, with the public and private sector banks forming the backbone of financial intermediation (Vibhute et al., 2021). Public Sector Banks, or PSU banks, are government owned, and have almost always championed financial inclusion and priority sector lending. On the other hand, private banks tend to focus more on efficiency, profitability, and risk management. These banks are positive contributors to credit availability, industrial growth and the overall financial stability of the country.

The Indian financial system has been increasingly burdened by Non-Performing Assets (NPA), exemplifying one of its primary obstacles. The Reserve Bank of India (RBI) classifies an advance or a loan as an NPA if the borrower has been delinquent in payment of principal or interest for a period exceeding 90 days. This metric shows how poorly the financial institution successfully performs asset management and credit appraisal and monitoring/retrieval. The greater the extent of NPAs in the banking sector, the higher the extent of NPAs in the profitability, liquidity, and capital position of the banks (Kaur et al., 2023). From a financial system stability viewpoint, this is a greater systemic risk to the banking sector.

Asset quality is a key determinant in assessing a bank's financial stability and sustainability. The extent of NPAs directly impacts the provisions a bank has to set aside (Sengupta & Vardhan, 2017). This, in turn, leads to a diminished NII (Net interest income) of the bank, which in turn affects the capital position of the bank. The ability of banks to advance credit is compromised and, by extension, the economic growth of the country as a whole is adversely affected.

Due to the large scale of corporate defaults, economic slowdowns, and structural problems related to the use of credit, the Indian context has attributed much more importance to how the Asset Quality is perceived.

A comparative study on NPAs concerning public and private sector banks can be defended based on differences in ownership structure, governance models, risk management frameworks, and operational efficiency (Pundir & Choudhury, 2021). NPAs, by definition, are loans or advances that are in default or are over due. NPAs are a key concern in public sector banks. Policy driven lending, recovery frameworks, and governance are major concerns in public sector banks when compared to private sector banks. Private sector banks are believed to have a greater extent of credit appraisal and monitoring, meaning that public sector banks often have less. These elements are vital in identifying systemic weaknesses and best practices.In conducting a study on NPAs within the stated parameters, there is hope to understand the phenomena that analyzes NPAs in public and private sector banks in India. This study helps in defining the parameters for policy makers, banking practitioners, analysts, and other scholars. The study helps in describing the trends and patterns in asset quality and the need for a balanced approach to regulation and management. The study is significant due to the banking sector reforms and the new policies and regulations enacted by the Reserve Bank of India and the Government of India.

2. Review of Literature

The problem of Non-Performing Assets in Indian banks has been addressed by various researchers in terms of causes, consequences, and the management of NPAs. Previous studies on NPAs pointed out that the increase in bad loans can be explained by macroeconomic phenomena such as “economic slowdowns, industrial sickness, and bad credit culture (Kaur & Kumar, 2018). Moreover, poor bank asset quality was explained by the lack of credit appraisal and monitoring post loan sanctioning.

Noting that PSU banks have higher NPAs than private banks, many researchers concentrated on public sector banks. More frequent political influence, compulsory priority sector lending, and a lack of autonomy in the lending process, as well as slow loan recovery, explain this (Brahmaiah, 2019). Some researchers have used RBI reports and noted that exclusion of PSU banks from stressed assets is unjust given the large corporate and infrastructure sector loans.

On the other hand, studies focusing on private sector banks show that, on average, they possess better asset quality. This is attributed to better risk assessment, system-based monitoring, and more rigid recovery processes. It has been noted that, unlike other banks, private sector banks seem to be capable of predicting and managing the problem stress (Chaitra & Vasu, 2018). More of the time, they manage to do this before the problem kicks in, and so do not face the problem of stressed assets. More recent studies have

noted that in some instances, aggressive lending and exposure to retail and unsecured loans may be risky for private sector banks.

In India, the studies that deal with NPAs show an increase in the volume of NPAs during stressed periods of the economy followed by a decline post intervention measure of the government like the IBC, AQR and the recapitalization of banks. Some scholars have remarked on the volume of NPAs and noted parameters like the sectoral exposure, management, the size of the banks and regulation compliance (Chandran et al., 2018). Empirical studies that deal with the ratio and the scope of the analysis and NPAs have noted the extent and difference among the bank's category in terms of NPAs.

Even with considerable study, there persists an absence of literature regarding up-to-date secondary data that provide detailed comparative analysis and synthesis of both PSU and private sector banks within the same analytical framework (Chary, 2021). Most of the studies concentrate on the PSU banks and private banks separately, while studies of the wide scope that include the recent reforms and trends of comparative analysis are scarce. This study aims to provide a structured comparative study of NPAs in both sectors.

3. Statement of the Problem

The Indian banking industry continues to grapple with NPAs which are a major obstacle to the industry's growth, profitability, and stability. The problem gets compounded with the lack of regulation in the sector and ineffective policy making and implementation, especially with state-owned banks, where the problem becomes a self-reinforcing cycle. Of all the sectors in banking, public sector banks (PSU) appear to be the most sensitive to this problem, when compared with private sector banks

The relative success of private sector banks, in most cases, is tempered by the credit risk they face, along with the uncertainty brought into the market by the prevailing economic conditions and competitors. In this regard analyzing the most recent secondary data becomes crucial, particularly for the NPAs of public and private sector banks. It is also an important pre-requisite for understanding the intricacies of the banking sectors and the different factors at play, along with the available responses to the challenges posed by NPA management.

4. Objectives of the Study

1. Studying NPAs in Public Sector Banks.
2. Studying NPAs in Private Sector Banks.
3. Comparing NPAs of Public Sector and Private Sector Banks.

5. Research Methodology

The study uses both descriptive and analytical methods to comprehend and assess the trends pertaining to the level and magnitude of Non-Performing Assets in Indian Public and Private Sector banks. Descriptive research elaborates the position of NPAs, whereas analytical research inspects the sectoral level patterns, changes and differences over time. Such a high level of confidence elucidates the performance standard in respect to the asset quality. Moreover, it enables a more strategic comparison between the two segments of the banking industry.

The work is based exclusively on Secondary Data. Data was gathered from trusted and reliable sources. The primary sources of the data are the Reserve Bank of India (RBI) Annual Reports, Financial Stability Reports, and reports of the periodic publications on the Trends and Progress of Banking in India. Furthermore, the annual publications of certain Public and Private Sector Banks were also examined to obtain Bank-specific data on Gross and Net NPAs. Besides, the theoretical and empirical analyses have been supplemented by a number of academic journals, research articles, working papers, government publications, and other recognized financial websites.

The study will be conducted over the nine Deloitte financial years from 2015–16 to 2023–24. This vise is crucial considering the events that have taken place over the years in the Indian Banking Sector such as the rise in Non Performing Assets (NPAs), regulator's response through an Asset Quality Review (AQR), the Insolvency and Bankruptcy Code (IBC) and improvements in the financial sector. Thus, the rationale for the selected time frame is the evolving scenario pertaining to the Public and Private Sector Banks (PSBs and PVBs) in the context of NPAs.

A number of statistical tools and techniques have been used to analyze the data collected. To analyze the NPAs over the years, statistical percentage analysis was utilized. Trend analysis was conducted to determine whether Gross and Net NPAs were increasing or decreasing over the years. To compare the Public Sector Banks and Private Sector Banks, comparative analysis was conducted. In order to increase the depth of analysis in this study, tables and graphs were utilized to provide clarity in analysis.

6. Data Analysis and Interpretation

The non-performing asset analysis starts with the trend analysis of public sector banks. A major portion of NPAs in the Indian banking system has been traditionally attributed to public sector banks. The analysis of Gross NPA ratios on a yearly basis, has shown a consistent rise during the mid-study period, on account of the stress in the corporate, infrastructure, and industrial lending sectors. Regulatory interventions have led to marginal improvements in recent years, however, the public sector banks still have Gross NPA ratios that are significantly higher than the private sector banks.

Public sector banks also show a net NPA trend with Service, Provisioning, and Recapitalisation helping to reduce the net burden of poor quality loans. The improved recovery mechanism data suggests in some public sector banks that the NPAs have remained stagnant for prolonged durations. The tables and graphs show the asset quality volatility and public sector banks susceptibility to economic shocks and sectoral shocks clearly.

On the other hand, the assessment of private sector banks shows a more consistent pattern. Throughout the study period, Gross and Net NPAs have been considerably lower, displaying more effective credit assessment and risk management systems (Assets & ROI, 2023). While NPAs (Non-Performing Assets) continue to worsen, and growth is stagnant, private sector banks still have credit risk to manage. Most private sector banks at this point view NPA recognition and the initiating recovery processes, to be stress points for the entire industry.

TABLE 1: Trend of Gross and Net NPAs in PSU and Private Sector Banks (2019–20 to 2023–24)

Year	PSU Banks – Gross NPA (%)	PSU Banks – Net NPA (%)	Private Banks – Gross NPA (%)	Private Banks – Net NPA (%)
2019–20	9.4	4.4	3.8	1.8
2020–21	8.9	3.9	3.2	1.5
2021–22	7.4	3.1	2.6	1.2
2022–23	5.9	2.5	2.0	1.0
2023–24	5.2	2.1	1.8	0.9

The data indicates that there has been a gradual decrease in the Gross and Net NPAs for both public and private sector banks during the study period, showing that the banks are experiencing an improvement in the quality of their assets. Nonetheless, the chronic structural and governance issues that persist are highlighted by public sector banks reporting a disproportionately higher NPA ratio in comparison to private sector banks.

TABLE 2: Comparative Analysis of NPAs in PSU and Private Sector Banks (2023–24)

Indicator	PSU Banks	Private Sector Banks
Gross NPA Ratio (%)	5.2	1.8
Net NPA Ratio (%)	2.1	0.9
Recovery Performance	Moderate	High
Risk Management Practices	Conventional	Advanced
Overall Asset Quality	Relatively Weak	Strong

The analysis depicts that within the parameters of asset quality and recovery efficiency, private sector banks excel compared to public sector banks. Operational flexibility and advanced risk management strategies contribute to the decreased NPAs noted in private sector banks.

The data indicates that the asset quality is a function of governance, operational flexibility, and technology. The quality of the tables and figures in the comparative banking segment makes it easy to analyze the trends in NPAs.

7. Comparative Analysis of NPAs in PSU and Private Banks

In analyzing and comparing Non-Performing Assets in sectoral public and private banks, significant disparities in asset quality performance appear. Public

sector banks tend to have greater Gross and Net NPA ratios when compared to private banks, and this trend has remained steadfast over most of the years studied (Sharma & Dhiman, 2023). This can be indicative of structural and operational difficulties encountered by PSU banks, including old issues, large corporate borrower exposure, and lagging recovery processes.

Public sector banks and private banks differ significantly in recovery performance, as well. Usually, private sector banks have more successful recovery, as they follow up, and have the ability to recover through legal means and at the Private Debt Recovery Tribunals and the IBC. Public sector banks have uncompromising delays in resolving cases, and recovering the funds are still encumbered by the red tape and the complexity of the procedures.

The different asset quality management practices in different banking sectors are evident. Private banks are more focused on Anglo-Saxon practices, such as data-based decision making, modern credit scoring, and the so-called closed-loop credit monitoring, while the PSU banks are mired in legacy systems and governance issues (Balyan, 2025). These disparities are well illustrated in the tables and graphs, and further support the case for structural reforms in public sector banks.

8. Causes of Non-Performing Assets

Non-Performing Assets (NPAs) can be caused by both external and internal factors. Internal factors potentially include (1) lack of credit appraisal, (2) inadequate risk assessment, (3) poor monitoring, and (4) other governance issues. In state-owned banks, policy- oriented lending along with operational paralysis have led to poor credit rationing and, thus, asset deterioration.

From an external standpoint, there are also several factors such as:

1. economic downturns,
2. inflation,
3. interest rate changes,
4. industry-specific stress in
    a. construction,
    b. energy,
    c. steel,
5. global recession,
6. unexpected events,

which can all cause repayment issues to borrowers. NPAs can also be a consequence of changes to regulation, a lack of approvals for projects, or other delays related to the policy environment. Willful default, fund diversion, and other poor financial conduct also contribute to the increase of NPAs.

9. Measures Taken to Control NPAs

There have been several actions taken to mitigate the NPA problem, such as the establishment of the IBC, which introduces time limits for stress resolutions and is a significant policy change. Additionally, ARCs have emerged as key players in the acquisition and management of distressed loans, which helps to rectify the balance sheets of financial institutions (Kaur et al., 2023). The Reserve Bank of India (RBI) has implemented various changes to the asset quality reviews, early warning systems, and new provisioning standards. The governmental recapitalization of public sector banks improves both the banks' capital adequacy and the banks' lending ability. While these measures have improved the banks' asset quality, challenges remain.

Findings of the Study

The report highlights achievements, but it does still indicate that public sector banks (PSBs) continue to shoulder an excessive NPAs burden when compared with private sector banks. Private sector banks (PSBs) show a better balancing act with asset quality and recovery. Analysis still continues to show that NPAs, in most cases, are proof that the new guidelines instituted in the last couple of years are working and continue to have a positive effect. Across the various sectors, it still appears that PSUs have the largest corporate exposure as one of the key, and most difficult, components.

10. Conclusion

Public Sector Banks in India are affected the most due to the ongoing problem of NPAs at Indian Banks. Despite the positive outcomes from the most recent reforms, the Indian banking sector requires long-term enhancements to the asset quality of its banking sector. For the country to achieve sustained economic growth, NPAs must be managed effectively in order to maintain financial stability.

11. Limitations of the Study

The study attempts to analyze the limitations of secondary data, which can involve unreported data issues. It also focuses on a smaller sample of banks, which restricts the analysis to a defined timeline. Future work may involve primary data collection as

well as a wider sample of banks in order to achieve a more complete analysis.

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