

## **A Comparative Study of Non-Performing Assets of State Bank of India and HDFC Bank**

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### **Abstract:**

Non-performing assets (NPAs), which arise when a borrower defaults on a loan, are a measure of a bank's financial health. A bank's profitability, liquidity, and lending capacity are all negatively impacted by an excessive number of non-performing assets. Due to exposure to stressed industries and governance difficulties, non-performing assets (NPAs) have been a major worry for banks in India, especially public sector banks. In order to determine how public and private sector banks differ in terms of asset quality, risk management, and financial performance, this study will look at the nonperforming assets (NPAs) of State Bank of India and HDFC Bank. The primary objective of the research is to assess the asset quality and financial stability of both banks by examining the amount and pattern of non-performing assets (NPAs) over time. In order to assess the amount of non-performing assets (NPAs), the research also examines the gross and net NPA ratios of both banks. It offers insights into whether the NPA trend has been improving or declining. The research topic assesses non-performing asset (NPA) management by analyzing the impact of NPAs on bank profitability and managing NPA recover. It also demonstrates the relationship between the quality of assets held by banks and the long-term financial performance of such banks. The study emphasizes that banks' soundness is largely dependent upon efficient management of NPAs. The long-term financial health of banks and their overall asset quality can be dramatically improved by improving their credit assessment, recovery, and risk management practices.

**Keywords:** Non-Performing Assets, Public Sector Banks, Private Sector Banks, SPSS Analysis, Asset Quality.

### **1. Introduction**

According to the Reserve Bank of India (RBI), loans or advances that have principle and or interest past due for a longer time than ninety days are referred to as non-performing assets (NPAs). These assets cease to produce revenue for banks and are categorized as bad loans. NPAs are a crucial measure of a bank's overall performance, credit risk, and recovery effectiveness.

### **1.1 Importance and Influence of NPAs**

The profitability, liquidity, and capital sufficiency of a bank are all greatly impacted by NPAs. They weaken financial stability, raise provisioning needs, and lower interest income. In addition to limiting banks' capacity to lend more, high NPAs can undermine investor trust and shareholder value, which has an impact on economic growth. NPA monitoring is essential for banks, investors, and regulators since it aids in evaluating operational effectiveness, risk exposure, and investment safety.

### **1.2 Need for the Study**

The importance to fully understand the origins, consequences, and management strategies of non-performing assets (NPAs) is underscored by the escalating levels of NPAs in the Indian banking industry. In order to find efficient methods for reducing non-performing assets (NPAs) and enhancing asset quality, this study compares public and private sector banks, particularly SBI and HDFC Bank

### **1.3 Statement of the Problem**

Rising non-performing assets (NPAs) affect banks' ability to lend money and their overall financial performance, which is a major threat to their stability and profitability. The study examines how different banks handle non-performing assets (NPAs) in order to alleviate the problem.

### **1.4 Theoretical Framework**

The study is based on the ideas of asset quality analysis, financial performance indicators, and credit risk management. With the use of technical innovations like artificial intelligence (AI), data analytics, and digital tracking systems employed in contemporary banking, it incorporates notions about prudent lending, risk diversification, and monitoring methods.

### **1.5 Significance of the Study**

The study provides insights for banks to improve credit appraisal and recovery strategies, helps policymakers enhance regulatory frameworks, and assists investors in evaluating bank performance and risk.

### **1.5 Objectives of the Study**

- To compare the performance of public sector and private sector banks in managing NPAs

- Assess amount and pattern of NPAs using Gross & Net ratios
- To suggest possible recommendations for improving NPA management in the banking sector.

### 1.6 Hypothesis of the Study

The study assumes that there is a significant difference in NPA management and performance between public sector and private sector banks.

### 1.7 Scope of the Study

For the purpose to provide clarity on asset quality and banking efficiency, the study focuses on SBI and HDFC Bank and uses secondary data to analyze NPA trends, financial performance, and management practices over a certain time period.

## 2. Scholarly Review

A major focus of this study is the structural divide between public and private sector banks, which is constantly highlighted in the corpus of research on non-performing assets (NPAs) in India. A common conclusion in the literature is that public sector banks, like State Bank of India (SBI), consistently have greater non-performing assets (NPA) percentages than their private sector equivalents. This discrepancy is attributed by academics to basic variations in governance and operational systems.

Research by **Bhaskaran et al. (2016)**, **Mittal and Suneja (2017)**, and **Hingu and Solanki (2022)** identifies that public sector banks face challenges such as policy-driven priority sector lending, procedural inefficiencies, and weaker credit appraisal systems. In contrast, private banks like HDFC Bank benefit from stricter credit checks, advanced technology-driven monitoring, and proactive recovery strategies (**Kandpal, 2020; Kumar & Bansal, 2022**). This divergence in asset quality management directly impacts financial performance, with public banks experiencing sharper profitability declines due to higher provisioning requirements (**Bepari & Sarkar, 2020; Nachimuthu & Veni, 2019**).

Comparative studies focusing specifically on SBI and HDFC Bank (**Nidharshanaa & Sai Swetha, 2023; Kaakandikar & Gunjal**) reinforce these findings, demonstrating that

SBI's higher NPAs are linked to its extensive priority sector exposure and procedural rigidity, while HDFC Bank's lower NPAs result from its disciplined credit culture and effective use of early warning systems. Collectively, the literature underscores that governance quality, operational efficiency, and technological adoption are critical determinants of asset quality, providing a robust foundation for a comparative analysis of these two distinct banking models.

### 3. RESEARCH METHODOLOGY

In order to carefully investigate Non-Performing Assets (NPAs), a significant issue impacting bank profitability, stability, and lending capacity, the study uses a descriptive, analytical, and comparative research strategy.

#### 3.1 Analytical Component

The analytical method assesses basic variations in asset quality between banking models in the public and private sectors. Finding patterns in important financial indicators, such as Gross NPA, Net NPA, Provision Coverage Ratio (PCR), and loan write-offs throughout the specified time frame, is the analysis's primary goal.

#### 3.2 Quantitative Approach

Analytical accuracy and objectivity are guaranteed by a quantitative approach. It analyzes structural effects on asset quality using numerical data collected from the banks' pre-merger and post-merger stages. The performance of State Bank of India (SBI) and HDFC Bank is methodically compared through the use of ratio analysis and trend analysis.

#### 3.3 Sources of Data

**Secondary Data:** The study is entirely based on secondary data extracted from annual reports, quarterly financial results, Reserve Bank of India (RBI) publications, stock exchange filings, investor presentations, and specific financial reports from the respective banks.

#### 3.4 SAMPLING DESIGN

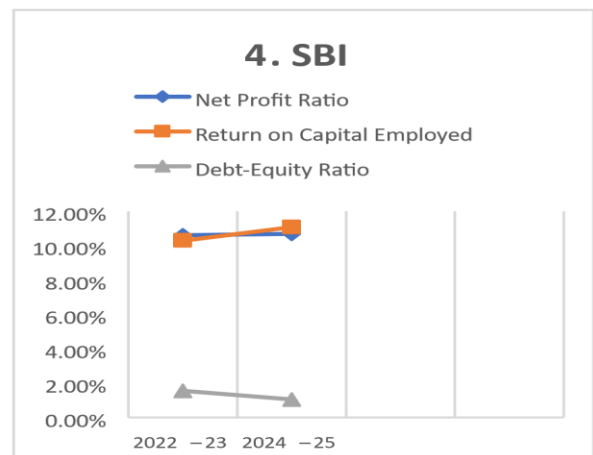
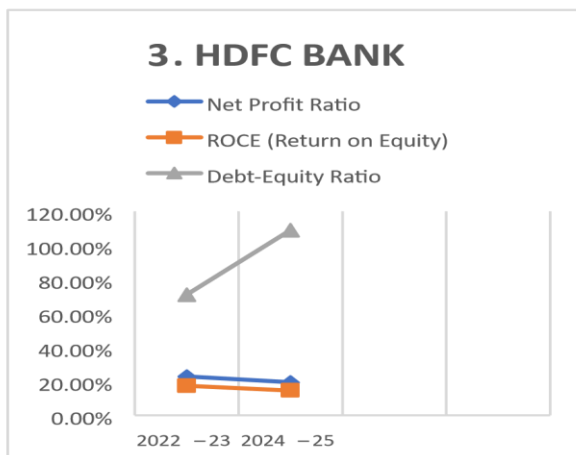
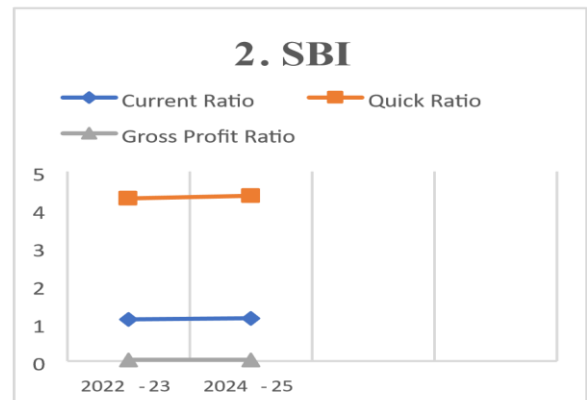
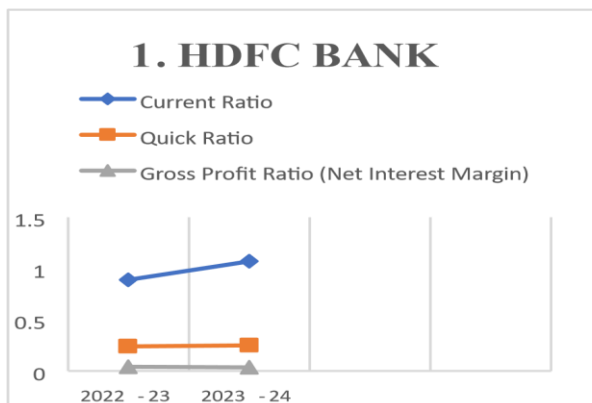
- **Target Population:** The Indian Banking Sector.
- **Sampling Unit:** State Bank of India (SBI) and HDFC Bank.

- **Sampling Technique:** Purposive sampling (focusing specifically on the leading public and private sector banks to highlight structural dichotomies).

**Table 3.1: Research Design Framework and Variable Mapping**

Category	Component	Details
Period of the Study	Secondary Data	Financial Years 2022-23 to 2024-25.
Research Variables	Independent Variables	Bank Sector Type (Public vs. Private)
	Dependent Variables	Gross NPA, Net NPA, Provision Coverage Ratio (PCR), Write-offs.

**4. ANALYSIS AND INTERPRETATION :**



Source – Secondary data – HDFC and SBI Bank

Graphical representation of the asset quality over the period of 2022-2025 illustrates a distinct structural dichotomy between the public and private sector banks analyzed in this study. The trend lines tracking Gross Non-Performing Assets (GNPA) and Net Non-Performing Assets (NNPA) reveal that State Bank of India (SBI) historically exhibits higher NPA ratios compared to its private-sector counterpart, HDFC Bank. This disparity can be directly observed in the graph, where SBI’s Gross NPA stood in FY 2022-23, gradually shifting by the end of FY 202425. This elevated metric is fundamentally linked to SBI's policy-driven priority sector lending and its broader exposure to stressed corporate industries.

Conversely, the graphical trend for HDFC Bank demonstrates a flatter and more stable curve, maintaining a Gross NPA of roughly throughout the corresponding period. The graph highlights that HDFC Bank’s stringent credit checks and proactive recovery strategies successfully insulate its asset quality, even during the post-COVID recovery phase and the structural shifts following the 2023 merger with HDFC Ltd. Furthermore, analyzing the spread between the Gross and Net NPA lines on the graph provides critical insight into the Provision Coverage Ratio (PCR). A narrowing gap in SBI's metrics towards 2025 would indicate aggressive provisioning and write-offs, reflecting a concerted effort to clean up the balance sheet and enhance overall financial stability. Ultimately, the visual data confirms that while public sector banks are recovering, private banks maintain a significant operational advantage in mitigating credit risk.

**Table 4.1: Analytical Overview of Corporate Financial Performance (2022-2025)**

Objective	Indicators from Graph	Observed Trend	Interpretation	Inference
<b>Objective 1:</b> Compare performance of public vs private sector banks in managing NPAs	<b>SBI - Gross NPA (1.82%) vs. HDFC - Gross NPA (1.33%)</b> for the 2022-2025 period.	SBI shows higher NPA levels with a consistent gradual decline; HDFC shows low and stable NPA levels throughout the timeframe.	Indicates a clear gap in asset quality and risk appetite between the two institutional types.	Private sector bank (HDFC) performs better due to efficient credit risk management compared to SBI

<p><b>Objective 2:</b> Assess amount and pattern of NPAs using Gross &amp; Net ratios</p>	<p><b>SBI</b> - Gross NPA vs Net NPA (0.47%) <b>HDFC</b> - Gross NPA vs Net NPA (0.43%)</p>	<p>A significant gap exists between Gross NPA and Net NPA for both banks, with the gap narrowing significantly by 2025.</p>	<p>Larger gap indicates higher provisioning and recovery pressure</p>	<p>Public sector banks face higher financial stress due to larger NPAs and provisioning requirements</p>
<p><b>Objective 3:</b> Suggest improvements for NPA management</p>	<p>Trend of decline in SBI NPAs and Stability in HDFC NPAs</p>	<p><b>SBI</b> improvement is slower and dependent on write-offs <b>HDFC</b> maintains consistency</p>	<p>SBI follows reactive approach; HDFC follows proactive risk management</p>	<p>Banks should adopt early warning systems, better credit appraisal, and technology-driven monitoring</p>

**5. Limitations of the Study:**

- The study is heavily dependent on secondary data extracted from annual reports and financial statements, which may feature incomplete disclosures regarding specific loan write-offs or recoveries.
- The research is restricted to a limited three-year period (FY 2022-23 to 2024-25), which restricts long-term longitudinal analysis.
- The study focuses specifically on only two banks (SBI and HDFC), limiting the generalizability of the findings across the entire spectrum of Indian scheduled commercial banks.
- Isolating the standalone impact of the 2023 HDFC merger on overall asset quality metrics introduces structural difficulty.

**5.1. Suggestions:**

- **For Government and Policymakers:** Strengthen nationwide recovery institutions and legal frameworks to speed up fast-tracking and transparency. Standardized digital tracking should be improved to lower structural and procedural delays.
- **For Organizations (Public Sector Banks / SBI):** Shift from reactive recovery to proactive NPA management by integrating advanced analytics, predictive modeling, and early warning systems to flag credit risks before standard default. Improve internal credit appraisal systems to align operational efficiency with modern benchmarks.

## 6. Conclusion

The current study offered important empirical insights into the structural duality of Indian banking by comparing the asset quality and management of nonperforming assets (NPAs) between State Bank of India (SBI) and HDFC Bank. The results show that public sector banks consistently have higher NPA levels because of their large lending to the priority sector, rigid procedures, and delayed recovery strategies. HDFC Bank, on the other hand, exhibits exceptional asset quality control through technology-driven monitoring systems, proactive recovery tactics, and stringent credit appraisal.

A bank's profitability and capital sufficiency are directly hampered by high NPAs. Comparative research has confirmed that banks with larger non-performing assets (NPAs) experience more severe decreases in profitability as a result of higher provisioning requirements, a problem that is particularly prevalent in the public sector. Public sector banks mostly rely on loan write-offs and delayed provisioning to settle problematic loans, despite a post-pandemic recovery trend. The study concludes that the most important factors influencing asset quality and long-term financial stability in the Indian banking industry are technology adoption, proactive credit monitoring, and governance quality.

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