

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

Dr. Shivubhai C. Vala

Assistant Professor in Commerce, Government Commerce College, Jamnagar, Gujarat, India.

Abstract— This study examines and compares the Non-Performing Assets (NPAs) of State Bank of India and HDFC Bank over the period from 2014–15 to 2023–24. It analyzes the trend, causes, and impact of NPAs on bank profitability using secondary data collected from annual reports, RBI publications, and financial databases. Various analytical tools such as trend analysis, ratio analysis, and correlation analysis were used for the study. The findings reveal that State Bank of India recorded higher NPA levels than HDFC Bank, which negatively affected its profitability. In contrast, HDFC Bank maintained relatively lower NPAs due to stronger credit appraisal and effective recovery mechanisms. The study emphasizes the importance of improved risk management practices and the adoption of digital technologies in public sector banks to control NPAs and enhance overall financial performance.

Keywords— Non-Performing Assets, State Bank of India, ICICI Bank, Gross NPA, Net NPA, Return on Assets, Trend Analysis, Correlation, Indian Banking Sector.

I. INTRODUCTION

Bank lending constitutes a primary income-generating asset for financial institutions. However, when such lending fails to generate expected returns in the form of interest or principal repayments for a specified period, it is classified as a Non-Performing Asset (NPA). Broadly, bank lending in India is categorized into two segments: Priority Sector Lending (PSL) and Non-Priority Sector Lending. A substantial body of literature and policy discussions indicates that priority sector advances often account for a significant share of NPAs, thereby raising concerns regarding credit risk management within this segment.

The origin of the Priority Sector Lending framework in India can be traced back to 1967. On December 14, 1967, Morarji Desai, then Deputy Prime Minister and Finance Minister of India, highlighted in the Lok Sabha that critical sectors such as agriculture, small-scale industries, and exports were not receiving an adequate share of institutional credit. This marked one of the earliest formal references to the term “priority sector.” Consequently, the concept of priority sector lending was introduced to ensure directed credit allocation to strategically important sectors of the economy.

The policy gained further momentum through the enactment of social control over banks via the Banking Laws (Amendment) Bill, 1967, introduced in the Lok Sabha on December 23, 1967. Under this framework, banks were required to align their lending practices with national development objectives. In July 1968, during a meeting of the National Credit Council (NCC), emphasis was placed on enhancing commercial banks’ participation in financing priority sectors, particularly agriculture and small-scale industries. Earlier, in February 1968, the NCC had been established to determine sectoral credit priorities within the economy. Subsequently, the Gadgil Committee (1969) recommended the adoption of the Area Approach to address regional and structural imbalances in credit distribution. Based on these recommendations, the Lead Bank Scheme was introduced to strengthen coordinated credit planning and improve financial inclusion across districts. The sectors identified under the Priority Sector Lending (PSL) framework initially included the following categories:

- Small-scale industries
- Industrial estates
- Road and water transport operators
- Professional and self-employed individuals
- Retail traders
- Education

These sectors were recognized as strategically important for promoting balanced economic development, employment generation, and financial inclusion. The inclusion of these categories aimed to ensure adequate institutional credit flow to segments that were traditionally underserved by the formal banking system.

The First Narasimham Committee (1991) on Financial Sector Reforms recognized the significant role of Priority Sector Lending (PSL) in expanding the outreach of the banking system to previously neglected segments of the economy. While acknowledging its developmental importance, the Committee recommended a redefinition of the priority sector to focus more specifically on marginal farmers, the tiny sector, small businesses, transport operators, and village and cottage industries.

At the same time, the Committee expressed concern over the low and declining profitability of banks, partly attributed to directed credit programmes. It emphasized the need for a gradual phasing out of such programmes to enhance operational efficiency and financial viability. The Committee recommended reducing the mandatory directed credit target from 40 percent to 10 percent of total bank credit, alongside narrowing the scope of the priority sector to concentrate primarily on small and marginal farmers and other low-income groups. However, these recommendations were not accepted by the Government, and the 40 percent priority sector lending requirement continued without significant alteration.

Subsequently, the Rajagopal Committee (1994) examined issues relating to concessional lending and suggested that subsidized or below-market interest rates should be confined strictly to the poorest and most underprivileged sections of society. The Committee further recommended that borrowers with adequate repayment capacity should be charged commercial rates of interest, thereby promoting financial discipline and improving the sustainability of the banking system.

The Second Narasimham Committee (1998) critically examined the impact of directed credit programmes on the banking sector and observed that such policies had contributed to a significant rise in non-performing assets (NPAs), thereby adversely affecting the efficiency and profitability of banks. The Committee noted that nearly 47 percent of total NPAs originated from the priority sector, highlighting concerns regarding credit quality within this segment.

Despite these concerns, the Committee cautioned that any abrupt reduction in priority sector lending (PSL) targets could disrupt the flow of institutional credit to vulnerable sectors of the economy. It acknowledged that small and marginal farmers, the tiny industrial sector, and small businesses continued to face structural challenges in accessing formal credit. Therefore, some degree of credit earmarking was considered necessary to ensure financial inclusion and equitable growth.

Under the prevailing framework, 10 percent of net bank credit was earmarked for lending to weaker sections within the priority sector. Recognizing the socio-economic importance of these groups, the Committee recommended the continuation of this provision. Furthermore, it proposed the inclusion of employment-oriented sectors—such as food processing and allied agricultural services, fisheries, poultry, and dairy—within the ambit of priority sector lending, given their potential to generate income and rural employment.

At the same time, the Committee advocated the removal of concessional interest rates on loans up to ₹2 lakhs and recommended a gradual shift away from rigid overall and sub-sectoral priority lending targets. It also introduced the concept of debt securitisation within the priority sector. This mechanism would enable banks unable to meet PSL targets directly to purchase eligible loan assets from other institutions, thereby ensuring compliance while promoting flexibility and efficiency in credit allocation.

II. LITERATURE REVIEW

1. Pestova and Mamonov (2013) analyzed credit risk in Russian banks using macroeconomic and bank-specific variables through single-equation panel data models. Their study found that macroeconomic conditions significantly influence the quality of bank assets. In particular, an increase in interest rates was observed to accelerate the growth of bad assets, thereby deteriorating credit portfolios. The findings emphasize the strong linkage between macroeconomic stability and banking sector health, suggesting that adverse economic conditions can amplify credit risk regardless of internal bank-level controls.
2. Sontakke and Tiwari (2013) examined the growing problem of NPAs following financial sector reforms. Their study highlighted that NPAs have emerged as a critical challenge for Indian banks in the post-liberalization period. The authors observed that rising NPAs negatively affect profitability, as banks fail to generate income from impaired assets while simultaneously facing higher provisioning requirements and increased funding costs. The study further emphasized that inefficient management of NPAs not only weakens individual banks but can also adversely impact overall economic growth and financial stability. The authors recommended the adoption of stronger credit appraisal systems, improved risk monitoring mechanisms, and timely recovery strategies to mitigate the problem of rising NPAs.

Collectively, the existing literature suggests that NPAs are influenced by both macroeconomic factors and bank-specific management practices. While external economic conditions such as interest rates and growth cycles affect asset quality, internal governance, risk assessment frameworks, and recovery mechanisms play a crucial role in controlling the magnitude of non-performing assets. These studies provide a conceptual foundation for the present research, which undertakes a comparative analysis of NPAs in selected public and private sector banks in India.



3. Sengupta and Vardhan (2017) compared two major banking crisis episodes in India—the late 1990s crisis and the post-2008 global financial crisis period—and analyzed the surge in NPAs during these phases. The study emphasized that strong governance, proactive regulatory measures, and an effective legal framework for NPA resolution are essential for addressing asset quality issues, while regulatory forbearance may aggravate banking distress.
4. Mishra and Pawaskar (2017) highlighted the importance of a robust credit appraisal system in preventing NPAs and stressed the need for a supportive legal structure to facilitate effective debt recovery. Similarly, Sahni and Seth (2017) examined the causes behind rising NPAs and their impact on banking operations, recommending both preventive and corrective measures, including proper creditworthiness assessment of borrowers.
5. Mittal and Suneja (2017) analyzed trends and causes of NPAs in the Indian banking sector and suggested that, alongside government initiatives, banks must adopt well-structured credit policies, ensuring careful evaluation of project viability and borrower repayment capacity before loan sanctioning.

III. RESEARCH GAP

This study compares NPAs in the State Bank of India and HDFC Bank from 2014-15 to 2023-24. It analyzes trends, causes, and their impact on profitability using secondary data. The research also reviews each bank's recovery measures to suggest strategies for better NPA management.

IV. OBJECTIVE OF THE STUDY

1. To determine the current and future trends in NPAs.
2. To understand the key factors contributing to the rise of NPAs in the State Bank of India and HDFC Bank.
3. To compare the level of non-performing assets (NPAs) in State Bank of India and HDFC Bank.
4. To know the impact of NPA on the profitability of banks.

V. STATEMENT OF THE STUDY

Non-Performing Assets (NPAs) continue to pose a significant challenge for the Indian banking sector, adversely affecting profitability and overall financial stability.

Public sector banks such as State Bank of India and private sector banks like HDFC Bank differ in their approaches to managing NPAs due to variations in organizational structure, governance, and regulatory pressures. Despite various banking reforms and policy measures, the level of NPAs in India remains a matter of concern. This study compares these two banks to analyze trends in NPAs, identify their major causes, and evaluate recovery mechanisms, with the objective of determining effective strategies for controlling NPAs.

VI. SIGNIFICANCE OF THE STUDY

Non-Performing Assets (NPAs) have a significant impact on the financial health and stability of banks. This study is important as it examines how NPAs influence banking performance by comparing two major Indian banks, State Bank of India and HDFC Bank. The comparison highlights the differences in NPA levels and the strategies adopted for their management. It also analyzes the effectiveness of various recovery mechanisms used by these banks. The findings of the study may help banks and policymakers develop better practices and policies to control NPAs and strengthen the overall performance of the banking sector.

VII. SCOPE OF THE STUDY

This study compares NPAs in the State Bank of India and HDFC Bank from 2014-15 to 2023-24. It analyzes trends, causes, and their impact on profitability using secondary data. The research also reviews each bank's recovery measures to suggest strategies for better NPA management.

VIII. AREA OF STUDY

This study adopts a quantitative and comparative research design to examine Non-Performing Assets (NPAs) in State Bank of India and HDFC bank. The research focuses on identifying trends, underlying causes, and the financial implications of NPAs over a ten-year period from 2014-15 to 2023-24.

IX. TYPE OF DATA AND METHOD OF DATA COLLECTION

The study relies on secondary data obtained from the banks' annual reports and reputable financial databases. Key analytical measures include the Gross NPA ratio, average NPA levels, and their relationship with profitability indicators, specifically Return on Assets (ROA).

X. TOOLS AND TECHNIQUES USED FOR DATA ANALYSIS

To evaluate the data, the study employs trend analysis to track changes in NPA levels over time and correlation analysis to assess the strength and direction of the relationship between NPAs and profitability. These statistical tools facilitate a systematic comparison between the two banks, enabling the study to validate hypotheses and draw evidence-based conclusions regarding asset quality and risk management practices.

XI. DATA ANALYSIS AND INTERPRETATION

Table No. 1 Data Points (Gross NPA%)

YEAR	SBI	HDFC
2014-15	4.25	0.89
2015-16	6.5	0.92
2016-17	6.9	1.04
2017-18	10.91	1.3
2018-19	7.53	1.36
2019-20	6.15	1.26
2020-21	4.98	1.32
2021-22	3.97	1.17
2022-23	2.78	1.12
2023-24	2.24	1.24

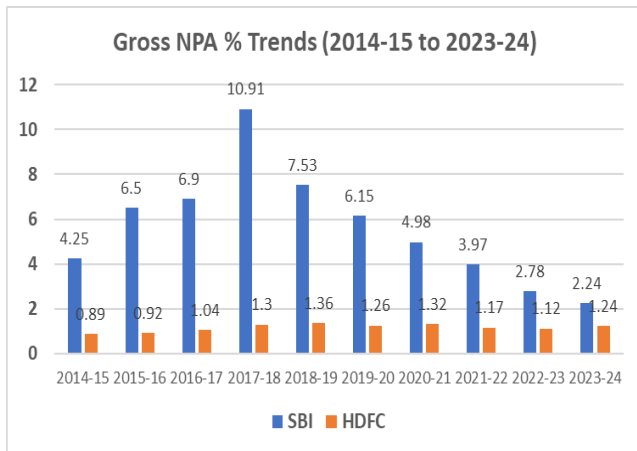


Figure No. 1 Gross NPA % trends

Interpretation:

The comparative analysis of Gross NPA (%) of State Bank of India and HDFC Bank from 2014–15 to 2023–24 reveals a significant difference in asset quality performance between the two banks.

SBI experienced a sharp rise in GNPA from 4.25% in 2014–15 to a peak of 10.91% in 2017–18, indicating severe asset quality stress during the corporate lending and Asset Quality Review phase; however, it showed a strong recovery trend thereafter, reducing GNPA consistently to 2.24% by 2023–24. In contrast, HDFC Bank maintained consistently low and stable GNPA levels throughout the decade, fluctuating within a narrow band of 0.89% to 1.36%, reflecting effective credit risk management and prudent lending practices. Although SBI demonstrated substantial improvement in recent years, its average GNPA (5.62%) remains significantly higher than HDFC's (1.16%), suggesting that private sector banking exhibited superior stability and asset quality control over the study period.

Table No. 2 Data Points (NET NPA%)

YEAR	SBI	HDFC
2014-15	2.12	0.25
2015-16	3.81	0.28
2016-17	3.71	0.33
2017-18	5.73	0.4
2018-19	3.01	0.39
2019-20	2.23	0.36
2020-21	1.5	0.4
2021-22	1.02	0.32
2022-23	0.67	0.27
2023-24	0.57	0.33

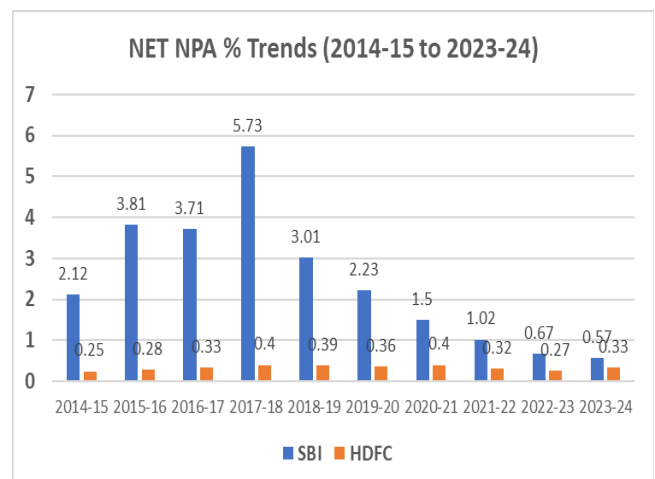


Figure No. 2 NET NPA % trends

Interpretation:

The comparative analysis of Net NPA (%) of State Bank of India and HDFC Bank from 2014–15 to 2023–24 indicates a clear contrast in asset quality management and recovery efficiency. SBI's Net NPA rose sharply from 2.12% in 2014–15 to a peak of 5.73% in 2017–18, reflecting significant stress in its loan portfolio during the banking sector crisis period; however, it demonstrated substantial improvement thereafter, declining steadily to 0.57% by 2023–24, suggesting strong provisioning, recovery mechanisms, and improved credit monitoring. In contrast, HDFC Bank maintained consistently low Net NPA levels throughout the decade, fluctuating within a narrow range of 0.25% to 0.40%, which highlights its stable asset quality and prudent lending practices. Although SBI has shown remarkable recovery in recent years and narrowed the gap significantly, its average Net NPA over the period remains higher than that of HDFC, indicating that the private sector bank exhibited superior consistency and risk control across the study period.

Table No. 3 Gross NPA% vs ROA%

YEAR	SBI		HDFC	
	GROSS NPA (%)	ROA (%)	GROSS NPA (%)	ROA (%)
2014-15	4.25	0.68	0.89	2.02
2015-16	6.5	0.46	0.92	1.89
2016-17	6.9	0.41	1.04	1.88
2017-18	10.91	-0.19	1.3	1.93
2018-19	7.53	0.02	1.36	1.9
2019-20	6.15	0.38	1.26	2.01
2020-21	4.98	0.48	1.32	1.97
2021-22	3.97	0.67	1.17	2.03
2022-23	2.78	0.96	1.12	2.07
2023-24	2.24	1.04	1.24	1.98

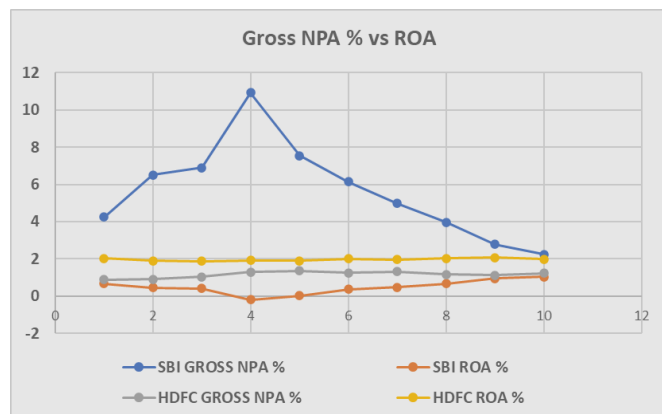


Figure No. 3 Gross NPA % vs ROA

Interpretation:

The Pearson correlation between Gross NPA and ROA of SBI is **-0.97**, indicating a strong negative relationship. This suggests that an increase in non-performing assets significantly reduces the profitability of the bank. HDFC Bank shows a correlation coefficient of **-0.02**, indicating a very weak negative relationship between asset quality and profitability. This suggests that fluctuations in Gross NPAs had minimal impact on the bank's return on assets during the study period.

Table 4 Summary of Statistical Calculation

Bank	Pearson Correlation (Gross NPA% vs ROA%)
SBI	-0.97
HDFC	-0.02

Interpretation:

The closer to -1, the stronger the negative correlation. SBI Bank's profitability is more sensitive to changes in NPAs than HDFC Bank's.

Null Hypothesis (H_0): There is no significant correlation between Gross NPA (%) and ROA (%) in the bank. ($H_0: r = 0$)

Alternative Hypothesis (H_1): There is a significant negative correlation between Gross NPA (%) and ROA (%) in the bank. ($H_1: r < 0$).

Interpretation:

SBI Bank: Since $r = -0.97$, a **strong negative correlation** exists.

HDFC Bank: Since $r = -0.02$, a **very weak negative correlation** exists.

The Pearson correlation results show a significant negative relationship between Gross NPA (%) and ROA (%) in both banks. As Gross NPAs increase, ROA tends to decrease, confirming that higher NPAs adversely impact profitability. Therefore, H_0 is rejected and H_1 is accepted.

XII. LIMITATIONS OF THE STUDY

1. The study is based only on two banks, State Bank of India and HDFC Bank. Therefore, the findings may not represent the entire Indian banking sector.
2. The analysis covers a period of ten years from 2014–15 to 2023–24. A longer time frame could provide a deeper understanding of NPA trends and banking performance.
3. The study relies completely on secondary data obtained from annual reports and financial statements. Any inaccuracies in these sources may affect the results.

4. The research mainly focuses on Gross NPA, Net NPA, and ROA. Other important factors such as credit growth, economic conditions, management efficiency, and government policies were not considered.
5. Only basic statistical tools such as averages and correlation were used. Advanced techniques could provide more detailed insights.

XIII. FUTURE SCOPE OF THE STUDY

1. Future studies can include more public and private sector banks for better comparison.
2. The research period can be extended to analyze long-term NPA trends.
3. Advanced statistical tools such as regression and forecasting models can be used for deeper analysis.
4. Sector-wise analysis of NPAs can help identify high-risk industries.
5. The impact of government reforms and banking policies on NPA reduction can be examined.

XIV. SUGGESTIONS OF THE STUDY

1. *Strengthening Credit Appraisal*: Banks should improve their credit appraisal systems to ensure loans are provided to financially stable borrowers.
2. *Regular Monitoring of Loans*: Continuous monitoring of loan accounts can help identify early warning signals and prevent accounts from turning into NPAs.
3. *Use of Technology and Data Analytics*: Banks should adopt advanced analytics and AI-based risk assessment tools to predict potential defaults.
4. *Improved Recovery Mechanisms*: Faster legal processes, better use of recovery tribunals, and efficient implementation of insolvency procedures can help reduce NPAs.
5. *Diversification of Loan Portfolio*: Banks should avoid excessive exposure to specific sectors to reduce risk.
6. *Learning from Best Practices*: Public sector banks can adopt risk management practices used by well-performing private banks such as HDFC Bank.

XV. CONCLUSION

The study analyzed and compared the Non-Performing Assets of State Bank of India and HDFC Bank over a ten-year period from 2014–15 to 2023–24. The analysis revealed that SBI experienced a significant rise in NPAs during the middle of the study period, reaching its peak in 2017–18, followed by a gradual improvement in asset quality in recent years.

In contrast, HDFC Bank maintained consistently low and stable NPA levels throughout the study period.

The statistical analysis further showed a strong negative relationship between Gross NPAs and profitability in SBI, indicating that higher NPAs significantly affect the bank's financial performance. On the other hand, HDFC Bank demonstrated stability in profitability despite minor fluctuations in NPAs, reflecting effective credit risk management and strong operational efficiency.

Overall, the findings suggest that private sector banks exhibit better asset quality management compared to public sector banks. However, the recent improvement in SBI's NPA levels indicates positive reforms and stronger recovery mechanisms within the public banking sector. Continuous monitoring, better risk assessment, and effective recovery strategies are essential for maintaining financial stability in the banking industry.

REFERENCES

- [1] Pestova, A., & Mamonov, M. (2013). Macroeconomic and bank-specific determinants of credit risk: Evidence from Russia (EERC Research Network Working Paper No. 13/10E). Retrieved from <https://publications.hse.ru/en/preprints/135286943>.
- [2] Sontakke, R. N., & Tiwari, C. (2013). Trend analysis of non-performing asset in scheduled commercial banks in India. *International Journal of Application or Innovation in Engineering & Management (IJAIEEM)*, 3, 2319-4847. Retrieved from <https://www.ijaieem.org/RATMIG> 2013/MGT%2010%20Trend_Analysis_of_NPA_in_Scheduled_Commercial_Banks_in_India.pdf
- [3] Sengupta, R., & Vardhan, R. (2017). Banking crises and NPAs in India: Post-liberalization perspective. *Asian Journal of Finance and Accounting*, 9(4), 112–126.
- [4] Sontakke, S., & Tiwari, P. (2013). Non-performing assets and their impact on profitability of Indian banks. *International Journal of Business and Management Innovation*, 2(6), 30–35.
- [5] Mittal, R. K., & Suneja, D. (2017). The problem of rising non-performing assets in banking sector in India: Comparative analysis of public and private sector banks. *International Journal of Management, IT and Engineering*, 7(7), 384-398. Retrieved from https://www.academia.edu/35917257/The_Problem_of_Rising_Non_performing_Assets_in_Banking_Sector_in_India_Comparative_Analysis_of_Public_and_Private_Sector_Banks.
- [6] Sri, K. S., & Pallavi, K. (2025). Non-performing assets: A comparative study of Union Bank and ICICI Bank. *International Journal of Advanced Engineering, Management and Science (IJAEMS)*, 11(4), 20-24.
- [7] Das, J. K., & Dey, S. (2015). Non-Performing Assets of Public and Private Sector Banks in India: An Empirical Study. *Business Studies Journal*, University of Calcutta, 38, 1-19. <https://www.caluniv.ac.in/dj/BS-Journal/vol-38/Non-Performing.pdf>.
- [8] State Bank of India. Annual Reports (2014-2024). Retrieved from Annual Report - Investor Relations.
- [9] HDFC Bank. Annual Reports (2014-2024). Retrieved from HDFC Bank Investor Relations - Get Financial Information | HDFC Bank.