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An Empirical Study of NPAs in Indian Scheduled Commercial Banks

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Abstract
This study examines the trends and dynamics of Gross and Net Non-Performing Assets (NPAs) across different groups of Scheduled Commercial Banks in India from 2012-13 to 2023-24. The bank groups analyzed include Public Sector Banks, Old Private Sector Banks, Private Sector Banks, Foreign Banks, and Small Finance Banks. The research identifies periods of peak asset quality stress, followed by recovery phases, highlighting the differential impact among bank categories. Using secondary data from annual bank reports and regulatory returns, the study assesses the evolution of NPAs in both absolute terms and as a percentage of advances. Findings reveal that Public Sector Banks suffered the highest NPA levels, while Private and Foreign Banks maintained comparatively lower NPA ratios. The study suggests that strengthening credit risk management, enhancing regulatory oversight, and adopting technological innovations are critical for sustaining improvements in asset quality. These insights contribute to understanding the challenges and progress in the Indian banking sector's asset quality management.

Keyword: Non-Performing Assets, Scheduled Commercial Banks, Public Sector Banks, Private Sector Banks, Foreign Banks, Small Finance Banks, India Banking Sector

Introduction

Non-Performing Assets (NPAs) have been a persistent concern for the banking sector globally, and particularly in India, where banks play a critical role in economic development by mobilizing savings and providing credit to various sectors such as agriculture, industry, and services. NPAs represent loans or advances where the borrower has failed to make interest or principal payments for a specified period, typically 90 days or more. The accumulation of NPAs adversely affects the financial health of banks by eroding profitability, increasing provisioning requirements, and weakening capital adequacy. Consequently, high levels of NPAs can undermine the stability of the entire financial system and impede economic growth.

In India, Scheduled Commercial Banks (SCBs) consist of various categories including Public Sector Banks (PSBs), Private Sector Banks, Foreign Banks, and the more recent Small Finance Banks. Over the past decade, the Indian banking sector has witnessed significant fluctuations in asset quality, with NPAs reaching alarming levels during certain periods. This trend has raised concerns among regulators, policymakers, and stakeholders about the sustainability of credit growth and banking sector resilience. The period from 2012-13 to 2017-18 marked a phase of escalating NPAs, particularly among PSBs, triggered by economic slowdowns, sectoral distress, and lapses in credit appraisal. Since 2017-18, concerted efforts involving regulatory reforms, resolution mechanisms such as the Insolvency and Bankruptcy Code (IBC), and improved risk management practices have contributed to a notable decline in NPAs.

This study aims to provide a comprehensive analysis of Gross and Net NPAs across different bank groups within the SCBs over the period 2012-13 to 2023-24. By examining both absolute amounts and ratios relative to advances and assets, the research seeks to identify trends, peak stress periods, and recovery patterns. Understanding these dynamics is essential for enhancing credit risk management, shaping regulatory policies, and fostering a more robust banking environment in India.

Review of Literature

The challenge of managing NPAs in Indian banks has attracted substantial academic and policy research due to its implications for financial stability and economic growth. Bhattacharya & Patnaik (2019) [3] provide an in-depth analysis of the causes behind the rising NPAs in Indian banks, noting that economic slowdown, sectoral vulnerabilities (such as in infrastructure and steel), and weaknesses in credit appraisal processes were major contributors. Their study highlights that Public Sector Banks were disproportionately affected due to governance issues, political interference, and legacy loans, which compounded the asset quality problems. This view is supported by Mishra & Das (2018) [8], who found that PSBs consistently reported higher NPA ratios compared to Private and Foreign Banks, attributing this to differences in operational efficiency, risk culture, and portfolio diversification.

The period of 2015-2018 is often cited as a critical juncture in the Indian banking sector's asset quality trajectory. Singh & Kaur (2020) [10] discuss how this period witnessed a sharp rise in NPAs, leading to regulatory responses such as the enactment of the Insolvency and Bankruptcy Code (IBC) in 2016, which aimed to expedite the resolution of stressed assets. Their research shows that the IBC significantly improved recovery rates and discouraged willful defaults, contributing to the subsequent decline in NPAs observed post-2017-18.

In terms of technological interventions, Kumar & Sharma (2021) [7] emphasize the transformative impact of data analytics and digital tools in enhancing early warning systems and credit monitoring capabilities. Their study argues that technology adoption has enabled banks to proactively identify stressed accounts and take corrective actions before loans turn non-performing, helping to improve asset quality in recent years.

Foreign Banks have generally maintained better asset quality, as noted by Mishra & Das (2018) [8], due to stringent underwriting standards, conservative lending practices, and diversified exposure. They argue that these banks also benefit from global risk management expertise and more robust compliance frameworks. Similarly, Private Sector Banks have demonstrated relatively lower NPAs, which Kumar & Sharma (2021) [7] link to stronger governance, better credit appraisal, and focused recovery efforts. The emergence of Small Finance Banks has introduced new dimensions to the asset quality discourse. Rao & Patel (2022) [9] explore how these banks, which primarily serve underbanked and microfinance segments, initially faced higher NPAs due to the risk profile of their borrowers. However, their study finds that as these banks mature, strengthened credit assessment procedures and targeted recovery strategies have led to improvements in their asset quality.

Collectively, the literature underscores that NPAs are influenced by a complex interplay of macroeconomic factors, regulatory frameworks, and bank-specific practices. The dynamic nature of NPAs necessitates continuous monitoring and adaptive strategies to mitigate risks. This study builds on prior research by providing a detailed, bank group-wise analysis over an extended period, including the latest provisional data, to capture contemporary trends and challenges in India's banking sector.

Objective

The objective of this analysis is to examine the trends and patterns in Gross and Net Non-Performing Assets (NPAs) of Scheduled Commercial Banks in India, segmented by bank groups—Public Sector Banks, Old Private Sector Banks, Private Sector Banks, Foreign Banks, and Small Finance Banks—over the period from 2012-13 to 2023-24. The aim is to understand the asset quality stress across different bank categories, identify periods of peak NPA levels, and evaluate the subsequent recovery trends.

Research Methodology

This study employs a quantitative analysis of secondary data sourced from the annual accounts of banks and off-site returns. The data include advances, Gross NPAs, and Net NPAs, along with their respective percentages relative to advances and total assets, for each bank group over multiple years. The analysis focuses on comparing year-on-year changes and percentage trends to assess the asset quality across the bank groups. Provisional data for 2023-24 are also incorporated to reflect the most current trends.

Analysis and Interpretation

This section examines the trends in non-performing assets (NPAs) across different groups of scheduled commercial banks, highlighting their impact on the overall financial health of the banking sector. The analysis indicates variations in asset quality among bank groups, with improvements observed over time due to enhanced credit management and recovery measures, reflecting a positive shift in banking sector stability.

Table 1: GROSS AND NET NPAs OF Scheduled Commercial Banks (Amount in ₹ Crore)

Year	Advances		Non-Performing Assets (NPAs)					
			Gross			Net		
	Gross	Net	Amount	As% of Gross Advances	As% of Total Assets	Amount	% of Total Asses	% of Total Assets
2012-13	5988277	5879773	194053	3.2	2.0	98693	1.7	1.0
2013-14	6875748	6735213	263362	3.8	2.4	142421	2.1	1.3
2014-15	7559760	7388160	323335	4.3	2.7	175841	2.4	1.5
2015-16	8173121	7896467	611947	7.5	4.7	349814	4.4	2.7
2016-17	8492565	8116109	791791	9.3	5.6	433121	5.3	3.1
2017-18	9266210	8745997	1039679	11.2	6.8	520838	6.0	3.4
2018-19	10294463	9676183	936474	9.1	5.6	355068	3.7	2.1
2019-20	10918918	10301897	899803	8.2	5.0	289370	2.8	1.6
2020-21	11399608	10806381	835138	7.3	4.3	258050	2.4	1.3
2021-22	12750006	12198767	743640	5.8	3.4	204231	1.7	0.9
2022-23	14756637	14319352	571546	3.9	2.4	135320	0.9	0.6
2023-24	17508590	17142340	480818	2.7	1.7	106732	0.6	0.4

Source: Annual accounts of banks, and Off-site returns, and RBI sites

The analysis of Gross NPAs for Scheduled Commercial Banks reveals a significant rise from ₹194,053 crore (3.2% of gross advances) in 2012-13, shown in table 1 reaching a peak of ₹1,039,679 crore (11.2%) in 2017-18. After this peak, there has been a steady decline, with Gross NPAs reducing to ₹480,818 crore (2.7%) in the provisional data for 2023-24. Public Sector Banks (PSBs) followed a similar trajectory, with Gross NPAs climbing from ₹165,006 crore (3.6%) in 2012-13 to ₹895,601 crore (14.6%) in 2017-18, before falling to ₹339,541 crore (3.5%) in 2023-24. This downward trend suggests enhanced financial health and stability of Scheduled Commercial Banks, contributing to greater confidence in the banking system. Overall, the data points to a positive shift towards better asset quality and reduced financial stress in the sector.

Table 2: GROSS AND NET NPAs OF Public Sector Banks (Amount in ₹ Crore)

Year	Advances		Non-Performing Assets (NPAs)					
			Gross			Net		
	Gross	Net	Amount	As% of Gross Advances	As% of Total Assets	Amount	% of Total Asses	% of Total Assets
2012-13	4560169	4472845	165006	3.6	2.4	90037	2.0	1.3
2013-14	5215920	5101137	227264	4.4	2.9	130394	2.6	1.6
2014-15	5615793	5476250	278468	5.0	3.2	159951	2.9	1.8
2015-16	5823907	5593577	539956	9.3	5.9	320376	5.7	3.5
2016-17	5874849	5557232	684732	11.7	7.0	383089	6.9	3.9
2017-18	6141698	5697350	895601	14.6	8.9	454473	8.0	4.5
2018-19	6382461	5892667	739541	11.6	7.3	285122	4.8	2.8
2019-20	6615112	6158112	678317	10.3	6.3	230918	3.7	2.1
2020-21	6770363	6347417	616616	9.1	5.3	196451	3.1	1.7
2021-22	7433006	7043940	542174	7.3	4.3	154745	2.2	1.2
2022-23	8610115	8283763	428197	5.0	3.1	102532	1.2	0.7
2023-24	9773488	9506329	339541	3.5	2.2	72544	0.8	0.5

Source: Annual accounts of banks, and Off-site returns, and RBI sites

Public Sector Banks exhibit the highest level of asset quality stress among all bank groups in table no 2. Gross NPAs of PSBs rose sharply from 3.6% in 2012-13 to an alarming peak of 14.6% in 2017-18, while Net NPAs touched 8.0% during the same period. This deterioration can be attributed to high exposure to stressed sectors such as infrastructure, steel, and power, coupled with governance and operational inefficiencies.

However, from 2018-19 onwards, PSBs show significant improvement in asset quality. By 2023-24, Gross NPAs declined to 3.5% and Net NPAs to 0.8%. This decline reflects the effectiveness of recapitalization measures, consolidation of PSBs, stricter provisioning norms, and resolution of large stressed accounts through IBC.

Table 3: GROSS AND NET NPAs OF Private Sector Banks (Amount in ₹ Crore)

Year	Advances		Non-Performing Assets (NPAs)					
			Gross			Net		
	Gross	Net	Amount	As% of Gross Advances	As% of Total Assets	Amount	% of Total Asses	% of Total Assets
2012-13	886023	873252	15800	1.8	1.0	3900	0.4	0.3
2013-14	1360253	1342935	24542	1.8	1.1	8862	0.7	0.4
2014-15	1607329	1584312	34106	2.1	1.3	14128	0.9	0.5
2015-16	1972608	1939339	56186	2.8	1.8	26677	1.4	0.8
2016-17	2266721	2219475	93209	4.1	2.6	47780	2.2	1.3
2017-18	2725891	2662753	129335	4.7	3.0	64380	2.4	1.5
2018-19	3442347	3327328	183604	5.3	3.5	67309	2.0	1.3
2019-20	3776231	3625154	209568	5.5	3.6	55683	1.5	1.0
2020-21	4097040	3929572	197508	4.8	3.1	55377	1.4	0.9
2021-22	4700912	4553541	180769	3.8	2.5	43738	1.0	0.6
2022-23	5462976	5366673	125214	2.3	1.5	29510	0.5	0.3
2023-24	6959146	6861388	129164	1.9	1.2	31594	0.5	0.3

Source: Annual accounts of banks, and Off-site returns, and RBI sites

In table 3 Private Sector Banks demonstrate relatively superior asset quality management compared to PSBs. Although Gross NPAs increased from 1.8% in 2012-13 to 5.5% in 2019-20, the magnitude of stress remained substantially lower than that of PSBs. Net NPAs also remained contained, peaking at only 2.4% in 2017-18.

From 2020-21 onwards, a sharp decline in NPAs is visible, with Gross NPAs reducing to 1.9% and Net NPAs stabilizing at 0.5% by 2023-24. This improvement reflects robust risk management practices, diversified loan portfolios, superior credit monitoring, and greater operational efficiency in private banks.

Table 4: GROSS AND NET NPAs OF Foreign Banks In India (Amount in ₹ Crore)

Year	Advances		Non-Performing Assets (NPAs)					
			Gross			Net		
	Gross	Net	Amount	As% of Gross Advances	As% of Total Assets	Amount	% of Total Asses	% of Total Assets
2012-13	268966	263680	7977	3.0	1.3	2663	1.0	0.4
2013-14	299575	291142	11565	3.9	1.5	3160	1.1	0.4
2014-15	336638	327599	10761	3.2	1.4	1762	0.5	0.2
2015-16	376607	363551	15805	4.2	1.9	2762	0.8	0.3
2016-17	343822	332335	13629	4.0	1.7	2137	0.6	0.3
2017-18	363305	351016	13849	3.8	1.6	1548	0.4	0.2
2018-19	406881	396726	12242	3.0	1.2	2051	0.5	0.2
2019-20	436066	428076	10208	2.3	0.8	2005	0.5	0.2
2020-21	420617	420780	15044	3.6	1.2	3241	0.8	0.3
2021-22	476085	465484	13786	2.9	1.0	3023	0.6	0.2
2022-23	498738	491029	9526	1.9	0.6	1656	0.3	0.1
2023-24	546121	548474	6523	1.2	0.4	799	0.1	0.0

Source: Annual accounts of banks, and Off-site returns, and RBI sites

Table of Foreign banks maintain consistently low NPA levels throughout the study period. Gross NPAs fluctuated within a narrow range, peaking at 4.2% in 2015-16 and declining steadily thereafter to 1.2% in 2023-24. Net NPAs remained negligible, declining to nearly zero by the end of the period.

The strong asset quality of foreign banks can be attributed to their conservative lending policies, limited exposure to high-risk sectors, and stringent global risk assessment frameworks.

Table 5: GROSS AND NET NPAs OF Small Finance Bank (Amount in ₹ Crore)

Year	Advances		Non-Performing Assets (NPAs)					
			Gross			Net		
	Gross	Net	Amount	As% of Gross Advances	As% of Total Assets	Amount	% of Total Asses	% of Total Assets
2018-19	62775	59461	1087	1.7	1.3	586	1.0	0.7
2019-20	91509	90554	1709	1.9	1.3	765	0.8	0.6
2020-21	111589	108613	5971	5.4	3.7	2981	2.7	1.8
2021-22	140003	135802	6911	4.9	3.4	2725	2.0	1.3
2022-23	184808	177887	8608	4.7	3.2	1622	0.9	0.6
2023-24	229835	226148	5590	2.4	1.7	1796	0.8	0.5

Source: Annual accounts of banks, and Off-site returns, and RBI sites

Table 5 shown the data from the year of 2018- 19 to 2023-24, due to unavailability of data of previous years. The Small Finance Banks exhibit moderate but volatile asset quality trends. Initially, Gross NPAs remained below 2% during 2018-19 and 2019-20, but increased sharply to 5.4% in 2020-21, reflecting vulnerability during the COVID-19 pandemic due to exposure to micro and small borrowers.

Subsequently, a gradual improvement is observed, with Gross NPAs declining to 2.4% and Net NPAs to 0.8% in 2023-24. This improvement indicates better credit monitoring, recovery mechanisms, and stabilization of the informal sector.

Findings

From the analysis indicate that Scheduled Commercial Banks in India experienced a significant rise in both Gross and Net NPAs between 2012-13 and 2017-18, with Public Sector Banks facing the highest levels of asset quality stress. After peaking in 2017-18, NPAs steadily declined across all bank groups, reflecting improved asset quality and effective resolution measures. Private Sector and Foreign Banks consistently maintained lower NPA ratios compared to Public Sector Banks, while Small Finance Banks showed a recent trend of rising NPAs followed by improvement. The variation in peak periods and recovery phases among different bank groups highlights the diverse operational environments and risk management approaches within the banking sector.

Suggestions

Based on these findings, it is suggested that banks, especially Public Sector Banks, continue to strengthen their credit risk assessment and monitoring frameworks to sustain the progress in reducing NPAs. Sharing best practices in loan underwriting and recovery across bank categories can further enhance asset quality. Regulatory bodies should emphasize transparency and robust reporting standards for NPAs to aid better management of stressed assets. Small Finance Banks need to build strong risk management systems as they grow. Additionally, leveraging technology for early detection and resolution of potential NPAs can help minimize future risks. Policymakers should maintain support for distressed asset resolution mechanisms and create incentives for banks to uphold healthier loan portfolios.

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