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A comprehensive study on retail loans and NPA management: Root causes and strategic recommendations for mitigation

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Abstract
This study on Retail Loans and NPA Management at State Bank of India, Kuniyamuthur, examines the growing issue of Non-Performing Assets (NPAs) in the retail segment. It identifies key causes such as relaxed credit appraisal, borrower over-indebtedness, unstable income, and weak post-loan monitoring. The project reviews SBI's existing risk management, recovery systems, and compliance measures. Based on findings, it suggests strengthening credit assessment, improving customer awareness, using predictive analytics for early detection, and refining recovery practices. These steps aim to reduce retail NPAs and improve SBI's portfolio quality and financial stability.

Keyword: Retail loans, Non-performing assets, NPA management, Credit appraisal, Borrower over-indebtedness, Risk management, Loan recovery, Predictive analytics, Financial stability

Introduction

Retail loans are financial products offered by banks to individuals for personal needs such as housing, education, vehicles, and personal expenses, while NPA management refers to the process of controlling and recovering loans that have turned non-performing. In the Indian banking sector, especially in the State Bank of India (SBI), rising NPAs in the retail segment have become a growing concern. Major causes include poor credit assessment, weak monitoring, borrower defaults, and economic instability. Data from recent years reveal that home and personal loans contribute significantly to defaults. SBI has implemented several strategies like loan restructuring, settlement schemes, and legal recovery to address these issues. Comparing its performance with other banks highlights the need for stronger appraisal systems, borrower awareness, and effective risk management. Strengthening these areas can help reduce NPAs and ensure a healthier retail loan portfolio for the bank.

Objectives

- To understand the retail loan products and their disbursement process. To evaluvate NPA (Gross & net NPA).
- To analyse and compare NPA ratio with other private banks.

Review of Literature

- **Mehta, R. & Ghosh, T. (2023) [1]:** Retail Loan Credit Outlook and NPA Risks" This study reviews credit outlook reports to assess post-pandemic risk build-up in unsecured retail lending. Mehta and Ghosh highlight increased risk in personal loans and credit card segments despite broader credit growth. They propose the use of borrower-level data analytics and early-warning stress tests to mitigate NPA formation, particularly for salaried borrowers in vulnerable industries. AI-powered monitoring systems are also emphasized.
- **Shah, N. & Verghese, M. (2023) [2]:** Demographic Risk Profiling in Indian Retail Lending" Shah and Verghese explore how demographic factors like age, region, and employment type affect default risk.

- Their findings reveal that young salaried professionals and gig economy workers represent emerging NPA risk groups.
- **Trivedi, P., & Jain, M. (2022):** Mitigation Strategies for NPA in Retail Sector- a case study" The authors propose a multi-pronged approach including borrower education, post-disbursal tracking, and AI-based early warning systems. The study highlights that effective NPA mitigation in the retail sector requires consistent monitoring, borrower profiling, and institutional support for distressed customers.
- **Iyer, A. & Thomas, S. (2022):** Retail Credit Analytics and Default Mitigation in India" Iyer and Thomas examine the behavioral patterns in borrower repayment using advanced credit analytics. They emphasize personalized repayment schedules based on individual financial habits. Their research shows that digitally engaged borrowers show higher repayment compliance when provided with interactive financial tools.
- **Ramesh, D. & Banerjee, N. (2021):** Stress Testing and Portfolio Monitoring in Retail Lending". This paper outlines methods for real-time portfolio stress testing using AI and machine learning. It finds that lenders using scenario-based modeling were better able to avoid post-COVID defaults. The authors recommend integrating employment volatility data into stress testing, and segmenting portfolios by borrower type (e.g., salaried, MSME, informal sector).

Data Collection

Secondary Data: The success of any study depends upon the methodology adopted i.e., the techniques on the way of approaching to gather information from different sources. The data has been collected from secondary source, it includes:

- Annual report of past years
- Official websites
- Journals & newspaper

Tools used in the Study

1. Gross and Net NPA ratio

Comparative analysis

Gross and Net NPA ratio: Gross NPA Ratio shows the percentage of a bank's total loans that have become non-performing, i.e., loans that are not generating any income. It is calculated as (Gross NPAs / Gross Advances) × 100.

Net NPA Ratio, on the other hand, indicates the actual burden of bad loans on the bank after making provisions for potential losses. It is calculated as (Net NPAs / Net Advances) × 100.

Table 1: Gross NPA Ratio Calculation for FY2021-2024

SBI	Year Ended 31 march 2021-2024		
	Gross NPA's	Gross Advances	Gross NPA Ratio
	(1)	(2)	(3)
FY 2021-2022	₹1,12,023	₹ 28,18,000	3.29
FY 2022-2023	₹88,980	₹ 31,99,269	2.78
FY 2023-2024	₹83,000	₹ 37,03,971	2.24

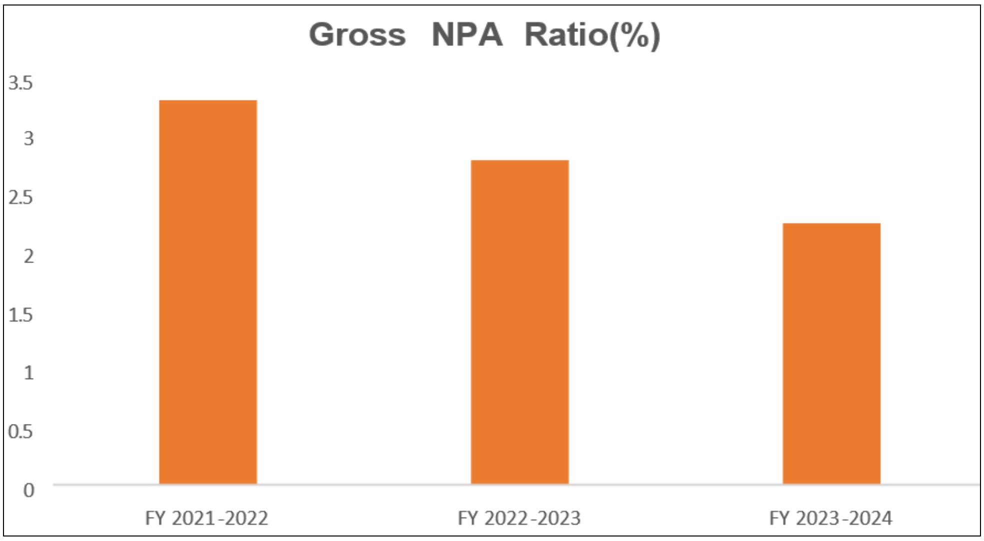

Chart 1: Showing Gross npa Ratio for FY 2021 -2024

Table 2: Comparative Analysis of Gross NPA And Net NPA

Bank	2021-2022		2022-2023		2023-2024	
	Gross NPA (%)	NET NPA (%)	Gross NPA (%)	NET NPA (%)	Gross NPA (%)	NET NPA (%)
SBI	3.29	1.02	2.78	0.67	2.24	0.57
ICICI	2.81	0.48	2.16%	0.42%	1.67	0.39
HDFC	1.17	0.32	1.12	0.27	1.24	0.33
AXIS	3.17	0.91	2.02	0.39	1.43	0.31

Comparative Analysis of Gross NPA

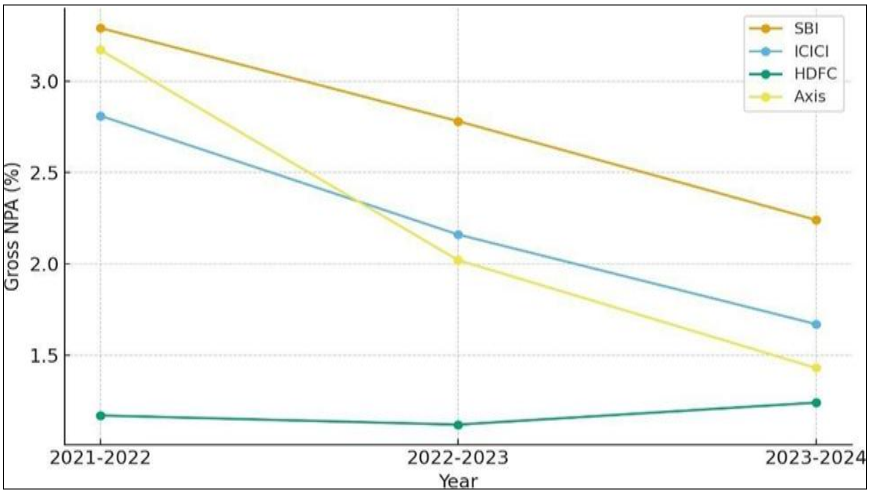

Chart 2: Gross NPA (%) Comparison (2021-2024)

Interpretation

The analysis shows a steady decline in Gross and Net NPA ratios across major banks, indicating better asset quality and recovery efforts. SBI, though still higher than private banks, reduced its Gross NPA from 3.97% in FY22 to 2.24% in FY24, showing improved credit control. HDFC Bank maintained the lowest NPAs, with around 1.1% Gross and 0.3% Net, reflecting strong risk management. ICICI and Axis Banks also improved, bringing Gross NPAs below 2% and Net NPAs under 0.4%. Overall, the trend highlights stronger asset quality across the sector, with SBI showing notable progress toward private bank standards.

Findings

1. **SBI's Improvement:** SBI continues to have the highest NPA ratios but has shown steady improvement Gross NPA fell from 3.97% to 2.24%, and Net NPA from 1.02% to 0.57%, due to stronger recovery and monitoring.
2. **HDFC Bank's Stability:** HDFC Bank maintains the lowest NPAs (Gross around 1%, Net around 0.3%) because of strict lending norms, strong monitoring, and diversified portfolios.
3. **ICICI & Axis Progress:** Both ICICI and Axis Banks reduced NPAs sharply Gross NPAs below 2% and Net NPAs under 0.4%, supported by improved recovery and risk systems.
4. **Private Banks' Strength:** Private sector banks show greater stability, efficient decision- making, and lower exposure to risky lending.
5. **SBI's Structural Challenge:** Despite progress, SBI still faces issues like legacy loans, policy delays, and slower reforms compared to private peers.

Suggestions

1. **Strengthen Credit Appraisal:** Public sector banks should adopt stricter borrower evaluations and move toward cash-flow-based assessments.
2. **Use Advanced Risk Tools:** Introduce AI-based systems to detect potential NPAs early through predictive analysis.
3. **Enhance Monitoring:** Track borrower performance digitally and conduct periodic reviews post-loan disbursement.
4. **Improve Staff Skills:** Train employees in risk assessment and recovery; empower regional offices for faster decisions.
5. **Faster Recovery Mechanisms:** Collaborate more with ARCs, DRTs, and NCLT to speed up recovery processes.
6. **Adopt Digital Lending:** Embrace data-driven, end-to-end digital systems to improve transparency and credit decision-making.

Conclusion

1. **Overall Improvement:** All banks SBI, ICICI, HDFC, and Axis show declining NPA ratios, reflecting stronger credit management.
2. **SBI's Progress:** SBI has reduced NPAs significantly but still trails behind private banks due to structural challenges.
3. **Private Banks' Efficiency:** HDFC and ICICI maintain top asset quality through robust systems and digital monitoring.
4. **Policy & RBI Role:** RBI's strict norms and IBC implementation have strengthened sector- wide recovery.
5. **Future Focus:** Banks must enhance technology use, predictive risk management, and governance to sustain low NPAs.
6. **Sustainable Growth:** Balancing growth with prudence will help maintain asset quality and long-term financial stability.

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