

# Non-Performing Assets and the Financial Health of Indian Scheduled Commercial Banks: A Decade-Long Trend Analysis (2011–12 to 2024–25)

**Dr.S.Jhansi rani**

Errola Niranjan Goud

Associate Professor & Department of Commerce & Management Studies,  
Government City College (Autonomous),  
Osmania University, Hyderabad

**Errola Niranjan Goud**

Department of Commerce & Management Studies,  
Government City College (Autonomous),  
Osmania University, Hyderabad

## Abstract

Non-Performing Assets (NPAs) remain one of the most persistent threats to the soundness of the Indian banking system, directly eroding profitability, capital adequacy and public confidence. This paper examines the trend and magnitude of Gross and Net NPAs of Indian Scheduled Commercial Banks (SCBs) over the period 2011-12 to 2020-21, with a supplementary review of developments up to 2024-25, drawing on secondary data published by the Reserve Bank of India (RBI) and individual bank annual reports. The study compares the NPA experience of public sector, private sector and foreign banks, computes the compound annual growth rate (CAGR) of Gross NPAs, and statistically tests whether the Gross NPA ratio of public sector banks differs significantly from that of private sector banks. The analysis shows that Gross NPAs of SCBs rose nearly six-fold between 2011-12 and 2017-18, peaking at 11.2 per cent of gross advances, driven overwhelmingly by public sector banks, before falling steadily to a historic low of around 2.2 per cent by September 2025 following the Asset Quality Review, bank recapitalisation, the Insolvency and Bankruptcy Code, and tighter provisioning norms. A paired t-test confirms that the Gross NPA ratio of public sector banks was significantly higher than that of private sector banks throughout the study period ( $t = 5.39$ ,  $p < 0.001$ ). The paper concludes with policy-oriented suggestions for early-warning systems, credit appraisal reform and recovery mechanisms, and outlines directions for future research.

**Keywords:** *Non-Performing Assets; Indian Banking Sector; Public Sector Banks; Private Sector Banks; Asset Quality; Gross NPA; Bank Profitability*

## 1. Introduction

Banking occupies a pivotal place in the economic life of a nation, mobilising household savings and channelling them into productive investment. The strength of an economy is, in large measure, a reflection of the soundness of its banking system, and the single most reliable barometer of that soundness is the quality of bank assets. As of September 2025, the Gross NPA ratio of India's Scheduled Commercial Banks (SCBs) stood at a historic low of about 2.15 per cent of gross advances for domestic operations (Press Information Bureau [PIB], 2025a) — a remarkable turnaround from the 11.2 per cent peak recorded barely eight years earlier, in 2017-18. This dramatic swing, from crisis to record health, makes the Indian NPA story one of the more instructive case studies in emerging-market banking regulation and forms the point of departure for the present paper.

A Non-Performing Asset is, in RBI's own definition, a loan or advance on which interest and/or instalment of principal remains overdue for a period of more than 90 days. When a large share of a bank's loan book turns non-performing, the consequences cascade quickly: interest income dries up, provisioning requirements rise, capital adequacy ratios come under pressure, the bank's ability to lend afresh contracts, and — ultimately — depositor and investor confidence is shaken. Because Indian banks are still heavily dependent on interest income from lending for their profitability, the NPA problem is not merely a banking-sector concern but a macroeconomic one, since credit contraction by stressed banks slows investment and growth across the wider economy.

The seeds of India's NPA crisis were sown in the credit boom that followed the mid-2000s, when banks — public sector banks in particular — expanded corporate lending aggressively, often without adequate appraisal or stress-testing against economic downturns. When growth slowed after the 2008 global financial crisis and investment cycles stalled, many of these loans turned sour, but weak recognition norms and regulatory forbearance allowed the true scale of the problem to remain hidden for several years. It was only after the RBI's Asset Quality Review (AQR) of 2015-16 forced banks to recognise stressed assets

transparently that Gross NPAs surged on paper, peaking in 2017-18. Since then, a combination of recapitalisation of public sector banks, the enactment of the Insolvency and Bankruptcy Code (IBC), 2016, the creation of the National Asset Reconstruction Company Limited (NARCL), tighter provisioning and underwriting norms, and a sustained economic recovery has driven NPA ratios down to multi-decade lows.

Against this backdrop, the present paper — developed from a dissertation-based study undertaken in the Department of Commerce & Management Studies, Government City College (Autonomous), Osmania University, Hyderabad — re-examines the trend and magnitude of NPAs across bank ownership groups, tests whether the public–private divergence in asset quality is statistically significant, and extends the analysis to the most recent published data. The findings are intended to be of value to bank managements, banking regulators, policy makers and researchers, as well as to Commerce and Management students preparing for competitive examinations and university papers on banking and financial services.

The remainder of the paper is organised as follows. Section 2 reviews the existing literature and identifies the research gap. Sections 3 and 4 present the objectives and hypotheses. Section 5 describes the research methodology. Section 6 briefly outlines the conceptual and regulatory framework for NPA classification, followed in Section 7 by a short profile of the Indian banking sector. Section 8 presents the results and discussion, Section 9 summarises the findings, Section 10 offers suggestions, and Section 11 concludes with directions for future research.

## **2. Review of Literature**

The literature on Indian bank NPAs may be organised around three broad themes: the causes and determinants of NPA accumulation, the relationship between NPAs and bank performance, and sector-wise or comparative assessments of asset quality.

### **2.1 Determinants and Causes of NPAs**

Uppal (2009), examining priority-sector lending, found that NPAs were consistently higher in the public sector bank group than in the foreign bank group, and traced this in large part to the higher share of priority-sector advances carried by public sector banks along with attendant issues of political interference and low profitability in such lending. Khosla and Kumar (2017) documented that Indian banks were saddled with NPAs exceeding ₹90,000 crore and argued that slow and cumbersome legal recovery processes were a major structural cause of the build-up. Sengupta and Bharadwaj (2017) took a regulatory perspective, arguing that forbearance — allowing banks to restructure loans without immediate NPA recognition — does not resolve underlying stress and can, if extended too long, worsen a banking crisis by incentivising banks to defer recognition of bad assets; this is consistent with the RBI's own subsequent finding, through the 2015-16 Asset Quality Review, that reported NPA figures had understated the true extent of stress.

### **2.2 NPAs, Profitability and Bank Performance**

Mishra (2016) compared priority- and non-priority-sector NPAs of public sector banks using secondary data and found that priority-sector lending contributed disproportionately to stressed assets. Rana (2018), in a study on the management of NPAs in the Indian banking system, concluded that NPAs adversely affect profitability, liquidity and lead to credit loss, and recommended early recognition of problem loans and avoidance of multiple financing to the same borrower as preventive measures. Saha, Zaman and Basumatary (2021), focusing on Union Bank of India, similarly found that profitability improved as NPA levels declined, reinforcing the inverse relationship between asset quality and earnings that runs through much of this literature.

### **2.3 Sector-wise and Comparative Studies**

Selvarajan and Vadivalagan (2013) studied the management of NPAs in the priority sector with reference to Indian Bank and other public sector banks for 2001-2011 and found that priority-sector NPAs were disproportionately high relative to overall advances growth. Gupta (2012) noted that, despite continuous efforts by banks to contain NPAs, the rate of fresh slippage remained high, with public sector banks considerably more exposed than private sector banks, which were comparatively better able to contain the problem. Gupta and Kasserri (2016) attributed the sharp rise in NPAs after 2014 primarily to the global economic slowdown and its transmission to Indian industry, particularly infrastructure, steel and textiles. Banerjee (2012), taking a macro view, observed that the direction of causality between bank credit and economic growth shifted over time — from credit-led growth to growth-led credit — a finding that helps explain why NPA stress intensified precisely when GDP growth decelerated after 2011-12.

### **2.4 Research Gap**

Taken together, the reviewed literature establishes with reasonable consistency that (a) public sector banks have carried a structurally heavier NPA burden than private sector banks, (b) priority-sector lending, weak appraisal and regulatory

forbearance are recurring causal themes, and (c) rising NPAs depress profitability. However, most of these studies close their data window between 2016 and 2021 — precisely at or just after the peak of the crisis — and stop short of examining the sharp post-2021 recovery in asset quality, or of subjecting the widely asserted public–private divergence to a formal statistical test. The present paper addresses this gap by extending the trend analysis to the most recently published RBI data (through September 2025) and by applying a paired t-test to establish, rather than merely assert, that the Gross NPA ratios of public and private sector banks differ significantly.

### 3. Objectives of the Study

- To study the broad trends and progress of the Indian banking sector as the backdrop against which NPA behaviour is examined.
- To analyse the trend and magnitude of Gross and Net NPAs of Scheduled Commercial Banks, and separately of public sector, private sector and foreign banks operating in India, during 2011-12 to 2020-21.
- To examine bank-wise variation in Gross NPAs among major public sector banks over the study period.
- To statistically test whether the Gross NPA ratio differs significantly between public sector banks and private sector banks.
- To review post-2021 developments in NPA levels and management, and to suggest measures for the containment of NPAs in Indian banks.

### 4. Hypotheses

H0: There is no significant difference between the Gross NPA ratio of public sector banks and private sector banks in India.

H1: There is a significant difference between the Gross NPA ratio of public sector banks and private sector banks in India.

### 5. Research Methodology

**Research Design:** The study adopts a descriptive and analytical (ex post facto) research design based entirely on secondary data, appropriate for tracing trends in published financial and regulatory statistics over time.

**Sources of Data:** Secondary data have been drawn from the RBI's Report on Trend and Progress of Banking in India, RBI Financial Stability Reports, annual reports of individual banks, Press Information Bureau releases, and financial data portals such as moneycontrol.com.

**Period of the Study:** The core quantitative tables cover the ten-year period 2011-12 to 2020-21, for which uniform, bank-wise disaggregated data were available; the analysis is then extended narratively, using aggregate RBI/PIB data, through 2024-25 (and provisional figures to September 2025) to capture the post-pandemic recovery in asset quality.

**Sample:** Aggregate data for all Scheduled Commercial Banks are supplemented by bank-group data for public sector, private sector and foreign banks, and by bank-wise figures for ten major public sector banks selected on the basis of NPA size.

**Statistical Tools:** Percentage analysis, compound annual growth rate (CAGR), descriptive statistics (mean and standard deviation), Pearson correlation, and a paired-samples t-test were used, computed in Python/MS-Excel.

**Limitations:** (a) The study relies wholly on secondary, published data, and its quality is bound by the accuracy of RBI and bank disclosures; (b) bank-wise disaggregated series were uniformly available only up to 2020-21, so the more recent period is discussed at the aggregate level; (c) the study covers ten major public sector banks and three ownership groups, and does not extend to regional rural or cooperative banks; (d) being a trend-based secondary-data study, the NPA–profitability relationship is discussed with reference to prior empirical literature rather than through a fresh profitability regression.

### 6. Conceptual Framework: Meaning and Classification of NPAs

With effect from 31 March 2004, the RBI classifies a loan or advance as a Non-Performing Asset where interest and/or instalment of principal remains overdue for more than 90 days, where a cash-credit or overdraft account remains 'out of order' for more than 90 days, where a bill purchased or discounted remains overdue for more than 90 days, or where, in respect of agricultural advances, instalments remain overdue for two crop seasons (short-duration crops) or one crop season (long-duration crops).

Gross NPA is the sum of all loan accounts classified as non-performing, before adjusting for provisions already made. Net NPA is obtained by deducting interest held in suspense, part-payments received and provisions already made from Gross

NPA, and therefore represents the residual stressed-asset exposure actually borne by the bank's balance sheet. RBI norms further classify NPAs, by ageing, into Sub-standard Assets (NPA for up to 12 months), Doubtful Assets (NPA for more than 12 months), and Loss Assets (identified as virtually uncollectible), each of which attracts progressively higher provisioning.

## 7. Overview of the Indian Banking Sector

The modern Indian banking system traces its origins to 1786, and its evolution is conventionally divided into four phases: the early formative phase (1786–1935), the pre-independence phase (1935–1969), the post-independence regulated phase (1969–1990), and the modern, liberalised phase (1990 onwards). The Reserve Bank of India became the central bank in 1935; 14 major commercial banks were nationalised in 1969 and a further 6 in 1980, extending banking to rural and priority sectors but also embedding the priority-sector lending obligations that later literature (Uppal, 2009) links to elevated public sector NPAs. Economic liberalisation from 1991 — guided by the Narasimham Committee — opened the sector to private and foreign banks, deregulated interest rates, and progressively reduced the Statutory Liquidity Ratio and Cash Reserve Ratio.

Today the sector comprises Scheduled and Non-Scheduled banks, with Scheduled Commercial Banks further divided into Public Sector Banks (majority government-owned), Private Sector Banks, Foreign Banks, Regional Rural Banks, and newer categories such as Small Finance Banks and Payments Banks, alongside Urban and Rural Cooperative Banks. The RBI regulates all categories and oversees monetary policy, while asset quality — the subject of this paper — has emerged as the single most consequential performance indicator distinguishing these bank groups over the last decade.

## 8. Results and Discussion

### 8.1 Trend in Gross and Net NPAs of Scheduled Commercial Banks

**Table 1: Gross and Net NPAs of Scheduled Commercial Banks in India, 2011-12 to 2020-21**

| Year    | Gross Advances (₹ Cr) | Gross NPA (₹ Cr) | GNPA (% of Advances) | Net NPA (₹ Cr) | NNPA (% of Advances) |
|---------|-----------------------|------------------|----------------------|----------------|----------------------|
| 2011-12 | 51,58,878             | 1,42,903         | 2.8                  | 65,205         | 1.3                  |
| 2012-13 | 59,88,277             | 1,94,053         | 3.2                  | 98,693         | 1.7                  |
| 2013-14 | 68,75,748             | 2,63,362         | 3.8                  | 1,42,421       | 2.1                  |
| 2014-15 | 75,59,760             | 3,23,335         | 4.3                  | 1,75,841       | 2.4                  |
| 2015-16 | 81,73,121             | 6,11,947         | 7.5                  | 3,49,814       | 4.4                  |
| 2016-17 | 84,92,565             | 7,91,791         | 9.3                  | 4,33,121       | 5.3                  |
| 2017-18 | 92,66,210             | 10,39,679        | 11.2                 | 5,20,838       | 6.0                  |
| 2018-19 | 1,02,94,463           | 9,36,474         | 9.1                  | 3,55,068       | 3.7                  |
| 2019-20 | 1,09,18,918           | 8,99,803         | 8.2                  | 2,89,370       | 2.8                  |
| 2020-21 | 1,13,99,608           | 8,37,771         | 7.3                  | 2,58,228       | 2.4                  |

*Source: RBI Annual Reports / Report on Trend and Progress of Banking in India (compiled from the source dissertation).*

Table 1 shows that Gross NPAs of Scheduled Commercial Banks rose from ₹1,42,903 crore (2.8 per cent of advances) in 2011-12 to a peak of ₹10,39,679 crore (11.2 per cent) in 2017-18 — a compound annual growth rate of 21.71 per cent — before the Asset Quality Review-driven recognition gave way to sustained recovery, with the ratio declining to 7.3 per cent by 2020-21. Net NPAs followed the same broad arc, peaking at 6.0 per cent in 2017-18 and falling to 2.4 per cent by 2020-21, indicating that provisioning coverage also improved over the period.

### 8.2 Sector-wise Comparison: Public, Private and Foreign Banks

**Table 2: Sector-wise Gross and Net NPA Ratios (%), 2011-12 to 2020-21**

| Year    | PSB GNPA % | PSB NNPA % | Private Bank GNPA % | Private Bank NNPA % | Foreign Bank GNPA % |
|---------|------------|------------|---------------------|---------------------|---------------------|
| 2011-12 | 3.0        | 1.5        | 1.9                 | 0.4                 | 2.7                 |
| 2012-13 | 3.6        | 2.0        | 1.8                 | 0.4                 | 3.0                 |
| 2013-14 | 4.4        | 2.6        | 1.8                 | 0.7                 | 3.9                 |
| 2014-15 | 5.0        | 2.9        | 2.1                 | 0.9                 | 3.2                 |
| 2015-16 | 9.3        | 5.7        | 2.8                 | 1.4                 | 4.2                 |
| 2016-17 | 11.7       | 6.9        | 4.1                 | 2.2                 | 4.0                 |

| Year    | PSB GNPA % | PSB NNPA % | Private Bank GNPA % | Private Bank NNPA % | Foreign Bank GNPA % |
|---------|------------|------------|---------------------|---------------------|---------------------|
| 2017-18 | 14.6       | 8.0        | 4.7                 | 2.4                 | 3.8                 |
| 2018-19 | 11.6       | 4.8        | 5.3                 | 2.0                 | 3.0                 |
| 2019-20 | 10.3       | 3.7        | 5.5                 | 1.5                 | 2.3                 |
| 2020-21 | 9.1        | 3.1        | 4.9                 | 1.4                 | 3.6                 |

Source: RBI Annual Reports (compiled from the source dissertation).

Public sector banks (PSBs) carried a far heavier NPA burden throughout the decade, with the Gross NPA ratio rising from 3.0 per cent in 2011-12 to a peak of 14.6 per cent in 2017-18 — more than three times the corresponding private-bank ratio of 4.7 per cent in the same year. In absolute terms, Gross NPAs of PSBs grew at a CAGR of 20.19 per cent against 33.86 per cent for private banks, though the latter's much smaller base (₹14,500 crore in 2011-12 against ₹1,17,839 crore for PSBs) means the higher growth rate did not translate into a comparable stock of stressed assets. The Pearson correlation between PSB and private-bank Gross NPA ratios over the decade is strongly positive ( $r = 0.85$ ), suggesting that both groups were exposed to common macroeconomic shocks — chiefly the post-2011 investment slowdown — even though PSBs bore a disproportionate share of the resulting stress. Foreign banks, by contrast, show a much weaker correlation with PSBs ( $r = 0.28$ ) and a comparatively stable, low NPA ratio throughout, reflecting their smaller and more selective domestic corporate loan books.

### 8.3 Bank-wise Position of Major Public Sector Banks

**Table 3: Gross NPA of Select Major Public Sector Banks (₹ Crore) — 2012, 2018 (Peak) and 2022**

| Bank                  | 2012    | 2018 (Peak) | 2022     | % Change 2018–22 |
|-----------------------|---------|-------------|----------|------------------|
| State Bank of India   | 39,676  | 2,23,427    | 1,12,023 | -49.9            |
| Punjab National Bank  | 8,719.6 | 86,620      | 92,448   | +6.7             |
| Bank of Baroda        | 4,464.8 | 56,480      | 54,059   | -4.3             |
| Canara Bank           | 4,121.7 | 47,699      | 55,652   | +16.7            |
| Union Bank of India   | 5,449.9 | 49,370      | 79,587   | +61.2            |
| Central Bank of India | 7,273.5 | 38,131      | 28,156   | -26.2            |

Source: moneycontrol.com / RBI Annual Reports (compiled from the source dissertation).

State Bank of India, being the largest lender by balance-sheet size, naturally carried the largest absolute Gross NPA throughout, but also posted the sharpest post-peak recovery, cutting Gross NPA by nearly half between 2018 and 2022. Punjab National Bank and Canara Bank, both affected by high-profile corporate fraud and stressed-infrastructure exposures, saw NPAs rise even after the 2018 peak — partly reflecting the amalgamation of Oriental Bank of Commerce and United Bank of India into Punjab National Bank in 2020, and of Syndicate Bank into Canara Bank, which combined the merged entities' legacy stressed assets onto a single balance sheet.

### 8.4 Testing the Public–Private Divergence in Asset Quality

**Table 4: Descriptive Statistics and Paired t-Test — Gross NPA Ratio (%), PSBs vs Private Banks, 2011-12 to 2020-21**

| Bank Group           | n  | Mean GNPA % | SD   | Paired t-value | p-value | Result                  |
|----------------------|----|-------------|------|----------------|---------|-------------------------|
| Public Sector Banks  | 10 | 8.26        | 4.00 | 5.39           | 0.0004  | Significant at 1% level |
| Private Sector Banks | 10 | 3.49        | 1.56 |                |         |                         |

The mean Gross NPA ratio of public sector banks over the study decade (8.26 per cent) was more than double that of private sector banks (3.49 per cent), and the paired-samples t-test confirms that this difference is statistically significant ( $t = 5.39$ ,  $p = 0.0004$ , well below the 1 per cent significance threshold). The null hypothesis ( $H_0$ ) that there is no significant difference between the Gross NPA ratios of public and private sector banks is therefore rejected, and the alternative hypothesis ( $H_1$ ) is accepted. This finding lends empirical support to Uppal (2009) and Gupta (2012), both of whom argued, on qualitative and descriptive grounds, that public sector banks were structurally more exposed to NPA accumulation than their private-sector counterparts — chiefly because of priority-sector lending obligations, weaker credit appraisal discipline in a politically-influenced lending environment, and larger legacy exposure to stressed infrastructure and corporate accounts.

## 8.5 Post-2021 Recovery: Recent Trends

**Table 5: Recent Trend in Aggregate Gross NPA Ratio of Scheduled Commercial Banks (%), FY 2020-21 to H1 FY 2025-26**

| Year-End                     | SCB GNPA % | SCB NNPA % | PSB GNPA % | Remarks                                                |
|------------------------------|------------|------------|------------|--------------------------------------------------------|
| March 2021                   | 7.3        | 2.4        | 9.1        | Pre-recovery base (Table 1)                            |
| March 2023                   | 3.9        | —          | —          | Continuing decline post-AQR/IBC                        |
| March 2024                   | 2.7–2.8    | 0.6        | 3.7        | Multi-year low                                         |
| March 2025                   | 2.3        | 0.5        | 2.6–2.8    | Multi-decadal low                                      |
| September 2025 (Provisional) | 2.15       | —          | 2.50       | Historic low; Private Banks 1.73%, Foreign Banks 0.80% |

Source: RBI Financial Stability Report and Press Information Bureau releases (PIB, 2025a, 2025b); IBEF (2024).

The recovery documented in Table 5 was driven by a combination of policy measures: the Asset Quality Review of 2015-16 forced transparent recognition of stress; the Insolvency and Bankruptcy Code, 2016 created a time-bound resolution mechanism that materially improved recovery rates relative to the earlier Debt Recovery Tribunal and SARFAESI regime; the 'Indradhanush' recapitalisation infused fresh capital into public sector banks; and the setting up of the National Asset Reconstruction Company Limited (NARCL) in 2021 provided a dedicated bad-bank route for large stressed accounts. The result is that, by September 2025, the Gross NPA ratio of Scheduled Commercial Banks had fallen to its lowest level in at least fifteen years, with public sector banks — the group that had driven the crisis — recording the sharpest improvement, though private sector banks continued to report the lower absolute ratio (1.73 per cent against 2.50 per cent for PSBs), consistent with the structural divergence established in Section 8.4.

## 8.6 Discussion

The results are broadly consistent with the reviewed literature. As Uppal (2009) and Gupta (2012) anticipated, public sector banks bore a disproportionate share of NPA stress, and the paired t-test in this paper provides formal statistical confirmation of a relationship that earlier studies had only asserted descriptively. The sharp post-2018 recovery corroborates Rana (2018) and Saha et al. (2021), both of whom linked falling NPAs to improving profitability — a relationship that plays out clearly in the return of most large public sector banks to sustained profitability after 2019-20. At the same time, the continued, if narrower, gap between PSB and private-bank asset quality even at the 2025 lows suggests that the structural drivers identified by Uppal (2009) — priority-sector obligations and governance differences — have been mitigated but not eliminated, and that Sengupta and Bharadwaj's (2017) caution against regulatory forbearance remains relevant to how any future stress episode should be handled.

## 9. Findings

- Gross NPAs of Scheduled Commercial Banks grew at a CAGR of 21.71 per cent between 2011-12 and 2020-21, rising from 2.8 per cent to a peak of 11.2 per cent of gross advances in 2017-18 before declining to 7.3 per cent by 2020-21.
- Public sector banks recorded a substantially higher Gross NPA ratio (mean 8.26 per cent) than private sector banks (mean 3.49 per cent) across the decade, a difference confirmed as statistically significant by a paired t-test ( $t = 5.39$ ,  $p = 0.0004$ ).
- Gross NPA amounts of PSBs and private banks are strongly positively correlated ( $r = 0.85$ ), indicating shared exposure to the post-2011 economic slowdown, while foreign banks show weak correlation with PSBs ( $r = 0.28$ ) and comparatively stable asset quality.
- Bank-wise data show that mergers of weaker public sector banks (e.g., Oriental Bank of Commerce and United Bank of India into PNB; Syndicate Bank into Canara Bank) temporarily raised the combined entity's Gross NPA even after the system-wide 2017-18 peak.
- NPAs materially reduced the earning capacity, Return on Assets and Return on Investment of affected banks during the stress period, consistent with the literature linking asset quality to profitability.
- The post-2018 recovery — driven by the Asset Quality Review, IBC, 2016, PSB recapitalisation and NARCL — brought the SCB Gross NPA ratio down to a historic low of approximately 2.15 per cent by September 2025, with public sector banks improving faster in percentage-point terms than private banks even though their absolute ratio remains higher.

## 10. Suggestions

- Strengthen credit appraisal and due-diligence processes at the loan-sanctioning stage itself, rather than relying primarily on post-disbursement monitoring.
- Establish robust early-warning systems capable of flagging potential NPAs well before the 90-day default threshold, using transaction and cash-flow data analytics.
- Continue to use the Insolvency and Bankruptcy Code and asset reconstruction companies such as NARCL for time-bound resolution of large stressed accounts, while guarding against excessive haircuts that erode recovery value.
- Maintain adequate provisioning in line with RBI norms even during periods of improving asset quality, to build resilience against future credit cycles.
- Review priority-sector lending design so that developmental lending objectives are met without disproportionately concentrating credit risk in public sector banks.
- Deploy technology — data analytics, early-warning dashboards and fraud-detection systems — to strengthen loan monitoring and borrower communication.
- Build specialised recovery teams within banks, combining legal, financial and negotiation expertise, to pursue chronic defaulters more effectively.
- Avoid prolonged regulatory forbearance during future downturns; timely recognition, though painful in the short run, prevents the build-up of hidden stress of the kind revealed by the 2015-16 Asset Quality Review.

## 11. Conclusion

Non-Performing Assets have been, for much of the last fifteen years, the single most consequential challenge facing the Indian banking sector, eroding profitability, straining capital adequacy and, at the peak of the crisis, threatening public confidence in the banking system itself. This paper has shown that the burden of that crisis fell disproportionately on public sector banks, whose Gross NPA ratio was, on average, more than double that of private sector banks over 2011-12 to 2020-21 — a divergence that is statistically significant and not merely a matter of perception. Yet the same data tell a second, more encouraging story: through a combination of transparent recognition (the Asset Quality Review), structural reform (the Insolvency and Bankruptcy Code), recapitalisation, and improved provisioning discipline, the Indian banking system has brought Gross NPAs down from an alarming 11.2 per cent in 2017-18 to a historic low of roughly 2.15 per cent by September 2025.

This recovery should not, however, be read as grounds for complacency. The persistence of a public-private gap even at current low levels, and the historical tendency of regulatory forbearance to defer rather than resolve stress, both point to the continuing need for disciplined credit appraisal, early-warning systems, and firm, time-bound resolution mechanisms. Sustaining the present asset-quality gains through the next credit cycle — rather than merely having achieved them in this one — will be the real test of how durably the lessons of India's NPA crisis have been learned.

## References

- Banerjee, S. (2012). Bank credit and economic growth in India: A study of the changing direction of causality. *Indian Journal of Economics and Development*, 8(3), 1–9.
- Gupta, B. (2012). A comparative study of non-performing assets of SBI and associate banks and other public sector banks. *SIT Journal of Management*, 2(3), 175–189.
- Gupta, S., & Kasser, S. (2016). Impact of global economic slowdown on non-performing assets of Indian banks. *International Journal of Applied Research*, 2(9), 553–557.
- Khosla, R., & Kumar, V. (2017). A study of non-performing assets of public sector banks in India. *International Journal of Engineering and Management Research*, 7(3), 219–223.
- Mishra, A. K. (2016). A comparative study of priority sector and non-priority sector NPAs of public sector banks in India. *International Journal of Research in Finance and Marketing*, 6(6), 40–48.
- Press Information Bureau. (2025a, October). Gross NPAs of Scheduled Commercial Banks (SCBs) for domestic operations reach a historic low of 2.15% as of September 2025. Government of India, Ministry of Finance. <https://www.pib.gov.in/>
- Press Information Bureau. (2025b). Gross NPAs reduce from 9.11% to 2.58% from March 2021 to March 2025. Government of India, Ministry of Finance. <https://www.pib.gov.in/>
- Rana, C. (2018). Management of NPA in context of Indian banking system. *International Journal of Research in Management, Economics and Commerce*, 8(3), 45–51.
- Reserve Bank of India. (2011–2021). Report on trend and progress of banking in India (Annual issues, 2011-12 to 2020-21). RBI. <https://www.rbi.org.in/>

Reserve Bank of India. (2024–2025). Financial stability report (Bi-annual issues). RBI. <https://www.rbi.org.in/>

Saha, M., Zaman, A., & Basumatary, P. (2021). Management of non-performing assets (NPA) in banks — With special reference to Union Bank of India. *Journal of Contemporary Issues in Business and Government*, 27(1), 1828–1836.

Selvarajan, B., & Vadivalagan, G. (2013). A study on management of non-performing assets in priority sector with reference to Indian Bank and public sector banks (PSBs). *International Journal of Finance & Banking Studies*, 2(1), 31–42.

Sengupta, R., & Bharadwaj, A. (2017). Understanding the recent banking regulation (amendment) ordinance, 2017 [Blog post]. National Institute of Public Finance and Policy (NIPFP). <https://nipfp.org.in/>

Uppal, R. K. (2009). Priority sector advances: Trends, issues and strategies. *Journal of Accounting and Taxation*, 1(5), 79–89.

India Brand Equity Foundation. (2024). Indian banks' gross NPA ratio at multi-year low of 2.8%, net NPA down to 0.6% in FY24: RBI Financial Stability Report. <https://www.ibef.org/>

Errola, N. G. (2026). Impact of non-performing assets in Indian banking sector [Unpublished M.Com dissertation]. Department of Commerce & Management Studies, Government City College (Autonomous), Osmania University.