

# A Study on Non-Performing Assets (NPAs): Evidence from State Bank of India

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## ABSTRACT

Non-Performing Assets (NPAs) represent loans on which interest or principal repayments are overdue, indicating deterioration in asset quality. High levels of NPAs adversely affect the profitability, liquidity and stability of banks, making the management a critical aspect of banking performance. Effective credit appraisal, monitoring, and recovery mechanisms play important role in controlling NPAs and ensuring financial soundness. This study focuses on the behaviour of NPAs of State Bank of India. The study adopts analytical approach using ratio analysis and correlation analysis. Overall, the results indicate a notable improvement in asset quality over the study period.

**Keywords:** Indian Banking Sector, Public Sector Banks, Gross NPA, Net NPA, State Bank of India, Asset Quality, Profitability

## INTRODUCTION

The banking sector plays a critical role in economic development by mobilizing savings and allocating them to productive uses. The effectiveness of this intermediation largely depends in asset quality, for which Non-Performing Assets (NPAs) serve as a key indicator. NPAs, defined as loans with overdue principal or interest beyond the prescribed period, reflect the level of credit risk and efficiency of lending practices. A rise in NPAs signals deterioration in asset quality and points to weakness in credit appraisal, monitoring, and recovery mechanisms.

NPAs have direct implications for bank performance. They reduce interest income, necessitate higher provisioning and thereby compress profitability. In addition, funds locked in non-performing assets constrain liquidity and limit the capacity of banks to extent fresh credit, with potential spill-overs to economic activity. Persistent NPA levels may also affect investor and depositor confidence thereby influencing overall financial stability.

The significance of NPAs in Indian banking sector became particularly evident during the mid-2010s, when the Gross NPA ratio of scheduled commercial banks increased to 11.18% in March 2018. This period of heightened stress was followed by a phase of improvement, with the Gross NPA ratio declining to around 2.8% in March 2024 and the Net NPA ratio about 0.6%. The improvement in asset quality has been supported by regulatory reforms, strengthened resolution frameworks, and enhanced provisioning practices as reflected in a Provision Coverage Ratio of around 74% and ROA of 1.3% in recent years.

Within this braded context, State Bank of India occupies a pivotal position in the Indian banking system, given its size, extensive branch network and significant share in banking assets and advances. As the largest public sector bank, its asset quality trends are indicative of wider developments in the banking sector.

Therefore, an analysis of NPAs in SBI provides valuable insights into asset quality dynamics, risk management practices and their implications for financial performance.

## REVIEW OF LITERATURE

**Nishchal Mittal (2025)**, analysed NPA crises and its resolution. The study highlights that, post-2018 banking reforms successfully reshaped how banks allocate operational expenditures, shifting their focus towards digital transformation, enhanced risk management practices, and personal training. Although these strategic investments prevented operational spending from further exacerbating NPA accumulation, they did not immediately translate into lower NPA ratios for the banks. Consequently, the continuous divergence in management efficiency between PSBs and Private sector banks highlights the ongoing necessity for PSBs to adopt more aggressive managerial reforms, optimize their operational expenses, and strengthen credit evaluation processes to effectively reduce NPAs and ensure long-term financial stability.

**Ms.Sarita & Dr.Vipin Nandal (2024)**, attempted to study the NPAs of scheduled commercial banks in India. The study concludes that, the asset quality of Indian scheduled commercial banks are significantly improved over the last decade, with gross NPA falling to a 10 year low. While NPAs experienced a sharp upward trend from 2014 to peak at 11.2% of gross advances in 2017-18, they have since steadily declined to just 2.8% by 2023-24. This ongoing recovery is driven by lower slippages, enhanced credit assessment methods, and reduced provisioning requirements, which have collectively boosted overall bank profitability. Despite this sector wise improvement, a major finding remains that PSBs continue to be the most severely affected by bad loans, consistently recording much higher NPA levels than both private and foreign banks.

**Ajjiada Renuka & P.Divya (2023)**, published a paper entitled ‘A Study on Impact of Non-Performing Assets (NPAs) on the Profitability of Banks’. The paper concentrates on the conditions of NPAs in seven select banks and the outcome shows that aside from SBI and PNB the wide range of various banks display a negative relationship between their Gross NPAs and net benefits. However, SBI and PNB is expanded the net benefit each year not influenced by gross NPAs. These two banks are focusing towards their NPA to recuperate their forthcoming credits.

## STATEMENT OF THE PROBLEM

Non-Performing Assets have emerged as critical concern in banking sector. Economic uncertainties and fluctuations in borrower income affect the repayment capacity of borrowers, leading to potential stress in loan accounts. Sector specific risks, particularly in MSMEs and retail lending, increase the vulnerability of bank portfolios. The growing use of restructuring and write-offs rises concerns regarding the actual level of stressed assets. Higher provisioning requirements for NPAs exert pressure on profitability and capital management. Variations in NPA level across periods indicate the dynamic nature of credit risk. These issues highlight the complexity involved in managing NPAs in the banking sector. Since SBI is a multinational bank and holds important place in Indian banking sector, there is a need to analyse its Non-Performing Assets movement and practice of provisioning.

## OBJECTIVE

The Following are the research objectives of the study:

- To analyse the movement of Non-Performing Assets of State Bank of India
- To assess the provisioning practices of State Bank of India
- To examine the relationship between NPA and profitability

**METHODOLOGY**

**Source of Data & Study Period:**

The study has used data from secondary sources, which are collected mainly from the Annual Reports of SBI and further required data are collected through various journals, magazines, newspapers and websites. The Study period consists of ten years from 2015-16 to 2024-25.

**Sampling Design:**

The study adopted a purposive sampling technique, wherein State Bank of India is intentionally selected due to its significance in the Indian banking sector.

**Tools for Analysis:**

The study has used following tools for analysis:

- Ratio Analysis
- Correlation Analysis

**ANALYSIS & INTERPRETATION**

**Table 1 - Summary of NPA Ratios of State Bank of India (Percentage)**

Year / Ratio	Gross NPAs to Gross Advances Ratio	Net NPAs to Net Advances Ratio	Net NPAs to Total Assets Ratio	Provision Coverage Ratio
2015 - 16	6.5	3.81	2.37	60.69
2016 - 17	6.9	5.19	2.15	45.48
2017 - 18	10.91	5.73	3.21	50.38
2018 - 19	7.53	3.01	1.79	61.86
2019 - 20	6.15	2.23	1.31	65.21
2020 - 21	4.98	1.5	0.81	70.88
2021 - 22	3.97	1.02	0.56	75.04
2022 - 23	2.78	0.67	0.39	76.39
2023 - 24	2.24	0.57	0.34	75.02
2024 - 25	1.82	0.47	0.29	74.42
Mean	5.38	2.42	1.32	65.54
SD	2.66	1.84	0.96	10.37
CV	49.48%	76.24%	72.86%	15.82%
CAGR	-13.19%	-20.75%	-20.67%	-

*\*Complied and Computed from Annual Report of SBI*

The Gross NPAs to Gross Advances Ratio of SBI shows a clear pattern of initial increase followed by a sustained decline over the study period. The ratio increased from 6.5% in 2015-16 to a peak of 10.91% in 2017-18, indicating higher asset quality pressure during the early phase. Thereafter, a consistent declining movement is observed, reducing to 1.82% in 2024-25. This steady reduction reflects improved credit monitoring and recovery performance in later years. The CAGR of -13.19% further confirms the continuous decline in gross NPAs over the period.

The Net NPA to Net Advances Ratio also exhibits a similar movement with a sharper decline in the later years. The ratio increased from 3.81% in 2015-16 to 5.73% in 2017-18 and subsequently declined consistently to 0.47% in 2024-25. This indicates strengthening of provisioning and effective recovery

mechanisms. The sharper reduction compared to Gross NPA suggests improved control over net NPAs. The CAGR of -20.75% highlights a significant reduction in net NPAs over the study period.

The Net NPA to Total Assets Ratio reflects the overall burden of stressed assets on the asset base and it shows a continuous declining trend. The ratio increased to 3.21% in 2017-18 and thereafter declined steadily to 0.29% in 2024-25. This indicates a substantial reduction in the impact on NPAs on total assets in the later years. The negative CAGR of 20.67% further confirms the consistent decline in the burden of NPAs on the bank's balance sheet.

The Provision Coverage Ratio demonstrates a progressive and stable improvement throughout the study period. Although a lower level is observed in 2016-17, the ratio shows a consistent upward movement thereafter, reaching above 70% from 2020-21 onwards, with a peak of 76.39% in 2022-23. This indicates strengthened provisioning practices and improved capacity to absorb potential losses.

**Table - 2 Correlation between Gross NPA and ROA**

Variables Compared	Pearson Correlation (r)	Significance (P-Value)
GNPATGA & ROA	-0.972	0.000

The above table showing correlation analysis indicates a strong negative association between Gross NPAs to Gross Advances Ratio and Return on Assets, with a Pearson correlation coefficient of -0.972. This relationship is statistically significant at the 5% level ( $p < 0.01$ ), indicating the strong inverse relationship between asset quality and financial performance of SBI during the study period.

## CONCLUSION

The analysis of NPAs of State Bank of India over the study period indicates a clear improvement in asset quality over the study period. The NPA ratios showed an initial increase followed by a consistent decline, reflecting effective credit monitoring and recovery performance. The reduction in Net NPA to Total Assets highlights a lower burden on the asset base, while the improvement in PCR indicates strengthened provisioning practices. The correlation analysis reveals a strong negative and statistically significant relationship between asset quality and profitability. Overall, the findings show that effective management of NPAs has contributed to improved stability in both asset quality and financial performance.

## REFERENCES

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