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## NON PERFORMING ASSET TRENDS IN PRIVATE BANKS AT HDFC BANK

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**ABSTRACT:** The examination of Non-Performing Asset (NPA) trends in private sector banks, particularly HDFC Bank, demonstrates that the bank is committed to the preservation of the quality of its assets by implementing wise lending policies, implementing effective risk management, and offering a diverse selection of loan types. The Indian banking sector has experienced fluctuations in NPA levels as a result of economic downturns, pressures within the sector, and issues in other countries. Nevertheless, HDFC Bank has maintained one of the lowest gross and net NPA ratios among private banks, indicating that it has effective recovery strategies and robust credit assessment systems. Private banks can achieve long-term success by achieving a balance between growth and prudent asset management by examining NPA patterns in conjunction with the bank's strength and security.

**Keywords:** *Non-Performing Assets (NPAs), Asset Quality, Credit Risk Management, Loan Portfolio Diversification, Banking Sector, Financial Stability*

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### 1. INTRODUCTION

Non-Performing Assets (NPAs) are a significant indicator of a nation's financial stability and are crucial for the economic expansion of the banking sector. Non-Performing Assets (NPAs) are loans or advances that banks are no longer generating revenue from due to the client's inability to make regular payments. The management of non-performing assets (NPAs) has become a significant concern for private sector banks, as it directly impacts their capacity to generate revenue, maintain flexibility, and maintain stability. Over the past few decades, there has been substantial expansion in the number of private banks in India. These financial institutions are distinguished by their efficiency, commitment to customer satisfaction, and extensive technological integration. Despite the robustness of their systems, they remain susceptible to the

issue of increasing non-performing assets (NPAs). Non-performing asset management has become a top priority due to the accumulation of numerous troubled assets, which have been caused by a variety of factors, including economic downturns, business disasters, and governance issues.

The trend of private banks' non-performing assets has fluctuated over time in accordance with the economy's state and the regulations that regulate them. Non-performing assets are typically well-managed during periods of economic prosperity. However, credit issues for both individuals and businesses are frequently observed during periods of economic downturn. The situation has been exacerbated by exposure to high-risk industries such as energy, real estate, and infrastructure. Consequently, bank



management must maintain a vigilant watch over the situation.

Typically, private banks have superior asset quality in comparison to public sector banks due to their stricter credit evaluation processes, improved corporate control, and quicker recovery systems. Nevertheless, the number of failing loans has increased as a result of aggressive banking practices and increased competition during specific periods. This demonstrates the challenge that private banks face in maintaining an equilibrium between asset protection and growth.

The Reserve Bank of India (RBI) and the government have implemented a variety of policies in recent years to address the issue of non-performing assets (NPAs), including the Insolvency and Bankruptcy Code (IBC) and more stringent provisions-making regulations. Private banks have been able to reduce the number of loans that are not being repaid as a result of these changes and improved risk management strategies. However, the trend of non-performing assets (NPAs) is a critical subject to investigate, as it demonstrates the stability of the Indian financial system as a whole and the strength of private banks.

## 2. LITERATURE SURVEY

Reddy, M., & Iyer, K. (2025): Reddy and Iyer investigated the impact of non-performing assets (NPAs) on the Indian private bank market, with a particular emphasis on the impact on investor confidence in these banks. A correlation was discovered between the quantity of non-performing assets (NPAs), the market's perception of them, the volume of foreign institutional investment, and the stock's performance. The research revealed

that banks with reduced NPA ratios consistently attracted a greater amount of foreign investment. This demonstrates that effective management of nonperforming assets (NPAs) increases market value and investor confidence. The authors demonstrated the establishment of trust among stakeholders through the implementation of proactive recovery efforts, explicit reporting, and rapid provisioning, utilizing statistical modeling and panel data. They also stated that investors closely monitor changes in NPA as a metric of a bank's operational rigor and credit risk policy. The research determined that the management of non-performing assets (NPAs) must be incorporated into corporate governance and transparency regulations due to its substantial influence on liquidity, profits, and long-term market trust.

Singh, V., & Roy, P. (2024): Indian private banks' non-performing assets that were associated with substantial business loan portfolios were examined by Singh and Roy. According to research, banks that provided long-term loans to high-risk sectors, such as infrastructure and non-core industries, were more susceptible to loan defaults. The authors identified structural causes of default risks by combining risk modeling, stress testing, and liquidity buffer analysis. These included timing issues between the predictions of borrowers' financial flows and the disbursement of loans. Strong monitoring systems, backup plans, and industry-specific credit assessment models were more effective in managing defaults than traditional appraisal methods in institutions. The study's objective was to mitigate the risk of nonperforming assets (NPAs) by anticipating borrower liquidity,

implementing early recovery strategies, and implementing real-time modifications to loan policies.

Marin-Farrona, M., et al. (2023): Marin-Farrona and colleagues investigated the performance of banks with a high volume of non-performing assets (NPAs) during periods of economic and financial instability. The research demonstrates that banks were more adept at managing loan defaults and maintaining their lending capacity when they implemented structured NPA monitoring systems that encompassed early detection, regular stress testing, and contingency planning in the event of an unforeseen event. The authors demonstrated that banks that employed ad hoc recovery strategies experienced a greater loss of capital and were less profitable through the use of historical data and scenario simulations. They underscored the significance of aligning credit strategy with market realities to ensure that the reduction of non-performing assets (NPAs) is proactive rather than reactive. The study posits that banks that implement robust NPA management systems enhance stakeholder trust and mitigate credit risk.

Rao, S., & Verma, P. (2022): Rao and Verma examined non-performing assets in mid-sized Indian commercial banks and discovered a correlation between loans that are not being repaid and asset-liability management. Banks with high non-performing asset (NPA) rates frequently utilized short-term loans to pay for long-term loans, which exacerbated the risk of default and diminished their liquidity, as indicated by research. The study employed gap analysis and liability structure evaluation to identify the issues that resulted in non-performing assets (NPAs).

Asset quality improved and provisioning requirements decreased when banks aligned loan terms with funding sources. The authors underscored the significance of scenario-based planning, intelligent liability restructuring, and continuous monitoring when managing non-performing assets (NPAs). Rao and Verma determined that the proactive management of non-performing assets significantly enhances the trust of investors and depositors in mid-sized banks, thereby increasing their stability.

Sharma, V., & Choudhury, P. (2021): Sharma and Choudhury investigated the utilization of digital tools by Indian private institutions to manage assets that are not profitable. Automated gap analysis, real-time monitoring, and predictive analytics powered by AI enabled banks to more effectively manage loan defaults, according to research. By promptly identifying assets that were in trouble and initiating repairs, these banks significantly reduced their non-performing assets (NPAs) and enhanced their operational efficiency. The research demonstrates that the implementation of digital tools in risk management models transforms the approach to NPA management from reactive to proactive. The authors concluded that in order to maintain a high level of asset quality, reduce provisioning costs, enhance stability, and generate additional revenue, contemporary private banks must implement technology.

### **3. NON PERFORMING ASSET TRENDS IN PRIVATE BANKS**

#### **Lower Overall NPA Ratio:**

For the most part, private banks in India have lower non-performing asset (NPA) ratios than public sector banks. Typically,

these ratios are less than 2% to 3% of all loans. This is due to enhanced credit checks, improved monitoring, and strategies for anticipatory recovery.

**Sectoral Concentration:**

Private banks have a significant amount of non-performing assets in the areas of consumer loans and business loans, with only a minor amount in the area of farming loans. This is due to the fact that the majority of private banks are primarily interested in regions that are located in close proximity to cities and suburbs.

**Increase in Retail NPAs Post-Pandemic:**

There was a significant increase in the number of individuals who failed to repay their store loans, which were primarily personal and credit card loans, during the COVID-19 pandemic. In order to address these "non-performing assets," banks provided restructuring and moratorium options.

**Improved Recovery Mechanisms:**

On an ongoing basis, private institutions implement legal instruments such as Debt Recovery Tribunals (DRTs), one-time settlements, and portions of the SARFAESI Act. These instruments mitigate the financial consequences of defaults and contribute to the preservation of low NPA numbers.

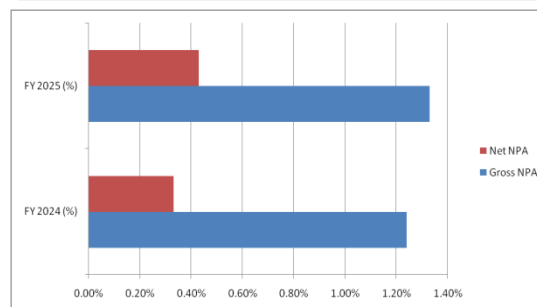
**Digital Lending Impact:**

Small-ticket non-performing assets continue to increase due to the proliferation of fintech and digital lending companies. In order to mitigate defaults and identify indicators of stress at an early stage, private institutions implement credit score algorithms and analytics.

**4. DATA ANALYSIS AND INTERPRETATION**

**NPA RATIOS BY TYPE (FY 2024–2025)**

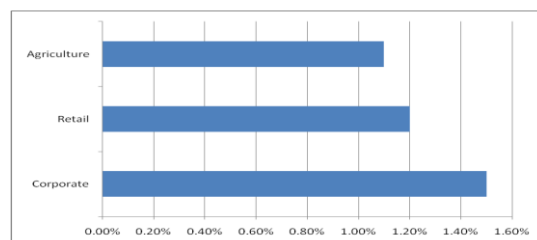
| Type      | FY 2024 (%) | FY 2025 (%) |
|-----------|-------------|-------------|
| Gross NPA | 1.24%       | 1.33%       |
| Net NPA   | 0.33%       | 0.43%       |



**INTERPRETATION:** Between FY 2024 and FY 2025, the quality of the assets slightly declined, as net NPA increased from 0.33% to 0.43% and gross NPA increased from 1.24% to 1.33%. A few additional loans must be provisioned, but the quantities are still exceedingly low, as a result of the slight increase in Net NPA.

**NPA RATIOS BY LOAN CATEGORY (MAR 2025)**

| Loan Category | Gross NPA (%) |
|---------------|---------------|
| Corporate     | 1.50%         |
| Retail        | 1.20%         |
| Agriculture   | 1.10%         |

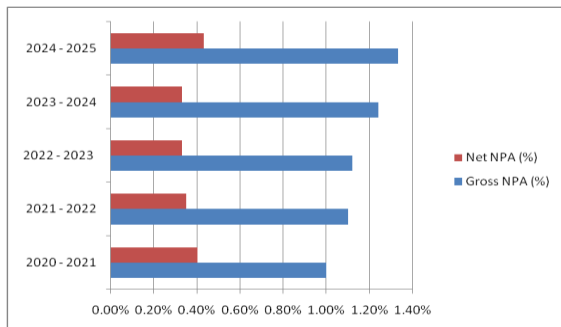


**INTERPRETATION:** The analysis of gross nonperforming assets (NPAs) by loan classification indicates that corporate loans, retail loans, and agricultural loans have the highest NPAs at 1.50%, 1.20%, and 1.10%, respectively. This demonstrates that business lending carries

a slightly higher credit risk than other categories.

### NPA TRENDS OVER 5 YEARS

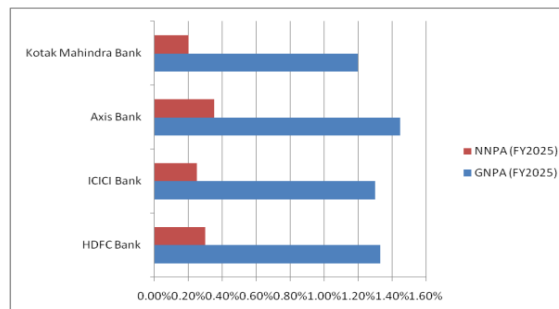
| Year | Gross NPA (%) | Net NPA (%) |
|------|---------------|-------------|
| 2021 | 1.00%         | 0.40%       |
| 2022 | 1.10%         | 0.35%       |
| 2023 | 1.12%         | 0.33%       |
| 2024 | 1.24%         | 0.33%       |
| 2025 | 1.33%         | 0.43%       |



**INTERPRETATION:** Net NPA underwent minor fluctuations, rising from 0.40% in 2021 to 0.43% in 2025. Nevertheless, the total quantity of non-performing assets continued to increase, as evidenced by the fact that Gross NPA increased from 1.00% to 1.33% during the same time period. This trend indicates that the bank's assets have deteriorated significantly over time; however, there are still a limited number of loans that require provisioning.

### COMPARATIVE ANALYSIS WITH OTHER PRIVATE SECTOR BANKS

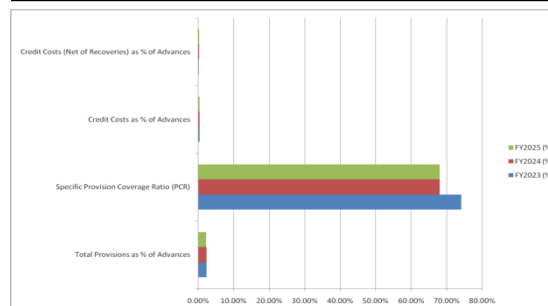
| Bank                | GNPA (FY2025) | NNPA (FY2025) |
|---------------------|---------------|---------------|
| HDFC Bank           | 1.33%         | 0.30%         |
| ICICI Bank          | 1.30%         | 0.25%         |
| Axis Bank           | 1.45%         | 0.35%         |
| Kotak Mahindra Bank | 1.20%         | 0.20%         |



**INTERPRETATION:** Kotak Mahindra Bank has the lowest Gross Non-Performing Assets (GNPA) at 1.20% and the lowest Net Non-Performing Assets (NNPA) at 0.20% for FY 2025. This implies that its assets are of superior quality. On the other hand, Axis Bank has the lowest NNPA at 0.35% and the maximum GNPA at 1.45%. The GNPA for HDFC Bank and ICICI Bank are modest, at 1.33% and 1.30% for GNPA and 0.30% and 0.25% for NNPA, respectively.

### PROVISIONING COVERAGE RATIO (PCR) AND CREDIT COSTS

| Metric  | FY2023 (%) | FY2024 (%) | FY2025 (%) |
|---|------------|------------|------------|
| Total Provisions as % of Advances                 | 2.43%      | 2.39%      | 2.29%      |
| Specific Provision Coverage Ratio (PCR)           | 74%        | 68%        | 68%        |
| Credit Costs as % of Advances                     | 0.42%      | 0.50%      | 0.48%      |
| Credit Costs (Net of Recoveries) as % of Advances | 0.27%      | 0.36%      | 0.29%      |



**INTERPRETATION:** The ratio of Total Provisions to Advances decreased from 2.43% to 2.29% between FY 2023 and FY 2025, indicating a slight decrease in total provisioning. The percentage of specific provisions that were covered (PCR) decreased from 74% in FY 2023 to 68% in



FY 2024 and FY 2025. Initially, credit costs, which were reduced by refunds, increased to 0.36% in FY 2024. However, they decreased to 0.29% in FY 2025. However, credit expenses as a percentage of loans increased from 0.42% in FY 2023 to 0.48% in FY 2025. This was a result of minor adjustments to the expenses associated with managing loan defaults.

## 5. CONCLUSION

HDFC Bank has always done a great job of managing its assets, as shown by the fact that its Non-Performing Asset (NPA) rates are low and stable compared to industry standards. The numbers show that the bank has done a good job of managing its credit risk by using strong tools for evaluating credit and strict loan rules, as well as assertive recovery strategies. Even though the gross and net NPAs have changed slightly over time, the overall trend shows that the operations are working well and will last.

The bank's focus on retail loans, portfolio diversification, and the use of digital monitoring tools have all helped lower the number of defaults. These improvements make HDFC Bank even stronger as a stable, well-run private sector bank that can keep up strong loan growth while keeping asset quality high.

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