A Comparative Study of Public and Private Bank NPAs, A Case Study of Nagpur South Region

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Abstract - **In this research paper, the comparative analysis has been done on Non-Performing Assets (NPAs) in public and private sector banks that are in Nagpur South region. The study employs primary data gathered in the bank branches and secondary data in the publications of the reserve bank of India to study the trends, causes and management of NPAs in the banking sectors. The results indicate that the gross NPA ratios of the public sector banks are high; however, the private sector banks are also encountering new stressors in the unsecured retail sectors. The 2022-2025 timeframe is the period of post-pandemic recovery, and the study provides information about the banking dynamics in the region of Central India.**

Keywords - **Non-Performing Assets, Public Sector Banks, Private Sector Banks, Nagpur South, Asset Quality.**

I. INTRODUCTION

The quality of assets in the Indian banking industry has amazingly changed in the previous decade, where Gross Non-Performing Assets (GNPAS) have significantly fallen as a high of 11.2 percent in March 2018 to a multi-decade low of 2.1 percent in September 2025. This is the cumulative effect of regulatory reforms, such as the Asset Quality Review (AQR) of 2015; the Insolvency and Bankruptcy Code (IBC) of 2016; and long-term recapitalization of banks in the public sector. The profitability in the banking sector has also significantly increased, and listed banks have registered their highest aggregate net profit of 3.9 lakh crore in 2024-25, which indicates that there is indeed a very strong relationship between the quality of assets and financial performance.

But even these aggregate national trends contain large regional differences and sectoral disparities which are worth probing into. Nagpur, the city, which is both strategically placed in central India and doubles up as an industrial city and administrative capital of the Vidarbha region, is an interesting case study of the dynamics in banking. Nagpur is a city based on three economic pillars, manufacturing especially automotive parts and engineering factories; services, especially developing IT and BPO industries; and agricultural trade, with Nagpur orange being the most popular citrus fruits. This diversity in the economy forms a complicated credit environment as the various banking models are used with different borrower segments.

Nagpur South, including such commercial hubs as Dhantoli and Laxmi Nagar, residential projects, as well as upcoming business districts located along the Amravati Road, can provide a micro-city of urban banking in tier-II Indian cities. It has about 85 branches of banks both in the government and in the private sector, and it has a population of more than 800,000 people and thousands of business ventures. The exposures of the various types of banks to credit risk in this environment is a valuable addition to the banking policy and practice.

II. LITERATURE REVIEW

A. Concept and Definition of NPAs

The guidelines given by the Reserve Bank of India state that a Non-Performing Asset is a loan or an advance in which the interest or installment payments have not been made in a time span of 90 days or longer. The assets can be grouped in sub-standard, doubtful and loss provisions, depending on the time of delinquency and value of collateral that can be realized. Poor-quality assets are those that have been in the NPA of less than 12 months, doubtful assets are those that have received the sub-standard category of at least 12 months, and loss

assets are those that are uncollectible and have low salvage value.
The development of NPA definitions in India is an international best practice with the domestic realities factored in. In 2004, the 90-day delinquency norm which is in accordance with Basel standards was fully realized. These have been refined by such requirements as the income recognition norms of banks to stop accruing interest on NPAs, and provision requirements of between 15 and 100 percent of sub-standard and loss assets respectively. These prudential standards have continued to make the banking system more resilient, but implementation issues are still challenging especially in the slower legal recovery systems.

B. National Trends in NPA Management

The asset quality of the Indian banking industry has been on a steady increase during the last eight financial years. According to the Trend and progress report of RBI 2024-25, the GNPA ratio of scheduled commercial banks decreased to 2.2% as of end-March 2025 compared to 2.7% in the previous year and much lower than the peak of 11.2 in 2018. As a proportion of stressed assets, the GNPA ratio of the public sector banks, that used to bear the highest share of the latter, has improved to 2.6% as compared to 3.5% over the same period. The better overall asset quality in the private sector banks with their GNPA ratios dropped slightly to 1.9 to 1.8.
This has been coupled by better quality of assets which have resulted in better balance sheets, and the capital adequacy ratio of the scheduled commercial banks has increased to 16.8 percent as of March 2025 which is well above the regulatory requirement of 11.5 percent. The coverage ratios of provisions also have been on the rise and most banks at this point possess more than 70 percent provisions in their gross NPAs. Such improvements are not only recoveries and write-offs, but also more prudent credit underwriting and improved risk management systems that have been adopted throughout the banking industry.

C. Theoretical Framework

This paper relies on the asymmetric information theory and principal-agent model to learn about NPA dynamics. Asymmetric information in which the borrowers know more about their business opportunities and repayment ability than the lenders does result in the adverse selection and moral hazard. Banks that have better systems in terms of information collection and processing are in a better position to pick on borrowers who are creditworthy and keep track of their behaviour after they have received the disbursement.

It is the principal-agent perspective which emphasizes the differences in interests between the depositors/shareholders (principals) and the bank management (agents). In the case of the state-owned banks, multiple principals whose goals might be mutually incompatible complicate the governance and the industry-based, profit-oriented private banks might have varying agency issues associated with the pressure to perform in the short term. These theoretical lenses are used to form the comparative analysis of the way the various categories of banks deal with credit risk in Nagpur South.

III. RESEARCH METHODOLOGY

A. Objectives of the Study

1. To compare GNPA ratios of banks in the Nagpur South region that are operating in the public and private sector between the years 2022-2025.
2. To determine the sector-specific factors and patterns of NPA creation in the different types of banks.
3. To determine the efficiency of different recovery measures that banks of various types of use.
4. To examine the perception and behaviour of borrowers leading to loan delinquencies.
5. To give evidence-based a recommendation on how to improve asset quality management in both banking sectors.

B. Research Design

The research is qualitative and quantitative as it consists of the quantitative analysis of NPA data and qualitative information provided by bank managers and borrowers. Such a methodological triangulation would increase the validity and richness of results, given that the research will be able to both record statistical trends and causal factors. The quantitative part evaluates ratios of NPA, sectoral, and recovery rates of bank categories and time. The qualitative element discusses the causes of these trends using semi-structured interviews and case vignette.

C. Data Analysis Techniques

Descriptive statistics applying to quantitative data was done using means, percentages and analyzing trends. The comparative analysis of the categories of banks used t-tests in case of significant testing. Interpretation of qualitative data collected in form of an interview was done in themes where the recurrent themes and important observations were made that shed light on the quantitative data collected. Quantitative and qualitative data help to explain the NPA dynamics in the study area in a comprehensive way.

D. Limitations of the Study

The paper has limitations of being geographically narrow to Nagpur South and may not reflect on the banking dynamics elsewhere in Vidarbha and Maharashtra. The three-year study period, although representative of the post-pandemic recovery, might not represent the cyclical patterns in the longer run. Using data that is reported by the managers is subject to the possibility of social desirability bias, but the use of triangulation with secondary data somewhat limits this issue. Despite these constraints, the research has important implications on policy and practice in the understanding of the dynamics of regional banking.

IV. ANALYSIS & FINDINGS

A. Comparative Analysis of GNPA Ratios

Table 1 indicates the calculated financial ratios of Infosys limited over the ten years of the study period. The most important indicator of the capital structure would be the Debt-to-Equity ratio, and the indicators chosen of the financial performance would be Return on Assets and Return on Equity.

Table 1: Category-wise GNPA Ratios in Nagpur South Region (2022-2025)

Year	Public Sector Banks (%)	Private Sector Banks (%)	Regional Average (%)	National Average (%)
2022-23	4.82	2.34	3.91	3.45
2023-24	3.95	2.18	3.28	2.95
2024-25	2.98	2.05	2.67	2.20
Change	-38.2%	-12.4%	-31.7%	-36.2%

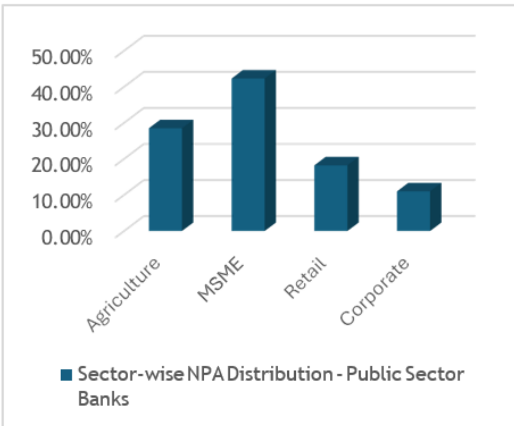
The information indicates that GNPA ratios of the public sector banks of Nagpur South are much higher in comparison to their counterparts of the private sector, but they have improved during the three years. PSB GNPA is 38.2% lower than it was before 4.82 to 2.98 which is better than the 12.4% decrease experienced by the private banks. This is in line with the national trends where PSBs have shown more acute falls in bad assets after years of aggressive recognition and settlement under regulation oversight.

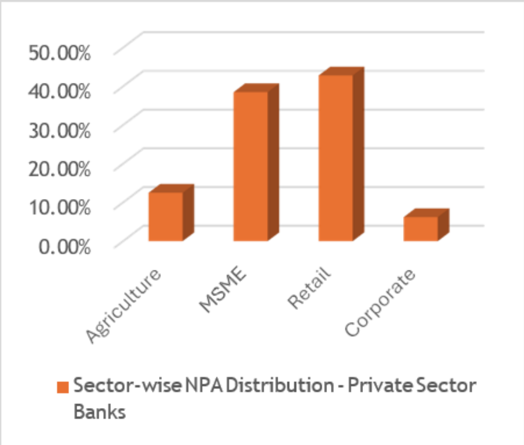
In this study, interviewed bank managers stated that there were several region-specific issues that explained the above-national NPA ratios. The slow payment cycles typical of the automotive ancillary industry in which the major manufacturers can take up to 90-120 days to pay the invoices puts a strain on the working capital of the smaller suppliers.

Seasonal nature of the orange trade in which the farmers and traders receive income during a few months makes it very hard to repay the loans annually. Also, the real estate slowdown in the region that happened after the demonstration period remains in the construction and related industries with the consequences being spilled over into bank portfolios.

B. Sector-wise Distribution of NPAs

Fig 1: Sector-wise Contribution to NPAs in Nagpur South (2024-25)





Sectoral distribution provides sharp contrasts in the NPA structure of the public and the privately run banks in Nagpur South. In the case of the public sector banks, the greatest proportion (42.3%) of the total NPAs is in the MSME sector, then in agriculture (28.5%), retail (18.2%), and corporate (11.0%). This distribution reflects the traditional focus of PSBs on priority sector lending and their deeper penetration in smaller towns and rural-urban interfaces within Nagpur South.

V. DISCUSSION OF FINDINGS

A. Convergence in Asset Quality

The analysis has shown a slowing down of the difference in asset qualities between the banks in Nagpur South in the public and the private sector. Although PSBs began at a higher point (4.82% in 2022-23), the more negative slope of the trend indicates that the previously made structural changes are already having an impact at the regional level. This wider trend is reflected in the decline in PSB NPAs on a nationwide basis in FY25 to 284 lakh crores, where credit appraisal systems, enhanced recovery systems, and cleaning up of old portfolios have led to the improvement in the quality of assets. This convergence is attributed to several factors. First, the banks in the public sector have significantly enhanced their credit risk management systems and used technologies and practices that were only used by the private banks. The decentralization of credit appraisal units, the automated early warning systems, and the special recovery teams have been employed by most PSBs to minimize the discretion and error possibilities at the branch levels. Second, the recapitalization and merger programs have resulted in more resilient and stronger banks of the public sector able to withstand credit shocks. Third, the regulatory push for uniform asset classification and provisioning norms has reduced the scope for regulatory arbitrage that previously allowed some banks to understate stressed assets.

B. Emerging Stress Points

Regardless of the overall improvement, the research points out the emergent stress areas that need to be regulated. The increased proportion of retail National Purchasing associations in the private banks (42.8) is associated with the national issues of unsecured lending. According to the data of RBI, personal loans GNPA, though currently under control when 1.8, is under watchlist because of the rapid pace of profit growth in the segment and the lack of experience of many new-to-credit borrowers. According to the reports given by the branch managers in Nagpur South, there is a rising delinquency rate among the 25-35 age bracket especially in credit card dues and personal loans obtained via digital platforms.

Of special interest is the concentration risk of the retail portfolios of the privately owned banks. Retail lending is not diversified at an industry level, unlike corporate or MSME lending, where diversification acts as natural hedges, retail lending puts household finances at risk, which are correlated with local economic conditions. The decline of Nagpur services or real estate would cause the simultaneous stress of several retail borrowers, which would be a systemic risk though the quality of underwriting on individual accounts.

VI. CONCLUSION & RECOMMENDATIONS

A. Summary of Findings

This is a comparative analysis of NPAs in the banks in the public and the private sector working in Nagpur South that creates three major conclusions. To begin with, the quality of assorts has been significantly improved by both categories of banks, and the ratios of GNPA have declined by 3.91 to 2.67 between 2022-23 and 2024-25. The banks in the public sector had declined more (38.2) than their private counterparts (12.4) but their base was higher. Second, sectoral structure of NPAs is quite different. PSBs are more stressed in agriculture (28.5%), and

MSME segments (42.3%), as they are highly obliged in their priority sectors. Their growth strategies are characterized by retail loan delinquencies (42.8) and MSME exposure (38.5) at PVBs.

Third, effectiveness of recovery mechanisms is different. The results are more favourable with SARFAESI Act (52.3 vs 44.8) and OTS schemes (68.5 vs 62.3), and in negotiated settlements, PVBs are slightly higher (45.6 vs 42.1). The two types find it difficult to go through DRT proceedings and Lok Adalat proceedings.

B. Recommendations

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or Public Sector Banks:

- Enhance credit evaluation among MSME borrowers which was a concern by 46.7% of managers.
- Digitization of agriculture progresses to provide early intervention.
- UTS scheme outreach expansion reported to be effective (68.5% recovery).

For Private Sector Banks:

- Reconsider the unsecured retail lending procedures in the light of increased stress concentrations (42.8% NPAs).
- Establish special MSME units that have the knowledge of the local industrial dynamics.
- Enhance the wilful default detection systems, the main issue displayed by 83.3% of managers.

For Regulators:

- Strengthen DRT infrastructure in Central India to improve recovery timelines
- Keep a close watch on microfinance and unsecured retail segments on the occurrence of stress.
- Improve credit information systems to record the overall payment of the borrowers.

C. Future Research

Future research may broaden geographically to rural Nagpur district to be able to compare rural and urban areas. This institutional view would be supplemented with detailed borrower level studies that would provide insights into the behavioural and economic causes of loan delinquencies.

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