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A COMPARATIVE STUDY OF ASSET QUALITY IN LEADING PRIVATE SECTOR BANKS OF INDIA

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ABSTRACT

Asset quality is a cornerstone of a bank's overall financial health and a primary indicator of its operational efficiency. It directly reflects the soundness of the bank's loan portfolio and its ability to generate income without significant risk of loss. High asset quality signifies that the majority of the bank's assets are performing and generating returns, thereby supporting profitability, liquidity, and capital adequacy. Conversely, deteriorating asset quality, indicated by rising levels of NPAs, can erode profitability, increase provisioning requirements, and undermine investor and depositor confidence. This study focuses on three major private sector banks—Axis Bank, Kotak Mahindra Bank, and Yes Bank—over a five-year period from 2020–21 to 2024–25. The research aims to analyse and compare key asset quality measures, specifically Gross Non-Performing Assets (GNPA) and Net Non-Performing Assets (NNPA), to evaluate the effectiveness of credit risk management strategies across these institutions. Data analysis reveals a significant improvement in asset quality for all three banks, with GNPA ratios falling well below 2% and NNPA ratios dropping under 1% by 2024–25. Kotak Mahindra Bank emerges as the most consistent performer with exceptionally low NNPA levels, Axis Bank demonstrates steady and sustained improvement, and Yes Bank showcases a remarkable turnaround from severe asset quality stress. The findings reinforce the direct link between effective asset quality management and enhanced financial performance, highlighting the importance of prudent lending practices, robust provisioning policies, and strategic recovery mechanisms in maintaining banking sector resilience.

KEYWORDS: Asset Quality, Non-Performing Assets, Gross NPA, Net NPA, Private Sector Banks, Financial Performance, Credit Risk Management, Axis Bank, Kotak Mahindra Bank, Yes Bank

1. INTRODUCTION

Asset quality is one of the most critical indicators of a bank's financial health and stability. It reflects the degree of risk associated with a bank's loan portfolio and other earning assets, determining the bank's ability to generate income without suffering significant losses. In simple terms, asset quality measures the likelihood that borrowers will honor their obligations and that the bank will recover its funds in full and on time. Since lending is the primary activity for most banks, the quality of these assets directly impacts profitability, liquidity, and long-term sustainability. A deterioration in asset quality can lead to increased provisioning requirements, reduced earnings, and, in severe cases, threats to the bank's solvency.

In banking parlance, loans and advances form the largest portion of a bank's assets. The quality of these loans depends on the creditworthiness of borrowers, the robustness of the bank's appraisal and monitoring systems, and the overall economic environment. Non-performing assets (NPAs) are the most widely used indicator for assessing asset quality. An asset becomes non-performing when interest or principal remains overdue beyond a specified period, typically 90 days in India as per the Reserve Bank of India (RBI) norms. A high NPA ratio suggests that a significant portion of the bank's assets are not yielding returns, which can undermine profitability and capital adequacy.

Asset quality is influenced by both internal and external factors. Internally, a bank's credit risk management policies, due diligence procedures, and post-disbursement monitoring play a crucial role in maintaining asset quality. Weaknesses in these areas can result in the sanctioning of loans to high-risk borrowers, inadequate collateral, or insufficient follow-up. Externally, macroeconomic conditions such as inflation, interest rate fluctuations, sectorial downturns, and policy changes can affect borrowers' repayment capacity and lead to asset quality stress. Sectors like infrastructure, real estate, and agriculture are particularly sensitive to such fluctuations, thereby impacting banks with high exposure to these industries.

Regulatory frameworks and guidelines also shape asset quality management. In India, the RBI mandates provisioning norms, asset classification standards, and regular reporting to ensure transparency and prudence in loan portfolio management. Asset quality reviews, stress tests, and prompt corrective actions are among the tools used by regulators to identify potential weaknesses and take preventive measures. The Basel norms, adopted globally, further emphasize capital adequacy and risk management, indirectly reinforcing asset quality discipline.

The importance of asset quality goes beyond the financial stability of individual banks; it has systemic implications. Poor asset quality in a significant portion of the banking sector can restrict credit availability, slow down economic growth, and erode public confidence in the financial system. On the other hand, strong asset quality fosters trust, enhances profitability, and provides a cushion against economic shocks. Therefore, continuous monitoring, prudent lending practices, and timely corrective measures are essential for maintaining sound asset quality and ensuring the overall resilience of the banking sector.

2. NEED OF THE STUDY

The stability and sustainability of any banking institution largely depend on the quality of its assets, as asset quality serves as a fundamental indicator of financial soundness and operational efficiency. In the Indian context, private sector banks have emerged as significant contributors to economic growth by offering innovative financial products, adopting advanced technology, and improving service quality. However, in recent years, the banking industry has faced mounting challenges due to rising non-performing assets (NPAs), tightening regulatory norms, and fluctuations in macroeconomic conditions. These factors have placed asset quality under close scrutiny by policymakers, investors, and stakeholders.

A comparative study of asset quality in leading private sector banks of India is essential to understand how these institutions manage credit risk, maintain portfolio quality, and comply with prudential norms in a competitive and volatile environment. By analyzing differences and similarities in asset quality parameters—such as NPA ratios, provisioning coverage, and loan portfolio diversification—this research can provide valuable insights into the effectiveness of risk management strategies and lending practices.

Moreover, as the Reserve Bank of India (RBI) continues to implement stringent guidelines to improve transparency and reduce credit risk, it becomes crucial to assess whether private sector banks are adapting effectively and whether their asset quality management practices align with sustainable growth objectives. The findings of such a study can not only benefit bank management in refining credit policies but also assist regulators, investors, and policymakers in designing frameworks that strengthen the resilience of the banking sector. In this backdrop, the present study is needed to bridge the research gap by offering a comparative analysis of asset quality trends among leading private sector banks, enabling stakeholders to make informed decisions and fostering a more robust and transparent banking environment in India.

3. LITERATURE REVIEW

Reserve Bank of India (2025). The June 2025 Financial Stability Report (FSR) offers the most authoritative, system-wide assessment of Indian banks' asset quality after the pandemic-era clean-up and the 2023–2024 retail-credit surge. The report documents gross NPA ratios at multi-decade lows alongside robust capital buffers, while simultaneously cautioning that under adverse stress-test scenarios, impairments could edge up over the medium term. Crucially, it links benign asset quality to stronger recoveries and upgrades, better underwriting discipline since the Asset Quality Review cycle, and tighter macroprudential actions on unsecured retail credit. For scholars examining the asset quality–performance nexus, the FSR provides granular evidence that low slippages and improved provisioning efficiency have translated into higher profitability and resilience without breaching regulatory minima in even severe scenarios.

CRISIL Ratings (2025). Synthesising rating actions across sectors, CRISIL's semi-annual "Resilience to the fore" shows bank asset quality at a cyclical trough, estimating system GNPAs near ~2.4% by March 31, 2025 (from ~2.8% a year earlier). The study attributes this improvement to secular deleveraging in corporates, bankruptcy-process maturation, and strengthened underwriting, and argues that even as NPAs "bottom out," stability should persist through FY26. Because credit costs are a dominant driver of bank profitability, CRISIL's forward-looking view substantiates the mechanism by which cleaner books have supported earnings upgrades and higher reaffirmation rates, reinforcing the empirical link between asset quality and financial performance.

International Monetary Fund (2023). The IMF's Article IV Staff Report on India situates the banking sector's balance-sheet repair within a macroeconomic framework, noting record capital-to-risk-weighted asset ratios (around 17% in March 2023) and broadly improved asset quality. The report connects stronger capital and lower NPAs to more favorable risk-weighted returns and credit intermediation capacity, while warning that rapid retail credit growth and global shocks could test asset quality under downside scenarios. For Indian banking research, this external multilateral assessment triangulates domestic evidence: better asset quality has been a necessary condition for profitability improvements and credit growth without compromising resilience.

Goel and Singh (2023). In a focused empirical inquiry on "Bank ownership and asset quality in Indian banking," Goel and Singh find that private and foreign banks exhibit superior asset quality relative to public sector banks over the study horizon. Their analysis implies structural differences in governance, incentive systems, and credit-risk processes that cascade into divergent NPA outcomes and provisioning behavior. The paper is particularly useful for comparative performance work: when controlling for size and macro drivers, ownership form still matters for asset quality, which in turn mediates profitability via credit cost differentials.

Ashwath R. and Sachindra G. R. (2025). An examination of financial stability and performance across selected Indian banks using CAR and debt-equity ratios (2019–2024) shows that leading private banks (e.g., HDFC Bank, Kotak Mahindra Bank) sustain higher and less volatile capital adequacy than several public peers, with implications for risk absorption and cost of funds. Although their ANOVA results suggest no statistically significant differences in average CAR/DER across all banks, the study documents materially lower variability and steadier leverage at top private banks—consistent with their lower credit costs amid better asset quality. This aligns micro-evidence on balance-sheet strength with the sector-wide narrative of asset-quality-led profitability.

Department of Financial Services, Government of India (2025). The 2024–25 Annual Report recounts the policy arc from the 2015 Asset Quality Review to the peak-NPA clean-up in 2018 and subsequent normalization. By detailing how transparent recognition, withdrawal of forbearance on restructurings, and provisioning discipline forced balance-sheet repair, the report provides a policy-mechanism explanation for the later improvements in profitability. In essence, regulatory tough love front-loaded losses and paved the way for lower steady-state credit costs and stronger returns on assets and equity once slippages abated.

Fitch Ratings via Reuters (2024). Fitch warns that the rapid expansion of unsecured consumer credit poses "untested risks" to underwriting standards. While headline asset-quality metrics remain strong, the composition effects—rising shares of personal loans and cards—could raise through-the-cycle volatility of credit costs. For performance analysis, the takeaway is dynamic: recent earnings tailwinds from high-margin retail credit may coexist with latent asset-quality pro-cyclicality, implying that profitability advantages can narrow if delinquencies climb, especially among lenders with thinner buffers or looser standards.

Financial Times (2024). Reporting on India's unsecured-lending boom and the subsequent regulatory brake, the FT chronicles the micro-to-macro channel through which household leverage and delinquency pressure can spill into bank asset quality and earnings. The article highlights RBI's macroprudential response—higher risk weights on personal loans—and the near-term profitability trade-offs as growth cools and provisions inch up. This journalistic evidence enriches the literature by underscoring that asset quality is path-dependent on portfolio mix: retail-heavy strategies can lift NIMs yet raise tail-risk to credit costs under stress.

S&P Global Market Intelligence (2024). S&P Global notes that record net incomes at India's largest banks are reinforcing asset quality via stronger internal capital generation and cushion for write-offs. It cites a GNPA ratio near an 11-year low (3.2% as of September 2023), linking profitability improvements to reduced credit costs and healthier corporate balance sheets. The piece reinforces a virtuous cycle hypothesis: better asset quality lowers provisions, boosts earnings, and in turn enables more conservative recognition and recovery efforts—further supporting asset-quality metrics.

Reserve Bank of India (2023). Summarising the 2022–23 Trend and Progress of Banking in India, RBI highlights a decadal improvement in asset quality with GNPA down to ~3.2% by September 2023 and CRAR robust at ~16.8%. The synthesis emphasizes that improved recoveries/upgrades and lower fresh slippages are central to the profitability upcycle, while reminding that vigilance is warranted in fast-growing unsecured segments. For researchers, this bridges system indicators with bank-level outcomes, anchoring the observed rise in ROA/ROE to durable asset-quality gains rather than transient cycle effects.

4. RESEARCH METHODOLOGY

Research Objectives

1. To analyse the asset quality measures of selected private sector banks of India
2. To compare asset quality measures of selected private sector banks of India

Sample Size

In this study below mentioned 3 private sector banks have been selected

1. Axis Bank
2. Kotak Mahindra Bank
3. Yes Bank

5. DATA ANALYSIS

1. GROSS NPA %

GROSS NPA %					
BANK	**2024-25**	**2023-24**	**2022-23**	**2021-22**	**2020-21**
Axis Bank	1.28	1.43	2.02	2.82	4.00
Kotak Mahindra Bank	1.40	1.39	1.80	2.34	3.25
Yes Bank	1.60	1.73	2.17	13.93	15.00

The data on Gross Non-Performing Asset (GNPA) percentages for Axis Bank, Kotak Mahindra Bank, and Yes Bank from 2020–21 to 2024–25 reveals a clear trend of improving asset quality across all three institutions, albeit with differing trajectories and starting points. A lower GNPA percentage indicates better asset quality, reflecting a reduced proportion of loans that are in default or close to default. Over the five-year period, all three banks have managed to bring down their GNPA ratios, demonstrating the combined effects of improved credit risk management, targeted recoveries, write-offs, and a more prudent lending approach.

Axis Bank shows a consistent improvement year after year, with GNPA declining from a relatively high 4.00% in 2020–21 to just 1.28% in 2024–25. The steep reduction, particularly between 2021–22 and 2022–23, signals significant efforts in loan book clean-up, robust recovery processes, and possibly a shift towards lower-risk lending segments. The steady pace of decline also reflects that the improvement was not a one-off event but part of a sustained strategy to strengthen asset quality.

Kotak Mahindra Bank's GNPA levels have been consistently lower compared to Axis Bank and Yes Bank over the entire period, starting at 3.25% in 2020–21 and falling to 1.40% in 2024–25. The decline has been gradual, with only minor fluctuations, such as the negligible change between 2023–24 (1.39%) and 2024–25 (1.40%), which may suggest that the bank has reached a near-optimal level of asset quality, making further reductions marginal and more challenging. Kotak's ability to maintain low GNPA levels over time indicates a conservative credit risk profile, strong borrower selection criteria, and effective post-disbursement monitoring mechanisms.

Yes Bank's trajectory is markedly different. In 2020–21, the bank had a staggering GNPA of 15.00%, pointing to a severe asset quality crisis stemming from legacy corporate loan exposures and weak underwriting practices in previous years. However, the bank has achieved a dramatic turnaround, bringing GNPA down to 1.60% in 2024–25. The most significant improvement occurred between 2021–22 and 2022–23, when GNPA fell sharply from 13.93% to 2.17%. This indicates an aggressive resolution strategy, including substantial write-offs, recoveries through insolvency proceedings, and possible recapitalization efforts. The reduction to below 2% in subsequent years suggests that the worst of the asset quality stress is behind the bank, though its past volatility in NPAs means it may still face closer regulatory and market scrutiny compared to its peers.

From a comparative perspective, Kotak Mahindra Bank emerges as the most consistent performer in terms of maintaining low GNPA levels over time, reflecting a more stable and risk-averse credit portfolio. Axis Bank, while starting with higher GNPA levels, has demonstrated steady improvement, bringing its asset quality in line with Kotak by 2024–25. Yes Bank, although starting from a severely stressed position, has posted the most dramatic turnaround, which, while commendable, reflects a recovery from an extreme crisis rather than long-term stability. The 2024–25 figures show that all three banks are now operating with GNPAs well below 2%, suggesting strong sector-wide asset quality improvement. However, the sustainability of these levels will depend on future lending practices, sectoral exposures, and macroeconomic conditions.

Anova: Single Factor						
SUMMARY						
Groups	*Count*	*Sum*	*Average*	*Variance*		
Axis Bank	5	11.55	2.31	1.2589		
Kotak Mahindra Bank	5	10.18	2.036	0.61093		
Yes Bank	5	34.43	6.886	48.05543		
ANOVA						
Source of Variation	*SS*	*df*	*MS*	*F*	*P-value*	*F crit*
Between Groups	74.22892	2	37.11446	2.230201	0.150122	3.885294
Within Groups	199.701	12	16.64175			
Total	**273.93**	**14**				

INTERPRETATION

From above table for 2 and 12 degree of freedom
Fcal is 2.230 and Ftab is 3.885
P-value is 0.150
Thus, Fcal<Ftab and p-value is higher than specified α of 0.05

So, null hypothesis is accepted and it is concluded that there is no significant difference in Gross NPA % between selected private sector banks of India.

2. NET NPA %

NET NPA %					
BANK	**2024-25**	**2023-24**	**2022-23**	**2021-22**	**2020-21**
Axis Bank	0.33	0.31	0.39	0.73	1.05
Kotak Mahindra Bank	0.04	0.34	0.40	0.64	1.21
Yes Bank	0.30	0.58	0.83	4.53	5.88

The Net Non-Performing Asset (Net NPA) percentage measures the proportion of a bank's non-performing assets after deducting provisions, giving a clearer picture of the actual credit risk remaining on its books. An analysis of the Net NPA data for Axis Bank, Kotak Mahindra Bank, and Yes Bank over the five-year period from 2020–21 to 2024–25 shows a consistent decline for all three institutions, reflecting improvements in provisioning coverage, recoveries, and lending discipline. However, the patterns of decline vary significantly across the banks, indicating differences in their historical asset quality challenges and the pace of resolution.

Axis Bank's Net NPA has steadily reduced from 1.05% in 2020–21 to 0.33% in 2024–25. The decline has been gradual, with notable improvement between 2021–22 and 2022–23, when the figure dropped from 0.73% to 0.39%. This trajectory suggests that Axis Bank has consistently strengthened its provisioning and recovery mechanisms while also improving the quality of its fresh loan disbursements. Maintaining Net NPA at low levels over the past three years demonstrates the bank's ability to manage credit costs effectively, which directly supports profitability and capital adequacy.

Kotak Mahindra Bank presents an interesting trend. In 2020–21, its Net NPA was relatively higher at 1.21%, but by 2024–25, it has fallen dramatically to just 0.04%, the lowest among the three banks. The sharp drop between 2023–24 (0.34%) and 2024–25 (0.04%) suggests a significant clean-up in the most recent year, possibly through aggressive recoveries, write-offs, or substantial provisioning. This near-zero Net NPA indicates exceptional asset quality and provisioning adequacy, placing Kotak in a highly secure position in terms of credit risk exposure. Such low levels also signal strong underwriting standards and a cautious approach to lending in risk-prone sectors.

Yes Bank's Net NPA trend reflects a recovery from a deep crisis. In 2020–21, the figure stood at 5.88%, a clear sign of severe asset quality deterioration. However, through a combination of resolution of stressed assets, capital infusion, and a tightened lending framework, the bank has brought its Net NPA down to 0.30% by 2024–25. The most substantial improvement occurred between 2021–22 and 2022–23, when the ratio dropped from 4.53% to 0.83%, indicating a decisive turnaround phase. While the current levels are comparable to Axis Bank's, the historical volatility in Yes Bank's asset quality means its recovery story is relatively recent and will need sustained effort to ensure long-term stability.

From a comparative perspective, Kotak Mahindra Bank stands out as the best performer in 2024–25, with an exceptionally low Net NPA of 0.04%, indicating minimal residual credit risk. Axis Bank and Yes Bank are close in current levels (0.33% and 0.30% respectively), but Axis Bank's performance appears more stable over time, whereas Yes Bank's improvement represents a recovery from extreme stress. Overall, the data points to strong asset quality management in the private banking sector, with Net NPAs well below 1% across all three banks in 2024–25, a clear sign of healthier loan portfolios and effective provisioning strategies.

Anova: Single Factor						
SUMMARY						
Groups	*Count*	*Sum*	*Average*	*Variance*		
Axis Bank	5	2.81	0.562	0.10332		
Kotak Mahindra Bank	5	2.63	0.526	0.19188		
Yes Bank	5	12.12	2.424	6.70793		
ANOVA						
Source of Variation	*SS*	*df*	*MS*	*F*	*P-value*	*F crit*
Between Groups	11.78457	2	5.892287	2.524137	0.12162	3.885294
Within Groups	28.01252	12	2.334377			
Total	**39.79709**	**14**				

INTERPRETATION

From above table for 2 and 12 degree of freedom
Fcal is 2.524 and Ftab is 3.885
P-value is 0.121
Thus, Fcal<Ftab and p-value is higher than specified α of 0.05

So, null hypothesis is accepted and it is concluded that there is no significant difference in Net NPA % between selected private sector banks of India.

6. CONCLUSION

The analysis of Gross NPA (GNPA) and Net NPA (NNPA) percentages for Axis Bank, Kotak Mahindra Bank, and Yes Bank over the five-year period from 2020–21 to 2024–25 highlights a remarkable improvement in asset quality across all three institutions, reflecting broader strengthening trends within India's private banking sector. All three banks have successfully reduced their GNPA and NNPA ratios to well below 2% and 1%, respectively, in 2024–25, demonstrating effective credit risk management, enhanced provisioning coverage, and sustained recovery efforts.

Axis Bank has shown steady and consistent progress in both GNPA and NNPA reduction, moving from relatively higher levels in 2020–21 to near parity with the best performers in 2024–25. Kotak Mahindra Bank has maintained consistently lower NPA ratios throughout the period and, by 2024–25, achieved an exceptionally low Net NPA of 0.04%, positioning itself as the strongest in terms of residual credit risk. Yes Bank, despite beginning from a position of severe asset quality stress, has recorded the most dramatic turnaround, reducing GNPA from 15.00% to 1.60% and NNPA from 5.88% to 0.30% over the five years, underscoring the success of its resolution and restructuring measures.

The findings suggest that private sector banks in India are now operating with significantly cleaner loan books, supported by improved underwriting standards, sectoral risk diversification, and stronger provisioning buffers. While Kotak Mahindra Bank exemplifies stability through conservative lending, Axis Bank represents steady improvement through sustained strategic interventions, and Yes Bank showcases a successful recovery from crisis. Going forward, the challenge for all three banks will be to maintain these improved asset quality levels amidst evolving macroeconomic conditions, potential sectoral stresses, and changes in credit demand patterns. The evidence clearly reinforces the link between asset quality management and financial performance, establishing that sustained control over NPAs is critical for profitability, investor confidence, and long-term resilience in the banking sector.

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