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Vikas Shukla

Research Scholar, Department
of Commerce, University of
Lucknow, Lucknow, Uttar
Pradesh, India

Rajeev Shukla

Department of Commerce,
Vidyant Hindu Degree College,
University of Lucknow, Uttar
Pradesh, India

A Comparison between the State Bank of India and HDFC Bank Ltd. about non-performing assets

Vikas Shukla and Rajeev Shukla

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Abstract

The financial sector is an indispensable part of an economy's growth, as its operation has a direct impact on the rate of economic growth. The economic expansion of a country depends significantly on its financial position. Loans are one of the basic responsibilities of banks to extend to various sectors, including industry, agriculture, housing, and many more, so that resources are used productively. But in recent years, increasing non-performing assets (NPAs) have kept banks conservative in lending.

With the adoption of global standards for income recognition, asset classification, and provisioning, the management of NPAs has become a serious challenge for Indian banks. A loan is treated as a non-performing asset (NPA) when the borrower fails to follow the RBI's guidelines by not paying either the principal or the interest within the prescribed time.

This research looks into SBI and HDFC Bank's trends in gross non-performing assets (NPAs), net non-performing assets (NPAs), net profit, and total advances. Both banks have experienced growth in net profit and total advances in the past three years. However, due to HDFC Bank's superior management of bad loans compared to SBI, it has managed to bring down its non-performing assets (NPAs).

Keywords: NPAs, HDFC, SBI, assets, banking, and economy, net profit

Introduction

Currently, India's two major banks being considered are HDFC Bank Ltd. (a private sector bank) and the State Bank of India (SBI), a public sector bank. With a market value of ₹122.50 billion on the Indian stock markets, it is one of the largest private banks in the world and the tenth largest bank globally. HDFC Bank's net profit for the financial year 2021-2022 was ₹36,961.36 crore, up from ₹31,116.53 crore in 2020-2021, making it one of the most profitable banks. HDFC Bank and HDFC Ltd. announced their merger on April 4, 2022.

The nation's oldest and most famous public sector bank, however, is the State Bank of India (SBI), whose headquarters are in Mumbai. The world's 49th largest bank is SBI, a global statutory banking and financial services provider. It became the third-largest lender on 14 September 2022, overtaking both HDFC Bank and ICICI Bank. Besides, on August 16, 2022, SBI launched Bengaluru's first-ever "state-of-the-art" branch dedicated to start-ups to promote and support entrepreneurship across the nation.

Non-performing assets (NPAs) are deemed important parameters to measure a bank's overall performance. Public sector and private sector banks in India have been impacted by the growing issue of NPAs. Yet, from the analysis, it is evident that SBI as a public sector bank has struggled more in dealing with NPAs than HDFC Bank. My study essentially aims at comprehending the term NPAs, examining their trends, and identifying the variation between SBI and HDFC Bank.

A non-performing asset in banking parlance is a loan or advance where the borrower has not repaid either the interest or principal within a certain limit of time. Generally, a loan is considered an NPA if there is no payment for 90 days. As banks rely mostly on the income from interest as their primary source of revenue, NPAs have a strong bearing on their financial health and profitability.

Types of NPA

Banks must classify non-performing assets (NPAs) according to the kind of asset, which is further subdivided into:

Corresponding Author:**Vikas Shukla**

Research Scholar, Department
of Commerce, University of
Lucknow, Lucknow, Uttar
Pradesh, India

Gross Non-Performing Assets (Gross NPAs): This refers to the total value of loans, including both principal and interest, that are classified as non-performing as per RBI guidelines on the balance sheet date. Gross NPAs reflect the overall quality of a bank's loan portfolio.

Net NPAs: These are calculated by subtracting the provisions made by banks for bad loans or potential losses from the gross NPAs. Net NPAs represent the actual financial burden on banks and provide a clearer picture of the stress on their resources.

Statement of the problem

Non-performing assets (NPAs) are one of the biggest problems for the Indian banking industry. When a borrower is not able to repay the loan amount or interest, the loan is considered an NPA, which causes financial losses for the bank. The bad loans lower the banks' profitability and their ability to earn, so NPAs are a big problem for the Indian financial system. The main purpose of this study is to examine HDFC Bank's and SBI's non-performing assets (NPAs) and find out how they impact the profitability of both banks through trend analysis.

Review of literature

B.R. Reddy's (2004) research study comprises 38 scientific articles presented at the 2000 National Conference on Non-Proliferation in Tirupati. The studies highlighted the developments in NPA management using primary and secondary data. These studies reached the conclusion that nonperforming assets (NPA) constituted a serious threat to the viability of Indian banks and their ability to survive, and suggested more drastic and remedial measures in NPA management, as well as the theoretical basis of the NPA.

Faizanuddin, Md., and Mishra, R.K. (2011) focused on the SBI in Patna Circle, Bihar, and examined the NPA's dimensional approach inside. Significant changes in the project financing parameters, recovery policy, legal requirements, and NPA account management were recommended by the analysis's findings and conclusions. in an analytical study.

Klein, N. (2013) investigated, with a focus on Central, Eastern, and South-Eastern Europe, the significant connections between macroeconomic conditions, bank-specific traits, and the occurrence of non-performing assets (NPAs) between 1998 and 2011. The panel VAR analysis typically confirms strong macro-financial linkages. In particular, the impulse response functions demonstrated that while positive shocks to GDP growth and credit (as a proportion of GDP) help to reduce NPAs, higher inflation leads to more NPAs. Furthermore, if all else is equal, a positive shock (an increase in the NPA ratio) results in a decrease in the credit-to-GDP ratio, real GDP, and unemployment rate.

Based on the research of N.A. Kavitha and M. Muthu Meenakshi (2016), public sector banks possess a relatively large amount of non-performing assets (NPA). The Govt has initiated several steps in order to decrease the NPAs; additional efforts are required to resolve this problem. These

initiatives are important to enhance efficiency and profitability. Also, they mentioned in this report that to solve the NPA issue and stop NPAs from further damaging bank profitability, which is highly harmful to the growing Indian economy, important steps have to be taken.

Based on Dr. Kapil K. Dave (2016), A stand-alone, independent credit rating agency must assess the financial ability of the borrower before extending a credit facility, a comparison of the Govt sector banks versus the private sector banks' nonperforming assets (NPA). A committee with significant expertise in handling non-performing assets (NPAs) can be established by financial experts.

Mainly rating parameters for any bank is PA, which must be employed to periodically assess the financial position of the client. Das *et al.*'s 2021 study examined the association of technology deployment with the number of non-performing assets (NPAs) in Indian banks. The research has established that banks that had applied sophisticated technologies such as artificial intelligence and machine learning had fewer non-performing assets (NPAs) compared to banks that had not applied them. The research discovered that private sector banks were in a better position to handle non-performing assets (NPAs) due to their aggressive implementation of sophisticated technologies.

Purpose of the study

The study seeks to accomplish the following goals

- To comprehend the definition and implications of Non-Performing Assets (NPA).
- To assess and compare the Non-Performing Assets (NPA) of SBI and HDFC banks.

Research methodology and research design

Study Scope

The main scope of this study is to examine, measure, and compare the non-performing assets (NPAs) of HDFC Bank and the State Bank of India. The research is limited to these two banks only. Its objective is to analyze the effect of NPAs on the profitability of each bank individually.

Source of Data

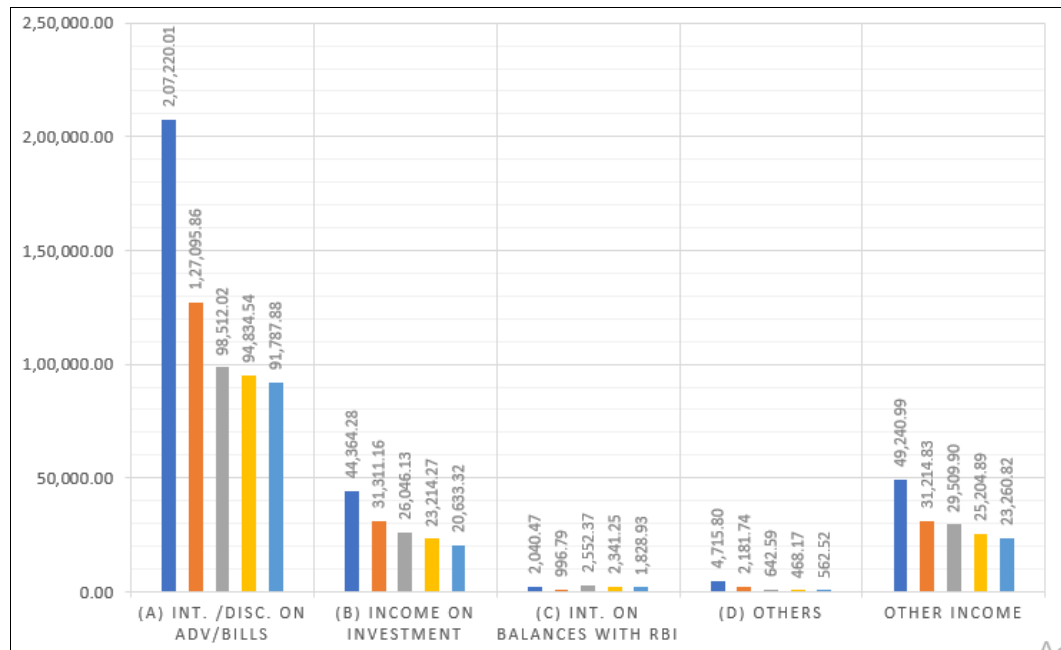
As per the requirements of the study, data for this research was collected from secondary sources. Data that was first obtained for a purpose other than the present study but later standardized, refined, and put into shape for analysis is called secondary data. The important Data was gathered from multiple sources such as research reports, journals, published papers, annual reports of banks, RBI bulletins, and relevant websites.

The Sample

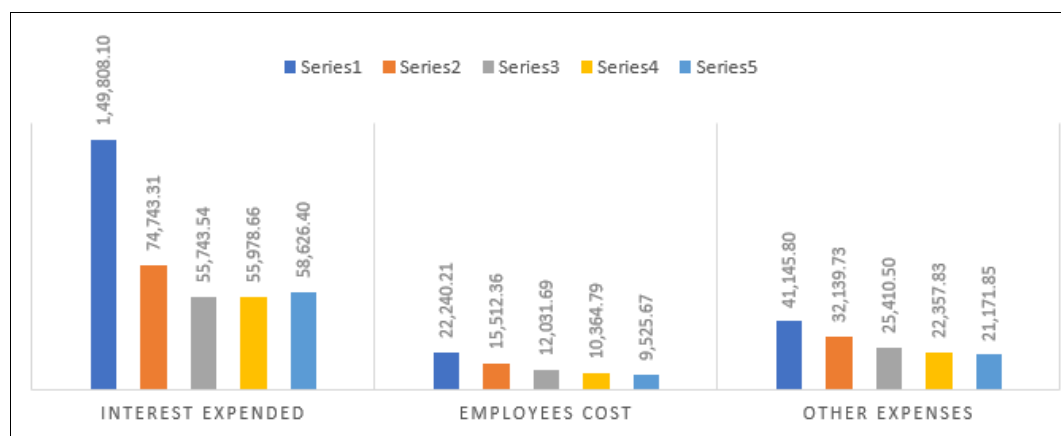
India boasted 27 public sector banks in total, but they were reduced to 12 after major mergers in the year 2021. There are now 21 private sector bank operations. Two banks—State Bank of India, which is the public sector, and HDFC Bank, which is the private sector—have been chosen to research for this study. The research has considered various financial metrics and signs from both banks.

Table 1: Data analysis and interpretation

Income of HDFC Bank						
	(a) Int. /Disc. on Adv/Bills	(b) Income on Investment	(c) Int. on balances with RBI	(d) Others	Other Income	Total Income
MAR '24	2,07,220.01	44,364.28	2,040.47	4,715.80	49,240.99	3,07,581.55
MAR '23	1,27,095.86	31,311.16	996.79	2,181.74	31,214.83	1,92,800.38
MAR '22	98,512.02	26,046.13	2,552.37	642.59	29,509.90	1,57,263.01
MAR '21	94,834.54	23,214.27	2,341.25	468.17	25,204.89	1,46,063.12
MAR '20	91,787.88	20,633.32	1,828.93	562.52	23,260.82	1,38,073.47

**Fig 1:** Income of Hdfc bank**Table 2:** Expenses of HDFC bank

(Years)	(Interest Expended)	(Employees Cost)	(Extra Expenses)	(Total Expenditure)
MAR '24	1,49,808.10	22,240.21	41,145.80	2,13,194.11
MAR '23	74,743.31	15,512.36	32,139.73	1,22,395.40
MAR '22	55,743.54	12,031.69	25,410.50	93,185.73
MAR '21	55,978.66	10,364.79	22,357.83	88,701.28
MAR '20	58,626.40	9,525.67	21,171.85	89,323.92

**Fig 2:** Expenses of HDFC bank**Table 3:** Financial Performance Indicators of the Bank for the Last Five Years (₹ in Crores)

YEARS	Total Income	Total Expenditure	Gross NPA	Net NPA	Net Profit/(Loss)	Operating Profit before Provisions and contingencies
MAR '24	307581.55	213194.11	31173.32	8091.74	60812.27	94387.44
MAR '23	192800.38	122395.4	18019.03	4368.43	44108.71	70404.98
MAR '22	157263.01	93185.73	16140.96	4407.68	36961.33	64077.28
MAR '21	146063.12	88701.28	15086	4554.82	31116.53	57361.84
MAR '20	138073.47	89323.92	12649.97	3542.36	26257.32	48749.55

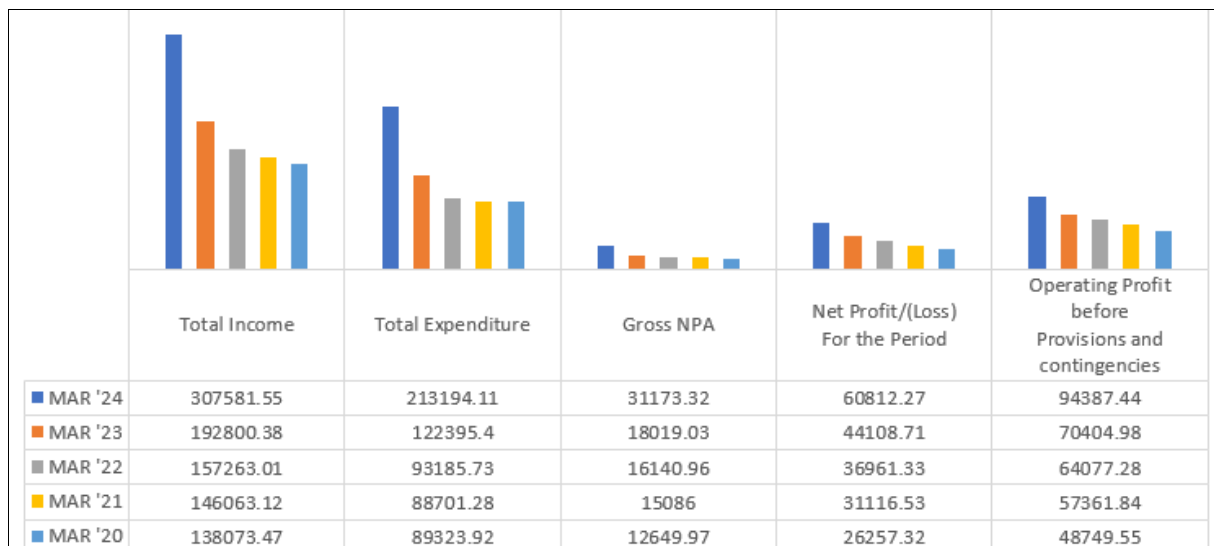


Fig 3: Financial performance of HDFC bank

Table 4: Year-wise Income Components of SBI (₹ in Crores)

Income of SBI bank						
	(a) Int. /Disc. on Adv/Bills	(b) Income on Investment	(c) Int. on balances with RBI	(d) Others	Other Income	Total Income
MAR '24	288,038.24	108,640.51	5,090.19	13,361.72	51,682.16	4,66,812.82
MAR '23	221,400.65	95,928.27	3,491.01	11,283.13	36,615.60	3,68,718.66
MAR '22	171,823.73	84,877.20	4,377.91	14,378.45	40,563.91	3,16,021.20
MAR '21	171,429.14	79,808.09	4,317.53	9,595.87	41,956.64	3,07,107.27
MAR '20	179,748.84	68,204.72	2,920.40	6,449.63	39,005.84	2,96,329.43

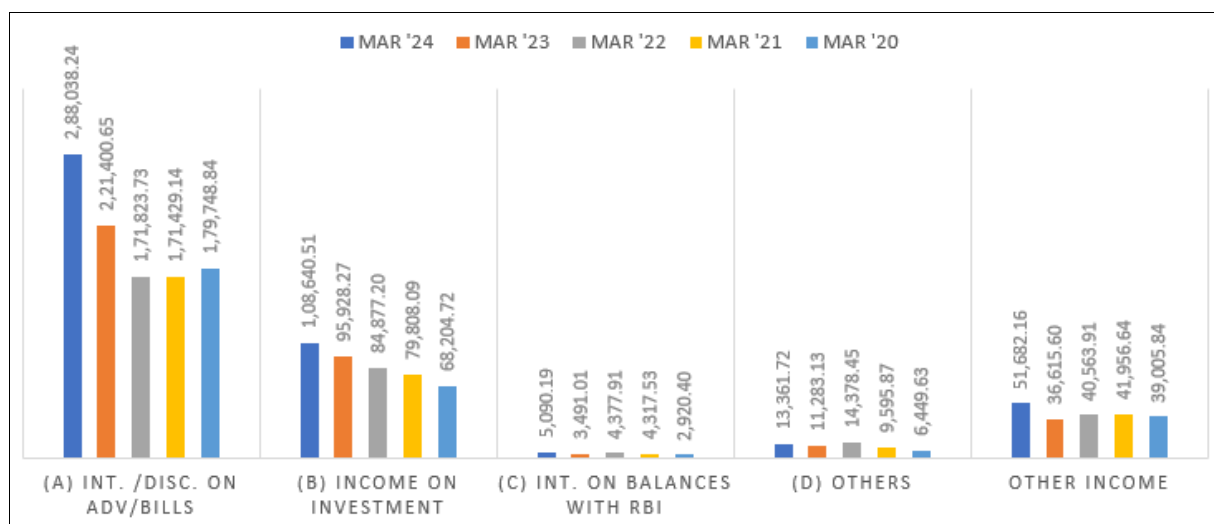


Fig 4: Income of SBI bank

Table 5: Expenses of SBI bank

YEARS	Interest Expended	Employees Cost	Other Expenses	Total Expenditure
MAR '24	255,254.83	71,236.98	46,523.83	3,73,015.64
MAR '23	187,262.56	57,291.84	40,451.29	2,85,005.69
MAR '22	154,749.70	50,143.60	35,835.53	2,40,728.83
MAR '21	154,440.63	50,936.00	31,716.22	2,37,092.85
MAR '20	159,238.77	45,714.97	29,458.72	2,34,412.46

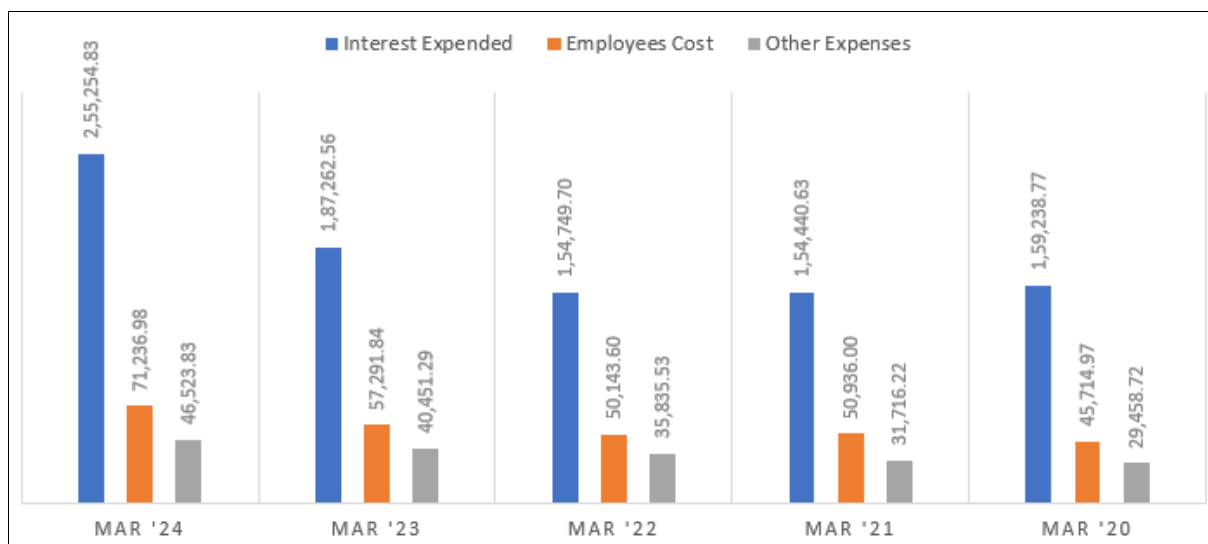


Fig 5: Expenses of SBI bank

Table 6: Financial Performance of SBI (₹ in Crores)

Years	Total Income	Total Expenditure	Gross NPA	Net NPA	Net Profit/(Loss) For the Period	Operating Profit before Provisions and contingencies
MAR '24	4,66,812.82	3,73,015.64	84,276.33	21,051.08	61,076.62	93,797.18
MAR '23	3,68,718.66	2,85,005.69	90,927.78	21,466.64	50,232.45	83,712.97
MAR '22	3,16,021.20	2,40,728.83	112,023.37	27,965.71	31,675.98	75,292.37
MAR '21	3,07,107.27	2,37,092.85	126,389.02	36,809.72	20,410.47	70,014.42
MAR '20	2,96,329.43	2,34,412.46	149,091.85	51,871.30	14,488.11	61,916.97

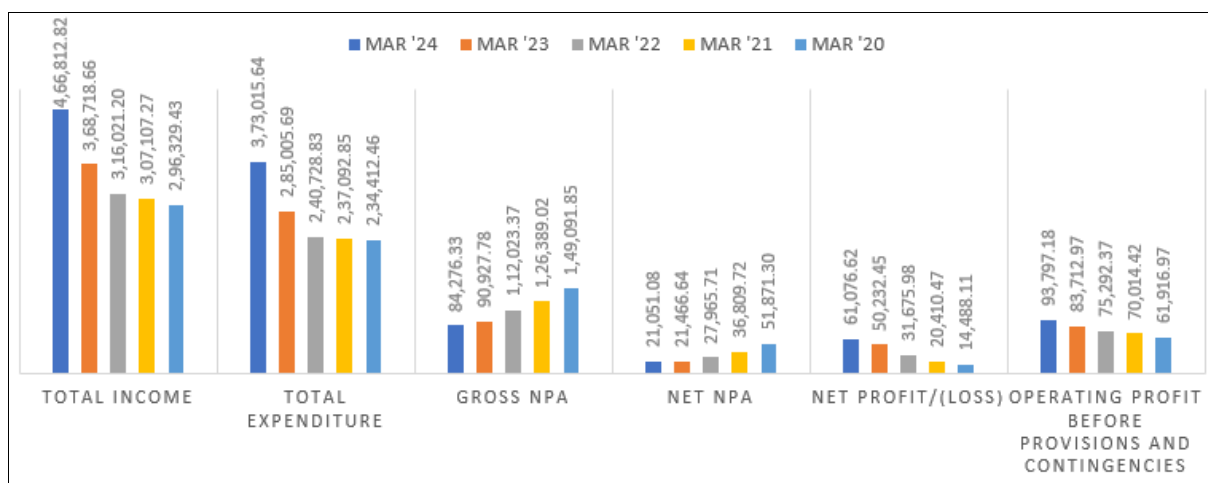


Fig 6: Financial performance of SBI bank

Analysis of graphical data: a comparison

1. Income Analysis: HDFC Bank vs SBI

Although at varying rates and on various scales, HDFC Bank and SBI both saw a steady increase in their revenue streams during the five years between FY 2019-20 and FY 2023-24.

HDFC Bank's Income Trend

Over the years, HDFC Bank's revenue has consistently increased. Its entire revenue increased from ₹1,38,073 crore to ₹3,07,581 crore between FY 2020 and FY 2024. Interest received from loans and advances, which more than doubled over the course of the five years, from ₹91,787 crore to ₹2,07,220 crore, was a significant factor in this rise. In addition, the bank's well-diversified revenue base was emphasized by the consistent growth in investment income and other earnings.

SBI's Income Trend

The largest public sector bank in the nation, SBI, had a significant gain in overall revenue as well, going from ₹2,96,329 crore in FY 2020 to ₹4,66,812 crore in FY 2024. Similar to HDFC, interest from loans and investments accounted for a sizable amount of this revenue. The bank's larger revenue numbers demonstrate the scope of its operations and widespread presence throughout India.

Comparative Insight

Even though SBI's size allows them to make more money overall, HDFC's explosive growth rate—particularly in interest and investment income—indicates more aggressive and successful financial management. As HDFC continues to grow its market share in both retail and online banking, the difference between the two banks is getting less.

2. Expenditure Analysis: HDFC Bank vs SBI

HDFC Bank's total expenses also rose considerably, climbing from ₹89,323 crore in FY 2020 to ₹2,13,194 crore in FY 2024. Interest payments continued to be the largest expense category. At the same time, as the bank expanded its operations and staff strength, both employee-related and operating costs showed a steady rise.

SBI's Expenditure

SBI's total expenditure went up from ₹2,34,412 crore in FY 2020 to ₹3,73,015 crore in FY 2024. Being a public sector giant, its employee costs remain much higher compared to HDFC. In addition, the bank's extensive lending activities contributed to a sharp increase in interest expenses.

Comparative Insight

HDFC manages to maintain healthy profit margins due to its relatively lower cost base and efficient control over expenses. On the other hand, SBI, despite its scale, carries a heavier cost burden because of its public sector responsibilities and its large workforce.

3. Gross and Net Non-Performing Assets (NPAs)

HDFC Bank

HDFC Bank has managed to keep its NPA levels relatively low, reflecting its cautious lending practices. Gross NPAs rose moderately from ₹12,649 crore in FY 2020 to ₹31,173 crore in FY 2024, while net NPAs increased from ₹3,542 crore to ₹8,091 crore over the same period. Although there has been an upward movement, these figures remain quite small compared to the bank's overall advances.

SBI

SBI's NPA levels have historically been much higher. Gross NPAs stood at ₹1,49,092 crore in FY 2020, reached ₹1,26,389 crore in FY 2021, and declined to ₹84,276 crore in FY 2024. Similarly, net NPAs fell from ₹51,871 crore in FY 2020 to ₹21,051 crore in FY 2024, showing a gradual but consistent improvement in asset recovery.

Comparative Insight

HDFC Bank exhibits stronger asset quality and better control over credit risk, thanks to its stricter lending norms. On the other hand, although SBI remains more exposed to external pressures such as government policies and economic fluctuations, it has made notable progress in reducing NPAs through improved recovery efforts and restructuring strategies.

4. Profitability Comparison

HDFC Bank

The net profit of HDFC Bank has shown steady growth, rising from ₹26,257 crore in FY 2020 to ₹60,812 crore in FY 2024. Its operating profit before provisions reached ₹94,387 crore in FY 2024, reflecting strong operational efficiency and consistent revenue generation.

SBI

SBI also reported a significant jump in profits, moving from ₹14,488 crore in FY 2020 to ₹61,076 crore in FY 2024. Its operating profit before provisions rose from ₹61,916 crore to ₹93,797 crore during the same period. Much of this growth came from better recoveries and stronger loan performance.

5. Relationship between NPAs and Profitability

An analysis of the trends highlights a clear connection between NPAs and profitability. In the case of HDFC Bank, profits have increased steadily because NPAs were kept under control, showing an inverse relationship. For SBI, however, profits began to rise only when NPAs started coming down, pointing to a direct link between improved asset quality and profitability.

This contrast underlines the importance of asset quality in determining bank performance. Public sector banks like SBI face limitations due to government-driven lending policies and social obligations, while private sector banks such as HDFC enjoy greater freedom in assessing risks and managing credit exposure.

6. Key Findings and Conclusion

- HDFC Bank exhibits strong growth, low NPAs, and high profitability driven by sound credit appraisal, digital infrastructure, and efficient cost management.
- SBI, though larger in asset base and income, is weighed down by historical NPAs and higher operational expenses.
- The NPA ratio remains a key indicator of performance: HDFC Bank's lower ratios reflect better management, while SBI's gradual reduction shows improvement but still poses a concern.
- Both banks contribute significantly to the Indian economy, but the private banking model of HDFC seems more sustainable and efficient under current conditions.
- HDFC Bank Maintains Lower NPAs Compared to SBI Over the five years, HDFC Bank consistently maintained a significantly lower level of both gross and net NPAs compared to SBI. This reflects the bank's strong credit appraisal system, better loan recovery processes, and more efficient risk management practices.
- SBI Demonstrates Improvement in NPA Management Although SBI had a much higher NPA burden in starting, it has seen a noticeable improvement in recent times. Gross and net NPAs have decreased from ₹1.49 lakh crore and ₹51,871 crore in FY 2020 to ₹84,276 crore and ₹21,051 crore in FY 2024, respectively. This suggests SBI's corrective measures and recovery strategies are yielding results.

HDFC Bank Shows Superior Profitability and Efficiency

HDFC Bank's profits have steadily increased with lower expenditure and more controlled NPA levels. Its net profit rose from ₹26,257 crore in FY 2020 to ₹60,812 crore in FY 2024. This is indicative of higher operational efficiency and a sustainable business model in the private banking sector.

SBI's Large Scale Impacts Cost Structure and Profit Trends

Despite higher income, SBI's expenditure—particularly employee and interest costs—remains high due to its scale and government-mandated obligations. However, with the reduction of NPAs, its net profit also improved significantly, from ₹14,488 crore in FY 2020 to ₹61,076 crore in FY 2024.

Conclusion

The comparative study of HDFC Bank highlights important

insights into the performance of private and Govt sector banks in India, with particular reference to non-performing assets (NPAs), profitability, and efficiency. The findings establish that while both banks play a critical role in India's financial system, their approach to risk management, credit evaluation, and operational structure sets them apart in terms of outcomes.

HDFC Bank, representing the private sector, demonstrates greater resilience and efficiency. The bank has consistently maintained superior asset quality and better profitability ratios over the years. This success is largely attributed to its strong credit appraisal systems, strict internal controls, and market-oriented management practices. HDFC has shown a proactive stance in preventing loans from turning into NPAs through timely monitoring and effective recovery mechanisms.

Its unique challenges and strengths. With its vast network, widespread presence, and commitment to public responsibilities, SBI caters to a broader segment of society, including rural and underbanked populations. However, this extensive reach also comes with greater exposure to credit risk, particularly in priority sectors such as agriculture and small enterprises. Legacy NPAs and structural limitations have long affected SBI's profitability and efficiency. High employee costs and operational expenses, which are inevitable in a bank of its size and mandate, also place additional pressure on its margins.

Despite these challenges, SBI has made significant progress in recent years. Through reforms, restructuring, and digital adoption, the bank has taken steps to improve efficiency and reduce the burden of NPAs. Government support and regulatory measures have further assisted SBI in strengthening its balance sheet. The gradual reduction of NPAs in recent years reflects the bank's focus on recovery and its attempts to align with international standards of asset quality and provisioning. While SBI may still lag behind HDFC in terms of overall efficiency and profitability, its improvement indicates a positive trajectory toward financial stability.

The comparative analysis makes it clear that effective management of NPAs remains a decisive factor for the profitability and sustainability of banks. For HDFC Bank, the lesson is to maintain its strong credit culture and continue innovating in digital banking and financial services to stay ahead in a competitive market. For SBI, the way forward lies in further modernizing its risk management practices, strengthening recovery frameworks, and continuing to reduce operational inefficiencies. Both banks must also adapt to the evolving regulatory environment and changing economic conditions to ensure long-term financial resilience.

In conclusion, while HDFC Bank currently outperforms SBI in terms of asset quality, operational efficiency, and profitability, SBI's efforts to overcome its legacy challenges reflect a positive outlook. The study underlines that NPAs are not just an accounting figure but a crucial determinant of a bank's financial health. Therefore, the future of both banks, and indeed the Indian banking sector as a whole, depends on sustained focus on credit discipline, effective monitoring, and robust recovery mechanisms.

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