PSBs power ahead of pvt peers in war on bad loans

Abirami Sekar
abirami.s@livemint.com
MUMBAI

India's public sector lenders saw a sharp decline in bad assets in 2024-25, outpacing their private sector peers, which continued to add to their non-performing assets (NPA) pile amid rising stress in unsecured credit.

Data from Capitaline showed that public sector banks (PSBs) reported a drop in total bad assets—loans where repayments are overdue by over 90 days—in FY25 and FY24. Bad loans of PSBs decreased 16% year-on-year (y-o-y) to ₹2.84 trillion in FY25, from ₹3.4 trillion in FY24 and ₹4.3 trillion in FY23. In comparison, private banks saw an increase in bad loans by around 2.9% to ₹1.29 trillion in FY25, up from ₹1.26 trillion in FY24 and ₹1.22 trillion in FY23.

The analysis covered 19 private sector banks and 12 public sector banks.

"Public sector banks not only saw a decline in absolute fresh slippages but also continued to witness healthy recoveries and upgrades," said Sachin Sachdeva, vice-president and sector head of financial sector ratings

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State-run banks ahead in war on bad loans

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at Icra Ltd.

Given their healthy operating profitability, public sector banks were able to maintain higher write-offs, according to Sachdeva.

Consequently, the public sector lenders reported negative net slippages and, therefore, a reduction in the gross non-performing assets both in absolute terms as well as in percentage terms.

Mint reported on 9 May that the 10 leading banks wrote off loans worth ₹80,568 crore in FY25, from ₹74,931 crore in FY24. These higher write-offs helped banks report lower gross and net NPA ratios, despite continued stress in their unsecured and microfinance portfolios.

Sachdeva added that the increasing stress in the personal unsecured loans, including microfinance loans, led to a relatively higher fresh NPA generation rate in the case of private sector banks than public sector banks.

Interestingly, public sector lenders have also managed to reduce their share in the aggregate sectoral bad loan pool.

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In FY25, these banks had a share of 68.6%, down from 72.9% in FY24 and 77.8% in FY23. This does not include bad loans of small finance banks. However, when seen as a percentage of their total loans, even private sector banks reported a decline in bad loan levels.

The bad loan ratio—gross on-performing assets as a percentage of total loans—shrunk 14 basis points (bps) between FY24 and FY25 to 2.24% for private sector banks.

For public sector banks, the contraction was relatively more pronounced. In the same period, India's 12 public sector banks saw their bad loan ratio decline 90 bps to 2.6%.

Stress among India's small borrowers have hurt private sector banks in FY25. In fact, bankers said that delinquencies in the micro loan business have impacted them.

Ashok Vaswani, chief executive officer of Kotak Mahindra Bank, told analysts on 3 May that the microfinance industry has seen significant credit strains and the bank expects credit costs to stay at an elevated level for the next two quarters.

Credit cost is provisions and write-offs expressed as a percentage of average total assets.

Partha Pratim Sengupta, chief executive of Bandhan Bank said on 30 April that the microfinance sector has faced significant stress, and the overall liquidity tightness in the system has impacted both growth and profitability at an industry level.

Analysts at rating agency Care Ratings said that in Q4 FY25, public sector banks demonstrated significant progress in strengthening their asset quality.

"... (a) few private banks are encountering challenges, primarily due to sector-specific stress, most notably in the microfinance segment and a rise in non-performing agricultural loans," it said in a note on 27 May.

That said, the current financial year is expected to see secular improvements in bad loan numbers.