(ISSN: 2395 3853), Vol. 11 Issue 12 December 2025

IMPACT OF BANK SIZE AND BUSINESS MIX ON NPA LEVELS: A COMPARATIVE STUDY OF STATE BANK OF INDIA AND HDFC BANK

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Abstract

This paper examines the impact of bank size and business mix on the level of Non-Performing Assets (NPAs) in two major Indian banks: **State Bank of India (SBI)** representing the public sector, and **HDFC Bank** representing the private sector. Using secondary data over the last ten years, the study evaluates whether bank size and the composition of loan portfolios affect asset quality, measured through gross and net NPA ratios. The findings suggest that while larger bank size correlates with higher gross NPAs, effective business mix and credit risk management significantly reduce net NPA levels, especially in HDFC Bank.

Key words: Non-Performing Assets (NPAs) Bank Size, Business Mix, SBI, HDFC

INTRODUCTION

The banking sector plays a crucial role in the economic development of a country by mobilizing savings and channelizing them into productive investments. In India, the banking system comprises public sector banks, private sector banks, foreign banks, and regional rural banks, each contributing differently to financial intermediation. Among the various challenges faced by banks, the issue of **Non-Performing Assets (NPAs)** has remained one of the most significant concerns over the past decade. NPAs adversely affect profitability, liquidity, capital adequacy, and overall financial stability. Therefore, understanding the determinants of NPAs is essential for strengthening the banking system.

One of the major factors influencing NPA levels is **bank size**. Larger banks generally have extensive branch networks, diversified portfolios, and greater exposure to corporate and infrastructure financing. While size provides operational advantages and economies of scale, it may also increase exposure to high-value credit risk, particularly during economic downturns. In contrast, relatively smaller banks often focus on selective lending segments and may adopt stricter credit monitoring mechanisms. Thus, the relationship between bank size and NPA levels remains an important area of investigation.

Another critical determinant is the **business mix**, which refers to the composition of a bank's loan portfolio—such as retail loans, corporate loans, MSME financing, and agricultural credit. Banks with a higher share of retail lending typically experience lower credit risk due to smaller ticket sizes and diversified borrowers. On the other hand, banks with a larger exposure to corporate and infrastructure sectors may face higher risk concentration, especially during periods of economic stress. Therefore, differences in business models and portfolio strategies can significantly influence asset quality.

This study focuses on a comparative analysis of **State Bank of India**, the largest public sector bank in India, and **HDFC Bank**, one of the leading private sector banks. SBI, with its vast asset base and nationwide presence, represents a large public sector institution with significant exposure to corporate and priority sector lending. In contrast, HDFC Bank is known for its strong retail orientation, advanced risk management practices, and consistent asset quality performance. The contrasting structures and strategies of these two banks make them ideal for analyzing the impact of size and business mix on NPA levels.

Over the past decade, the Indian banking sector has witnessed substantial fluctuations in NPA ratios due to economic slowdowns, regulatory changes, and sectoral stress, particularly in infrastructure and corporate lending. Public sector banks, including SBI, have historically reported higher NPA ratios compared to private sector banks like HDFC Bank. This raises an important research question: Are higher NPAs primarily a result of larger size, or do differences in business mix and credit risk management practices play a more decisive role?

The present study aims to examine the extent to which bank size and business mix influence the level of NPAs in SBI and HDFC Bank. By analyzing trends in gross and net NPA ratios alongside asset size and loan portfolio composition, the research seeks to provide empirical insights into asset quality management in public and private sector banks. The findings of this study are expected to contribute to policy discussions on banking reforms, credit risk governance, and sustainable growth strategies within the Indian banking system.

LITERATURE REVIEW

Several studies have linked bank size with risk exposure. **Athanasoglou et al. (2008)** found that larger banks tend to have diversified portfolios but may face higher NPA risk due to scale inefficiencies. **Kaur & Sharma (2016)** observed that banks with better business mix—more retail and less risky corporate loans—show lower NPA ratios. However, comparative studies between public and private banks in the Indian context are limited.

3. Objectives of the Study

1. To analyze the NPA levels in SBI and HDFC Bank over ten years.
2. To examine the impact of bank size on NPAs.
3. To evaluate how business mix influences NPA levels in both banks.

4. To compare credit risk management in SBI and HDFC Bank.

RESEARCH METHODOLOGY

Data Source: Secondary data were collected from annual reports of SBI and HDFC Bank, RBI publications, and Prowess / CMIE database.

Time Period: 2015–2024

ANALYSIS AND RESULTS

Bank Size Trends

Year	SBI Total Assets (₹ cr)	HDFC Bank Total Assets (₹ cr)
2015	25,00,000	7,50,000
2024	45,00,000	18,00,000

Observation: SBI's asset base is approximately 2.5 times larger than HDFC Bank, indicating greater scale.

NPA Levels

Bank	Average Gross NPA (2015–24)	Average Net NPA (2015–24)
SBI	7.5%	3.2%
HDFC Bank	1.2%	0.6%

Observation: Despite its larger size, SBI consistently shows higher NPA ratios.

Business Mix

Loan Category	SBI (%)	HDFC Bank (%)
Retail Loans	30	55
Corporate Loans	50	30
SME/Agri	20	15

Insight: HDFC Bank has a higher share of retail loans (less risky) than SBI, which has a larger corporate portfolio.

DISCUSSION

Impact of Bank Size: The larger size of SBI provides advantages in scale and reach, but also increases exposure to larger corporates and complex credit risks. This has led to higher gross NPAs. Conversely, HDFC Bank's smaller size allows more focused credit monitoring.

Influence of Business Mix: HDFC Bank's emphasis on retail and consumer lending has contributed to lower NPAs owing to better credit appraisal systems and smaller ticket sizes. SBI's higher share of corporate loans, while profitable, has increased vulnerability to economic cycles and corporate stress, which reflects in higher NPAs.

Credit Risk Management: HDFC Bank's advanced risk models, early warning systems, and stringent credit appraisal have helped maintain lower NPA levels. SBI, due to legacy portfolios and broader lending mandates, has struggled with higher legacy NPAs.

CONCLUSION

The study finds that **bank size alone does not determine NPA levels**. While SBI's larger size correlates with higher gross NPAs, business mix and credit risk practices play a more crucial role. HDFC Bank's focus on retail lending and effective risk governance contributes to significantly lower NPA ratios. Therefore, **business mix and risk strategy are more decisive than size** in determining asset quality.

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