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AN ANALYSIS OF PROFITABILITY, ASSET QUALITY, AND CAPITAL STRENGTH OF PUBLIC, PRIVATE, AND SMALL FINANCE BANKS IN INDIA

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ABSTRACT

The banking sector constitutes a crucial component of India's financial system by including financial intermediation, mobilizing savings, and supporting economic development through the efficient allocation of credit. The structure of the banking industry is influenced by factors such as regulation, ownership patterns, and market competition. Within the framework of Industrial Economics, the present study examines the structural characteristics and financial performance of selected banks in India. The research focuses on analysing how differences in ownership and institutional structure influence profitability, asset quality, and financial stability across banks operating in the Indian banking sector.

The study is based on secondary data collected from the publications of the Reserve Bank of India, annual reports, and financial statements of banks. A comparative analysis is conducted for selected public sector banks, private sector banks, and small finance banks over a specified period. Key financial indicators such as net interest income, return on assets (ROA), gross non-performing assets (NPA) ratio, and capital adequacy ratio (CAR) are used to analyse the performance and risk profile of the selected banks. The findings highlight variations in financial performance and asset quality among different categories of banks and underline the importance of effective financial management, prudent lending practices, and strong regulatory oversight in maintaining stability and efficiency in the Indian banking system.

Keywords: Market structure, Bank Performance, Capital Adequacy Ratio, Financial Management, Secondary Data Analysis, Financial stability

INTRODUCTION

The banking Industry occupies a central position in the economic development of a country by mobilizing savings, allocating financial resources efficiently, and facilitating investment and growth. In an emerging economy like India, the banking sector plays a critical role not only as a financial intermediary but also as a key instrument of monetary transmission and financial inclusion. Given its systemic importance, understanding the structural and competitive dynamics of the banking industry is essential for evaluating its efficiency, stability, and overall performance.

From the perspective of Industrial Economics, the banking industry represents a regulated oligopolistic market where market structure, firm behaviour, and performance are closely interlinked. The Structure–Conduct–Performance (SCP) paradigm, a core framework of Industrial Economics, provides a useful analytical lens to examine how market concentration,

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entry barriers, and ownership patterns influence competitive behaviour and, ultimately, the performance of banks. Over time, alternative approaches focusing on competition and efficiency have further enriched the analysis of banking markets, making Industrial Economics particularly relevant for the study of the banking sector.

The Indian banking industry has undergone significant structural transformation since the initiation of financial sector reforms in the early 1990s. These reforms led to the entry of private and foreign banks, deregulation of interest rates, adoption of prudential norms, and gradual reduction of state dominance. More recently, policy-driven consolidation through bank mergers, technological advancements, and the emergence of digital banking have further altered the competitive landscape. As a result, the industry now exhibits a complex market structure characterized by varying degrees of concentration, competition, and performance across different categories of banks.

Despite these developments, concerns remain regarding market power, efficiency, and profitability within the banking industry. Increasing consolidation raises questions about the extent of competition and its implications for consumer welfare and financial stability. At the same time, differences in performance across public, private, and foreign banks highlight the need for a systematic industrial economic analysis that links market structure and competitive conditions with performance outcomes.

In this context, the present study aims to examine the **market structure, competitive dynamics, and performance of the Indian banking industry from an Industrial Economics perspective**. Using secondary data from reliable sources such as the Reserve Bank of India and published bank reports, the study seeks to analyze the degree of market concentration, assess the level of competition, and evaluate bank performance in terms of profitability and efficiency. By integrating theoretical insights from Industrial Economics with empirical analysis, the study attempts to contribute to the existing literature and provide policy-relevant insights for regulators and stakeholders concerned with the long-term efficiency and stability of the Indian banking system.

An Overview ……..

The present study is designed to examine the organisation and functioning of the Indian banking industry through the analytical lens of Industrial Economics. It focuses on understanding how the structural characteristics of the banking market influence competitive behaviour and, in turn, affect performance outcomes. The study adopts an integrated approach by simultaneously analysing market structure, competition, and performance rather than treating these dimensions in isolation.

The analysis is conducted using bank-level secondary data drawn from authoritative and publicly available sources, including publications of the Reserve Bank of India and audited financial statements of scheduled commercial banks. The study constructs indicators of market structure to capture changes in concentration and dominance within the banking industry over time. Competitive conditions are assessed using measures that reflect pricing behaviour and market power, while performance is evaluated through indicators of profitability and operational efficiency.

A key feature of the study is its comparative perspective. Banks are classified into public sector, private sector, and foreign banks to examine whether ownership structure is associated with systematic differences in competitive behaviour and performance. This classification allows the study to capture heterogeneity within the banking industry and to assess how structural and regulatory factors interact with ownership patterns.

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To empirically examine the relationships among market structure, competition, and performance, the study employs appropriate statistical and econometric techniques using panel data. This enables an assessment of both cross-sectional differences among banks and temporal changes over the study period, which is characterised by regulatory reforms, increased competition, and consolidation through mergers.

By linking theoretical insights from Industrial Economics with empirical evidence from the Indian banking sector, the study seeks to enhance understanding of the competitive dynamics of banking markets in a developing economy context. The findings are expected to provide relevant insights for policymakers and regulators regarding the implications of market concentration and competition for efficiency, stability, and the overall functioning of the banking system.

LITERATURE REVIEW

Arasu, Sridevi, Nageswari, & Ramya (2019) in their study on analysis of Non-Performing Assets discuss the impact of the level of NPAs of private and public sector banks on profitability. The study is based on secondary data collected for NPAs of 10 banks and uses statistical tools such as mean, standard deviation, Pearson correlation, and linear regression model.

Numer & Devika (2019) in their study on comparative analysis of Non-Performing Assets in selected private sector banks examine the trend of Gross NPA and Net NPA of Axis Bank, Federal Bank, and IndusInd Bank. The study applies ratio analysis, trend analysis, and Pearson correlation coefficient to analyse the data.

Raj, Jain, Bansal, & Verma (2018) in their comparative study of SBI and ICICI Bank discuss whether there exists any linear relationship between Net Profit and Net NPA in both banks. The study uses correlation analysis with the help of SPSS.

Kumari, Singh, & Sharma (2017) in their study on the impact of NPAs on financial performance examine the relationship between NPAs and financial performance (ROA) of selected public and private sector banks using an empirical regression model.

Murthy & Deb (2014) in their study on measurement and determinants of competition in the private banking industry in India analyse the limitations of concentration as a measure of competition. The study uses a three-equation simultaneous model through the Tobit technique.

Koundal (2012) in the study on performance of Indian banks in the financial system evaluates the performance using indicators such as number of banks, employees, deposits, advances, and NPAs. The study concludes that foreign banks perform better and new banks are more efficient than older ones, while public sector banks are less profitable.

Chaudhary & Sharma (2011) in their study on performance of public and private sector banks conduct a comparative analysis and discuss the role of increased competition, technological advancements, and deregulation in improving banking services and efficiency.

Bajaj (2008) in the study on Indian public sector banking industry examines the impact of reforms using the SCP framework and finds that the share of public sector banks has declined over time due to the entry of private and foreign banks.

Kapoor (2004) in the book on commercial banking analyses the performance of public sector banks during pre- and post-reform periods and reveals that growth in deposits, advances, and other financial indicators slowed down in the post-reform period.

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Swamy (2001) in the study on deregulation and competition in Indian banking analyses the comparative performance of different bank groups and examines factors influencing their changing position in the industry.

Vashist (1987) in the study on performance appraisal of banks evaluates the performance of public sector banks using key indicators and develops a composite weighted growth index for ranking banks, while suggesting strategies for improving banking performance.

RESEARCH GAP AND NEED OF THE STUDY

The review of existing Literature reveals that several studies have examined the Indian Banking Sector in terms of profitability, asset quality, efficiency, and financial performance. However, limited research has comparatively analysed public sector banks, private sector banks and small finance banks within a common analytical framework. Moreover, existing studies often focus on individual financial indicators rather than an integrated assessment of banking performance.

The present study aims to address this gap by conducting a comparative analysis of selected banks using key indicators such as Net Interest Income (NII), Return on assets (ROA), Gross NPA Ratio, and Capital Adequacy Ratio (CAR). It seeks to evaluate the profitability, asset quality, and financial strength of different categories of banks in India.

OBJECTIVES OF THE STUDY

1. To analyse the overall financial performance of selected banks in India using key financial indicators
2. To evaluate the profitability and operational efficiency of banks through Return on Assets and Net Interest Income
3. To assess the asset quality and capital adequacy of banks using Gross NPA Ratio and Capital Adequacy Ratio
4. To compare the performance of public sector, private sector, and small finance banks from an Industrial Economics perspective

RESEARCH METHODOLOGY

1. Research Design

The present study is based on a descriptive and analytical research design. It examines the financial performance and asset quality of selected Indian banks by analysing secondary financial data over a period of five years (2021–2025).

The study adopts a comparative approach to evaluate differences across three categories of banks:

- Public Sector Banks
- Private Sector Banks
- Small Finance Banks

2. Sample Selection

The study is based on a sample of nine banks, selected using purposive sampling technique. The sample includes representation from public sector banks, private sector banks, and small finance banks to enable meaningful comparison. Banks were selected on the basis of availability of consistent financial data, market presence, and their significance in the Indian

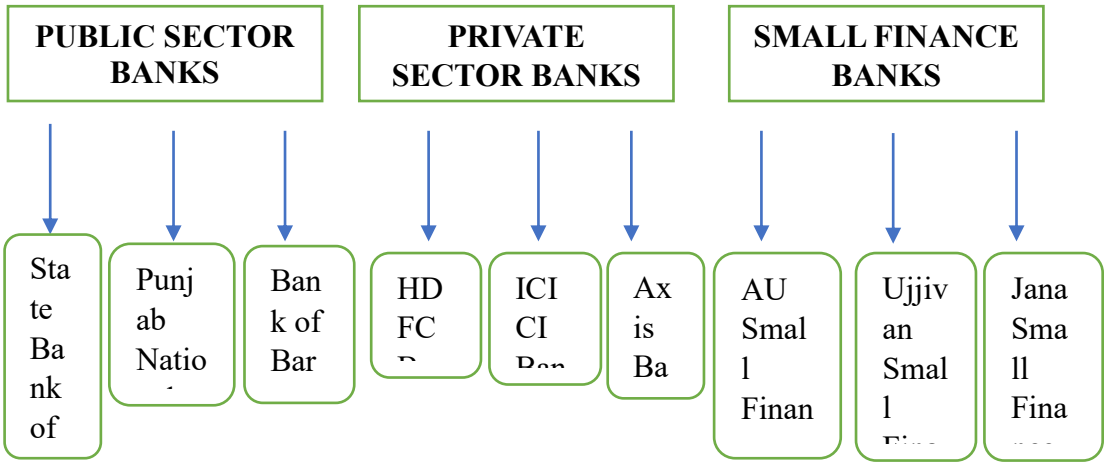
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banking sector. This approach ensures that the selected sample is appropriate for analysing financial performance and drawing comparative insights across different categories of banks.

This method of sampling helps in obtaining focused and meaningful insights, although it may limit the generalization of findings to the entire banking sector.

FIGURE 1: CATEGORIES OF BANKS



Source: Self-Structured

These banks were selected based on availability of consistent financial data for the study period.

3. Period of Study

The study covers a period of five financial years from 2021 to 2025. This period was chosen to analyse recent performance trends and financial stability in the Indian banking sector.

4. Sources of Data

The study is based entirely on secondary data, collected from:

- Published annual reports of respective banks
- Official financial statements (Balance Sheet and Profit & Loss Account)
- RBI publications and disclosures

All data relating to total assets, net profit, interest income, interest expense, total advances, gross NPAs, and Capital Adequacy Ratio (CAR) were extracted from these sources.

TABLE 1: Data Relating to Total Assets, Net Profit, Interest Income, Interest Expense, Total Advances, Gross NPAs, And Capital Adequacy Ratio (CAR)

Year	Bank Name	Total Assets	Net Profit	Interest Earned	Interest Paid	Total Advances	Gross NPA	CAR
	PUBLIC BANKS							
	SBI	4534429.63	20410.5	265150.63	154440.6	2500598.99	126389.00	13.74%
	PNB	1260632.62	2021.62	80749.77	50272.79	674230.08	104423.42	14.32%
	Bank of Baroda	1155364.77	828.96	70495.06	41686.04	706300.51	66671.00	14.99%
	PRIVATE BANKS							

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2021	HDFC	1746870.52	31116.53	120858.23	55978.66	1132836.63	15086.00	18.79%
	ICICI	1230432.68	16192.68	79118.27	40128.84	733729.09	40841.42	19.12%
	Axis Bank	996118.42	6588.50	63645.29	34406.17	623720.19	25314.84	19.12%
	SMALL FINANCE BANKS							
	AU Small Finance Bank	51591.31	1170.68	4950.05	2584.61	34608.91	1502.83	23.40%
	Ujjivan Small Finance Bank	20380.45	8.30	2806.07	1077.51	14493.95	1070.60	26.44%
	Jana Small Finance Bank	19078.66	72.26	2497.73	1234.58	11599.67	857.98	15.51%
2022	**PUBLIC BANKS**							
	SBI	4987597.41	31676	275457.29	154749.7	2733966.59	112023.00	13.85%
	PNB	1314805.02	3456.96	74879.54	46185.08	728185.68	92448.04	14.50%
	Bank of Baroda	1277999.83	7272.28	69880.78	37259.44	777155.18	64059.39	15.84%
	PRIVATE BANKS							
	HDFC	2068535.05	36961.36	127753.12	55743.53	1368820.93	16140.96	18.90%
	ICICI	1411297.74	23339.49	86374.55	38908.45	859020.44	33294.92	19.16%
	Axis Bank	1175178.11	13025.48	67376.83	34244.61	707695.95	21822.32	18.54%
	SMALL FINANCE BANKS							
	AU Small Finance Bank	69077.80	1129.83	5921.73	2687.61	46095.26	924.38	20.99%
	Ujjivan Small Finance Bank	23604.46	-414.59	2812.80	1039.21	16303.17	1284.08	18.99%
	Jana Small Finance Bank	20188.71	17.47	2726.54	1336.75	13006.67	756.90	15.26%
	PUBLIC BANKS							
	SBI	5516978.53	50232.5	332103.06	187262.6	3199269.30	90927.78	14.68%
	PNB	1461831.36	2507.20	85144.11	50652.47	830833.98	77328.00	15.50%
	Bank of Baroda	1458561.55	14109.62	89588.54	48232.53	940998.27	36764.00	16.24%
	PRIVATE BANKS							

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2023	HDFC	2466081.47	44108.70	161585.54	74743.32	1600585.90	18019.03	19.26%
	ICICI	1584206.65	31896.50	109231.34	47102.74	1019638.31	299860.70	18.34%
	Axis Bank	1317325.53	9579.68	85163.77	42218.02	845302.84	36467.35	17.64%
	SMALL FINANCE BANKS							
	AU Small Finance Bank	90216.12	1427.93	8205.41	3780.13	58421.54	981.31	23.59%
	Ujjivan Small Finance Bank	33316.88	1099.92	4164.99	1467.09	21289.66	630.61	25.81%
	Jana Small Finance Bank	25643.69	255.97	3075.01	1414.99	17759.56	709.19	15.57%
2024	**PUBLIC BANKS**							
	SBI	6179693.95	61076.6	415130.66	255254.8	3703970.85	84276.33	14.28%
	PNB	1561835.01	8244.62	106901.62	66818.55	934430.59	56343.05	15.97%
	Bank of Baroda	1585797.09	17788.78	112605.95	67884.41	1065781.72	31833.63	16.31%
	PRIVATE BANKS							
	HDFC	3617623.09	60812.28	258340.58	149808.10	2484861.52	31173.32	18.80%
	ICICI	1871514.58	40888.27	142890.94	68585.22	1184406.39	27313.87	16.33%
	Axis Bank	1477208.60	24861.43	109368.63	59474.15	965068.38	33034.79	16.63%
	SMALL FINANCE BANKS							
	AU Small Finance Bank	109425.67	1534.72	10554.71	5397.63	73162.65	1237.40	20.06%
	Ujjivan Small Finance Bank	40422.22	1281.49	5677.15	2267.70	26882.92	612.52	24.69%
	Jana Small Finance Bank	32709.78	669.54	4013.05	1885.90	23111.27	494.33	20.31%
2025	**PUBLIC BANKS**							
	SBI	6676053.27	70900.6	462489.35	295524.2	4163312.10	76880.20	14.25%
	PNB	1818170.73	16630.20	121760.73	78978.56	1077474.57	44081.60	17.01%
	Bank of Baroda	1781247.32	19581.15	121441.64	75782.96	1209557.90	27835.00	17.19%
	PRIVATE BANKS							

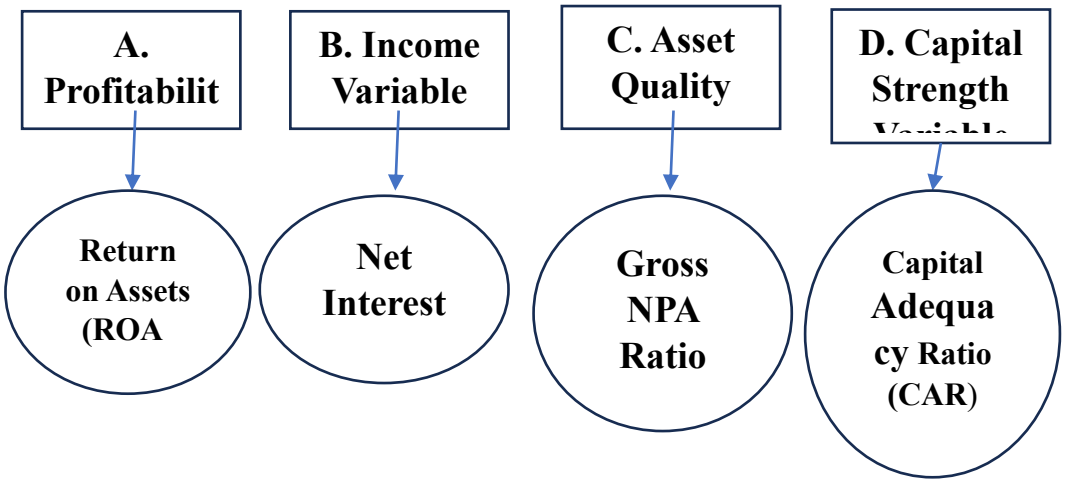
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	HDFC	3910198.94	67347.36	300517.04	177846.95	2619608.62	35222.64	19.55%
	ICICI	2118239.97	47226.99	163263.78	82099.34	1341766.16	24166.00	16.55%
	Axis Bank	1609929.88	26373.48	122677.04	68329.22	1040811.32	14490.11	17.07%
	SMALL FINANCE BANKS							
	AU Small Finance Bank	157845.67	2105.93	16063.73	8052.15	107092.48	2477.03	20.10%
	Ujjivan Small Finance Bank	47689.15	726.10	6354.39	2718.12	31390.00	695.89	23.10%
	Jana Small Finance Bank	38463.62	501.42	4709.79	2316.66	27155.48	749.60	20.68%

Source: Self-Structured

FIGURE 2: VARIABLES USED IN THE STUDY



Source: Self-Structured

TOOLS AND TECHNIQUES OF ANALYSIS

The following financial ratios and analytical tools were used:

1. Net Interest

Net Interest = Interest Earned-Interest Paid

This measures the bank's core income generated from lending operations.

2. Return on Assets (ROA)

ROA= Net Profit/Total Assets x 100

ROA measures overall profitability and efficiency in using assets.

3. Gross NPA Ratio

Gross NPA Ratio= Gross NPA/Total Advances x 100

This indicates the quality of loan portfolio and credit risk.

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4. Capital Adequacy Ratio (CAR)

CAR values were taken directly from annual reports. It measures the financial strength and regulatory compliance of banks.

7. Method of Analysis

The analysis was carried out in three stages:

1. **Year-wise ratio calculation (2021–2025)** for each bank.
2. **Five-year average calculation** to determine overall performance.
3. **Category-wise comparison** among Public, Private, and Small Finance Banks.

Descriptive statistics such as averages and trend analysis were used to compare performance across bank categories.

DATA ANALYSIS AND INTERPRETATION

The present section analyses the financial performance and asset quality of the selected banks using key financial indicators derived from the collected secondary data. The analysis is conducted for nine banks categorized into public sector banks, private sector banks, and small finance banks over the period from 2021 to 2025. The purpose of this analysis is to examine the profitability, income generation capacity, and asset quality of the selected banks and to identify variations in performance across different categories of banks.

The financial indicators used for analysis include Net Interest, Return on Assets (ROA), Gross Non-Performing Asset (NPA) ratio, and Capital Adequacy Ratio (CAR). These indicators collectively provide insights into the operational efficiency, risk profile, and financial stability of banks. Net interest reflects the income generated from core banking activities, while ROA measures overall profitability relative to total assets. The Gross NPA ratio indicates the quality of the loan portfolio and the level of credit risk faced by banks. The Capital Adequacy Ratio represents the ability of banks to absorb financial losses and maintain solvency in accordance with regulatory norms.

The calculated ratios and indicators are analysed year-wise and bank-wise to observe trends and variations across the study period. In addition, comparative analysis is undertaken among public sector banks, private sector banks, and small finance banks to understand the structural differences in performance patterns.

TABLE 2.1: Analysis of Net Interest Income

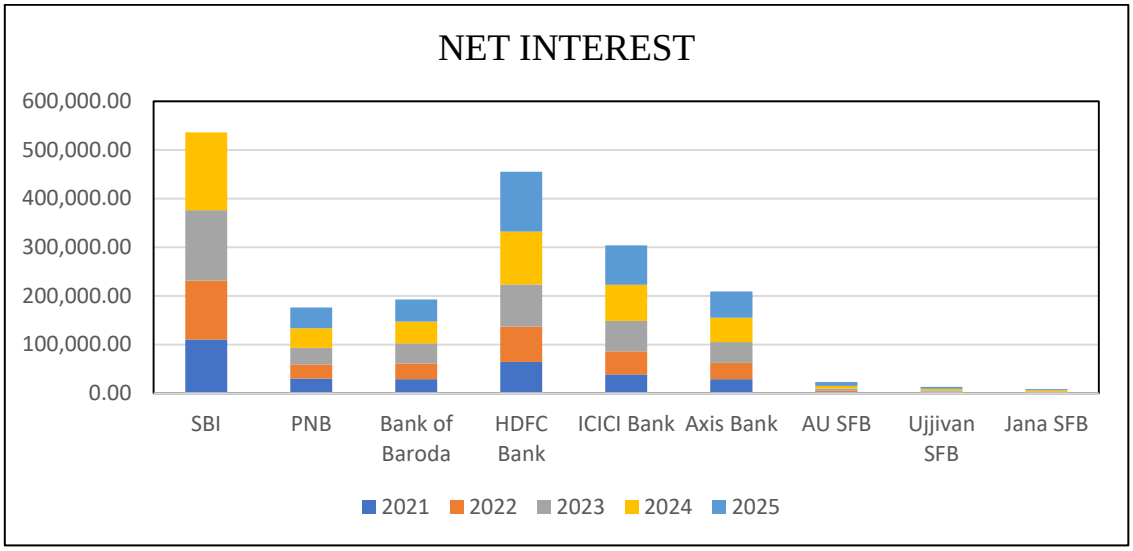
Bank/Year	2021	2022	2023	2024	2025
SBI	110,710.03	1,20,707.59	1,44,840.46	1,59,875.86	1,66,965,15
PNB	30,476.98	28,694.46	34,491.64	40,083.07	42,782.17
Bank of Baroda	28,809.02	32,621.34	41,356.01	44,721.54	45,658.68
HDFC Bank	64,879.57	72,009.59	86,842.22	1,08,532.48	1,22,670.09
ICICI Bank	38,989.43	47,466.10	62,128.60	74,305.72	81,164.44
Axis Bank	29,239.12	33,132.22	42,945.75	49,894.48	54,347.82
AU SFB	2,365.44	3,234.12	4,425.28	5,157.08	8,011.58
Ujjivan SFB	1,728.56	1,773.59	2,697.90	3,409.45	3,636.27
Jana SFB	1,263.15	1,389.79	1,660.02	2,127.15	2,393.13

Source: Self-Structured

FIGURE 3.1: Analysis of Net Interest Income

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Source: Self-Structured

Net interest income represents the difference between interest earned on loans and advances and the interest paid on deposits and borrowings. It is one of the most important indicators of a bank's core operational performance because the primary function of banks is financial intermediation between depositors and borrowers. A higher net interest income indicates better utilization of interest-earning assets and efficient management of interest costs.

The analysis of net interest income across the selected banks reveals that all categories of banks generate a significant portion of their revenue through lending operations. However, the magnitude and growth pattern of net interest income vary across the different categories of banks due to differences in size, market share, and lending strategies.

Public sector banks generally show steady growth in net interest income over the study period. Large public sector banks such as State Bank of India and Bank of Baroda benefit from extensive branch networks and a broad deposit base, which allows them to maintain a stable flow of interest income. However, their interest margins may sometimes be affected by higher operational costs and legacy non-performing assets.

Private sector banks demonstrate relatively strong growth in net interest income due to their efficient credit management practices, diversified loan portfolios, and adoption of modern banking technologies. These banks often focus on high-yield lending segments such as retail loans, consumer finance, and small business loans, which contribute to higher interest earnings.

Small finance banks, although smaller in scale, show notable growth in net interest income due to their focus on microfinance and priority sector lending. These banks typically charge higher interest rates to compensate for the higher credit risk associated with small borrowers. As a result, their interest spreads tend to be higher compared to traditional commercial banks.

Overall, the analysis indicates that net interest income remains the primary source of earnings for all categories of banks, though the scale and growth patterns differ according to institutional characteristics and business models.

TABLE 2.2: Analysis of Return on Assets (ROA)

Bank/Year	2021	2022	2023	2024	2025
SBI	0.45%	0.63%	0.91%	0.99%	1.06%
PNB	0.16%	0.26%	0.17%	0.53%	0.91%

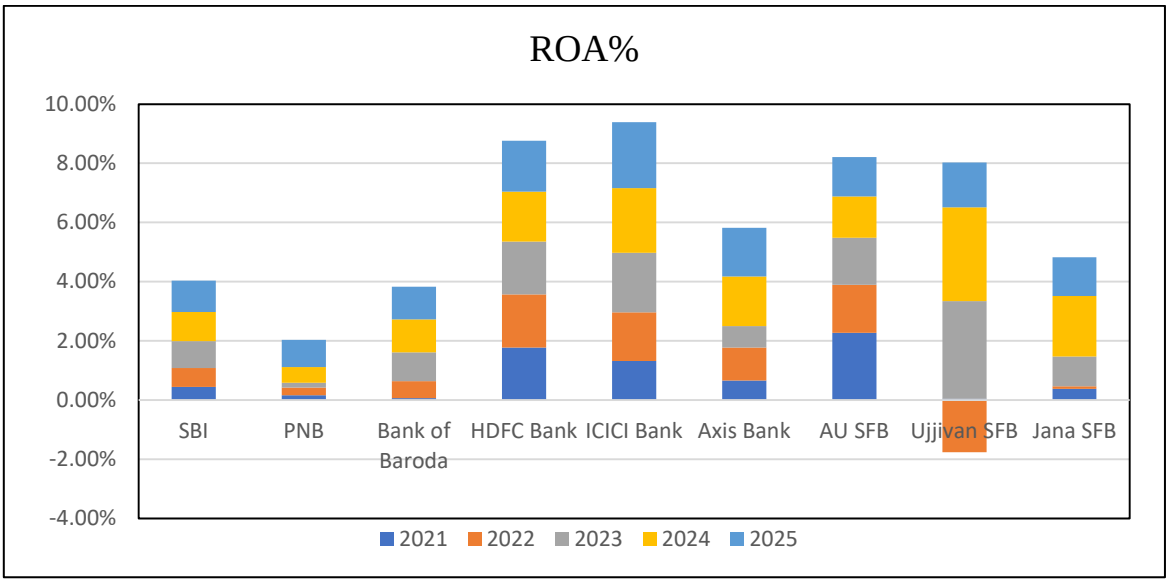
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Bank of Baroda	0.07%	0.57%	0.97%	1.12%	1.10%
HDFC Bank	1.78%	1.79%	1.79%	1.68%	1.72%
ICICI Bank	1.32%	1.65%	2.01%	2.18%	2.23%
Axis Bank	0.66%	1.11%	0.73%	1.68%	1.64%
AU SFB	2.27%	1.63%	1.58%	1.40%	1.33%
Ujjivan SFB	0.04%	-1.76%	3.30%	3.17%	1.52%
Jana SFB	0.38%	0.09%	1.00%	2.05%	1.30%

Source: Self-Structured

TABLE 3.2: Analysis of Return on Assets (ROA)



Source: Self-Structured

Return on Assets is a widely used profitability indicator that measures the efficiency with which a bank utilizes its assets to generate profits. It is calculated as the ratio of net profit to total assets and provides an overall measure of managerial efficiency in deploying financial resources.

The analysis of ROA across the selected banks shows noticeable variations among public sector banks, private sector banks, and small finance banks. Private sector banks generally record higher ROA values compared to public sector banks, indicating better profitability and more efficient asset utilization. Their stronger financial performance can be attributed to effective risk management practices, improved asset quality, and adoption of advanced banking technologies.

Public sector banks, on the other hand, historically faced challenges related to high levels of non-performing assets and operational inefficiencies. However, in recent years, several public sector banks have shown improvement in their profitability indicators due to regulatory reforms, recapitalization measures, and strengthened credit monitoring systems. The gradual decline in NPAs and improved recovery mechanisms have contributed to a positive trend in their ROA values.

Small finance banks display moderate but improving ROA levels during the study period. Since these banks operate on a relatively smaller asset base and cater to niche market segments, their profitability levels may fluctuate depending on credit demand and repayment patterns in the microfinance sector. Nevertheless, their focused lending approach and relatively higher interest spreads support their profitability.

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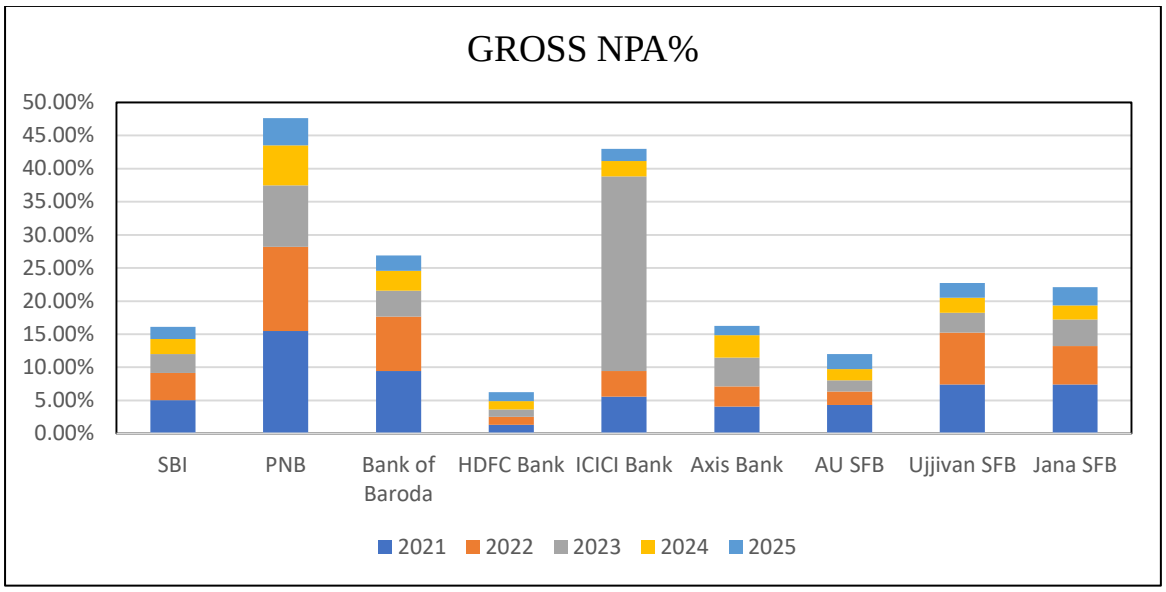
Overall, the ROA analysis suggests that while private sector banks maintain higher efficiency levels, public sector banks are gradually improving their financial performance, and small finance banks are emerging as important contributors to financial inclusion and banking sector growth.

TABLE 2.3: Analysis of Gross Non-Performing Assets (NPA)

Bank/Year	2021	2022	2023	2024	2025
SBI	5.05%	4.10%	2.84%	2.27%	1.85%
PNB	15.49%	12.69%	9.31%	6.03%	4.09%
Bank of Baroda	9.44%	8.24%	3.91%	2.99%	2.30%
HDFC Bank	1.33%	1.18%	1.13%	1.25%	1.34%
ICICI Bank	5.57%	3.88%	29.40%	2.31%	1.80%
Axis Bank	4.06%	3.08%	4.31%	3.42%	1.39%
AU SFB	4.34%	2.00%	1.68%	1.69%	2.31%
Ujjivan SFB	7.39%	7.87%	2.96%	2.28%	2.22%
Jana SFB	7.40%	5.82%	3.99%	2.14%	2.76%

Source: Self-Structured

FIGURE 3.3: Analysis of Gross Non-Performing Assets (NPA)



Source: Self-Structured

Non-Performing Assets represent loans and advances on which the borrower has failed to make scheduled payments of interest or principal for a specified period. The Gross NPA ratio is an important indicator of the quality of a bank's loan portfolio and reflects the extent of credit risk faced by banks.

The analysis of Gross NPA ratios among the selected banks indicates that public sector banks historically recorded higher levels of NPAs compared to private sector banks. This can be attributed to factors such as large exposure to corporate lending, economic slowdowns, and weaker credit monitoring practices in earlier years. However, recent regulatory reforms and improved recovery mechanisms have contributed to a gradual decline in NPAs across many public sector banks.

Private sector banks generally maintain lower Gross NPA ratios due to stricter credit appraisal procedures, diversified lending portfolios, and more efficient risk management systems. Their

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emphasis on retail lending and technology-driven credit assessment helps reduce the likelihood of loan defaults.

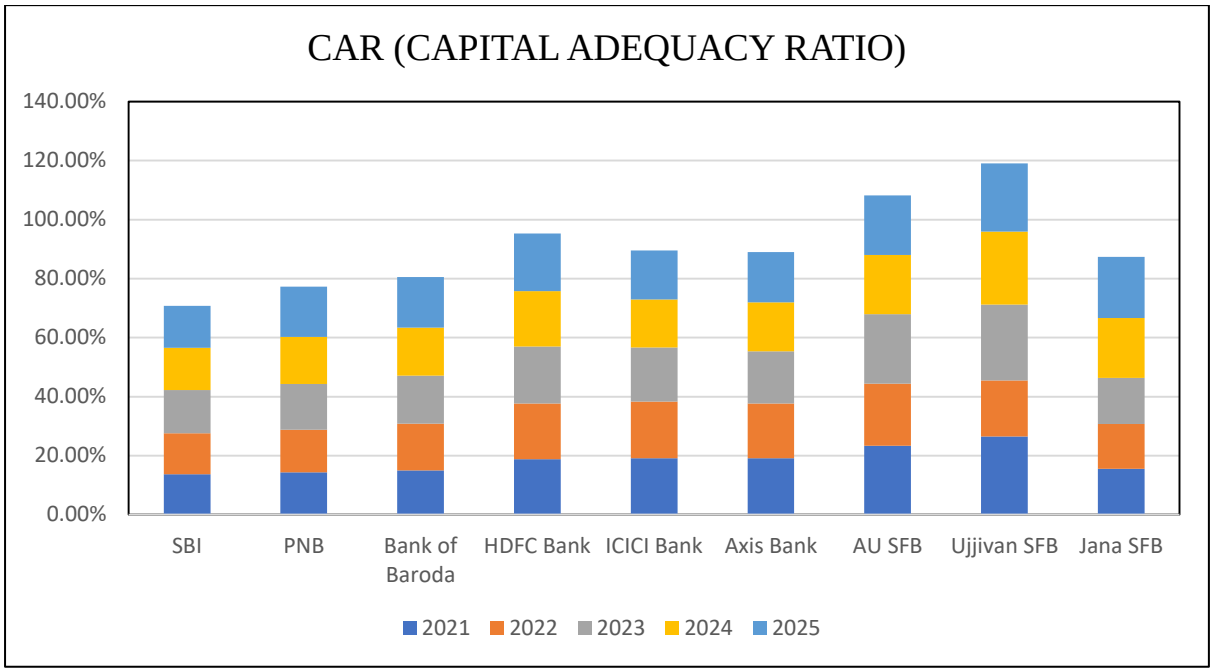
Small finance banks exhibit relatively moderate NPA levels. Since these banks focus primarily on small borrowers and microfinance segments, they face higher credit risk compared to large commercial banks. However, their close relationship with borrowers and localized lending approach often help to maintain better repayment performance.

The declining trend in NPAs across the banking sector in recent years indicates improvement in asset quality and strengthened regulatory supervision by the Reserve Bank of India. Effective credit monitoring, restructuring mechanisms, and insolvency resolution frameworks have played an important role in reducing the burden of stressed assets in the banking system.

TABLE 2.4: Analysis of Capital Adequacy Ratio (CAR)

Bank/Year	2021	2022	2023	2024	2025
SBI	13.74%	13.85%	14.68%	14.28%	14.25%
PNB	14.32%	14.50%	15.50%	15.97%	17.01%
Bank of Baroda	14.99%	15.84%	16.24%	16.31%	17.19%
HDFC Bank	18.79%	18.90%	19.26%	18.80%	19.55%
ICICI Bank	19.12%	19.16%	18.34%	16.33%	16.55%
Axis Bank	19.12%	18.54%	17.64%	16.63%	17.07%
AU SFB	23.40%	20.99%	23.59%	20.06%	20.10%
Ujjivan SFB	26.44%	18.99%	25.81%	24.69%	23.10%
Jana SFB	15.51%	15.26%	15.57%	20.31%	20.68%

FIGURE 3.4: Analysis of Capital Adequacy Ratio (CAR)



Source: Self-Structured

The Capital Adequacy Ratio is a critical measure of the financial strength and stability of banks. It represents the proportion of a bank's capital to its risk-weighted assets and ensures that banks maintain sufficient capital buffers to absorb potential losses. Regulatory authorities such as the Reserve Bank of India prescribe minimum CAR requirements to safeguard the stability of the financial system.

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The analysis of CAR values for the selected banks indicates that most banks maintain capital levels above the regulatory minimum requirement. This reflects the efforts of banks to strengthen their financial resilience and comply with prudential regulatory norms.

Private sector banks typically maintain relatively strong capital adequacy levels due to better profitability and access to capital markets. Public sector banks have also improved their CAR levels in recent years with the support of government recapitalization programmes and improved earnings performance.

Small finance banks generally maintain adequate capital buffers because regulatory frameworks require them to maintain strong capital positions during their growth phase. Their relatively smaller size and controlled expansion strategies also help maintain healthy capital ratios.

The maintenance of adequate capital levels across the banking sector contributes significantly to financial stability and enhances the confidence of depositors and investors.

COMPARATIVE ANALYSIS OF BANK CATEGORIES

The comparative analysis of public sector banks, private sector banks, and small finance banks highlights important structural differences in performance patterns across these categories.

Private sector banks demonstrate higher profitability and operational efficiency due to better technological adoption, innovative financial products, and effective risk management practices. Public sector banks, although historically challenged by higher NPAs, have shown significant improvement in financial performance due to regulatory reforms, recapitalization initiatives, and strengthened credit monitoring mechanisms.

Small finance banks, despite their relatively smaller size, play a crucial role in expanding financial inclusion by providing banking services to underserved segments of the population. Their focused lending strategies and higher interest spreads contribute to their income generation, although their performance may fluctuate due to the nature of their lending portfolios.

Overall, the comparative analysis indicates that each category of banks plays a distinct role within the Indian banking system, contributing to financial stability, economic development, and inclusive growth.

FINDINGS OF THE STUDY

The major findings emerging from the analysis are as follows:

1. Net interest income remains the primary source of earnings for all categories of banks and shows a consistent growth trend during the study period.
2. Private sector banks exhibit higher profitability as reflected by relatively higher ROA values.
3. Public sector banks have shown gradual improvement in financial performance due to declining NPAs and improved operational efficiency.
4. Small finance banks demonstrate significant potential for growth, particularly in serving financially underserved segments of the economy.
5. The Gross NPA ratios across the banking sector show a declining trend, indicating improvement in asset quality and credit risk management.

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6. Most banks maintain capital adequacy ratios above the regulatory minimum requirements, reflecting financial stability and compliance with prudential norms.
7. Differences in ownership structure, lending strategies, and operational efficiency contribute to variations in performance among different categories of banks.

CONCLUSION

The present study examined the financial performance and asset quality of selected public sector banks, private sector banks, and small finance banks in India using key financial indicators over the period 2021–2025. The analysis reveals that the Indian banking sector has experienced significant improvement in profitability, asset quality, and financial stability in recent years.

Private sector banks continue to demonstrate higher efficiency and profitability due to their strong managerial practices and technological advancements. Public sector banks, supported by policy reforms and recapitalization initiatives, have shown substantial progress in reducing non-performing assets and improving operational performance. Small finance banks, though relatively new entrants, play an important role in promoting financial inclusion and expanding access to banking services.

The overall findings indicate that the Indian banking system is gradually strengthening in terms of financial soundness and operational efficiency. Continued regulatory oversight, prudent risk management, and technological innovation will remain essential for sustaining the long-term stability and competitiveness of the banking sector.

LIMITATIONS OF THE STUDY

1. Use of Secondary Data – Based only on published sources, so it may lack first-hand insights into internal operations and decision-making.
2. Limited Sample of Banks – Includes only selected banks, which may not reflect the performance of the entire banking sector.
3. Restricted Time Period – Covers a short period, making it difficult to analyse long-term trends and consistency.
4. Limited Financial Indicators – Focuses on a few ratios, so it does not provide a complete picture of financial performance.
5. Use of Descriptive Analysis – Relies on basic comparison methods, without deeper statistical or econometric analysis.
6. Exclusion of External Factors – Does not consider economic conditions like inflation or GDP, which can impact bank performance.

POLICY IMPLICATIONS / SUGGESTIONS

1. Strengthening Credit Risk Management – Banks should improve loan appraisal and monitoring to reduce NPAs and ensure better recovery.
2. Improving Operational Efficiency – Focus on better management practices and use of technology to enhance performance.
3. Enhancing Digital Banking Infrastructure – Invest in digital systems to improve services, reduce costs, and increase customer satisfaction.
4. Maintaining Adequate Capital Levels – Ensure strong capital position to handle risks and maintain financial stability.

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5. Focus on Financial Inclusion – Expand banking services in rural and underserved areas for inclusive growth.
6. Strengthening Regulatory Supervision – Ensure proper monitoring through regulations, audits, and risk-based supervision.
7. Encouraging Innovation in Banking Services – Develop new financial products to meet changing customer needs.
8. Enhancing Customer-Centric Banking Practices – Improve service quality, awareness, and accessibility for customers.

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