

# ASSET QUALITY MANAGEMENT IN INDIAN BANKING: A CASE STUDY OF CENTRAL BANK OF INDIA AND AXIS BANK (2020 –2024)

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## Abstract

Asset quality is a key indicator of the financial health and stability of banks. This study presents a five-year comparative analysis of asset quality management between the **Central Bank of India** (a public sector bank) and **Axis Bank** (a private sector bank) for the period 2020–2024. Focusing specifically on three critical ratios — **Total Investments to Total Assets**, **Net NPA to Net Advance**, and **Net NPA to Total Assets**, the paper aims to assess how effectively both banks have managed their asset quality. The analysis is based on secondary data derived from annual reports and RBI publications. Findings reveal that while both banks show varying performance trends, **Axis Bank** has generally maintained superior asset quality indicators, reflecting effective credit risk management. The study offers relevant insights and suggestions for enhancing asset quality in public sector banks.

**Keywords:** Asset Quality, Net NPA, Total Investments, Central Bank of India, Axis Bank, Financial Performance, Risk Management

## INTRODUCTION

Asset quality is one of the most critical determinants of a bank's financial health and long-term viability. It directly reflects the effectiveness of a bank's credit appraisal, monitoring, and recovery processes. In the Indian banking system, the issue of deteriorating asset quality has been a major concern, particularly for public sector banks (PSBs), which have historically reported higher levels of Non-Performing Assets (NPAs) compared to their private sector counterparts. High levels of NPAs erode profitability, strain capital adequacy, and impair the capacity of banks to extend credit to productive sectors of the economy.

The Reserve Bank of India (RBI), through regular asset quality reviews and prudential norms, has emphasized the need for robust risk management systems. Despite these measures, PSBs continue to struggle with asset quality challenges, whereas many private sector banks have adopted advanced technologies, tighter credit control frameworks, and proactive provisioning policies to maintain healthier portfolios. This dichotomy between the public and private banking sectors provides a fertile ground for comparative research.

This study aims to analyze and compare the asset quality of two representative banks: the **Central Bank of India**, one of the oldest and largest public sector banks, and **Axis Bank**, a leading private sector bank in India. The focus is on three key financial ratios over a five-year period (2020–2024): **Total Investments to Total Assets**, **Net NPA to Net Advances**, and **Net NPA to Total Assets**. These ratios provide insights into the banks' investment strategies, loan portfolio quality, and risk exposure.

By examining these indicators, the study seeks to assess how effectively each bank has managed its asset quality, the trends over time, and the implications for overall financial performance. The comparison also sheds light on the operational differences in risk governance between public and private sector banks and provides evidence-based recommendations for policy and managerial improvements in asset quality management.

### OBJECTIVES OF THE STUDY

1. To assess and compare the asset quality performance of Central Bank of India and Axis Bank using selected financial ratios.
2. To interpret trends in investment management and loan portfolio quality between public and private sector banks.
3. To recommend strategic improvements for managing asset quality, especially in PSBs.

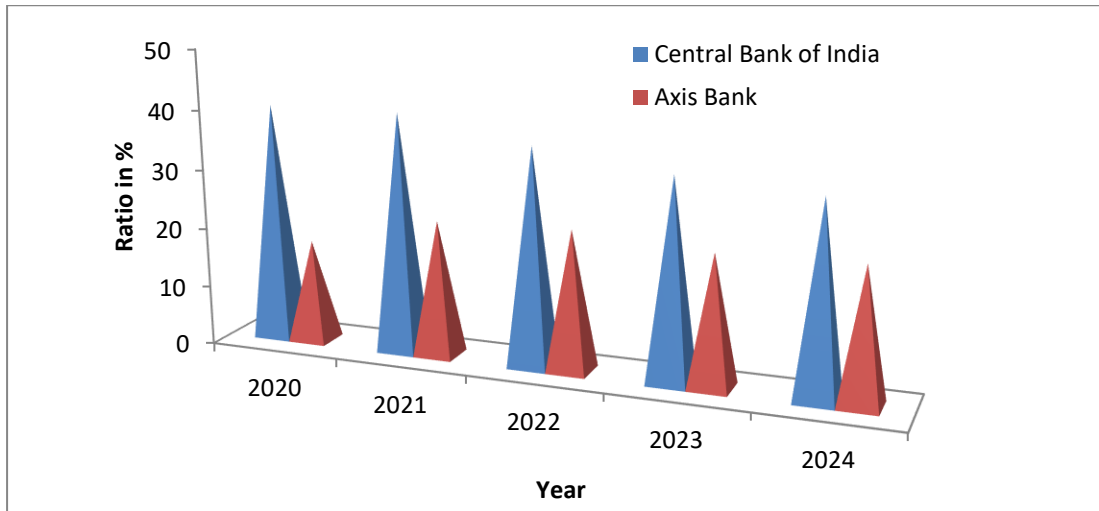
### RESEARCH METHODOLOGY

- **Research Type:** Descriptive and analytical
- **Data Type:** Secondary (Annual Reports, RBI bulletins)
- **Period of Study:** 2020–2024
- **Banks Studied:** Central Bank of India and Axis Bank
- **Key Ratios Used:**
  - Total Investments to Total Assets (%)
  - Net NPA to Net Advances (%)
  - Net NPA to Total Assets (%)

### ANALYSIS AND INTERPRETATION OF DATA

**Table 1: Total Investments to Total Assets (%)**

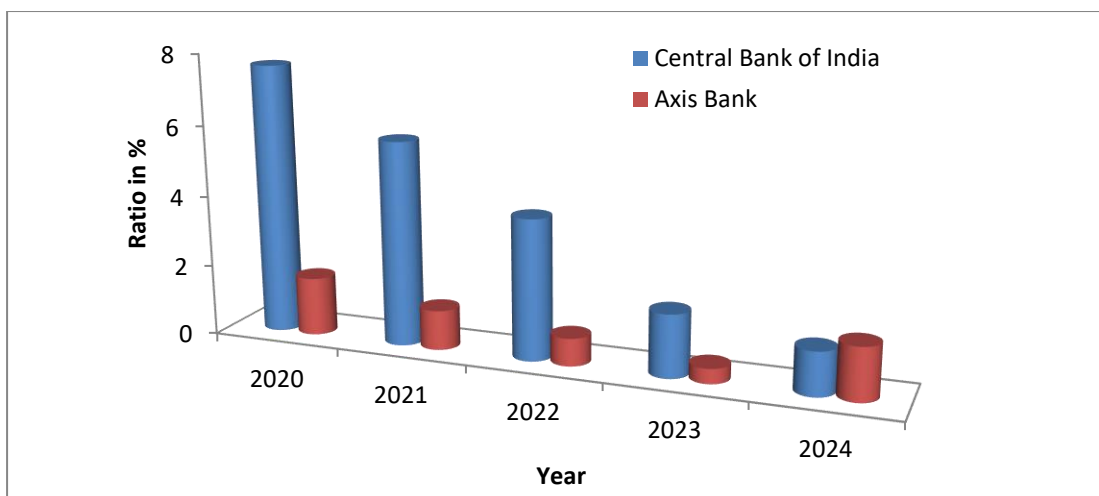
Year	Central Bank of India	Axis Bank
2020	39.98	17.13
2021	40.24	22.70
2022	36.42	23.45
2023	33.63	21.92
2024	32.22	22.44
Mean	36.50	21.53



Central Bank of India maintains a significantly higher proportion of investments to total assets compared to Axis Bank, which may indicate a conservative approach with lower credit exposure. While high investment ratios can reduce risk, they may also limit profitability if investment returns are lower than lending returns. Axis Bank's lower ratio suggests more aggressive lending and potentially better asset utilization for earning purposes.

**Table 2: Net NPA to Net Advance Ratio (%)**

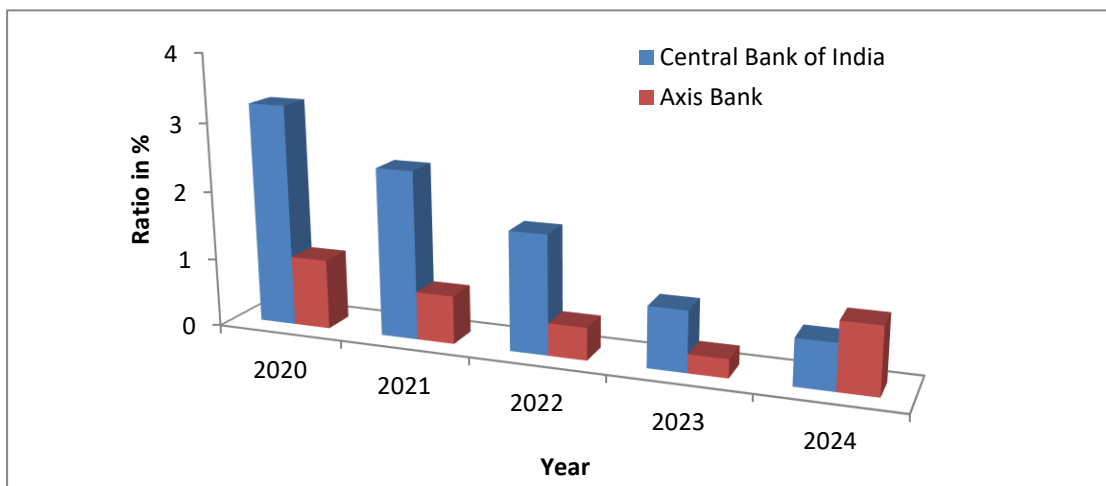
Year	Central Bank of India	Axis Bank
2020	7.63	1.64
2021	5.77	1.12
2022	3.97	0.78
2023	1.77	0.42
2024	1.23	1.49
Mean	4.07	1.09



Central Bank of India had a significantly higher Net NPA to Net Advance ratio in the earlier years, indicating a higher proportion of bad loans. However, the declining trend shows improvement in asset quality. Axis Bank maintained consistently low NPA levels until 2024, where a marginal rise is observed, possibly due to sectoral exposure or post-pandemic loan stress. Nonetheless, Axis Bank's average remains far lower, showcasing superior credit appraisal and recovery mechanisms.

**Table 3: Net NPA To Total Asset Ratio (%)**

Year	Central Bank of India	Axis Bank
2020	3.24	1.02
2021	2.45	0.70
2022	1.73	0.47
2023	0.88	0.27
2024	0.67	0.97
Mean	1.79	0.69



This ratio further confirms that Central Bank of India had a greater burden of NPAs relative to its total assets, though it has reduced year over year. Axis Bank's consistently lower figures reflect that bad loans have a relatively smaller impact on its overall asset base. The spike in 2024 for Axis Bank is unusual and may require further investigation, but its historical performance remains strong.

## FINDINGS AND DISCUSSION

- **Central Bank of India** demonstrated significant improvement in all three asset quality indicators from 2020 to 2024.
- **Axis Bank** consistently outperformed Central Bank in Net NPA-related ratios, maintaining a healthier loan book.
- The **investment ratio** for Central Bank is high, implying less risk but also potentially lower return on assets.
- Axis Bank's focus on lending rather than investment is aligned with better profitability and efficient asset utilization.

## CONCLUSION

The comparative analysis of asset quality indicators highlights a clear performance gap between the public and private sector banks. **Axis Bank** has maintained better asset quality and credit risk practices. **Central Bank of India**, although starting from a weaker position, has shown commendable progress, especially in reducing NPAs and improving its loan portfolio quality.

## RECOMMENDATIONS

1. **Central Bank of India** should rebalance its portfolio to enhance lending while maintaining asset quality.
2. Adopt **AI-driven risk evaluation** and predictive analytics for early warning signals on potential NPAs.
3. Strengthen **recovery infrastructure** and streamline legal processes for bad loans.
4. Benchmark asset quality strategies with high-performing private banks like Axis Bank.
5. RBI and policymakers should continue to support PSBs through reforms that promote autonomy and accountability in credit decisions.

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