



“A COMPARATIVE STUDY OF NON PERFORMING ASSETS WITH SPECIAL REFERENCE TO ICICI BANK AND HDFC BANK”

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Abstract: NPA is short form of “Non Performing Asset”. Loan is assets for the bank. Because from loan bank earn their income which is called as interest. If interest and installment is not received for 3 months, a loan turns into NPA. When gross NPA is increasing, it indicates bank is adding of bad loans. NPA reflects the performance of banks. Due to NPAs sometimes owners and depositor don't received their return on capital and in some case bank fails then depositor loss their assets. NPAs effect on money stock of bank. Some time chances due to high NPAs illiquidity or bank insolvency. This study aims too comparative analyses NPAs and banks performance and find correlation between NPAs and profit. This study includes secondary data from financial reports of both banks from money control website. And tried to compare both banks Gross NPA and Net NPA.

Key words: Non performing asset, Gross NPA, Net NPA, correlation, ICICI bank, HDFC bank

1. Introduction

Bank means organization where people and business can invest or borrow money. Banking industry plays an important role in the development of any economy financial health of any economy depends on the banking structure that exists in ones country.

NPA is short form of “Non Performing Asset”. Loan is asset for the bank. Because from loan bank earn their income which is called as interest. If interest and installment is not received for 3 months, a loan turns into NPA. When gross NPA is increasing it indicate bank is adding of bad loans. NPA reflects the performance of banks. It suggests number of credit defaults that affect the profitability and net worth of the banks.

Overview of Bank in India

ICICI Bank Ltd.

The full form of ICICI is 'industrial credit and investment corporation of India'. ICICI bank has its registered office in VADODARA. ICICI bank is second largest bank in India in terms of assets and in terms of market capitalization in 2014. The bank has network of 5288 branches and 15,158 ATM in India. (Up to 7 feb,2021) ICICI bank has a presence in 17 countries including India. ICICI bank acquired the bank of MADURAL limited in all stock deal in 2001 SANGLI bank in 2007 and bank of Rajasthan in 2010.

ICICI became the first Indian company and the first bank or financial institution from non Japan Asia to be listed on the NYSE (The New York Stock Exchange).during demonetization the bank announced that it will aid the transformation of 100 villages, across India into ICICI digital village in 100 days. ICICI services are investment banking, venture capital, life/nonlife insurance, asset management.

Current managing director and CEO Of ICICI bank is Sandeep Bakhshi.

ICICI provide services are Credit Card, Internet Banking, Mobile Banking, Savings Accounts, Current Accounts, Women's Account, Senior Citizen Account, Fixed Deposit, Recurring Deposit, Personal Loan, Home Loan, Gold Loan, Life Insurance, General Insurance, and Car Loans.

HDFC Bank ltd.

The full form of HDFC is 'the housing development financial corporation limited'. HDFC bank was founded in 1994. The bank has network of 5485 branches and 14533 ATM in India. (Approx up to 7, feb 2021).HDFC bank listed on BSE AND NSE. Market capitalization of HDFC bank is 6.5 million caror. HDFC provide services are wholesale banking, retail banking, Treasury, auto loans, two wheeler loans, personal loan, loans against property, consumer durable loan, lifestyle loan, credits card, wealth management and private equity.

Current managing director and CEO is sashidhar jagdishan.

Tag line of HDFC bank is 'we understand your world'. Mission of HDFC is being world class bank of India. HDFC bank was first bank by launch international debit card and master card, maestro debit card with partnership VISA.HDFC bank was first bank that launch 1st mobile banking and point of sale in India.

Non-performing asset means loan or an advance where:

- Interest and installment not received from time of over 90 days, in respect of a term loan.
- Remained and don't repay of overdraft/cash credit.
- Case of bill purchased and discounted which not received for a time of more than 90 days.

Effect of NPA on banking

When account becomes NPA bank have to make provisions. Banks have to keep fund a side for the provisions.

- Restriction on cash flows due to the provisions of fund management NPA.
- Bank has to make this provision from profit.
- It creates bad effect on banks good will.

How and when loan become NPA

Type of loan	Period
Term loan becomes NPA if interest and principal remain over due.	More than 90 days.
Bill becomes NPA if remain over due for	More than 90 days
Agriculture loan account session NPA when overdue for (1) crop session up to 1 year (2) crop session more than 1 year	(1) After 2 crop session. (2) After 2 crop session.
Cash credit and overdraft becomes NPA if it remains out of order.	More than 90 days

Asset classification of bank

Bank classification loan accounts into four health categories.

(1) Standard assets: loan account which do not show any sign of irregularity of repayment of installments and interest is received on time. These assets did not high risk and are not NPA in the real meaning.

(2) Sub standard assets: in which installment due has not been paid for 90 days. It's not generating interest it's called NPA.

(3) Doubtful assets: NPA account older than 12 month is classified in these categories.

(4) Loss assets: NPA which have no chance of recovery.

Types of NPA

(1) **Gross NPA:** means total amount of loan which is not received from more than 90 days. Gross NPA include irrecoverable advances and for this bank made provisions but it still held in bank. It's quality of loan which is made by bank.

Gross NPA = Gross NPA / Gross advances

(2) **Net NPA:** Net NPA is difference between Gross NPA and Provisioning for NPA.

Net NPAs = Gross NPA – Provisions / Gross Advances – Provisions

Reasons for an Account Becoming NPA

- Due to Change in business environment many times business facing loss.
- Because of diversification of loan that means not use for business and use for unrelated business activity.
- Because of global and national financial crises (Ex. 2008 financial crises).
- Unplanned expansion of business (for example loan taking during boom period at low cost and later serviced at high cost then the result into NPA).
- Competition in market segment. (Ex. Telecom sector in India).
- The down in all over economy. (Ex. Due to covid19 pandemic economic fall down).
- Because of natural calamities like earthquake, floods, disease.
- Because of good relation with politics get easily loan even future of firm is nothing in this case loan become NPA.
- Due to business sickness like improper management.
- Sometimes new entrepreneur cannot able to generate demand than they can't able to pay loan.

- Proper credit Appraisal System is not use for giving loan then the results loan being NPA.
- Due to change in government policy.

2.Objective

- (1) To understand the concept of Non-performing assets.
- (2) To compare the NPA position of ICICI Bank and HDFC Bank.
- (3) To measures co-relation of NPA on profitability of banks.

3. Research methodology

Research methodology is outline the plan and method that how the study is conduct.

So, Mention below detail about it.

Research design: descriptive research design

Source of data: We collect data from annual report of banks. And some data collected from site moneycontrol.com, web site of selected bank and journals, magazines, newspaper, Research Paper on NPA and internet having information related NPA also consider for collection of data.

Data collection method: secondary data

Population: Research is conducted in HDFC AND ICICI Bank. In that research all financial statement or annual reports when bank started are used as population of the study.

Sample size: From the population of all annual reports only last 5 years annual reports are to select for the sample size and also in that research study

Sampling method: Nonrandom Sampling (Open the selection bias)

Statistical tools for analysis: co-relation, charts, percentage method

4. Literature review

Garg, A. (2015) this study was Descriptive research and based on secondary data. They use data from 2001-2011.major focus on the analyze the nature, extent and magnitude of NPAs of Public sector banks, Private sector bank and Foreign Banks. And determine the possible correlation among the Profitability of this banks and NPA levels. For analysining they use Hypothesis Testing Using T-test. Test is use for find correlation between Net NPA and Net Profit of Public, Private and Foreign sector banks. And find that NPA of foreign banks and private sector banks reduced and while public sector banks increased. And suggest that by effective management NPA may be control.

Shah, V., & Sharma, S. (2016) the research paper identifies that how working of NPA in Private Sector bank and how to decrease NPA. For that they use ratio analysis and check that bank gross NPA is increase or not.NPA give ideas about performance of bank. And also give Reasons for a loan become NPA. They analyze data of ICICI and HDFC bank. And find that no one control NPA but we can reduce by proper policy appraisal, supervision.

Bhandari, M. (2019) this study aim was know that how efficiently Public sector banks and Private sector banks are handling their NPAs. They analyze position of NPAs. For that they collect data from year 2005-06 to 2017-18. For data collection they use secondary method. And conclude that NPAs of banking sector also effect on economy. And required some measure take care for control of NPAs like Credit risk

management, Credit Monitoring, Handling Corporate Governance Issues, Strict NPA recovery, Asset Reconstruction Companies.

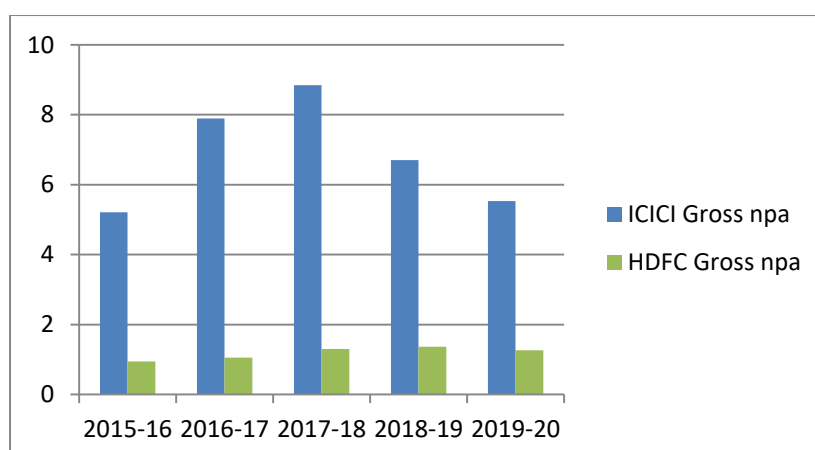
Mohnani, P., & Deshmukh, M. (2013) this paper aim for evaluate the operational performance of selected public sector and private sector bank in India. And they also analyze the efficiency of management of NPAs of those selected banks. For the analyzing they collect secondary data. It includes Articles and papers relating to NPA published in different business journals, magazines, newspaper and data available on internet were also used. They collect Public Sector's bank SBI and PNB bank's data and Private Sector bank's ICICI and HDFC bank data. They use Measure of central tendency, frequency distribution, Standard Deviations, coefficient of variation for the interpretation. And give conclusion that that impact of NPAs on operations by many ways like increase cost of capital, return on investment reduce, also effect on bank's profitability. NPAs suggests bank performance so its need to reduce it.

Misra, S. K., & Rana, R. This study descriptive in nature. Study focus on analyze NPAs in top private sector banks in India. They take 5 bank samples from private bank in India it includes (ICICI Bank, HDFC Bank, Axis Banks, Yes Bank, Kotak Mahindra Bank).and check that any impact on profitability of NPAs in those private sector bank. For that they collect data year from 2014-15 to 2018-19.and ratio analysis used for analyze trend of NPAs in those private sector banks. They collect data from RBI website and moneycontrol.com and also used correlations for testing hypothesis. And conclude that NPAs is big problem of Indian banking system. it effect goodwill of bank. And find that HDFC bank having good NPA management and ICICI banks, axis banks, yes banks are having negative correlations that means their NPA increase and profit decrease.

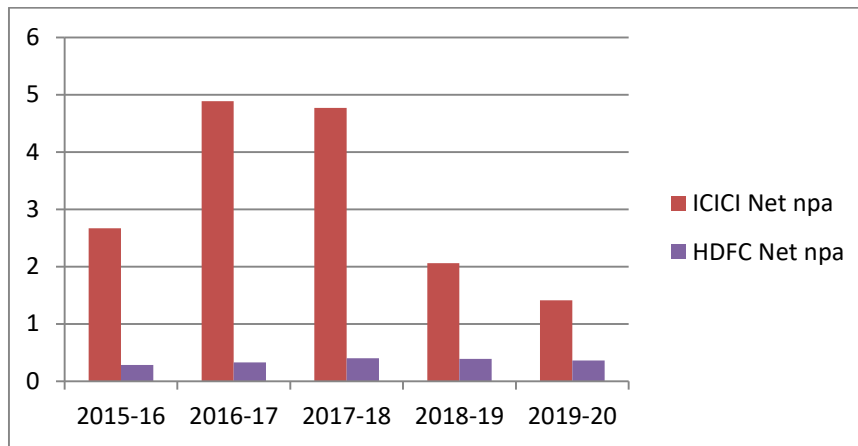
5. Data analysis

Compare the NPA position of ICICI Bank and HDFC Bank

Year	ICICI BANK		HDFC BANK	
	GROSS NPA %	NET NPA%	GROSS NPA%	NET NPA%
2015-16	5.21	2.67	0.94	0.28
2016-17	7.89	4.89	1.05	0.33
2017-18	8.84	4.77	1.30	0.40
2018-19	6.70	2.06	1.36	0.39
2019-20	5.53	1.41	1.26	0.36
Average	6.83	3.16	1.18	0.35



Gross NPA Ratio of ICICI Bank and HDFC Bank's Chart



Net NPA Ratio of ICICI Bank and HDFC Bank's Chart

In ICICI bank highest GROSS NPA is 8.84% in 2017-18 where as lowest is 5.21% in 2015-16 and same data in HDFC bank are 1.36% in 2018-19 and 0.94% in 2015-16 respectively. While average gross NPA of both the bank for five years are 6.83% and 1.18% respectively. From the observation we can say that HDFC'S performance better than the ICICI bank.

From table 1, In ICICI bank highest NET NPA is 4.77 % in 2017-18 where as lowest is 1.41% in 2019-20 and same data in HDFC bank are 0.40% in 2017-18 and 0.28% in 2015-16 respectively. While average net NPA of both the bank for five years are 3.16% and 0.35% respectively.

From the observation we can say that HDFC'S performance better than the ICICI bank.

Co-relation of NPA on profitability of banks

Co-relation

The Karl Pearson's co-relation is use for measures relation between two variables.

The values of co-relation are in between -1 and +1.

-1 means negative co-relation, +1 means positive co-relation and 0 means no relationship.

“r” is represent co-relation.

$$r = \frac{\sum\{(X - \bar{x}) * (Y - \bar{y})\}}{\sqrt{\sum[(X - \bar{x}) * (Y - \bar{y})]}}$$

Calculation of ICICI BANK co-relation of NPA on profitability of bank.**[In Rs. Cr.]**

Year	Net NPA	Net Profit
2015-16	13,296.75	9,726.29
2016-17	25,451.03	9,801.09
2017-18	27,886.27	6,777.42
2018-19	13,577.43	3,363.30
2019-20	10,113.86	7,930.81

$$r = 0.169767379$$

There is positive co-relation between Net NPA and Net profit. We can say that any change in Net NPA directly affected on Net Profit

Calculation of HDFC BANK co-relation of NPA on profitability of bank.**[In Rs. Cr.]**

year	Net NPA	Net profit
2015-16	1,320.37	12,296.21
2016-17	1,843.99	14,549.64
2017-18	2,601.02	17,486.73
2018-19	3,214.52	21,078.17
2019-20	3,542.36	26,257.32

$$r = 0.965852053$$

There is positive co-relation between Net NPA and Net profit in HDFC bank. We can say that any change in Net NPA directly affected on Net Profit.

6.FINDINGS

Though this research we deep understood about NPA concepts and compare OF NPA position of NPA in ICICI bank and HDFC bank. In this research we use secondary data which was collected from money control website. Used Excel functions for finding Co-relation.

We also found that ICICI bank highest GROSS NPA is 8.84% in 2017-18 where as lowest is 5.21% in 2015-16 and same data in HDFC bank are 1.36% in 2018-19 and 0.94% in 2015-16 respectively. While average gross NPA of both the bank for five years are 6.83 and 1.18 respectively.

We also found that In ICICI bank highest NET NPA is 4.77 % in 2017-18 where as lowest is 1.41% in 2019-20 and same data in HDFC bank are 0.40% in 2017-18 and 0.28% in 2015-16 respectively. While average net NPA of both the bank for five years are 3.16 and 0.35 respectively.

We also found that positive co-relation between Net NPA and Net profit in both banks are $r = 0.169767379$ in ICICI bank and in HDFC bank $r = 0.965852053$ respectively. That means any change in Net NPA directly affected on Net Profit.

7.CONCLUSION

Following conclusion could be drawn from this study.

Average Gross NPA of ICICI bank is 6.83%.while, in HDFC bank is 1.18% and Average Net NPA of ICICI bank is 3.16% while, In HDFC bank is 0.35%.It Show's that HDFC bank Performance better then ICICI bank.

there are various reasons for Account became NPA are No proper credit appraisal system for giving loan then result loan being NPA and some time due to change in government policy and diversification of loan that means loans are not use for business purpose and use for unrelated activities resulted account became NPA. And also unplanned business expansion resulted chances of losses those account can be NPA.

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- (12) <https://www.moneycontrol.com/financials/icicibank/profit-lossVI/ICI02>
- (13) <https://www.moneycontrol.com/financials/hdfcbank/profit-lossVI/HDF01>

Video link

- (1) <https://youtu.be/qzJKcSgcMIA>
- (2) <https://youtu.be/i2RSyxwA3pg>
- (3) <https://youtu.be/IPnm9ReiOV0>
- (4) https://youtu.be/7_mFpvxAEuI
- (5) <https://youtu.be/zIJS6VodCAc>
- (6) <https://youtu.be/JrtKxGuuvGg>
- (7) <https://youtu.be/Cimj89or-as>
- (8) <https://youtu.be/Igj5eFAW9jo>
- (9) <https://youtu.be/dzOc2KkFY9U>