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Non-Performing Assets: A comparative analysis of selected banks

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Abstract
Finance is like blood to every form of activity. As a result, the asset quality has been deteriorating day by day and the mounting pressure of NPAs becomes a major concern of the financial and banking sector. Banks classify their loan assets into four groups. The present study is analyzing the comparative performance of the banks regarding NPAs. The study is analytical in nature. The study is based on secondary data available from the RBI website, websites of concerned banks. Ratio analysis has been used for analyzing the trend of NPAs. A bar diagram is used to show the comparative situation of the banks. Pearson's Correlation coefficient is used to explore the relationship between net profit and NPAs. The economy suffers when credit to diverse areas of the economy slows down. It affects interest income, profits of the banks and makes the credit costly. Thus, it is not just a problem for the banks but for the economy too.

Keywords: Bank, NPAs, Ratio analysis, Pearson's Correlation coefficient

Introduction
Finance is like blood to every form of activity. the role of banks and financial institutes has been transformed as a prime mover of economic change, particularly in developing countries. With the introduction of economic reforms on the recommendation of the Narasimham Committee the Indian financial and banking sector has undergone a significant conversion and transformation from a regulated environment to a deregulated market-based economy. The Indian banking sector did not bother about asset quality rather they focused on widening the network/branches, priority sector lending, employment generation etc. till 1991. As a result, the asset quality has been deteriorating day by day and the mounting pressure of NPAs becomes a major concern of the financial and banking sector.

What is NPA
To comply with international norms and standards RBI in 2004, NPA's overdue time period was reduced to 90 days. So, Performing Asset (NPA) refers to an asset, when it ceases to generate income for any bank or finance company for more than 90 days.
1. Interest or installment of principal remain overdue for a period of more than 90 days in respect of a term loan.
2. The account remains out of order for a period of more than 90 days, in respect of an Overdraft/Cash credit.
3. The bills remain overdue for a period of more than 90 days in the case of bills purchased and discounted.
4. Interest or installment of principal remains overdue for two harvest seasons but for a period not exceeding two half years in the case of an advance granted for agricultural purposes.
5. Any amount to be received remains overdue for a period of more than 90 days in respect of other accounts.
6. Any amount due to the bank under any credit facility is 'overdue' if it is not paid on the due date fixed by the bank.

Assets Classification and provisioning norms: Banks classify their loan assets into the following four groups that are-
(i) Standard Assets (ii) Sub-standard Assets (iii) Doubtful Assets and (iv) Loss Assets

Table: Provisioning Requirements for Various Categories of Loans

Asset Category	NPA duration	Provisioning Rate (%)
Standard		0.25-1.0%
Sub-Standard	< 1 year	15%
Doubtful	Up to 1 year	25%
	1-3 years.	40%
	More than 3 years.	100%
Loss		100%

Source: RBI Report

Objectives of the Study
1. To compare and highlight the trend of the Gross NPA and Net NPA of SBI, HDFC Bank and ICICI Bank.
2. To study the correlation between Net profit and Net NPA.
3. To suggest measures for efficient management of NPAs

Limitation of the Study
1. The study is limited to the selected three banks only.
2. The study covers a period of 10 years only from 2013 to 2022.
3. The study is based on secondary data.

Literature Review
Abhilash 2021 in research paper Non-Performing Assets (NPA): A Review of (NPA) mechanism and its emerging menace in Indian public sector banks in this study concludes that banking sector contribution towards country economy is enormous and the method of manipulating operating functions is commendable. The vital aim of this study is to understand the reason in occurrence of NPA in Indian public sector banks and identify monitoring system adopted by banks to control bad loans. Most of the banks have taken some initiative to raise equity through various modes which eventually result in increased capital adequacy ratio and periodic assessment on bank's credit performance, monitoring asset quality will accelerate banking efficiency and reduce the occurrence of risks.

Dr. Antony A. 2022 in article a study on Non-performing Assets in new generation banks with special reference to Axis Bank stated that the NPAs have always created problem for the banks but for the economy too. The money locked up in NPAs has a direct impact on profitability of the bank as Indian banks are highly dependent on income from interest on funds landed. This study shows that extent of NPA is comparatively very high in public sectors banks as compared to private banks. Although various steps have been taken by government to reduce the NPAs but still a lot needs to be done to curb this problem.

Arasu SB and other 2019 in a study of analysis of Non-Performing Assets and its impact on profitability. The study found that there is a significant positive relationship between Gross NPA and Net NPA of public and private sector banks and also negatively significant relationship between NPA with ROA of public &private sector banks. The impact of ownership (public and private sector banks) significantly influences the Gross and Net NPA. That is the NPA of public sector banks was higher than that of private sector banks. The impact of Gross NPA significantly influences the ROA negatively and also Net NPA positively influences the ROA of both public and private sector banks. They recommended to the regulation and respective bank officials take the necessary steps to reduce the NPA and improve the recovery mechanism.

Methodology
The present study is analyzing the comparative performance of the banks regarding NPAs. The study is analytical in nature. The study is based on secondary data available from the RBI website, websites of concerned banks. Ratio analysis has been used for analyzing the trend of NPAs. A bar diagram is used to show the comparative situation of the banks. Pearson's Correlation coefficient is used to explore the relationship between net profit and NPAs.

Profile of Banks
SBI: The origin of the State bank of India (SBI) in the 19th century with the establishment of the bank of Calcutta on 2 June 1806. An act was passed by the Parliament in 1955 and on 1st July 1955, the State bank of India was constituted. State bank of India popularly known as SBI is one of the leading banks of public sector in India. Now the SBI is a largest public bank in India in terms of assets, deposits and employees. SBI is the preferred banker for most of the public sector corporations. The bank occupies a unique place in the Indian money market because it commands more than 1/3 of Indian banking resources.

HDFC Bank: HDFC Bank is an Indian banking and financial services company incorporated in 1994 by Housing Development Finance Corporation (HDFC), India's largest housing finance company. The bank started its operations as a scheduled commercial bank in January 1995. HDFC Bank is the second largest private bank in India as measured by assets.

ICICI Bank: ICICI Bank is an Indian multinational banking and financial services company established by the Industrial Credit and Investment Corporation of India (ICICI), an Indian financial institution as a wholly owned subsidiary in 1994. The parent company was merged with the bank in 2001.

Analysis of Data

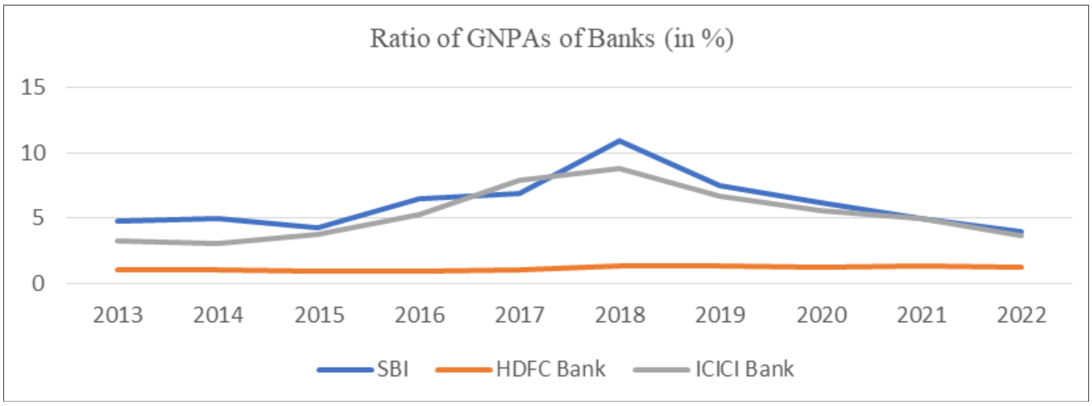
Table 1: Gross NPAs and ratio of Gross NPAs of Banks (Rs. In Crores)

Year	SBI		HDFC Bank		ICICIC Bank	
	Gross NPA	Gross NPA%	Gross NPA	Gross NPA%	Gross NPA	Gross NPA%
2013	51,189	4.75	2,334	0.97	9,607	3.22
2014	61,605	4.95	2,989	1.00	10,505	3.03
2015	56,725	4.25	3,438	0.90	15,094	3.78
2016	98,172	6.50	4,392	0.94	26,720	5.21
2017	1,12,342	6.90	5,885	1.05	42,551	7.89
2018	2,23,427	10.91	8606	1.30	54,062	8.84
2019	1,72,750	7.53	11,224	1.36	46,291	6.70
2020	1,49,091	6.15	12,649	1.26	41,409	5.53
2021	1,26,389	4.98	15,086	1.32	41,373	4.96
2022	1,12,023	3.97	16,140	1.17	33,919	3.60
Average	1,16,371.3	6.09	8174.3	1.13	32153.1	5.28

Source: Annual Report

Table 1 shows that the GNPAs problem is more acute in the case of SBI. The time series data shows that GNPAs are decreasing in all study banks. The GNPAs of SBI increased from Rs. 51,189 crores in 2013 to Rs. 1,12,023 crores in 2022. On the other hand, in the case of HDFC Bank the GNPAs increased from Rs. 2,334 crores in 2013 to Rs. 16,140 crores in the reference period. The GNPA situation in ICICI Bank is Rs. 9,607 crores in 2013 but in 2022 it increased to Rs. 33,919 crores. The time series data shows that GNPAs is maximum in the year 2018 in SBI is Rs. 2,23,427 crores, in HDFC Bank in the year 2022 Rs. 16,140 core and in ICICI Bank Rs. 54,062 crores in the year 2018. The top management of HDFC Bank has kept the ratio of GNPAs under control and the average NPAs ratio is 1.13%. The ratio of GNPAs of SBI is 6.09% and ICICI Bank is 5.28%.

From the below figure, it is clear that the ratio of Gross NPAs is decreasing in the three banks.



Source: Annual Report

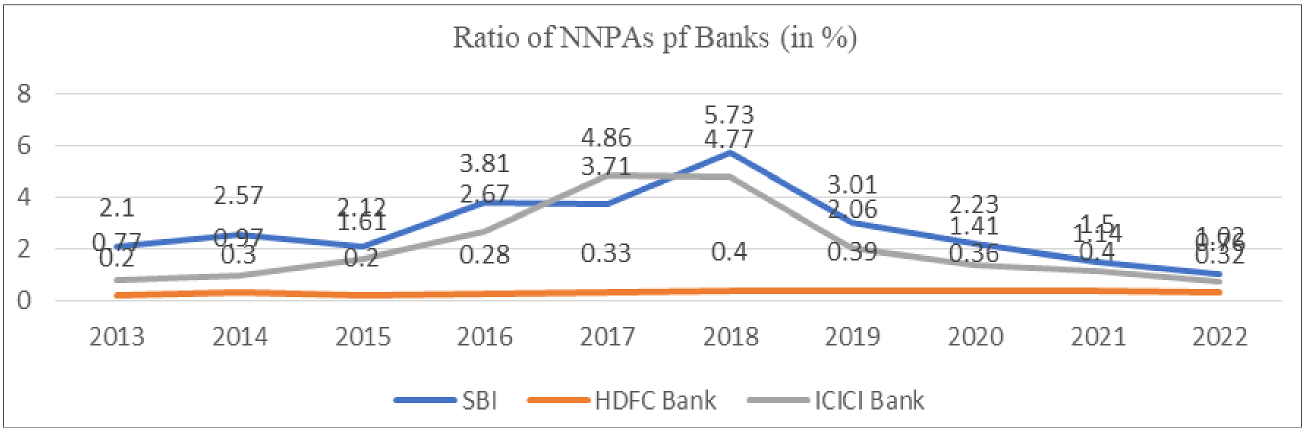
Graph 1: Ratio of Gross NPAs of Banks (in %)

Table 2: Net NPA (NNPAs) and Ratio of Net NPA of Banks (Rs. in Crores)

Year	SBI		HDFC Bank		ICICIC Bank	
	NNPA	NNPA%	NNPA	NNPA%	NNPA	NNPA%
2013	21,956	2.10	468	0.20	2,230	0.77
2014	31,096	2.57	820	0.30	3,297	0.97
2015	27,590	2.12	896	0.20	6,255	1.61
2016	55,807	3.81	1,320	0.28	13,296	2.67
2017	58,277	3.71	1,843	0.33	25,451	4.89
2018	1,10,854	5.73	2,601	0.40	27,886	4.77
2019	65,894	3.01	3,214	0.39	13,577	2.06
2020	51,871	2.23	3,542	0.36	10,113	1.41
2021	36,809	1.50	4,554	0.40	9,180	1.14
2022	27,965	1.02	4,407	0.32	6,960	0.76
Average	48812	2.78	2366.5	0.32	11824.5	2.11

Source: Annual Report

Table 2 shows that the magnitude of NNPAs of all the banks has consistently decreased during the years of study in the case of all Banks. In the case of HDFC Bank NNPAs were Rs. 468 crores in the year 2013 and rose to Rs. 4,407 in 2022. On the other hand, it increased from Rs. 21,956 crores to Rs. 27,965 crores in ten years in the case of SBI. The NNPAs of ICICI Bank was Rs. 2,230 crores in 2013 and it rose to Rs. 6,960 crores in 2022. The time series data shows that NNPAs is maximum in the year 2018 in SBI and ICICI Bank. It is maximum in the year 2021 in HDFC Bank. The average net NNPAs of SBI is 2.78% and HDFC Bank is below 1% which is .32%. In the case of ICICI Bank it is 2.11%.



Source: Annual Report

Graph 2: Ratio of Net NPA of Banks (in %)

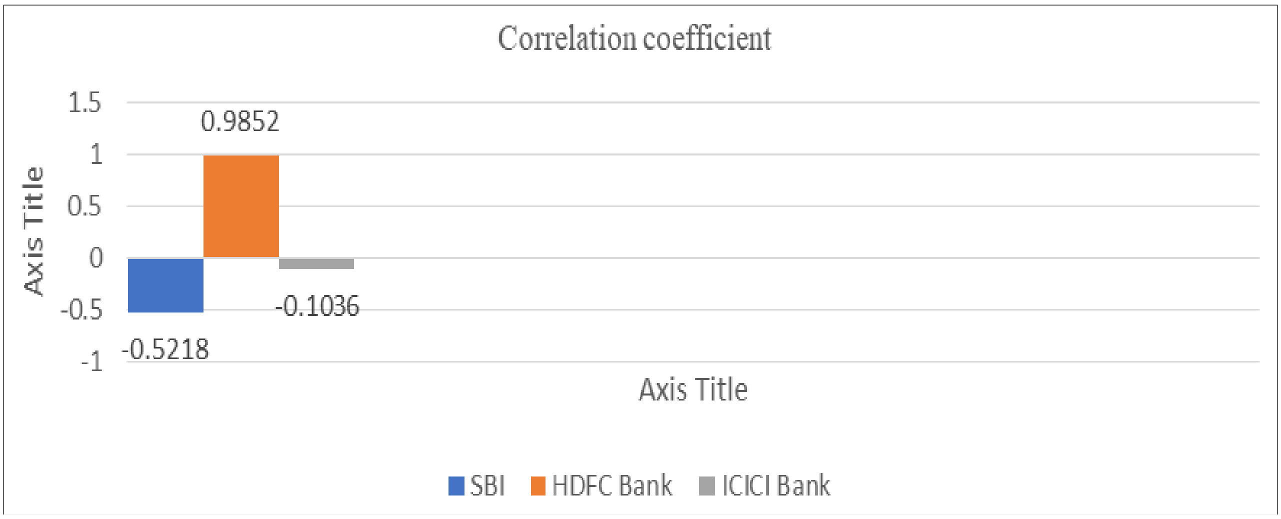
Graph 2 shows the ratio of NNPAs of the three selected banks from the year 2013 to 2022. There is a decreasing trend in the % of NNPAs. The following Table 3 shows Pearson's correlation coefficient between net profit and gross NPAs. We now try to examine whether the NPAs have any significant impact on the net profit of the respective banks.

Table 3: Correlation coefficient between Gross NPA and Net Profit (Rs. in Crores)

Year	SBI		HDFC Bank		ICICIC Bank	
	GNPA	Net Profit	GNPA	Net Profit	GNPA	Net Profit
2013	51,189	14,104	2,334	6,726	9,607	8,325
2014	61,605	10,891	2,989	8,478	10,505	9,810
2015	56,725	13,101	3,438	10,215	15,094	11,175
2016	98,172	9,950	4,392	12,296	26,720	9,726
2017	1,12,342	10,484	5,885	14,549	42,551	9,801
2018	2,23,427	-6,547	8,606	17,487	54,062	6,777
2019	1,72,750	862	11,224	21,078	46,291	3,363
2020	1,49,091	14,488	12,649	26,257	41,409	7,930
2021	1,26,389	20,410	15,086	31,117	41,373	16,192
2022	1,12,023	31,676	16,140	36,961	33,919	23,339
Correlation Coefficient	-0.5218		0.9852		-0.1036	

Source: Annual Report

From Table 3 it has been seen that Pearson's Correlation Coefficients are (-) 0.5218, 0.9852 and (-) 0.1036 in the case of SBI, HDFC Bank and ICICI Bank respectively. The negative correlation coefficient between the net profit and gross NPAs means an increase in GNPAs will decrease the net profit of the bank. The profitability of a bank depends upon the recovery of loans. Although technically a negative and weak correlation, it shows the weaker relationship between GNPAs and Net profit in ICICI Bank. But in the case of HDFC Bank, the correlation coefficients are strongly positive and high. It means high relation between GNPAs and Net profit. Profit is increased year after year and so the interest income and consequently profit of the bank also. Most of the borrower pays their installments timely. Only a small portion failed to discharge their liability. If the NPAs were big enough the profit will decrease. The following Figure 3 shows the correlation coefficient between net profit and gross NPAs. It has been seen that the correlation coefficient is negative in the case of SBI and ICICI Bank whereas in the case of HDFC Bank it is positive.



Source: Primary Data

Graph 3: Correlation Coefficient

Conclusion and Suggestion

Banks provide credit, which is further invested in profitable projects and the development of the country. But when money moves out of the financial system and cycle of lending-repaying and borrowing gets impacted. Banks have a responsibility to pay back their depositors and other lenders. In the absence of loan repayment, banks are forced to take out new loans in order to pay back depositors and creditors. This results in a situation where banks are hesitant to lend more money to ongoing or new projects. The economy suffers when credit to diverse areas of the economy slows down. It affects interest income, profits of the banks and makes the credit costly. Thus, it is not just a problem for the banks but for the economy too.

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