International Journal of Research in Human Resource Management

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Non-performing assets (NPA) big barrier in banks: A comparative study of SBI & ICICI bank from 2011-2018

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Abstract
The banking system of an economy is of foremost importance for its financial and economic development. It forms the core of the financial sector and plays a critical role in transmitting monetary policy impulses to the entire economic system. Hence the stability of banking sector is of paramount importance for the development of an economy. The banks are lending funds as loans and advances to various sectors such as agriculture, industry, personal and housing and other to meet the productive use of these funds. To ensure the firmness of the banking industry, it is essential that the performance of individual banks are checked. An important indicator today that determines the solidity of the banks are the Non-performing Assets; but in recent times the banks have become prudent in extending advances, the reason is increasing non-performing assets. This paper is an attempt to compare the non-performing assets of SBI and ICICI Bank using the secondary data analysis and to comment on their individual performances too. This study also identifies the cause of the increasing non-performing assets in the banks and a few suggestions have also been extended.

Keywords: Non-performing assets, economic development, ICICI bank, state bank of India, advances, gross NPA, Net NPA

Introduction
Bankers are the custodians and distributors of the liquid capital of the country. The banks are commercial organization and the main business of banking is to collect the deposits from the public and lead it to the individuals, business concerns, institution etc. The lending business is associated with risk. One of the risks in lending is the possibility of account becoming non-performing assets. Non-performing assets do not earn interest income and repayment of loan to bank does not take place according to the repayment schedule affecting income of the bank and their by profitability.

The non-performing assets do not generate interest but at the same time require bank to make provision for such non-performing assets out of their current profit.

The term non-performing assets figured in the Indian banking sector after introduction of financial sector reform in 1992. The Prudential norms on income recognition assets classification and provisioning there are implemented from the financial year 1992-93 as per the recommendation of the committee on financial system (Narasiham Committee). These norms have brought in qualification and objectivity into the assessment and provisioning for NPAs. Reserve Bank of India constantly India endeavors to ensure the prescription in this regard is close to international norms.

The efficiency of a bank is not always reflected only by the size of kids balance but by the level of return on its assets. NPAs do not generator interest income for the bank but at the same time banks are required to make provision for search and page from their current outputs.

NPS have on adverse effect on the return on essay aids in several ways
1. They erode current profile provisioning requirement.
2. They result introduced income.
3. They require higher provisioning requirement affecting profit and equation to capital fund and capacity to describe good quality.
4. They limit recycling of funds set in asset liability mismatch.

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The bank as per the directives of RBI classified their credit portfolio and make provisions to the quality of the assets.

Objective of the paper
1. To examine and compare the NPA trends of State Bank of India and ICICI for past seven years 2011 to 2018.
2. To list the causes of the occurrence of NPA in both the banks.
3. To compare the Total Advances, Net Profit, Gross NPA & Net NPA of State Bank of India and ICICI BANK.

Methodology
To achieve the stated objectives, this study is a fact-finding and analytical in nature and compares the financial performance of SBI and ICICI bank.
1. **Source of Data Collection:** The study is based on secondary data and data has been collected from annual reports of the respective bank's website for the above analysis. The present study covers seven years period ranging from 2011-12 to 2017-18.
2. **Statistical Analysis:** The present research work deals about comparative performance of SBI and ICICI

BANK with reference to Ratio analysis and Percentage analysis. Data are expressed as mean ±standard deviation (SD).Whole data has been analyzed with the help of SPSS for windows statistical package (version 20.0, SPSS Institute Inc., Cary, North Carolina. We have used Independent student "t" test to determine the relative importance (significant) of each variable in affecting the performance of bank among them and the significance level were fixed at $p<0.05$.

Finding and interpretation
1. The comparative data with percentage change in the gross NPAS/gross advances ratio and gross NPAS/total assets ratio
The data are summarized in (Table 1) with Mean ± SD. We observed that Gross NPAs/Gross advances ratio and Gross NPAs/ Total assets ratio was comparable with SBI bank when compared to ICICI bank. This indicates that same attention has been given by the management of both the bank to manage the amount of Gross NPA and total assets. Hence there is a progressive relation between NPA and problematic assets.

Table 1: Gross NPAs/Gross advances ratio and gross NPAS/ total assets ratio

Year	SBI					ICICI				
	GNPA (Crores)	GADV (Crores)	T. Assets (Crores)	GNPA/ GADV x 100	GNPA/ T. Assets x 100	GNPA (Crores)	GADV (Crores)	T. Assets (Crores)	GNPA/ GADV x 100	GNPA/ T. Assets x 100
2011-2012	39676.46	891436.50	1335519.23	4.45	2.97	9475.33	261342.05	473647.09	3.62	2.00
2012-2013	51189.39	1074849.46	1566261.04	4.76	3.27	9607.75	297626.00	536794.68	3.23	1.79
2013-2014	61605.35	1240337.99	1792234.59	4.97	3.44	10505.84	345910.52	594641.58	3.03	1.77
2014-2015	56725.34	1329161.15	2048079.79	4.27	2.77	15094.69	396361.23	646129.29	3.81	2.34
2015-2016	98172.80	1506066.19	2259063.03	6.52	4.35	26221.25	448522.11	720695.10	5.85	3.64
2016-2017	112342.99	1625143.99	2705966.30	6.91	4.15	42159.39	481174.66	771791.45	8.76	5.46
2017-2018	223427.46	2047452.94	3454751.99	10.91	6.47	53240.18	537811.91	879189.16	9.90	6.06
Mean ± SD	6.11+-2.34		3.91±1.26			5.45+-2.82		3.29±1.80		

2. The Comparative Data with percentage change in Net NPAs/Net Advances Ratio and Net NPAs/ Total Assets Ratio
The data are summarized in (Table 2) with Mean ± SD. We didn't observe any significant change in Net NPAs/Net

advances ratio and Net NPAs/ Total assets ratio with SBI bank when compared to ICICI bank. This indicates that the both the bank had make satisfactory provisions against NPAs.

Table 2: NET NPAs/NET Advances Ratio and NET NPAs/ Total Assets Ratio

Year	SBI					ICICI				
	NNPA (Crores)	NADV (Crores)	T. Assets (Crores)	NNPA/ NADV × 100	NNPA/ T. Assets × 100	NNPA (Crores)	NADV (Crores)	T. Assets (Crores)	NNPA/ GADV × 100	NNPA/ T. Assets × 100
2011-2012	15818.85	867578.89	1335519.23	1.82	1.18	1860.84	253727.65	473647.09	0.73	0.39
2012-2013	21956.48	1045616.55	1566261.04	2.10	1.40	2230.50	290249.43	536794.68	0.77	0.42
2013-2014	31096.07	1209828.71	1792234.59	2.57	1.74	3297.96	338702.64	594641.58	0.97	0.55
2014-2015	27590.58	1300026.39	2048079.79	2.12	1.35	6255.53	387522.07	646129.29	1.61	0.97
2015-2016	55807.02	1463700.41	2259063.03	3.81	2.47	12963.08	435263.94	720695.10	2.98	1.80
2016-2017	58277.38	1571078.38	2705966.30	3.71	2.15	25216.81	464232.08	771791.45	5.43	3.27
2017-2018	110854.70	1934880.18	3454751.99	5.73	3.21	27823.56	512395.29	879189.16	5.43	3.16
Mean ± SD	3.12± 1.39		1.92 ±0.72			2.56±2.10		1.50 ±1.26		

3. The Comparative Data with percentage change in Total Provision Ratio and Shareholder's Risk Ratio

The data are summarized in (Table 3) with Mean ± SD. We observed that total provision ratio was significantly higher in ICICI bank when compared to SBI bank. This indicates that as compare to SBI bank, ICICI bank have made better provisions for their gross NPA. However, Shareholder's risk ratio was comparable among both ICICI bank and SBI bank. This indicates the SBI bank has failed in making provisions against NPAs, because of increased risk ratio. This is not the good sign and somehow the bank has to take some prompt actions to lower down the risk ratio. This can affect the goodwill, cost of the shares and the competitive market.

Table 3: Total Provision Ratio and Shareholder's Risk Ratio

| Year | SBI | | | | | | ICICI | | | | | |
| | Total provision ratio and Shareholder's risk ratio | | | | | | Total provision ratio and Shareholder's risk ratio | | | | | |
	GNPA (A) (Crores)	NNPA (B) (Crores)	T. Provision (C) (Crores)	T. Capital reserve (D) (Crores)	T. Provision ratio (C/A × 100)	Shareholder's risk ratio (B/D ×100)	GNPA (A) (Crores)	NNPA (B) (Crores)	T. Provision (C) (Crores)	T. Capital reserve (D) (Crores)	T. Provision ratio (C/A × 100)	Shareholder's risk ratio (B/D×100)
2011-2012	39676.46	15818.85	23857.61	83951.21	60.13	18.84	9475.33	1860.84	7614.49	60405.24	80.36	3.08
2012-2013	51189.39	21956.48	29232.91	98883.69	57.11	22.20	9607.75	2230.50	7377.19	66705.96	76.78	3.34
2013-2014	61605.35	31096.07	30509.28	118282.25	49.52	26.29	10505.84	3297.96	7207.88	73213.33	68.61	4.50
2014-2015	56725.34	27590.58	29134.76	128438.23	51.36	21.48	15094.69	6255.53	8839.16	80429.36	58.56	7.78
2015-2016	98172.80	55807.02	42365.78	144274.44	43.15	38.68	26221.25	12963.08	13258.17	89735.58	50.56	14.45
2016-2017	112342.99	58277.38	54065.61	188286.06	48.13	30.95	42159.39	25216.81	16942.58	99951.07	40.19	25.23
2017-2018	223427.46	110854.70	112572.76	219128.56	50.38	50.59	53240.18	27823.56	25416.62	105158.94	47.74	26.46
Mean ± SD				51.39±5.65	29.86±11.34					60.40±15.29*	12.12 ±10.15	

Discussion

Usually wilful avoidances, inappropriate process of loan proposals, poor observance and so on are the causes for accounts to create NPAs. NPA's have continuously been an issue for the Indian banks because it has an immediate impact on the profitability, liquidity and economical working of banks and growing of financial organizations and eventually the mind-set of the bankers with respect of their outlook in the direction of credit delivery and credit growth of the banks. The foremost reasons for increasing NPA's in Indian commercial banks is that the target-oriented approach, that ends up in ineffective supervising of loan accounts, lack of decision-making and practical expertise on a part of the borrowers that ultimately worsens the qualitative facet of lending by banks. The study has revealed that the extent of NPAs is relatively more in public sector banks as compared to private sector banks. In previous study, among SBI and ICICI bank for operating period 2011-2013, the total advances and net profit has shown growing trend in both the banks but as compare to SBI, NPA in ICICI bank has shown downward trend. In Net Profit and Net NPA, SBI has shown positive relationship while there was negative relationship has been found in ICICI bank. In contradictory to that, we have observed there were not any significant change in Gross NPAs / Gross advances ratio and Gross NPAs/ Total assets ratio as well as Net NPAs/Net advances ratio and Net NPAs/ Total assets ratio among both SBI and ICICI bank for operating period 2011-2018. In this study, there was significant decrease of amount outstanding in ICICI bank as compare to SBI bank. Henceforth, the performances of SBI banks are not suitable as compared to ICICI banks and SBI banks need to efficiently give more attention on their functioning as compete to ICICI to managing NPAs.

Limitation

This study is limited to the period of seven year only, which may not give the accurate results. The study is based on secondary data and so its inherent limitations.

Conclusion

The problem of NPAs could be a major hurdle and live danger faced by banking industry, as a result of it destroys the healthy financial condition of the banks. It right time to require appropriate and stringent measures to get rid of NPA problem. Banks ought to be versed in correct choice of borrower/project and in analyzing the finances. The performances of SBI banks don't seems to be appropriate as compared to ICICI banks, as the magnitude of NPAs is increasing in SBI bank by means of ICICI banks. SBI bank

has to give special care on their effective working to compete with ICICI banks. Therefore, SBI banks need to efficiently to regulate their NPAs with the purpose of increase their profitability.

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