

## Non-Performing Assets: A Comparative Study of SBI & ICICI Bank from 2014-2017

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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. 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-** Economic Development, ICICI Bank, Non-Performing Assets, Stability, State Bank of India

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### I. Introduction

The Indian banking sector has undergone a drastic change and has evolved considerably over several decades. While banks have increasingly become more and more profitable in terms of higher revenues, attracting foreign capital and diversifying their operations, they are also suffering from major issues such as compromised asset quality, capital inadequacy and stressed balance sheets. This has affected the performance of the banking sector and has raised questions about its sustainability. Today profit is a sign of vitality and success in a competitive scenario. It ensures survival and growth and can eventually become the only parameter for performance evaluation. NPA provisions are one of the major determinants of profit. Hence, for a bank, NPA has become very significant.

### II. Objectives

- To examine and compare the NPA trends of State Bank of India and ICICI for past four years.
- To list the causes of the occurrence of NPA in both the banks.
- To compare the Total Advances, Net Profit, Gross NPA & Net NPA of State Bank of India and ICICI BANK.
- To check whether there exist any linear relationship between Net profit and Net NPA in case of both the banks.

### III. Literature Review

Dr. Ganesan & R.Santhanakrishnan in their research paper 'NON-PERFORMING ASSETS: A STUDY OF STATE BANK OF INDIA' have made an attempt to examine the non-performing assets of State Bank of India over the past 10 years beginning from financial year 2002 to the financial year 2012. The researchers in this paper aimed to study the sources of deployment of funds for the chosen bank. They examined the gross and the net NPA of the bank and investigated the impact of NPA on the profitability of the bank. They've also suggested measures to improve NPA effectively in SBI.

They have made use of both primary and secondary data in this research. SBI Annual reports and bulletins were made use of. The researchers have revealed the sources of working funds for SBI which include deposits, borrowings, reserves and surpluses & share capital. They've analysed the trends of each of the source over the past 10 years. They have shown the net and the gross NPA tables and it has been revealed that SBI's

management of gross NPA is spectacular. The gross NPA slipped down from 9 in 2002-03 to 2.8 in 2008-09 and according to international standards the gross NPA must not exceed 2 to 3%.

The paper's results and conclusion have been in favor of SBI as State Bank of India has very well managed to keep its non-performing assets under control. This may be a result of strict watch on various internal and external factors that could have hampered the overall growth of the bank.

**Vaibhavi Shah and Sunil Sharma** in their research paper titled as **A COMPARATIVE STUDY OF NPA IN ICICI BANK AND HDFC BANK** have made an attempt to study the non-performing assets of ICICI and HDFC bank. Since, both the banks belong to the private sector of the Indian Banking industry, they aimed at comparing the NPAs and hence the overall growth of the selected banks.

This paper aimed to know the operation of the bank in lending and credit policy and it also suggested the steps that should be taken to reduce NPA for the banks. Next they gave the introduction of NPA and detailed the reasons behind the rise in the NPAs.

They analyzed the gross and the net NPA of both the banks with the help of the table and respective graphs. Comparison was based on the past 5 years from financial year 2010-11 to financial year 2014-15. Gross NPA for ICICI Bank was impressive as it managed to maintain its NPA near to 3% according to international standards. On the other hand, HDFC's performance was even better as its gross NPA values were near to 1% and net values of NPA were all less than 1%. So, the researchers conclude the paper stating that although both the banks are doing a great job, HDFC bank is doing exceptionally well.

**D.JAYAKKODI** in her research paper titled- **A STUDY ON NON PERFORMING ASSETS OF SELECT PUBLIC AND PRIVATE SECTOR BANKS IN INDIA** aimed to examine and compare the Gross NPAs and Net NPAs of select Public and Private Sector Banks. This paper consists of four Public Sector Banks- State Bank of India, Punjab National Bank, Bank of Baroda, Bank of India and four Private Sector Banks- ICICI Bank, HDFC Bank, AXIS Bank, and federal Bank. The study is carried out on the basis of data for the period of 5 years from 2010-11 to 2014-15. Various statistical tools namely mean, standard deviation and coefficient of variance were used in the study.

It was realized that Public Sector Banks have higher NPA ratio as compared to Private Sector Banks over the period of the study.

Gross and Net NPAs ratio has shown an increasing trend in selected Public Sector Banks over the period of study.

It was observed that the Gross NPA ratio has shown a declining trend in Private Sector Banks. It was observed that Net NPA ratio has shown an increasing trend in selected private sector banks over the period of study.

**Priyanka Mohnani and Monal Deshmukh**, in their paper titled as **A Study of Non-Performing Assets on Selected Public and Private Sector Banks** aimed to study the trends in NPA Level and to highlight the NPAs position of selected PSB's and Private Banks. They are also focused on assessing the comparative position of NPA in selected PSBs & Private banks and to assess the variation of NPA ratio in selected PSBs & Private banks. Selected PSBs are SBI & PNB, selected private banks are HDFC & ICICI bank. For their study, they focused on secondary data and it has been collected using annual report of Reserve Bank of India publication. In their study, measures of central tendency, frequency distribution, Standard Deviations, coefficient of variation and test have been used to analyze and interpret the data. Their study focused on examining the various aspects of NPAs in PSBs & Private banks of India (selected banks). Their study covers the period from 2002-03 to 2011-2012. To study NPA ratio variation data over the year 2011-2012 has been analyzed.

To be concluding, Gross NPAs ratio of PNB is less and it has been reduced over the period in comparison to SBI. On the other side as far as Private Banks are concerned HDFC has better performance in comparison to ICICI. So, it is very necessary for bank to keep the level of NPA as low as possible. Because NPA is one kind of obstacle in the success of bank and affects the performance of banks negatively so, for that the management of NPA in bank is necessary.

**V.R SINGH** in his paper titled **A Study of Non-Performing Assets of Commercial Banks and its Recovery in India** has aimed to study the status of Non-Performing Assets of Indian Scheduled Commercial Banks in India and their impact on the banks. He also tried to uncover the channels through which recovery of NPA can be done. He provided the readers with some suggestions to manage NPA in near future effectively. The data collected is mainly secondary in nature. Some of the major findings were

- NPAs as a Percentage of Net Advances which was lowest 1.0 % in 2007-08 & 2008-09 and highest 5.5 % in 2001-02. It was 2.2 % in 2013-14.
- The average Percentage of Net NPAs during 2001-02 to 2013-14 was around 2.0%.

- Ineffective recovery, willful defaults and Defective lending process are the important factors which are responsible for the rise of NPAs in banks.

#### **IV. Research Methodology**

The present study is based on secondary data analysis. The data has been collected from various web sources like annual reports of respective banks, information bulletins and journals.

For analyzing the data collected, correlation analysis using SPSS has been done and to compare various parameters, charts and tables have been made use of.

Here, NPA is the independent variable and net profit is the dependent variable. So we see if due to any changes in the net NPA, the net profits change or not, if yes, whether positively or negatively.

#### **V. Data Analysis**

In the below section, various parameters related to NPA are compared and analyzed.

Firstly, the total advances, net profits, gross NPA and net NPAs have been compared for both the banks.

YEAR	TOTAL ADV.		NET PROFIT		GROSS NPA		NET NPA	
	SBI	ICICI	SBI	ICICI	SBI	ICICI	SBI	ICICI
2014	1,578,277	338,703	10,891	9,810	61,605	10,506	31,095	3,298
2015	1,692,211	387,522	13,102	11,175	56,725	15,095	27,591	6,256
2016	1,870,261	435,264	9,951	9,726	98,173	25,721	55,807	13,297
2017	1,896,887	464,232	10,484	9,801	112,343	13,297	58,277	25,451

Table-1

(Source: <http://www.moneycontrol.com/financials/statebankindia/balance-sheet/SBI>)

#### **INTERPRETATION OF THE TABLE**

The table is comparing Total advances with NET Profit, Gross NPA & Net NPA of SBI and ICICI Bank. With the help of this table we can get knowledge about growing performance of both the banks. We can see that on one side total advances given by SBI and ICICI Bank and Net Profits are increasing continuously since 2014, which shows that banks are performing very well. But for SBI, Gross NPA & Net NPA is also increasing such that its gross NPA in 2014 has been 61,605 and in 2017 it increased to 112,343. This shows that SBI's performance is declining due to mismanagement of bank. ICICI bank shows the similar trends as its gross and net NPAs are increasing as well since 2014.

But, if we observe carefully and compare the parameters for both the banks with each other, we see that ICICI bank is performing much better as compared to SBI as in 2017 net NPA for SBI is 58,277 and for ICICI bank its mere 25,451. Similarly, for Gross NPA, SBI stands at 112,343 in 2017 and at the same time, ICICI is at 13,297.

Secondly, the examination of the NPA trends for both the banks for the last 4 years has been done.

YEAR	PERCENTAGE OF GROSS NPA	
	SBI	ICICI
MARCH 2014	4.95	3.03
MARCH 2015	4.25	3.78
MARCH 2016	6.50	5.21
MARCH 2017	6.90	7.89

Table-2

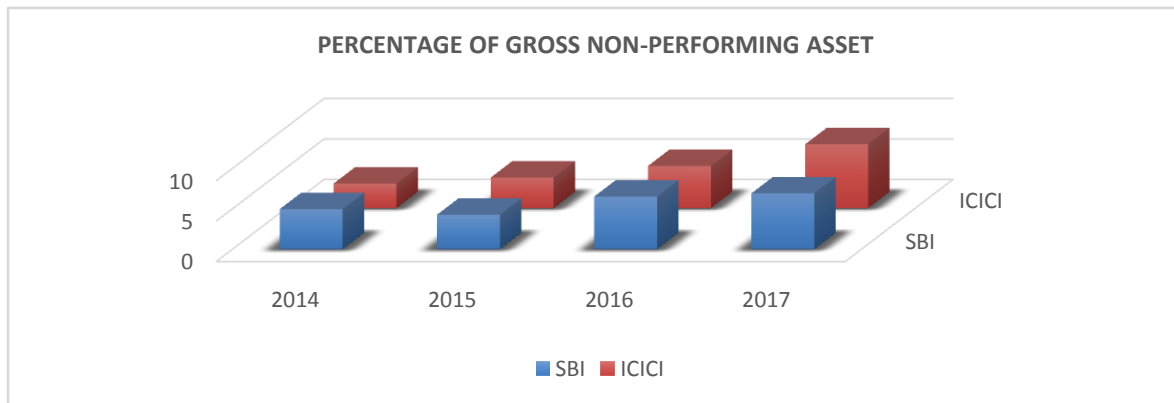


Fig-1

**INTERPRETATION OF THE TABLE**

The above table compares the values of gross NPA for both the banks- SBI and ICICI bank. The x-axis show the years and on y-axis amount of gross NPA is measured. It is observed that for 3 consecutive years- 2014, 2015 and 2016, the performance of ICICI bank is showing an upwards trend as compared to that of SBI. However, in 2017, the gross NPA value of ICICI bank shot up to 4.98 whereas SBI improved from 3.71 in 2016 to 3.81 in 2017.

YEAR	PERCENTAGE OF NET NPA	
	SBI	ICICI
MARCH 2014	2.57	0.97
MARCH 2015	2.12	1.61
MARCH 2016	3.81	2.67
MARCH 2017	3.71	4.89

Table-3

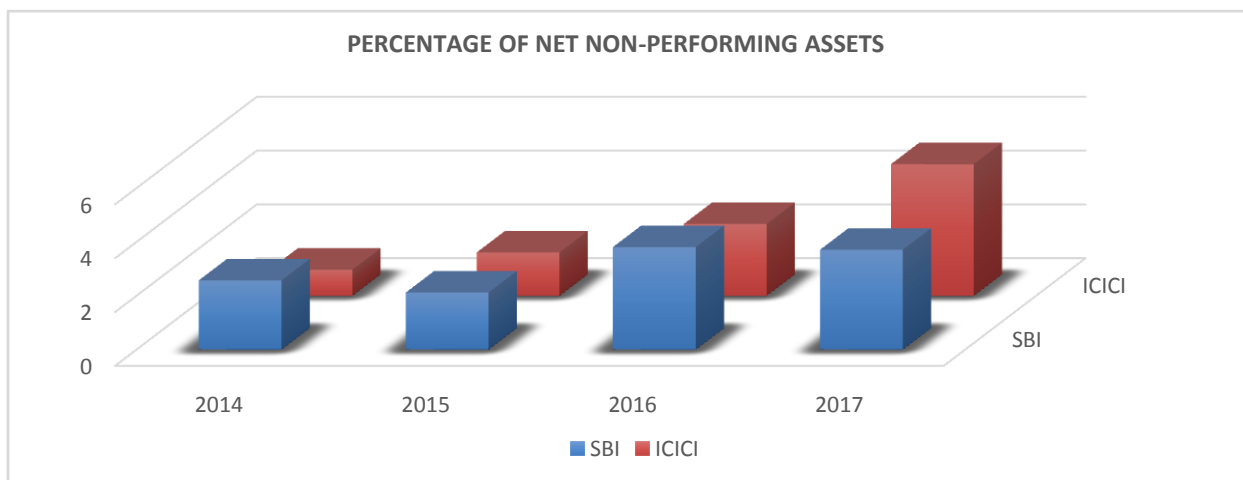


Fig 2

**INTERPRETATION OF THE TABLE**

The above table compares the values of net NPA for both the banks- SBI and ICICI bank. The x-axis show the years and on y-axis amount of net NPA is measured. It is observed that for 3 consecutive years- 2014, 2015 and 2016, the performance of ICICI bank is showing an upwards trend as compared to that of SBI. However, again in 2017, the net NPA value of ICICI bank increased to 7.89, SBI being on 6.90. It is also seen

that SBI has improved from 2016 to 2017, it has managed to reduce its non- performing assets whereas the condition of ICICI bank has worsened.

Thirdly, we would analyze the relationship between Net profit and Net NPA in case of both the banks.

**HYPOTHESIS:**

H<sub>0</sub> - There is no linear relationship between Net Profit and Net NPA;  $\rho = 0$

H<sub>1</sub> - There is linear relationship between Net Profit and Net NPA;  $\rho \neq 0$

(For the current study, the testing of population correlation coefficient was used to either reject or do not reject the null hypothesis. 5 % sig level was used, i.e.  $\alpha/2 = 0.25$ )

**STATE BANK OF INDIA**

YEAR	NET PROFIT	NET NPA
MARCH 2014	10891	31095
MARCH 2015	13102	27591
MARCH 2016	9951	55807
MARCH 2017	10484	58277
Correlation coefficient = - 0.786		

Descriptive Statistics			
	Mean	Std. Deviation	N
Net Profit	11107.0000	1384.57527	4
Net NPA	43192.5000	16087.51129	4
Correlations			
		Net Profit	Net NPA
Net Profit	Pearson Correlation	1	-.786
	Sig. (2-tailed)		.214
	N	4	4
Net NPA	Pearson Correlation	-.786	1
	Sig. (2-tailed)	.214	
	N	4	4

**Interpretation of the value**

The correlation coefficient between net profit and net NPA is -0.786 indicating the negative relationship between the two i.e. a rise in the net NPA shall lead to a fall in the net profits. It shows there is high negative correlation between the variables. In order to check if this result is significant, we test the hypothesis stated above using a t-test. The test statistic is given by:

$$T.S. = \frac{r\sqrt{n-2}}{\sqrt{1-r^2}} \sim t_{n-2}$$

The test statistic so calculated came out to be 1.798 which lies in the acceptance region as the critical value for the 2 tailed t- test was 4.303. Hence we do not sufficient evidence to reject the null hypothesis. Hence we say that the correlation coefficient is not significant and there is no significant linear relationship between the net profit and net NPA.

**ICICI BANK**

YEAR	NET PROFIT	NET NPA
MARCH 2014	9810	3298
MARCH 2015	11175	6256
MARCH 2016	9726	13297
MARCH 2017	9801	25451
Correlation coefficient = -0.39		

### Interpretation of the value

As we observe that the coefficient of correlation is equal to -0.39, it means that there is a moderate degree of negative correlation between net profit and net NPA. The negative correlation coefficient between net profit and net NPAs means an increase in net NPAs will decrease net profit of the bank. It is a logical conclusion because profitability of a bank depends upon the recovery of loans and existence of bad loan will jeopardize it. But to check if this is a significant value and that if it applies to the population as well we test the hypothesis. The test statistic came out to be 0.598 which lies in the acceptance region as the critical value for the t-test is 4.303. Hence, we have no evidence to reject the null hypothesis. So we can infer there is no significant linear relationship between net profits and net NPA for ICICI bank.

Correlations			
		profit	NPA
Net Profit	Pearson Correlation	1	-.391
	Sig. (2-tailed)		.609
	N	4	4
Net NPA	Pearson Correlation	-.391	1
	Sig. (2-tailed)	.609	
	N	4	4
Descriptive Statistics			
	Mean	Std. Deviation	N
Net Profit	10125.7500	700.39293	4
Net NPA	12075.5000	9854.05414	4

The insignificant correlation coefficients in case of both the banks may be due to the fact that there are factors other than non-performing assets that impact the profitability of any bank. Some of those factors are ROA (Return on Assets), ROE (Return on Equity), Capital Adequacy Ratio, Net interest margins etc. There might be a case wherein the NPAs are rising but the rise in net interest margins is more as compared to the rise in NPAs and hence the impact of net interest margins is much stronger on the net profits of the bank.

### VI. Causes of NPA

- One very important reason behind the rising NPA is the relaxed lending norms especially for corporate honchos when their financial status and credit rating is not analyzed properly.
- Public Sector banks provide around 80% of the credit to industries and it is this part of the credit distribution that forms a great chunk of NPA.
- Public sector lending and extending loans in agriculture sector has a substantial contribution to the rising NPAs of the banking industry.
- Inappropriate project handling, ineffective management, lack of adequate resources, day to day changing govt. Policies produce industrial sickness. Hence, the banks finance those industries that ultimately give them a low recovery of their loans reducing their profit and liquidity.

### VII. Findings

The following findings were drawn from the above data analysis:

- The total advances have shown an upwards trend for both SBI and ICICI BANK.
- Net profits for SBI have been fluctuating over the years whereas in case of ICICI bank it has largely been consistent to around 9000 crore.
- In the case of % Gross NPA, performance of public sector bank- SBI is doing better as compared to private sector bank –ICICI bank.
- In case of % net NPA also, performance of SBI is observed to be improving over the years and hence creation of less non- performing assets as compared to ICICI bank. Percentage net NPA for ICICI Bank is observed to be continuously rising.
- The coefficient of correlation for SBI was found to be -0.78 that is high negative correlation between net profit and net NPA of the bank. This means that as NPA is increasing, the net profit will decrease.
- Similarly, coefficient of correlation for ICICI bank was -0.39 that is moderate negative correlation between net profit and net NPA.
- The correlation coefficients were found to be insignificant i.e. there is no linear relationship between the net profits and net NPA and there are other factors which impact the net profits of the bank much strongly.

### VIII. Conclusion

The management of nonperforming assets is a daunting task for every bank in the banking industry. The very important reason and necessity for management of NPA is due to their multi-dimensional effect on the operations, performance and position of bank. Results of study shed light on the status of non-performing assets of SBI and ICICI Bank.

The present study concludes that non- performing assets is a biggest challenge faced by both ICICI bank and State Bank of India as it leads to downfall in liquidity balance of the banks and creates bad debts on them. Profitability is being affected due to the fluctuations in NPA levels over the years. On comparing the two banks based on the effect on its profitability, SBI has higher NPAs as compared to ICICI bank because of its public nature. Since SBI is a public sector bank, it is more vulnerable to give up on the returns of the loans extended to the general public. This is the reason for high NPAs in SBI. One other reason for high NPAs can be a sharp rise in the provisioning of the bad loans. Besides rising NPA, SBI has managed to keep its profits consistent, which depicts that the overall management of the resources of the bank is partially better. On the other hand, the net NPAs for ICICI Bank are continuously increasing since 2014 but as compared to SBI they are in a much better condition. The profits of ICICI bank also did not experience any sharp rise or fall. The correlation coefficient is -0.78 which depicts high degree of negative correlation. On the other hand ICICI has a moderate degree of correlation i.e. -0.39. But since it was found that these coefficients were insignificant, it widens the scope for further detailed studies by identifying the impact of various other factors on profits of a bank.

### **IX. Suggestions**

- The banker should take utmost care by ensuring that the enterprise or business for which a loan is sought is a sound one and the borrower is capable of carrying it out successfully, he should be a person of high integrity, credibility and good character.
- The banks, instead of providing loans to small farmers, should make provisions to grant them insurance policies for crop protection and income security.
- Government should make considerate level of investment on the upliftment of the farm equipment so that multiple farmers can make use of those facilities and there need not be any compulsion for the farmers to take loans in order to grow their crops.
- Banker should examine the balance sheet which shows the true picture of business will be revealed on analysis of profit/loss a/c and balance sheet. While extending loans, banks should examine the purpose of the loan. Banks must grant loan for productive purpose only.

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