



Non Performing Assets (NPAs): A Comparative Analysis of SBI and ICICI Bank

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Abstract:

Banking sector plays an important role in the development of an economy. This Role of Bank determines the pace of development of the economy. Hence the stability of banking sector is pivotal for the development of an economy. The Main function of any bank is to lend funds as loans to various sectors such as agriculture, industry, personal and housing and other to meet the productive use of these funds. In recent times the banks have become very cautious in extending advances, the reason is increasing non-performing assets. With the introduction of international norms for income recognition, asset classification and provisioning in the banking sector, managing NPAs has emerged as one of the major challenges facing Indian banks. Non Performing Asset means an asset on which the interest or principal have not been paid by the borrower for the specified period in accordance with the directions issued by RBI. In this paper an attempt has been made to study the trend of Total advances, Net profit, Gross NPA, Net NPA of SBI and ICICI Bank. During last three years total advances and net profit has shown growing trend in both the banks but compare to SBI, NPA in ICICI bank has shown downward trend because of effective NPA management. It also highlights the relationship between Net Profit and Net NPA, while SBI has shown positive relationship between Net Profit and Net NPA, negative relationship has been found in ICICI between Net Profit and Net NPA.

Keywords: Assets, Banking, Economy, ICICI, NPA's, SBI

1. Introduction

With the introduction of financial sector reforms 1991 the faces of Indian Banking sector have enormously changed. The banking industry has moved gradually from a regulated environment to a deregulated market based economy. With the emergence of liberalization and globalization, resulting in market development there has been tremendous change in the intermediation role of banks in India. Consequently, we are noticing the cut throat competition in the banking industry these days. Obviously, the problem of swelling non-performing asset (NPA) is catching attention and accumulation of huge NPA has assumed great importance in terms of risk management. Bankers thus have realized to have effective NPA management on their priority list.

2. Asset Classification and Provisioning Norms

2.1 Classification

Banks should classify their assets into the following broad groups, viz. -

- (i) Standard Assets
- (ii) Sub-standard Assets
- (iii) Doubtful Assets
- (iv) Loss Assets

2.2 Definitions

2.2.1 Standard Assets

Standard Asset is one which does not disclose any problems and which does not carry more than normal risk attached to the business. Such assets are considered to be performing asset. A general provision of 0.25% has to be provided on global loan portfolio basis.

2.2.2 Sub-standard Assets

An asset would be classified as sub-standard if it remained NPA for a period less than or equal to 12 months. Such an asset will have well defined credit weaknesses that jeopardize liquidation of the debt and are characterized by distinct possibility that bank will sustain some loss. Accordingly a general provision of 10% on outstanding has to be provided on substandard assets..

2.2.3 Doubtful Assets

These are the assets which have remained NPAs for a period exceeding 12 months and which are not considered as a loss advance. Banks have to provide 100 percent of the unsecured portion of the outstanding advance after netting realized amount in respect of DICGC scheme (Deposit Insurance and Credit Guarantee Corporation) and realized/realizable amount of guarantee cover under ECGC (Export Credit Guarantee Corporation) schemes.

Table 1. Period for which the advance has remained in 'doubtful' category

Provision Requirement	
Up to one year	20%
One to three years	30%
Advances classified as 'doubtful for more than three years' on or after April 1, 2010	100%

2.2.4 Loss Assets

A loss asset is one where loss has been identified by the bank or internal or external auditors or by the Co-operation Department or by the Reserve Bank of India inspection but the amount has not been written off, wholly or partly. In other words, such an asset is considered un-collectible and of such little value that its continuance as a bankable asset. Companies have to provide 100% of these outstanding advances.

3. Types of NPA

A. Gross NPA

Gross NPA is an advance which is considered irrecoverable, for bank has made provisions, and which is still held in banks' books of account. Gross NPAs are the sum total of all loan assets that are classified as NPAs as per RBI Guidelines as on Balance Sheet date. Gross NPA reflects the quality of the loans made by banks. It consists of all the nonstandard assets like as sub-standard, doubtful, and loss asset. It can be calculated with the help of following ratio:

$$\text{Gross NPAs Ratio} = \text{Gross NPAs} / \text{Gross Advances}$$

B. Net NPA

Net NPAs are those type of NPAs in which the bank has deducted the provision regarding NPAs. Net NPA shows the actual burden of banks. Since in India, bank balance sheets contain a huge amount of NPAs and the process of recovery and write off of loans is very time consuming, the banks have to make certain provisions against the NPAs according to the central bank guidelines. It can be calculated by following:

$$\text{Net NPAs} = \text{Gross NPAs} - \text{Provisions} / \text{Gross Advances} - \text{Provisions}$$

4. Causes for NPA

The factors attributed for the cause of NPA may be divided into Internal and External factors. Internal factors include improper credit appraisal, Lack of effective follow up, Willful default/Fraud, Lack of post credit supervision, Absence of security, obsolete technology. External factors include Natural calamities, Industrial sickness, and Labour problems of borrowed firm.

5. Objectives

1. To compare the Total Advances, Net Profit, Gross NPA & Net NPA of State Bank of India and ICICI BANK
2. To highlight the trend of Gross NPA and Net NPA in both the Banks for the period of three years
3. To study the relationship between Net profit and Net NPA

6. Discussion and Findings

Table 2. Comparison of Total Advances, Net Profit, Gross NPA and Net NPA (Rs. in crores)

Year	Total Advances		Net Profit		Gross NPA		Net NPA	
	SBI	ICICI	SBI	ICICI	SBI	ICICI	SBI	ICICI
2011	756,719	216366	8,265	5151	25,326	10034	12,347	2407
2012	867,579	253728	11,707	6465	39,676	9475	15,819	1860
2013	1,045,617	290249	14,105	8325	51,189	9607	21,956	2231

Source: Indian Banking Association

7. Interpretation of Result

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 2011. Which shows that bank is performing very well. But for SBI Gross NPA & Net NPA is also increasing which shows performance is declining due to mismanagement of banks. On the other hand decline in Gross and Net NPA of ICICI shows good NPA management.

7.1 Trend of Gross NPA and Net NPA

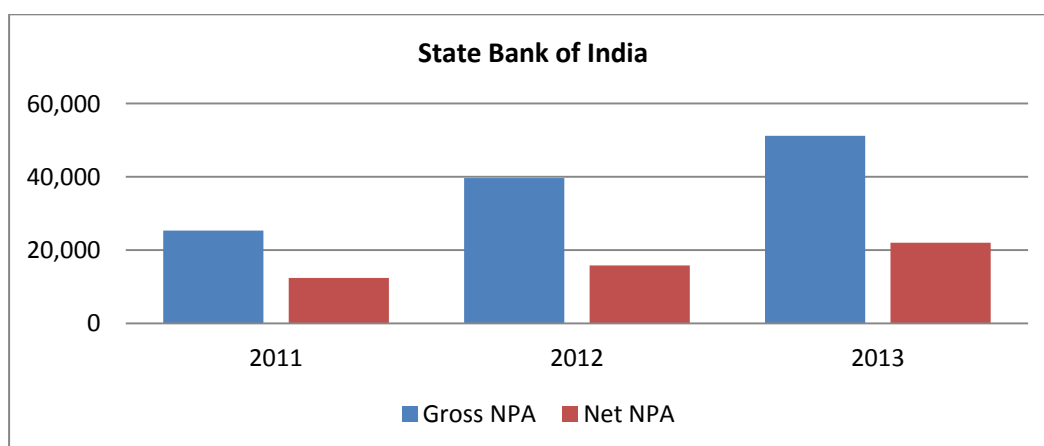


Figure 1. Gross and Net NPA of SBI (Rs. in Crores)

Source: Indian Banking Association

The above figure shows the trend of Gross NPA and Net NPA in crores for the period of three years starting from 2011 till 2013. The x-axis represents the years, whereas y-axis represents the

amount of NPA. We can observe here that the Gross and Net amount of NPA has been showing an upward trend beginning from first year till three year.

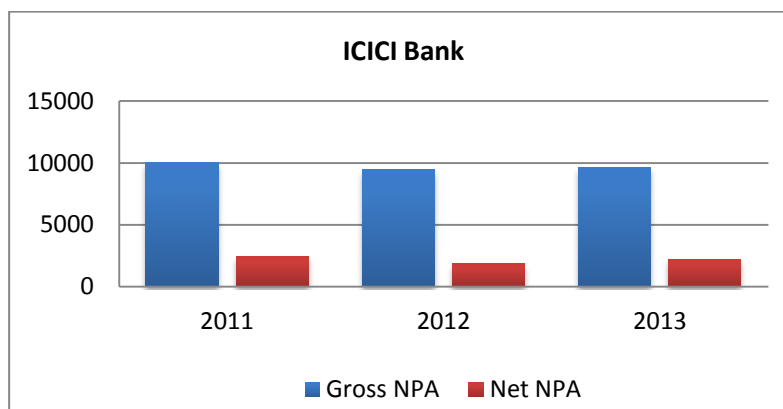


Figure 2. Gross and Net NPA of ICICI Bank (Rs. in Crores)

Source : Indian Banking Association

The above figure portrays the trend of Gross NPA and Net NPA in amount for the period of three starting from 2011 till 2013. The x-axis represents the years, whereas y-axis represents the Gross and Net of NPA. We can observe here that the Gross and Net NPA has been showing downward trend in the year 2012 except for the year 2013 which has shown an increase in the Gross and Net NPA.

7.2 Relationship between Net Profit and Net NPA

To establish relationship between Net Profit and Net NPA Pearson's Correlation has been used. Pearson's Correlation for SBI is .966 and for ICICI is -.220.

7.2.1 Interpretation of Result

As we can see that correlation for SBI is equal to 0.966. It means that there is a positive relation between Net Profits and NPA of SBI. It simply means that as profits increase NPA also increase. It is because of the mismanagement on the side of bank. NPA is directly related to Total Advances given by bank and banks main source of income is interest earned by bank. Since we have seen earlier that total advances are increasing so interest income is increasing and profits are also increasing. But as we know there are two types of Customers (good and bad). Good customers' leads to increase in profits by paying interest and installments on total advances timely and Bad customers leads to increase in NPA by not paying interest and installment on total advances timely. This is because of mismanagement and wrong choice of client. That is the only reason of positive relation between NPA and Profit. If there is good management by bank like in case of ICICI bank where correlation between Net Profit and Net NPA is found to be -0.220, which indicates that amount of NPA decreases and Profits will increase more by the amount not becoming NPA. So there is negative relation between profits and NPA.

8. 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 affect on the operations, performance and position of bank. Results of study through light on the level of nonperforming assets of SBI and ICICI Bank. It is found that level of NPAs both gross and net is on an average in upward trend in SBI but downward trend for ICICI Bank for one year then upward trend in second year.

The non performing asset is a major problem and hurdle faced by banking industry. Willful defaults, improper processing of loan proposals, poor monitoring and so on are the causes for

accounts for becoming NPAs. NPAs affect the position as well as performance in several ways such as interest income, profits, and provisions against NPA's and so on. Hence steps should be taken to cure this problem at earliest and in an efficient manner.

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Annexure

Table showing Correlation between Net Profit and Net NPA

1. State Bank of India

		NET PROFIT OF SBI	NET NPA OF SBI
NET PROFIT OF SBI	Pearson Correlation	1	.966
	Sig. (2-tailed)		.167
	N	3	3
NET NPA OF SBI	Pearson Correlation	.966	1
	Sig. (2-tailed)	.167	
	N	3	3

2. ICICI Bank

		NET NPA OF ICICI	NET PROFIT OF ICICI
NET NPA OF ICICI	Pearson Correlation	1	-.220
	Sig. (2-tailed)		.859
	N	3	3
NET PROFIT OF ICICI	Pearson Correlation	-.220	1
	Sig. (2-tailed)	.859	
	N	3	3