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A Comparative Study of NPA with Respect to ICICI Bank. Ltd and PNB Bank. Ltd Nagpur

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Abstract: *The commercial bank encourages the flow of funds in the economy and stimulates economic growth. The effectiveness of banking system always establishes the pace of development of the economy. The commercial bank is assessed based on the profitability position and assets it possess. The asset excellence is a prime concern and impacts different performance indicators like intermediation costs, credibility, profitability, liquidity, income producing capacity and generally working of commercial banks. The reducing in asset quality results in accumulation ofNon Performing Assets (NPAs). Now-a-days, the non-performing assets are thought -about a huge problem in Indian commercial banking industry. Non-Performing Assets have been declining regularly year by year excluding in some years in public sector commercial banks, on the contrary, the non-performing assets of private sector banks have been decreasing regularly year by year. Hence, there is need to study the Non –Performing Assets Management in Indian Banking Sector. The Industrial Credit and Investment Corporation of India (ICICI) and (PNB) bank have been chosen for the study because it is a leading private sector bank in India. This bank is exceptional service provider as they work in a more converse and competitive environment.*

Keywords: Accounts, cards, loan, investment, insurance, payment, etc

I. INTRODUCTION

Non-Performing Assets NPA reflect the performance of bank. A high level of NPAs suggests high probability of a large number of credit defaults that affect the profitability and net-worth of banks and also erodes the value of the assets. The NPA growth involves the necessity of provisions, which reduces the overall profit and shareholders‟ value. The issue of Non-Performing Assets has been discussed at length for financial system all over the world. The problem of NPAs is not only affecting the banks is nothing but a reflection of the state the state of health of the industry and trade. The Narasimhan committee has recommended prudential norms on income recognition, assets classification and provisioning. In a change from the past, Income recognition is now not on an accrual basis but when it is actually received. Past problems faced by banks were to a great extent attributable to this. Classification of what an NPA is has changed with tightening of prudential norms. Currently and asset is "non-performing" if interest or installment of principal due remain unpaid for more than 180 days.

Definition

"Non-Performing Asset means an asset or account of borrower, which has been classified by bank or financial institution as sub-standard, doubtful or loss assets, in accordance with the directions or guidelines relating to asset classification issued by the reserve bank of India."

The Indian banking system has undergone significant transformation following financial sector reforms. It is adopting international best practices with a vision to strengthen the banking sector. Several prudential and provisioning norms have been introduced, and these are pressurizing banks to improve efficiency and trim down NPAs to improve the financial health in the banking system. In the background of these developments, this study strives to examine the state of affair of the Non- performing Assets (NPAs) of the public sector banks and private sector banks in India with special reference to weaker sections. The study is based on the secondary data retrieved from Report on Trend and Progress of Banking in India. The scope of the study is limited to the analysis of NPAs of the public sector banks and private sector banks NPAs pertaining to only weaker sections for the period seven (7) years i.e. from 2004- 2010. It examines trend of NPAs in weaker sections in both public sector and private sector banks .The data has been analyzed by statistical tools

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such as percentages and Compound Annual Growth Rate (CAGR). The study observed that the public sector banks have achieved a greater penetration compared to the private sector banks vis-a-vis the weaker sections.

Problem statement

To study the borrower stops paying interest or principal on a loan, the lender will lose money. Such a loan is known as Non-Performing Asset (NPA).

II. LITERATURE REVIEW

May published articles are available in the area of non-performing assets and a large number of researchers have studied the issue of NPA in banking industry. A review of the relevant literature has been described as under.

H.S. (2019) in her study on causes and remedies for non-performing assets in Indian private sector banks with special reference to agricultural development branch, state bank of mysore has studied that bankers can avoid sanctioning loans to the non-creditworthy borrowers by adopting certain measures. There should be careful appraisal of the project which involves checking the economic viability of the project. A banker must consider the return on investment on a proposed project. If the calculated return is sufficiently higher than the credit amount he can sanction the loan. Secondly he can constantly monitor the borrower in order to ensure that the amount sanctioned is utilized properly for the purpose to which it has been sanctioned. This involves the post sanction inspection by the banker.

Kumar (2019) in his study a comparative study of NPA of Old Private Sector Banks and Foreign Banks has said that Non-performing Assets (NPAs) have become a nuisance and headache for the Indian banking sector for the past several years. One of the major issues challenging the performance of huge non-performing assets (NPAs). The quality of loan portfolio is very crucial for the health and existence of the banks. High level of (NPAs) has many implications on profitability, productivity, liquidity, solvency, capital adequacy and image of the bank.

Selvarajan & Vadivalagan (2020) in A Study on Management of Non-performing Assets in priority sector reference to Indian Bank and Public Sector Banks (PSNs) their research paper has studied that the growth of Indian Bank's leading to priority sector is more than that of the Public Sector Banks as a Whole. Indian Bank has slippages in controlling of NPAs in the early of the decade. Therefore, the management of banks must pay special attention towards the NPAs, besides making recoveries in the existing NPAs. Timely action is essential to ensure future growth of the bank.

Singh (2020) in his paper entitled recovery of NPAs in Indian commercial banks says that the origin of the problem of burgeoning NPAs lies in the system of credit risk management by the banks. Banks are required to have adequate preventive measures in fixing pre-sanctioning appraisal responsibility and an effective post-disbursement supervision. Banks should continuously monitor loans to identify accounts that have potential to become non-performing. Banks have to be given power of inspection of the use of loans and loan should be disbursed on the point of purchase by the borrowers to ensure proper utilization of deposits. Banks may also be given powers to recover loans from the guarantor of the borrower.

Gupta (2021) in her study a comparative study of Non-performing Assets of SBI & Associates & Other public sector banks had concluded that each bank should have its own Independence credit rating agency which should evaluate the financial capacity of the borrower before than credit facility. An effective committee can be formed for management of NPA comprising of financial experts who have wide knowledge in this field. Banks can appoint professionals to identify the genuine borrowers & can analyses their profile. NPA comprising of financial experts who have wide knowledge in this field. Banks can appoint professionals to identify the genuine borrowers & can analyses their profile. NPA can be considered as a crucial rating factor for any bank; it should continuously monitor the borrowers A/C to prevent NPA. The credit rating agencies should regularly evaluate the financial condition of the clients. Special accounts should be made of the clients where monthly loan concentration report should be made.

Rai (2021) in her study on study on performance of NPs Indian commercial banks said that till recent past, corporate borrowers even after defaulting continuously never had the fear of bank taking action to recovery their dues. This is because there was no legal framework to safeguard the real interest of banks. However with the introduction of SARFAECI ACT banks can issue notices to defaulters to repay their loans. Also, the Supreme Court has recently given the banks the freedom to sell mortgage assets of the borrowers, if they do not respond to the legal proceeding initiated by lender. This enables banks to get sticky loans thereby improving their bottom lines

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Khanna (2022) in her research paper entitled managing NPA in commercial banks has said that the primary function of banks is to lend funds as loans to various sectors such as agriculture, industry, personal loans, housing loans etc, but in recent times the banks have become very cautious in extending loans. The reason being mounting non-performing assets (NPAs) and nowadays these are one of the major concerns for banks in India. NPAs reflect the performance of banks. A high level of NPAs suggests high probability of a large number of credit defaults that affect the profitability and networth of banks and also erodes the value of the asset.

2.1 OBJECTIVES OF PAPER

- To understand how Non Performance Asset is managed in ICICI and PNB Banks.
- To find the various factors mounting NPA‟s to Bank.
- To evaluate the comparative ratio of the ICICI and PNB banks with concerned to the NPA.
- To understand the effects from the NPA on the financial position of both Banks.

2.2 SIGNIFICANCE OF RESEARCH

The purpose of research is to discover answers to the questions through the application of scientific procedures. The main aim of research is to find out the truth which is hidden and which has not been discovered as yet. Though each research study has its own specific purpose, we many think of researchobjectives as falling into a number of following broad categories:-

- To gain familiarity with a phenomenon or to achieve new insights into it.
- To portray accurately the characteristics of a particular individual, situation or a group.
- To determine the frequency with which something occurs or with which it is associated withsomething else.
- To test a hypothesis of a causal relationship between variables

2.3 HYPOTHESIS

H0:-The selected macroeconomic variables mediated the relationship betweenadvances AndNPA bank.

III. RESEARCH METHODS

Method of data collection
Primary data collection sources:
The primary data are those for data which are used for the first time in the study. However such datatake place much time and are also expensive.

Secondary data collection sources:
Secondary data is required for collecting the information of the company. This data is collected from the related website, and some other available resources which are listed below.
Sampling Technique:
Simple Random Sampling Method
Sample Size:
5 years data
Instrument of Data Collection:
Questionnaires based on close ended questions, multiple choice and likert scale.
Statistical Technique:
One sample t- test used to compare the dependency in the hypothesis

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IV. ANALYSIS AND INTERPRETATION

GROSS NPA RATIO: -

Gross NPA is the ratio of gross NPA to gross advances of the bank. Gross NPA IS the sum of all loan assets that are classified as NPA as per the RBI guidelines. The ratio is to be counted in terms of percentage and the formula for GNPA is as follows.

Gross NPA ratio = Gross NPA / Gross advances *100

YEAR	ICICI BANK GNPA%	PNB BANK GNPA
2019	3.87%	6.55%
2020	5.21%	12.90%
2021	7.89%	12.53%
2022	8.84%	18.38%
2023	6.70%	15.50%

INTERPRETATION: -

The table above indicates the quality of the credit portfolio of the banks. High gross NPA ratio indicates the low credit portfolio of bank and vice-versa. Gross NPA of both the banks increases fromyear 2019 to 2020. But from year 2021 onwards it decreases. Similarly, GNPA of ICICI bank first increases to 2.68% from 5.21 in year 2020. But then increases to the level of 8.84% in 2022. And GNPA of PNB bank first decreases to 0.37% from 12.90 in year 2018.but then increases to the levelof 18.38% in 2022

NET NPA RATIO:-

The Net NPA ratio is the ratio of net NPA to advances, in which the provision is to be deducted from the gross advance. The provision is to be made for NPA account. The formula for that is:-

NET NPA RATIO = Gross NPA –provision / Gross Advances- provision * 100

YEAR	ICICI BANK NNPA%	PNB BANK NNPA%
2019	1.61%	4.06%
2020	2.67%	8.61%
2021	4.89%	7.81%
2022	4.77%	11.24%
2023	2.06%	6.56%

INTERPRETATION:-

The ratio indicates the degree of risk in the portfolio of the banks. High NPA ratio indicates the high quantity of risky assets in the banks for which no provision are made. Here, NNPA ratio increases from year 2019 to 2023. But in last two years NNPA ratio decreases little bit dueto global meltdown. Same is the case with ICICI banks. Whose NNPA ratio decreases to 0.12%in year 2019 from 4.89% in year 2021?

CAPITAL ADEQUACY RATIO:-

Capital adequacy ratio can be defined as ratio of the capital of the bank, to its assets, which are weight / adjusted according to risk attached to them i.e.

CAPITAL ADEQUACY RATIO = Capital / risk weighted assets *100

As per prudential norms banks were required to achieve 8% CAR, increases to 9%by March2021.

YEAR	ICICI BANK	PNB BANK
2019	19.41	14.18
2020	19.54	11.76
2021	18.52	11.59
2022	18.74	12.72
2023	19.08	12.28

INTERPRTATION:-

It is clear from the graph that in last few years CAR increases which indicates that Indian banks are in more strong position than their counter parts in rest of the world. ICICI banks also maintain food CAR than required as per norms. Which shows that despite of exposure of global melt down health of ICICI remains unaffected

CURRENT RATIO:-

The standard ratio is 2:1 which means current assets should be double than current liabilities. Current assets includes all current type assets, cash, bank balances, sundry debtors, receivables, stock etc., while current liabilities includes liabilities to be paid in short term, sundry creditors, short term loans, taxes payable, dividend payable etc. This ratio shows the working capital capability and capacity to pay the short term liabilities.

CURRENT RATIO = Current Assets / Current Liability

YEAR	ICICI BANK	PNB BANK
2019	0.06	0.03
2020	0.13	0.03
2021	0.12	0.03
2022	0.12	0.04
2023	0.12	0.04

INTERPREATION: -

The current ratio for ICICI banks id 0.06 in the 2019. And 2020 current ratio are increased 0.07 and it was compared to the 2019 and 2021 to 2023 current ratio are decreases in 0.12 as compared to 2020. The current ratio for PNB banks in 0.03in the 2019. And 2020 to 2021 was same to 0.03it was compared to the 2019 current ratio. And 2022 to 2023 are increased current ratio 0.04 as compared to the 2019

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QUICK RATIO: -

The quick ratio, sometimes called the quick assets ratio or the acid-test, serves as an indicator of a company's short-term liquidity, or its ability to meet its short-term obligations. In other words, it tests how much the company has in assets to pay off allof its liabilities.

$$\textbf{QUICK RATIO} = \frac{\text{Total Current Assets} - \text{Inventory} - \text{Prepaid Expenses}}{\text{Current Liabilities}}$$

YEAR	ICICI BANK	PNB BANK
2019	13.81	24.20
2020	14.97	28.09
2021	16.31	28.98
2022	20.44	22.72
2023	18.66	35.77

INTERPRETATION: -

The quick ratio for ICICI banks 13.81 in the 2019. And 2020 was increased in compared to the2021. The quick ratio year to year are incensed in ICICI banks. Quick ratio for PNB banks 24.20 in the 2019 and 2020 to 2021 are increases the quick ratio 28.09 to 28.98 and 2022decreases the quick ratio 6.26 as compared to 2021

LOANS LOSS COVERAGE RATIO: -

Banking: Measure of a bank's ability to absorb potential losses from itsnonperforming loans.

LOAN LOSS COVERAGE RATIO = Loans – reserve balance / total amount of non-performing loans.

YEAR	ICICI BANK	PNB BANK
2019	75.94	72.73
2020	77.02	71.10
2021	75.25	65.79
2022	74.18	63.53
2023	75.11	65.49

INTERPRETATION: -

A not-so-encouraging sign in terms of NPA management of Indian banks is the fact that the loan loss coverage ratio for ICICI banks are increases the loan loss coverage ratio in 2020 as compared to the 2019. And ICICI banks increases to 1.08% from 75.94% in year 2019. But then decreases to the level of 1.77% in the 2023

V. FINDINGS

- In year 2019 it is seen that gross NPA of PNB Banks was increases trend. And ICICI Banks it was fluctuation in gross NPA trend so, from above analysis it is found that PNB Banks has a good condition in Gross NPA ratio.

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- Gross NPA of both the banks increases from year 2019 to 2020. But from year 2021 onwards it decreases. Similarly, GNPA of ICICI bank first increases to 2.68% form 5.21 in year 2020. But then increases to the level of 8.84% in 2022. And GNPA of PNB bank first decreases to 0.37% from 12.90 in year 2020.but then increases to the level of 18.38% in 2022.
- In year 2020 it is seen that Gross NPA of PNB Banks was double increases by last year. And CICI Banks very low fluctuation in gross NPA ratio so, from above analysis it is found that PNB Banks has good condition of NPA ratio in 2020 to 2023 as compared to ICICI Banks.
- NNPA in % of PNB Banks was increases in 2022 it was 3.43, and ICICI Banks was decreases in 2022 it was 0.12 NNPA ratio. And NNPA ratio are show the risk of return in the banks there will be high NNPA the high risk of return and low NNPA the low risk of return.
- The current ratio for PNB banks in 0.03 in the 2019 and 2020 to 2021 was same to 0.03it was compared to the 2019 current ratio. And 2022 to 2023 are increases in same current ratio 0.04 as compared to the 2019.
- Quick ratio for PNB banks 24.20 in the 2019 and 2020 to 2021 are increases the quick ratio 28.09 to 28.98 and 2022 decreases the quick ratio 6.26 as compared to 2021.

VI. RECOMMENDATION & SUGGESTION

- After all these points, I just want to say that NPA is a big problem of banks. Due to this crisis the NPA are also increased. That's why all the banks are facing problems and ICICI banks is those banks, ICICI banks has a big exposure in that crisis as compare to other banks. So banks have to take care of those banks. My recommendations are:-
- ICICI bank should try to improve their Gross NPA and Net NPA because it found comparatively less than PNB bank.
- PNB bank should be improving their NPA in % with compared to less than ICICI bank.
- PNB Bank should be improved their current ratio.
- ICICI bank should be improving their current ratio with compared to PNB bank.
- Maintain required capital adequacy ratio as per Basel 2 norms. That means now the provision for NPL will be more. This may look a conservation approach. But it should be implemented to reduce risk.

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