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Impact of Non-Performing Assets Behaviour on ICICI Bank Sustainability with Special Reference to Hyderabad

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ABSTRACT: NPAs are a major challenge to the Indian banking sector stability and profitability. This report investigates the dynamics, reasons, and repercussions of NPAs in all Indian banks thereby creating an elaborate understanding of the issue which impacts both governmental and privately owned institutions. The study pinpoints the main issues that drive the NPA growth which are related to macroeconomic downturns, credit appraisal system inefficiencies and sectors specific challenges.

KEY WORDS: NPA, Bad Loans, Monitoring Mechanisms, Credit Risks, Restructuring of Loans

I. INTRODUCTION

Post the first wave of economic liberalization, which took place in 2011, significant transformation has taken place within the banking sector that ripples to credit management. Typically, the major role of banks entails provision of funds as loans to diverse sectors including agriculture, industry and personal amongst others; however, presently financial institutions have adopted prudence in disbursing loans. The rationales behind the ever-increasing Non-Performing Assets (NPAs).

When a loan asset stops producing revenue for a bank, it is referred to as a Non-Performing Asset (NPA) regardless of whether the income is from interest or principal repayment. The Reserve Bank of India (RBI) has recommended prudential norms; according to these norms, a bank cannot book interest on an NPA on accrual basis.

Or else these interests can only be booked after they are actually received. Hence, this is now a major part of what is known as a „critical performance area“ of the banking industry with NPAs being an indicator of the bank's profitability as they directly affect it. Thus, the impact of an NPA account is twofold: it not only diminishes banks' profitability through provisioning in the profit and loss account, but also escalates their carrying cost. This leads to an unnecessary and preventable surplus of management focus. Rather than being labeled as "NON-PERFORMING ASSETS," such entities should be considered as opportunities to turn into "NOW PERFORMING ASSETS."

1.1 NEED OF THE STUDY

The NPAs are considered as an important parameter to judge the performance and financial health of banks. The level of NPAs is one of the drivers of financial stability and growth of the banking sector. This research explores an empirical approach to the analysis of Non-Performing Assets (NPAs) with special reference to different banks. NPAs adversely affect lending activity of banks as non-recovery of loan instalments as also interest on loan portfolio. Non -recovery of loans also hurts the profit ability of banks.

The study delves into an empirical perspective in dissecting Non-Performing Assets (NPAs) especially across various banks. NPAs have a detrimental impact on the lending operations of banks as they fail to recover loan instalments—which constitute a significant portion of the loan portfolio along with interest. Additionally, the failure to recover loans also strikes at the profit-making ability of banks. The research is aimed at exploring an empirical approach to the analysis of NPAs.

1.2 SCOPE OF THE STUDY

Loan defaults lead banks to deem loans non-performing typically after 90 days without interest payment or principal, which can happen through the life of the loan term or due to failure on the principal balance at maturity date.

The research would be able to propose actions that could assist banks in preventing future NPAs & decreasing those already existing.

The study might enable banks come up with fresh strategies as a measure to curb NPA.

This investigation will be instrumental in choosing the right strategies to handle NPAs, and establish a plan with specific timelines to curb the escalation of NPA growth.

1.3 OBJECTIVE OF THE STUDY

1. For Determining the trend in sector wise Non-Performing Assets (NPA) for ICICI bank.
2. To compare contributions towards NPA on a yearly and sectoral basis.
3. To Evaluate the credit risk faced by ICICI bank based on sectors.
4. The purpose of this research is to analyze the cost implications and recommend action to reduce the carrying cost through recovery or negotiated settlement or write off.
5. To understand the nature and reasons behind credit risks for ICICI bank.

II. REVIEW OF LITERATURE

Lakshmanan and Dharmendran (2007)

Examined the trend and growth of District Central Co-operative Banks (DCCB) in Tamil Nadu in relation to three financial indicators, namely, deposits, loans and outstanding advances and over dues for a period of seven years from 1998-99 to 2004-05. The annual and compound growth rates were estimated for the financial indicators and the exponential function was employed to estimate the growth rates. Annual growth rates of deposits were positive in all banks except in one bank. DCCBs showed positive annual growth rates in loans and advances. The total over dues revealed negative annual growth rates in four banks but it was statistically insignificant. The compound growth rate was also negative in these banks whereas it was positive in other banks. The following were suggested: the Tirunelveli DCCB should initiate a special drive to mobilize more deposits from untapped sources. Problem of over dues in five identified DCCBs must be addressed through proper recovery proceedings and the level of non-performing assets must be reduced.

Jadhav et al. (2007)

Assessed the performance of District Central Cooperative Banks (DCCBs) in Vidarbha region, Maharashtra, using secondary data for the period 1985/86-2000/01 obtained from annual reports of nine DCCBs. A satisfactory performance of the DCCBs before the banking reform period (1985/86-1993/94) was observed in respect of number of branches, membership, borrowings, recovery, and over dues. During the banking reform period (1994/95-2000/01), satisfactory performance was observed in respect of loans and advances, share capital, reserve funds, own funds, deposits, investment, working capital, profit and cost of management.

M. Karunakar et.al (2008)

Study the important aspect of norms and guidelines for making the whole sector vibrant and competitive. The problem of losses and lower profitability of Non-Performing Assets (NPA) and liability mismatch in Banks and financial sector depend on how various risks are managed in their business Besides capital to risk Weight age assets ratio of public sector banks, management of credit risk and measures to control the menace of NPAs are also discussed. The lasting solution to the problem of NPAs can be achieved only with proper credit assessment and risk management mechanism. It is better to avoid NPAs at the market stage of credit consolidation by putting in place of rigorous and appropriate credit appraisal mechanisms.

B.Satish Kumar (2008)

In his article on an evaluation of the financial performance of Indian private sector banks wrote Private sector banks play an important role in development of Indian economy. After liberalization the banking industry underwent major changes. The economic reforms totally have changed the banking sector. RBI permitted new banks to be started in the private sector as per the recommendation of Narasimhan committee. The Indian banking industry was dominated by public sector banks. But now the situations have changed new generation banks with used of technology and professional management has gained a reasonable position in the banking industry.



III. RESEARCH METHODOLOGY

The basic principle in the research has been adopted in the overall methodology. The following methodology has been used for meeting the requirements,

3.1 Sources of data:

Primary data are those which are collected for the first time and thus happen to be original in character. In this primary data are collected using questionnaires.

Secondary data: The secondary data collection method includes: Banking portals on the web, Annual report of concerned bank, banking journals.

3.4 LIMITATIONS OF THE STUDY

The research is primarily founded on data obtained directly from bank managers through personal inquiries. This information pertains to credit risk associated with advances, while details regarding NPA accounts and amounts were sourced as secondary information. It is worth noting that in certain bank cases, data on NPA account numbers and corresponding amounts for specific years were unavailable. The analysis has been conducted solely based on the most recent five-year historical data related to NPA at ICICI Bank.

The study results are not generalizable to other banks.

IV. DATA ANALYSIS AND INTERPRETATION

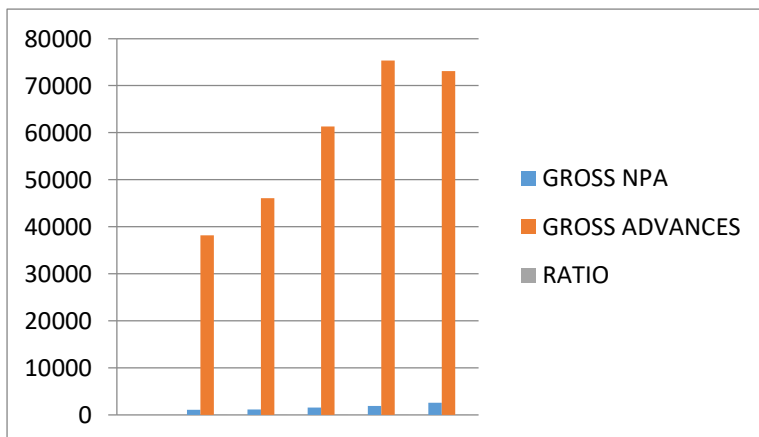
The following table shows the gross NPA Ratio of the years of ICICI bank 2018-2023

$$\text{GROSS NPA RATIO} = \text{GROSS NPA} \div \text{GROSS ADVANCES} \times 100$$

TABLE 1 : NPA RATIO

YEAR	GROSS NPA (RS in lakhs)	GROSS ADVANCES (RS in lakhs)	RATIO
2018- 2019	1085.21	38212	2.84
2019- 2020	1178.12	46066.12	2.56
2020- 2021	1571.74	61296.13	2.56
2021- 2022	1943.52	75319.82	2.58
2022- 2023	2613.92	73117.42	3.57

CHART 1

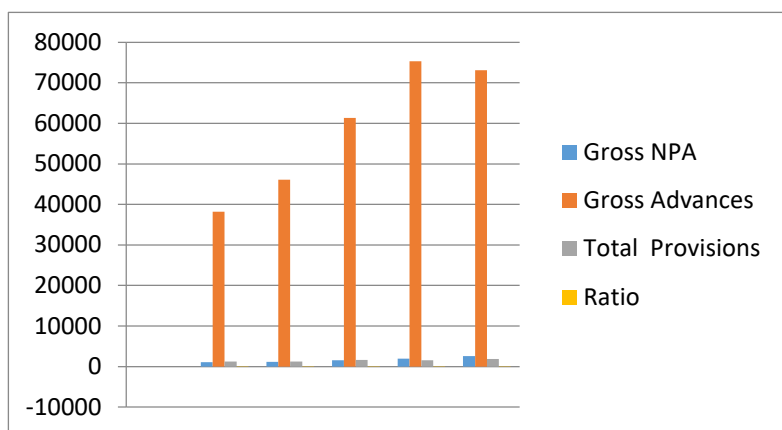


INTERPRETATION :From the above Table 1 it is observed thatthere is a increase in Gross NPA from the year 2019-2020 to 2022-2023. There is an increase in the Gross Advances from the year 2019-2020 to 2021-2022 expecting in the year 2022-2022. The Gross NPA ratio is decreasing which reflect effective managerial control on NPA excepting the year 2022-2022

TABLE 2: NET NPA RATIO

Year	Gross NPA (Rs in lakhs)	Gross Advances (Rs in lakhs)	Total Provisions held (Rs in lakhs)	Ratio
2018- 2019	1085.21	38212	1230.59	-0.39
2019- 2020	1178.12	46066.12	1241.00	-0.14
2020- 2021	1571.94	61296.13	1634.92	-0.11
2021- 2022	1943.52	75319.82	1544.91	0.54
2022- 2023	2613.92	73117.42	1873.73	1.012

CHART 2



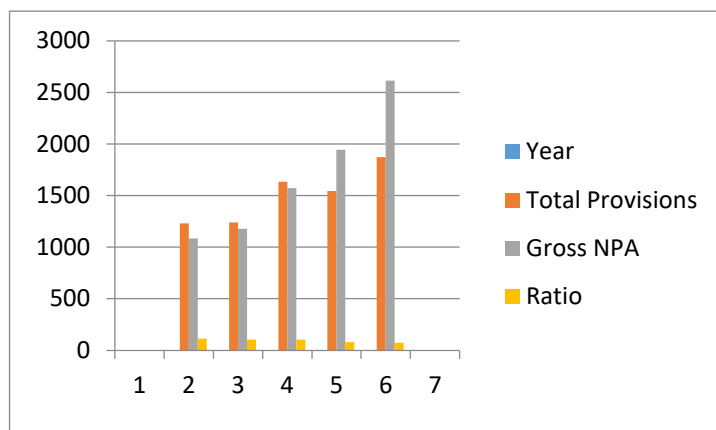
INTERPRETATION: From the above Chart 2 it is observed thatthere is an increase in the Gross NPA from the year 2019-2020 to 2022-2023 There is an increase in the Gross Advances from the year 2019- 2020 to 2021- 2022Excepting in the year 2022- 2023

- The provision held by the bank towards NPA are fluctuating
- The Net NPA Ratio for all the four years remains to be at 0% except in the year 2022-2022

TABLE 3: PROVISIONS RATIO

Year	Total Provisions (Rs in lakhs)	Gross NPA	Ratio
2018- 2019	1230.59	1085.21	113.40
2019- 2020	1241.00	1178.12	105.34
2020- 2021	1634.92	1571.94	104.01
2021- 2022	1544.91	1943.52	79.49
2022- 2023	1873.73	2613.92	71.68

CHART 3



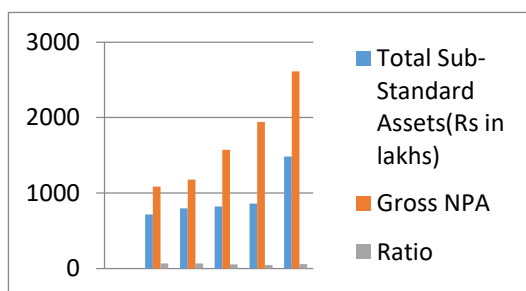
INTERPRETATION : From the above Chart 3 it is observed that the Provisions Ratio is increasing from the year 2019-2020 to 2022-2023 excepting from the year 2021- 2022. The highest provisions Ratio is in the year 2019- 2020 to 2022- 2023i.e., 1.71 where Gross NPA IS 1085.21 and Total Provisions are 1230.59. The lowest Provisions ratio is in the year 2022- 2023i.e., 71.68 where Gross NPA is 2613.92 and Total provisions are 1873.73

PROBLEM ASSET RATIO =GROSS NPA ÷TOTAL ASSETS ×100

Table 4: ASSET RATIO

Year	Gross NPA (Rs in lakhs)	Total Assets (Rs in lakhs)	Ratio
2018- 2019	1085.21	78343.45	1.39
2019- 2020	1178.12	94379	1.25
2020- 2021	1571.94	108194.16	1.45
2021- 2022	1943.52	136306.84	1.43
2022- 2023	2613.92	152523.92	1.71

CHART4

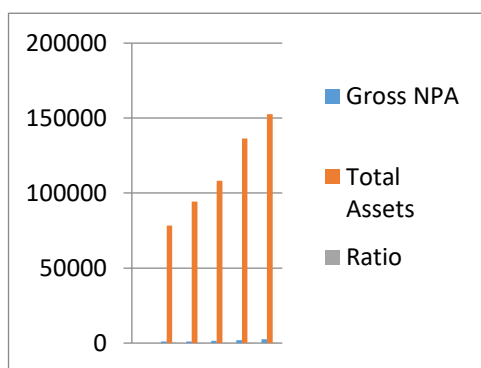


INTERPRETATION From the above graph 4 it is observed that the Gross NPA is increasing from the year 2019-2020 to 2022-2023. . The highest problem asset ratio is in the year 2022- 2023i.e., 1.71 where Gross NPA is 2613.92 and the Total Assets are 152523.92. The lowest Problem Asset Ratio is in the year 2019- 2020 i.e., 1.25 where Gross NPA is 1178.12 and Total Assets are 9437

TABLE 5: SUB STANDARD ASSET RATIO

Year	Total Sub-Standard Assets(Rs in lakhs)	Gross NPA (Rs in lakhs)	Ratio
2018- 2019	716.19	1085.21	65.99
2019- 2020	793.75	1178.12	67.37
2020- 2021	821.85	1571.94	52.28
2021- 2022	861.12	1943.52	44.31
2022- 2023	1481.60	2613.92	56.28

CHART 5

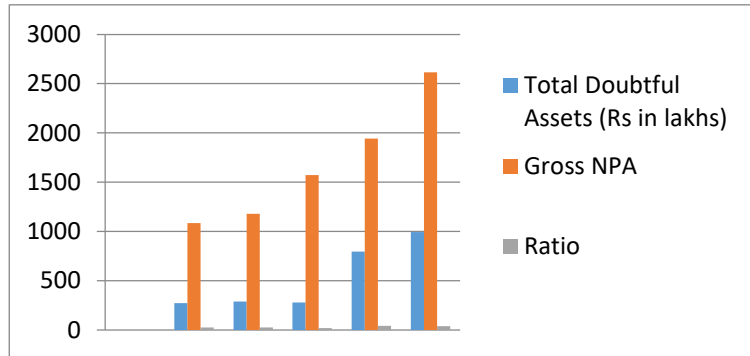


INTERPRETATION: From the above chart 5 it is observed that the Total sub-standard Assets are increasing from the year 2019-2020 to 2022-2022. The Gross NPA is increasing from the year 2019-2020 to 2022-2022. The highest sub-standard Assets Ratio is in the year 2019-2020 i.e., 64.37 where total substandard Assets are 793.75 and the Gross NPA is 1178.12 the lowest sub-standard Assets Ratio is in the year 2019-2020 i.e., 44.31 where total sub-standard assets are 861.12 and the Gross NPA is 1943.52

TABLE 6: ASSETS RATIO

Year	Total Doubtful Assets (Rs in lakhs)	Gross NPA (Rs in lakhs)	Ratio
2018-2019	271.7	1085.21	25.04
2019-2020	287.34	1178.12	24.39
2020-2021	278.96	1571.94	17.75
2021-2022	795.49	1943.52	40.93
2022-2023	993.91	2613.92	38.02

CHART 6

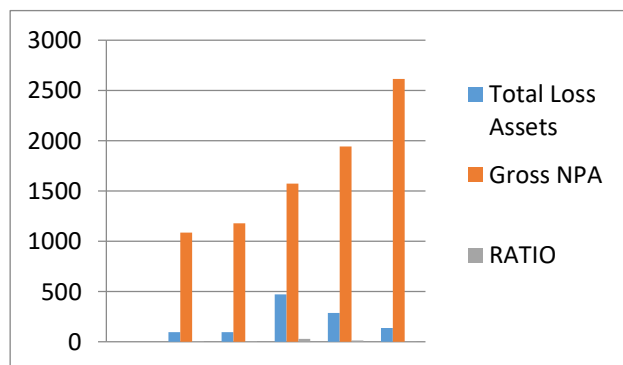


INTERPRETATION: From the above chart 6 it is observed that the Total Doubtful Assets are increasing from the year 2019-2020 to 2022-2023 except from the year 2020- 2021. The highest doubtful assets ratio is in the year 2021-2022 i.e., 40.93 where total doubtful assets are 795.49 and the Gross NPA is 1943.52. The lowest doubtful assets ratio is in the year 2019- 2020 i.e., 17.75 where total Doubtful Assets are 278.96 and the Gross NPA is 1571.94.

TABLE 7: LOSS ASSET RATIO

Year	Total Loss Assets (Rs in lakhs)	Gross NPA (Rs in lakhs)	RATIO
2018- 2019	97.32	1085.21	8.97
2019- 2020	97.03	1178.12	8.23
2020- 2021	471.13	1571.94	29.97
2021- 2022	287.08	1943.52	14.77
2022- 2023	138.41	2613.92	5.29

CHART 7



INTERPRETATION: From the above chart 7 it is observed that the total loss assets are fluctuating from the year 2019-2020 to 2022-2022. The Gross NPA is increasing from the year 2019-2020 to 2022-2022. The highest Gross Assets ratio is in the year 2020- 2021 i.e., 29.97 where total loss assets are 471.13 and the Gross NPA is 1571.94. The lowest loss ratio is in the year 2022- 2023 i.e., 5.29 where total loss assets are 138.41 and the gross NPA is 2613.92.

V. FINDINGS

- There is a decrease in 1.71% Gross NPA from the year 2019-2020 to 2022-2023
- There is an increase in 71.68% Gross Advances from the year 2019-2020 to 2022-2023 expecting in the year 2022.
- The Gross NPA ratio is decreasing which reflect effective managerial control on NPA excepting the year 2022.
- There is an increase in the Gross NPA from the year 2019-2020 to 2022-2023
- There is an increase in the Gross Advances from the year 2019-2020 to 2022-2023 Excepting in the year 2022.
- The provision held by the bank towards NPA are fluctuating
- The Net NPA Ratio for all the four years remains to be at 0% except in the year 2022.
- The Provisions Ratio is increasing from the year 2019-2020 to 2022-2023 excepting from the year 2022.
- The gross NPA is increasing from the year 2019-2020 to 2022-2022
- The highest provisions Ratio is in the year 2019-2020 to 2022-2023 i.e., 1.71 where Gross NPA IS 1085.21 and Total Provisions are 1230.59.

5.1 SUGGESTIONS:

- The banks should aim at technological up gradation, the Management Information system should provide the details of default borrowers of entire banking system to avoid miss utilization of loans and to avoid frauds.
- Lending process should be done very carefully, as there is a possibility of loan turning into Non-performing assets.
- Therefore much care should be taken while following appraising method and while sanctioning loans. To reduce the NPAs in the bank.
- Giving more legal powers to bank strengthens the bank recovery process.
- Though ICICI bank is on the right oath for NPA management however, it should take proper measures to reach a gross NPA of 0%.
- Although the percentage of net NPAs in ICICI bank is nil in the last five years, it should maintain this position and also reduce it.
- The current ICRA rating of the bank is 4/5 which is a good sign the bank may aim at increasing its ratings in order to increase the profitability and the credibility of the bank.

VI. CONCLUSION

From the analysis of NPAs of the past 5 years i.e., from 2019-2020 to 2022-2023 it can be concluded that the banks has taken all the necessary measures to reduce the Gross NPAs Ratio from 14.41% in 2019- 2020 to 2.58% and in 2022-2023 that is the reduction of over 85%. The net NPA Ratio of the bank for the past 5 years remains to be 0% which is a sign of good performance by the bank.

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