Non-Performing Assets: A Comparison of ICICI Bank and HDFC Bank

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***Abstract* - Banking in India originated in the last decade of the 18th century. Private sector banks occupy a major part of banking in India. Private sector banks have a very wide network of branches in rural and urban areas. But now a day they have diversified their activities to the emerged fields of operations like merchant banking, leasing and venture capital etc. Due to increased level of competition private banks have been lending aggressively to the customers which in turn increasing the proportion of Non-Performing Assets (Henceforth, NPAs). Non-performing Asset has been an important parameter to analyse of financial performance of banks as it results in decreasing margin and higher provisioning requirements for doubtful debts. In this research paper, secondary data has been fetched out from database of Reserve Bank of India regarding Net NPA ratios of ICICI and HDFC Bank in order to have a clear picture about financial performance of both the banks. The study revolves around the period of five years from 2009-2014.**

Keywords: Non-Performing Assets, Gross NPA, Net NPA, Performance.

I. INTRODUCTION

A strong banking sector has been backbone of economy. Banking in India originated in the last decade of the 18th century. Private sector banks occupy a major part of banking in India. Private sector banks have a very wide network of branches in rural and urban areas. But now a day they have diversified their activities to the emerged fields of operations like merchant banking, leasing and venture capital etc. Due to increased level of competition private banks have been lending aggressively to the customers which in turn increasing the proportion of Non-Performing Assets. Non-performing Asset has been an important parameter to analyse of financial performance of banks as it results in decreasing margin and higher provisioning requirements for doubtful debts. The underlying objective has been to make the system more competitive, efficient and profitable. Banking sector has always been vital for flourishing economy. The failure of the banking sector may have an adverse impact on other sectors too. Non-performing asset (NPA) has been one of the major concerns for banks in India. Performance of banks has been reflected through the NPAs.

II. NON PERFORMING ASSETS (NPAs)

NPA refers to loans that are in peril of default. The asset has been categorized as non-performing asset when the borrower failed to make principle or interest payment within 90 days. It has always been a challenge for financial institutions to manage their Non-performing assets because of the dependency on interest payment. NPAs of financial institutions increase due to pressure from economy as they have to lent aggressively which in turn, reduces their capacity to capture all the assets completely. NPAs can be divided into two main categories as follows:

Gross NPAs	Net NPAs
Gross NPAs considered to be the kind of assets for which the provisions have been made by banks and are irrecoverable in nature, still held in books of accounts of banks	Net NPAs considered being the assets that are still not recovered but the part payment has been received and kept in suspense accounts. Net NPAs has been obtained by deducting interest due from Gross NPAs.

Classification of NPAs as per time horizon

On the basis of time period and payment of dues, NPAs can be classified as under:

Sub Standard Assets	Doubtful Assets	Loss Assets
For which banks have to make 15 percent reserves and the time period does not exceed one year	The assets that have been NPAs for more than one year time period.	The asset considered to be loss asset if auditors have classified it so but the amount has not been completely written-off.

III. REVIEW OF LITERATURE

Goyal Kanika (2010) studied the increment in gross and net NPAs. The study has been performed on public sector banks and agriculture sector. The study focussed on secondary data base and the data has been taken from the website of Reserve Bank of India. Various statistical tool like regression and ANOVA has been applied. The results depicted that public sector banks have been able to manage their assets properly but NPAs have been a matter of concern for agriculture sector.

Kamalpreet Kaur and Balraj Singh (2011) studied the NPAs of Indian banking industry. The research focussed on various aspects such as magnitude of NPAs, reasons of NPAs and impact on Indian economy. The results depicted that out of whole Indian banking industry, public sector banks have been lagging behind in managing their NPAs and authors suggested that Government should take strict actions for the same.

Ramesh.K.V, Sudhakar.A., (2012) case studied the NPA management in public sector banks by taking Canara and SBI bank. Secondary Data fetched for time horizon of ten years from 2000-2010. It has been concluded that NPAs has not been properly managed in banks under study and adversely affected the performance.

IV. OBJECTIVES OF THE STUDY

- To find the difference in NPAs of ICICI Bank and HDFC Bank.
- To study the NPAs ratios of ICICI Bank and HDFC Bank.

Hypothesis of the study

H_0: There is no significant difference in NPAs of ICICI Bank and HDFC Bank.

V. RESEARCH METHODOLOGY

This research has been descriptive in nature. Secondary data for the period 2009-2014 has been retrieved from the reports published by Reserve Bank of India. Top two private sector banks have been considered for the present study. The data has been analyzed by using tables and graphs, descriptive statistics and independent t-test.

Table 1: Net NPA Ratios of ICICI and HDFC Bank (In %)

Year	ICICI Bank	HDFC Bank
2009	2.09	0.63
2010	2.12	0.31
2011	1.11	0.19
2012	0.73	0.18
2013	0.77	0.20
2014	0.82	0.27

Source: Reserve Bank of India Reports

Table 1 depicted that ICICI Bank has continuously improved its asset quality from year 2010 to 2014whilst various fluctuations have been observed in Net NPAs of HDFC Bank. The ratio of Net NPAs to Net Advances of ICICI bank has reduced from 2.12 percent to 0.73 percent in 2012 whilst it has increased from 0.73 percent in 2012 to 0.82 percent in 2014. Moreover, in case of HDFC bank the Net NPAs ratio has decreased from 0.63 percent in 2009 to 0.19 percent in 2011 i.e. the asset quality has improved in the above said time period. Further, the ratio has increased from 0.18 percent in 2012 to 0.27 percent in 2014.

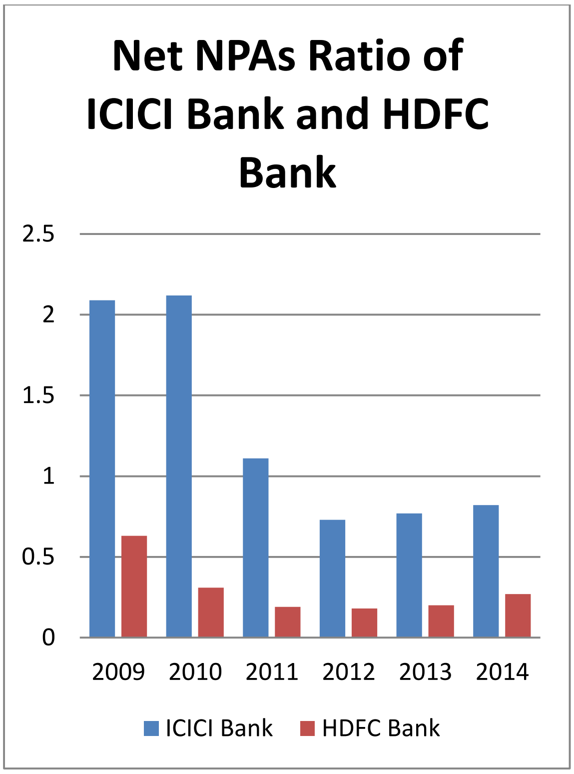

Fig 1: Net NPA Ratios of ICICI Bank and HDFC Bank.

Testing of Hypothesis

Null Hypothesis (H_0)-

There is no significant difference in Net NPAs ratio of ICICI Bank and HDFC Bank. T-test has been applied to check the null hypothesis using SPSS and the results have been followed as under:

Table: 2 t-statistics for ICICI Bank and HDFC Bank

Banks	Mean	Std. Deviation	t-statistics
ICICI	1.2733	.65796	4.740
HDFC	.2967	.17108	4.248

The above table: 2 depicted the t-test score of ICICI bank and HDFC bank. The t- test value for both the banks has been greater than the table value of t-test i.e. 1.96 at 95 percent confidence interval. As the calculated value found greater than the table value, the null hypothesis has been rejected and it has been stated that there exist a significant difference between NPAs of both the banks selected for the study during the selected time period (2009-2014).

VI. FINDINGS AND CONCLUSIONS

In nutshell, it has been concluded that HDFC Bank has performed well due to very less amount has been blocked in form of NPAs. Presently, it has only 0.63 percent NPAs in proportion to net advances whilst ICICI Bank has 2.09 percent NPAs which is much higher as compared to HDFC Bank. In the same way, the significant difference in the level of NPAs has also been observed using t- test score. Moreover, it could be suggested that banks must focus on the borrowers credibility before sanctioning loans to them and strict procedures should be followed before lending to the customers so as to be more safe in terms of quality assets.

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