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A COMPARATIVE STUDY ON TREND ANALYSIS OF NON-PERFORMING ASSETS AT SBI AND ICICI BANK IN INIDA

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ABSTRACT

Non-Performing Assets (NPAs) have emerged as a critical concern for the banking sector in India, affecting both public and private sector banks. This study presents a comparative analysis of NPAs at **State Bank of India (SBI)**, the largest public sector bank, and **ICICI Bank**, one of India's leading private sector banks. The paper aims to explore and analyze the trends in NPAs for both banks over the past decade, examining key metrics such as gross NPA ratios, net NPA ratios, provision coverage ratios, and recovery rates. It delves into the underlying factors contributing to NPAs, including sectoral exposure, economic conditions, and risk management strategies. The study also evaluates the effectiveness of regulatory frameworks, such as the Insolvency and Bankruptcy Code (IBC) and RBI guidelines, in managing NPAs. The findings reveal that while both banks have faced challenges with NPAs, SBI, due to its larger exposure to riskier sectors, has witnessed higher NPA levels compared to ICICI Bank. However, SBI's improved provision coverage ratio and focus on recovery mechanisms indicate a concerted effort to manage its asset quality. In contrast, ICICI Bank's diversification into retail lending and use of advanced risk management techniques have helped in maintaining relatively lower NPA levels. This comparative analysis provides valuable insights into how both banks manage their asset quality and highlights the broader implications for the Indian banking system. The study concludes with recommendations for both banks to further enhance their NPA management strategies and improve the financial stability of the Indian banking sector.

Keywords: Non-Performing Assets (NPAs), State Bank of India (SBI), ICICI Bank, Trend Analysis, Asset Quality, Provision Coverage Ratio, Gross NPA Ratio, Net NPA Ratio, Recovery Rates, Risk

1. Introduction

Non-Performing Assets (NPAs) have become a key challenge for the Indian banking sector. As of the last few years, NPAs have weighed heavily on the profitability and financial stability of banks, impacting both public and private sector institutions. This article presents a comparative analysis of the NPAs at the State Bank of India (SBI), the largest public sector bank, and ICICI Bank, one of India's leading private sector banks. By examining the trends in NPAs for both these banks, the study aims to understand the impact of asset quality on their financial health, the effectiveness of their management strategies, and the broader implications for the banking sector in India.

1.0 Overview of SBI and ICICI Bank

1.1State Bank of India (SBI)

SBI is India’s largest public sector bank with a rich history spanning over 200 years. It offers a wide range of services, including retail, corporate, and agricultural banking, with a significant presence in rural and semi-urban areas. As of 2023, SBI’s total assets are approximately INR 50 lakh crore, and it continues to dominate India's banking landscape.

1.2ICICI Bank

ICICI Bank, founded in 1994, is one of India’s largest private sector banks. It has a more significant urban and corporate client base compared to SBI. It offers a full spectrum of banking services, including retail banking, corporate banking, wealth management, and insurance. ICICI Bank’s total assets, as of 2023, are around INR 17 lakh crore, and it has consistently been a major player in the Indian banking sector.

1.3Non-Performing Assets (NPAs) and Their Importance

Non-Performing Assets (NPAs) refer to loans that have not been repaid for a certain period (usually 90 days), and these loans cease to earn interest for the bank. NPAs are classified into three categories:

1. **Sub-standard assets**: Loans overdue for 90 days or more but less than 12 months.
2. **Doubtful assets**: Loans overdue for more than 12 months.
3. **Loss assets**: Loans that have no realizable value.

NPAs affect the liquidity, profitability, and financial stability of banks. They reflect the risk levels in a bank's loan portfolio and can increase provisions, reducing profits. Managing NPAs efficiently is crucial for ensuring the health of the banking system.

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1.4Trends in NPAs at SBI and ICICI Bank

1.4.1SBI's NPA Trend Analysis

SBI has faced significant challenges with NPAs over the past decade. The rise in corporate defaults, especially from infrastructure projects and stressed sectors, has contributed to higher NPA levels. However, SBI has made considerable efforts to manage and reduce NPAs through restructuring efforts, the establishment of Asset Reconstruction Companies (ARCs), and other recovery mechanisms.

Key trends in SBI's NPAs include:

- **Increase in Gross NPAs**: Between 2014 and 2018, SBI saw a rise in its gross NPA ratio due to a large volume of corporate defaults.
- **Improvement in Provision Coverage Ratio (PCR)**: SBI significantly improved its provision coverage ratio in recent years, indicating stronger provisioning against potential losses.
- **Focus on Recovery**: The bank has been focusing on recovery through mechanisms like the Insolvency and Bankruptcy Code (IBC) and loan restructuring.

1.4.2ICICI Bank's NPA Trend Analysis

ICICI Bank, despite being a private-sector bank with a more diversified loan portfolio, has also been grappling with NPAs, particularly during periods of economic slowdown. The bank's NPA levels peaked during the 2016-2017 period, largely due to its exposure to the infrastructure and corporate sectors.

Key trends in ICICI Bank's NPAs include:

- **NPA Decline in Recent Years**: Post-2018, ICICI Bank has seen a significant reduction in NPAs, with improvements in the gross and net NPA ratios.
- **Focus on Retail Lending**: ICICI Bank's shift towards retail lending has helped reduce exposure to riskier corporate loans, which has positively impacted its NPA levels.
- **Technological Integration**: ICICI Bank has also focused on using technology to identify early signs of distress and prevent loan defaults.

1.5 Factors Contributing to NPAs

Economic Environment

Both banks are affected by the overall economic environment. The economic slowdown, especially in sectors like infrastructure and power, has led to a rise in corporate defaults. Factors like government policy changes, interest rates, and global economic conditions also influence the NPAs at both banks.

1.6 Sectoral Exposure

- **SBI**: As a public sector bank, SBI has significant exposure to the agriculture and infrastructure sectors, which are more vulnerable to economic cycles.
- **ICICI Bank**: ICICI Bank has a more diversified loan portfolio, but its exposure to corporate lending, especially in the infrastructure and industrial sectors, has historically contributed to NPAs.

1.7Risk Management Practices

Both banks employ various strategies to manage risk and reduce NPAs:

- **SBI**: SBI has made significant investments in risk management technologies and has undertaken large-scale recoveries through the National Company Law Tribunal (NCLT) and ARCs.
- **ICICI Bank**: ICICI Bank uses advanced analytics and AI-driven tools to identify early signs of default. The bank also takes a proactive approach in restructuring loans and managing distressed assets.

2. Statement of the Problem:

The stability of banks is at risk based on the extent of non-performing assets (NPA). A significant number of accounts classified as NPA can jeopardize the viability of a bank. Institutions with elevated levels of NPA may experience a decline in customer trust, which in turn can adversely impact their liquidity, profitability, and overall solvency.

3. Review of Literature:

Dr Irfan Ahmad, Nisha Khan (2023) The main aim of the study is to find out the trend of Gross and Net NPA between SBI and ICICI Bank along with finding out is there is any significant difference between SBI and ICICI Bank with respect to their NPA. Independent Sample t-test has been used for the analysis during the period of study from2009 to 2018. Based on analysis it has been found that both banks NPA shows an overall increasing trend and significantly differ with respect to Gross NPA ratio and not statistically differ in case of Net NPA ratio. As banking sector is the prominent sector of Indian economy and plays an important role for developing economy by providing loan and advances to different sectors. In India both of the public and private sector banks provide loan to agricultural, industrial, service sector and among those SBI is top most public sector banks whereas ICICI Bank is top most private sector bank deals with all banking function. But today's Indian banking sector faces a serious hurdle in their growth i.e. an increasing trend of Non-Performing Assets (NPA).

Nitin Bhasker & Palaksha Gombi (2021) have discussed the role played by banking sector and the rising NPA in a country's economy in their article "An Empirical Study on Non-Performing Assets with Special Reference to HDFC Bank Ltd.". The authors have found that even with specific policies and procedures to control NPA, high NPA rate has been noticed in HDFC Bank. After the application of reform policies, there is no instant solution that helps in controlling the rising NPA; Securitization Act plays a crucial role in bringing the NPA in control. An effective way to prevent NPA is for the banks to share/exchange information of defaulters.

Inchara Gowda (2019) conducted a study to examine the trend of NPAs, its impact on Public, Private & Foreign Banks in her article "Implications of NPAs on the Profitability of SCBs – A Comparative Study of Public, Private and Foreign Banks". It is noted that NPA has a severe negative impact on public & private sector banks & their profitability, however in the case of foreign banks, the reasons were not explained. To get a high profit level, banks need to assess the collaterals kept for loans.

Ambuj Tiwari & Vipul Garg, (2018) in their article "A Study of Non-Performing Assets of Indian Banking System and Its Impact on Economy" (2018) studied the present trends of NPA in the Indian Banking System. The rising rate of NPA in the developing countries is a real threat to the profitability of the banks and the country's economy. Management of bad loans & keeping them under control is extremely crucial for the Indian Banking System.

Anjali Prava Mishra, Muna Sahoo and Rabindra Kumar Swain (2017) have examined the efficacy of NPA recovery mechanisms in their article "Non-Performing Assets of Scheduled Commercial Banks in India: Its Regulatory Frame Work". Out of all the measures taken by the government to control & recover NPA, SARFAESI Act- 2002 has been proven to be the most effective one.

However, the money recovered is insignificant when compared to the money that was defaulted. The recovery schemes need to be upgraded so as to get the most out of them.

Performing Assets of Public Sector Banks in India" (2016) has discussed the magnitude of issue of NPA. He is of the opinion that, compared to the international standards, Indian banking sector's NPA is very high. He suggests that bank officials need to be trained better in filtering out the borrowers by their credit-worthiness.

4. Objectives of the study:

1. To analyze the trend of Gross NPA to gross advance and Net NPA to net advance ratio of SBI and ICICI Bank in India.
2. To identify is there is any statistically significant difference in Gross NPA to gross advance and Net NPA to net advance ratio of SBI and ICICI Bank

5. Need the Study:

The objective of this study is to examine and evaluate the Non-Performing Asset (NPA) levels in both private and public sector banks, specifically focusing on SBI and ICICI. It aims to analyze the trends in Gross and Net NPA within these banking sectors. Additionally, the study seeks to propose strategies to mitigate the NPA levels. Ultimately, this research is intended to assist banks in recognizing issues related to accounts and to prevent any accounts from becoming non-performing.

6. Scope of the Study:

The study focuses on examining the trends of non-performing assets, specifically Gross NPA and Net NPA, within selected public and private sector banks, including SBI and ICICI Bank. The analysis employs statistical methods, including regression and variance, utilizing graphical trend lines to interpret the data.

7. Research Design:

The research is characterized as descriptive. This investigation primarily relies on secondary data obtained from the annual reports of the relevant banks. The researcher has chosen four significant public and private sector banks in India. These banks were intentionally selected for the study due to their substantial role and influence in shaping India's economic landscape. The banks included in the study are as follows: Public Sector Bank: State Bank of India; Private Sector Bank: ICICI Bank. The analysis is conducted using data spanning a five-year period from 2018-2019 to 2022-2023.

- ➢ Secondary data refers to data that has already been collected by other researchers, institutions, or organizations for purposes other than the current research study

Table: -7.1
Comparative Analysis: NPA Ratios and Performance Metrics

Parameter	SBI (2023)	ICICI Bank (2023)
Gross NPA Ratio	4.02%	2.75%
Net NPA Ratio	1.01%	0.55%
Provision Coverage Ratio (PCR)	85.3%	84.9%
Recovery Rate	40%	55%

Secondary data

SBI’s NPA ratios are higher than ICICI Bank’s, reflecting the greater challenge the public sector bank faces in terms of asset quality. However, SBI’s higher provision coverage ratio indicates that it is more conservative in its approach to provisioning for bad loans.

Impact of Regulatory Changes

Both banks are significantly affected by regulatory changes set forth by the Reserve Bank of India (RBI). These include:

- **The Insolvency and Bankruptcy Code (IBC)**: The introduction of IBC has provided both banks with a legal framework for resolving bad loans, especially for large corporate borrowers.
- **RBI Guidelines on NPA Classification**: Stricter RBI norms have forced banks to recognize NPAs earlier and make adequate provisions, increasing transparency.

8. Data Analysis: To carry out this comparative study, the following data sources would be collected for both banks:

Table: -8.1

The trends of Gross Non-Performing Assets of S.B.I Bank

YEAR	Gross NPA (%)	Trend %
2018-2019	9.00	67.32
2019-2020	6.00	76.30
2020-2021	5.00	94.77
2021-2022	4.00	78.63
2022-2023	3.88	91.17

Source: Annual reports of the SBI Banks

Interpretation: It is observed from the above data provided in the above table - 1 The Gross NPA %and trend percentage of SBI Bank high in the year 2018-19 is 9 and low in the year 2022-23 is 2.88the trend line is shown in the Chart-1. The trend equation shows that the Gross NPA in Corers y = -0.218x+7.177 and R^2 =0.076 (7.6%) shows that the fitted trend line is moderately influencing on SBI Bank.

Chart: -8.1

The trends of Gross Non-Performing Assets of S.B.I Bank

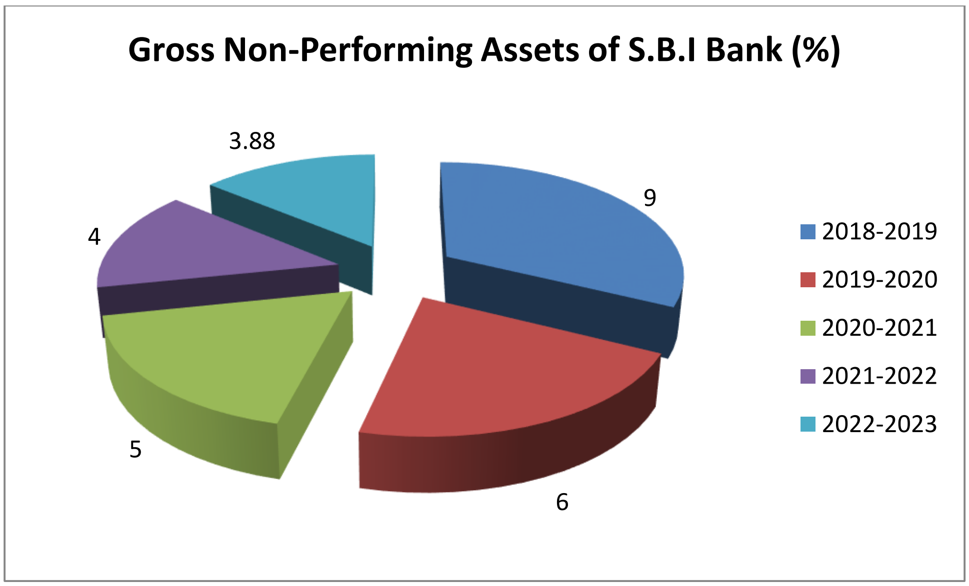

Table: -8.2

The trends of Net Non-Performing Assets of S.B.I Bank.

YEAR	Net NPA (%)	Trend %
2018-2019	6.73	180.37%
2019-2020	3.71	74.75%
2020-2021	3.81	105.70%
2021-2022	2.12	65.64%
2022-2023	3.57	135.23%

Source: Annual reports of the SBI Banks

Interpretation: It is observed from the above data provided in the above table - 2 The Net NPA %and trend percentage of SBI Bank high in the year 2018-19 is 6.73 and low in the year 2021-2022is 2.12the trend line is shown in the Chart-2. The trend equation shows that the Net NPA in Corers y = 0.263x+1.186 and R^2 =0.280 (28.0%) shows that the fitted trend line is highly influencing on SBI Bank.

Chart-8.2 The trends of Net Non-Performing Assets of S.B.I Bank.

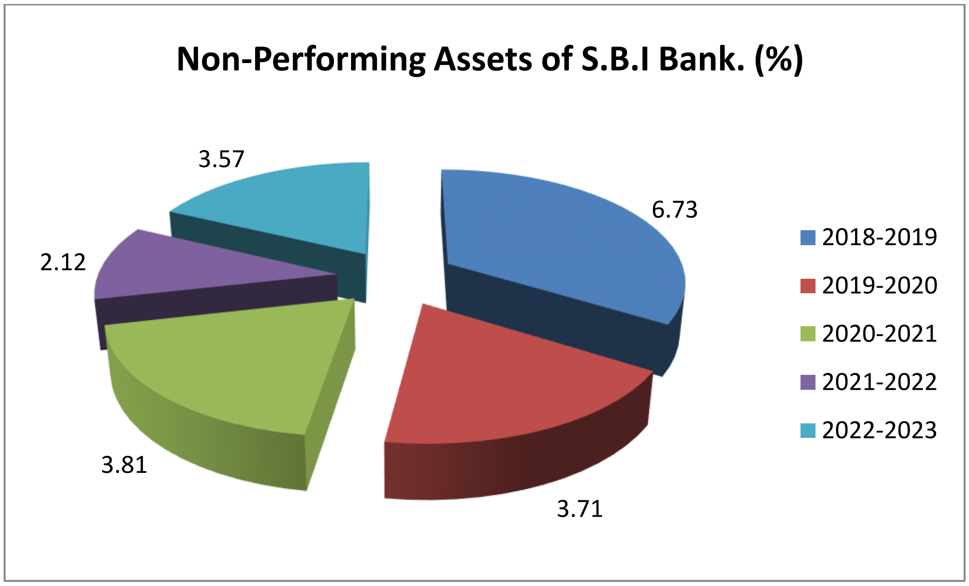

Table: -8.3

The percentage of Gross Non-Performing Assets of ICICI Bank

YEAR	**Gross NPA (%)**	Trend %
2018-2019	9	0.00%
2019-2020	6	116.67%
2020-2021	8	75.00%
2021-2022	4	200.00%
2022-2023	2.87	139.37%

Source: Annual reports of the ICI CI Banks

From the data provided in the above table - 3 The Gross NPA % and trend percentage of ICICI Bank high in the year 2018-19 is 9.00 and low in the year 2022-2023 is 2.87 the trend line is shown in the Chart-3. The trend equation shows that the Net NPA in Corers y = 0.205x+3.559 and R^2 =0.040 (4.0%) shows that the fitted trend line is highly influencing on ICICI Bank.

Chart: -8.3

The percentage of Gross Non-Performing Assets of ICICI Bank

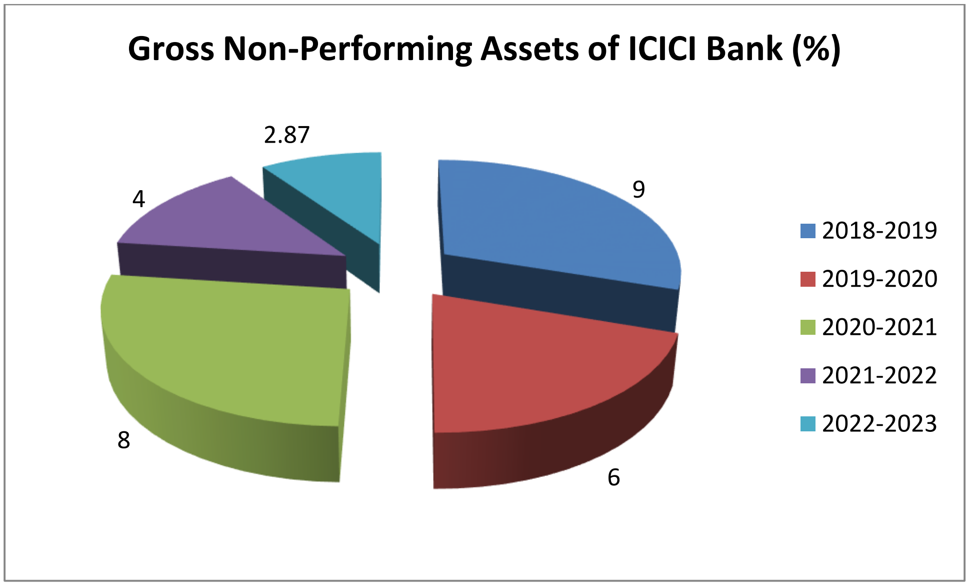

Table: -8.4

The percentage of Net Non-Performing Assets of ICICI Bank

YEAR	Net NPA (%)	Trend %
2018-2019	2.29	237.12%
2019-2020	1.54	148.70%
2020-2021	2.1	73.33%
2021-2022	0.81	259.26%
2022-2023	0.61	158.82%

Source: Annual reports of the ICICI Banks

From the above table - 4 The Gross NPA % and trend percentage of ICICI Bank high in the year 2018-19 is 2.29 and low in the year 2022-23 is 0.61 the trend line is shown in the Chart-3. The trend equation shows that the Net NPA in Corers y = -0.175x+3.332 and R^2 =0.089 (8.9%) shows that the fitted trend line is highly influencing on ICICI Bank.

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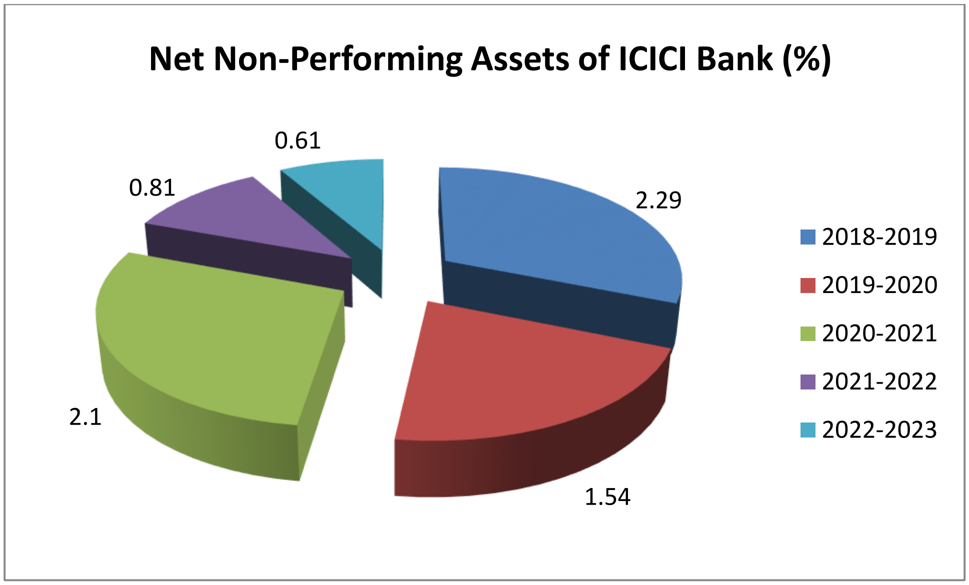
Chart: -8.4 The percentage of Net Non-Performing Assets of ICICI Bank



9. Findings of the Study

1. The analysis indicates a decrease in the trend of Non-Performing Assets (NPA) within both Public and Private Sector Banks during the study period.
2. The percentage of Net NPA in Public Sector Banks exceeds that of Private Sector Banks.
3. Throughout the study period, there have been notable fluctuations in NPA levels in both public and private sector banks.
4. From the fiscal year 2018 to 2022-23, an increase in both Gross NPA and Net NPA percentages was observed in the banking sector.
5. There exists an inverse relationship concerning the NPA levels among banks.

10. Suggestions

- Financial institutions must exercise utmost caution when evaluating the creditworthiness of potential borrowers.
- It is imperative for banks to meticulously verify and validate the documentation provided by borrowers.
- A comprehensive assessment of the quality of assets pledged as collateral is essential to determine their value accurately.
- A primary duty of banks is to judiciously select borrowers to mitigate the risk of loans transitioning into non-performing assets (NPAs).

- Banks should consistently monitor to ensure that borrowers are utilizing the funds for the intended purposes for which the loans were approved.

11.Conclusion

In conclusion, while both SBI and ICICI Bank have made strides in managing NPAs, SBI, as a public sector bank, faces greater challenges due to its higher exposure to riskier sectors like agriculture and infrastructure. ICICI Bank, with its more diversified portfolio, has managed to keep its NPA levels lower, benefiting from a shift towards retail lending and advanced risk management techniques. Both banks continue to focus on enhancing recovery processes, using technology to identify early signs of distress, and adhering to regulatory norms. While SBI's efforts to reduce NPAs are commendable, ICICI Bank's performance reflects a more proactive approach towards asset quality management. For policymakers and regulators, the trend analysis of NPAs at SBI and ICICI Bank highlights the need for targeted measures to address sectoral imbalances in the loan portfolios and to support recovery efforts through legal frameworks like the IBC.

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