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**A COMPARATIVE STUDY OF NPA IN ICICI BANK AND
HDFC BANK****Vaibhavi Shah¹**

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ABSTRACT

Banking sector in India is a rising sector. It promotes saving habits as well as encourages entrepreneurs for loans. The purpose of the study is to understand the working of NPA in apex Private Sector bank and how to reduce NPA. For this we can use ratio analysis and correlation. Gross NPA ratio is used to check whether the bank's gross NPA are increasing. It is indicating that the bank is adding a fresh stock of bad loans. It would mean the bank is either not exercising enough causing when offering loans or it is too lax in terms of following up with borrowers on timely repayments. Net NPA reflects the performance of banks. 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 wear down the value of the asset. Loans and advances usually represent the largest asset of most of the bank. It monitors quality of the bank's loan portfolio.

Keywords: Gross NPA; Net NPA; Total Advances; ROA; Performance Evaluation; ICICI Bank; HDFC Bank

INTRODUCTION**Introduction to Banking Sector**

The Banking sector in India has always been one of the most preferred avenues of employment. In the current decade, this has emerged as a resurgent sector in the Indian economy.

Today, banks have diversified their activities and are getting into new products and services that include opportunities in credit cards, consumer finance, wealth management, life and general insurance, investment banking, mutual funds, pension fund regulation, stock broking services, custodian services, private equity, etc. Further, most of the leading Indian banks are going global, setting up offices in foreign countries, by themselves or through their subsidiaries.

The banking section will navigate through all the aspects of the Banking System in India. It will discuss upon the matters with the birth of the banking concept in the country to new players adding their names in the industry in coming few years.

Segments in Banking Sector

- Commercial Banking
- Wholesale banking
- Investment Banking

- Internet banking
- Mobile banking
- Rural banking
- Micro Finance
- Industrial Finance

Overview of Indian Banking Sector

With years, banks are also adding services to their customers. The Indian banking industry is passing through a phase of customers market. The customers have more choices in choosing their banks. A competition has been established within the banks operating in India.

With stiff competition and advancement of technology, the services provided by banks have become more easy and convenient. The past days are witness to an hour wait before withdrawing cash from accounts or a cheque from north of the country being cleared in one month in the south.

This section of banking deals with the latest discovery in the banking instruments along with the polished version of their old systems.

Growth of Indian Banking Sector

With India experiencing a cycle of growth, the Rs 64 trillion (US\$ 1.25 trillion)-Indian Banking industry is poised to grow exponentially as the sector reflects the health of an economy. Indian banks have proved their mettle time and again as their regulations align with international standards, while they remain conventional in their approach. The Reserve Bank of India (RBI), the regulator, continuously monitors the macroeconomic environment to formulate its policies and directions.

According to the world's largest rating agency, Standard & Poor (S&P)'s Ratings Services, India's banking system has a high level of stable, core customer deposits supported by the system's good franchise, extensive branch networks, and large, yet growing, domestic savings.

OBJECTIVE OF STUDY

1. To know the operation of bank in its lending and credit policy.
2. What steps should be taken by bank to reduce NPA.

Overview of Bank in India

ICICI Bank Ltd.

ICICI Bank offers a wide range of banking products and financial services to corporate and retail customers through a variety of delivery channels and through its specialized subsidiaries in the areas of investment banking, life and non-life insurance, venture capital and asset management.

The Bank currently has subsidiaries in the United Kingdom, Russia and Canada, branches in United States, Singapore, Bahrain, Hong Kong, Sri Lanka, Qatar and Dubai International Finance Centre and representative offices in United Arab Emirates, China, South Africa, Bangladesh, Thailand, Malaysia and Indonesia. Our UK subsidiary has established branches in Belgium and Germany.

In 2000, ICICI Bank became the first Indian bank to list on the New York Stock Exchange with its five million American depository shares issue generating a demand book 13 times the offer size.

In 2011 ICICI Bank is the first and the only Indian brand to be ranked as the 45th most valuable global brand by BrandZ Top 100 Global Brands Report.

For the second year in a row, Ms. Chanda Kochhar, Managing Director & CEO, is in the Power List 2012 of 25 most influential women professional in India, by India Today.

Ms. Chanda Kochhar, Managing Director & CEO, is amongst the nine Indian women to be named in the Forbes magazine's inaugural 'Asia Power Businesswomen list'

HDFC Bank Ltd.

HDFC Bank Limited is an Indian financial services company that was incorporated in August 1994. HDFC Bank is the fourth largest bank in India by assets and the second largest bank by market capitalization as of February 24, 2012. The bank was promoted by the Housing Development Finance Corporation, a premier housing finance company (set up in 1977) of India. HDFC Bank has 1,986 branches and over 5,471 ATMs, in 996 cities in India, and all branches of the bank are linked on an online real-time basis. HDFC Bank was incorporated in 1994 by Housing Development Finance Corporation Limited (HDFC), India's largest housing finance company. It was among the first companies to receive an 'in principle' approval from the Reserve Bank of India (RBI) to set up a bank in the private sector. The Bank started operations as a scheduled commercial bank in January 1995 under the RBI's liberalization policies.

Mission

HDFC Bank's mission is to be a World-Class Indian Bank. The objective is to build sound customer franchises across distinct businesses so as to be the preferred provider of banking services for target retail and wholesale customer segments, and to achieve healthy growth in profitability, consistent with the bank's risk appetite.

Non-Performing Assets

Introduction to NPA

The three letters "NPA" Strike terror in banking sector and business circle today. NPA is short form of "Non Performing Asset". The dreaded NPA rule says simply this: when interest or other due to a bank remains unpaid for more than 90 days, the entire bank loan automatically turns a non performing asset. The recovery of loan has always been problem for banks and financial institution. To come out of these first we need to think is it possible to avoid NPA, no cannot be then left is to look after the factor responsible for it and managing those factors.

A Non-performing asset (NPA) is defined as a credit facility in respect of which the interest and/or installment of principal has remained 'past due' for a specified period of time.

With a view to moving towards international best practices and to ensure greater transparency, it has been decided to adopt the '90 days' overdue' norm for identification of NPAs, from the year ending March 31, 2004. Accordingly, with effect from March 31, 2004, a non-performing asset (NPA) shall be a loan or an advance where;

- Interest and/or installment of principal remain overdue for a period of more than 90 days in respect of a term loan,
- The account remains 'out of order' for a period of more than 90 days, in respect of an Overdraft/Cash Credit (OD/CC),
- The bill remains overdue for a period of more than 90 days in the case of bills purchased and discounted,
- Interest and/or installment of principal remains overdue for two harvest seasons but for a period not exceeding two half years in the case of an advance granted for agricultural purposes, and
- Any amount to be received remains overdue for a period of more than 90 days in respect of other accounts.

As per Reserve Bank of India's guidelines, income on loans is to be recognised on receipt basis (as against accrual basis) and if it has not been received for a specified period, the same asset is to be treated as non-performing. The basis for doing so is given below:

1. **Term Loan:** Term Loan account will be treated as NPA if interest or instalment of principal is in arrears for any two quarters out of four quarters, though the default may not be continuously for two quarters during the year. The default may be considered by applying the concept of past due i.e. if not paid within 30 days from the due date
2. **Cash Credit and Overdrafts:** A cash credit or overdraft account will be treated as NPA if the account remains out of order for a period of two quarters. An account should be treated as "out of order" if the outstanding balance remains continuously in excess of the sanctioned limit/drawing power. In case where the principal operating account is less than the sanctioned limit/drawing power but there are no credits continuously for six months as on the date of balance sheet or credit are not enough to cover the interest debited during the same period, these accounts should also be treated as "out of order".
3. **Bills purchased and discounted:** The bills purchased/discounted account should be treated as NPA if the bill remains overdue and unpaid for a period of two quarters.
4. **Other Accounts:** Any other credit facility should be treated as NPA if any amount to be received in respect of that facility remains past due for a period of two quarters. An amount should be considered past due, when it remains outstanding for 30 days beyond the due date.

Reasons for an Account Becoming NPA

There are number of reasons for an account becoming an NPA for banks, it can be classified into internal factors and external factors

Internal Factors

- Funds borrowed for a particular purpose but not use for the said purpose.
- Project not completed in time.
- Poor recovery of receivables.
- Excess capacities created on non-economic costs.
- In-ability of the corporate to raise capital through the issue of equity or other debt instrument from capital markets.
- Business failures.
- Diversion of funds for expansion/modernization/setting up new projects/ helping or promoting sister concerns.
- Willful defaults, siphoning of funds, fraud, disputes, management disputes, misappropriation etc.
- Deficiencies on the part of the banks viz. in credit appraisal, monitoring and follow-ups, delaying settlement of payments/ subsidiaries by government bodies etc.,

External Factors

- Sluggish legal system –
 - Long legal tangles
 - Changes that had taken place in labour laws
 - Lack of sincere effort.

- Scarcity of raw material, power and other resources.
- Industrial recession.
- Shortage of raw material, raw material/input price escalation, power shortage, industrial recession, excess capacity, natural calamities like floods, accidents.
- Failures, non-payment over dues in other countries, recession in other countries, externalization problems, adverse exchange rates etc.
- Government policies like excise duty changes, Import duty changes etc.

Factors for Rise In NPAs

The banking sector has been facing the serious problems of the rising NPAs. But the problem of NPAs is more in public sector banks when compared to private sector banks and foreign banks. The NPAs in PSB are growing due to external as well as internal factors.

External Factors

Ineffective Recovery Tribunal- the Govt. has set of numbers of recovery tribunals, which works for recovery of loans and advances. Due to their negligence and ineffectiveness in their work the bank suffers the consequence of non-recover, their by reducing their profitability and liquidity.

Willful Defaults- There is borrowers who are able to pay back loans but are intentionally withdrawing it. These groups of people should be identified and proper measures should be taken in order to get back the money extended to them as advances and loans.

Natural Calamities- This is the measure factor, which is creating alarming rise in NPAs of the PSBs. every now and then India is hit by major natural calamities thus making the borrowers unable to pay back there loans. Thus the bank has to make large amount of provisions in order to compensate those loans, hence end up the fiscal with a reduced profit. Mainly ours farmers depends on rain fall for cropping. Due to irregularities of rain fall the farmers are not to achieve the production level thus they are not repaying the loans.

Industrial Sickness- Improper project handling , ineffective management , lack of adequate resources , lack of advance technology , day to day changing govt. Policies give birth to industrial sickness. Hence the banks that finance those industries ultimately end up with a low recovery of their loans reducing their profit and liquidity.

Lack of Demand- Entrepreneurs in India could not foresee their product demand and starts production which ultimately piles up their product thus making them unable to pay back the money they borrow to operate these activities. The banks recover the amount by selling of their assets, which covers a minimum label. Thus the banks record the non-recovered part as NPAs and have to make provision for it.

Change on Govt. Policies- With every new govt. banking sector gets new policies for its operation. Thus it has to cope with the changing principles and policies for the regulation of the rising of NPAs. The fallout of handloom sector is continuing as most of the weavers Co-operative societies have become defunct largely due to withdrawal of state patronage. The rehabilitation plan worked out by the Central government to revive the handloom sector has not yet been implemented. So the over dues due to the handloom sectors are becoming NPAs.

Internal Factors

Defective Lending Process- There are three cardinal principles of bank lending that has been followed by the commercial banks since long.

- Principles of safety

- Principle of liquidity
- Principles of profitability

Principles of safety:- By safety it means that the borrower is in a position to repay the loan both principal and interest. The repayment of loan depends upon the borrowers:

- a. Capacity to pay
- b. Willingness to pay

Capacity to pay depends upon:

1. Tangible assets
2. Success in business

Willingness to pay depends on:

1. Character
2. Honest
3. Reputation of borrower

The banker should, therefore take utmost care in ensuring that the enterprise or business for which a loan is sought is a sound one and the borrower is capable of carrying it out successfully. He should be a person of integrity and good character.

Inappropriate Technology- Due to inappropriate technology and management information system, market driven decisions on real time basis cannot be taken. Proper MIS and financial accounting system is not implemented in the banks, which leads to poor credit collection, thus NPA. All the branches of the bank should be computerized.

Improper SWOT Analysis- The improper strength, weakness, opportunity and threat analysis is another reason for rise in NPAs. While providing unsecured advances the banks depend more on the honesty, integrity, and financial soundness and credit worthiness of the borrower.

- Banks should consider the borrowers own capital investment.
- It should collect credit information of the borrowers from
 - From bankers.
 - Enquiry from market/segment of trade, industry, business.
 - From external credit rating agencies.
 - Analyze the balance sheet. True picture of business will be revealed on analysis of profit/loss a/c and balance sheet.
- Purpose of the loan

When bankers give loan, he should analyze the purpose of the loan. To ensure safety and liquidity, banks should grant loan for productive purpose only. Bank should analyze the profitability, viability, long term acceptability of the project while financing.

Poor Credit Appraisal System- Poor credit appraisal is another factor for the rise in NPAs. Due to poor credit appraisal the bank gives advances to those who are not able to repay it back. They should use good credit appraisal to decrease the NPAs.

Managerial Deficiencies- The banker should always select the borrower very carefully and should take tangible assets as security to safe guard its interests.

When accepting securities banks should consider the_

1. Marketability
2. Acceptability

3. Safety
4. Transferability.

The banker should follow the principle of diversification of risk based on the famous maxim “do not keep all the eggs in one basket”; it means that the banker should not grant advances to a few big farms only or to concentrate them in few industries or in a few cities. If a new big customer meets misfortune or certain traders or industries affected adversely, the overall position of the bank will not be affected.

Absence of Regular Industrial Visit- The irregularities in spot visit also increases the NPAs. Absence of regularly visit of bank officials to the customer point decreases the collection of interest and principals on the loan. The NPAs due to willful defaulters can be collected by regular visits.

Re Loaning Process- Non remittance of recoveries to higher financing agencies and re loaning of the same have already affected the smooth operation of the credit cycle. Due to re loaning to the defaulters and CCBs and PACs, the NPAs of OSCB is increasing day by day.

LITRATURE REVIEW

(Srinivas, dec-13) This paper is undertaken to study the reasons for advances becoming NPA in the Indian commercial banks & give suitable suggestion to overcome the problem. The crash of the banking sector may have an unfavorable blow on the other sector. A banker shall be very cautious in lending, because banker is not lending money out of his own capital. A major part of money lent comes from deposits received from public and govt. share.

(Dr. G. Vadivalagan, 2013) There seems to be no unanimity in the proper policies to be followed in resolving the problem. There is also no consistency in the application of NPA norms. The problem of NPA is not limited to only Indian public sector banks but it prevails in the entire baking industry.

(H.S., January 2013) The research paper identifies the effect of a set of micro economic variables like age, sex, education and marital status etc. of Indian farmers on the management of their credit. Credit mgt. includes planning, organisation, controlling, directing & co-coordinating the credit sanctioning policies in order to decrease the non performing asset. The main objective of the study is to know what are the difficulties faced by our Indian farmers in playing back the borrowed amount with regular payment of interest.

(Saddu, 2011) An attempt is made in the paper that what is NPA? The factors contributing to NPA, the magnitude of NPA, reason for high NPA & their impact on Indian banking operations. Besides capital to risk weight age assets ratio of public & private sector banks, mgt of credit risk & measures to control the menace of NPA are also discussed.

RESEARCH METHODOLOGY

Research Design

Descriptive Research is used for the purpose of research in this study.

Sources of Data

Secondary Data is used for analysis in the study. The data about NPAs & its composition, distribution in various sectors, classification of loan assets, profits (net & gross) & advances of different banks is taken from various sources like:

- ✓ Reserve Bank of India
- ✓ ACE Equity Software
- ✓ Research Paper on NPA
- ✓ Websites of selected banks in research

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The sources of data for this Report also include the literature published by the selected public and private sector banks in India and also the Reserve Bank of India. Also the various magazines dealing with the current banking scenario and research paper have also been a source of information. The booklet on Recovery Policy published by the Asset Recovery Department of Bank of India has been of great help.

ANALYSIS OF DATA

Table 1. Ratio of Gross & Net NPA to Total Advances of five years

YEAR	ICICI BANK		HDFC BANK	
	GROSS NPA %	NET NPA %	GROSS NPA %	NET NPA %
2010-11	4.47	1.11	1.05	0.20
2011-12	3.62	0.73	1.02	0.20
2012-13	3.22	0.77	0.97	0.20
2013-14	3.03	0.97	1.00	0.30
2014-15	3.78	1.61	0.90	0.20
AVERAGE	3.62	1.04	0.99	0.22

From table 1, In ICICI bank highest GROSS NPA is 4.47% in 2010-11 where as lowest is 3.03% in 2013-14 and same data in HDFC bank are 1.05 in 2010-11 and 0.90 in 2014-15 respectively. While average gross NPA of both the bank for five years are 3.62 and 0.99 respectively. From the observation HDFC'S performance better than the ICICI bank.

From table 1, In ICICI bank highest NET NPA is 1.11% in 2010-11 where as lowest is 0.73% in 2011-12 and same data in HDFC bank are 0.30 in 2013-14 and 0.20 in other years respectively. While average net NPA of both the bank for five years are 1.04 and 0.22 respectively. From the observation HDFC'S performance better than the ICICI bank.

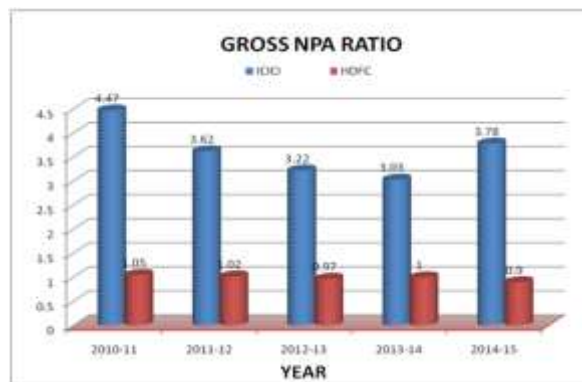


Chart 1. Gross NPA Ratio of Selected Banks

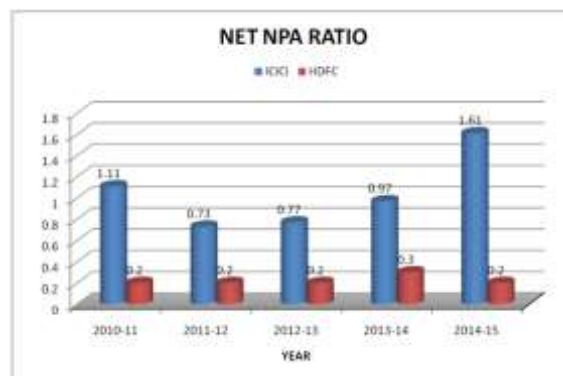


Chart 2. Net NPA Ratio of Selected Banks

The coefficient of correlation r of ICICI bank for gross NPA is 0.01 and for net NPA is negative 0.11. From this data we can say that the performance of HDFC bank is better than ICICI bank.

LIMITATION OF THE STUDY

- The study on management of Non-performing Assets is limited to the selected Private Sector banks in India.
- The basis for identifying non-performing assets is the one that has been mentioned in the report but some minor changes may have been carried out through the Reserve Bank of India circulars, which are received on a daily basis by the bank.
- Since non-performing assets are a critical issue, bank officials are not willing to part with all the information on them.
- Non-performing assets is a vast topic and to do full justice to all the aspects of non-performing assets is an impossible task for me.

CONCLUSION AND SUGGESTIONS

From the whole study on NPA Management in Private Sector Banks, there were much more things that came to know during this period regarding operations of banks in its lending and credit policy. At the end we can conclude is:

It is not possible to eliminate totally the NPAs in the banking business but can only be minimized. It is always wise to follow the proper policy appraisal, supervision and follow-up of advances to avoid NPAs.

The banks should not only take steps for reducing present NPAs, but necessary precaution should also be taken while lending money to avoid future NPAs.

Suggestions to Government of India

To set up a special committee for the management of NPA comprising of legal experts and persons should have wide knowledge in finance sector.

Encourage Securitization of assets which are stressed out as advances.

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