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# An Analytical Study on the Impact of Non-Performing Assets on Profitability in SBI & ICICI Bank

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## ABSTRACT

*The purpose of present study is to know the impact of non-performing assets on bank's profitability in public and private sector bank. SBI & ICICI bank have been selected from public and private sector respectively as a sampled bank. Study is secondary data base and time duration is from 2018 to 2022. Correlation and regression has been applied to know the relationship and impact of independent variable Gross non-performing assets and Net non-performing assets on dependent variable of profitability Return on Assets. The result of analysis revealed that there is continuous growth in gross non-performing assets and net non-performing assets and decline in return on assets hence there is negative relationship between dependent and independent variable.*

**Keywords:** *Gross non-performing assets, Net non-performing assets, Return on Assets, Correlation and Regression.*

## I. INTRODUCTION

Growth and development of any economy relay on its banking sector. In Indian economy also banking sector plays a major role. As bank performs many function along with its primary function related to monetary. Two main function of bank is deposit and credit. Money which bank receive as deposit it lend to borrower as loan and advances. Deposit with banks are their liability on which they pay interest and loans are assets of banks on which they earn interest. The difference between both interests is profit or loss of bank. Earning interest on loan is necessary for banks as on it its profitability depends. With profitability banks have sufficient liquidity and strong liquidity ensures solvency of bank. So, banks needed to ensures recovery of their loan amount with interest for maintaining profitability. The non-performing assets (NPAs) is one of the major issue which is affecting the financial stability of banks. NPAs are nothing but the assets (loans or advances) for which the principle along with interest has remained due over a period. According to the guidelines of RBI if the interest and principal amount for the loan is not paid for more than 90 days then the asset is declared as non-

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performing assets. NPAs in the Indian banks has been steadily increasing in the recent times and this growth affects profitability as well as the efficiency of the banks. This increase will result in scares of credit that become more costly which affects the growth of the economy. NPAs are caused due to factors such as business environment, borrowers and banks. When it comes to business environment there are various element like Recession and weak legal system in recovery of loan which are the reasons for increasing NPA, whereas under borrowers' vision there are various reasons like improper selections of projects, lack of resource, poor management, willful default and labor issues which are the reasons for accumulations of NPAs. When it comes to the banks, there are various issues for increasing NPAs like poor credit appraisal, insufficient credit monitoring and lack of effective NPA management. Proper steps need to be implemented to reduce NPA or else it will be a big threat to the economic stability. In this paper the NPA growth along with its trend and its effect on the profitability of Public and Private sector banks will be analyzed. When bank finances non-priority sector chances of default is generally less but in case of priority sector default rate is high. Whenever bank grants loan it make certain provision for default in order to face efficiently financial risk because of non-payment and government also time to time gives certain financial relief package or waive-off loans. The loan and advances on which interest remain unpaid for 90 days are termed as non-performing assets. Non-performing assets are two types first Gross non-performing assets under it all loan or advances on which principal amount with interest are remain unpaid comes. Second, Net nonperforming assets when all provisions and waive off are deducted from gross non-performing assets the remained amount is net non-performing assets. Non-performing assets are divided into four category namely standard assets, sub standard assets, uncertain assets and loss assets. These are categorized on basis of time duration of nonpayment of interest on loan after they are declared non-performing assets. As loan and advances are assets of banks default in its payback is loss for bank and it adversely affect banks financial position. The net income which banks earn on its assets is its return on asset. High return on asset means bank are able to retrieve its loan amount along with interest and its credit risk management is also good.

### (A) Need for the study

The Indian commercial banks have been facing serious problems of raising Non- performing Assets (NPAs). NPAs have been eating the banking industries from within, since nationalization of banks in 1969. It also affected profitability, liquidity and solvency position of the Indian banking sector. The earning capacity and profitability of banks have been adversely affected by the high level of NPAs. The reduction of NPAs in banks is posing the biggest challenges in the

Indian economy.Though NPAs are increasing in Indian banking industry and specifically in Indian public sector banks because of their compulsory lending to priority sector yet the banks have huge scope to extend credit to priority sector as the NPAs have not reached at alarming stage where they start affecting adversely the efficiency performance.

### (B) Review of Literature

Inchara P M Gowda(2019) in their research paper examines and compares the financial performance of PSBs, PVSBs and FBs, and the implications of NPAs and the Provision against these NPAs on their profit and profitability from, 2008-09 to 2017- 18.The application of Trend Analysis and Regression Analysis are carried out besides the CAGR for the purpose of analysis. The analysis of data revealed that deteriorating asset quality is the root-cause for the mounting NPAs requiring higher amount of Provision against NPAs causing either reduction in profit and profitability or converting profit situation into loss situation.

Payel Roy and Pradip Kumar Samanta (2017),in their study deliberated that the overall NPA position of all the banks is deteriorating over the years. It found that there is a negative high correlation between GPA and NP, the profit gradually decreases as the GNPA growsThe authors stated that most of the banks' profit has reduced considerably. Some of the banks have incurred losses too. The losses due to the increase of NPA can't be avoided only by making provisions against NPA. The authors suggested that the Provisioning can act as a cushion for NPA losses but it can't be regarded as a solution for growing NPAs in all the selected PSBs. The banks advancing loans should be cautious enough to consider the backgrounds of the loan receiver and make the recovery procedure more stringent.

Shiralashetti A.S. and Lata. N. Poojari (2016),in their research study analyzed the causes of NPA and impact of NPA on the profitability of the bank. The study found that there was a moderate relationship exist with Gross NPA and Net profit of the syndicate bank and also found that there was no significant difference between sector wise NPA. The study provided some suggestions to the regulators

Jaslene, Vinay, Mitra & Sankarshan (2019) in their research article attempted to examine the panel data of 46 Indian banks for eight years (2007 to 2014) with the help of 31 financial/accounting ratios. They used GMM model which deals with endogeneity issues present in the data. The analysis of the data indicated negative significant relationship between intermediation cost ratio, RoA and NPAs.

Kalyanasundaram (2020) in their study on the non performing assets in Indian banks concludes that the major factor responsible for the decline in the gross NPAs of SCBs in India is not the improvement in the recovery performance but the increase in the amount of NPAs written-off. For instance, during 2018-19, the SCBs recovered ` 1,797 billion of NPAs (and standard loans) as against ` 2,369 billion of NPAs written-off. The authors observed that these write-offs are charged to the Statements of Profit and Loss affecting the financial results of banking companies adversely.

Ombir and Sanjeev Bansal (2016), their study analyzed the recent trends in nonperforming assets (NPAs) of different categories of Indian banks. It is found that the impact of ownership pattern in deciding the level of NPAs is investigated against the perception that public sector banks have a relatively larger level of NPAs. Their findings suggested that public sector banks are as good or as bad as their private counterparts, however, foreign banks have relatively higher profitability as domestic public and private banks. It is also found that a higher level of NPAs negatively affects the profitability of a bank.

Samir and Deepa Kamra (2013) in their study exolred that problem of NPA is greater in the public sector banks as compared to private and foreign banks in India. Similarly, the problem of NPAs is more in the non priority sector than priority and the public sector. The authors suggested that banks in India must apply the basic principles of financial management to solve the problems of mounting NPA and improving recovery management, corporate governance, upgrading technology, etc.

Debnath & Dash, (2015). In their paper researcher discussed about non-performing assets. In Indian banks from 2004-2013 The paper deals in concept, type, internal and external factors of non-performing assets Correlation and percentage technique is applied to analyze the data.

Khan, (2018) in their descriptive research article deliberated on the various aspects of nonperforming assets and the step taken by government to reduce or manage them. Secondary data related to gross & net non-performing assets and gross & net advances from 2004 to2015 has taken to analyze the trend

Vijai,( 2018). In present study researcher has study the impact of non-performing assets on banks performance. Secondary data from 2005 to 2017 has taken into account of SBI in Odisha region. Data analysis purpose correlation, regression and Anova technique is applied

Sahoo & Majhi, (2019). Present paper is analytical in nature secondary data base. The researcher has study the impact of non-performing assets on banks profitability. Commercial banks five from public and five from private sector has been taken and data from 2015-2019 has taken into account. In order to assess the impact correlation and regression statistical tools have been applied

### (C) Statement of Problem:

The rising non-performing assets of public and private sector banks and their impact on bank's profitability.

### (D) Objective of Study:

The objectives of study are:

1. To study the trend of Gross and Net NPA of public sector bank SBI.
2. To examine the trend of Gross and Net NPA of private sector bank ICICI.
3. To analyze the impact of Gross and Net NPA on profitability.

### (E) Hypotheses:

Hypothesis $H_{01}$: There is no relationship between the Gross NPA and ROA of selected sample banks.

Hypothesis $H_1$: There is relationship between the Gross NPA and ROA of selected sample banks.

Hypothesis $H_{02}$: There is no relationship between the Net NPA and ROA of selected sample banks.

Hypothesis $H_1$: There is relationship between the Net NPA and ROA of selected sample banks.

### (F) Research Methodology

#### a. Nature of Research

The present research work is both Descriptive and analytical.

#### b. Sample Selection

In the present research paper the sample bank selected from the Indian banking sector are SBI & ICICI. The criteria for the selection of the banks is that they both represent the highest nonperforming assets in public and private sectors

#### c. Data Collection

The present study is based on secondary data derived from the annual reports of the sample banks and various reports of Reserve banks of India.

#### d. Time Horizon

The duration of study is 5 years from 2017-2018 to 2021-2022

#### e. Data Analysis

The collected secondary data is analysed by the application of statistical tools like correlation and Regresson. The statistical methods are applied in order to analyse the type of relationship and impact of independent variable on dependent variable.

**f. Independent Variables:**

Gross Non-performing Assets (GNPA),

Net Non-performing Assets (NNPA)

**g. Dependent Variable**

Return on Assets (ROA).

## II. DATA ANALYSIS & INTERPRETATION

### (A) Public Sector Bank SBI

Table 1. GNPA, NNPA & ROA of SBI (%)

| YEAR | GNPA (%) | NNPA (%) | ROA (%) |
|---|---|---|---|
| 2018 | 3.97 | 1.02 | 0.74 |
| 2019 | 4.98 | 1.50 | 0.48 |
| 2020 | 6.15 | 2.23 | 0.38 |
| 2021 | 7.53 | 3.01 | 0.02 |
| 2022 | 10.91 | 5.73 | -0.19 |

Source: (moneycontrol, 2022)

Table 2. Correlation Result of SBI

| SBI | Value | Result (relation) |
|---|---|---|
| Correlation Between GNPA & ROA | -0.96187 | NEGATIVE |
| Correlation Between NNPA & ROA | -0.93224 | NEGATIVE |

Table 2. In order to assess the relationship between GNPA and NNPA with ROA in case of SBI correlation has been applied. There is negative correlation between GNPA and NNPA with ROA which means with increase in GNPA and NNPA, ROA decreases and vice versa.

**a. Regression Analysis between GNPA & ROA**

| | Coefficients | Standard Error |
|---|---|---|
| Intercept | 1.172572 | 0.154688 |
| X Variable1 | -0.13217 | 0.021699 |

Table 3. Regression Result of SBI

| R | R Square | Adjusted R Square | Standard Error | Significance F |
|---|---|---|---|---|
| 0.961867 | 0.925188 | 0.900251 | 0.117105 | 0.008888 |

Table 3. In order to assess impact of GNPA (independent variable) on ROA (dependent variable) Regression analysis is done. Regression analysis revealed that R2 is 0.93 with positive intercept coefficients of 1.17 and negative X Variable 1 coefficients of -0.13. The value of significance F is 0.01 which is more than p-value 0.00. Hence, it can be said there is significant relationship between the Gross NPA and ROA of SBI.

**b. Regression Analysis between NNPA & ROA**

| | Coefficients | Standard Error |
|---|---|---|
| Intercept | 1.172572 | 0.154688 |
| X Variable1 | -0.13217 | 0.021699 |

Table 4. Regression Result of SBI

| R | R Square | Adjusted R Square | Standard Error | Significance F |
|---|---|---|---|---|
| 0.932243 | 0.869077 | 0.825436 | 0.154916 | 0.020956 |

Table 4. In order to assess impact of NNPA (independent variable) on ROA (dependent variable) Regression analysis is done. Regression analysis revealed that $R^2$ is 0.22 with positive intercept coefficients of 1.40 and negative X Variable 1 coefficients of -0.16. The value of significance F is 0.02 which is more than p-value 0.01. Hence, it can be said there is significant relationship between the NNPA and ROA of SBI

**(B) Private Sector Bank ICICI**

Table 5. GNPA, NNPA & ROA of ICICI (%)

| YEAR | GNPA (%) | NNPA (%) | ROA (%) |
|---|---|---|---|
| 2018 | 3.6 | 0.76 | 1.84 |
| 2019 | 4.96 | 1.14 | 1.42 |
| 2020 | 5.53 | 1.41 | 0.81 |
| 2021 | 6.70 | 2.06 | 0.39 |
| 2022 | 8.84 | 4.77 | 0.87 |

Source: (moneycontrol, 2022)

Table 6. Correlation Result of ICICI

| ICICI | Value | Result (relation) |
|---|---|---|
| Correlation Between GNPA & ROA | -0.70039 | NEGATIVE |
| Correlation Between NNPA & ROA | -0.46635 | NEGATIVE |

In order to assess the relationship between GNPA and NNPA with ROA in case of ICICI correlation has been applied. There is negative correlation between GNPA and NNPA with ROA which means with increase in GNPA and NNPA, ROA decreases and vice versa.

| | Coefficients | Standard Error |
|---|---|---|
| Intercept | 2.257713 | 0.731645 |
| X Variable1 | -0.2011 | 0.118322 |

Table 7. Regression Result of ICICI

| R | R Square | Adjusted R Square | Standard Error | Significance F |
|---|---|---|---|---|
| 0.700386 | 0.490541 | 0.320721 | 0.467197 | 0.187769 |

Table 7. In order to assess impact of GNPA (independent variable) on ROA (dependent variable) Regression analysis is done. Regression analysis revealed that R2 is 0.49 with positive

intercept coefficients of 2.26 and negative X Variable 1 coefficients of -0.20. The value of significance F is 0.19 which is more than p-value 0.05. Hence, it can be said there is significant relationship between the Gross NPA and ROA of ICICI.

**a. Regression Analysis between NNPA & ROA**

| | Coefficients | Standard Error |
|---|---|---|
| Intercept | 1.400126 | -0.16476 |
| X Variable1 | -0.16476 | 0.180434 |

Table 8. Regression Result of ICICI

| R | R Square | Adjusted R Square | Standard Error | Significance F |
|---|---|---|---|---|
| 0.466348 | 0.21748 | 0.04336 | 0.579019 | 0.428513 |

Table 8. In order to assess impact of NNPA (independent variable) on ROA (dependent variable) Regression analysis is done. Regression analysis revealed that R2 is 0.22 with positive intercept coefficients of 1.40 and negative X Variable 1 coefficients of -0.16. The value of significance F is 0.43 which is more than p-value 0.05. Hence, it can be said there is significant relationship between the NNPA and ROA of ICICI. 6. Finding of Study

## III. Inferences

1. Gross non-performing assets of SBI & ICICI banks indicate an increasing trendwhile in case of Return on Assets in the sample banks reveal a decling trend.
2. Regarding the Net non-performing assets of sample banks it is observed that there was a rising trend in the period under study while in context of Return on asset there was seen a decling trend in the period
3. From the ananlysis of data it is observed that in spite of rising GNPA & NNPA the ICICI bank has been able to improve its ROA in year 2022.
4. The GNPA & NNPA more adversely affect ROA in SBI in comparison of ICICI bank.

## IV. Suggestion

The problem of NPAs is a critical problem that the Indian banks are facing today. If the proper management of the NPAs is not undertaken it could hamper the business of the banks, leading to heavy potential losses and affecting the smooth functioning of the recycling of funds. The results of the study show that there has been a reduction in the NPA ratios over the research period, which indicates improvement in the asset quality of Indian public sector banks, private sector banks, and foreign banks. There was significant improvement in the management of NPAs of the public sector banks. The stringent prudential and provisioning norms and other initiatives taken by the regulatory bodies have pressurized banks to improve their performance, and consequently resulted in reduction of NPA as as improvement in the financial health of the Indian banking system.

The various steps initiated by the RBI and the Government of India in strengthening/improving the functioning of the Debt Recovery Tribunals, Lok Adalats, and SARFAESI Act as a comprehensive settlement policy certainly has resulted in improved recovery of NPA accounts. All these efforts have improved the efficiency and profitability of Indian banks, and have strengthened the financial position of the public sector banks and private sector banks. The study further reveals that despite the huge NPA level of public sector banks, they have been successful in reducing their respective gross and net NPA ratios at par with the private sector banks.

New bodies such as Debt Recovery Tribunals should be established and their capacity should be enhanced. All banks should keep stringent check on advance being made to real estate and housing segments, as these had contributed significantly towards the NPA in 2009-10. Uneven scale of repayment schedule with higher repayment in the initial years normally should be preferred. Public sector banks should increase their non-interest income, as rise in NPA due to default in interest income may affect the profits drastically. Private sector banks should focus more on recovery of sub-standard and doubtful assets.

### (A) Limitations of Study:

There are some limitations inherent in the study. The study is entirely based on secondary data, so that the limitations inherent in secondary data sources will also persist in this study. This prevented a thorough comparison of bank groups across all dimensions. Following are the limitation of study: The area of study is limited to SBI and ICICI bank other bank can also be considered. Only profitability parameter has been taken for study other parameters can also be taken into account. The time duration of study is restricted to 2018 to 2023 more number of years can be taken for better understanding of npa trend. In statistical tools correlation and regression is only used other tools and techniques can also be applied.

### (B) Scope For Future Research

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There is vast scope for further research in the area of NPA management. A more detailed break-up of NPAs needs to be performed in order to identify potential risks; particularly, priority sector lending must be analysed segment-wise to this end. Another area that offers scope is the effectiveness of the recovery processes. Also, the relationship between NPAs and other policy variables, especially capital adequacy and possibly CRR/SLR, should be examined and modelled  in fact, a model for NPAs is essential in order for policy makers to be able to assess the implications of NPAs and perhaps optimise the level of NPAs.

## V. Conclusion

It can be said on the basis of above study that gross and net non-performing assets of SBI and ICICI bank has been rising which is adversely affecting banks profitability. This rising trend is a threat to banking sector as declining profitability effects bank liquidity and lastly to its solvency. ICICI bank has shown improvement in profitability which is good sign. Bank should pay attention on its quality of loan and credit risk assessment and management process.

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