MEASURING NPA LEVELS AND ITS IMPACT ON PROFITABILITY: A STUDY OF HDFC AND ICICI BANKS

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ABSTRACT

Purpose: This study aims to analyze the situations of NPA levels and their impact on the profitability of HDFC Bank and ICICI Bank.

Approach/Methodology/Design: The profitability data of the two banks, HDFC Bank and ICICI Bank, has been taken for the years 2018 to 2022. The research is secondary in nature and the data collection is done by way of annual reports. For data analysis, the independent samples t-test is applied in the study.

Findings: The Gross NPA levels and Net NPA levels have shown significant differences between the two banks under study. This suggests the NPA levels of both banks are unequal. The return on assets was also found significantly different in both banks.

Originality/value: This study focuses on the aspect of efficiency of private sector banks in accordance with NPA levels. The NPA levels and management of NPA are found to be more effective in tackling NPA situations but the comparative study of NPA will reflect the situations of NPA in private sector banks as well.

INTRODUCTION

The Banking sector plays an important role in the financial system of any country(Kwok & Tadesse, 2006; Stiglitz, 1989). In India, the banks are classified into public sector Banks, Private Sector banks, and cooperative banks(Ayyappan & SakthiVadivel, 2013). These banks accept deposits from savers and transfers the amount as loans to borrowers. If a borrower is not able to pay the amount of the loan, then these loans are considered non-performing assets. These non-performing assets become a question for banks as if they stay unrecoverable, then it may convert into a loss for the bank and an indirect loss for the deposits of the general public as well. The present study attempts to analyze the NPA levels of private sector banks and compare the NPA levels. For this purpose, two private sector banks are selected for analysis. Accounting ratios and t-test for comparison of means are used for analysis.

REVIEW OF LITERATURE

The issue of banking sector efficiency received substantial attention among academicians, policymakers, and researchers. There are some notable studies on the efficiency of Indian banks (Arrawatia et al., 2015; Babu & Kumar, 2018). Further, various types of banking efficiency are also examined by researchers in the Indian context. Prominent among them could be profit efficiency (Ray & Das, 2010; Singh et al., 2020); cost and revenue efficiency (Jayaraman & Srinivasan, 2014). However, the studies are mostly focused on measuring business or profit efficiency following the top-line approach or bottom-line approach without considering NPA.

Dawar & Sharma (2017) conducted a comparative analysis of the NPA levels of ICICI Bank and HDFC Bank. The objectives of the study were to check if any differences in the NPA levels of both banks. For this purpose, the researchers selected data for five years ending in 2014. The researchers found significant differences in the NPA levels of both banks. The ICICI Bank's NPA levels were higher compared to HDFC Bank.

Kadiwala & Prajapati(2020) have analyzed the sector-wise levels of NPA of selected public and private sector banks. The objectives of the study were to compare the NPA levels of Private and Public sector banks and to compare the trends of NPA. For this purpose, researchers took data from 2015 to 2019 and used ANOVA as a statistical tool. Researchers found no significant interactive impact of NPA in Private sector banks and Public sector banks.

Sukul (2017) conducted a study on the analysis of selected private-sector banks. The objectives of the study were to compare the trend of selected banks and also to correlate the Net profit and Net NPA of the banks for the time period of five years starting from 2011-12. A significant correlation was found between HDFC Bank's Net NPA and Net Profit whereas the correlation of ICICI Bank was 0.44 and Axis Bank at -0.17. This indicated highest impact was found in the Net NPA and Net profit of HDFC Bank.

METHODOLOGY AND PROCEDURES

The present study is analytical in nature and the samples were selected on the criterion of the top two banks based on market capitalization. i.e., HDFC Bank and ICICI Bank. The data was selected for five years ranging from 2018 to 2022.

Objectives of the Study

To ascertain levels of Gross NPA and Net NPA of selected banks.
To compare NPA levels of selected banks.
To compare the Return on assets of selected banks.
To give suggestions thereof.

Limitations of the Study

The data was selected for five years only. The study is limited to the aspect of non-performing assets and is based on standalone reports of the banks.

Gross NPA Ratio refers to the total amount of Gross Non-Performing Assets outstanding at the end of the year. This is calculated by dividing Gross NPA by Gross Advances. Explain the results of the research in the form of problem-solving analysis using relevant theories. The results of the study also revealed the findings of the research. Discussion is accompanied by logical arguments by linking the results of research with theory, and the results of other studies.

Table: 1 Gross NPA Levels of HDFC Bank and ICICI Bank

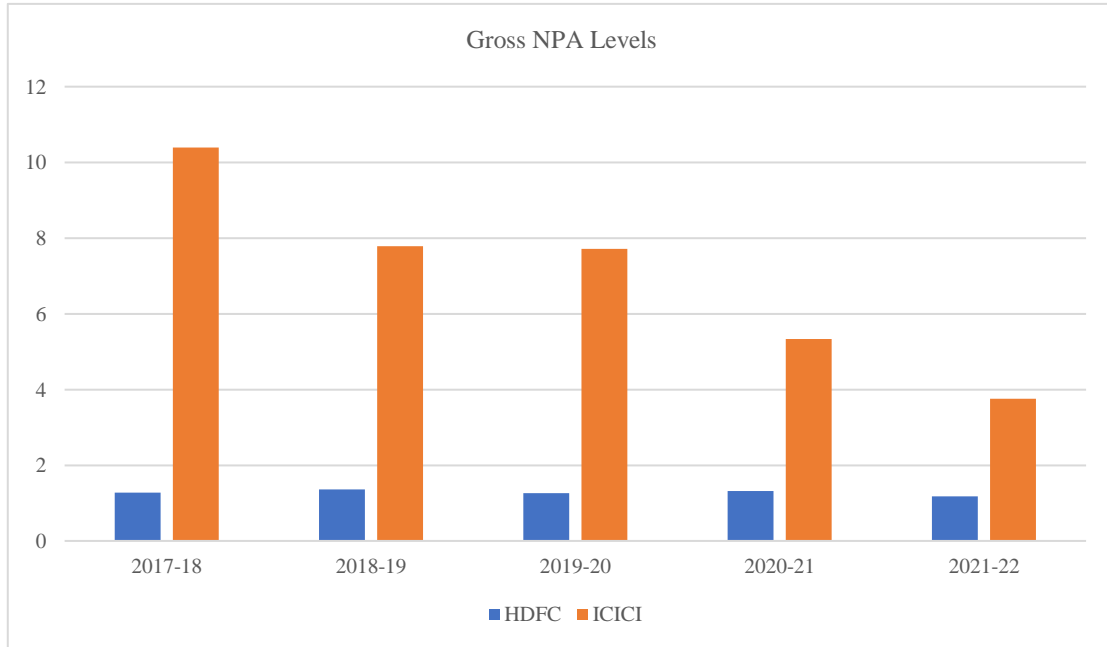| Gross NPA Ratio	2017-18	2018-19	2019-20	2020-21	2021-22
HDFC	1.28	1.36	1.26	1.32	1.17
ICICI	10.39	7.79	7.72	5.33	3.76

Chart 1: chart showing NPA Gross NPA Levels of HDFC Bank and ICICI Bank

The above chart and table display the Gross NPA levels of HDFC Bank and ICICI Bank. The highest Gross NPA ratio was in ICICI Bank during the year 2017-18 at 10.39% and the lowest Gross NPA ratio was in 2021-22 at 3.76%. The Gross NPA ratio was showing a mixed trend during the study period. The highest Gross NPA ratio in HDFC bank was in the year 2018-19 at 1.36% and the lowest GNPA ratio was in the year 2021-22 at 1.17%. The mixed trend was also found by analyzing the GNPA levels of HDFC Bank.

Testing of Hypothesis

H$_0$1: The Gross NPA Levels of HDFC Bank and ICICI Bank are equal

F-test for Equality of Variances		Independent samples t-test		
F	Sig.	t	df	Sig. (2-tailed)
10.956	.011	-5.022	4.006	.007

The above table shows the result of the testing of the Hypothesis. At first, the F test is performed to check if variances are equal and then an independent sample t-test is applied

and the significance value is 0.007 which is less than the level of significance, so the null hypothesis is rejected.

Net NPA Levels

Net NPA levels refer to Gross NPA with fewer provisions as required according to disclosure requirements of RBI and dividing them with Net Advances.

Table 2: Net NPA levels of HDFC Bank and ICICI Bank

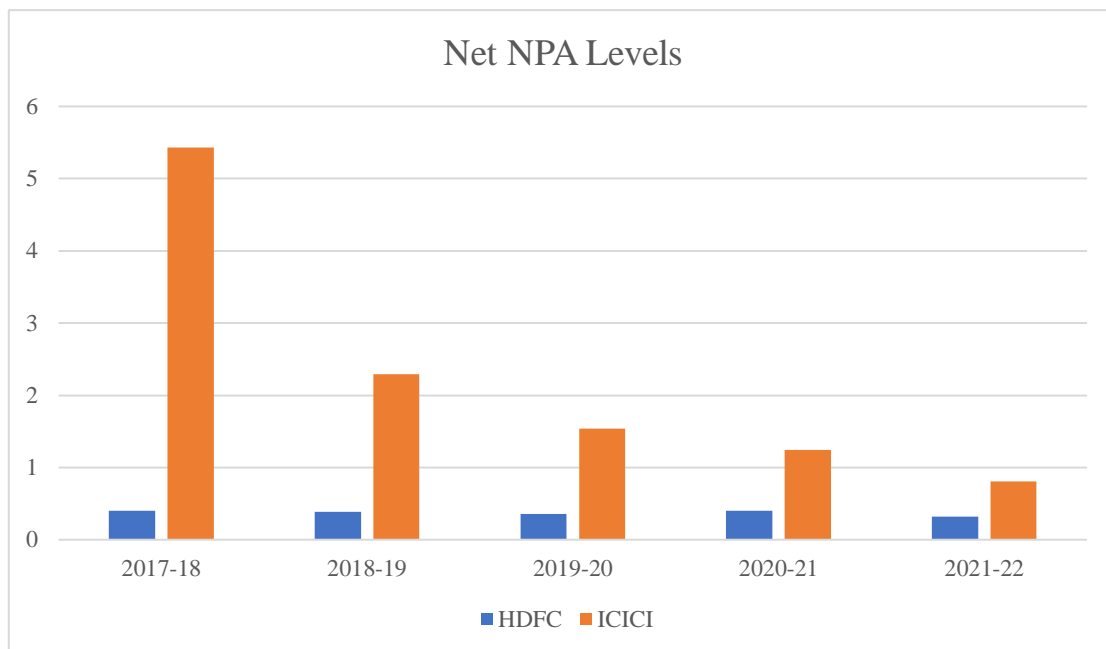| Net NPA Levels	2017-18	2018-19	2019-20	2020-21	2021-22
HDFC	0.40	0.39	0.36	0.40	0.32
ICICI	5.43	2.29	1.54	1.24	0.81

Chart 2: Net NPA levels of HDFC Bank and ICICI Bank

The above chart and table display the Return on Assets of HDFC Bank and ICICI Bank. The highest Return on Assets in HDFC bank was in the year 2021-22 at 2.03% and the lowest was in the year 2018-19 at 1.90%. The mixed trend was found by analyzing the Return on Assets of HDFC Bank. The highest Return on Assets was in ICICI Bank during the year 2021-22 at 1.84% and the return on assets was in 2018-19 at 0.39%. The Return on Assets was showing a mixed trend during the study period.

Testing of Hypothesis

F-test for Equality of Variances		Independent samples t-test		
F	Sig.	t	df	Sig. (2-tailed)
12.374	.008	-3.542	4.073	.023

The above table shows the result of the testing of the Hypothesis. At first, the F test is performed in order to check if variances are equal and then an independent sample t-test is

applied and the significance value is 0.02 which is higher than the level of significance, so the null hypothesis is accepted.

CONCLUSION AND SUGGESTION

The study analyzed the NPA levels of HDFC Bank and ICICI Bank. The Gross NPA levels and Return on assets have significant differences. The Gross NPA levels are higher in ICICI Bank. The Net NPA levels of both banks are at similar levels indicating compliance with RBI provisions. The return on assets is also not equal in both banks. The HDFC bank's performance in maintaining a similar return on Assets is seen. The Gross NPA levels of Private Sector Banks are found to be very much less than private sector banks. but still, ICICI Banks' NPA Gross NPA levels are at a higher state than HDFC Bank. So, the bank must focus on the loan appraisal procedure. The Return on Assets Ratio can also be improved by a reduction of NPA levels. The banks must also focus on having lesser Gross NPA levels. The Net NPA levels of both banks are at a similar state.

CONFLICT OF INTEREST
The authors declare no conflict of interest.

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