A Project Report on

"A Comparative Study of NPA on Bank's Profitability and Measures to Reduce NPA with reference HDFC and ICICI Bank"

Submitted to:

DMSR

G. S. College of Commerce and Economics, Nagpur

(An Autonomous Institution)

In partial fulfilment for the award of the degree of

Master of Business Administration

Submitted by:

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Under the Guidance of:

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NAAC Accredited "A" Grade Institution

Academic Year 2022-2023

Department of Management Sciences and Research,
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Academic Year 2022-2023

CERTIFICATE

This is to certify that **Miss. Bhagyashree Kewalram Bramhe** has submitted the project report titled, **"A Comparative Study on Impact of NPA on Bank's profitability and Measures to reduce NPA with reference HDFC and ICICI Bank"** towards the partial fulfilment of **MASTER OF BUSINESS ADMINISTRATION** degree examination. This has not been submitted for any other examination and does not form part of any other course undergone by the candidate.

It is further certified that she has ingeniously completed her project as prescribed by **DMSR, G. S. College of Commerce and Economics, Nagpur, (NAAC Reaccredited "A" Grade Autonomous Institution)** affiliated to **Rashtrasant Tukadoji Maharaj Nagpur University, Nagpur.**

Dr. Afsar Sheikh — **Dr. Sonali Gadekar**
(Project Guide) — **(Co-ordinator)**

Place: Nagpur
Date:

Department of Management Sciences and Research,
G.S. College of Commerce & Economics, Nagpur
NAAC Accredited "A" Grade Institution

Academic Year 2022-2023

DECLARATION

I here-by declare that the project with title **"A Comparative Study on Impact of NPA on Bank's profitability and Measures to reduce NPA with reference HDFC and ICICI Bank"** has been completed by me in partial fulfilment of **MASTER OF BUSINESS ADMINISTRATION** degree examination as prescribed by **DMSR, G. S. College of Commerce and Economics, Nagpur, (NAAC Reaccredited "A" Grade Autonomous Institution)** affiliated to Rashtrasant Tukadoji Maharaj Nagpur University, Nagpur and this has not been submitted for any other examination and does not form the part of any other course under taken by me.

Miss. Bhagyashree Kewalram Bramhe

Place: Nagpur
Date:

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NAAC Accredited "A" Grade Institution

Academic Year 2022-2023

ACKNOWLEDGEMENT

With immense pride and sense of gratitude, I take this golden opportunityto express my sincere regards to **Dr. Swati Kathaley,** Principal, G. S.College of Commerce & Economics, Nagpur.

I am extremely thankful to my Project Guide **Dr. Afsar Sheikh** for her guidance throughout the project. I tender my sincere regards to the Coordinator, **Dr. Sonali Gadekar** for giving me guidance, suggestions and invaluable encouragement which helped me in the completion of the project.

I will fail in my duty if I do not thank the Non-Teaching staff of the college for their Co-operation.

I would like to thank all those who helped me in making this project complete and successful.

Miss.Bhagyshree Kewalram Bramhe

Place: Nagpur

Date:

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CHAPTER: 1
INTRODUCTION

INTRODUCTION

Introduction to Non-Performing Assets

NPA is the most important data which needs to be compared amongst banks. NPAs of a bank can affect other ratios, operations and revenue. Correct analysis of NPA will give you a fair idea of which bank is performing better among its peers.

A bank's primary source of income is the interest it receives on the loans it provides. When a bank loans money, they expose themselves to credit risk. It means that there are chances that the borrower might fail to repay bank's loan. When this happens, the loaned amount is classified as **Non-Performing Asset**.

A loan is classified as a non-performing asset when the repayment is overdue for more than 90 days. It negatively affects bank's ability to generate adequate income and profitability.

A wise manager will always set aside some funds as reserves in case of such bad debts. In banking terms, this is called the Provisional Reserves. Such provisions eat into your profits because you can't use this money elsewhere. But this is very important for banks to safeguard themselves from huge losses.

The total defaults are classified as Gross NPAs (GNPA). The balance amount which remains after deducting the provision is classified as Net NPA (NNPA).

Meaning and Definitions of NPAs

A non-performing asset, in a narrow sense, may be defined as an asset which does not directly contribute to the corporate profits or yield any positive returns. This may be appropriate when applied to loans and advances. However, there are other assets such as cash balances held which are certainly require for business operations but do not yield any direct return. Although banks cannot completely do away with such non-performing assets from their books, they have to manage to keep them at a minimum possible level to maximize profits.[12] The term non-performing asset has been defined by several experts, SARFAESI Act and RBI on the basis of recommendation of Narasimham Committee.

Mohan, B. and Rajesh, K. defined "A non-performing asset is one which does not generate income for the bank. In other words an advance account which ceases to yield income in a non-performing asset."

Lakshman, U.N defined NPA as "an advance where payment of interest or repayment of installment on principal (in case of term loans) or both remain unpaid for a period of 2 quarters or more and if they have become "past due". An amount under any of the credit facilities is to be treated as past due when it remains unpaid for 30 days beyond due date".

SARFEASI Act, 2002 defined NPA as "an asset or account of borrower, which has been classified by a bank or financial institutions as sub-standard, doubtful or loss assets in accordance with the direction issued the Reserve Bank of India".

As per RBI guidelines advances are classified into performing and non- performing advances (NPAs). NPAs are further classified into sub-standard, doubtful and loss assets based on the criteria stipulated by RBI.

An asset, including a leased asset, becomes nonperforming when it ceases to generate income for the Bank.

An NPA is a loan or an advance where:

- Interest and/or installment of principal remains overdue for a period of more than 90 days in respect of a term loan.
- The account remains "out-of-order" in respect of an Overdraft or Cash Credit (OD/CC).
- The bill remains overdue for a period of more than 90 days in case of bills purchased and discounted.
- A loan granted for short duration crops will be treated as an NPA if the installments of principal or interest thereon remain overdue for two crop seasons.
- A loan granted for long duration crops will be treated as an NPA if the installments of principal or interest thereon remain overdue for one crop season.

The Bank classifies an account as an NPA only if the interest imposed during any quarter is not fully repaid within 90 days from the end of the relevant quarter. This is a key to the stability of the banking sector. There should be no hesitation in stating that Indian banks have done a remarkable job in containment of non-performing loans (NPL) considering the overhang issues and overall difficult environment.

In fact, recovery management is also linked to the banks" interest margins. The cost and recovery management supported by enabling legal framework hold the key to future health and competitiveness of the banks.

No doubt, improving recovery- management in India is an area requiring expeditious and effective actions in legal, institutional and judicial processes.

In 2001 the norms of recognizing the NPA were somewhat liberal but in 2004 the RBI revised the norms and made them stricter. Below given is the comparative presentation of RBI guidelines for NPAs recognition.

RBI Guidelines for NPAs Recognition

Loans & Advances	**Guidelines applicable from 31-3-2001**	**Guidelines applicable from 31-3-2004**
Term loan interest and/or installment remain over due for more than	180 days	90 days
Overdraft/credit account	Remains out of order	Remains out of order
Bill purchased and discounted remains over due for more than	180 days	90 days
Agricultural loan interest and/or installments remains over due for	Two harvest seasons but not exceeding two and half years	Two harvest seasons but not exceeding two and half years
Other accounts-any amount to be received remains over due for more than	180 days	90 days

NPA Classification and Reporting

Introduction to HDFC Bank

The Housing Development Finance Corporation Limited (HDFC) was amongst the first to receive an 'in principle' approval from the Reserve Bank of India (RBI) to set up a bank in the private sector, as part of the RBI's liberalization of the Indian Banking Industry in 1994.

The bank wising operated in August 1994 in the name of 'HDFC Bank Limited', with its registered office in Mumbai, India. HDFC Bank commenced operations as a Scheduled Commercial Bank in January 1995.

HDFC is India's premier housing finance company and enjoys an impeccable track record in India as well as in international markets. Since its inception in 1977, the Corporation has maintained a consistent and healthy growth in its operations to remain the market leader in mortgages. Its outstanding loan portfolio covers well over a million dwelling units. HDFC has developed significant expertise in retail mortgage loans to different market segments and also has a large corporate client base for its housing related credit facilities. With its experience in the financial markets, a strong market reputation, large shareholder base and unique consumer franchise, HDFC was ideally positioned to promote a bank in the Indian environment. HDFC Bank began operations in 1995 with a simple mission: to be a **"World Class Indian Bank."** We realized that only a single minded focus on product quality and service excellence would help us get there. Today, we are proud to say that we are well on our was towards that goal.

As of March 31, 2008, the Bank's distribution network was at 761 Branches and 1977 ATMs in 327 cities as against 684 branches and 1,605 ATMs in 320 cities as of March 31, 2007. Against the regulatory approvals for new branches in hand, the Bank expects to further expand the branch network by around 150 branches by June 30, 2008. During the year, the Bank stepped up retail customer acquisition with deposit accounts increasing from 6.2 million to 8.7 million and total cards issued (debit and credit cards) increasing from 7 million to 9.2 million.

HDFC’s main goals are to:-

The primary objective of HDFC is to enhance residential housing stock and to promote home ownership.

To acquire by purchase, lease, exchange, hire or otherwise lands & property or any interest in the same in India.

To advance money to any person/ persons, company or corporation, society or association either at interest without, and or with or without any security and in particular to advance money to shareholders of the company or to oth4r persons to enable the person to erect, or purchase, or enlarge, or repair any house or building or any part or portions thereof or to purchase any freehold or leasehold or any lands or estate or property in India upon the terms and conditions as laid by the company.

- **VISION MISSION AND OBJECTIVES**

Vision :

To be customer driven best managed enterprise that enjoys market leadership in providing housing related finance.

Mission :

HDFC banks mission is to be "a World Class Indian Bank", benchmarking themselves against international standards and best practices in terms of product offerings, technology, service levels, risk management and audit & compliance.

Objective :

It is to build sound customer franchises across distinct businesses so as to be a preferred provider of banking services for target retail and wholesale customer segments, and to achieve a healthy growth in profitability, consistent with the Bank's risk appetite. We are committed to do this while ensuring the highest levels of ethical standards, professional integrity, corporate governance and regulatory compliance.

Introduction to ICICI Bank

ICICI Bank Limited is an Indian multinational bank and financial services company headquartered in Mumbai. It offers a wide range of banking products and financial services for corporate and retail customers through a variety of delivery channels and specialized subsidiaries in the areas of investment banking, life, non-life insurance, venture capital and asset management.

This development finance institution has a network of 5,900 branches and 16,650 ATMs across India and has a presence in 17 countries. The bank has subsidiaries in the United Kingdom and Canada; branches in United States, Singapore, Bahrain, Hong Kong, Qatar, Oman, Dubai International Finance Centre, China and South Africa as well as representative offices in United Arab Emirates, Bangladesh, Malaysia and Indonesia. The company's UK subsidiary has also established branches in Belgium and Germany.

ICICI was formed in 1955 at the initiative of the World Bank, the Government of India and representatives of Indian industry. The principal objective was to create a development financial institution for providing medium-term and long-term project financing to Indian businesses. Until the late 1980s, ICICI primarily focused its activities on project finance, providing long-term funds to a variety of industrial projects. With the liberalization of the financial sector in India in the 1990s, ICICI transformed its business from a development financial institution offering only project finance to a diversified financial services provider that, along with its subsidiaries and other group companies, offered a wide variety of products and services. As India's economy became more market-oriented and integrated with the world economy, ICICI capitalized on the new opportunities to provide a wider range of financial products and services to a broader spectrum of clients. ICICI Bank was incorporated in 1994 as a part of the ICICI group. In 1999, ICICI became the first Indian company and the first bank or financial institution from non-Japan Asia to be listed on the New York Stock Exchange.

The issue of universal banking, which in the Indian context meant conversion of long-term lending institutions such as ICICI into commercial banks, had been discussed at length in the late 1990s. Conversion into a bank offered ICICI the ability to accept low-cost demand deposits and offer a wider range of products and services, and greater opportunities for earning non-fund based income in the form of banking fees and commissions.

After consideration of various corporate structuring alternatives in the context of the emerging competitive scenario in the Indian banking industry, and the move towards universal banking, the managements of ICICI and ICICI Bank formed the view that the merger of ICICI with ICICI Bank would be the optimal strategic alternative for both entities, and would create the optimal legal structure for ICICI group's universal banking strategy. The merger would enhance value for ICICI shareholders through the merged entity's access to low-cost deposits, greater opportunities for earning fee-based income and the ability to participate in the payments system and provide transaction-banking services. The merger would enhance value for ICICI Bank shareholders through a large capital base and scale of operations, seamless access to ICICI's strong corporate relationships built up over five decades, entry into new business segments, higher market share in various business segments, particularly fee-based services, and access to the vast talent pool of ICICI and its subsidiaries.

CHAPTER 2
LITRATURE REVIIEW

REVIEW OF LITERATURE

In the past bank's NPAs were analyzed by many researchers in India and a good number of papers were published by them. The researcher has reviewed more than 100 papers related to the study. The details of more relevant literature reviewed by the researcher are as under

Saha, M., and Zaman, A. (2021) in their study titled Management of NPAs in banks with special reference to UBI found that with the decrease in NPA level, profitability of banks increased.

Hawaldar, I.T, Spulkar, C., Lokesh, A., Birau, R., Robegen, C. (2020) in their study analysing non-performing assets in agriculture loans. A case study in India concluded that there is no significant difference in pre and post sanction of agriculture loans and management of non-performing assets by banks. The wilful default by borrowers and more NPAs in banks are due to debt waiver policies announced by political parties.

Jethwani, B., Dave, D., Ali, T., Phansalker, S., and Ahhirao, S. (2020) in their study Indian agriculture GDP and NPA: A regression model found that the repayment of farm loan adversely affects as factors like rural population, low export value of crop and low crop production for the year. It should be understood that the farm loan waivers cannot solve the problem.

Selvam, P. and Premnath S., (2020) in their study titled "Impact of coronavirus on NPA and GDP of Indian Economy" finds that the NPAs increased during the period and suggested that government should resolve pending cases quickly and stop mandatory landings which is the real problem segment.

Sharma S., Rathore D.S., and Prasad, J. (2019) They found that both in public & private sector banks the major reason for the NPAs is miss-utilisation of bank loans and poor recovery management. The NPAs are increasing in agriculture and industries. They suggested improving corporate governance for better operational and and credit decisions.

Kumar, S., Singh, R., Pratibha, B. T. and Pandurang, A.K. (2019) in their study Non-Performing Assets of Banks: A Literature Review titled “priority sector lending and NPA status, impact and issues” found that NPAs of public sector banks for twelve years (2005 to 2016), the NPA percentage in priority sector increased during 2005 to 2008 and 2012 to 2016, Whereas in non priority sector NPA’s decreased from 2005 to 2009 and remain constant/stable from 2009 to 2011 and increased from 2011 to 2016. Priority & non priority NPA both contribute to the total NPAs of public sector banking.

Shiv Kumar, V. and Devenadhan, K.(2019) Done a study analyzing the factors implication of NPAs in SBI through factor analysis to be encountered. Researchers view that implication of NPAs are at a moderate level. It can be concluded that the loan asset management of SBI has put the right measures to address the bad effects of funding mismanagement and to resolve serious adverse effects of NPA.

Rana C., (2018) in his study titled “Management of NPA in context of Indian banking system concluded that NPA impacts profitability, liquidity and results in credit loss. There are two types of NPAs – gross NPA and net NPA. NPAs also impact low yield on advances, adverse Impact on capital adequacy. As a preventive measure, he suggested stopping multiple financing and early recognition of the problem.

Kaur, M. and Kumar, R. (2018) In their research titled sectoral analysis of NPA’s during pre and post crisis period of selected commercial banks” studied that NPA’s of priority & non priority sector, a comparison was made between public & private sector banks. They found in their study that during the pre-crisis period the level of NPA in the priority sector was higher in public & private banks, whereas after the crisis both showed a negative growth rate in NPAs. It was also evident from the study that the crisis had no impact on the banking sector as the NPA’s were declined after the crisis period. The growth of NPA in private sector banks was higher than the public sector banks. It was discovered during the pre-crisis period NPA in non-priority sectors was decreasing in public sector banks, but the private sector banks were showing an increase in NPA’s. NPA increased at a higher rate during the post crisis period. pre-crisis period – 2001-02 to 2007-08. post crisis period – 2008-09 to 2013-14.

Meher, B. (2018) Impact of demonetization on NPAs of Indian banks, focus on how the demonetization would influence this most pivotal issue of banking industry. The researcher found that in the short run, a positive effect of demonetization can be seen in which current NPAs of the banks decreased a bit. Suvitha, K. V., Gayathri, G. (2018) Researchers studied the various papers from 2010-2017(about 100 papers) and concluded that out of the total 100 articles analyzed, level of NPAs is higher in public sector banks than the private sector banks. The main reason for the issue is excessive landing by banks and higher demand of credit by willful defaulters.

Tripathi R. (Dr.) and Sayad A. A. (2017) in their study titled "Study of NPA, trends and Basel norms; statistical evidence" concluded that NPAs are increasing continuously because banks are more focused on volume credit rather than focusing on quality credit. Government builds pressure to increase lending under priority sector which leads to more NPA without government's proper support for recovery.

Miyan, M. (Dr.) (2017) He found in his study that there was a downward trend in NPAs during the study period but in public sector banks NPAs are still higher as compared to private sector banks. A downward trend is also seen on return on assets Non- Performing Assets of Banks: A Literature Review which is much lower in public sector banks than private sector banks.

Swain, R. K., Sahu, M. and Mishra, A. P. (2017) The researchers concluded that money blocked in NPAs has a significant influence on the effectiveness of banks. The government has made different mechanisms for recovery such as Lok Adalats, DRT and SARFAESI Act. The SARFAESI act is the most effective reform for recovery of NPA than other measures. However, gross amounts recovered are very meagre in comparison to outstanding NPAs.

Mishra, A. K. (2016) He found while comparing the NPA's of 10 years of priority and non-priority sector that NPA in priority sector are more than 50% of the total NPA's since 2006 to 2011 and thereafter non-priority NPA's increased in percentage term since 2011 to 2015 to the maximum extent 65.2% of total NPA's.

However gross NPAs were also increasing every year. All though the percentage NPA in the priority sector was decreasing but in absolute terms it is increasing continuously. The priority sector contributed to the socio-economic development of the country despite an increase in NPA's.

CHAPTER 3
RESEARCH METHDOLOGY

RESARCH METHODOLOGY

• Significance of the study

The main aim behind making this report is to know how HDFC is operating its business and how NPAs play its role to the operations of the HDFC Bank. My study is also focusing upon existing system in India to solve the problem of NPAs and comparative analysis to understand which bank is playing what role with concerned to NPAs. Thus, the study would help the decision maker to understand the financial performance and growth of the concerned banks as compared to the NPAs.

• Aim: -

Analysis on Impact of NPA on banks profitability and finding the measures to reduce the NPA with Reference HDFC bank

• Objectives: -

- To analyse the impact of NPA on profitability.
- To find the factors that would affect level of NPAs.
- To analyse the significance of each variable that might affect the NPA level.
- To understand what is Non-Performing Assets and what are the underlying reasons for the emergence of the NPAs.
- To understand the impact of NPAs on the operations of the banks.
- To know what steps are being taken by the Indian banking sector to reduce the NPAs?
- To evaluate the comparative ratio of the banks with concerned to the NPAs.
- To suggest measures to reduce NPAs in private sector.

•Limitation: -

- The data collected by me was not sufficient for report studying.
- I haven't got enough time to study my report so that becomes the cause of limitation in the study.
- Since my study is based upon the secondary data, the practical operations as related to NPAs are adopted by the banks are not learned.
- The solutions are not applicable to every bank.
- NPAs are changing with time. The study is done in the present environment without foreseeing future development.

RESEARCH DESIGN

- **NON-PROBABILITY**
- **EXPLORATORY & DISCRIPTIVE EXPERIMENTAL RESEARCH**

The research is primarily both exploratory as well as descriptive in nature. The sources of information secondary.

Primary Data:

Primary data is basically the live data which I collected on field while doing cold calls with the Distributor and shopkeeper, customer. In this project I have not collect information through this method. I have use only secondary data for my project.

Secondary Data:

1 Internet,

2 Books

3 Journals,

4 Newspaper,

5 Annual report,

6 Database available in the library, 7 Catalogues and presentations.

Tools and Techniques:

As no study could be successfully completed without proper tools and techniques, same with my project. For the better presentation and right explanation I used tools of statistics and computer very frequently. And I am very thankful to all those tools for helping me a lot. Basic tools which I used for project from statistics are-

- **Bar Charts**
- **Pie charts**
- **Tables**

Bar charts and pie charts are really useful tools for every research to show the result in a well clear, ease and simple way. Because I used bar charts and pie charts in project for showing data in a systematic way, so it need not necessary for any observer to read all the theoretical detail, simple on seeing the charts anybody could know that what is being said.

-Technological

-Tools Ms-Access

-Ms-Word

Above application software of Microsoft helped me a lot in making project more interactive and productive.

Microsoft-Excel had a great role in my project, it created for me a situation of

"you sit and get". I provided it simply all the detail of data and in return it given me all the relevant information.

CHAPTER 4

DATA ANALYSIS AND INTERPRETATION

DATA ANALYSIS AND INTERPRETETION

Ratio Analysis

The Relationship between two two related item of financial statement is known as ratio. A ratio is just one number expressed in terms of another. The ratio is customarily expressed in three different ways. It may be expressed as a proportion between the two figures. Second it may be expressed in terms of percentage. Third, it may be expressed in terms of rates.

The use of ratio has become increasingly popular during the last few year only. Originally, the bankers used the current ratio to judge the capacity of the borrowing business enterprises to repay the loan and make regular interest payment. Today it has assumed to be important tool that anybody connected with the business turns to ration for measuring the financial strength and earning capacity of the business.

1. Gross NPA Ratio:-

Gross NPA ratio is the ratio to gross NPA to gross advances of the bank. Gross NPA is the sum of all loan assets that are classified as NPA as per RBI guidelines. The ratio is to be counted in terms of percentage and the formula for GNPA is as follow:

$$\text{Gross NPA Ratio} = \frac{\text{Gross NPA}}{\text{Gross Advances}} * 100$$

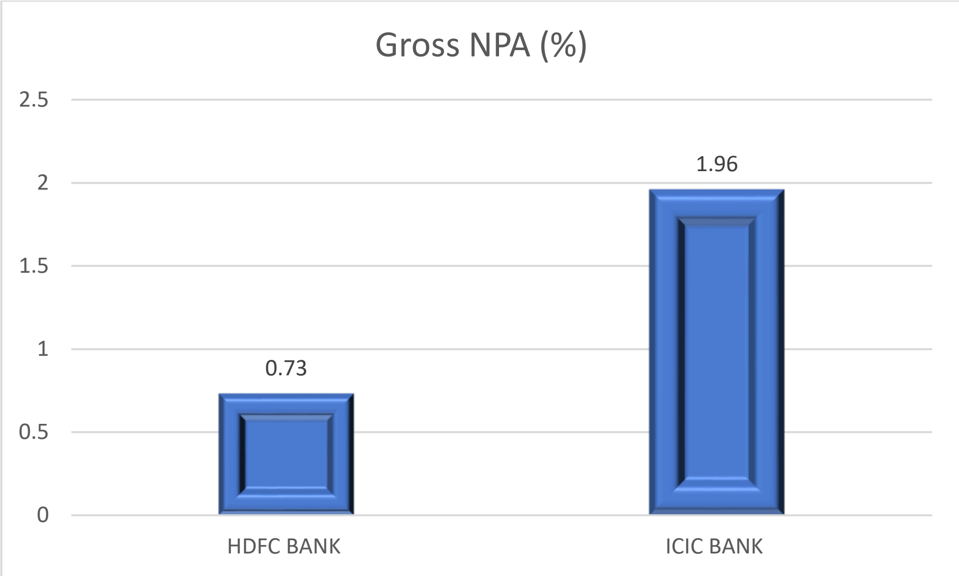
Banks	As on march 31, 2023		
	Gross NPAs	Gross Advances	Gross NPA Ratio
	(1)	(2)	(3)
HDFC Bank	18,019.03	1,600,585.90	1.12
ICICI Bank	31,183.70	1,019,638.31	2.81

Interpretation:

The above table indicates the quality of Credit portfolio of the banks. High gross NPA Ratio indicates the low Credit portfolio of bank and vice-versa. We can see from the above table the CICI has higher gross NPA ratio of 2.81. Whereas the HDFC showed lower ratio with 1.12 in the year 2023 as compare to ICICI bank.

Graphic Representation:

Name of the Bank	Gross NPA Ratio (%)
HDFC Bank	1.12
ICICI Bank	2.81



Finding form the above chart:

- The table above indicates the quality of credit portfolio of the banks. High gross NPA ratio indicates the low credit portfolio of bank and vice-versa.
- We can see from the above chart that the ICICI Bank has the higher gross NPA ratio 2.81 % as compared to the HDFC Bank with 1.21%

4. Net NPA Ratio

The net NPA percentage is the ratio of NPA to net advances in which the provision is to be deducted from the gross advances. The provision is to be made for NPA account. The formula for that is:

$$\text{Net NPA Ratio} = \frac{\text{Gross NPA - Provision}}{\text{Gross Advances - Provision}} * 100$$

Gross NPA – Provision = Net NPA

Gross Advances – Provision = Net Advances

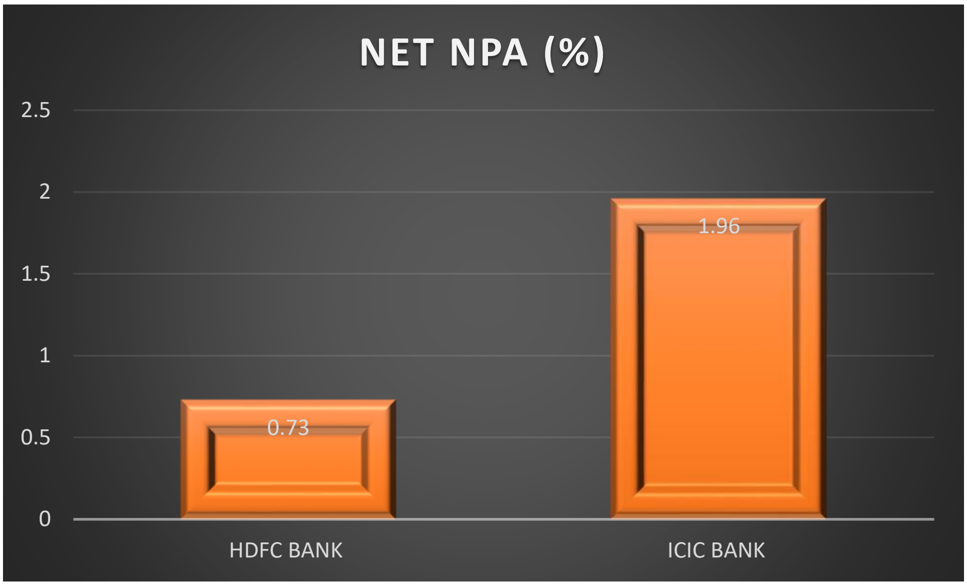
Banks	As on march 31, 2023		
	Net NPAs	Net Advances	Net NPA Ratio
	(1)	(2)	(3)
HDFC Bank	4368.43	1,574,289.63	0.27
ICICI Bank	5,155.07	1,002,448	0.48

Interpretation:

The above table indicates the quality of Non-Performing assets of the banks. High Net NPA Ratio indicates the low Credit portfolio & risk oof bank and vice-versa. We can see from the above table the ICICI has higher Net NPA ratio of 0.48%. Whereas the HDFC showed lower ratio with 0.27% in the year 2023 as compare to ICICI bank.

Graphic Representation:

Name of the Bank	**Net NPA Ratio (%)**
HDFC Bank	0.27
ICICI Bank	0.48



Finding form the above chart:

- High NPA ratio indicates the high quantity of risky assets in the Banks for which no provision are made
- The ICICI Bank has the highest NPA ratio of 2.37% as compared to the HDFC Bank with 0.40% However there is not too much difference.

3. Provision ratio:

Provision are to be made for to keep safety against the NPA, & it directly affect on the gross profit of the banks. The provision Ratio in nothing but total provision held for NPA to Gross NPA of the Banks. The formula for that is:

$$\text{Provision Ratio} = \frac{\text{Total Provision}}{\text{Gross NPAs}} * 100$$

Additional formula : Net NPA = Gross NPA – Provision

Therefore Provision = Gross NPA- Net NPA

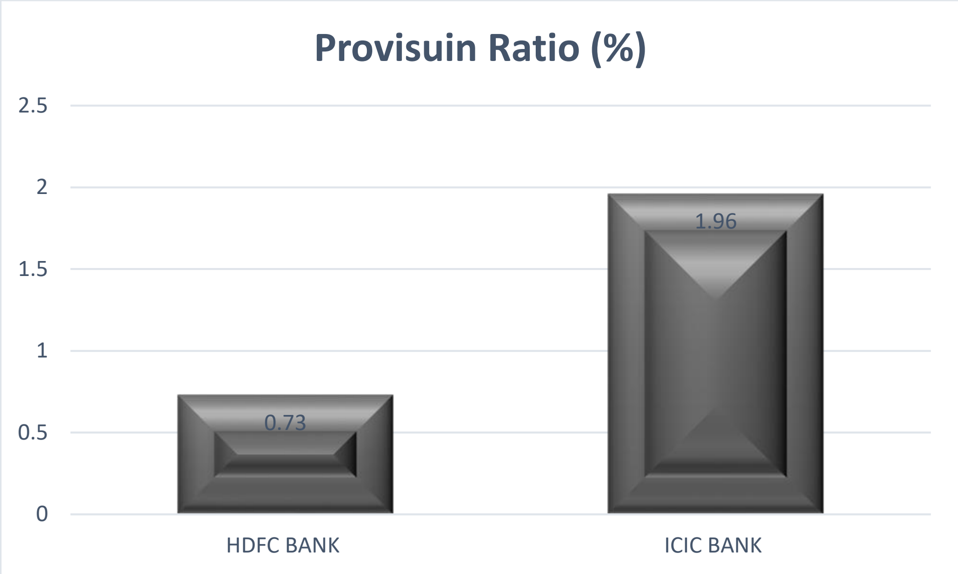
Name of the Bank	Provision Ratio (%)
HDFC Bank	76
ICICI Bank	82.8

Interpretation:

The Ratio indicates the degree if safety measures adopted by the bank\s. it has direct bearing on the profitability, dividend and safety of shareholders fund. If the provision ratio is less, it indicates that the banks has made under provision. The highest provision ratio is showed by ICICI Bank with 82.8% as compared to HDFC Bank with 76%.

Graphic Representation:

Name of the Bank	Provision Ratio (%)
HDFC Bank	76
ICICI Bank	82.8



Finding form the above chart:

- The ratio indicates the degree of safety measures adopted by the Bansk.
- It has direct bearing on the profitability, Divided and safety of shareholder's fund.
- If the provision ratio is less. It indicates that the Banks has made under provision.
- The highest provision ratio is showed by ICICI Bank with 82.8% as compared to HDFC Bank with 76%

4. Problem asset ratio:

It is the ratio of gross NPA to total asset of the bank. The formula for that is:

$$\text{Problem asset Ratio} = \frac{\text{Gross NPAs}}{\text{Total Assets}} * 100$$

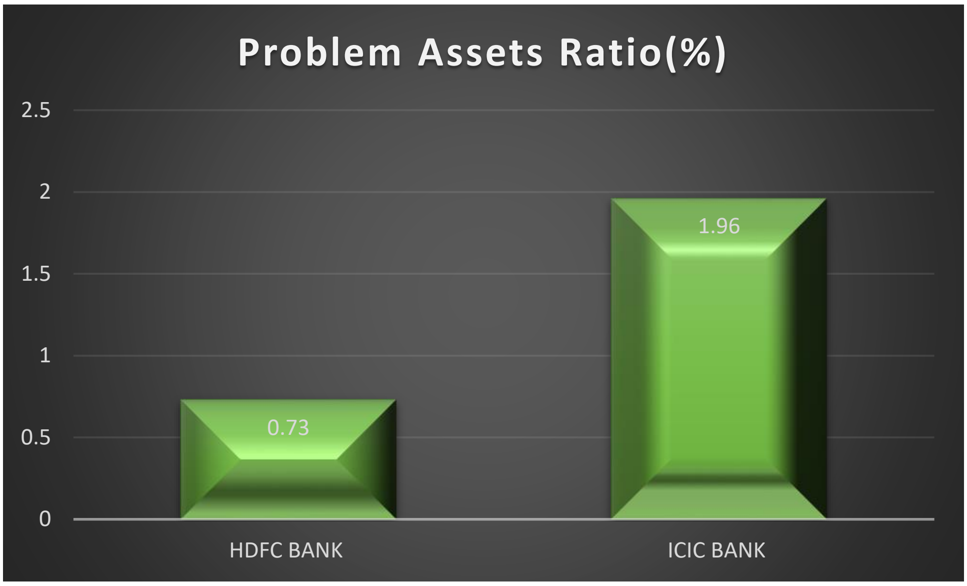
Banks	As on march 31, 2023		
	Gross NPAs	Total Assets	Problem assets Ratio
	(1)	(2)	(3)
HDFC Bank	18,019.03	2,466,081.48	0.73
ICICI Bank	31,183.70	1,584,206.65	1.96

Interpretation:

It has been direct bearing on return on assets as well as liquidity risk management of the bank. High problem asset ratio, which means high liquid, the above table indicates the quality of credit portfolio of the banks. High problem asset ratio indicates the low credit portfolio of bank and vice versa. We can see from the above table the ICICI has higher problem asset ratio of 1.96% whereas the HDFC bank showed lower ratio with 0.73% in the year 2023 as compare to ICICI bank. However HDFC bank too have high problem asset ratio. The high problem asset ratio indicates higher risk & threat to bank. The ratio implies that the HDFC bank has the liquid assets through which they will be able to repay their liabilities of deposits quickly as compared to other banks.

Graphic Representation:

Name of the Bank	**Problem asset ratio Ratio (%)**
HDFC Bank	0.73
ICICI Bank	1.96



Finding form the above chart:

- We determine the percentage of assets out of total assets / advances that we are likely to become the NPA as problem assets.
- From the above table it become clear that ICICI Bank have high problem asset ratio with

  1.96% as compare to HDFC BANK.
- That ratio implies that the both above banks have the highest probability of creating
- NPAs in the near future. However ICICI Bank have more chances of increasing future NPAs

❖ 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 are borrowers who are able to payback 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 has 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.

INTERNAL FACTORS:-

Defective Lending process

There are three cardinal principles of bank lending that have been followed by the commercial banks since long.

i. 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, there fore 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 can not 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.

❖ PROBLEMS DUE TO NPA

1. Owners do not receive a market return on there capital .in the worst case, if the banks fails, owners loose their assets. In modern times this may affect a broad pool of shareholders.

2. Depositors do not receive a market return on saving. In the worst case if the bank fails, depositors loose their assets or uninsured balance.

3. Banks redistribute losses to other borrowers by charging higher interest rates, lower deposit rates and higher lending rates repress saving and financial market, which hamper economic growth.

4. Non performing loans epitomize bad investment. They misallocate credit from good projects, which do not receive funding, to failed projects. Bad investment ends up in misallocation of capital, and by extension, labour and natural resources.

   Non performing asset may spill over the banking system and contract the money stock, which may lead to economic contraction. This spill over effect can channelize through liquidity or bank insolvency:

a) many borrowers fail to pay interest, banks may experience liquidity shortage. This can jam payment across the country,

b) Illiquidity constraints bank in paying depositors

c) Undercapitalized banks exceeds the banks capital base.

The three letters 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 can not be then left is to look after the factor responsible for it and managing those factors.

- Interest and/or instalment 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 a facilitating measure for smooth transition to 90 days norm, banks have been advised to move over to charging of interest at monthly rests, by April 1, 2002. However, the date of classification of an advance as NPA should not be changed on account of charging of interest at monthly rests. Banks should, therefore, continue to classify an account as NPA only if the interest charged during any quarter is not serviced fully within 180 days from the end of the quarter with effect from April 1, 2002 and 90 days from the end of the quarter with effect from March 31, 2004.

Out of Order:-

An account should be treated as 'out of order' if the outstanding balance remains continuously in excess of the sanctioned limit/drawing power. In cases where the outstanding balance in 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 credits are not enough to cover the interest debited during the same period, these accounts should be treated as 'out of order'.

Overdue:-

Any amount due to the bank under any credit facility is 'overdue' if it is not paid on the due date fixed by the bank.

❖ IMPACT OF NPAs

- **Profitability:**

  NPA means booking of money in terms of bad asset, which occurred due to wrong choice of client. Because of the money getting blocked the prodigality of bank decreases not only by the amount of NPA but NPA lead to opportunity cost also as that much of profit invested in some return earning project/asset. So NPA doesn't affect current profit but also future stream of profit, which may lead to loss of some long-term beneficial opportunity. Another impact of reduction in profitability is low ROI (return on investment), which adversely affect current earning of bank.

- **Liquidity:**

  Money is getting blocked, decreased profit lead to lack of enough cash at hand which lead to borrowing money for shortes period of time which lead to additional cost to the company. Difficulty in operating the functions of bank is another cause of NPA due to lack of money.

  Routine payments and dues.

- **Involvement Management:**

  Time and efforts of management is another indirect cost which bank has to bear due to NPA. Time and efforts of management in handling and managing NPA would have diverted to some fruitful activities, which would have given good returns. Now day's banks have special employees to deal and handle NPAs, which is additional cost to the bank.

- **Credit Loss:**

  Bank is facing problem of NPA then it adversely affect the value of bank in terms of market credit. It will lose it's goodwill and brand image and credit which have negative impact to the people who are putting their money in the banks.

❖ Reasons for Growing NPAs

The banking sector all over the world is facing the problem of mounting NPAs. The rate of growth of NPAs is such a high that it has become the matter of concern for the bankers. The bankers are investigating the reasons for such high growth rate of NPAs. Following are some of the reasons for the high growth rate of NPAs.

- **Inability and unwillingness of the borrower to pay:**

  Sometimes the borrower takes the loan from the bank in a large amount but they are unable to repay the same or sometimes they are unwilling to repay the amount. Such amount is not realized back by the bank and as a result the NPA is created. Sometimes willful defaults, frauds and misappropriations of accounts by the borrowers also results in NPA.

- **Mismanagement and diversion of funds:**

  Because of the mismanagement of the fund or because of diversion of the investment, the fund is invested in low interest securities or the securities that don‟t pay any interest. Such kind of investment creates the NPA.

- **Failure of the activity:**

  When the borrower has taken the loan for any specific business activity and that very activity fails, the borrower is unable to repay the loan. This creates NPA in the bank.

- **Recessionary market trend:**

  Because of the effect of economic cycles, the profits of the firm decreases. In the situation of recession, the firm is not able to generate enough revenue and it is unable to repay the borrowed fund. When the recession becomes very stiff, it results into the bankruptcy of the firms, which results into NPAs for the banks. Recently such situation was faced in America when the Lehman Bros. filed the bankruptcy; it created NPA in several banks over there from which the Lehman Bros. had taken the loan.

- **Improper selection of borrowers/activities:**

  Sometimes the banker makes the mistake in the selection of borrower or the business activity. When the less creditworthy borrower is selected by the bank, the amount given as a loan does not realize back and the NPA results.

- **Selection of borrower under influence:**

  For the banks RBI has issued guidelines for sanctioning the loans. Banks have to compulsorily follow these guidelines but sometimes the banks have to act under the political pressure and relativism. The banks sanction the loans to such less creditworthy borrowers. The amounts of such loans are not recovered and consequently the NPA is created. Generally such cases happen more in co- operative banks.

- **Lack of proper pre-appraisal and follow-up:**

  According to RBI guidelines, the banks must appraise the project report before sanctioning the loan to any borrower. But sometimes the banks do not perform proper appraisal of the project reports. Without such pre-appraisal, the loan is sanctioned. In addition to it, proper follow-up is also not taken by the bank. In such situation the bank does not get the installments regularly and sometimes such loan is converted into NPA.

- **Non-compliance of sanction terms and conditions:**

  The banks must follow the terms and conditions provided by the RBI for sanctioning the loan. In some cases, the banks do not comply with this terms and conditions and they sanction the loan. In such cases, there are chances of NPAs.

- **Inadequate/excess sanction of the loan:**

  While sanctioning the loan, the bank must consider the economic size of the unit to which the loan is to be sanctioned. In some cases, bank does not consider the economic size of the unit and sanction the loan. If the amount sanctioned is inadequate for the business, the business will face the financial crunch and it will not survive for longer. It will result into NPAs for the bank. On the other hand if the excessive amount is sanctioned as a loan to the smaller unit, it will not be

- **Unrealistic repayment schedule:**

  The schedule for the repayment of the loan should be prepared after considering two main things i.e. the amount of loan and the repayment capacity of the borrower. Sometimes the bank makes the mistakes in preparing the repayment schedule for some borrowers. It creates overburden on such borrowers and they are unable to repay the amount according to the prescribed schedule. They face the financial crisis and ultimately turn to liquidation.

- **Lack of inter-bank co-ordination:**

  When there is lack of inter-bank co-ordination as well as lack of co-operation with financial institutions, there is no exchange of information of the solvency of the borrowers. Because of this the borrowers make default in more than one bank.

  As a result one borrower becomes the cause of NPA in many banks.

- **Factors Internal to the business:**

  The business of the borrowers fails due to certain internal factors such as inefficient management, inefficient marketing, inappropriate technology, labour unrest, etc. When the business of the borrower fails, he is not able to repay the borrowed amount. This creates NPAs in the banks.

- **Highly Ambitious Projects:**

  The borrowers take the loans for establishing the projects. They over-estimate the return on Investment on such projects. And because of that they prepare the tight re-payment schedule for the loans taken by them. In reality the project does not generate that much return and the borrower is not capable to repay the loan. This results into NPAs in the banks.

- **Unhealthy Competition:**

  Sometimes the businessmen enter into cut throat competition. When they enter into price base competition, they suffer a loss. Because of such loss they are not capable to repay the amount of loan. This results into NPAs in Banks.

- **Cost overruns during the project implementation:**

  Because of inflationary trends the cost project increases over and above the estimation of the cost of project before starting it. The loan taken by the businessmen is not enough for such project. The project experiences financial crisis and it is not able to repay the loans. This creates NPAs in the banks.

- **No fear of legal action under the present complex legal system:**

  In India, when a borrower makes the default in the repayment of the loan, legal actions are taken against him. But the legal procedure is too much complex. The procedure runs for year long and judgments are delayed. Such kind of legal system does not create any fear in the mind of borrower and they are not hesitant to make the default in the repayment of the loans. They willingly create the default. It results into NPAs in the banks.

- **Government policy for financing priority sector:**

  For making growth and development of the Indian economy and to maintain the regional and sectoral balance, the government has selected some priority sector. According to the government policy, public sector banks have to give loans to this priority sector at a low rate of interest and sometimes loans are subsidized.

  This is the direct loss to the bank. In addition to it, these priority sectors do not work efficiently and hence are not capable to repay the loans. This creates NPAs in public sector banks. As per the RBI guidelines, the NPAs are classified into two categories viz. priority sector and non-priority sector. This is enough evidence that RBI itself accepts that there are more chances of NPAs in priority sector.

❖ Suggestions for Reducing Non-Performing Assets

- **Proper selection of borrower/activity:**
  When the borrower/activity is wrongly selected, it definitely results into NPAs. To reduce this danger, the banks should take enough care in selection of the borrower/activity. For this the bank should perform an in-depth investigation about the creditworthiness of the borrower. The bank must collect as much information as possible. After making thorough analysis of this information, the bank should take the decision whether to sanction the loan or not.
- **Regular post-sanction follow up:**
  Generally it happens that after sanctioning the loan, banks do not take any follow up of the borrower. Lack of regular follow up makes the borrower careless in the repayment of loans. And it results into default. To remove this danger, the bank must take regular follow up of the borrower after sanctioning the loan. Follow up taken at a regular interval will keep the borrower alert and the chances of default will be reduced. Reporting to the top level management of the bank about the repayment schedule of the borrower should be done regularly.
- **Establishment of a recovery cell:**
  The efforts made by the banks to recover the amount of loan are not enough. In this situation the amounts of NPAs are continuously rising. The bank should form a special recovery cell to recover the outstanding amount to recover the outstanding loans. For

this, the recovery cell is empowered to take necessary steps to recover the outstanding loans.

- **Publishing the name of defaulters in local news papers:**
  This can be an effective step for recovering the outstanding loans from the defaulters. The banks should publish the names of such defaulters in the local news papers with outstanding amounts. This will affect the dignity of such defaulter and there are chances that they may repay the amount of loan. This will be a helpful step for other banks also. By considering the names of defaulters, other banks would not sanction loans to such defaulter.
- **Set up a group of auctioneers:**
  Generally the assets that are kept as security are auctioned to recover the amount of default. But there are no bidders to purchase such moveable or immovable property due to the fear of the defaulters. Because of this the bank can not realize the full amount of default. In such case the bank should assign such case to a special group of auctioneer that will find out an appropriate bidder so that the full amount of default can be realized by selling the securitized property held with the bank.
- **Constant touch with persons trading with the borrower:**
  To know about the creditworthiness of the borrower and to obtain market report in regard to his trade dealings and solvency, the bank should keep a touch with the persons trading with the borrower. By this the bank can take immediate steps as and when some negative information about the borrower is received from the market.
- **Setting up of credit investigation and information agency:**
  The banks should establish an agency which is assigned the duty to investigate about the creditworthiness of the borrowers. The information obtained by such agency should be easily accessible by all the bankers. This will be helpful in the selection of borrowers. Before sanctioning the loan, such agency should be contacted to obtain the information about the creditworthiness of the borrowers.
- **Legislative changes:**
  The government should pass some legislation in the direction of effective recovery of outstanding loans. By passing the legislation, recovery tribunals, recovery cell, *lok-adalatas* etc. should be given more authority and they should be made autonomous institutions. If they have more power to recover the outstanding loans, they can take immediate and effective steps for the recovery. This kind of institutions will be helpful for the banks to make the legal recovery of outstanding loans.

- **Interest discounts for prompt repayments:**

  To reduce the NPAs, the bank should start some schemes under which the defaulters are given a special interest discount if they make the prompt repayment of the outstanding amount. This step may be helpful to recover the outstanding amount from those defaulters who have sense of market credit.

- **Asset Reconstruction Fund:**

  The NPAs of weak banks may be transferred to state owned asset reconstruction fund (ARF), managed by an independent private sector firms. The ARF will buy the NPAs from the weak banks at a price it decides. Its objective will be to make profits out of deals. It is just like business buying impaired loans, recovering them and in the process, making profits.[17]

- **Pro-active steps by banks:**

  To reduce the chances of NPAs, banks should be pro-active in recognizing sickness and then going to the courts for obtaining relief, before the borrower could take the shelter of BIFR proceedings. The lending bank should initiate action as soon as the total loss crosses half of the net worth. Banks should not wait till they wipe out the entire net worth.

- **Delegation of more power to branch manager:**

  The branch managers do not have more powers to undertake strict recovery of loans. Because of this, though it is possible branch manager cannot do anything due to lack of power. If the branch managers are assigned more power, they can perform strict recovery of such loan and the chances of NPAs would reduce. The branch manager should given the power to take over or realize securities charged to them for the recovery of loans without going to courts. This provision will reduce court cases and the recovery will be quick.

❖ Non-Performing Assets Recovery Mechanism

Reduction in NPAs is the most important task for the banks. It is the burning issue for the RBI as well as the Government of India to control the NPAs. The government of India has taken certain steps for reducing NPAs of the Indian banking sector. For this, the government has established a recovery mechanism that involves the following steps.

- **Sending reminders and visiting the borrower's business premises/residence:**
  The banks should take continuous follow – up for collecting the advances. The bank should adopt the policy of "the older the advances, the tighter the follow – up. The bank should send reminders to the borrowers on a periodical basis or the bank should visit the premises of the business or the residence of the borrowers. The bank should make it a point that the reminders are sent on time and without fail. Frequent visits should be taken in the case of hardcore borrowers. The visit should not be only the formality but it should bring some quality results.
- **Recovery camps:**
  In case of agricultural advances and advances given to seasonal businesses, recovery camps should be organize during the peak season of the business or during the harvest season in agriculture. In the recovery camp the banks can recover maximum advances by offering some discount or certain other relaxations. Such recovery camp should be properly planned to ensure maximum advantage. It is advisable to take the help of outsiders such as local *panchayat* officials, regional bank managers and similar other person. Such camps should be widely publicized to ensure maximum recovery of loans.
- **Redesigning unpaid loan installments:**
  The bank should make an effort to redesign the loan repayment schedule for those borrowers who are unable to repay the loans. The banks can reduce the amount of installment and can extend the time for repayment of the loan. This will convince the borrowers that they can repay the loan. The banks need to be sympathetic to the sincere borrowers.
- **One-time settlement/Compromise scheme:**
  The bank can start compromise schemes or one-time settlement schemes for the recovery of loans. The RBI in consultation with the government of India has issued the guidelines for such one-time settlement/compromise scheme for the dues of commercial banks up to Rs. 10,00,000.
- **Rehabilitation of sick units:**
  The banks should identify sick units in SSI as well as in medium and large scale industry. The banks should introduce rehabilitation package for such sick units according to RBI guidelines. While introducing such rehabilitation package, the bank should keep in mind

that the causes of sickness should be genuine and the project should be viable in terms of debt-service coverage ratio.

- **Filing of civil suits or legal actions for recovery:**

  Where the compromise proposals given by the banks are not accepted by the borrowers, it is better for the banks to file the civil suits instead of waiting for the long time. The bank should start immediate actions against such borrowers because there are chances of their willful default.

- **Asset Reconstruction Companies (ARC):**

  The Committee on Banking Sector Reforms (CBSR) Report suggest remedies to recover the NPAs as well their subsequent transfer as asset through Asset Reconstruction Companies. The most effective way of removing NPAs from the books of the weak banks would be to move these out to a separate agency which will buy the loans and make it own efforts for their recovery. The ARC"s efforts are profit oriented and its aim is to recover from the acquired assets more than the price paid for it. These companies are to be registered with the RBI with a minimum capital base of Rs.2,00,00,000.

- **Lok adalats:**

  Lok adalats are voluntary agencies created by state governments to assist in matters of loan compromise. Lok adalats work out an acceptable compromise and issue a recovery certificate which shortens the period of obtaining a court decree. The government should make an effort to give wide publicity to the scheme, besides educating the bankers and borrowers about Lok adalats.

  Lok adalats have been set up for the recovery of dues in accounts falling in the doubtful and loss categories with outstanding balance up to Rs.5,00,000 by way of compromise settlements. Government has recently revised the monetary ceiling of cases to be referred to Lok adalats organized by civil courts from Rs.5,00,000 to Rs.20,00,000. RBI has issued guidelines to commercial banks advising them to make use of Lok adalats.

- **SARFAESI Act:**

  SARFAESI is the preferred route for finding solution to NPA. There was no legal provision for facilitating securitization of financial asset of the bank and financial institutions or power to take possession of securities and sell them. This resulted in slow recovery of defaulting loan and mounting levels of NPA of bank and financial institutions and a need was felt for keeping pace with changing commercial practice and financial sector reforms. Keeping with this, an enabling legislative and regulatory framework was put in place with the enactment of the Securitization and Reconstruction of Financial

Assets and Enforcement of Security Interest Act, 2002. The primary objective of the act is reduction of NPA levels of banks or financial institutions and unlocking value from distressed asset in the banking and financial system.

- **Debt Recovery Tribunal (DRT):**
  The government of India passed the recovery of Debts due to Banks and Financial Institutions (amendment) Act, 2000. This act has helped in strengthening the functioning of DRTs. Provisions for placement of more than one recovery officer, power to attach defendant's property or asset before judgment, penal provision for disobedience of tribunal's order or for breach of any terms has provided necessary strength to DRTs.
- **Corporate Debt Restructuring (CDR):**
  Corporate Debt Restructuring mechanism has been introduced in the year 2001. The aim is to provide a timely and transparent system for restructuring of the corporate debt of Rs.20,00,00,000 and above with the banks and financial institutions. The CDR process enables the companies to restructure their dues and reduce the incidence of fresh NPAs. It reforms the loan servicing obligation of the borrower and gives some concession in the interest rate.
- **Revenue Recovery Act:**
  On the basis of recommendations of Talwar Committee, a simplified procedure for recovery of commercial banks‟ dues has been introduced. The recommendations of the committee have been accepted by most of the states but the results in terms of recovery are not encouraging.
- **Settlement of claim with Deposit Insurance and Credit Guarantee Corporation of India (DICGC):**
  Bank should submit their proposals for outstanding loans with DICGC for settlement of their claims and reduce their NPAs. DICGC will recover the outstanding loans on behalf of the bank

❖ Prudential Norms

It is the primary responsibility of the bank management and the statutory auditors to make adequate provisions for any loss in the value of loan assets, investment or other assets. The RBI has furnished prudential guidelines to the bank management and the statutory auditors in order to help them take decision in regard to make adequate and necessary provisions.

According to these prudential guidelines, assets are classified into four categories viz. loss assets, doubtful assets, sub-standard assets and standard assets. RBI has prescribed following provisioning norms for all such categories of assets.

- **Loss assets:**

  Loss assets should be written off. If loss assets are permitted to remain in the books for any reason, 100% of the outstanding should be provided for.
- **Doubtful assets:**

  For the doubtful assets, RBI has prescribed to make provisions according to the period for which the advance has remained in „doubtful‟ category. According to this guideline, 25% provision is required if advance has remained doubtful for up to 1 year. 40% provision is required if advance has remained doubtful for 1 to 3 years. 100% provision is required if advance has remained doubtful for more than 3 years.
- **Sub-standard assets:**

  A general provision of 15% on total outstanding should be made without making any allowance for ECGC guarantee cover and securities available.

  The unsecured exposure‟ which is identified as „sub-standard‟ would require an additional provision of 10% i.e. total 25% of the outstanding balance.

  Infrastructure accounts will attract a provisioning of 20% instead of 25%. The provisioning requirement for unsecured „doubtful‟ asset is 100%.
- **Standard assets:**

  Direct advances to Agricultural and Small and Micro Enterprises (SMEs) sectors will attract the provision of 0.25%.

  Advances to Commercial Real Estate (CRE) Sector will attract the provision of 1%.

  Housing Loans will attract the provision of advances as indicated in Para 5.9.13 and 5.9.14 of the RBI circular dated 1st July, 2011, which are as follows:
- **Provisioning for housing loans at teaser rates (Para 5.9.13):**

  It has been observed that some banks are following the practice of sanctioning housing loans at teaser rates i.e. at comparatively lower rates of interest in the first few years, after which rates are reset at higher rates. This practice raises concern as some borrowers may find it difficult to service the loans once the normal interest rate, which is higher than the rate applicable in the initial years, becomes effective. It has been also observed that many banks at the time of initial loan appraisal, do not take into account the repaying capacity of the borrower at normal lending rates. Therefore, in view of the higher risk associated with such loans, the standard asset provisioning on the outstanding amount has been increased from 0.40 per cent to 2.00 per cent with immediate effect. The provisioning on these assets would revert to 0.40 per cent after 1 year from the date on which the rates are reset at higher rates if the accounts remain standard.

- **Restructured Advances (Para 5.9.14):**

  Restructured accounts classified as standard advances will attract a provision of 2% in the first two years from the date of restructuring. In cases of moratorium on payment of interest/principal after restructuring, such advances will attract a provision of 2 per cent for the period covering moratorium and two years; and

- Restructured accounts classified as non-performing advances, when upgraded to standard category will attract a provision of 2 per cent in the first year from the date of up-gradation
- All other Loans and Advances not included above will attract the provision of 0.40%. Medium enterprises will attract provision of 0.40

CHAPTER 5

FINDINGS, SUGGETIONS AND CONCLUSION

FINDINGS

- ICICI Bank shows high NPAs ratio as compare to HDFC bank.
- High NPAs ratio shows low credit portfolio of ICICI bank.
- In analysis HDFC Bank low risk profile as compare to ICICI Banks in terms of NPAs.
- Study also indicates that major NPA increases because of government commended priority sectors.
- HDFC Bank has better provision as compare to ICICI bank.

RECOMMENDATION / SUGGESTION

- Effective inspection system should be implemented.
- Large exposure on big corporate or single project should be avoided.
- Both the Banks should give stress upon credit appraisal.
- Credit officer should focus upon cash flow.
- Banks should try their best to recover NPAs.
- The problem should be identified very early so that companies can try their best to stop an asset or A/c becoming NPA.
- Banks should evaluate the SWOT analysis of the borrowing companies i.e. how they would face the environmental threat and opportunities with the use of their strength and weakness, and what will be their possible future growth in concerned to financial and operational performance.
- Each bank should have its own independent credit rating agency which should evaluate the financial capacity of the borrower before than credit facility.
- The credit rating agency should regularly evaluate the financial condition of the clients.

CONCLUSION

- It is not possible to eliminate totally the NPAs in the banking business but can only be minimized. It is always wise it 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 to avoid future NPAs.

- The bank has achieved its target because the net profit is also increased and there is a decrease in NPAs. So it is in better position compared to last year

CHAPTER 6
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- www.rbi.org.in

ANNEXURE

24/06/2023, 14:33 ICICI Bank | Consolidated Yearly Results > Banks - Private Sector > Consolidated Yearly Results of ICICI Bank - BSE: 5321…

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ICICI Bank Previous Years »

Consolidated Yearly Results	------------------- in Rs. Cr. -------------------				
	Mar '23	**Mar '22**	**Mar '21**	**Mar '20**	**Mar '19**
Interest Earned					
(a) Int. /Disc. on Adv/Bills	87,929.24	66,886.54	60,261.69	60,928.31	50,884.83
(b) Income on Investment	27,905.03	21,990.64	23,264.25	20,971.20	18,102.29
(c) Int. on balances With RBI	2,305.46	1,819.60	1,881.72	907.41	927.10
(d) Others	2,927.08	4,710.09	3,755.00	2,028.85	2,067.43
Other Income	65,111.99	62,129.45	72,029.53	64,950.33	59,324.85
EXPENDITURE					
Interest Expended	50,543.39	41,166.67	42,659.09	44,665.52	39,177.54
Employees Cost	15,234.17	12,341.60	11,050.91	11,156.75	9,425.26
Other Expenses	67,204.85	60,810.13	65,220.76	60,361.15	54,833.62
Depreciation	--	--	--	--	--
Operating Profit before Provisions and contingencies	53,196.39	43,217.92	42,261.43	33,602.68	27,870.08
Provisions And Contingencies	6,939.93	8,976.65	16,377.39	15,014.07	20,461.82
Exceptional Items	--	--	--	--	--
P/L Before Tax	46,256.46	34,241.27	25,884.04	18,588.61	7,408.26
Tax	11,793.44	8,457.44	5,664.37	7,363.14	1,719.10
P/L After Tax from Ordinary Activities	34,463.02	25,783.83	20,219.67	11,225.47	5,689.16
Prior Year Adjustments	--	--	--	--	--
Extra Ordinary Items	--	--	--	--	--
Net Profit/(Loss) For the Period	34,463.02	25,783.83	20,219.67	11,225.47	5,689.16
Minority Interest	-1,424.67	-1,428.16	-1,979.64	-1,659.16	-1,434.92
Share Of P/L Of Associates	998.29	754.43	144.29	--	--
Net P/L After M.I & Associates	34,036.64	25,110.10	18,384.32	9,566.31	4,254.24
Equity Share Capital	1,396.78	1,389.97	1,383.41	1,294.76	1,289.46
Reserves Excluding Revaluation Reserves	209,248.29	177,167.61	153,075.71	118,518.45	109,889.27
Equity Dividend Rate (%)	--	--	--	--	--
ANALYTICAL RATIOS					
a) % of Share by Govt.	--	--	--	--	--
b) Capital Adequacy Ratio - Basel -I	--	--	--	--	--
c) Capital Adequacy Ratio - Basel -II	--	--	--	--	--
EPS Before Extra Ordinary					
Basic EPS	48.86	36.21	27.26	14.81	6.61
Diluted EPS	47.84	35.44	26.83	14.55	6.53
EPS After Extra Ordinary					
Basic EPS	48.86	36.21	27.26	14.81	6.61
Diluted EPS	47.84	35.44	26.83	14.55	6.53
NPA Ratios :					
i) Gross NPA	--	--	--	--	--
ii) Net NPA	--	--	--	--	--
i) % of Gross NPA	--	--	--	--	--

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HDFC Bank

Previous Years »

Standalone Balance Sheet	------------------- in Rs. Cr. -------------------				
	Mar '23	**Mar '22**	**Mar '21**	**Mar '20**	**Mar '19**
	12 mths	12 mths	12 mths	12 mths	12 mths
Capital and Liabilities:					
Total Share Capital	557.97	554.55	551.28	548.33	544.66
Equity Share Capital	557.97	554.55	551.28	548.33	544.66
Reserves	279,641.05	239,538.38	203,169.55	170,437.70	148,661.69
Net Worth	**280,199.02**	**240,092.93**	**203,720.83**	**170,986.03**	**149,206.35**
Deposits	1,883,394.65	1,559,217.44	1,335,060.22	1,147,502.29	923,140.93
Borrowings	206,765.56	184,817.21	135,487.32	144,628.54	117,085.12
Total Debt	**2,090,160.21**	**1,744,034.65**	**1,470,547.54**	**1,292,130.83**	**1,040,226.05**
Other Liabilities & Provisions	95,722.25	84,407.46	72,602.15	67,394.40	55,108.29
Total Liabilities	**2,466,081.48**	**2,068,535.04**	**1,746,870.52**	**1,530,511.26**	**1,244,540.69**
	Mar '23	**Mar '22**	**Mar '21**	**Mar '20**	**Mar '19**
	12 mths	12 mths	12 mths	12 mths	12 mths
Assets					
Cash & Balances with RBI	117,160.77	129,995.64	97,340.74	72,205.12	46,763.62
Balance with Banks, Money at Call	76,604.31	22,331.29	22,129.66	14,413.60	34,584.02
Advances	**1,600,585.90**	**1,368,820.93**	**1,132,836.63**	**993,702.88**	**819,401.22**
Investments	**517,001.43**	**455,535.69**	**443,728.29**	**391,826.66**	**290,587.88**
Gross Block	8,016.55	6,083.67	4,909.32	4,431.92	4,030.00
Net Block	**8,016.55**	**6,083.67**	**4,909.32**	**4,431.92**	**4,030.00**
Other Assets	146,712.52	85,767.83	45,925.89	53,931.09	49,173.95
Total Assets	**2,466,081.48**	**2,068,535.05**	**1,746,870.53**	**1,530,511.27**	**1,244,540.69**
Contingent Liabilities	0.00	1,452,410.35	1,015,845.74	1,180,538.31	1,074,667.92
Book Value (Rs)	502.18	432.95	369.54	311.83	547.89

Source : Dion Global Solutions Limited