

MEASURING NPA (NON-PERFORMING ASSETS) LEVELS AND ITS IMPACT ON PROFITABILITY IN HDFC BANK AND ICICI BANK

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ABSTRACT

The banking sector plays a crucial role in the economic development of a country by mobilizing savings and providing credit to various sectors of the economy. One of the major challenges faced by banks in recent years is the rising level of Non-Performing Assets (NPAs). Non-Performing Assets represent loans or advances on which the borrower fails to make interest or principal repayments for a specified period. High levels of NPAs adversely affect the profitability, liquidity, and financial stability of banks. Therefore, effective management of NPAs has become an important concern for banking institutions. This study focuses on measuring the levels of Non-Performing Assets and analyzing their impact on the profitability of two major private sector banks in India, namely HDFC Bank and ICICI Bank. The research examines how NPAs influence financial performance indicators such as net profit ratio, return on assets, and overall financial efficiency. The study mainly relies on secondary data collected from annual reports, financial statements, and reports published by the Reserve Bank of India. The analysis highlights the trend of NPAs in both banks and evaluates how efficiently they manage credit risk and loan recovery. The study also identifies the relationship between NPA levels and profitability of the banks. The findings of the research provide useful insights into the importance of effective credit management practices in maintaining financial stability and improving profitability in the banking sector.

Keywords: Non-Performing Assets, Banking Sector, Profitability, HDFC Bank, ICICI Bank, Credit Risk Management

INTRODUCTION

The banking sector plays a vital role in the financial system of a country. Banks act as financial intermediaries by accepting deposits from individuals and institutions and providing loans and advances to borrowers. Through this process, banks facilitate the flow of funds in the economy and support economic development. However, the effectiveness of banks largely depends on the quality of their loan portfolio and their ability to recover loans from borrowers. One of the major problems faced by banks is the issue of Non-Performing Assets (NPAs). A Non-Performing Asset refers to a loan or advance for which the principal or interest payment remains overdue for a period of more than ninety days. When borrowers fail to repay their loans on time, the asset becomes non-performing and stops generating income for the bank. The increase in NPAs affects the profitability and financial stability of banks. When loans become non-performing, banks are required to make provisions for possible losses, which directly reduces their profits. High levels of NPAs also affect the liquidity position of banks and reduce their ability to provide new loans to customers. Therefore, effective management of NPAs is essential for maintaining the financial health of banks. In India, the issue of NPAs has become an important concern for both public and private sector banks. The Reserve Bank of India has introduced various regulations and guidelines to control the growth of NPAs and improve the asset quality of banks. Banks are also adopting advanced credit appraisal systems and risk management techniques to minimize the occurrence of NPAs. Among private sector banks, HDFC Bank and ICICI Bank are two of the largest and most prominent banking institutions in India. These banks have played a significant role in the development of the Indian banking sector by providing various financial services including retail banking, corporate banking, digital banking, and investment services. Both banks have adopted modern banking technologies and strong risk management practices to maintain their financial performance. Despite their strong financial position, these banks also face challenges related to loan defaults and asset quality. Therefore, analyzing the levels of NPAs and their impact on profitability is essential to understand how effectively these banks manage their credit risk and maintain financial stability. This study aims to measure the NPA levels of HDFC Bank and ICICI Bank and examine their impact on the profitability of these banks. The analysis provides valuable insights into the relationship between asset quality and financial performance in the banking sector.

REVIEW OF LITERATURE

The review of literature indicates that several researchers have examined the issue of Non-Performing Assets (NPAs) and their influence on banking performance. Sharma (2021) observed that rising NPAs in Indian commercial banks adversely affect profitability and operational efficiency, emphasizing the importance of effective credit risk management practices. Gupta (2022) identified a strong negative relationship between NPAs and bank profitability, concluding that higher NPAs increase financial risk and reduce earnings. Reddy (2020) focused on private sector banks and found that strong credit appraisal systems help maintain better asset quality and lower NPA levels. Kumar and Singh (2023) highlighted that effective loan recovery mechanisms and sound risk management strategies are essential for improving financial performance. Collectively, these studies stress that poor asset quality weakens banking stability and reduces overall financial efficiency. The literature consistently emphasizes that proper NPA management is crucial for sustaining profitability and ensuring long-term financial stability in the banking sector.

STATEMENT OF THE PROBLEM

The banking industry plays an important role in maintaining financial stability and supporting economic growth. Banks provide credit facilities to individuals, businesses, and government institutions, which helps in promoting investment and economic development. However, one of the major challenges faced by banks is the increasing level of Non-Performing Assets. Non-Performing Assets arise when borrowers fail to repay their loans within the specified time period. When loans become non-performing, banks lose their interest income and may also face difficulties in recovering the principal amount. As a result, the profitability and operational efficiency of banks are adversely affected. High levels of NPAs create several financial problems for banks. They reduce the bank's income, increase provisioning requirements, and weaken the overall financial position of the bank. If NPAs continue to increase, it may lead to financial instability and reduced lending capacity. Although private sector banks such as HDFC Bank and ICICI Bank have relatively better asset quality compared to many other banks, they also face challenges related to loan defaults and credit risk. Therefore, it is important to analyze the level of NPAs in these banks and examine how they influence the profitability and financial performance of the banks. The main problem addressed in this study is to measure the levels of Non-Performing Assets in HDFC Bank and ICICI Bank and analyze their impact on the profitability of these banks.

OBJECTIVES OF THE STUDY

- To understand the concept of Non-Performing Assets in the banking sector.
- To analyze the NPA levels of HDFC Bank and ICICI Bank.
- To examine the relationship between NPAs and profitability.

RESEARCH METHODOLOGY: Research methodology refers to the systematic process used to collect, analyze, and interpret data in order to achieve the objectives of the study. It provides a structured framework for conducting research effectively.

Research Design: The study adopts a descriptive and analytical research design. Descriptive research is used to explain the concept of NPAs and the financial performance of banks, while analytical research is used to analyze the relationship between NPAs and profitability.

Sources of Data: The study is mainly based on secondary data collected from the following sources:

- Annual reports of HDFC Bank and ICICI Bank
- Reserve Bank of India publications
- Financial journals and research articles
- Banking and finance textbooks
- Official financial websites and online databases

Tools and Techniques for Analysis: The following tools are used for analyzing the data:

- Ratio Analysis
- Trend Analysis
- Comparative Analysis

ANALYSIS AND RESULTS

Gross NPA Comparison of HDFC Bank and ICICI Bank

Year	HDFC Bank Gross NPA (%)	ICICI Bank Gross NPA (%)
2019	1.36	6.52
2020	1.26	5.53
2021	1.32	4.96
2022	1.17	3.60
2023	1.12	2.81

The above table shows the Gross NPA levels of HDFC Bank and ICICI Bank for the selected period. It can be observed that HDFC Bank consistently maintained a lower Gross NPA ratio compared to ICICI Bank. The Gross NPA of HDFC Bank remained around 1–1.3%, indicating strong credit risk management and efficient loan recovery practices. In contrast, ICICI Bank recorded relatively higher NPA levels in earlier years but showed a significant decline over the study period due to improved asset quality and better risk management policies. The decreasing trend in NPAs indicates that both banks have taken effective measures to strengthen their loan monitoring systems and improve asset quality.

Net NPA Comparison of HDFC Bank and ICICI Bank

Year	HDFC Bank Net NPA (%)	ICICI Bank Net NPA (%)
2019	0.36	2.06
2020	0.36	1.41
2021	0.40	1.14
2022	0.32	0.76
2023	0.30	0.48

Net NPA represents the actual burden of bad loans after adjusting provisions made by the bank. From the above table, it is evident that HDFC Bank maintained a very low Net NPA ratio throughout the study period, which indicates strong financial discipline and effective credit appraisal mechanisms. ICICI Bank initially reported higher Net NPA levels but gradually reduced them over time through improved recovery mechanisms and stricter lending policies. The decline in Net NPA levels reflects better asset management practices and improved financial stability in both banks. Non-Performing Assets are one of the key indicators used to evaluate the asset quality of banks. When the level of NPAs increases, it indicates poor credit management and higher risk of loan defaults. Therefore, banks must adopt effective strategies to control NPAs and maintain profitability. HDFC Bank has generally maintained a lower level of NPAs compared to many other banks due to its strong credit evaluation process and efficient loan recovery mechanisms. The bank focuses on maintaining high asset quality and minimizing credit risk. ICICI Bank, although one of the largest private sector banks in India, has experienced fluctuations in NPA levels in certain periods due to exposure to corporate loans and economic changes. However, the bank has taken several measures such as improving risk management practices and strengthening loan monitoring systems to reduce NPAs. The comparison between HDFC Bank and ICICI Bank shows that both banks have adopted various strategies to manage their NPAs and maintain profitability. However, differences in lending policies, loan portfolio structure, and risk management practices may influence their NPA levels and financial performance. Overall, the analysis indicates that higher levels of NPAs negatively affect the profitability of banks by reducing interest income and increasing provisioning requirements.

CONCLUSION

Non-Performing Assets are one of the most significant challenges faced by banks in maintaining financial stability and profitability. Effective management of NPAs is essential for ensuring the long-term sustainability of banking institutions. The present study analyzed the levels of Non-Performing Assets in HDFC Bank and ICICI Bank and examined their impact on profitability. The analysis shows that NPAs have a direct influence on the financial performance of banks. Higher levels of NPAs reduce the income of banks and increase financial risk. The study indicates that HDFC Bank has maintained relatively lower NPA levels due to its strong credit management policies and efficient risk control mechanisms. ICICI Bank has also taken significant measures to reduce NPAs and improve asset quality. In the modern banking environment, banks must continuously monitor their loan portfolio, adopt advanced risk management techniques, and strengthen their credit appraisal systems to prevent the growth of NPAs. By maintaining strong asset quality and effective financial management practices, banks can improve their profitability and ensure long-term financial stability.

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