Educational Administration: Theory and Practice
2023, 29(1), 352-356
ISSN: 2148-2403
https://kuey.net/

Research Article

Evaluating Asset Quality In Indian Banking: A Case Study Of Net Npas In Axis Bank And ICICI Bank

Kulbir Singh[1*]

[1*]Assistant professor, Department of Commerce, Guru Nanak College, Budhlada, dalkulbir@gmail.com

Citation: Kulbir Singh, et al (2023), Evaluating Asset Quality In Indian Banking: A Case Study Of Net Npas In Axis Bank And ICICI Bank, *Educational Administration: Theory and Practice*. 29(1), 352-356
Doi: 10.53555/kuey.v29i1.6632

ARTICLE INFO

ABSTRACT

The leading private sector banks in India, Axis BANK and ICICI BANK, have net non-performing asset (NPA) trends examined in this study from 2018 to 2022. The study intends to appraise the private banking sector's asset quality performance and the efficiency of regulatory actions in resolving the non-performing asset (NPA) problem. The paper used the independent sample t-test and descriptive statistics for analysis. The bank's annual reports were used to collect secondary data. The implications of these revelations are far-reaching across dozens of stakeholders. It analysis can also be used by regulators to keep on top of the risks as they emerge and adapt their regulatory frameworks, while investors could overlay such assessment in making investment decisions. Policymakers can use the results to implement sectoral policies and maintain macroeconomic stability. Future research may consider the macroeconomic effects on asset quality or sectoral determinants of non-performing assets (NPAs).

Keywords: Assets, Banking, Economic, Growth, Profitability.

I INTRODUCTION

The banking sector contributes to both financial stability and economic growth. It allows it to play credit allocation, savings mobilisation and investment facilitation roles across sectors, fostering employment and increasing economic activity. Due to the high correlation between the resilience and performance of this sector with broad economic conditions, it is consistently under scrutiny. The level of non-performing assets (NPAs), a key measure of asset quality, is one factor that decides whether a bank is healthy or not. It is partially because banks always worry about NPAs (Non-performing assets - loans or advances for which principal and interest payments remain overdue for a long time) and regulatory issues.

A high percentage of non-performing assets (NPAs) not only builds pressure on a bank's earnings but also weakens its capital structure, restricting lending ability and posing systemic risk to the financial system. Non-performing assets or NPAs have become a convenient excuse given the surge in NPA cases around public and private sector banks, particularly over the last few years for some major players in the banking realm here. Many reasons behind it, like external shocks, sectoral imbalances, corporate governance issues, and even slowing economic growth. Various initiatives have been rolled out by both government and regulators, especially the Reserve Bank of India (RBI), including the implementation of the Insolvency and Bankruptcy Code (IBC), Asset quality review standards (AQRs), and resolution processes to address stressed assets. This study examines the net NPA trends of two large private sector banks operating out of India - AXIS BANK and ICICI BANK over 2018-2022. With their leading positions in the exclusive banking sector, these banks have a powerful market grip and exert significant control over the industry. Examining their NPA trajectories is also critical for gaining insights into the asset quality performance in private banking and adjudicating the efficacy of various strategies to resolve the NPA problem. It is, therefore, necessary for all stakeholders involved to understand the complexity of non-performing assets. It ought to provide investors with an essential vehicle for prodding a bank's risk profile and financials before committing capital. For the central bank, NPA data is vital in gauging financial stability and identifying some pockets that need to be managed better if they are becoming too large. On the other hand, such NPA patterns aid policymakers in formulating improved economic schemes that finally enhance a more robust and steadier financial sector.

II LITERATURE REVIEWS

Beck, Jakubik, and Piloiu (2013) examine factors that affect non-performing loans (NPLs) unrelated to the economy. Even after controlling macroeconomic conditions, they discovered that bank-specific characteristics such as capital adequacy, profitability, and loan loss provisions are critical in explaining non-performing loans (NPLs). The significance of risk management procedures at the bank level in reducing credit risk is emphasised in the paper.

Rajan (2015) highlights the need for swift action while discussing the difficulties Indian banks face due to growing NPAs. The author recommends enhancing corporate governance, bolstering risk management, and swiftly resolving stressed assets. This article offers a high-level lookout on India's NPA issue.

Chadha and Sharma (2015) state that the NPAs of the public sector banks in India are another interesting data point to compare. The authors find differences in non-performing assets (NPA) across banks, suggesting differing risk management strategies and mixed exposure to certain sectors.

Bhatia and Srivastava (2016) discuss the causes of NPAs in Indian banks. The results show that balance sheet approaches such as capital adequacy and management quality or macroeconomic factors like GDP growth rate and average inflation significantly influence NPAs (Nonperforming Assets) lent by banks. It should be quite informative for bank managers and lawmakers in India.

Kumar and Ravi (2017) study the influence of non-performing assets (NPAs) on profitability in Indian scheduled commercial banks. The authors found a significant negative relationship where higher non-performing assets (NPAs) decreased banks' profitability. It highlights the importance of prudent management of non-performing assets (NPAs) to protect finances at public sector banks.

Ghosh (2017) studies trends in non-performing assets, their impacts and remedies to solve the problem concerning the Indian banking industry. Policy-related matters contribute significantly to non-performing assets (NPAs), as does deficient risk management and an economic deceleration. The paper presents policy suggestions to address the issue as it is an important problem in the Indian economy.

Panagopoulos Spiliotis (2018) looks at the determinants of NPLs for a panel of eurozone banks. The authors summarise that there are important business cycles and bank-specific determinants. We feel the study is relevant for bank regulatory and supervisory authorities, providing a European view of determinants that affect credit risk.

Sahoo Dash (2019) Analysed the causes and effects of NPAs in the Indian banking industry. The paper provides a list of macroeconomic and bank-specific variables which explain the reason for non-performing assets (NPAs). They warned that the problem is so big that it can only be solved by wide-ranging reforms and by protecting the banking system's stability.

Dash Sahoo (2020) analyses the macroeconomic determinants of non-performing assets in India. According to the authors, interest rates, inflation and better GDP growth all influence NPAs. It illustrates the importance of macroeconomic stability in containing credit risk.

Choudhary and Kaur (2021) highlight the negative impact of non-performing assets (NPAs) on the profitability of Indian commercial banks and drive home the point that timely risk management bank-level NPA resolution methods have become imperative.

III OBJECTIVE OF THE STUDY

To examine net NPA trends in AXIS BANK and ICICI BANK
To determine the significance of mean net NPA differences between both banks.
To give suggestions to stakeholders, aiding risk assessment and policy formulation.

HYPOTHESIS OF THE STUDY

Null Hypothesis (H0): The mean net NPA (%) of AXIS BANK and ICICI BANK is not significantly different.
Alternative Hypothesis (H1): The mean net NPA (%) of AXIS BANK and ICICI BANK is significantly different.

IV RESEARCH METHODOLOGY

DATA COLLECTION

Secondary data on net NPA (%) collected for AXIS BANK and ICICI BANK.
Data spanned 2018-2022, sourced from published annual reports.
Annual reports ensured the reliability and accuracy of net NPA data.

Descriptive Statistics:

Mean net NPA (%) calculated for average NPA level over five years.
Standard Deviation measured variability in net NPA percentages.

The coefficient of Variation assessed the relative risk associated with net NPA.

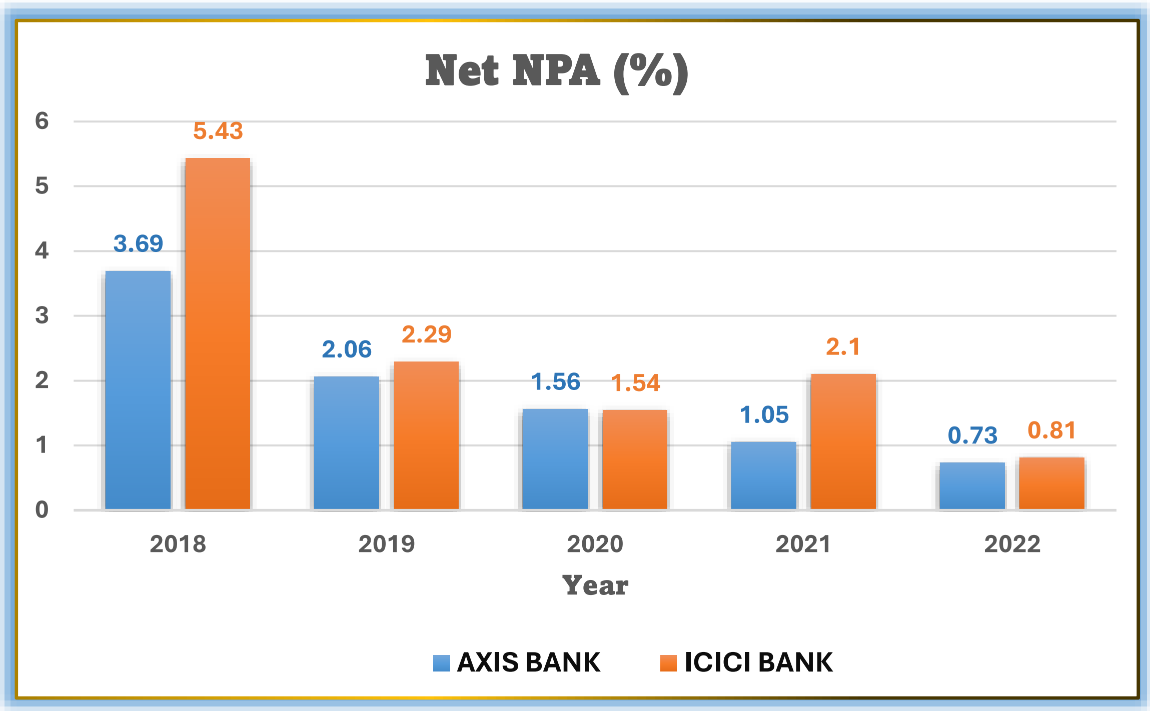
STATISTICAL TOOLS
Mean
Standard Deviation
Co-efficient variance
Independent T-test

V DATA ANALYSIS & INTERPRETATION

Table: -1 NET NPA of AXIS BANK AND ICICI (%)

Year	AXIS BANK	ICICI BANK
2018	3.69	5.43
2019	2.06	2.29
2020	1.56	1.54
2021	1.05	2.1
2022	0.73	0.81
Mean($\bar{x}$)	1.818	2.434
SD(σ)	1.162226312	1.770940428
C.V(%)	63.92884004	47.74964305

(Source: Money Control)



The above table and figure of NET NPA (%), Over Time for AXIS BANK v/s ICICI BANK, showed the results:

Trend Analysis:
AXIS BANK: Net NPA (%) for AXIS BANK reduces continuously from 2018 (3.69%) to 2022(0.73%). It is a significant improvement in the bank's asset quality over five years.
ICICI BANK: ICICI BANK also saw a reduction in its net NPA (%) from 5.43% (2018) to 0.81% as of 2022, But the team brightened slightly in 2021 enough to need further examination. Broadly, this indicates a likely deterioration in asset quality with volatility.

Mean Comparison:
AXIS BANK has a lower average net NPA (%) of 1.818% compared with ICICI BANK, which has a higher average of nearly 2.434%. On average, the quality of AXIS BANK's assets has been better than that of ICICI BANK over the last five years.

Risk Assessment (Coefficient of Variation):

Coefficient of Variation (C.V) as an index for elasticity and relative risk. A higher C.V. shows a higher dispersion of the data and is hence more risky.
C.V of AXIS BANK is higher (63.93%) than the C.V OF ICICI BANK (47.75%). It means that if we look at the average net NPA (%), AXIS BANK has a lower but more volatile (read risky) NET NPA (%) than ICICI BANK over the past 5 years.

Interpretation

Both AXIS BANK and ICICI BANK have improved their net NPA (%) over the 2018-2022. AXIS BANK, on average, had lower net NPAs but with higher volatility, indicating a slightly riskier profile than ICICI BANK. However, both banks' overall declining trend in net NPAs is a positive sign for their asset quality and financial health.

Table: - 2 T-Test: Based on The NPA OF Both Bank

	AXIS BANK	*ICICI BANK*
Mean	1.818	2.434
Variance	1.35077	3.13623
Observations	5	5
Pooled Variance	2.2435	
Hypothesised Mean Difference	0	
Degree of Freedom	8	
t Stat	-0.65026	
P(T<=t) one-tail	0.266874	
t Critical one-tail	1.859548	
P(T<=t) two-tail	0.533748	
t Critical two-tail	2.306004	

Source :- Complied Data

The above table shows the following results: the t-statistic (-0.65026) and the associated p-values (0.266874 for one-tail, 0.533748 for two-tail) at the degree of freedom at 8 suggest that there is no statistically significant difference between the mean net NPAs of AXIS BANK and ICICI BANK.

VI SUGGESTIONS OF THE STUDY

Based on the findings and interpretation of the net NPA analysis of AXIS BANK and ICICI BANK from 2018-2022, here are some suggestions for stakeholders:
For AXIS BANK:
Risk Management Enhancement: It should be noted that net NPAs have generally increased over the quarters; hence, there is a need for better risk management systems with more volatility relative to ICICI BANK. Proactively identifying and resolving potential stressed assets could involve strengthening early warning signals, enhancing portfolio diversification strategies or streamlining credit appraisal functions.
Sectoral Focus: The bank would also analyse its NPAs sector-wise and see if any sectors contribute excessively to their overall NPA levels. It could allow the bank to tailor its lending strategy and risk mitigation measures accordingly.

For ICICI BANK:

Sustained Focus on Asset Quality: The bank will continue to ensure its asset quality and keep enhancing it through conservative lending practices, stricter underwriting standards for loans and advances, close monitoring of the loan portfolio as a preventive measure, and effective recovery mechanisms for the existing NPAs.
Investigation of 2021 Uptick: The marginal rise in net NPAs seen in 2021 is a matter of concern that needs to be probed and the root cause identified so as not to emerge again, which raises doubt if it is a systemic or merely positive trend reversal.

For Investors:

Due Diligence: Investors should perform full due diligence before investing in either bank or consider the risk profile, overall financial performance and net NPA trends, among other parameters.
Diversification: Therefore, spreading investments across various banks and sectors allows.

For Regulators:

Continued Monitoring: RBI must monitor the asset quality trend of banks, including AXIS and ICICI, to ensure emerging risks are identified in time for necessary preventative measures that could prevent systemic risk.
Regulatory Framework: The conclusions drawn from this study will provide input on empirical grounds for review and the possible role of related regulation (asset classification, provisioning norms, and resolution

process in the case of NPAs).

For Policymakers:

Sector-Specific Policies: Such an analysis will provide a roadmap to frame measures/policies for each sector, specifically if some structural issues or vulnerabilities lead to large NPAs in select sectors of the economy. Macroeconomic Stability: Maintaining macroeconomic stability and sound fiscal and monetary policies will prevent a spike in the NPAs. The government will continue to promote sustainable economic growth and, at the same time, manage inflation.

VII CONCLUSION

This study's analysis of net NPAs in AXIS BANK and ICICI BANK from 2018-2022 reveals a positive trend of declining asset quality concerns, showcasing significant improvement. However, AXIS BANK's higher volatility necessitates further risk management refinement. The absence of a statistically significant difference in mean net NPAs between the two banks underscores the effectiveness of recent policy interventions in the Indian banking sector. These findings inform investors, regulators, and policymakers, guiding risk assessment, regulatory action, and policy formulation to foster a stable and resilient banking environment. Future research could delve into sector-specific NPA drivers and the impact of macroeconomic factors on asset quality.

REFERENCES

1. B**erger, A. N., & DeYoung, R. (1997). Problem loans and cost efficiency in commercial banks.**
2. **Salas, V., & Saurina, J. (2002). Credit risk in two institutional regimes: Spanish commercial and savings banks.** *Journal of Financial Services Research*, 22(3), 203-224.
3. **Louzis, D. P., Vouldis, A. T., & Metaxas, V. L. (2012). Macroeconomic and bank-specific determinants of non-performing loans in Greece: A comparative study of mortgage, business, and consumer loan portfolios.** *Journal of Banking & Finance*, 36(4), 1012-1027.
4. **Beck, R., Jakubik, P., & Piloiu, A. (2013). Non-performing loans: What matters in addition to the economic cycle?** *Economic Modelling*, 31, 176-188.
5. **Bhatia, R., & Srivastava, D. (2016). Determinants of non-performing assets in Indian banks.** *Journal of Financial Economic Policy*, 8(4), 417-434.
6. **Ghosh, A. (2017). Non-performing assets in India's banking sector: Trends, impact, and way forward.** *Indira Gandhi Institute of Development Research Working Paper*, WP-2017-014.
7. **Rajan, R. G. (2015). Indian banks: A time for decisive action.** *Reserve Bank of India Bulletin*, 69(12), 1187-1193.
8. **Kumar, M., & Ravi, M. (2017). Impact of non-performing assets on the profitability of public sector banks in India.** *International Journal of Bank Marketing*, 35(7), 1096-1117.
9. **Sahoo, P., & Dash, R. K. (2019). Non-performing assets in the Indian banking sector: A cause for concern.** *Global Business Review*, 20(2), 339-358.
10. Chadha, S., & Sharma, A. K. (2015). Non-performing assets (NPAs) of public sector banks in India: A comparative study. *International Journal of Business and Management*, 10(2), 142-151.
11. Panagopoulos, A., & Spiliotis, A. (2018). Determinants of non-performing loans: Evidence from a panel of euro area banks. *Journal of International Financial Markets, Institutions and Money*, 54, 185-201.
12. Dash, R. K., & Sahoo, P. (2020). Non-performing assets and their macroeconomic determinants in India: An empirical analysis. *Journal of Financial Economic Policy*, 12(3), 399-420. (
13. Choudhary, K., & Kaur, H. (2021). Impact of non-performing assets on the profitability of Indian commercial banks. *Studies in Indian Place Names*, 41(40), 118-129
14. **Srivastava, A., & Kapil, S. (2022). Determinants of non-performing assets in Indian banking sector: An empirical study.** *Journal of Public Affairs*, 22(1), e2475.