

# A Study on Non-Performing Assets and Credit Appraisal Practices in ICICI Bank

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**Abstract:** This study examines the relationship between Non-Performing Assets (NPAs) and credit appraisal practices in ICICI Bank. NPAs are a major concern for banks as they directly affect profitability, liquidity, and financial stability. The study focuses on identifying key factors influencing NPAs and evaluating the effectiveness of credit appraisal systems in minimizing credit risk. Secondary data from annual reports, RBI publications, and financial statements for the period 2021–2025 has been used. Analytical tools such as ratio analysis and trend analysis are applied to assess asset quality and profitability indicators. The findings reveal that strong credit appraisal practices, supported by technology and risk management systems, have significantly contributed to reducing NPAs in ICICI Bank. The study concludes that continuous improvement in credit evaluation, early warning systems, and monitoring mechanisms is essential for maintaining asset quality and ensuring long-term financial stability.

**Keywords:** Non-Performing Assets, Credit Appraisal, ICICI Bank, Asset Quality, Banking Sector, Risk Management.

## I. INTRODUCTION

Non-Performing Assets (NPAs) represent loans where borrowers fail to repay interest or principal for more than 90 days. NPAs are a critical indicator of a bank's financial health and directly impact profitability and liquidity in the case of ICICI Bank, rapid credit expansion and exposure to sectors like infrastructure and steel previously led to increased NPAs. However, the bank has significantly improved its asset quality through advanced credit appraisal systems and technological integration. Credit appraisal refers to the process of evaluating a borrower's creditworthiness based on financial, managerial, and economic factors. A strong appraisal system helps reduce default risk and ensures quality lending.

### Statement of the Problem

Despite significant improvements in asset quality and credit risk management, ICICI Bank continues to face several challenges. One of the major concerns is loan slippages arising from exposure to risky sectors such as infrastructure, agriculture, and small businesses, where repayment capacity is often uncertain and influenced by external factors. Additionally, information asymmetry remains a critical issue, particularly in SME and rural lending, where borrowers may not maintain transparent or reliable financial records, making accurate credit assessment difficult. Furthermore, despite the adoption of advanced technologies, limitations still exist in predictive credit models, as they often rely heavily on historical data and may fail to accurately capture future uncertainties or sudden economic changes.

### Research Objectives & Hypotheses

#### Objectives:

1. To understand the Non-Performing Assets management and recovery system in ICICI Bank.
2. To analyse the impact of credit appraisal practices on minimizing the future acceleration of NPAs in ICICI Bank.

## Significance of the Study

This study highlights the relationship between Non-Performing Assets (NPAs) and credit appraisal practices in ICICI Bank. It emphasizes the importance of effective credit evaluation in reducing risk and improving asset quality. The findings are useful for bank management, policymakers, and researchers in enhancing risk management practices and ensuring financial stability in the banking sector.

## Scope and Limitations

This study focuses on analysing Non-Performing Assets (NPAs) and credit appraisal practices in ICICI Bank over the period 2021–2025. It examines factors affecting asset quality, credit risk assessment, and financial performance within the Indian operations of the bank, covering both retail and corporate lending. However, the study is limited by its reliance on secondary data from annual reports and published sources. Due to confidentiality, detailed internal and borrower-level data is not accessible. The findings are specific to ICICI Bank and may not be generalized to other banks, and they may also be influenced by external economic and policy changes.

## II. REVIEW OF LITERATURE

**1.Rai, Gaurav Deep (2021):** The author looks at how healthy ICICI Bank in terms of money. The study checks things to see how strong both banks are and how well they follow the rules of RBI and Basel norms. The author uses the Mann-Whitney U test to compare ICICI Bank. This helps to see ICICI Bank are doing.

**2. Ahmad and Khan (2021):** This research looked at the Gross and Net NPAs of ICICI Bank. They compared these numbers from 2021 to 2025. They used a test called an Independent Sample t-test to do this. What they found was really interesting. There is a difference in the Gross NPA ratios between ICICI Bank. When it comes to Net NPAs the difference is not that big. Ahmad and Khan found that the difference, in Net NPAs is not significant.

**3.Jain, Lamba & Soni (2021):** They wanted to see how Non- Performing Assets or NPAs affect the performance of public banks, private banks and foreign banks in India. What they found out is that when Non- Performing Assets go up the income of these banks also goes up. The profits of these banks tend to go down which shows that rising Non - Performing Assets have a negative effect on them. Non- Performing Assets are really bad, for the profits of these banks.

## Research Design

The study uses a descriptive and analytical research design to examine Non-Performing Assets (NPAs) and credit appraisal practices in ICICI Bank. The descriptive approach helps in understanding trends in NPAs and financial performance, while the analytical approach evaluates the relationship between credit appraisal and key financial indicators.

## Sampling Technique:

The study uses a non-probability purposive sampling technique. Data is selected based on relevance and availability, focusing on financial information and credit-related aspects of ICICI Bank for the study period.

## Data Collection Methods

**Data type:** Secondary Data

**Data Source:** Annual reports of ICICI Bank ,Money control website for financial database

Industry journals and research papers.

## Hypotheses

**Null Hypothesis (H<sub>0</sub>):** There is no significant relationship between Non-Performing Assets (NPAs) and Return on Equity (ROE) of ICICI Bank.

## Analytical Tools Used

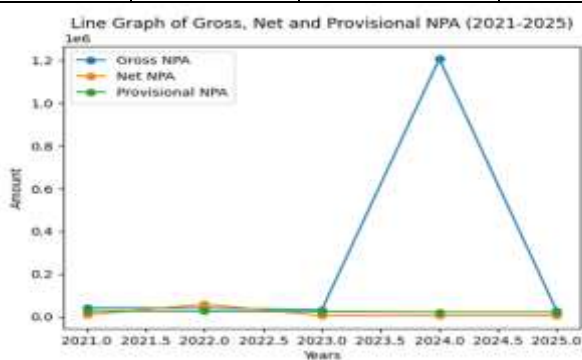
- Gross NPA Ratio

- Net NPA Ratio
- Return on Assets (ROA)
- Return on Equity (ROE)
- Provision Coverage Ratio (PCR)

#### IV. DATA ANALYSIS

##### ICICI BANK GROSS NPA, NET NPA, PROVISIONAL NPA TOTAL AMOUNTS IN 2021-2025 YEARS.

| Year | Gross NPA | Net NPA | Provisional NPA |
|------|-----------|---------|-----------------|
| 2021 | 41373.5   | 9180.3  | 28475.4         |
| 2022 | 40841.4   | 60310.2 | 26363.7         |
| 2023 | 33294.9   | 5504.4  | 24835.8         |
| 2024 | 1206487.3 | 5337.5  | 21935.9         |
| 2025 | 27313.87  | 5233.14 | 22080.73        |



**Interpretation:** The data shows an overall improvement in asset quality of ICICI Bank over the period. Gross NPA declined from 2021 to 2023, indicating better credit appraisal and recovery efforts. Although there is a sharp spike in 2024, it appears abnormal or exceptional, followed by a significant decline in 2025, suggesting corrective measures were taken. Net NPA shows a consistent decreasing trend, reflecting strong provisioning and recovery performance. Overall, the bank demonstrates effective NPA management and improved credit risk practices

##### PERCENTAGES OF GROSS NPA NET NPA PROVISIONAL NPA

| YEAR | GROSS NPA | NET NPA | PROVISIONAL NPA |
|------|-----------|---------|-----------------|
| 2021 | 5.33%     | 1.24%   | 77.70%          |
| 2022 | 3.76%     | 0.81%   | 79.20%          |
| 2023 | 3.18%     | 0.52%   | 82.80%          |
| 2024 | 1.42%     | 0.45%   | 80.30%          |
| 2025 | 1.23%     | 0.23%   | 76.20%          |

**INTERPERATION:** The analysis shows that ICICI Bank has significantly improved its asset quality from 2021 to 2025. Both Gross NPA and Net NPA declined steadily, indicating effective credit appraisal and recovery practices. Although Provisional NPA remained relatively high, it reflects strong provisioning by the bank. Overall, the trend indicates reduced credit risk and better management of non-performing assets.

## RETURN ON EQUITY

| YEAR | PERCENTANGE |
|------|-------------|
| 2021 | 12.60%      |
| 2022 | 17.50%      |
| 2023 | 18.50%      |
| 2024 | 18.47%      |
| 2025 | 16.30%      |

### INTERPERTATION:

The ROE analysis shows strong returns for shareholders, with all values above the expected level. It improved significantly after the pandemic and reached a peak of 18.50% in 2023, showing high efficiency in using equity. Although it slightly declined to 16.30% in 2025, performance remained strong overall. The bank effectively utilized shareholders' funds, and lower bad loans helped maintain stable and safe returns.

## REGRESSION OF PERFORMANCE OF NPA AND RETURN ON EQUITY:

Null Hypothesis (**H0**): There is no significant relationship between Non-Performing Assets (NPAs) and Return on Equity (ROE) of ICICI Bank.

| YEARS | PERFORMANCE OF NPA | RETURN ON EQUITY |
|-------|--------------------|------------------|
| 2021  | 41373.5            | 12.60%           |
| 2022  | 40481.4            | 17.50%           |
| 2023  | 33294.9            | 18.50%           |
| 2024  | 1206487.3          | 18.47%           |
| 2025  | 27313.87           | 16.30%           |

| Regression Statistics |          |
|-----------------------|----------|
| Multiple R            | 0.406019 |
| R Square              | 0.164851 |
| Adjusted R Square     | -0.11353 |
| Standard Error        | 552588   |
| Observations          | 5        |

| ANOVA      |                     |                       |               |                |                       |
|------------|---------------------|-----------------------|---------------|----------------|-----------------------|
|            | <i>df</i>           | <i>SS</i>             | <i>MS</i>     | <i>F</i>       | <i>Significance F</i> |
| Regression | 1                   | 181000000000          | 181000000000  | <b>0.5922</b>  | <b>0.497618</b>       |
| Residual   | 3                   | 916000000000          | 305000000000  |                |                       |
| Total      | 4                   | 1100000000000         |               |                |                       |
|            | <i>Coefficients</i> | <i>Standard Error</i> | <i>t Stat</i> | <i>P-value</i> |                       |
| Intercept  | -1178133            | 1897732               | -0.62081      | 0.5787         |                       |

|              |         |          |          |        |
|--------------|---------|----------|----------|--------|
| X Variable 1 | 8683720 | 11284472 | 0.769528 | 0.4976 |
|--------------|---------|----------|----------|--------|

## INTERPERTATION:

The overall model doesn't achieve statistical significance according to the ANOVA framework. The F-statistic is 0.550, giving a p-value of 0.512, which is way above the 0.05 alpha level. Checking the individual predictors, neither the intercept ( $p = 0.603$ ) nor the X Variable ( $p = 0.512$ ), ( $t = 0.742$ ) reaches statistical significance either. The 95% confidence intervals for both coefficients cross zero, so we can't discount a true effect size of zero. With just 5 observations, the study has too little data to suggest that the X variable has any meaningful or reliable impact on the outcome

## V. FINDINGS, SUGGESTIONS, AND CONCLUSIONS

### FINDINGS:

- 1.From 2021 to 2025, the ICICI Bank experienced a consistent drop in NPA levels because of its robust recovery system and enhanced credit evaluation policies.
- 2.It made substantial recoveries and improvements in NPA status annually.
- 3.The bank's risk assessment was fortified, there was increased concentration on retail lending, and provisioning coverage was kept high enough to avoid defaults. This resulted in improved asset quality and management of credit risks.

### SUGGESTIONS:

The bank should focus on maintaining its profitability levels by further improving asset utilization efficiency. Continuous efforts should be made to control NPAs to support stable returns. ICICI Bank should also strengthen its credit appraisal system to ensure high-quality lending. In addition, balanced growth between income and assets is important to avoid pressure on ROA in future years. The bank should continue adopting digital banking and cost-control strategies to sustain strong ROE and overall financial performance.

### CONCLUSION

The study concludes that ICICI Bank has demonstrated strong Finan performance over the selected period, with consistent ROA and ROE above industry benchmarks. The bank showed significant improvement in profitability and efficiency during the post-pandemic period, especially in 2022 and 2023. Although a slight moderation was observed in the later years, the overall performance remained stable and strong. Effective asset management, better equity utilization, and controlled NPAs contributed to sustained growth. Hence, ICICI Bank has maintained a healthy financial position and efficient operational performance throughout the study period.

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