
NON-PERFORMING ASSETS (NPAs) AND ITS RECOVERY MECHANISM: A STUDY ON SCHEDULED COMMERCIAL BANKS IN INDIA

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Abstract

NPAs are those loans and advances that cease to generate income for a bank. It plays crucial role in the performance and smooth operation of a bank. The objectives of the present paper are to study about the various methods and mechanism that are used to recover the NPAs in India and analyze about their ability to recover the NPAs of the scheduled commercial banks. It is found that there are four methods with the help of which NPAs are recovered by the scheduled commercial banks in India. Out of these four methods, the highest numbers of cases are solved through Lok Adalat methods and it involves the highest amount also. Nevertheless, Insolvency and Bankruptcy Code (IBC) and SARFAESI have shown the highest recovery rate in last 9 years.

Key Words

NPAs, Scheduled Commercial Banks, Lok Adalats, Debt-Recovery Tribunal, SARFAESI, Insolvency and Bankruptcy Code.

Introduction

Non-Performing Assets (NPAs) is one of the key metrics used by banks to assess their efficiency. The management of Non-Performing Assets (NPAs) has a significant impact on its performance as the Non-Performing Assets (NPAs) ceased to generate income, require provision, increase borrowing cost, lower the morale of the employee and deplete capital. In this situation, recovering Non-Performing Assets (NPAs) is very much essential for the banks. Therefore, a proper management of NPAs is crucial for banks so that they can reduce the NPAs.

According to the guidelines of RBI, an asset becomes non-performing assets when it ceases to generate income for a bank. The summary of the guidelines is given below:

- i. In respect of Term Loans: Term loans become non performing if the interest on such assets is remain due for past 90 days or more during the year ended 31st March, 2005 and onwards.
- ii. In respect of Cash Credit: In respect of cash credit and overdraft, no interest is accrued on such advances should be recognized if the customer's account remains out of order for 90 days or more during the year ended 31st March, 2005 and onwards.
- iii. In respect of Bills Purchased and Discounted: The bills purchased/discounted account should be treated as NPA if the bills remain overdue and unpaid for a period of 90 days or more during the year ended 31st March, 2005 and onwards.
- iv. In respect of other Accounts: Any credit facility provided by banks should be treated as NPAs if any amount receivable in respect of that facility is due in past 90 days or more during the year ended 31st March, 2005 and onwards.

Factors/Causes of increasing NPAs in the Banks

There are number of factors and causes which increase the NPAs in banks. These factors can be categorized into two major categories.

Pre-Sanctioned Phase

- i. Lack of skilled or trained professionals in the field of bank to analyze and select the borrower.
- ii. Selection of the projects by the banks for funding without appropriate inspection or with biased analysis of creditworthiness of the entrepreneur, future scope of the project, uncertainties involved in the project, along with technical, legal, and environmental feasibility of the project.
- iii. Inadequate security or false security attached to the loan.
- iv. Acceptance of unrealistic repayment schedules by the borrower showing off exaggerated returns.

Post Sanction Phase

- i. Lack of proper report on the borrower by the bank.
- ii. Defaults due to increasing risks or uncertainties in business.
- iii. Lack of understanding of borrowers' problems and non-availability of proper support by bands in case of rehabilitation and restructuring.
- iv. Failure to select an appropriate third party to disburse loans and screening the borrowers.
- v. Lack of proper support of bankers from the borrowers.
- vi. Non-availability of human resources for carrying out efficient recovery processes.

Scheduled Commercial Banks in India

Indian banking system is one of the largest banking systems in the world in terms of its number of banks. At present, Indian banking system comprises of commercial banks, cooperative banks, regional rural banks and payment banks. At end of 31st March 2023, the Indian commercial banking system comprised of 12 public sector banks (PSBs), 21 private sector banks (PVBs), 44 foreign banks (FBs), 12 Small Financial Banks, six Payment Banks, 43 Regional Rural Banks and 2 Local Area Banks. Out of these 140 commercial banks, 136 were classified as scheduled while four banks were non-scheduled. 2 Payment Banks namely Jio Payments Bank Ltd. and NSDL Payments Bank Ltd and 2 Local Area Banks namely Coastal Local Area Bank Ltd. and Krishna Bhima Samruddhi LAB Ltd. are non-scheduled commercial banks.

Review of Literature

Kaur and Sing (2011) examined whether the levels of NPAs in different kinds of banks are same or not and they found that the extent of NPAs is comparatively higher in public sector banks in comparison to private sector and foreign banks.

Singh (2013) found that one of the major problems that the Indian banking sector is facing is the problems of NPAs. Indian Banks must take necessary steps to control and reduce these NPAs to improve their profitability and efficiency.

Gupta and Kesari (2016) argued that global economic slowdown and its impact on Indian economy was the main cause for rising of the NPAs.

Banana and Chepuri (2016) examined the performance of different recovery channel that are available in India to recover the NPAs and they found that the SARFAESI Act is more superior in comparison to other recovery channel

Dey Surojit (2018) found that the main the problem of increasing NPAs in the banks is the credit risk management system prevailing in the banks. He also found that recovery through various channel i.e., Lok Adalat, DRTs, SARFAESI is different from each other.

K.T. and Karnath (2021) said that the recovery of NPAs is always been the tough task to Indian banks. They found that recovery channels are not much effective and did not give any significant evidence of NPAs recovery. They also argued that Government of India and RBI should take initiative to improving the efficiency of the recovery channels.



Allada&Jnaneshwar (2021), in their study estimate the level of NPA held by commercial banks in India and measure the financial effects of NPAs on the commercial banks. They find that there is a steady increase in the levels of NPAs and recommends for use of various NPA recovery tools like Lok Adalaths, Debt Recovery Tribunals and SARFAESI Act to lower the level of NPAs in those banks.

Research Methodology

The present study is analytical in nature and based on secondary data only. The data are collected from various reports published by the Reserve Bank of India from time to time. This study considers the scheduled commercial banks in India covering the time period starting from 2014-15 to 2022-23. MS-Excel is used for analyzing the data. Various types of charts like line chart, pie charts are used for graphical representation.

Objectives of the Study

The present study is pursued keeping in view the following three main objectives -

- i. To examine the level of NPAs in the scheduled commercial banks in India,
- ii. To identify the various NPAs recovery mechanism/methods and their recovery,
- iii. To make comparison about the ability of to recover the NPAs among the various methods.

Rationale of the Study

After this study, we will be able to find out the levels of NPAs in the scheduled commercial banks in India and also able to know the various methods that have been adopted by the scheduled commercial banks to recover these NPAs. This study will also measure the number of recoveries of NPAs through various methods and their rate of recoveries which will be a great importance of the study.

Limitation of the Study

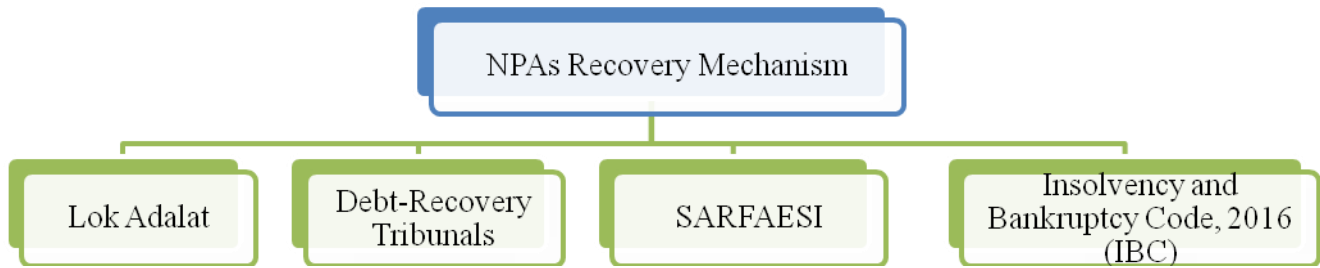
Following are the main limitations of the present study –

- i. Since the present study is analytical in nature, hence, only quantitative data are considered for the study. Qualitative information is ignored in the present study.
- ii. The present study only covers the time period starting from 2014-15 to 2022-23. The data belongs to the period before 2014-15 are ignored here.

Non-Performing Assets (NPAs) Recovery Mechanism in India

It is a very tough task to recover the Non-Performing Assets (NPAs) of the banks. Nevertheless, banks are trying very hard to recover these Non-Performing Assets (NPAs). There are mainly 4 ways or methods that are prevailing in India with the help which NPAs can be recovered.

Figure 1: Number of NPAs Recovery Methods in India



i. Lok Adalats

Lok Adalat is a non-adversarial system, whereby mock courts (called Lok Adalats) are held by the State Authority, District Authority, Supreme Court Legal Services Committee, High Court Local Services Committee, or Taluk Legal Services Committee. This Lok-Adalat system has developed in India by Legal Services Authorities Act, 1987. The emergence of this system was the result of encouragement made by Justice P.N. Bhagwati, a former Chief Justice of India. The first Lok Adalat was took place on March 14, 1982 in Gujarat. . Lok Adalats help banks to settle their bad loans making compromise between the bankers and defaulters. Lok Adalats are helpful in recovering smaller loans. Debt-Recovery Tribunals are authorized to constitute the Lok Adalats to hear the cases involving NPAs of Rs. 10 lakhs and more. Mobile Lok Adalats are also constituted from time to time to hears the cases in different parts of India.

ii. Debt-Recovery Tribunal

Debts Recovery Tribunals (DRTs) and Debts Recovery Appellate Tribunals (DRAT) were constituted under the provisions of the DRT Act, for resolving the disputes which are related to debts and to recover of the debt and for matters connected therewith. The Debt Recovery Tribunals have been established in India under an Act of Parliament (act 51 of 1993) for speedy swift recovery of debts due to banks and financial institutions by the Government of India. This Debt Recovery Tribunal is also the appellate authority for appeals filed against the proceedings initiated by secured creditors under the SARFAESI Act, 2002. At present there are 39 Debts Recovery Tribunals (DRT) and 5 Debts Recovery Appellate Tribunals (DRAT) functioning in India.

iii. SARFAESI Act

The Securitisation and Reconstruction of Financial Assets and Enforcement of Security Interest (SARFAESI) Act, 2002 is a law in India that helps banks and other financial institutions recovering loans and reducing non-performing assets. This act was enacted in December, 2002 as per the recommendations of a) Committee on Banking Sector reforms (Narasimham Committee Report II) and b) Restructuring of Weak Public sector Banks (Verma Committee). The sole purpose of this act is the speedy recovery of the default loans and to reduce the increasing level of non-performing assets in banks and financial institutions enabling banks to strengthen their liquidity position.

This law is applicable to all over the India for the securitisation, reconstruction of financial assets and enforcement of the security interest. Nevertheless, this law is not applicable to unsecured loans, loans below Rs. 1,00,000 and NPA loan accounts that are less than 20% of the principal and interest. This Act brings three alternative methods for recovery of non-performing assets. They are-

- a) Securitisation,
- b) Assets Reconstruction, and
- c) Enforcement of Security without intervention of the court.

iv. Insolvency and Bankruptcy Code, 2016 (IBC)

The latest reforms in case of NPAs recovery mechanism is the enactment of the the Insolvency and Bankruptcy Code, 2016 (IBC). The Insolvency and Bankruptcy Code, 2016 (IBC) is an Indian Law which creates as per the recommendations of the Draft Committee headed by T.K. Viswanathan to consolidated the framework that governs insolvency and bankruptcy proceedings for companies, partnership firms, and individuals. The code gives separate outlines for insolvency resolution processes for individuals, firms, companies etc. Either the debtors or creditors may initiate this process. Through this process, the banks may recovers their NPAs attached with those individual, firm, companies that becomes insolvent.

Data Analysis and Findings

The analysis, findings and interpretations of this paper are reported in the following manner.

Table 1: Gross NPAs of different types of Scheduled Commercial Banks in India

(Amounts is in Rs. Crore)

Year	Public Sector Banks	Private Sector Banks	Foreign Banks	SFBs	Total
2015-16	5,40,000	56,200	15,800		6,11,900
2016-17	6,84,700	93,200	13,600		7,91,800
2017-18	8,95,601	1,29,335	13,849		10,39,679
2018-19	7,39,541	1,83,604	12,242	1,087	9,36,474
2019-20	6,78,317	2,09,568	10,208	1,709	8,99,803
2020-21	6,16,616	1,97,508	15,044	5,971	8,35,138
2021-22	5,42,174	1,80,769	13,786	6,911	7,43,640
2022-23	4,28,197	1,25,214	9,526	8,608	5,71,546

(Source: Compiled by the Researcher)

Figure 2: Gross NPAs of the different types of Scheduled Commercial Banks in India

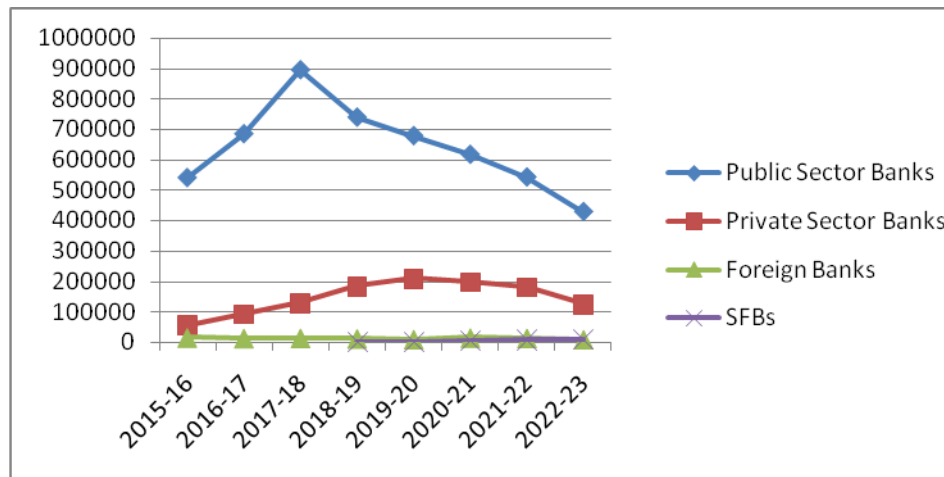
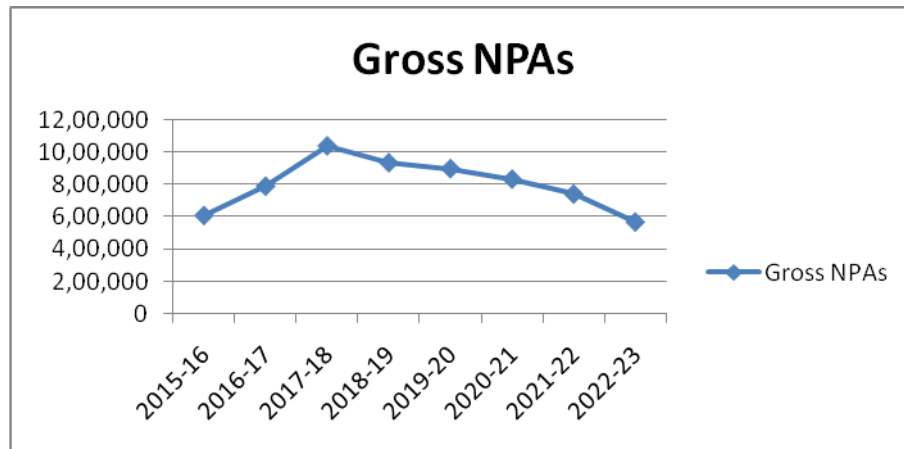


Figure 3: Total Amount of Gross NPAs of Scheduled Commercial Banks in India



From table 1, it is found that the Gross NPAs of the public sector scheduled bank was increased from Rs. 5,40,000 crore to Rs.7,39,541 crore during the financial year 2015-16 to 2017-18. But from 2018-19 onwards, the Gross NPAs of the public sector scheduled commercial banks decreases and at end of 2022-23, it was stood at Rs.. Rs. 4,28,197 crore. Gross NPAs of the private sector scheduled commercial banks and foreign scheduled commercial banks also decreases in the similar pattern. However, the Gross NPAs of the Small Financial Banks increases. In 2018-19, the Gross NPAs of the Small Financial Banks was Rs. 1,087 crore and in 2022-23, it becomes Rs. 8,608 crore. The overall Gross NPAs of the scheduled commercial banks increase from the financial year 2015-16 to 2017-18. In 2015-16, the total Gross NPAs of the scheduled commercial bank was at Rs. 6,11,900 crore and in 2017-18, it became Rs. 10,39,679 crore which showed almost 69.90% growth in Gross NPAs of the scheduled commercial banks. From then, it decreases and at the end of 2022-23, the Gross NPAs of the scheduled commercial banks stood at Rs. 5,71,546 crore.

Table 2: Net NPAs of different types of Scheduled Commercial Banks in India

(Amounts is in Rs. Crore)

Year	Public Sector Banks	Private Sector Banks	Foreign Banks	SFBs	Scheduled Commercial Bank
2015-16	3,20,400	26,700	2,800	-	3,49,800
2016-17	3,83,100	47,800	2,100	-	4,33,100
2017-18	4,54,473	64,380	1,548	-	5,20,838
2018-19	2,85,122	67,309	2,051	586	3,55,068
2019-20	2,30,918	55,683	2,005	765	2,89,370
2020-21	1,96,451	55,377	3,241	2,981	2,58,050
2021-22	1,54,745	43,738	3,023	2,725	2,04,231
2022-23	1,02,532	29,507	1,672	1,622	1,35,333

(Source: Compiled by the Researcher)

Figure 4: Net NPAs of the different types of Scheduled Commercial Banks in India

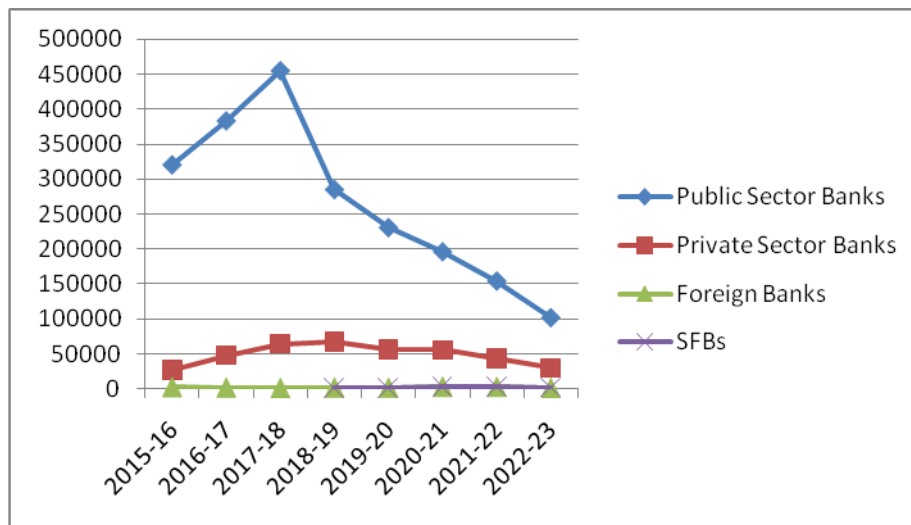


Figure 5: Total Amount of Net NPAs of Scheduled Commercial Banks in India

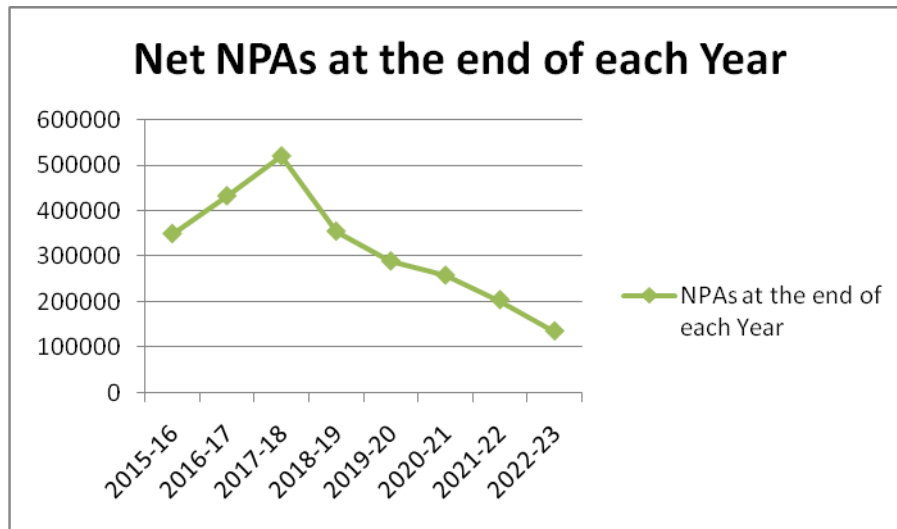


Table 2 clearly depicts that the Net NPAs of the scheduled commercial banks are very low in comparison to their Gross NPAs. The Net NPAs of the public sector scheduled commercial banks are very high in comparison to private sector commercial banks, foreign commercial banks and Small Financial Banks (SFBs). During 2015-16, the total Net NPAs of the scheduled commercial banks were Rs. 3,49,800 crore, out of which Rs. 3,20,400 were from public sector commercial banks, Rs. 26,700 from private commercial banks and Rs.2,800 crore from foreign commercial banks. Nevertheless, the total Net NPAs of the scheduled commercial banks reduced to Rs. 1,35,333 crore in the year 2022-23 which is almost 39% of the total Net NPAs of the financial year 2015-16 i.e., almost 61% of the Net NPAs of the scheduled commercial banks were been reduced over the last 9 years.

Table 3: No. of Cases Referred to Lok Adalat and Amounts Recovered in each year of the Scheduled Commercial Banks

(Amounts is in Rs. Crore)

Year	No. of Cases Referred	Amount Involved	Amount Recovered	Recovery Rate (%)
2014-15	29,58,313	30,979	984	3.17
2015-16	44,56,634	72,000	3,200	4.4
2016-17	35,55,678	36,100	2,300	6.3
2017-18	33,17,897	45,728	1,811	4
2018-19	40,87,555	53,484	2,750	5.1
2019-20	59,86,790	67,801	4,211	6.2
2020-21	19,49,249	28,084	1,119	4
2021-22	85,06,741	1,19,006	2,778	2.3
2022-23	1,42,49,462	1,88,527	3,831	2
Total	4,90,68,319	6,41,709	22,984	-

(Source: Compiled by the Researcher)

Table 4: No. of Cases Referred to DRTs and Amounts Recovered in each year
(Amounts is in Rs. Crore)

Year	No. of Cases Referred	Amount Involved	Amount Recovered	Recovery Rate (%)
2014-15	22,004	60371	4208	7.0
2015-16	24,537	69300	6400	9.2
2016-17	32,418	1,00,800	10,300	10.2
2017-18	29,345	1,33,095	7,235	5.4
2018-19	51,679	2,68,413	10,552	3.9
2019-20	33,139	2,05,032	9,986	4.9
2020-21	28,182	2,25,361	8,113	3.6
2021-22	30,651	68,956	12,035	17.5
2022-23	58,073	4,02,636	36,924	9.2
Total	3,10,028	15,33,964	1,05,753	-

(Source: Compiled by the Researcher)

Table 5: No. of Cases Referred to SARFAESI and Amounts Recovered in each year
(Amounts is in Rs. Crore)

Year	No. of Cases Referred	Amount Involved	Amount Recovered	Recovery Rate (%)
2014-15	1,75,355	156778	25600	16.3
2015-16	1,73,582	80,100	13,200	16.5
2016-17	1,99,352	1,41,400	25,900	18.3
2017-18	91,330	81,879	26,380	32.2
2018-19	2,35,437	2,58,642	38,905	15.0
2019-20	1,05,523	1,96,582	34,283	17.4
2020-21	57,331	67,510	27,686	41.0
2021-22	2,49,645	1,21,718	27,349	22.5
2022-23	1,85,397	1,11,805	30,864	27.6
Total	14,72,952	12,16,414	2,50,167	-

(Source: Compiled by the Researcher)

Table 6: No. of Cases Referred to IBC and Amounts Recovered in each year

(Amounts is in Rs. Crore)

Year	No. of Cases Referred	Amount Involved	Amount Recovered	Recovery Rate (%)
2016-17	37	-	-	-
2017-18	704	9,929	4,926	49.6
2018-19	1,152	1,45,457	66,440	45.7
2019-20	1,986	2,24,935	1,04,117	46.3
2020-21	536	1,35,319	27,311	20.2
2021-22	891	1,97,959	47,409	23.9
2022-23	1,261	1,33,930	53,968	40.3
Total	6,567	8,47,529	3,04,171	-

(Source: Compiled by the Researcher)

Table 7: Total No. of Cases Referred various methods recovery methods, total amount of NPAs involved and recovered in each method

(Amounts is in Rs. Crore)

Name of the Methods	No. of Cases Referred	Total Amount Involved	Total Amount Recovered	Average Rate of Recovery
Lok Adalat	4,90,68,319	6,41,709	22,984	3.58%
DRTs	3,10,028	15,33,964	1,05,753	6.89%
SARFAESI	14,72,952	12,16,414	2,50,167	20.57%
IBC	6,567	8,47,529	3,04,171	35.89%
Total	5,08,57,866	42,39,616	6,83,075	16.11%

(Source: Compiled by the Researcher)

Figure 6: Total Amount of NPAs of Scheduled Commercial Banks in India recovered through different methods

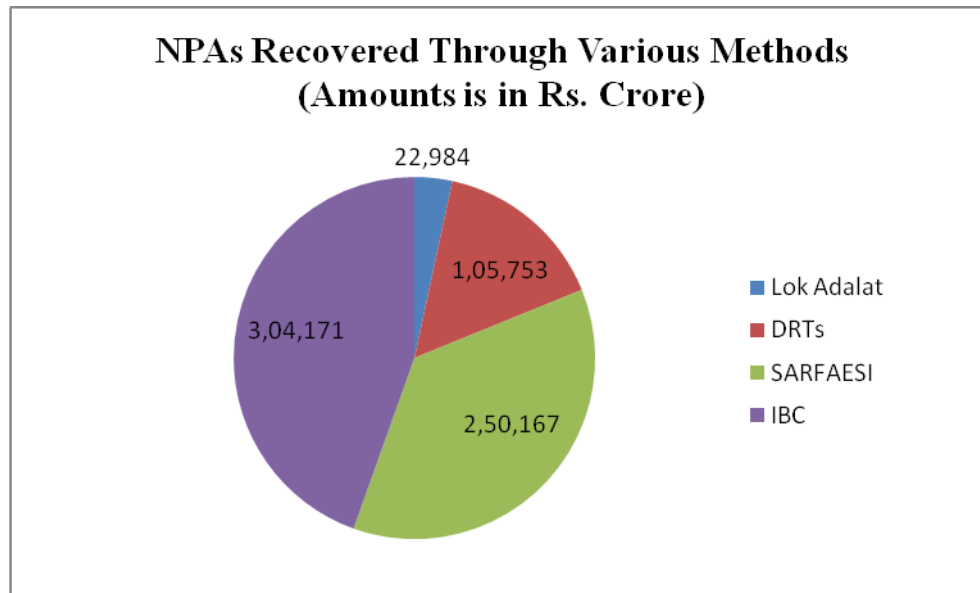


Table 7 depicts that the highest number of cases are referred to Lok Adalat as followed by SARFAESI, Debt-Recovery Tribunals (DRTs) and Insolvency and Bankruptcy Code (IBC) methods in last 9 years. 96.48% of the total cases of the scheduled commercial banks are referred to Lok Adalat. However, the average rate of recovery of Lok Adalat is very low which stood at 3.58%. The highest rate of recovery in last 9 years is in IBC methods. Their average rate of recovery is 35.89% which is followed by SARFAESI and DRTs methods. Their rate of recovery is 20.57% and 6.89% respectively. Through IBC method, Rs.3,04,171 crore were recovered in last 9 years which is the highest in terms of amounts followed by SARFAESI and DRTs methods. Through SARFAESI method, Rs. 2,50,167 crore were recovered in last 9 years and through DRTs, Rs. 1,05,753 crore were recovered in last years.

Conclusion:

NPAs are very concerning indicator not only for banks but for entire economy of a country. The increasing amounts of NPAs need to be solved. For that purpose, Government of India brings and implements certain policies; steps from time to time so that the banks can minimize the level of NPAs in banks and also can recover the amount of which are blocked as NPAs in the banks. With the help of these steps, the banks are now able to control and reduce their level of NPAs. However, these steps are not enough. The recoveries of these NPAs are very low which stood only 16.11% in last nine years in case scheduled commercial banks in India. Government of India should take initiative to increase the recovery rate of NPAs through these mechanism.



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