



A Study On Non-Performing Assets Of Scheduled Commercial Banks And It's Recovery In India

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ABSTRACT

This study investigates the critical issue of Non-Performing Assets (NPAs) within Scheduled Commercial Banks (SCBs) in India and the strategies employed for their recovery. NPAs, defined as loans or advances where principal or interest payments remain overdue for more than 90 days, significantly impact the financial health, profitability, and stability of the banking sector. The accumulation of NPAs leads to reduced interest income, increased provisioning requirements, capital erosion, and heightened credit risk, ultimately hindering a bank's lending capacity and economic growth.

The study delves into the various causes of NPAs, including aggressive lending practices, wilful defaults, economic downturns, industry-specific challenges, and operational inefficiencies within banks. It further examines the multifaceted impact of high NPA levels on SCBs, such as squeezed Net Interest Margins, decreased investor confidence, and increased regulatory scrutiny.

A significant portion of the study focuses on the evolving framework and mechanisms for NPA recovery in India. This includes an analysis of legal and regulatory initiatives like the Insolvency and Bankruptcy Code (IBC), the Securitisation and Reconstruction of Financial Assets and Enforcement of Security Interest (SARFAESI) Act, Debt Recovery Tribunals (DRTs), and Lok Adalats. The study also explores other recovery strategies such as One Time Settlements (OTS), debt restructuring, the role of Asset Reconstruction Companies (ARCs), and the growing adoption of technological solutions for early warning signals and automated recovery processes.

Despite the various measures, challenges persist in NPA recovery, including legal and procedural delays, difficulties in accurate asset valuation and realization, lack of debtor cooperation, and operational inefficiencies within banks. The study aims to provide a comprehensive understanding of the NPA landscape in Indian SCBs, assess the effectiveness of current recovery mechanisms, and suggest potential improvements to bolster the resilience and efficiency of the Indian banking sector.

KEY WORDS

Non-Performing Assets (NPAs), Scheduled Commercial Banks (SCBs), NPA Recovery Insolvency and Bankruptcy Code (IBC) SARFAESI Act, Debt Recovery Tribunals (DRTs), Lok Adalats

INTRODUCTION

The Indian banking system forms the foundation of the country's economic infrastructure. It plays a vital role in mobilizing savings, channeling credit, and fostering investment across various sectors of the economy. Among its components, Scheduled Commercial Banks (SCBs) hold a prominent position as they are responsible for the bulk of financial intermediation in the country. These banks—comprising public sector banks, private sector banks, and foreign banks operating in India—are instrumental in supporting economic development by extending credit to agriculture, industry, trade, infrastructure, and households. However, in recent years, the Indian banking sector has been grappling with a major challenge: the rise of Non-Performing Assets (NPAs).

A Non-Performing Asset (NPA) is a loan or advance where the borrower defaults on repayment obligations—interest or principal—for a specified period, generally 90 days or more. When such assets accumulate over time, they pose a serious risk to the financial stability of banks. NPAs not only reduce a bank's profitability but also erode its capital base, affect credit creation, and reduce investor confidence. A high level of NPAs affects the lending capacity of banks and creates a vicious cycle that slows down overall economic growth. As a result, the issue of NPAs has become a pressing concern for regulators, policymakers, and financial institutions in India.

In response to the growing problem, the Government of India and the Reserve Bank of India (RBI) have introduced various regulatory frameworks and legal tools for resolution and recovery. These include the SARFAESI Act, Debt Recovery Tribunals (DRTs), the Insolvency and Bankruptcy Code (IBC), and more recently, the establishment of the National Asset Reconstruction Company Limited (NARCL)—also known as the "bad bank." While these mechanisms have shown some positive results, the recovery process remains slow and often entangled in legal delays.

REVIEW OF LITERATURE

- ⇒ **Karunakar (2008)**, in his study *Are non - Performing Assets Gloomy or Greedy from Indian Perspective*, has highlighted problem of losses and lower profitability of Non- Performing Assets (NPA) and liability mismatch in Banks and financial sector depend on how various risks are managed in their business.
- ⇒ **Gupta (2012)** in her study *A Comparative Study of Non-Performing Assets of SBI & Associates & Other Public Sector Banks* had concluded that each bank should have its own independence credit rating agency which should evaluate the financial capacity of the borrower before credit facility and credit rating agencies should regularly evaluate the financial condition of the clients.
- ⇒ **Singh (2013)** in his paper entitled *Recovery of NPAs in Indian commercial banks* says that the origin of the problem of burgeoning NPA's lies in the system of credit risk management by the banks. Banks are required to have adequate preventive measures in fixing pre- sanctioning appraisal responsibility and an effective post-disbursement supervision. Banks should continuously monitor loans to identify accounts that have potential to become non- performing
- ⇒ **Garg (2016)** in his research paper concluded that the problem of NPA impacts profitability, liquidity and results in credit loss. Proper remedial measures are needed to be taken to reduce the quantity of huge NPA.
- ⇒ **Sahni & Seth (2017)** made a study on NPAs in Indian commercial banks and they opined that for improving financial performance in the banking sector, the NPAs have to be organised. Government has taken different measures to reduce the NPAs. It is in the part of bank stobe carefully while giving loans. They must be very much careful and also ensure the credit worthiness of various customers.

RESEARCH METHODOLOGY

OBJECTIVES OF THE STUDY

- To study the status of Non- Performing Assets of Indian Commercial Banks in India.
- To study the impact of NPAs on banks.
- To find the recovery of NPAs through various channels.
 - To make appropriate suggestions to avoid future NPAs and to manage existing NPAs in banks.

NEED OF THE STUDY

For Banks in India, tackling the ballooning Non- Performing Assets (NPA) will be the biggest challenge in 2022 as loan defaults have spiked sharply in Covid-hit 2020.

Many small and medium-scale company are still struggling to repay dues owed to Banks

SCOPE OF THE STUDY

The study aims to propose strategies for banks to prevent future NPAs and to mitigate current NPAs.

It may assist the government in formulating and executing new policies to manage NPAs effectively.

Additionally, the study will identify suitable methods for handling NPAs and create a time- sensitive action plan to curb the growth of NPAs.

RESEARCH DESIGN

Derived data refers to the use of existing data points from various sources to generate new data through transformations like arithmetic calculations or aggregations.

This research utilizes secondary data sourced from the RBI's website.

DATA COLLECTION METHOD

Data for this study has been collected from secondary sources, including RBI reports on banking trends and developments in India, along with various published articles, books, journals, and research papers.

LIMITATIONS

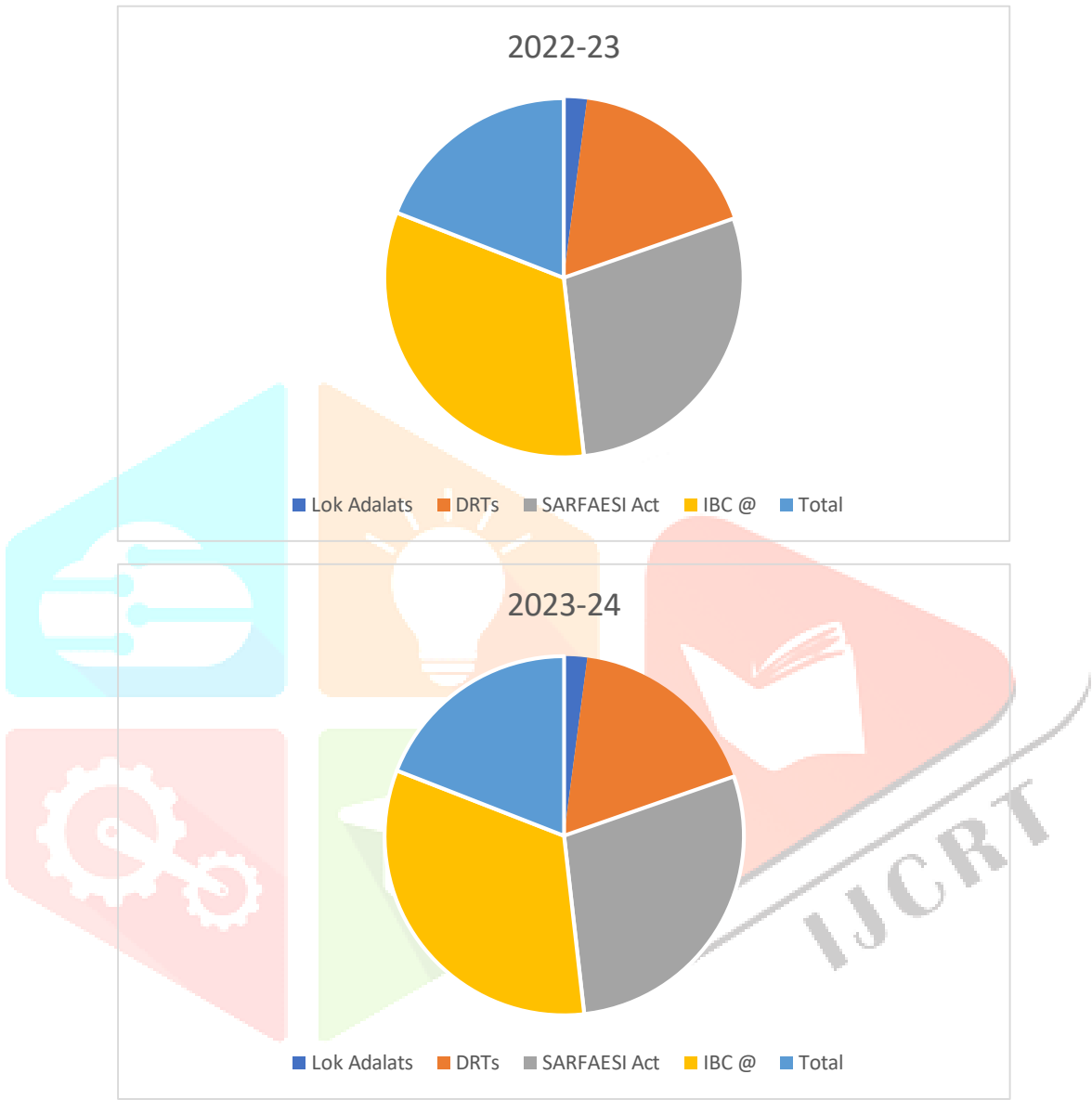
- The data is limited to a period of two years, from 2022-23 to 2023-24.
- The data is limited to few mechanisms like lok adalats, SARFAESI ACT, IBC, DRTs.

DATA ANALYSIS

Recovery Channel	No. of cases referred	Amount involved	Amount recovered	Col. (4) as percent of col. (3)	No. of cases referred	Amount involved	Amount recovered	Col. (8) as percent of col. (7)
1	2	3	4	5	6	7	8	9
Lok Adalats	1,37,72,958	1,88,135	3,774	2	1,26,84,815	1,89,694	3,322	1.8
DRTs	56,198	4,02,753	39,785	9.9	31,414	1,06,887	16,202	15.2
SARFAESI Act	1,87,340	1,11,359	30,957	27.8	2,31,407	1,23,363	30,460	24.7
IBC @	1,262	1,38,715	54,161	39	1,004	1,63,943	46,340	28.3
Total	1,40,17,758	8,40,962	1,28,676	15.3	1,29,48,640	5,83,887	96,325	16.5

INTERPRETATION:

From the table and figure above, we discovered that the majority of NPA recovery was achieved through the IBC, accounting for 39% of the total amount recovered. The SARFAESI Act contributed to a recovery of 27.8%. Lok Adalats facilitated the recovery of 2% of the NPA amount. Additionally, DRTs were responsible for recovering 9.9% of the amount.



INTERPRETATION:

From the table and figure above, it is evident that the majority of NPA recovery was achieved through the IBC, accounting for 28.3% of the total amount recovered. The SARFAESI Act contributed to a recovery of 24.7%. Lok Adalats facilitated the recovery of 1.8% of the NPA amount. Additionally, DRTs were responsible for recovering 15.2% of the amount.

Non-Performing Assets in Indian Scheduled Commercial Banks**Table:1 Gross Advances and Gross NPAs of SCBs (amount in Rupees Crores)**

Year	Advances (₹ Crore)	Gross NPAs (₹ Crore)	Gross NPAs (%)
2014–15	75,597.60	3,233.35	4.30%
2015–16	81,731.21	6,119.47	7.50%
2016–17	84,925.65	7,917.91	9.30%
2017–18	92,662.10	10,396.79	11.20%
2018–19	1,02,944.63	9,364.74	9.10%
2019–20	1,09,189.18	8,998.03	8.20%
2020–21	1,13,996.08	8,351.38	7.30%
2021–22	1,25,000.00	7,423.97	5.80%
2022–23	1,46,000.00	5,711.11	3.90%
2023–24	1,78,000.00	4,806.87	2.70%

INTERPRETATION:

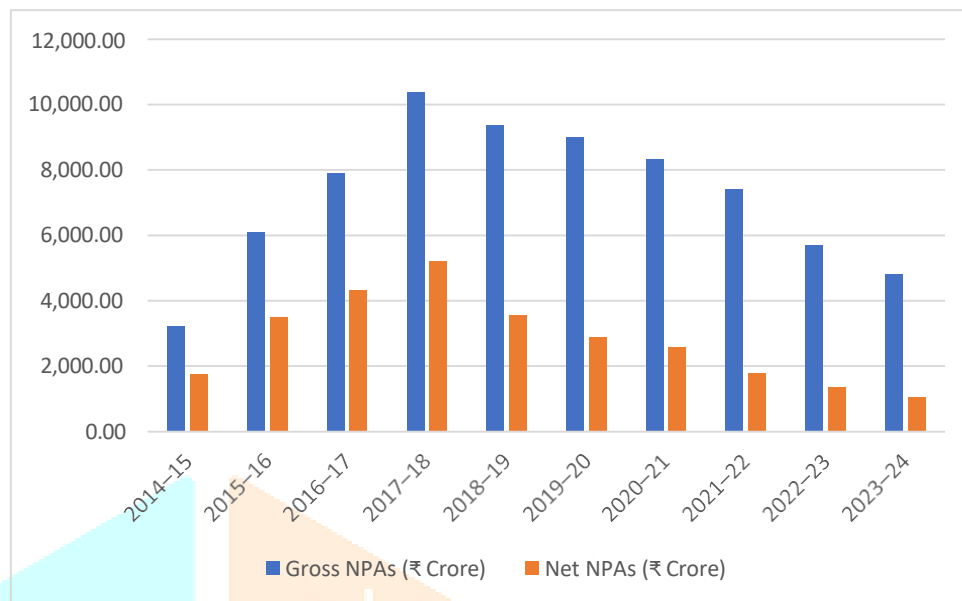
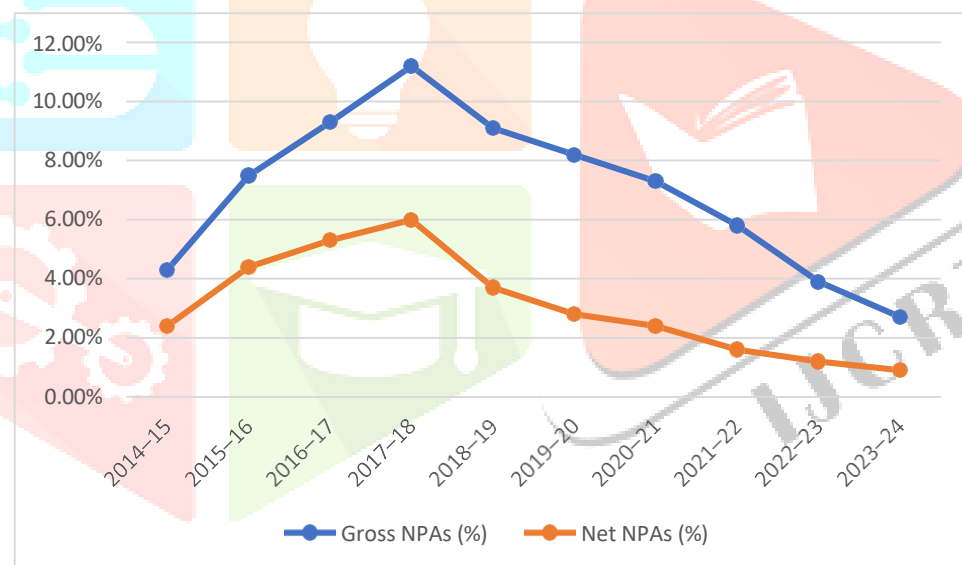
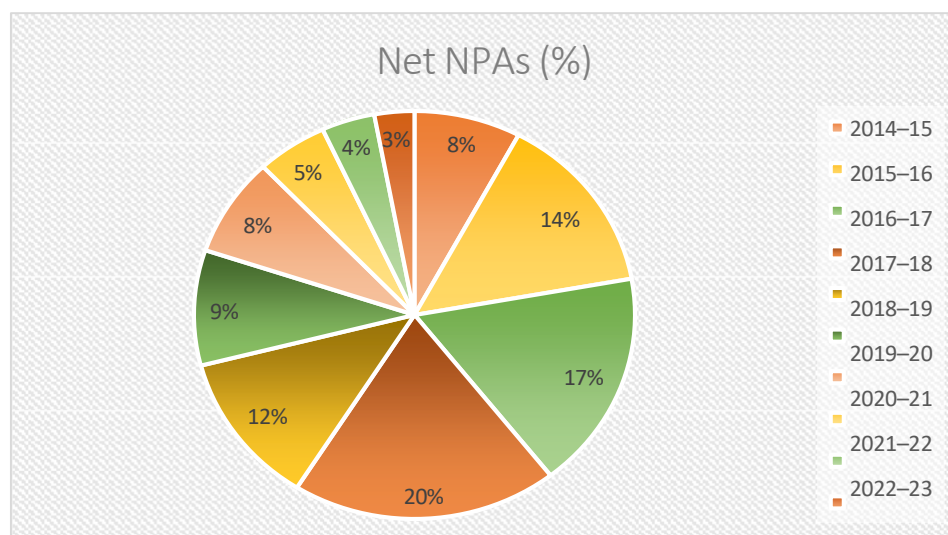
The tables shows the gross advances has increased from 75,597 – 1,78,000 and gross NPA of SCBs has decreased from 4.30% - 2.70% in the year 2014-15 to 2023-24.

Table:2 Net Advances and Net NPAs of SCBs (Amount in Rupees crores)

Year	Advances (₹ Crore)	Net NPAs (₹ Crore)	Net NPAs (%)
2014–15	73,881.60	1,758.41	2.40%
2015–16	78,964.67	3,498.14	4.40%
2016–17	81,161.09	4,331.21	5.30%
2017–18	87,459.97	5,208.38	6.00%
2018–19	96,761.83	3,550.68	3.70%
2019–20	10,30,189.70	2,893.70	2.80%
2020–21	10,80,638.10	2,580.50	2.40%
2021–22	11,50,000.00	1,800.00	1.60%
2022–23	12,00,000.00	1,353.20	1.20%
2023–24	12,50,000.00	1,067.32	0.90%

INTERPRETATION:

The tables shows the net advances has increased from 73,881 – 2,50,000 and net NPA of SCBs has decreased from 2.40% - 0.90% in the year 2014-15 to 2023-24.

Figure 1 – Scheduled Commercial Banks (Gross and Net NPAs)**Figure 2 – Gross and Net NPA (in Percentage)****Figure 3 – Net NPAs as a Percentage of Net advances (SCBs)**

FINDINGS

- From the table and figure above, we discovered that the majority of NPA recovery was achieved through the IBC, accounting for 39% of the total amount recovered. The SARFAESI Act contributed to a recovery of 27.8%. Lok Adalats facilitated the recovery of 2% of the NPA amount. Additionally, DRTs were responsible for recovering 9.9% of the amount.
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SUGGESTIONS

- Urge banks to uphold sectoral exposure limits to prevent concentration risks.
- Revitalize Lok Adalats and DRTs by increasing staff, digitizing case management, and strengthening enforcement powers to enhance recovery efficiency.
- Simplify SARFAESI processes, potentially by using technology to enable faster asset possession and auctions.
- Enhance the IBC framework to shorten resolution timelines and boost realization rates.

CONCLUSION

The examination of NPA recovery methods and trends from 2014–15 to 2023–24 shows a varied but steadily improving outlook for asset quality in the Indian banking industry. Although recovery via the Insolvency and Bankruptcy Code (IBC) has proven to be the most effective approach, other mechanisms such as SARFAESI, DRTs, and Lok Adalats still need systemic enhancements to boost their effectiveness. Even with the overall rise in NPAs, both Gross and Net NPA ratios have displayed a downward trend, reflecting improved credit management and provisioning practices among banks. The recommendations provided aim to fortify the institutional framework for recovery, encourage technological integration, and improve risk management practices. By implementing these strategies, a more resilient, transparent, and responsive NPA resolution environment can be achieved. Looking ahead, a unified strategy that includes legal reforms, regulatory incentives, technological advancements, and proactive risk governance is crucial to sustain the decreasing trend in NPAs and to protect the stability of the financial system.

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