IJCRT.ORG ISSN : 2320-2882

INTERNATIONAL JOURNAL OF CREATIVE RESEARCH THOUGHTS (IJCRT)

An International Open Access, Peer-reviewed, Refereed Journal

Evaluating The Role Of The Insolvency And Bankruptcy Code In NPA Resolution: Evidence From Indian Public Sector Banks

1st Author: Rosy Kalia

Assistant Professor, Indira School of Business Studies PGDM, Pune

2nd Author Dr Prakash Pise

NBN Sinhgad Technical Institute Campus Vadgoan, Pune

Abstract: Through this secondary data-based research article, the author hopes to highlight the identification and analysis of new NPA patterns as well as a detailed study of the Insolvency & Bankruptcy Code, 2016. The impact of IBC, 2016 in India is the main subject of the research. Key IBC provisions and the introduction of NPA are covered in the work. Specialized literature was chosen and employed for research, which gives the idea more vitality. Research papers, publications, and webpages are examples of secondary data. Because of its direct connection to SBI, the case study of Bhushan Steel, which was bought by Tata Steel, has been elevated on purpose. Additionally, IBC's quantitative and qualitative analyses were discussed. The effectiveness of IBC as a remedy for non-performing assets (NPAs) and emerging trends in NPAs were succinctly described. At the conclusion of the study, a diagrammatic depiction was used to show the effects of insolvency and bankruptcy in India. A few shortcomings of the IBC Act were also mentioned in the conclusion, along with the use of the BIFR Act of 1985 and the SARFAESI Act of 2002.

I. Introduction

Non-Performing Assets (NPAs) have been a major challenge for Indian Scheduled Commercial Banks (SCBs) in recent years. The problem peaked in 2018–19, after which India's banking sector witnessed improvements in asset quality. By September 2023, the Gross NPA ratio had fallen to a 10-year low of around 3.2%. However, the COVID-19 pandemic reversed this trend temporarily, as the economic slowdown and repayment difficulties led to a rise in NPAs. These factors, combined with external environmental conditions, continue to impact banks' profitability and overall financial health.

The issue of NPAs has been addressed through various regulatory and policy measures introduced by the Reserve Bank of India (RBI) and the Government of India. A landmark step was the introduction of the Insolvency and Bankruptcy Code (IBC) in 2016, which significantly reformed the resolution process for distressed assets.

For a developing country like India, the challenge of NPAs is particularly severe. The government's financial reforms aimed at matching global economic standards cannot succeed without strengthening the Indian banking and financial system. Rising NPAs threaten the very stability of banks, erode profitability, and disrupt the broader financial system.

An NPA is defined as a loan or lease that fails to meet its scheduled principal and/or interest payments. NPAs include:

- **Commercial loans** overdue for more than 90 days
- **Consumer loans** overdue for more than 180 days

In FY23, private banks such as HDFC Bank, Axis Bank, ICICI Bank, and SBI reported the lowest gross NPA ratios (ranging from 1.12% to 2.78%). On the other hand, public sector banks such as Punjab National Bank, Union Bank of India, and Canara Bank reported much higher gross NPAs, reaching up to 7.4%.

NPAs are generally classified into three categories:

- **Substandard Assets**: Loans that remain NPAs for less than or equal to 12 months.
- **Doubtful Assets**: Loans that remain in the substandard category for more than 12 months.
- **Loss Assets**: Loans where losses have been identified by the bank or auditors but have not yet been fully written off.

Before the IBC, India's mechanisms for resolving NPAs were fragmented and inefficient. Instruments such as the Securitisation and Reconstruction of Financial Assets and Enforcement of Security Interest (SARFAESI) Act, Debt Recovery Tribunals (DRTs), and the Corporate Debt Restructuring (CDR) framework existed, but they failed to deliver effective, timely resolution. The IBC has since emerged as a game-changer in addressing these long-standing challenges.

Key Provisions of IBC

- Time-bound Resolution: The IBC mandates a 180-day resolution period, extendable by 90 days.
- Creditor-in-Control Model: Creditors have control over the insolvency resolution process, unlike the previous debtor-in-control approach.
- Insolvency Professionals: Appointment of insolvency professionals to manage the resolution process.
- Insolvency and Bankruptcy Board of India (IBBI): A regulatory body to oversee the implementation of the IBC.

OBJECTIVES:

To identify and analyse the emerging trends of Non-Performing Assets (NPAs) in India.

To study the provisions and framework of the Insolvency and Bankruptcy Code (IBC), 2016.

To evaluate the impact of the IBC, 2016 on the resolution of NPAs.

To examine the broader effects of insolvency and bankruptcy reforms on the Indian financial and economic system.

LITERATURE REVIEW:

A Study of Insolvency and Bankruptcy in India: A Literature Review Written by Mr. Rohit Kaswan and Dr. Sandeep Gehlotin, 2021 focused on Insolvency, Bankruptcy and Resolution keywords. This article attempts to analyse and determine the studies conducted by various researchers with respect to the Insolvency and Bankruptcy Code of India. The objective of the research is to understand the concept of Insolvency and Bankruptcy Code as a remedial tool for banking and to analyze the various research works done in the field of Insolvency and Bankruptcy Code, but this study is limited to the number of research articles and books referred.

Contains 8 research papers for conceptual clarity. The first research paper was written by Deepak Tandon, Neelam Tandon, 2019 on “Rising Non-Performing Assets in Indian Banking and Insolvency and Bankruptcy Law: Resolution Plans and Cases”, The researcher believed that the banking industry in India is plagued with asset quality problems. which led to potential losses due to insufficient allowances for non-performing assets. They are of the opinion that the strength and sustainability of credit growth is a must for improving the conditions of the banking system in future times. The researchers also came to the conclusion that the main cause of bank fraud was failure of a part of banking operations, mainly non-compliance with procedures. They also concluded that although the RBI is taking preventive measures to treat stressed assets and accelerating corrective measures to improve asset quality, the results are still not very promising and progress is emerging at a very slow pace.

"A Study of Insolvency and Bankruptcy Code and Its Impact on India's Macro Environment" by Srijan Anant, Aayushi Mishra, 2019 and the researcher believes that IBC is one of the major reforms brought about by the legal system in India. In the opinion of the author, IBC not only gives strength to the legal system in India but also gives India a new identification and recognition at the global level. The researcher was of the view that the government only notified a portion of corporate insolvency and not personal insolvency when it approved the IBC in 2019 through “The Way Forward for Personal Insolvency in Indian Insolvency and Bankruptcy Code” written by Renuka Sane. The author believes that the Indian credit market scenario calls for the need for a Personal Insolvency Act. Another interesting research paper specifically mentioned about the Insolvency and Bankruptcy Code prevents the erosion of business value and facilitates it as a solution for time-bound insolvency resolution to support business. The author analysed the key features of the code and the legal framework of the codes. The author has also tried to analyse the impact of Insolvency and Bankruptcy Code on India's macro environment.

Author Manoranjan Ayilyath in 2019 examines the various factors and challenges the system faces that slow progress and must be rectified as an ongoing process. In his 2018 study, Pratik Datta applied theoretical concepts to analyse major issues such as value destruction and wealth transfer in the new Insolvency and Bankruptcy Code. The existing IBC is not able to meet the financial market and the process of solving problems due to the Code related to the resolution of insolvency and bankruptcy of natural persons and partner firms is not yet effectively operational. This paper examines the various factors and issues facing the system that slow down progress and must be corrected as an ongoing process.

Mrs. Srilekhya Eduri, Dr. N. Jayaprada, Mr. Srinivas Eduri, 2018 found that the Insolvency and Bankruptcy Code has brought about a change in the economy by focusing on a turnaround plan that, if not working, leads to liquidation. In addition to creating progressive and constructive initiatives that will address all situations as a step forward. The code was also found to have limitations that occurred due to poor management and inappropriate use. This paper has examined the impacts and loopholes of the IBC on the Indian economy and intends to provide insights on how to improve the Code for effective implementation.

Josiah Wamwere-Njoroge, 2017 concludes that the IBC is more effective and promising compared to UK and French bankruptcy laws; The study concludes that the Insolvency and Bankruptcy Code is flexible. This article infers that the IBC is more effective and promising compared to UK and French bankruptcy laws using different indices to check. The author concluded that the consideration for any good insolvency and bankruptcy regime is that it should be able to balance the rights of creditors (secured and unsecured) and debtors. The researcher found that insolvency and bankruptcy proceedings in India are quite costly and prevent relevant stakeholders from exploiting the system for their own selfish interests. The study concludes that the Insolvency and Bankruptcy Code is flexible to preserve liquidation and continuation solutions.

Nakul Sharma, Dr.Rahul Vyas, 2017 studies the framework of insolvency professional agencies in terms of its role and scope. The above nine research papers help clarify the conceptual idea. It focuses on the theoretical framework. The origin of the problem of rising NPAs lies in the credit risk management system of the banks. This has been explored in detail by the following authors. This article studies the framework of insolvency professional agencies in terms of its role and scope, underpinning the IBC in terms of the procedural and regulatory scope of the Code. IBC 2016 is a landmark development in the law of our country which provides solutions in a time bound manner, promotes entrepreneurship which will lead to improved availability of credit and balances the interest of all stakeholders.

Case Examples

Bhushan steel: one of the landmark instances beneath IBC where Tata steel obtained Bhushan metallic for ₹35, two hundred crores, ensuing in a extensive healing for creditors. Bhushan metal, one in every of India’s largest steelmakers, confronted excessive monetary trouble, amassing a debt of over ₹56,000 crore (about $8. four billion USD) via 2017 consortium of banks led by way of SBI, Public region financial institution. This debt turned into due to competitive expansion projects and operational inefficiencies, mixed with a downturn within the steel enterprise. The IBC framework, delivered in 2016, lets in lenders to provoke bankruptcy court cases against defaulting organizations. Bhushan metallic become some of the 12 massive instances that the Reserve financial institution of India (RBI) prioritized for resolution below IBC in 2017.

Tata Steel a metallic emerged because the successful bidder thru the IBC auction manner, winning in opposition to different competitors like JSW metal. The country wide corporation regulation Tribunal (NCLT) accepted Tata steel’s decision plan in may 2018.With such high debt degrees, Bhushan metal’s incapacity to satisfy its duties brought about defaults, pushing it into insolvency complaints beneath the IBC. Tata metal acquired a controlling stake (72.65 %) in Bhushan metallic for approximately

₹35,two hundred crore (round $five.4 billion USD). This quantity became used to settle a considerable part of Bhushan steel's terrific debts to lenders. The closing debt became restructured, and Tata metal assumed management of Bhushan steel, renaming it to Tata steel BSL (Bhushan metal constrained). further to the acquisition quantity, Tata metallic also dedicated to infusing extra capital to stabilize and improve the operations of Bhushan steel. This acquisition set a precedent for large-scale debt decision below the IBC, showcasing the framework's capability to facilitate timely resolutions.

For Tata Steel, the acquisition expanded its production capacity by about 5.6 million tons per year and provided access to valuable assets, strengthening its position in the

Indian steel industry. The acquisition also demonstrated the viability of the IBC process in facilitating mergers and acquisitions in distressed sectors, paving the way for further resolutions in other industries.

EFFECT OF INSOLVENCY AND BANKRUPTCY IN INDIA:

Qualitative analysis: The IBC has empowered creditors, specifically monetary creditors, improving their ability to get better dues through a dependent manner. The IBC has instilled marketplace discipline, making debtors extra responsible. the fear of losing manipulate over their agencies has precipitated many debtors to settle dues right away. improved NPA resolution mechanisms have made Indian banks more attractive to overseas buyers, bolstering overseas direct funding (FDI) within the monetary region Insolvency and financial ruin have vast effects on the financial and legal panorama of any country, consisting of India. The advent of the IBC in 2016 marked a pivotal change in how insolvency and bankruptcy issues are addressed. Yes Bank and Punjab & Maharashtra Co- operative (%) bank underscore the dangers related to excessive NPA ranges. Sure financial institution faced extreme troubles due to large corporate NPAs, main to a government-led rescue package in 2020.The IBC has helped improve the go with the flow of credit score inside the economic system with the aid of imparting a clear and time-certain manner for resolving insolvencies. The IBC has enabled the resolution of numerous stressed belongings that had been formerly languishing. This has helped in cleansing up the stability sheets of banks, specifically public area banks, which have been pressured with NPAs. The IBC has added marketplace-pushed mechanisms for the decision of insolvency, which promotes performance and allows in better allocation of assets. The IBC has introduced legal readability and consolidated the laws referring to insolvency of businesses, partnership firms, and individuals, changing the earlier fragmented framework.

EFFECTIVENESS OF IBC AS A SOLUTION TO NPAS:

Indian Banking sector is going through a hard time due to various reasons including but not limited to increase in Gross Non-Performing Assets (GNPA), loan frauds/corruption in some cases, economic slowdown etc. Rise in NPAs is major concern for banks as it reduces profit of banks and restricts the loan giving ability of the banks by way of provisioning. Reasons for the rise in NPA can be attributed to aggressive lending practice by the banks and wilful default by borrowers i.e., lack of willingness to repay.

Another reason can also be lack of ability to repay the loans by the borrower; however, this reason is less prevalent

than wilful default. Post 1991 various measures were taken to solve NPA problem which includes legal reforms, introduction of Asset Reconstruction Companies (ARCs), various kinds of restructuring schemes of NPAs including corporate debt restructuring, strategic debt restructuring, scheme for sustainable structuring of stressed Asset (S4A) etc. The legal reforms include setting up of Debt Recovery Tribunals to speed up of resolution of NPAs cases, enactment of SARFAESI (Securitization and Reconstruction of Financial Assets and Enforcement of Security Interest) Act, 2002.

EMERGING TRENDS OF NPAS:

NPAs are a critical concern for the banking sector in India, as they reflect the credit risk management health of banks and can significantly affect their profitability and stability. NPAs are loans or advances for which the principal or interest payment has been overdue for more than 90 days. The trends in NPAs over recent years highlight both persistent challenges and emerging strategies as banks, regulators, and policymakers address the underlying issues.

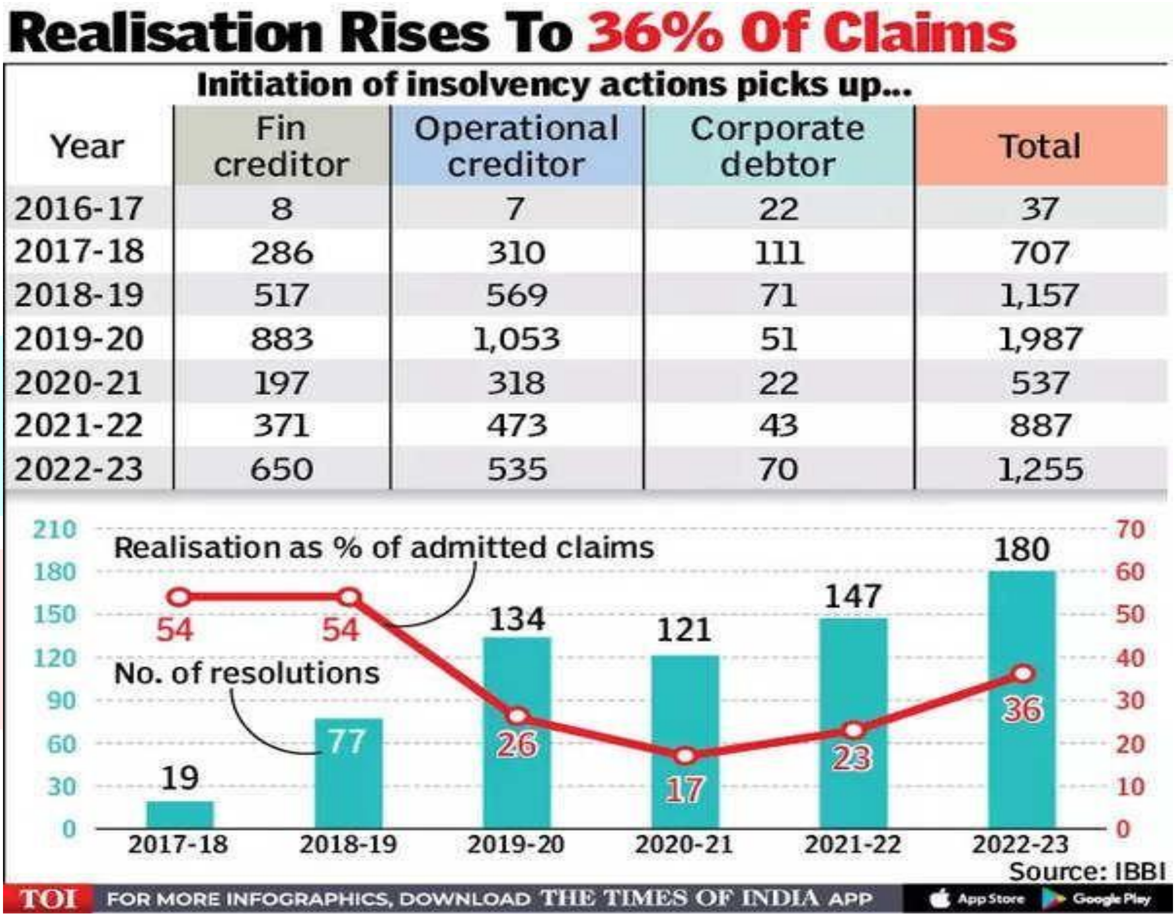
1. Decline in NPA Levels in Recent Years
2. Sectoral Shifts in NPA Trends
3. Impact of the Pandemic and Loan Moratoriums
4. Increased Focus on Retail NPAs and Digital Lending
5. Strengthening Recovery Mechanisms and Regulatory Reforms
6. Shift to Proactive Risk Management
7. Concerns Around Climate and ESG Risks

To address the emerging trends of NPAs in India, practical support measures are essential to help banks managers and tries to mitigate NPA effectively by using following ways:

- Enhanced Early Warning Systems (EWS)
- Sector-Specific Risk Mitigation Strategies
- Agriculture Sector Support:
- SME Financial Literacy Programs:
- Retail Loan Monitoring:
- Improved Recovery and Resolution Mechanisms
- Digitization of Lending Processes
- Strengthening of the Regulatory Framework
- Increased Financial Literacy and Borrower Support Programs
- Leveraging ESG and Climate Risk Assessment Tools
- Building Partnerships with FinTech and RegTech Firms
- Effective Training for Bank Staff

The IBC, added in India in 2016, turned into a landmark reform aimed toward streamlining and expediting the decision of corporate insolvency and bankruptcy cases. Following sensible implications of the IBC for diverse stakeholders, such as banks, corporations, traders, and the Indian economic system enables majorly. quicker decision of confused belongings with Empowerment of lenders and encouragement for responsible Borrowing and Lending in conjunction with introduction of a marketplace for Distressed property. by way of boosting corporate Governance standards, it'll impact on SMEs and the business network and this will rise in Professionalism through Insolvency Professionals (IPs).

Effects of insolvency and bankruptcy in India:



Year	Fin creditor	Operational creditor	Corporate debtor	Total
2016-17	8	7	22	37
2017-18	286	310	111	707
2018-19	517	569	71	1,157
2019-20	883	1,053	51	1,987
2020-21	197	318	22	537
2021-22	371	473	43	887
2022-23	650	535	70	1,255

Ref.:https://timesofindia.indiatimes.com/business/india-business/bankruptcy-recoveries- on-the-rise/articleshow/100199566.cms

The IBC has had far-reaching practical implications for India's financial ecosystem, enhancing financial discipline, improving recovery rates, and fostering a more responsible credit culture. Despite its challenges, the IBC is transforming India's approach to insolvency and distressed assets, supporting a healthier banking sector, and creating opportunities for investment. Its continued evolution and strengthening will be vital to further reduce NPAs, boost economic growth, and establish India as a favourable investment destination.

The IBC has had transformative effects on India's financial, business, and economic landscape since its enactment in 2016. The code brought a structured framework to address insolvency and bankruptcy in India, a critical need given the high levels of NPAs in the banking sector and the inefficiency of previous resolution mechanisms.

CONCLUSION:

The Insolvency and Bankruptcy Code (IBC), 2016 has made a significant impact on the recovery of Non-Performing Assets (NPAs) in Indian Scheduled Commercial Banks by introducing a structured, time-bound framework. It has enhanced creditor confidence and improved recovery rates. However, challenges such as judicial delays and operational inefficiencies continue to limit its full potential.

India has transitioned from a developing to an emerging economy, and sustaining long-term growth requires strengthening businesses and financial institutions. Over the years, several mechanisms were introduced to address the NPA crisis, including the BIFR Act, 1985; SARFAESI Act, 2002; and the S4A Scheme, 2016. However, these measures did not yield the desired results, paving the way for the implementation of the IBC in 2016.

The IBC is widely regarded as a revolutionary reform not only in India but also globally. Institutions such as the IMF and World Bank have praised its introduction, and it has contributed to an improvement in India's ranking in the *Ease of Doing Business Index*. The Code has also signaled a paradigm shift in India's credit culture—strengthening the rights of creditors and enabling them to take control of debtors' assets in cases of default.

At present, the IBC does not comprehensively address cross-border insolvency. However, it provides guidance for the government to move in that direction. Adoption of the UNCITRAL Model Law on Cross-Border Insolvency—already implemented by more than 41 countries—would further strengthen India's insolvency framework.

Moreover, there is a pressing need to integrate technology into the insolvency resolution process. A fully digital system, accessible online from the perspective of creditors, would enhance transparency, allow real-time tracking of case progress, and improve overall efficiency.

REFERENCES:

1. Balasubramaniam, C. S. (2012). Non-performing assets and profitability of commercial banks in India: assessment and emerging issues. National Monthly Refereed Journal Of Research In Commerce & Management, June, Volume, 1, 41- 52.
2. Chatterjee, S., Shaikh, G., & Zaveri, B. (2017). Watching India's insolvency reforms: a new dataset of insolvency cases (No. 2017-012). Indira Gandhi Institute of Development Research, Mumbai, India.
3. Chaudhary, K., & Sharma, M. (2011). Performance of Indian public sector banks and private sector banks: A comparative study. International journal of innovation, management and technology, 2(3), 249.
4. Das, S., & Dutta, A. (2014). A Study on NPA of Public Sector Banks in India.
5. Franks, J. R., Nyborg, K. G., & Torous, W. N. (1996). A comparison of US, UK, and German

insolvency codes. Financial Management, 86-101.

6. Guleria, K. (2016). A Study of Non-Performing Assets of Public Sector Banks in India. International Journal of Research in Engineering, IT and Social Sciences, 6(4), 26-34.
7. Joseph, A. L., & Prakash, M. (2014). A study on analyzing the trend of NPA level in private sector banks and public sector banks. International Journal of Scientific and Research Publications, 4(7), 1-9.
8. Mittal, R. K., & Suneja, M. D. (2017). The Problem of Rising Non-Performing Assets in Banking Sector in India: Comparative Analysis of Public and Private Sector Banks. Journal Homepage: http://www. ijmra. us, 7(7).
9. Miyan, M. (2017). A Comparative Statistical Approach towards NPA of PSU and Private Sector Banks in India. International Journal of Advanced Research in Computer Science, 8(1).
10. Srinivas, G., & Vadde, S. (2016). The Indian Steel Sector: Development and Potential (No. id: 11334).
11. Srivastava, V., & Gupta, S. K. (2010). A Study on Non-Performing Assets of Indian Banks. GYANPRATHA-ACCMAN Journal of Management, 5(2).
12. The Quarterly Newsletter of the Insolvency and Bankruptcy Board of India January -March 2018 | Vol. 6
13. The Quarterly Newsletter of the Insolvency and Bankruptcy Board of India October -December, 2018 | Vol. 9
14. Report on Trend and Progress of Banking in India for the year ended June 30, 2018 submitted to the Central Government in terms of Section 36(2) of the Banking Regulation Act, 1949
15. Report of EY "The Insolvency and Bankruptcy Code,2016 An overview July 2016"
16. Report of PWC" Decoding the Code: Survey on Twenty-One Months of IBC in India"
17. Report of EY "Insolvency and Bankruptcy Code The journey so far and the road ahead December 2018"
18. Zafar, S. M. T., Maqbool, A., & Khalid, S. M. (2013). Non-performing assets and its impact on Indian public sector banks. International Journal of Marketing, Financial Services & Management Research, 3(2), 68-87.
19. https://www.ibbi.gov.in/uploads/publication/QUARTERLY_NEWSLETTER_FOR_OCT_DEC_2019.pdf
20. https://m.rbi.org.in/Scripts/PublicationsView.aspx?id=18523
21. https://ibbi.gov.in/uploads/publication/QUARTERLY_NEWSLETTER_FOR_OCT_DEC_2019.pdf
22. https://rbi.org.in/Scripts/Data_Sectoral_Deployment.aspx
23. http://www.ijsrp.org/research-paper-0817.php?rp=P686701
24. http://www.iibf.org.in/documents/IRAC.pdf
25. https://www.financialexpress.com/industry/banking-finance/indias-bad-loans- here-is the-list-of-12-companies-constituting-25-of-total-npa/903396/

26. https://www.lexology.com/library/detail.aspx?g=c1f21f1c-3853-4bd1-9731- 592cfca4bc12

27. https://m.rbi.org.in/Scripts/PublicationsView.aspx?id=18523

.