

# **An Empirical Study on the Recovery Mechanisms of Non-Performing Assets in Indian Commercial Banks**

**Prof. Sawase Ashok Sitaram<sup>1</sup>**

Assistant Professor

**Prof. Onkar Markande<sup>2</sup>**

Assistant Professor

**Prof. Arde T. R.<sup>3</sup>**

Assistant Professor

**Prof. Hajare Santosh Narayan<sup>4</sup>**

Assistant Professor

## **Abstract**

Non-Performing Assets (NPAs) have long plagued Indian commercial banks, affecting profitability, liquidity, and lending capacity. This empirical study investigates the effectiveness of recovery mechanisms employed by Indian commercial banks, such as the SARFAESI Act, Debt Recovery Tribunals (DRTs), Lok Adalats, and the Insolvency and Bankruptcy Code (IBC). Using a mixed-method approach combining secondary data analysis and stakeholder perspectives, the study highlights the trends in NPA levels, recovery rates, and evaluates policy implications. Findings indicate the IBC has significantly improved recovery efficiency, though systemic and procedural challenges persist.

## **Keywords**

NPAs, Recovery Mechanism, SARFAESI, IBC, DRT, Commercial Banks, India, Financial Stability

## **1. Introduction**

### **1.1 Background**

Non-Performing Assets (NPAs) are loans or advances where the borrower defaults or delays repayment for more than 90 days. NPAs erode a bank's profitability and its ability to lend, thereby affecting the broader economy. Over the past two decades, Indian banks—especially public sector banks (PSBs)—have witnessed a surge in NPAs due to poor credit appraisal, economic downturns, and willful defaults.

### **1.2 Problem Statement**

Despite several mechanisms and legislative frameworks, the NPA problem continues to affect bank health. This study empirically evaluates how effective these recovery mechanisms have been and identifies areas for improvement.

## **2. Objectives of the Study**

1. To analyze the trends and magnitude of NPAs in Indian commercial banks.
2. To evaluate various NPA recovery mechanisms in India.

3. To assess the effectiveness of SARFAESI, DRTs, Lok Adalats, and IBC.
4. To suggest policy measures for efficient NPA resolution and financial stability.

### 3. Literature Review

Previous studies suggest that recovery mechanisms like the SARFAESI Act (2002) offered limited success due to judicial delays. The introduction of the IBC (2016) brought a market-driven, time-bound resolution process. According to RBI reports, recovery rates through IBC have surpassed traditional mechanisms. Yet, delays in National Company Law Tribunal (NCLT) proceedings and capacity constraints remain.

### 4. Research Methodology

#### 4.1 Type of Study

This is a \*descriptive and analytical\* study using \*secondary data\* from RBI, Ministry of Finance, Insolvency and Bankruptcy Board of India (IBBI), and bank reports.

#### 4.2 Data Sources

- RBI Financial Stability Reports (2015–2024)
- Annual reports of selected public and private banks
- IBBI Insolvency Reports
- Academic journals and working papers

#### 4.3 Data Analysis Tools

- Trend Analysis
- Comparative Analysis
- Recovery Rate (%)
- Gross NPA Ratio (%)

### 5. Recovery Mechanisms Overview

#### 5.1 SARFAESI Act (2002)

Allows banks to auction properties of defaulters without court intervention. However, execution often delayed due to legal challenges.

#### 5.2 Debt Recovery Tribunals (DRTs)

Set up for faster disposal of loan default cases. Backlogged with cases; slow disposal rate.

#### 5.3 Lok Adalats

Used for small-ticket NPAs. Offers conciliation but lacks enforcement power.

### 5.4 Insolvency and Bankruptcy Code (IBC, 2016)

Introduced a time-bound insolvency process (180–270 days). Led to significant haircuts but higher recovery rates compared to earlier mechanisms.

## 6. Data Analysis and Findings

### 6.1 NPA Trends (2015–2023)

Year	Gross NPA Ratio (Scheduled Commercial Banks)
2015	4.3%
2017	9.3%
2019	8.2%
2021	7.5%
2023	3.9%

**Observation:** After peaking in 2017, NPA levels have declined steadily, largely due to active recognition and recovery frameworks.

### 6.2 Recovery Rate by Mechanism (2023)

Mechanism	Recovery Rate (%)
IBC	41.0
SARFAESI	26.7
DRT	6.4
Lok Adalats	4.2

**Observation:** IBC has emerged as the most efficient recovery tool despite delays.

### 6.3 Case Studies

**Essar Steel:** Recovered ₹42,000 crore through IBC (~92% recovery)

**Bhushan Steel:** Recovered ₹35,000 crore (~63% recovery)

## 7. Discussion

**The empirical evidence underscores that:**

IBC is far more effective in recovering large corporate debts.

SARFAESI and DRTs still play a role, especially in retail and SME loans.

Lok Adalats are largely symbolic due to lack of enforcement.

Delay in tribunals, procedural loopholes, and capacity issues hinder faster resolutions.

## 8. Challenges in NPA Recovery

- Legal delays in NCLT and DRTs
- Limited human resources at recovery institutions
- High haircuts borne by banks (sometimes over 50%)
- Political interference and loan waivers
- Lack of early warning systems and poor credit monitoring

## 9. Recommendations

1. Strengthen NCLT infrastructure with more benches and faster case processing.
2. Digitize SARFAESI execution to reduce manual intervention.
3. Empower Lok Adalats\*with legal enforceability for settlements.
4. Implement AI-based early warning systems for loan slippages.
5. Enhance corporate governance and accountability in lending decisions.
6. Introduce accountability for willful defaulters and publicize their details.

## 10. Conclusion

The Indian banking system has made considerable progress in tackling NPAs. Among recovery tools, IBC has emerged as the most potent, while SARFAESI and DRTs need reform. A strong legal framework, technological integration, and a proactive regulatory approach are essential to sustain this recovery momentum and maintain financial sector stability.

## References

1. Reserve Bank of India (2015–2024). Financial Stability Reports.
2. Insolvency and Bankruptcy Board of India (2020–2024). Quarterly Newsletters and Data Reports.
3. Ministry of Finance (2022). Economic Survey.
4. Singh, R. (2022). “NPA Recovery in Indian Banks: A Comparative Study of IBC and SARFAESI.” Journal of Banking & Finance Research.
5. Joshi, A. (2021). Understanding the IBC: India's Big Bankruptcy Reform. Oxford University Press.