The Recovery of NPAs by the Scheduled Commercial Banks in India: An Empirical Study

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Abstract

The lifeblood of economic activity is finance. Several problems beset the Indian financial system, one of the most significant being the huge volume of non-performing assets on banks' balance sheets. For banks to function properly in the economy, they need to maintain low levels of non-performing assets (NPAs). The most adverse impact on a bank's financial health is non-performing assets (NPAs). Credit advances are crucial for funding productive goals. Credit Risk, on the other hand, is associated with bank retail products and derives from the borrower's failure to repay. The credit cycle is disrupted, and the fund is frozen. As a result, these loan losses have a significant impact on the bank's profits. While it is impossible to eliminate such losses, banks can always strive to minimize them through various recovery mechanisms.

This document analyses the recovery mechanism of NPA with four important wings. In other words, it covers several years from 2012 to 2222, 2021, through Lok Adalat, DRTS, SARFASEI, instance code, bankruptcy, and NPA effects. This study is based on the secondary data collected from the preservation of RBI data. The survey revealed that the recovery mechanism of the overall banking sector is very weak. Among the four sectors, the recovery of IBC has been better than the other three.

Keywords: GNPA, NPA, Lok Adalat, DRT, SARFASEI, IBC, Recovery Channels

Introduction

Banks are the backbone of a sound financial system, as they play an important role in the growth and development of a country by providing loans to various sectors of the economy. For a developing country like India to grow sustainably, its banking sector must be healthy enough to meet the capital requirements of various sectors. But in recent years, a large quantity of non-working assets has had a significant impact on the income of banks, as they should make arrangements on NPA. Consequently, banks must accept effective resolution methods to restore a large number of NPAs to improve their financial indicators. The NPA business custody in the civil courts to obtain the authorized and restored debt authorization requires time, and until then, the banks must suspend such an account. Non-performing assets are loans/advances on which banks do not earn interest. NPAs are classified into gross NPAs (GNPAs) and net NPAs (NNPAs). GNPA is the main contribution of NPA and funding interest loans. The ratio is GNPA / Raw Advances. Gross advances are all outstanding loans and advances, including advances for which refinancing has been received but excluding rediscounted bills and advances written off at the head office level. On the other hand, NNPA are the actual NPAs arising after deducting GNPA deductions. Where deductions include provisions made against NPA accounts, deposit insurance company/export credit guarantee company receivables received and held pending settlement, progress payments received and held in doubtful/other account, balance in miscellaneous expense account against NPA accounts, floating reserves, provisions instead of reduction in fair value of restructured accounts classified as NPA and standard assets. All scheduled commercial banks recover their NPAs through the recovery channels viz., Debt Recovery Tribunal, Lok Adalat, SARFAESI Act 2002 & Insolvency & Bankruptcy Code these recovery channels were backed up with legal enactments and protecting the interest of both Creditors and Debtors. The Indian government set up a committee under the chairmanship of Shri. Tiwari in 1981 to look into the legal difficulties faced by banks and financial institutions in recovering loans and recommended setting up of special tribunals for speedy recovery of debts. Also, the Narasimham Committee (1991) advocated the formation of Special Tribunals for the fast recovery of loans. As a result of these recommendations, the RDDBFI Act, 1993 came into force on June 24, 1993, which was passed in parliament on August 27, 1993. As a result, Debt Recovery Tribunals (DRTs) and Debt Recovery Appellate Tribunals (DRATs) were constituted under the RDDBFI Act, 1993, with the specific objective of "speedy adjudication and recovery of debts owed to banks and financial institutions" under the powers conferred by the Act. These tribunals deal with cases in which the amount of debt owed to a bank/financial institution or a consortium of banks/financial institutions is more than Rs 1 lakh and less than Rs 1 million. The Legal Services Authorities Act of 1987 established Lok Adalats. All SCBs and FIs can use it

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as a platform to settle their debts through arbitration, conciliation, mediation, compromise, or a friendly or negotiated agreement. These dispute resolution measures are provided for in Article 89 of the Code of Civil Procedure (Report). This forum is primarily used by banks and financial institutions to recover small outstanding debts as it does not charge any fees for new cases or disputes. On June 21, 2002, the SARFAESI Act became operative, and on August 22, 2002, it was re-promulgated. A securitization company (SC) or reconstruction company (RC) operates under the SARFAESI Act, 2002, carrying out the asset reconstruction or securitization activities specified in Section 10 of this Act (RBI, 2003). Before engaging in the securitization and reconstruction of financial assets (FAs), each SC/RC is required to register with the RBI (The Securitization and Reconstruction, 2016). The Narasimham and Andhyarujina Committees' recommendations led to this act.

Review of Literature

NPAs pose a serious threat to the banking sector, and therefore, it is always an issue of concern for banks and policymakers. There are numerous studies on NPAs that highlighted the factors responsible for NPAs, identified its impact on bank operations, and discussed legal and non-legal mechanisms for its recovery. A few important studies on resolution techniques of NPAs are mentioned as follows: **Khedekar Pooja S(2012)** deals with understanding the concept of NPA, the causes, and an overview of different sectors in India. **Vadivalagan G., and Selvarajan B**, (**2013)** attempted to focus mainly on the impact of NPAs, suggestions to reduce the NPAs, and observing the scenario of nonperforming assets at the global level and at the national level. The data on NPAs in Indian scheduled commercial banks have been collected for analysis. The results are derived from the statistical analysis, and accordingly, suitable suggestions were given to contain the NPAs. **Helge Eknath J, Padhye Pradip (2016)** focused on the problem of non-performing assets of banks in India, as the NPAs reflect the performance of banks. The study does a comparative analysis between the NPAs of Public Sector Banks v/s Private Sector Banks and asserts that the Public sector banks have shown very good results in financial transactions compared to private sector banks. The only problem that the public sector banks were facing was the increasing number of non-performing assets. Non-performing assets of public sector banks had regularly increased year on year. Conversely, non-performing loans from private sector banks had regularly declined annually, except for a few years. Overall, the decrease in non-performing loans indicated that banks have strengthened their credit evaluation processes over the years, and the increase in the number of non-performing loans indicated the need to make provisions that weaken the banks' overall profitability. The report states that the magnitude of NPA in public sector banks is comparatively higher than in private sector banks. **Prasad E, Hari Prasad, G. V. Bhavani** (2017) intended to study the performance of the public sector in India with reference to their NPAs as the Banking sector is the backbone of the nation's economy**. Shaban Majid.,** (2018) investigated non-performing assets and their impact on the profitability of commercial banks, namely, Indian public sector banks, private sector banks, and foreign-owned commercial banks in India. The data was collected from RBI database for eleven years from 1st April 2006 to 31st March 2017. Regression analysis has been used in the study where return on assets and return on equity have been used as proxy variables for profitability of the banks while Gross NPA to Gross advances ratio and Net NPA to Net advances ratio has been used as independent variables to denote the non-performing assets of the banks. It was found that non-performing loans have a negative impact on bank profitability. Furthermore, the findings show that the profitability of foreign banks is least affected by non-performing loans as compared to public and private banks. **Sarbabidya Monisankar, Sultana Mafruza**, **(2019)** understand the concept of NPA and tried to analyse the trend. In this study, they attempted to find a significant difference between the total NPA (GNPA) and the pure NPA (NNPA) among various banks, such as the private sector, public sector, and foreign banks. In their 2019 study, "The Impact of Credit Risk Management on Profitability of Public Sector Commercial Banks in India," **Ali Liaqat and Dhiman Sonia (2019**) attempted to investigate an empirical relationship between credit risk management and banks' financial performance. For the years 2010–2017, an effort has been made to determine the statistical influence of credit risk management indicators on the profitability of public sector commercial banks. The top 10 public sector commercial banks chosen based on total assets were the subjects of the study. Panel regression was applied for data analysis. In the panel model equation, credit risk management was considered as an independent variable measured by non-performing loan ratio (NPLR), loan loss provision ratio (LLPR), capital adequacy ratio (CAR), asset quality ratio (AQ), management (M), earnings (E) and liquidity (L) while bank profitability was considered as a dependent variable measured by return on assets (ROA). The results of this survey indicate that credit risk management indicators have a significant impact on the financial performance of selected public sector banks in India. The empirical findings indicated that ROA (profitability) was positively related to CAR, management quality, and earnings ability, whereas it was found to be negatively related to AQ and liquidity.

Alamelumangai and B. Sudha (2019) sought to evaluate how effective these channels are in decreasing NPAs. The efficiency of the recovery channels was evaluated based on the volume of NPAs recovered over the 13 years from 2005 to 2017. To comprehend the notable variation in the trend of NPA recovery across the current channels, a statistical test known as Analysis of Variance (ANOVA) was employed.

Soni Kanika Tiwari and Chandan Kumar (2020), sought to investigate the current challenges facing the Indian banking sector, particularly focusing on the escalating issue of non-performing assets in Indian banks. In this case, the net profit ratio was considered a dependent variable that reflects the banks' profitability. Three independent factors were taken into consideration, representing different factors affecting the financial performance of banks. Specifically, Net NPA Ratio, Current Ratio, and Capital Adequacy Ratio.

Ten Indian banks were considered as a sample, specifically, the top five public sector banks and top five private sector banks by total assets. Financial data was collected for a period of three years, from 2016 to 2018. The applied statistical test was correlation and regression. In addition, a graphic analysis of the bank, which was taken in the form of a sample size, was implemented. The result indicates that it is a general literature, which is an NPA, a pure coefficient, a significant negative connection, the validity of capital, and a significant positive connection. The analysis also shows the financial indicators of each bank and provides useful information on the general conditions of India's private banks and public banks.

Dr. Nihat Fatima et. al. (2020) investigated various parameters of non-performing loans of scheduled commercial banks (SCBs) and also studied the effectiveness of three major recovery channels for legitimate non-performing loans: Lok Adalats, SARFAESI, and DRTs. In this study, ANOVA and the Kruskal-Wallis test were used to analyze the differences between the recovery channels. The analysis revealed that there is a significant difference in NPA recovery rates between these channels. The author found that there has been a significant increase in NPA ratios during 2007 to 2018 and concluded that SARFAESI is the most effective recovery channel as its procedure is not lengthy, plus it empowers secured creditors to recover their debts without the intervention of the court.

Gaur Dolly and Mohapatra Deepti Ranjan, (2021) sought to study the relationship between non-performing assets and profitability in the Indian banking sector to determine the severity of the impact of non-performing assets on the profitability of banks. In addition, other bank-specific, sector-specific, and macroeconomic factors affecting bank profits were considered. A balanced panel dataset consisting of 37 scheduled commercial banks in India spanning a period of 14 years (2005-2018) was used to carry out the required analysis. The results were obtained using fixed-effects and random-effects panel regression models. Due to the presence of heteroscedasticity, the results of the robust standard error were presented.

A highly negative correlation exists between NPA and the two profitability measures: return on assets (ROA) and return on equity (ROE). The results of this study have established NPA as the major detractor of the banking industry's profits because NPA carries the most negative regression coefficient, which is highly significant. This means that a deterioration in credit quality will make it harder for banks to operate, leading to their failure.

Mitra Samuel S, et. al.. (2021) attempted to make a side-by-side comparison between the two categories of banks for assessment of relation of NPAs and profitability. For this purpose, the top ten commercial banks, five from each sector, in terms of revenue generation have been selected during the period 2008-09 and 2017-18. The findings reveal a negative linkage between provision for NPA to interest income and profitability (ROA) in the case of both categories of banks. The study also found a positive association between NPA recovery and profitability in the case of public sector banks.

Rational of the Study

Assets, including leased assets, become non-performing when they stop generating income for the bank. A 'non-performing asset' (NPA) is defined as a line of credit on which interest and/or principal payments have remained 'overdue' for a specified period. Currently, it is 90 days from the loan approval date. We all know that bad loans stop generating revenue, require provisions, increase borrowing costs, affect employee morale, and dissipate capital. In this context, NPA recovery plays a vital role in sustaining the banking industry. Recovery mechanism is the process of planning, testing, and implementing recovery procedures and standards required to restore financial assets in the event of a firm's failure. The central government and the Reserve Bank of India have taken steps to create a legal and regulatory framework to manage and reduce bad loans, and therefore, studies are being conducted to examine the effectiveness of various recovery channels used by SCBs.

Statement of Problem

The recovery of bank debt was a serious problem. Because a large amount of public funds was frozen for the default borrower. The accumulation of bad assets (NPA) and the decrease in NPA recovery will reduce the recycling of money that directly affects bank loans. Potential non-performing assets (NPAs) have made banks increasingly reluctant to lend to large projects. The interest of both debtors and creditors is protected by utilising debt recovery channels such as Debt

Recovery Tribunals, Lok Adalats, Securitisation and Reconstruction of Financial Assets and Enforcement of Security Interests (SARFAESI) Act 2002 through planned advertisement of recovery of bad debts by the creditors. The implementation of the Insolvency and Bankruptcy Code, 2016 (IBC) has also paved the way for the speedy recovery of corporate debts.

Objectives of the Study

- To ascertain the level of NPAs of Scheduled Commercial Banks in India
- To evaluate the level of NPAs in different categories of Banks like Public Sector, Private Sector, Foreign Banks, & Small Finance banks
- To evaluate the recovery of NPAs through various channels
- To examine the effectiveness of existing channels of recovery of bank loans

Scope of the Study

The study focuses on the non-performing loans of SCBs in India and the role played by various recovery mechanisms adopted by SCBs between 2012-2013 and 2021-2022.

Research Methodology

The study analysed the effectiveness of Lok Adalat, DRT, SARFAESI Act, and IBC 2016 for a period of 10 years, from 2013 to 2022. The study is based on secondary data on the recovery of bad loans through various recovery channels of Indian banks from the RBI release. Percentage analysis, trend analysis, ratios, and averages are statistical tools used to analyze data and draw meaningful conclusions.

Research Area

The area of this research is limited to the performance of four recovery mechanisms available to the SCBs. So, the descriptive & exploratory research design is used.

Data Collection

Data for the present study is gathered mainly from secondary sources like Books, Reports, Articles, Journals, Websites, Blogs, previously submitted research theses & papers published in the same field.

Data Analysis

An analysis of the NPAs & recovery of NPAs by All Scheduled Commercial Banks through four recovery channels viz., Lok Adalats, Debt Recovery Tribunals, SARFAESI Act 2002 & IBC 2016 is presented below.

Non-performing assets in India 2022 data

Because of different government activities, the Gross Non-Performing Assets (GNPAs) of banks have diminished by Rs 48,138 crore to Rs 7.44 lakh crore as of March 31, 2022, whereas the Net Non-Performing Assets (NNPs) have reduced by Rs. 228895 Crores to Rs. 2.04 lakh crores. Towards the end of March 2022, Scheduled Commercial Banks (SCBs) had GNPAs adding up to Rs 7.44 lakh crore on their asset reports. SCBS's total NPA decreased from 7,91,791 Krone of 31.3.2017 to 31.3.2022 to 7,43,653 rupees, but NPA had decreased from RS. 4,33,121 rupees to rupees. 2,04,226 crores.

Table 1: GNPA & NPA details of all Scheduled Commercial Banks

(Rs. Crores)

Year	Advances		Non-Performing Assets			
			Gross		Net	
	Gross	Net	Amount	As % of Gross Advances	Amount	As % of Net Advances
2012-13	5988277	5879773	194053	3.2	98693	1.7
2013-14	6875748	6735213	263362	3.8	142421	2.1
2014-15	7559760	7388160	323335	4.3	175841	2.4
2015-16	8173121	7896467	611947	7.5	349814	4.4
2016-17	8492565	8116109	791791	9.3	433121	5.3
2017-18	9266210	8745997	1039679	11.2	520838	6
2018-19	10294463	9676183	936474	9.1	355068	3.7
2019-20	10918918	10301897	899803	8.2	289370	2.8
2020-21	11399608	10820208	837771	7.3	258228	2.4
2021-22	12821603	12013294	743653	5.8	204226	1.7

Source: Annual Reports of RBI from 2012 to 2022

Graph 1: NPAs of Scheduled Commercial Banks
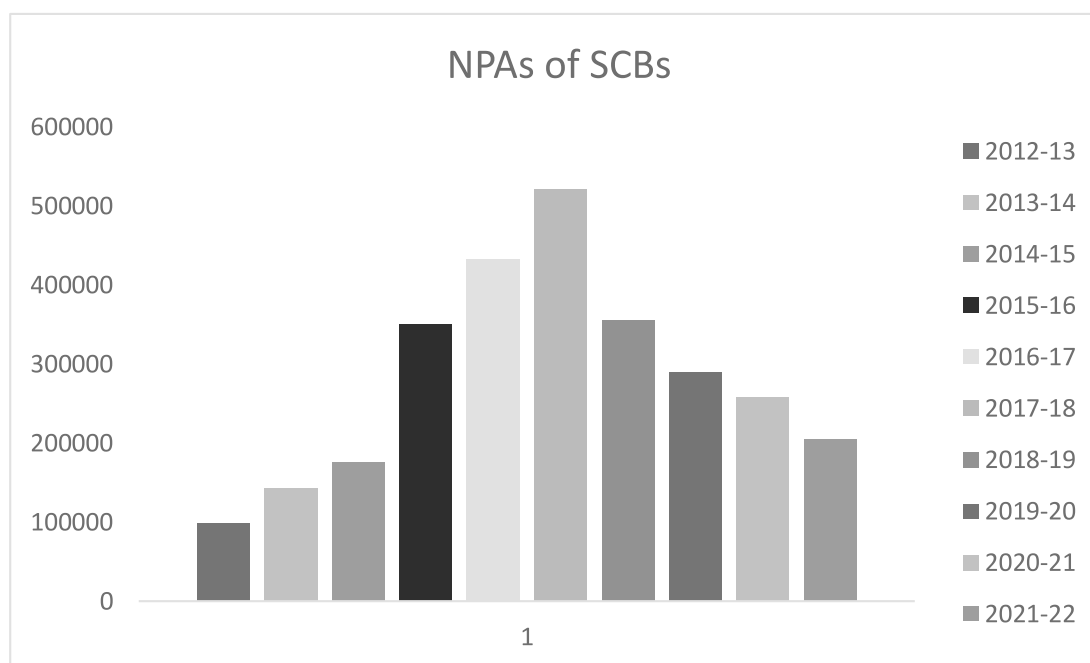
Inference

The NPAs of the SCBs were Rs. 98693 crores in the year 2012-12 were increased to Rs. 520838 crores in the year 2017-18 & decreased to Rs. 204226 crores in the year 2021-22. The percentage of NPAs to the net advances was 1.7% which was increased to 6% in the year 2017-18 & decreased to 1.7% in the year 2021-22.

Table 2: GNPA & NPA details of all Public Sector Banks

(Rs. Crores)

Year	Advances		Non-Performing Assets			
			Gross		Net	
	Gross	Net	Amount	As % of Gross Advances	Amount	As % of Net Advances
2012-13	4560169	4472845	165006	3.6	90037	2
2013-14	5215920	5101137	227264	4.4	130394	2.6
2014-15	5615793	5476250	278468	5	159951	2.9
2015-16	5823907	5593577	539956	9.3	320376	5.7
2016-17	5874849	5557232	684732	11.7	383089	6.9
2017-18	6141698	5697350	895601	14.6	454473	8
2018-19	6382461	5892667	739541	11.6	285122	4.8
2019-20	6615112	6158112	678317	10.3	230918	3.7
2020-21	6770363	6348758	616616	9.1	196451	3.1
2021-22	7427041	7033864	542174	7.3	154745	2.2

Source: Annual Reports of RBI from 2012 to 2022

Graph 2: NPAs of Public Sector Banks
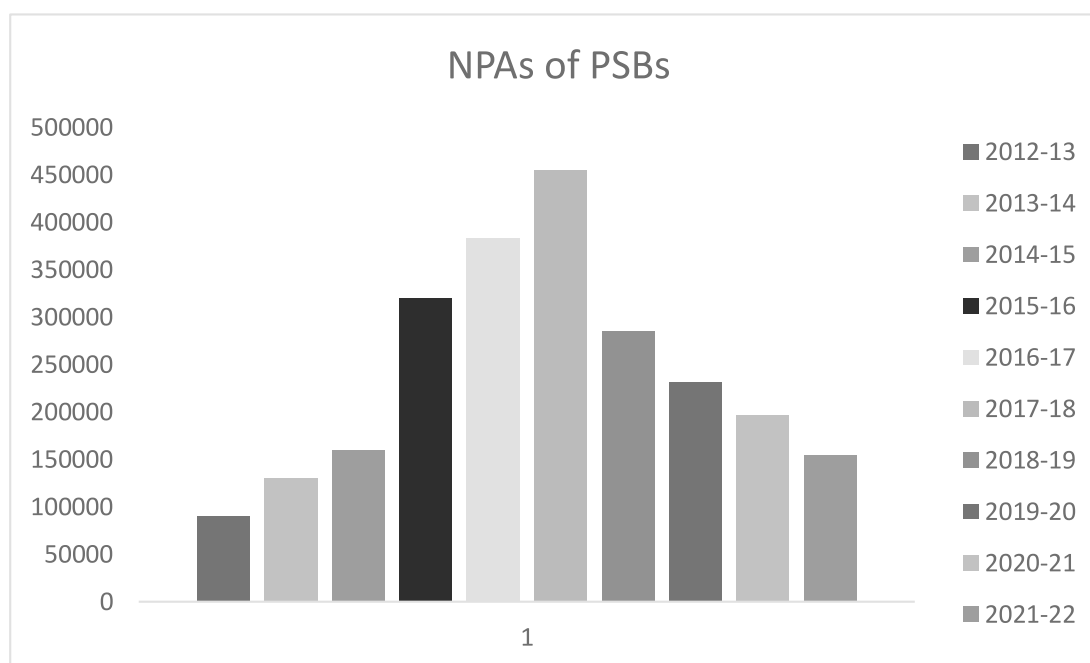
Inference

The public sector banks NPAs were Rs.90037 crores in the year 2012-13, which increased to Rs. 454473 crores in the year 2017-18 & decreased to Rs. 154745 crores in the year 2021-22. The percentage of NPAs to Net advances was 2% in the year 2012-13 which increased up to 8% in the year 2017-18 & decreased to 2.2% in the year 2021-22.

Table 3: GNPA & NPA details of Private Sector Banks

(Rs. Crores)

Year	Advances		Non-Performing Assets			
			Gross		Net	
	Gross	Net	Amount	As % of Gross Advances	Amount	As % of Net Advances
2012-13	886023	873252	15800	1.8	3900	0.4
2013-14	1360253	1342935	24542	1.8	8862	0.7
2014-15	1607329	1584312	34106	2.1	14128	0.9
2015-16	1972608	1939339	56186	2.8	26677	1.4
2016-17	2266721	2219475	93209	4.1	47780	2.2
2017-18	2725891	2662753	129335	4.7	64380	2.4
2018-19	3442347	3327328	183604	5.3	67309	2
2019-20	3776231	3625154	209568	5.5	55683	1.5
2020-21	4097040	3939292	200141	4.9	55809	1.4
2021-22	4757421	4373300	180782	3.8	43733	1

Source: Annual Reports of RBI from 2012 to 2022

Graph 3: NPAs of Private Sector Banks

NPAs of Pvt. Banks
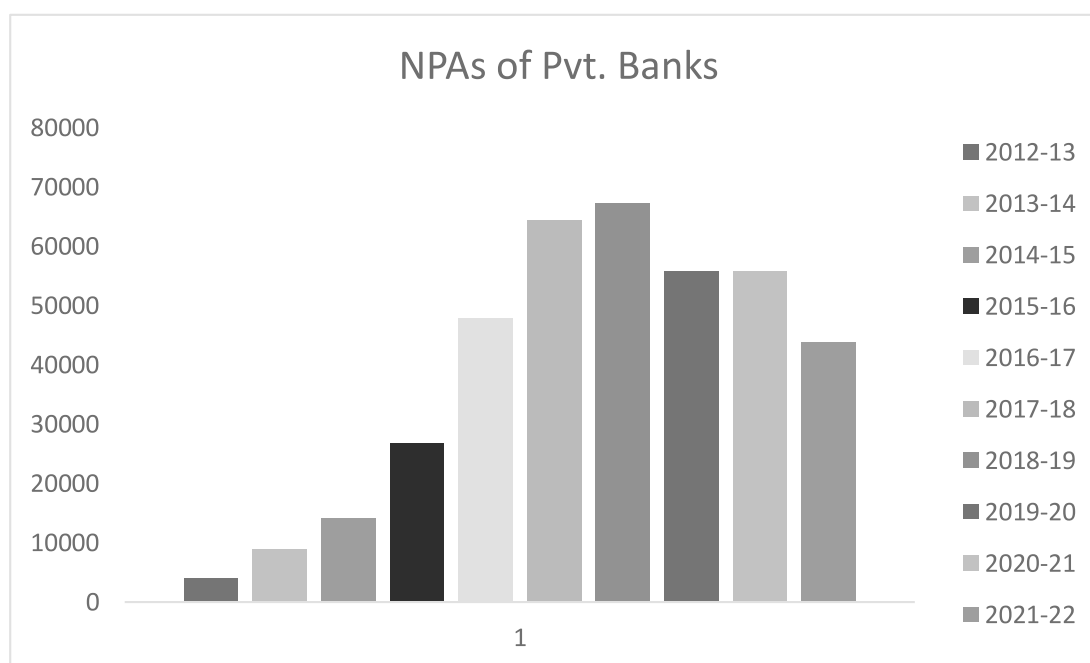
Inference

The NPAs of the private sector banks were Rs.3900 crores which went up to Rs.67309 crores in the year 2018-19 & decreased to Rs. 43733 crores in the year 2021-22. The percentage of NPAs to the net advances was 0.4% in the year 2012-13 which increased up to 2.4% in the year 2017-18 & came down to 1% in the year 2021-22

Table 4: GNPA & NPA details of Foreign Banks in India

(Rs. Crores)

| Year | Advances | | Non-Performing Assets | | | |
| | | | Gross | | Net | |
	Gross	Net	Amount	As % of Gross Advances	Amount	As % of Net Advances
2012-13	268966	263680	7977	3	2663	1
2013-14	299575	291142	11565	3.9	3160	1.1
2014-15	336638	327599	10761	3.2	1762	0.5
2015-16	376607	363551	15805	4.2	2762	0.8
2016-17	343822	332335	13629	4	2137	0.6
2017-18	363305	351016	13849	3.8	1548	0.4
2018-19	406881	396726	12242	3	2051	0.5
2019-20	436066	428076	10208	2.3	2005	0.5
2020-21	420617	423546	15044	3.6	2987	0.7
2021-22	475379	503833	13786	2.9	3023	0.6

Source: Annual Reports of RBI from 2012 to 2022

Graph 4: NPAs of Foreign Banks in India
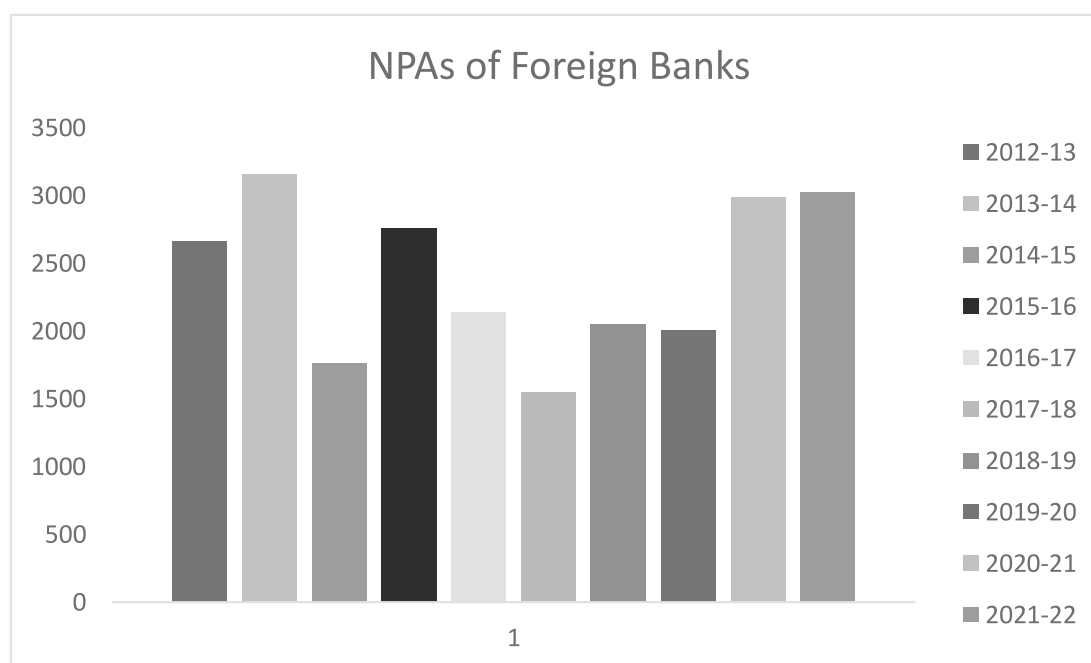
Inference

The NPAs of foreign banks were Rs. 2663 crores in the year 2012-13 which went up to Rs.2762 crores in the year 2015-16 & were Rs.3023 crores in the year 2021-22. The percentage of NPAs to the net advances was 1% in the year 2012-13 which decreased to 0.4 in the year 2017-18 & was 0.6% in the year 2021-22

## Table 5: GNPA & NPA details of Small Finance Banks*

(Rs. Crores)

Year	Advances		Non-Performing Assets			
			Gross		Net	
	Gross	Net	Amount	As % of Gross Advances	Amount	As % of Net Advances
2018-19	62775	59461	1087	1.7	586	1
2019-20	91509	60554	1709	1.9	765	0.8
2020-21	111589	108613	5971	5.4	2981	2.7
2021-22	141041	136250	6911	4.9	2725	2

Source: Annual Reports of RBI from 2012 to 2022

*The Reserve Bank had issued the Guidelines for Licensing of "Small Finance Banks" in the Private Sector on November 27, 2014. In February 2015, RBI released the list of entities which had applied for a small finance bank license. Capital Small Finance Bank was the first small finance bank to begin operations, opening with 47 branches on 24 April 2016. So the data is available from the year 2018 onwards.

Graph 5: NPAs of Small Finance Bank
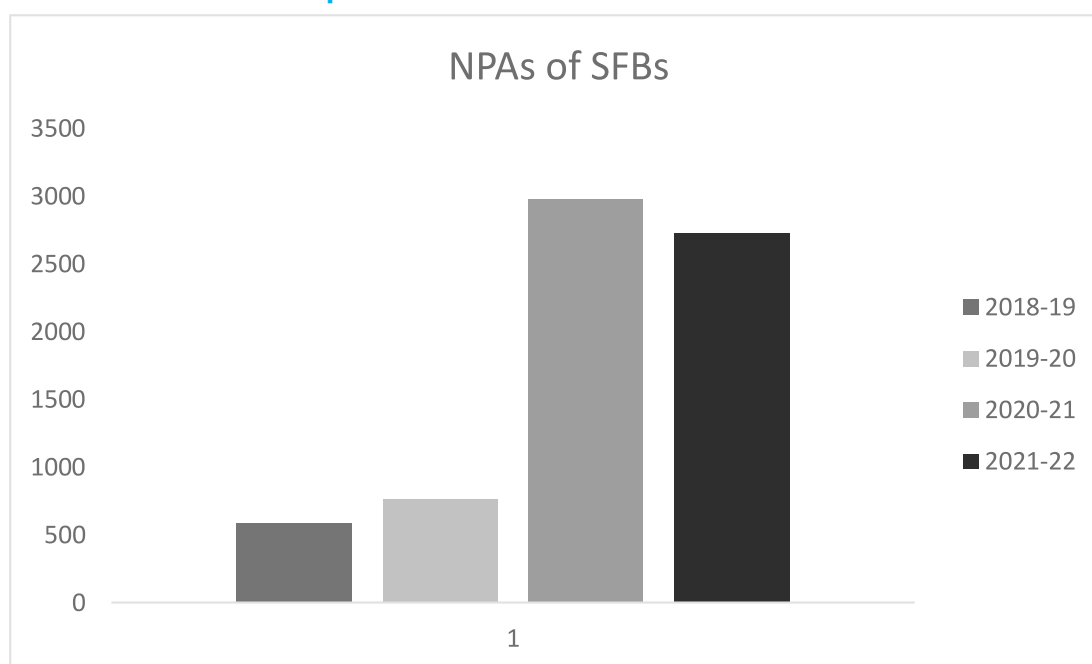
Inference

The NPAs of Small Finance Banks were Rs.586 crores in the year 2018-19 which increased to Rs. 2981 in the year 2020-21 & were Rs. 2725 crores in the year 2021-22. The percentage of NPAs to the net advances was 1% in the year 2018-19 which increased to 2.7% in the year 2020-21 & was 2% in the year 2021-22

Recovery Mechanisms

The recovery mechanism refers to the procedures and processes necessary for reclaiming financial assets when a borrower defaults. An NPA, as previously mentioned, is an asset that no longer produces income and returns; if not

handled appropriately and swiftly, it can harm the bank. Thus, the recovery of NPAs is crucial for the stability of the banking sector. In India, recovery is conducted through the following channels.

Lok Adalat

According to the Legal Services Authorities Act of 1987, Lok Adalat serves as a forum where cases that are pending in court or at the pre-litigation stage are resolved. Lok Adalat has proven to be an effective means for settling debt related to loans. The Indian Banks Association (IBA) provides guidelines to its members for addressing issues with Lok Adalats to ensure quick resolutions. Lok Adalats can manage debt amounts up to Rs.10 lakhs, as well as larger sums categorized as dubious or in loss. Both suit-filed and non-suit-filed accounts can be addressed by Lok Adalats. They operate at various times throughout the year. State, High Court, District, and Taluk levels are all conducted at the same time and in the same order as shown below:

- At least once a month, Mega Lok Adalats are held at District Court Centers.

- Weekly Lok Adalats at all Court Centres regularly every week.

- National Lok Adalat: This is held bi-monthly, generally on the second Saturday of each month or on any other day as specified by the National Legal Services Authority (NALSA).

The Banks and Financial Institutions Debt Recovery Act of 1993

The Narasimhan Committee endorsed the Tiwari Committee Report in 1991. Following the recommendations of the Narasimhan Committee, the government implemented the innovative Recovery of Debts to Banks and Financial Institutions Act in 1993, commonly referred to as the RDB Act. This legislation defined the responsibilities of the Debt Recovery Tribunal. It's important to note that the Tribunal was established by an Act of Parliament, which was empowered to do so under Article 247 of the Indian Constitution.

The RDB Act altered the management of asset-recovery cases in India, although it has faced scrutiny on multiple occasions. In 1995, the Delhi High Court successfully contested the constitutionality of the DRT, determining that the Tribunal could not operate effectively due to the absence of a system for submitting counterclaims. Following this, the RDB Act underwent revisions, and the Supreme Court confirmed the validity of the amended legislation. Currently, borrowers are empowered to file "counterclaims" as stipulated in section 19 of the RDB Act.

Debt Recovery Tribunal

In 1993, the Recovery of Debts Due to Banks and Financial Institutions Act led to the formation of the Debt Recovery Tribunal. This tribunal was set up to expedite the resolution of outstanding cases and the enforcement of judgments. Legal actions by banks against borrowers who default on their loans are handled by these tribunals, which are regarded as quasi-judicial entities. Chapter III of the Act outlines the scope, powers, and authority assigned to these tribunals and how they should be implemented. Additionally, the limitations specified in the Limitations Act will also apply to the Debt Recovery Tribunal.

Under Section 18 of the Act, only the High Courts and the Supreme Court (which exercises jurisdiction under Articles 226 and 227 of the Constitution of India) have jurisdiction to hear cases relating to the recovery of debts against banks and financial institutions. On the other hand, the Tribunals can only hear cases worth Rs 1 million and above. The Debt Recovery Tribunal can also hear appeals against secured creditor suits filed under the Securitisation and Reconstruction of Financial Assets and Enforcement of Security Interests Act (SARFAESI).

Securitization and Reconstruction of Financial Assets and Enforcement of Security Interest (SARFAESI) Act, 2002

The SARFAESI Act has had a major impact on the debt recovery quandary in the country. The most significant change brought about by SARFAESI is that banks can now take over the ownership of loan accounts after they have been classified and verified as non-performing assets (under Section 13.4 of SARFAESI) without going through any examination or lengthy litigation process. A secured creditor can sell or lease the assets held as collateral or appoint a receiver to manage the assets in case they are marked as non-performing assets under the SARFAESI Act. With the assistance of the Chief Magistrate, the bank can retain the asset for 60 days after serving notice to the defaulter.

If a credit account is delegated a nonperforming resource (NPA) under the SARFAESI, the bank\'s approved authority can start the interaction. Despite the fact that the borrower has consented to pay the late sum, the bank has the privilege to look for reimbursement of the whole advance sum in addition to revenue. Perhaps, instead of settling the case, the bank will demand that the remaining balance be paid in full and that the bank advance be repaid on demand. However, if the borrower pays the arrears, nothing is preventing the bank from stopping the proceedings and continuing with the advance documents. All registered commercial banks are subject to the SARFAESI Act. If a secured creditor is unable to recover the full amount due by selling the secured assets, he can approach the Debt Recovery Tribunal.

Insolvency and Bankruptcy Code 2016

The Insolvency and Bankruptcy Code, 2016 (IBC) enacted on May 28, 2016, against the backdrop of mounting non-performing loans, to establish a consolidated framework for insolvency resolution of corporations, partnership firms, and individuals in a time-bound manner, seeks to tackle the non-performing asset (NPA) problem in two ways. Firstly, behavioural change on the part of the debtors to ensure sound business decision-making and prevent business failures is encouraged. Second, it provides a process through which financially distressed companies undergo a rehabilitation process and get back on their feet. According to the IBC, the Indian insolvency regime has shifted from "debtor-owner control" to "creditor control". The creditor-in-control model hands control of the debtor to its creditors and relies upon the managerial skills of a newly appointed management to take over an ailing company and ensure business continuance. It provides for a time-bound process to resolve insolvency. When a loan default occurs, the creditor has to take control of the debtor's assets and take a decision to resolve the insolvency. Under the IBC, debtors and creditors can initiate recovery proceedings against each other. Under the IBC, a company has to complete the entire insolvency process within 180 days. The deadline can be extended if creditors do not object to the extension. For small companies, including startups with an annual turnover of Rs 1 crore, all bankruptcy proceedings have to be completed within 90 days, and the period can be extended by 45 days. If the debt resolution does not happen, the company goes into liquidation. The IBC was designed to address the problem of bad loans that was plaguing the banking system. The IBC process has transformed the relationship between debtors and creditors. Several major cases have been resolved in two years, while others are at advanced resolution stages. The IBC has reformed the landscape of Indian law on insolvency to a large extent. This has encouraged disciplined borrowing among companies as promoters fear losing control of their businesses in the event of default. Notably, as many as 18,629 applications requiring over Rs 529 billion in funding were resolved before being accepted. Following the implementation of the IBC, India's insolvency resolution ranking improved from 136th in 2017 to 52nd in 2020, according to a World Bank report.

Table 6: NPA recovery by SCBs

Amount in Rs. Billion

Year	Particulars	Recovery Channel				Total
		Lok Adalats	DRTs	SARFAESI Act	IBC	
2012-13	No. of Cases Referred	840961	13408	190537	----	1044636
	Amount Involved	66	310	681	----	1058
	Amount Recovered	4	44	185	----	232
	% of Amount Recovered	6.1	14.1	27.1	----	21.9
2013-14	No. of Cases Referred	1636957	28258	194707	----	1859922
	Amount Involved	232	553	946	----	1731
	Amount Recovered	14	53	244	----	311
	% of Amount Recovered	6.2	9.5	25.8	----	18
2014-15	No. of Cases Referred	2958313	22004	175355	----	3155672
	Amount Involved	309.79	603.71	1567.78	----	2481.28
	Amount Recovered	9.84	42.08	256	----	307.92
	% of Amount Recovered	3.2	7.0	16.3	----	12.4

2015-16	No. of Cases Referred	4456634	24537	173582	----	4654753
	Amount Involved	720.33	693.41	801	----	2214.74
	Amount Recovered	32.24	63.65	131.79	----	227.68
	% of Amount Recovered	4.5	9.2	16.5	----	10.3
2016-17	No. of Cases Referred	3555678	32418	199352	37	3787485
	Amount Involved	361	1008	1414	----	2783
	Amount Recovered	23	103	259	----	385
	% of Amount Recovered	6.3	10.2	18.3	----	13.8
2017-18	No. of Cases Referred	3317897	29345	91330	704	3439276
	Amount Involved	457	1331	819	99	2706
	Amount Recovered	18	72	264	49	403
	% of Amount Recovered	3.9	5.4	32.2	49.5	14.9
2018-19	No. of Cases Referred	4080947	52175	248312	1135	4382569
	Amount Involved	535	3065	2891	1666	8157
	Amount Recovered	28	106	419	708	1261
	% of Amount Recovered	5.2	3.5	14.5	42.5	15.5
2019-20	No. of Cases Referred	5986790	33139	105523	1986	6127438
	Amount Involved	678	205	1965.82	2249.35	5098.17
	Amount Recovered	42.11	99.86	342.83	1041.17	1525.97
	% of Amount Recovered	6.2	48.7	17.4	46.3	29.9
2020-21	No. of Cases Referred	1949249	28182	57331	536	2035198
	Amount Involved	280.84	2253.61	675.1	1353.19	4562.74
	Amount Recovered	11.19	81.13	276.86	273.11	642.29
	% of Amount Recovered	4.0	3.6	41.0	20.2	14.1
2021-22	No. of Cases Referred	8506648	29487	249475	885	8786495
	Amount Involved	1190	471.65	1216.42	1992.5	4870.57
	Amount Recovered	27.77	121.14	273.49	474.21	896.61
	% of Amount Recovered	2.3	25.7	22.5	23.8	18.4
Total Cases Referred		37290074	292953	1685504	5283	39273444
Total Amount Involved		4829.96	10494.4	12977.12	7360.04	35662.5
Total Amount Recovered		210.15	785.86	2651.97	2545.49	6192.47
% of Amount Recovered		4.4	7.5	20.4	34.6	17.4

Source: Annual Reports of RBI from 2012 to 2022

Graph 6: Number of Cases referred to recovery channels

No. of Cases Referred
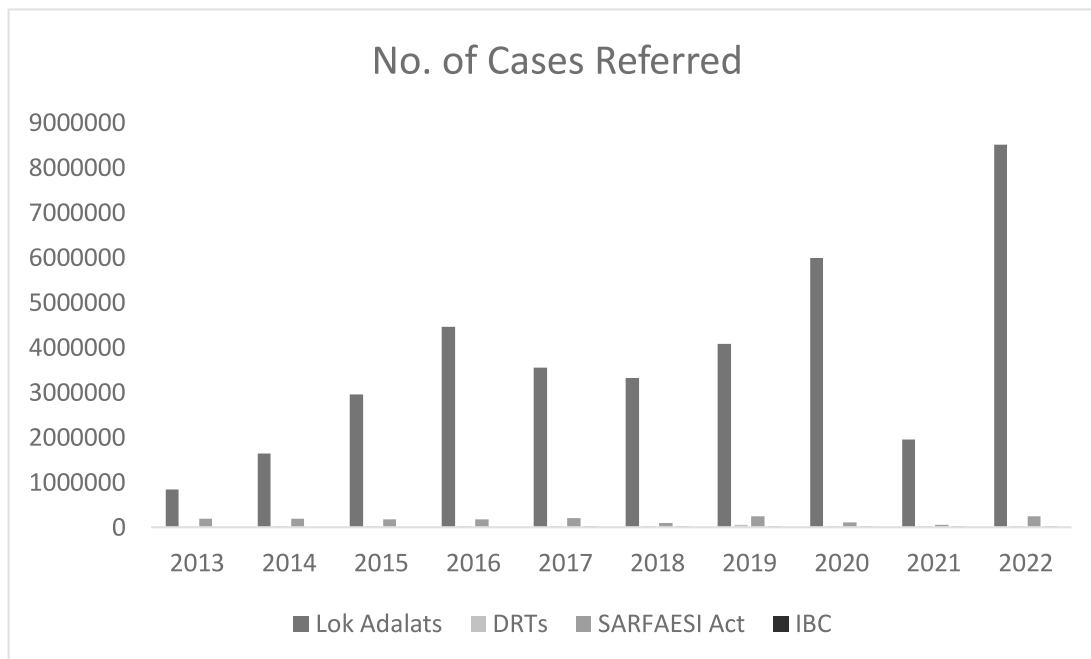
Inference

The total number of cases referred to Lok Adalat were 37290074, DRTs 292953, SARFAESI Act 1685504 & IBC 5283 till 2022

Graph 7: Percentage of Amount Recovered by using recovery channels

% of Amount Recovered
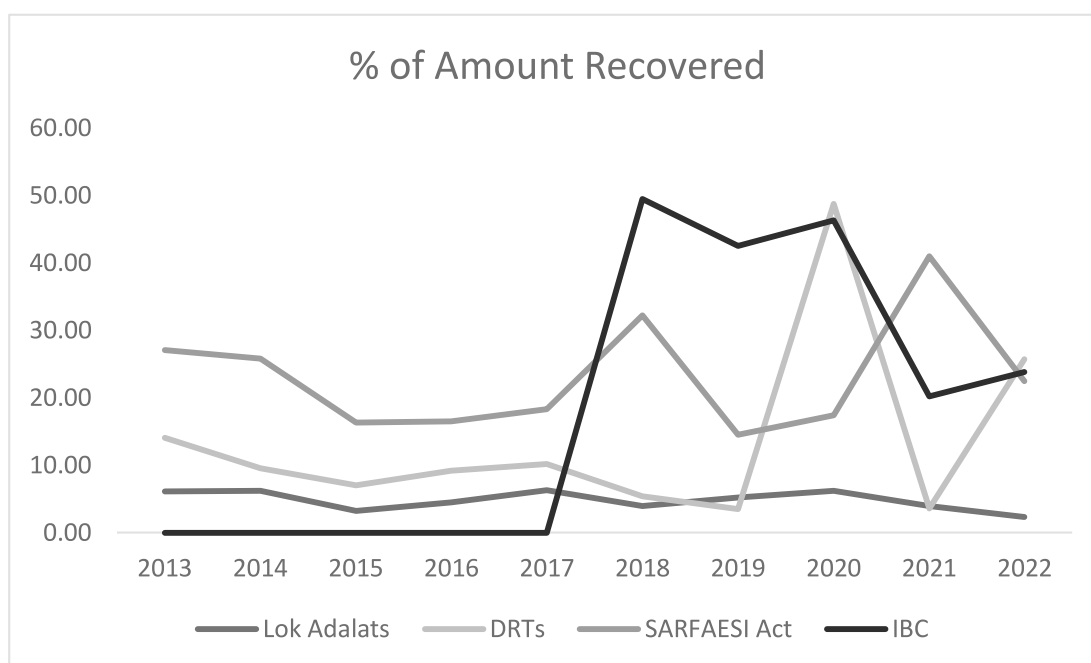
Inference

The recovery rate of Lok Adalat was 6.1% in the year 2012-13 which went up to 32.24% in the year 2014-15 & was 2.3% in the year 2021-22. The recovery rate of DRTs was 14.1% in the year 2012-13 which went up to 63.65 in the year 2015-16 & was 25.7% in the year 2021-22. The recovery rate of SARFESAI Act was 27.1 in the year 2012-13 which went up to 32.2% in the year 2017-18 & was 22.5% in the year 2021-22. The recovery rate of IBC was 49.5% in the year 2017-18 & was 34.6% in the year 2021-22.

Graph 8: Average recovery rate of recovery channels

Average Recovery Rate

■ Lok Adalats   ■ DRTs   ■ SARFAESI Act   ■ IBC
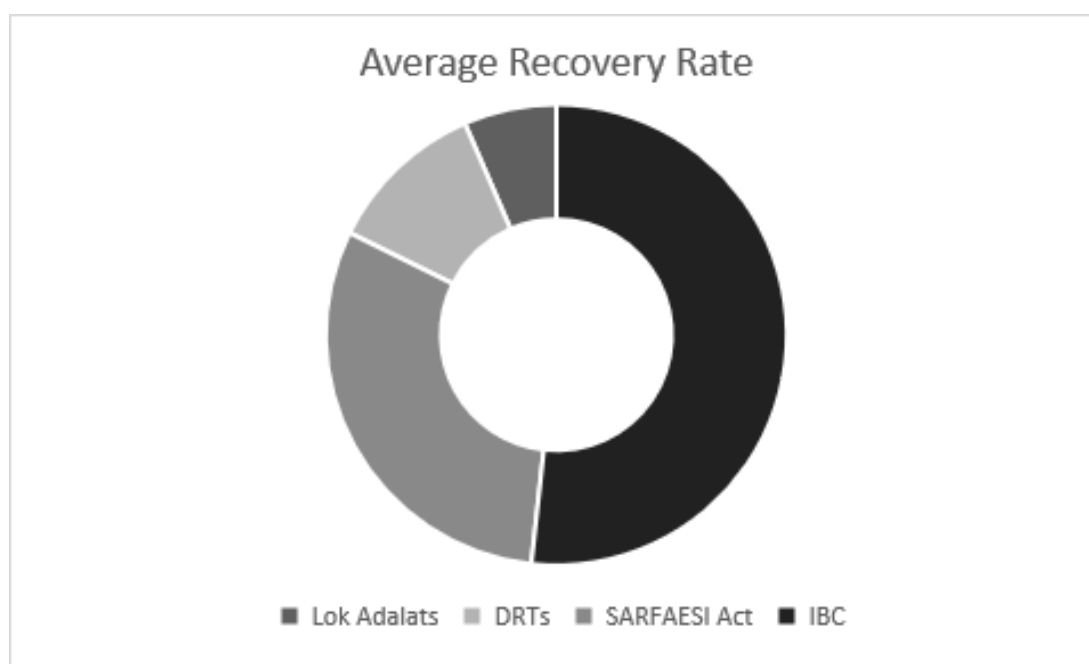
Inference

The average percentage amount of NPAs recovered by Lok Adalat 4.4, DRTs 7.5, SARFAESI Act 20.4 and IBC 34.6 till 2022

Outcomes of IBC since 2016

Table 7: Status of Liquidation Processes as on September 30, 2022

Ongoing	1378
> Two years	685
> One year ≤ Two years	325
> 270 days ≤ 1 year	109
> 180 days ≤ 270 days	81
> 90 days ≤ 180 days	96
≤ 90 days	82

Source: The quarterly newsletter of IBBI July-Sept. 2022

Graph 9: Status of Liquidation Processes as on September 30, 2022

Status of Liquidation Processes as on September 30, 2022

- ■ > Two years
- ■ > One year ≤ Two years
- ■ > 270 days ≤ 1 year
- ■ > 180 days ≤ 270 days
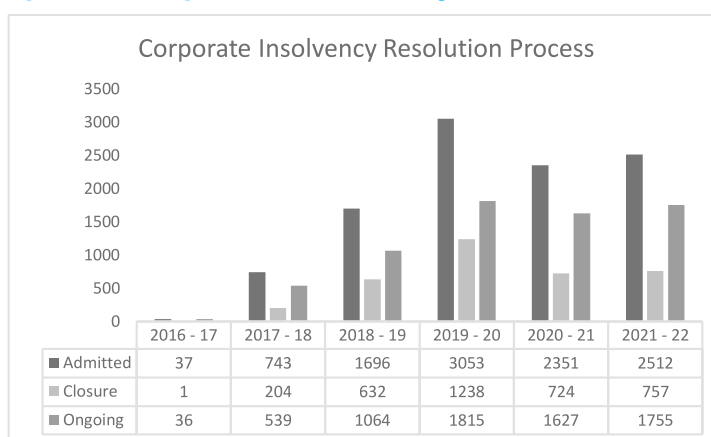- ■ > 90 days ≤ 180 days
- ■ ≤ 90 days
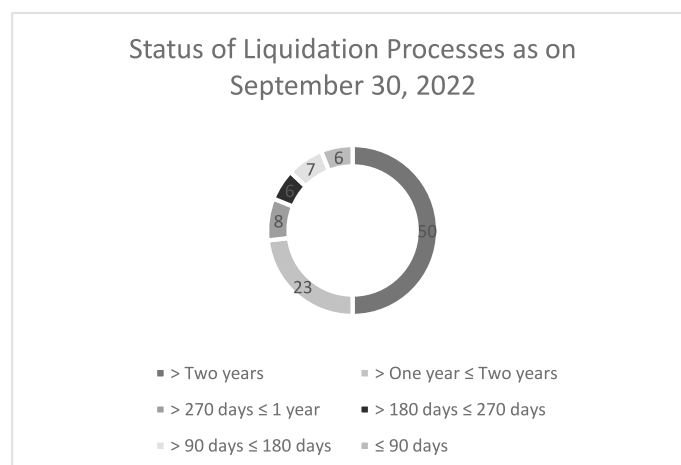
Inference

Out of 1378 ongoing liquidation processes 50% of cases have taken more than 2 years' time to resolve, 23% of taken more than one year, 8% have taken more than 270 days, 6% have taken more than 180 days, 7% have taken more than 90 days while 6% have resolved in less than 90 days

Table 8: Corporate Insolvency Resolution Process

Year	Beginning of the Period	Admitted	Closure by				End of the Period
			Appeal/ Review/ Settled	Withdrawal under Section 12A	Approval of Resolution Plan	Commence-ment of Liquidation	
2016 - 17	0	37	1	0	0	0	36
2017 - 18	36	707	94	0	19	91	539
2018 - 19	539	1157	153	97	77	305	1064
2019 - 20	1064	1989	344	217	136	541	1815
2020 - 21	1815	536	91	162	121	350	1627
2021 - 22	1627	885	103	171	143	340	1755
Total	**NA**	**5311**	**786**	**647**	**496**	**1627**	**1755**

Source: The quarterly newsletter of IBBI July-Sept. 2022

Graph 10: Corporate Insolvency Resolution Process

Corporate Insolvency Resolution Process

	2016 - 17	2017 - 18	2018 - 19	2019 - 20	2020 - 21	2021 - 22
■ Admitted	37	743	1696	3053	2351	2512
■ Closure	1	204	632	1238	724	757
■ Ongoing	36	539	1064	1815	1627	1755

Inference

Out of 5311 cases admitted with the IBBI from the year 2016-17 to 2021-22 a total of 3556 cases have been resolved by the IBC with a success rate of 66.95%.

Findings

The percentage of NPAs with that of Net advances of all SCBs ranges between 6% to 1.7%, whereas of Public Sector Banks rages from 8% to 2%, in case of private sector banks it ranges from 2.4% to 0.4%, The NPAs of Foreign Banks ranges from 1.1% to 0.4% & that of Small Finance Banks it ranges from 2.7% to 0.8%

A total 39272444 number of cases referred to the four recovery channels for the recovery of the NPAs involving an amount of Rs. 35662.5 crores till 2021-22 out of which an amount of Rs. 6192.47 crores were recovered. The average rate of recovery of the four channels was 17.4%.

The most number of cases were covered under Lok Adalats followed by SARFASEI Act, DRTs & IBC respectively

The recovery rate of Lok Adalat ranges from 2.3% to 6.3%, whereas that of DRTS ranges from 3.5% to 48.7, the rate of SARFASEI Act ranges between 14.5% to 41% & that of IBC is between 20.2% to 49.5% 87% of cases referred to IBC have taken more than 180 days to resolve

The success rate of IBC in resolving the insolvency process is 66.95%

Conclusion

The study found that though the maximum number of cases referred to Lok Adalats but IBC is the most efficient channel in recovering NPAs as the total number of cases filled for Corporate Insolvency Resolution Process under IBC as on 2021-22 were 5311 out of which 786 were either settled or under review process, 647 cases were withdrawn under section 12A, 496 cases were approved for resolution plan, 1627 cases where commencement of liquidation began & 1755 cases were outstanding. This shows the success rate of IBC as 66.96% of cases filed under IBC were resolved in six years recovering an amount of Rs. 2545.49 billion out of total amount of Rs. 7360.04 billion with a recovery rate of 34.6% whereas the Lok Adalats helped recover an amount of Rs. 210.15 billion out of total amount of Rs. 4829.96 billion with a recovery rate of 4.4%. The reason for recovering the best level in IBC is to provide the ability for creditors to recover debt without the intervention of justice. However, the time required to resolve the case is more, and it takes an average of 180 days to solve the case, so IBC can take a long time to achieve results. The regulators have to create a mechanism by which the duration of settlement shall come down to 90 days as agreed upon while implementing the IBC 2016.

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