

A Study of NPA Recovery Measures in Indian Banks

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ABSTRACT

The quality of assets was not of a principal concern for Indian Banks until the year 1991. Banks were primarily concerned on achieving performance goals such as expansion and opening of new branches, advancement of villages, lending to the priority sector, an increase in generation of employment, etc. The principal job of banks is to provide loans to numerous segments such as farming, manufacturing, loans for personal use, home loans etc., but recently the banks have become very cautious in extending loans. The major cause being soaring nonperforming assets (NPAs) and as a result reducing NPAs through efficient management is of utmost importance for the Banks.

Keywords : Non Performing Assets, Management of Credit Risk, Quality of Assets.

Introduction

The following are the major NPA recovery measures used by Indian Banks:-

1. One Time Settlement Schemes

This scheme encompasses all categories of assets such as sub – standard assets, doubtful or loss assets. All cases on which the banks have commenced action under the SARFAESI Act along with cases impending in Courts or Debt Recovery Tribunals Board for Industrial and Financial Reconstruction, on the condition that “consensus verdict is obtained from the Courts/DRTs/BIFR are included. Nevertheless cases of willful default, fraud and malfeasance are not included under the scheme. For NPAs up to Rs. 10crores, the Minamount that needs to be recovered should be

100% of the outstanding balance in the account according to the One Time Settlement Scheme”.

2. Lok Adalats

Banks can turn to LokAdalat institutes for compromise settlement of disputes entailing accounts in “Doubtful” and “Loss” category, “with outstanding balance of Rs. 5 lakh. Debt recovery tribunals have the power to conduct LokAdalat to take decisions on cases with NPAs of Rs. 10 lakh and more. This tool has evidenced to be reasonably effective for quick justice and recovery of small loans.

3. Debt Recovery Tribunals (DRTs)

“The Debt Recovery Tribunals have been incorporated by the Government of India through

an Act of Parliament (Act 51 of 1993) for prompt judgment and recovery of loans due to the banks and financial institutions. The DRT can be approached for recovery of debts which involve an amount greater than 10 Lakh. For amounts below 10 Lakh, the banks must file Suit under the Code of Civil Procedure (CPC)".

4. SARFAESI Act 2002

Securitization And Reconstruction of Financial Assets and Enforcement of Security Interest was incorporated in the year 2002 with the following objectives:-

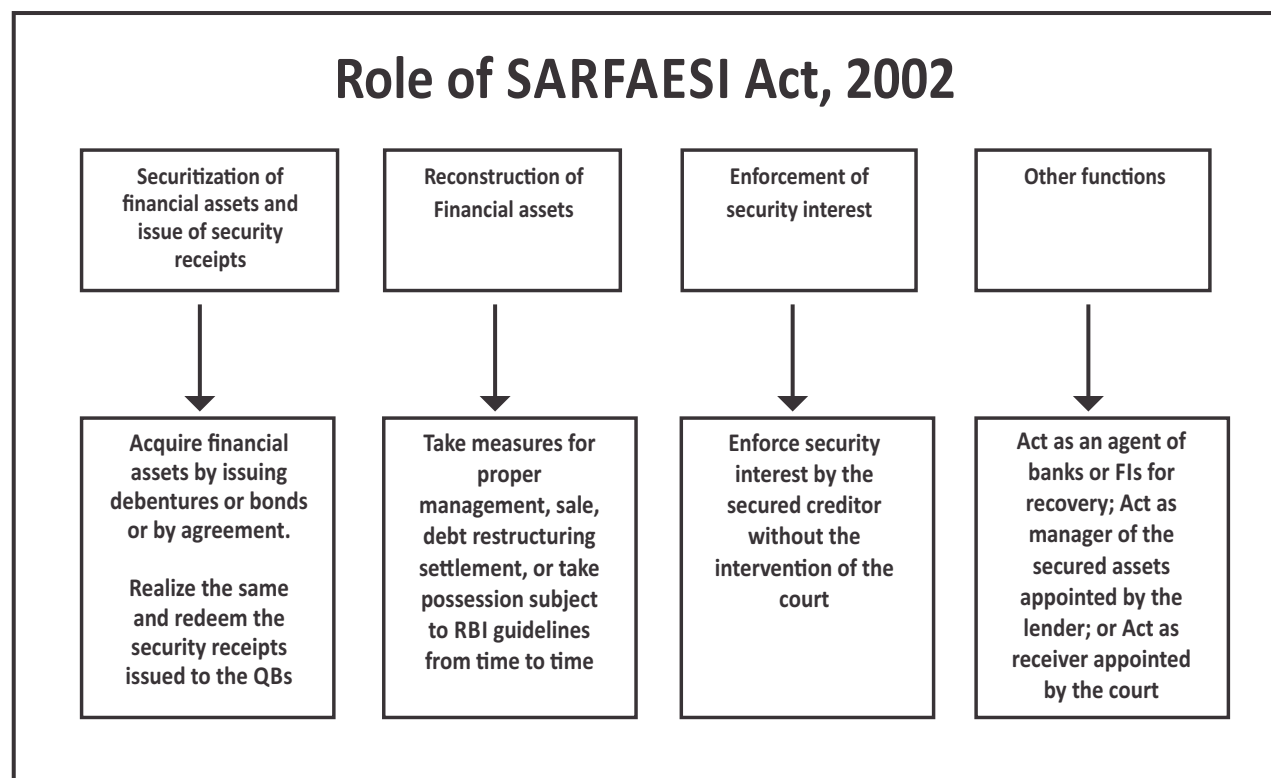
- To regulate securitization and Reconstruction of Financial Assets.

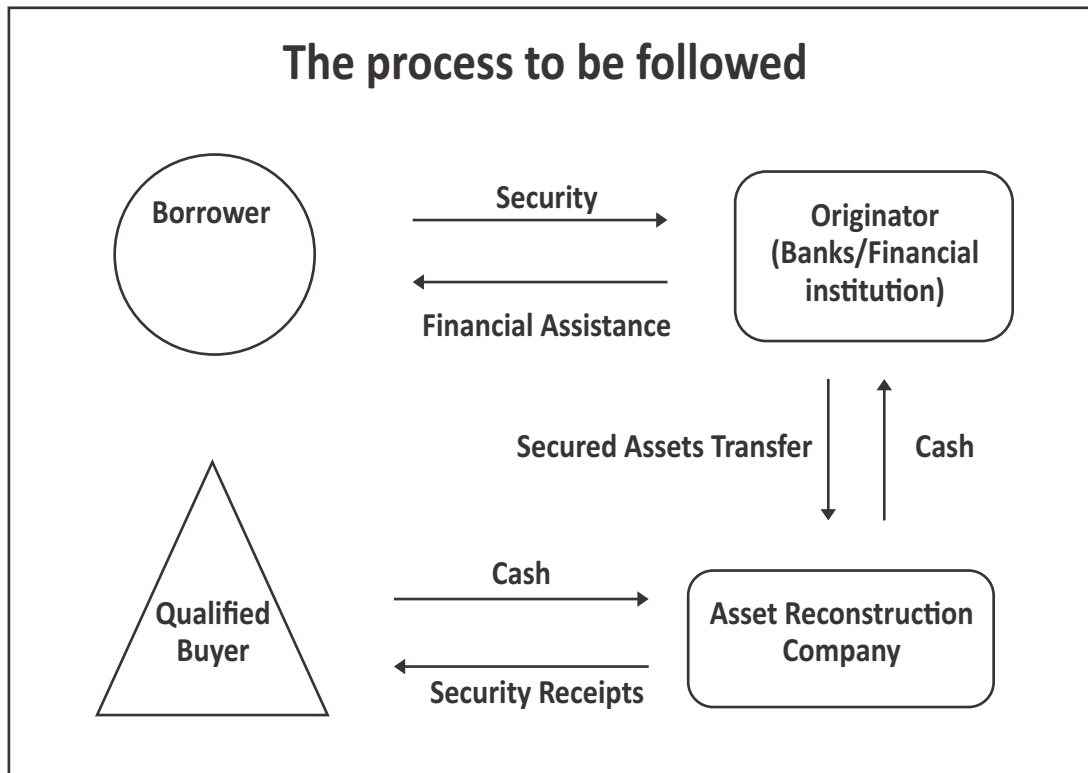
- Enforcement of Security Interest For.
- Matters connected therewith or incidental thereto.

Any asset, movable or immovable, provided as security by the way of hypothecation, mortgage or creation of security interest is included in the SARFAESI Act.

The Act provides three methods of recovery which includes:-

- Securitization.
- Asset Reconstruction.
- Enforcement of Security Interest without recourse to the Court.





5 The Insolvency and Bankruptcy Code, 2016

The time required for resolution of NPAs in India is very high and recovery rate is very low mainly due to the multiplicity of laws, inadequate staff and infrastructure for NPA resolution..To address the same, Ministry of Finance set-up the Bankruptcy Law Reform Committee (BLRC) in 2014 under the chairmanship of Shri T. K. Vishwanathan. The principal goal of the BLRC was to come up with a new bankruptcy structure that would substitute the prevailing structure". The Insolvency and Bankruptcy Code was therefore introduced in the year 2016 and is considered to be a game changer to resolve the NPA issues faced by Indian Banks. It has just been three years that this code is introduced and it has started to yield results. Out of 1484 cases admitted for resolution, 586 have been closed till December 2018- a hit rate of 40%.The IBC code is a single act for resolution of NPA for the retail Borrowers as well as the Corporate Debtors within a time bound

manner of 180 days.

Testing of hypothesis

To study the recovery of NP Ain Indian banks through Lok Adalat, Debt Recovery Tribunal, Sarfaesi Actthe SPSSs of twareisused, and the outcome is presented as under:

H0(e): There existsno significant difference inrecovery of NP Ain Indian Banks through Lok Adalat, Debt RecoveryTribunal, Sarfaesi Actas compared to Insolvency and Bank ruptcy Code (IBC2016).

H1(e): There existsa significant difference in recovery of NP Ain State Bank of India through Lok Adalat, Debt Recovery Tribunal, Sarfaesi Actas compared to Insolvency and Bankruptcy Code (IBC2016).

In order to test the above hypothesis,one way

Anova in excel has been used. We have taken the Independent Variable. Total Amount Involved is taken as the Dependent Variable. The data given below is in Crore.

Year	LokAdalat	DRT	Sarfaesi	IBC	Amt Involved
2011	200	3900	11600	0	50000
2012	200	4100	10100	0	61100
2013	400	4400	18500	0	105700
2014	1400	5300	25300	0	173800
2015	1000	4200	25600	0	248200
2016	3200	6400	13200	0	221400
2017	3803	16393	7758	0	285976
2018	1811	7235	26380	4926	270631
2019	2816	10574	41876	70819	815678
2020	4211	9986	34283	104117	694350
2021	1119	8113	27686	27311	456094

Summary

Groups	Count	Sum	Average	Variance
Lok Adalat	11	20160	1832.727	2114929
DRT	11	80601	7327.36	414590328
Sarfaesi	11	242283	22025.73	1.16E+08
IBC	11	207173	18833.91	1.27E+09
Amount Involved	11	3382929	307539	6.28E+10

ANOVA

Source	SS	df	MS	F	P-value	F crit
					4.16E-	
Between Groups	7.69E+11	4	1.92E+11	14.963	08	2.557179
Within Groups	6.42E+11	50	1.28E+10			
Total	1.41E+1254					

Conclusion

As observed from the output of Anova Analysis, we observe that ,F significance>F critical meaning the test is significant.Also, since $p < 0.05$, we reject the null hypothesis and accept the Alternate Hypothesis that there exists a significant difference in recovery of NPA in State Bank of India through Lok Adalat, Debt Recovery Tribunal, Sarfaesi Act as compared to Insolvency and Bankruptcy Code (IBC 2016).

The Insolvency and Bankruptcy Code has demonstrated to be a panacea in the winding up of defaulting businesses. The IBC has created an environment in which other companies can take over companies referred to NCLT for expansion of their businesses, while also providing a faster resolution for the lenders who would spend years in negotiating former methods like SARFAESI, DRTs, BIFR, etc. While the time bound resolution has certainly changed the state of affairs for the lenders, but what cost the lenders (mostly the Public Sector Banks) have been hard-pressed into accepting the enormous haircuts is certainly questionable eventually supporting corporate loot and loss to the public exchequer.

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